Expanding the Doctrines of Vicarious and Contributory Copyright Infringement: Fonovisa, Inc. v. Cherry Auction, Inc. Targets the Primary Distribution Channels for Counterfeit Merchandise

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EXPANDING THE DOCTRINES OF VICARIOUS AND CONTRIBUTORY COPYRIGHT INFRINGEMENT: FONOVISA, INC. V. CHERRY AUCTION, INC.
TARGETS THE PRIMARY DISTRIBUTION CHANNELS FOR COUNTERFEIT MERCHANDISE

I. INTRODUCTION

The presence of counterfeit goods has reached epidemic proportions in American and international marketplaces. The recording industry is particularly vulnerable to counterfeiting activity because of recent technological advances that make copying cassettes and compact discs (CDs) relatively easy. Unauthorized copies of musical cassettes and CDs have appeared in the bins of street vendors, at flea markets, and at second-hand shops.

1. See David Stipp, Farewell, My Logo: A Detective Story, FORTUNE, May 27, 1996, at 130 (noting counterfeit music cassettes, CDs, films, apparel, and athletic wear quadrupled over past decade to $200 billion in illegal sales); see also Janet Ozzard Rosemary Feitelberg, As Logos Go Global, Counterfeiters Unfurl the Welcome Mat, WOMEN'S WEAR DAILY, June 27, 1996, at 1 (stating $5 million worth of counterfeit athletic apparel confiscated in New York and $1.5 million of counterfeit Olympic apparel seized in Manhattan warehouse during past six months); Arthur Friedman, $27 Million in Bogus Goods Seized; Customs Sees Crime Cartel Link, WOMEN'S WEAR DAILY, Sept. 28, 1995, at 2 (stating New York City loses $350 million each year because of counterfeit merchandise sold primarily by street vendors and at flea markets).

2. See Joyce Barnathan et al., China: A Pirate Under Every Rock, BUS. WK., June 17, 1996, at 50 (noting Chinese counterfeiters account for 40% of counterfeit audio CD sales worldwide and produce illegal versions of music CDs, cassettes, computer software and CD-ROMs); see also Not Real, but Who Cares? INTELLECTUAL PROPERTY, ECONOMIST, Jan. 13, 1996, at 65-66 (stating Italy, as world leader of pirated good industry, accounts for $800 million to $1 billion of counterfeit goods, produces 44% of 50 million pirate recordings sold in European Union each year, and cost American film and software makers $300 million and $230 million a year, respectively); Feitelberg, supra note 1, at 1 (stating International Anti-Counterfeiting Coalition (IACC) estimates annual worldwide sales of counterfeit athletic apparel are $12 billion, costing U.S. apparel makers two percent of annual total sales); Stipp, supra note 1, at 134 (stating IACC found that 70% of medicines sold in Third World countries are knockoffs, while Microsoft refers to some Asian countries as one disk market because more than 99% of software are illegitimate copies).

3. See Time to Fight Pirates, PUB. TECH. REV., Feb. 1, 1996, (noting statement of Mike Edwards' of International Federation of the Phonographic Industry (IFPI) that music CDs are no longer the "unpiratable medium" and counterfeiters have fooled recording industry professionals); see also Barnathan et al., supra note 2, at 50 (noting that CD pirates now purchase old and new CD presses to make illegal copies); Richard Raysman and Peter Brown, Internet Copyright Developments, N.Y.L.J., Jan. 9, 1996, at 3 (stating computer technology has improved methods of reproduction and dissemination of copyrighted works, and fosters copyright abuse);
and flea market vendors for years. Currently, global sales of pirated music CDs are estimated at $1 billion and have displaced sales of legitimate products.

The creation and unprecedented growth of the Internet with forty-nine million worldwide users has resulted in a new form of piracy conducted through on-line digital transmission. According to federal law enforcement officials, on-line users annually appropriate more than $10 billion worth of data in the United States. Consequently, copyright owners, the International Anti-Counterfeiting Coalition (IACC) and the Recording Industry Association of America (RIAA) have begun to target their enforcement

Stipp, supra note 1, at 134 ("All of the hot technologies today are about copying, and that lends itself to counterfeiting.").

4. See Feitilberg, supra note 1, at 1 (stating popular places for counterfeit sales involve flea markets and open-air shops); Time to Fight Pirates, supra note 3, at 3 (reporting one million counterfeit CDs were seized from street market in China); Stipp, supra note 1, at 136 (explaining that street vendors in New York City's Chinatown have sold counterfeit goods for years).

5. See Stipp, supra note 1, at 132, 134 (discussing Recording Industry Association of America (RIAA) report that Chinese compact disc factories made three million legitimate units and seventy million pirated ones in 1994); Time to Fight Pirates, supra note 3, at 6 (noting that Mike Edwards of IFPI stated global manufacturing capacity for CDs is two times size of current market for legitimate sales, but four suppliers of high grade polycarbonate used in CD pressing were supplying twice amount needed to service legitimate needs which suggests that half the CDs sold are counterfeit).

6. See William J. Cook, Be Wary of Internet Casting Shadows on Copyright Holders, Chi. L. AW., Apr. 1996, at 60 (stating that Internet has experienced an exponential annual growth rate of 175% with forty million users in United States connected to 90,713 networks reaching 96 countries); see also Raysman and Brown, supra note 3, at 3 (explaining that Internet users can post, extract and disseminate huge amounts of information to vast world wide audiences with push of a button).

7. See Cook, supra note 6, at 60 (reporting that many different types of copyrighted property are affected by on-line piracy; digital music, copyrighted graphics, texts and software); see also Daniel G. Bergstein & Michelle W. Cohen, Superhighway Robbery on the Rise: Abuse of Copyright Increases on Internet, N.Y.L.J., Apr. 8, 1996, at 5 (noting Internet's speed and user ease in accessing information is its greatest flaw and results in anonymous strikes allowing thieves to steal over $10 billion worth of data in United States).

8. The International Anti-Counterfeiting Coalition (IACC) is an international trade association whose members include a diverse group of major manufacturers, trade associations, product security companies, investigators, and attorneys. Amici Brief for Appellant at 1, Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259 (9th Cir. 1996) (No. 94-15717). The IACC represents several industries including entertainment, consumer electronics, wearing apparel and dozens of others. See id.

IACC's mission is to promote the protection of intellectual property on a worldwide basis through legislation, law enforcement and preventive actions. See id. The protection extends to patents, trademarks, copyrights, trade dress and trade secrets. See id. The IACC remains in the forefront of efforts to combat national and international commercial piracy. See id.

9. The Recording Industry Association of America (RIAA) is a non-profit trade association. See Amici Brief for Appellant at 2, Fonovisa, Inc., 76 F.3d 259
efforts towards entities that provide the environment where unauthorized sales or transmissions of copyrighted musical compositions thrive, such as flea markets\textsuperscript{10} and on-line service providers.\textsuperscript{11}

In this case of first impression for all of the federal circuit courts, the United States Court of Appeals for the Ninth Circuit (No. 94-15717). RIAA's members account for approximately 90% of all legitimate music produced, manufactured, and distributed in the United States. See id. RIAA's basic purpose is to represent its membership before legislative, regulatory, and judicial bodies concerning federal, state, and local proceedings affecting the recording industry. See id. at 3.

10. Today, flea markets are big business, reaping huge profits for their owners and shareholders. See id. at 7. In 1989, Forbes magazine examined the enormous earnings received by flea market owners:

[F]lea market operators report annual growth rates in revenues from admissions, food sales and vendor space rentals ranging from 10 to 40 percent. Accurate gross sales figures for merchandise are impossible, since this is still primarily a cash business, but at least $5 billion is an intelligent minimum guess and even $10 billion seems plausible. Id. at 7-8 n.2. (quoting Ralph King, Jr., We Take a Bite Out of Everybody, FORBES, May 15, 1989, at 3).

Modern flea markets are "alternative retail locations," operating as permanent businesses which are open four or five days a week. Amici Brief for Appellant at 8, Fonovisa, Inc., 76 F.3d 259 (No. 94-15717). Patrons find a full range of merchandise from clothing, accessories, personal care items, leisure and automobile products are available at the flea markets. See id.; see also RIAA Launches Copyright Case, MUSIC & COPYRIGHT, Feb. 15, 1995, at 14 (noting copyright infringement suit against Creative Sounds, distributor of counterfeit recordings); U.S. Counterfeiting Operation Broken Up, MUSIC & COPYRIGHT, Feb. 15, 1995, at 14 (reporting that 55,000 counterfeit Latin music recordings were seized in California); RIAA Year-End Piracy Report, TAPE-DISC BUS., Apr. 1, 1995, at 30 (reporting 1994 activities included 17 raids on counterfeit manufacturing facilities and 1.2 million counterfeit cassette seizures); Police Raid Counterfeit Factory in Texas, MUSIC & COPYRIGHT, July 19, 1995, at 14 (noting raid of counterfeit tape factory in Houston, Texas with weekly production capacity of 50,000 cassettes); Audio Notes, AUDIO WEEK, Aug. 28, 1995 (stating RIAA raids during first six months of 1995 resulted in seizure of 771,439 music cassettes due to growing piracy market in Latin music); U.S. Seizures of Counterfeit Latin Music, MUSIC & COPYRIGHT, Sept. 13, 1995, at 14 (stating Latin music products accounted for 60% of all RIAA counterfeit seizures); Legitimate U.S. Products Up, Piracy Down World: Thanks to RIAA actions, Production in Musical Recordings at Illegal Factories Dropped 50% in 1994, ONE TO ONE, Oct. 1, 1995, at 14 (noting RIAA report that music industry losses of over $1 million per day attributed to piracy).

11. See Jeffrey Jolson-Colburn, RIAA Raids Send Pirates Running Down the Plank, HOLLYWOOD REP., Mar. 15, 1996 (stating that RIAA directed efforts towards hi-tech pirates on Internet by demanding that AudioNet, which featured 300 to 400 unlicensed albums for down loading, and Send-A-Song, which sent unlicensed songs over telephone lines as audio greetings for $10 per tune, cease their unlawful activity); see also Audio Notes, AUDIO WEEK, Mar. 11, 1996 (noting that AudioNet Jukebox offered on Internet was in violation of new Sound Recording Digital Performance Rights Act); Compuserve Pays, BROADCASTING & CABLE, Nov. 13, 1995, at 94 (reporting that Compuserve agreed to settle Frank Music Corporation's claims that Compuserve committed copyright infringement by letting its online subscribers copy recordings without paying royalties to music publisher).
determined in Fonovisa, Inc. v. Cherry Auction, Inc.\textsuperscript{12} that flea market owners may be held vicariously and contributorily liable for the direct copyright infringement activities of vendors on their premises.\textsuperscript{13} This Note analyzes the Ninth Circuit’s decision in Fonovisa, Inc. v. Cherry Auction, Inc.\textsuperscript{14} Section II sets forth the facts and procedural history of Fonovisa, Inc.\textsuperscript{15} Section III presents the relevant statutory and case law concerning vicarious and contributor copyright infringement.\textsuperscript{16} Section IV analyzes the reasoning of the Ninth Circuit and contrasts it with the available case law and legislative history of the Copyright Act of 1976.\textsuperscript{17} Section V examines the impact of Fonovisa, Inc. on future litigants and on-line service providers.\textsuperscript{18}

II. FACTS

Fonovisa, Inc. (Fonovisa), is a Los Angeles, California, based company that owns copyrights and trademarks in Latin and Hispanic music recordings.\textsuperscript{19} Cherry Auction, Inc., and its manager, Richard Pilegard, and individual owners, W.D. Mitchell and Margaret Mitchell, (collectively Cherry Auction), operate a swap meet in Fresno, California, where independent vendors set up booths that sell Latin music tapes and other items.\textsuperscript{20} Fonovisa alleged that many of the tapes marketed at the Cherry Auction swap meet were counterfeits of sound recordings to which Fonovisa possessed copyright and trademark rights.\textsuperscript{21} Fonovisa also contended that Cherry Auction knew of the vendors’ infringing sales but failed to take any action.\textsuperscript{22}

\textsuperscript{12} 76 F.3d 259 (9th Cir. 1996), rev’g 847 F. Supp. 1492 (E.D. Cal. 1994).
\textsuperscript{13} See Fonovisa, Inc., 76 F.3d at 260.
\textsuperscript{14} For a detailed discussion of the reasoning of Fonovisa, Inc. v. Cherry Auction, Inc., see infra notes 97-141 and accompanying text.
\textsuperscript{15} For a discussion of the facts and procedural history of Fonovisa, Inc., see infra notes 19-41 and accompanying text.
\textsuperscript{16} For a discussion of statutes and case law concerning vicarious liability and contributory copyright infringement, see infra notes 42-96 and accompanying text.
\textsuperscript{17} For the Fonovisa, Inc. narrative and critical analysis, see infra notes 97-172 and accompanying text.
\textsuperscript{18} For a discussion of the immediate and long range implications of Fonovisa, Inc., see infra notes 173-193 and accompanying text.
\textsuperscript{19} See Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 261 (9th Cir. 1996).
\textsuperscript{21} See Fonovisa, Inc., 847 F. Supp. at 1494.
\textsuperscript{22} See id.
On December 12, 1991, the Fresno County Sheriff's Department (Sheriff's Department) raided the Cherry Auction swap meet, seized 38,014 counterfeit tapes and twelve vehicles, and arrested twenty seven people. The Cherry Auction owners were notified of the raid and its results.24

The Sheriff's Department raided Cherry Auction again on October 13, 1992.25 On October 19th, Sergeant Michael Mosier of the Fresno County Sheriff's Department followed up with a letter to Cherry Auction's general manager, Richard Pilegard.26 Sergeant Mosier's letter noted that upon his arrival several vendors of Latin audio music tapes abandoned their booths.27 Sergeant Mosier's letter also reminded Mr. Pilegard of his promise to get the name, address, vehicle license number and State Board of Equalization identification of prospective renters.28 Cherry Auction did not forward any vendor identification materials to the Sheriff's Department.29

On January 9, 1993, Fonovisa's investigator revisited Cherry Auction swap meet and observed similar infringing sales.30 On April 10, 1993, one day after serving Cherry Auction with the complaint31 in this action, Fonovisa's investigator saw ten out of fifteen vendors selling counterfeit tapes at low prices.32 A few days later, the Fonovisa investigator saw twelve out of seventeen booth vendors doing the same thing.33

Eighteen months after the Sheriff Department's initial raid and two months after Fonovisa filed its law suit, Mr. Pilegard wrote a letter to the Sheriff's Department and reported the possible sale

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23. See id. Fonovisa asserted that it owned copyrights in a majority of these confiscated tapes. See Appellee's Brief at 4, Fonovisa, Inc., 76 F.3d 259 (No. 94-15717).
24. Fonovisa, Inc., 847 F. Supp. at 1494. The raid was also publicized in a local newspaper, the Fresno Bee. See id.
25. See Appellee's Brief at 4, Fonovisa, Inc., 76 F.3d 259 (No. 94-15717).
27. See id.
28. See id. Mr. Pilegard admitted that the vendors did not ordinarily carry a required State Board of Equalization form, nor did Cherry Auction usually reserve spaces that required more identification. See id.
29. See id.
30. See id. "[F]onovisa cassette tapes sold for $2.00 or three tapes for $5.00 — an impossibly low price for legitimate music products." Id.
31. On February 25, 1993, Fonovisa filed a complaint against Cherry Auction seeking damages for copyright infringement. See Appellee's Brief at 2, Fonovisa, Inc., 76 F.3d 259 (No. 94-15717). Shortly afterwards, Fonovisa filed a First Amended Complaint which contained a prayer for injunctive relief. See id.
33. See id.
of illegal tapes at the swap meet. The Sheriff’s Department recommended that Cherry Auction stop renting booth space to counterfeit tape vendors and offered methods for detecting illegal cassette tapes. However, Cherry Auction never implemented the Sheriff Department’s recommendations and on three more occasions Fonovisa investigators witnessed between nine and twelve vendors selling counterfeit tapes.

Fonovisa sued Cherry Auction for five counts of direct and indirect copyright and trademark infringement. The United States District Court for the Eastern District of California granted Cherry Auction’s 12(b)(6) motion for dismissal of Fonovisa’s entire complaint for failure to state a claim upon which relief can be granted.

34. See id. The letter, dated June 21, 1993, also assured the Sheriff’s Department that “We (Cherry Auction) want to do whatever we can on our part . . . to put a stop to this activity.” Id.
35. See id.
36. See id.
38. See id. at 1494. Specifically, the complaint names five counts, entitled: (1) direct copyright infringement; (2) contributory copyright infringement; (3) vicarious copyright infringement; (4) contributory and vicarious trademark infringement; and (5) vicarious liability of the owners, operators, directors and officers of Cherry Auction. See id.
39. See id. The district court determined that the first claim for direct copyright infringement failed because Fonovisa could not plead and prove any facts which met the fourth element of the claim: by what acts and during what time the defendant, Cherry Auction, had infringed the copyright. See id.

The second claim of contributory copyright infringement required that Fonovisa prove that Cherry Auction had knowledge of and substantially participated in the infringing copyright activity. See id. at 1496. While the district court found that Cherry Auction did have knowledge of the infringing copyright activity conducted on their premises, they determined that Cherry Auction did not substantially participate. See id. The district court stated that Cherry Auction’s participation was “passive” because they merely rented booth space to the vendors. See id.

The district court suggested that substantial participation on the part of Cherry Auction would have required that they direct the vendors actions concerning what, when, how and to whom to sell. See id. Furthermore, Cherry Auction would have to be involved with promoting, advertising, encouraging the sale of counterfeit products or protecting the identity of the infringing vendors. See id.

The third claim of vicarious liability for copyright infringement was found to have failed because the elements of financial interest and supervisory control over the infringing activity were not pleaded and proved according to the district court. See id. The district court determined that Cherry Auction neither supervised nor profited from the vendor’s sale of counterfeit tapes. See id. at 1496-97.

The fourth claim focused upon contributory and vicarious trademark infringement. See id. at 1497. In order for contributory trademark infringement to occur two elements must be satisfied; first, supply of a product and second, knowledge of the direct infringement. See id. at 1498. The court stated that Cherry Auction’s lease of space was not a supply of a product or good in the plain sense of those words. See id. Consequently, the first element of the claim was not satisfied.
Fonovisa immediately appealed the dismissal of its claims for vicarious liability, and contributory copyright and trademark infringement. The Ninth Circuit reversed the district court’s dismissal of Fonovisa’s complaint and remanded the case for further proceedings on the vicarious liability, contributory copyright and contributory trademark infringement claims.

III. BACKGROUND

The United States Constitution provides that Congress shall have the power “To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” Congress exercised its power by enacting the Copyright Act of 1976 (1976 Act). The 1976 Act provides that copyright protection subsists in original works of authorship fixed in any tangible medium of expression.

Under the 1976 Act, copyright owners possess the sole and exclusive right to reproduce, distribute, publicly perform and display the original creative piece. Consequently, a person who violates any of the exclusive rights of the copyright owner is an infringer of

Furthermore, the district court determined that the claim for vicarious trademark infringement failed because none of Fonovisa’s allegations suggested that Cherry Auction and the infringing vendors had an apparent or actual partnership or exercised joint ownership and control over the infringing product. See id. at 1499.

The fifth claim of vicarious liability failed against Mr. Pilegard and Mr. and Mrs. Mitchell as the owners, operators and directors of Cherry Auction because no cause of action lay against the Cherry Auction swap meet. See id.

40. See Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 261 (9th Cir. 1996). Fonovisa has appealed the dismissal of its cause of action with the exception of the claims for direct copyright infringement and vicarious trademark infringement. Appellee’s Brief at 3, Fonovisa, Inc., 76 F.3d 259 (No. 94-15717).

41. See Fonovisa, Inc., 76 F.3d at 264.

42. U.S. Const. art. I, § 8, cl. 8.


45. See 17 U.S.C. § 106. Section 106 provides that:

Subject to sections 107 through 118, the owner of copyright under this title has the exclusive right to do and authorize any of the following: (1) to reproduce the copyrighted work in copies of phonorecords, (2) to prepare derivative works based upon the copyrighted work, (3) to distribute copies of the copyrighted work to the public by sale . . ., (4) to perform the copyrighted work publicly and (5) . . . to display the copyrighted work publicly.

Id. (emphasis added).
the copyright. The 1976 Act provides copyright owners with a number of remedies against copyright infringers. Such remedies include injunctive relief, impoundment of infringing articles, damages and lost profits, as well as costs and attorney’s fees.

While the 1976 Act addresses the liability of direct infringers, however, it does not include any statutory provision concerning the imposition of third party liability. The absence of express language imposing third party liability could have weakened the monopoly granted to copyright owners. The legislative history of the 1976 Act indicates that Congress intended to preserve and apply the doctrines of vicarious liability and contributory infringement to the field of copyright.

52. See NIMMER & NIMMER, supra note 51, § 1204(A) at 12-69.
53. See H.R. REP. NO. 94-1476, at 159 (1976). The report states that "[a] person who violates any of the exclusive rights of the copyright owner is an infringer, including persons who can be considered related or vicarious infringers." Id.; see also 1 NEIL BOORSTYN, BOORSTYN ON COPYRIGHT, § 10.06 at 10-19 (1994) (quoting H.R. REP. NO. 94-1476).
54. The legislative history explains that:
Use of the phrase "to authorize" is intended to avoid any questions as to the liability of contributory infringers. For example, a person who lawfully acquires an authorized copy of a motion picture would be an infringer if he or she engages in the business of renting it to others for purposes of unauthorized public performance.
H.R. REP. NO. 94-1476, at 61 (1976); S. REP. NO. 94-473, at 57 (1975); see also Inwood Lab. v. Ives Lab., 456 U.S. 844 (1982) (vicarious and contributory liability imposed upon third party for trademark infringement); Hard Rock Cafe Licensing Corp. v. Concession Services Inc., 955 F.2d 1143 (7th Cir. 1992) (imposed liability for contributory trademark infringement against owners of flea market similar to swap meet operated by Cherry Auction); 2 WILLIAM F. PATRY, COPYRIGHT LAW and PRACTICE at 1147 (quoting language of H.R. REP. NO. 94-1476; S. REP. NO. 94-473).
The elements of contributory and vicarious infringement are well established. To be liable for contributory infringement it must be shown that the alleged infringer, "with knowledge of the infringing activity, induced, caused or materially contributed to the infringing conduct of another." In a contributory infringement action the plaintiff copyright owner must prove that the defendant had knowledge of and participated in the infringing activity.

Vicarious liability does not require knowledge or participation. The focus in a vicarious infringement suit is on the alleged infringer's control of and benefit from the direct infringer's activities. An individual will be held liable for vicarious infringement "when the right and ability to supervise coalesce with an obvious and direct financial interest in the exploitation of copyrighted materials."

Both vicarious and contributory copyright infringement are judicial doctrines. The doctrine of vicarious liability for copyright infringement was developed in Shapiro, Bernstein & Co. v. H.L. Green Co. Shapiro, Bernstein & Co. owned copyrights in several musical

56. Id. (quoting Gershwin Pub'l'g Corp. v. Columbia Artists Management Inc., 443 F.2d 1159, 1162 (2d Cir. 1971)).
57. See id.
58. See id.
59. See id.
62. 316 F.2d 304 (2d Cir. 1963); see also Nimmer, supra note 51, at 1270-75 (stating that roots of doctrine of vicarious liability lie in tort doctrine of respondeat superior). Where lack of knowledge that the primary actor is actually engaged in infringing conduct is not a defense, it may effect the remedies available. See id.; see also Restatement (Second) Of Torts, § 877(c) & cmt. d (1979) (stating "[f]or harm resulting to a third person from the tortious conduct of another, one is subject to liability if he permits the other to act upon his premises or with his instrumentalities, knowing or having reason to know that the other is acting or will act tortiously"); M. David Dobbins, Computer Bulletin Board Operator Liability for Users' Infringing Acts, 94 Mich. L. Rev. 217, 224 (1995) (discussing vicarious liability basis in doctrine of respondeat superior).
compositions and alleged that H.L. Green Co. was vicariously liable for the copyright infringement activities of concessionaires selling bootleg records in the H.L. Green Co. department store.\(^63\) The United States Court of Appeals for the Second Circuit held H.L. Green Co. vicariously liable for copyright infringement.\(^64\) The Second Circuit reasoned that:

When the right and ability to supervise coalesce with an obvious and direct financial interest in the exploitation of copyrighted materials, even in the absence of actual knowledge that the copyright monopoly is being impaired, the purposes of copyright law may be best effectuated by the imposition of liability upon the beneficiary of that exploitation.\(^65\)

**Shapiro, Bernstein \& Co.** set forth the two prong, control and financial benefit test for determining vicarious liability. The Second Circuit stated that by holding H.L. Green Co. vicariously liable for copyright infringement the monopoly provided to copyright owners would be strengthened.\(^66\) Furthermore, the court wanted to discourage large chain and department stores from establishing dummy concessions which allowed them to shield their eyes from

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63. See Shapiro, Bernstein \& Co., 316 F.2d at 305-06. Jalen Amusement Company operated H.L. Green's phonograph record department as concessionaires pursuant to a written license agreement. See id. at 306. The complaint alleged that H.L. Green was liable for copyright infringement because it "sold or contributed to and actively participated in the sale of" bootleg records manufactured and sold by Jalen Amusement in the H.L. Green stores. Id.

64. See id. at 307.

65. Id. (citing De Acosta v. Brown, 146 F.2d 408 (2d Cir. 1944), cert. denied sub nom., Hearst Magazines v. De Acosta, 325 U.S. 862 (1945)).

The Second Circuit examined two lines of cases relevant to the facts of Shapiro, Bernstein \& Co. First, the court examined a landlord-tenant case. See id. (citing Deutsch v. Arnold, 98 F.2d 686 (2d Cir. 1938)). In Deutsch, the court held that there had to be something more than a mere landlord-tenant relationship before vicarious liability attached. See id.

Second, the court examined the dance hall cases. See id. (citing Buck v. Jewell-LaSalle Realty Co., 283 U.S. 195 (1931); Dreamland Ball Room v. Shapiro, Bernstein \& Co., 36 F.2d 354 (7th Cir. 1928)). In Buck, the United States Supreme Court held that the reception of a radio broadcast was essentially a reproduction which constituted a public performance because the music was produced by instrumentalities under the control of the LaSalle hotel, which supplied electric current, installed and operated the receiving system. See Buck, 283 U.S. at 200-01.

In Dreamland Ball Room, the defendants owned, directed and operated, for profit, a dance hall to which the public was invited and charged for admittance. See Dreamland Ball Room, 36 F.2d at 355. The orchestra furnishing the music played some of the plaintiffs' copyrighted compositions. See id. The United States Court of Appeals for the Seventh Circuit held the dance hall owner vicariously liable for copyright infringement. See id.

66. See Shapiro, Bernstein \& Co., 316 F.2d at 308.
the possibility of copyright infringement while reaping the proceeds of the infringement.67

In *Sony Corp. of America v. Universal City Studios, Inc.*,68 the United States Supreme Court stated that vicarious and contributory copyright infringement actions were recognized under the 1976 Act.69 Universal Studios owned copyrights in television programs that were broadcast over the public airwaves.70 Sony manufactured and sold Betamax home video tape recorders (VTRs) to the public.71 Members of the general public used Sony VTRs to record Universal Studio broadcasts.72 Universal Studios brought suit against Sony for contributory copyright infringement.73

The Court conceded that the 1976 Act did not expressly render anyone liable for infringement committed by another.74 However, in the Court’s view the absence of express language in the copyright statute did not preclude the imposition of liability for copyright infringement on certain parties who have not themselves engaged in the infringing activity.75

The Court determined that the facts of the case did not warrant the imposition of contributory liability76 upon Sony because consumer use of the VTR for time-shifting purposes was considered a fair use of the device.77 The Court also found that Sony did not have control over what the Betamax VTR customers did with the

67. See id. at 309.
69. See id. at 434-35. The Copyright Act does not expressly render anyone liable for infringement committed by another. See id. at 434. However, the absence of such express language in the copyright statute does not preclude the imposition of liability for copyright infringements on certain parties who have not themselves engaged in the infringing activity. See id. at 435.
70. See id. at 419.
71. See id. at 420.
72. See id.
73. See Sony Corp., 464 U.S. at 420. Universal Studios did not seek relief against any Betamax consumer. See id. Rather Universal Studios sought money damages, an equitable accounting of profits and an injunction against the manufacture and marketing of Betamax VTRs. See id.
74. See id. at 434.
75. See id. at 435. The Court stated that vicarious liability is imposed in virtually all areas of the law, and the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another. See id.
76. See id. at 417. The two prong test for contributory infringement states that the plaintiff must prove that the defendant had knowledge of and substantially participated in the infringing activity. See id.
77. See id. at 438. The Court noted that the contributory infringement doctrine is grounded on the recognition that adequate protection of a monopoly may require the courts to look beyond actual duplication of a device or publication to the products or activities that make the duplication possible. See id. at 442.
device because the only contact between Sony and its customers occurred at the moment of sale. Consequently, the court explicitly rejected the argument that manufacturers with constructive knowledge that customers are using its product to make unauthorized copies of copyrighted works should face liability for vicarious copyright infringement.

_Gershwin Publishing Corp. v. Columbia Artists Management_ set forth the classic statement of the contributory copyright infringement doctrine. In this test case, the American Society of Composers, Authors and Publishers (ASCAP) sued Columbia Artists Management (CAMI) for copyright infringement. On January 9, 1965, concert artists managed by CAMI performed "Bess, You is My Woman Now," publicly for profit at a concert sponsored by the local community association without the permission of the Gershwin Publishing Company.

Accordingly, the sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. See id.

78. See _Sony Corp._, 464 U.S. at 438-39.

79. See id. at 439. The majority of the Court noted that if vicarious liability was to be imposed on Sony, it must rest upon the fact that Sony sold equipment with constructive knowledge of the fact that Sony's customers may use that equipment to make unauthorized copies of the copyrighted material. See id. The Court concluded that there was no precedent in the law of copyright for the imposition of vicarious liability on such a theory. See id.; see also Berkowitz, _supra_ note 61, at 2539-40 (stating Supreme Court implicitly held that vicarious liability could not be imposed on manufacturers even if they sold equipment with constructive knowledge of customers making unauthorized copies).

80. 443 F.2d 1159 (2d Cir. 1971).

81. See id. The doctrine of contributory infringement is based upon the tort concept of enterprise liability. See _Nimmer & Nimmer, supra_ note 51, § 1204(A) [2] at 1275. There are two types of contributory infringement. First, personal conduct that forms part of or furthers the infringement, and second, contribution of machinery or goods that provide the means to infringe. See id.; see also Dobbins, _supra_ note 62, at 229 (describing enterprise liability); Pink, _supra_ note 51, at 621 (discussing enterprise liability and contributory copyright infringement).

82. See _Gershwin Publ'g Corp._, 443 F.2d at 1160. The parties wanted a determination concerning whether CAMI was liable for and could be compelled to pay license fees when musical compositions in the ASCAP repertory are performed at concerts sponsored by local community concert associations and promoted by CAMI. See id.

83. See id. at 1161. CAMI conceded that the performing artists and the local association were liable for copyright infringement. See id. However, CAMI argued that its participation in the infringing performance did not render it liable for copyright infringement. See id.

CAMI deliberately made no effort to obtain copyright clearance for musical compositions that were included in the programs and performed at community concerts. See id. CAMI felt that the clearance was unnecessary because it claimed no responsibility for any infringement that might occur during the performance. See id.
The Second Circuit held that "[o]ne who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a 'contributory' infringer." The court reasoned that it has long been held that one may be liable for copyright infringement even if one has not personally performed the protected composition. The court emphasized that CAMI's pervasive participation in the formation, direction and programming of the community concert associations placed CAMI in a position to police the conduct of the artists.

The United States Court of Appeals for the Third Circuit expanded the application of the *Gershwin* test for contributory copyright infringement in *Columbia Pictures Industries, Inc. v. Aveco, Inc.* *Columbia* Pictures sued Aveco for copyright infringement because Aveco rented videocassettes of *Columbia* Pictures films in conjunction with rooms where the films could be viewed. *Columbia* Pictures argued that Aveco's conduct was a violation of *Columbia* Pictures' exclusive right to public performance of its copyrighted motion pictures. The Third Circuit held Aveco liable as a contributory infringer, and stated that providing the site and facilities for known infringing activity was sufficient to establish liability for contributory infringement.

84. *Id.* at 1162.
85. See *id.* at 1161-62 (quoting *Gross v. Van Dyk Gravure Co.*, 230 F. 412 (2d Cir. 1916)).
86. See *id.* at 1163. CAMI knew that copyrighted works were being performed at the concert and neither the local association nor the artist would secure a copyright license. See *id.; see also Demetriades v. Kaufman*, 690 F. Supp. 289 (S.D.N.Y. 1988) (noting that doctrine of contributory infringement requires satisfaction of two elements: knowledge and participation). In *Demetriades*, the plaintiff was unable to prove the participation element because the court concluded that a third party realtor who simply brokered a real estate transaction that was connected to a copyright infringement, was not enough to establish participation by a third party. See *id.* at 294.
87. 800 F.2d 59 (3d Cir. 1986).
88. See *id.* at 60. *Columbia* Pictures distributed videocassette copies of the motion pictures in which it owned copyrights. See *id.* at 61. *Columbia* Pictures knew that many retail purchasers, including Aveco, rented the tapes to others for profit. See *id.* Aveco, however, also made available rooms on its premises in which the customers could view the videocassettes. See *id.*
89. See *id.*
90. See *id.* at 64.
91. See *id.; see also Patry, supra note 54, at 1147 (stating that merely providing means for infringement may be sufficient to incur contributory copyright liability); Mark C. Morril & Sarah E. Eaton, *Protecting Copyrights On-Line: Copyright Liability for On-Line Service Providers*, 4 J. PROPRIETARY RTS. 2 (1996) (arguing that means standard of liability should also be applied to on-line service providers).
Courts have also applied the legal principles that were set forth in the copyright infringement cases to the activities of third parties in settings ranging from flea markets\(^92\) to on-line services.\(^93\) Congress recently enacted the New Sound Recordings Digital Performance Rights Act\(^94\) to protect the monopoly granted to copyright holders under the 1976 Act in light of recent technological developments.\(^95\) Furthermore, recommendations in the Clinton Administration’s White Paper favor expansion and extension of the doctrines of vicarious and contributory copyright infringement to the National Information Infrastructure.\(^96\)


\(^{94}\) Pub. L. 104-39, S. 227, H.R. 1506 (104th Cong. 1st Sess., Nov. 1, 1995). The new digital performance right applies to digital audio transmissions of sound recordings that are part of an interactive service for which subscribers pay a fee, so that interactive music distributors will be required to obtain a license from the record company for the sound recording and from the artist for their recorded performances. See Neil Boorstyn, New Sound Recording Digital Performance Rights, 10 COPYRIGHT L.J. 1 (1996).

\(^{95}\) See Alan J. Hartnick, The 1st Mechanical License in Cyberspace, N.Y.L.J., Feb. 9, 1996, at 5, 7 (explaining creation of licensing system for on-line music distributors); Michael I. Rudell, Music Legislation Meets the Digital Age, N.Y.L.J., Dec. 22, 1995, at 3-4 (discussing Digital Performance in Sound Recording Act’s application to Internet and music licensing system); see also Frank Music v. Compuserve, 93 Civ. 8153 (S.D.N.Y.) (Compuserve settled claims with Frank Music concerning unauthorized digital transmission of copyrighted musical compositions owned by music publisher and agreed to licensing system); Audio Notes, Audio Week, Mar. 11, 1996 (discussing first challenge brought by RIAA against AudioNet Jukebox for violations under Digital Performance in Sound Recording Act).

IV. Analysis

A. Narrative Analysis

The United States Court of Appeals for the Ninth Circuit determined that the complaint of Fonovisa, Inc. contained information sufficient to sustain claims against Cherry Auction, Inc., for vicarious copyright infringement, contributory copyright and trademark infringement. After an extensive analysis, the court remanded the case back to the district court for further proceedings.

Circuit Judge Mary Schroeder, writing for the court, focused upon several influential factors concerning the economic relationship between the swap meet owner and the infringing vendors. Specifically, the Ninth Circuit focused upon the economic benefits accruing to Cherry Auction based upon its relationship with the directly infringing vendors. First, the court noted that Cherry Auction received a daily rental fee from vendors in exchange for booth space. Second, Cherry Auction also received an entrance fee for each customer attending the swap meet. Third, the court emphasized Cherry Auction’s rights and responsibilities under the terms of its rental agreements with the vendors. These rental agreements provided that Cherry Auction was responsible for advertising the swap meet and retained the right to exclude any vendor at anytime for any reason. The Ninth Circuit concluded that Cherry Auction’s manager and owners were aware that massive quantities of counterfeit tapes were sold on the premises because of the previous raids conducted by the Sheriff’s Department.

The Ninth Circuit acknowledged that Fonovisa’s copyright claims were brought pursuant to the Copyright Act of 1976, which is limited to imposing liability on direct infringers. The court,
however, referenced United States Supreme Court decisions which have imposed vicarious and contributory liability for copyright and trademark infringement under certain circumstances.\(^1\)

1. **Vicarious Liability for Copyright Infringement**

The court noted that the concept of vicarious liability for copyright infringement, as applied to the sale of counterfeit sound recordings, was set forth in the landmark case of *Shapiro, Bernstein & Co. v. H.L. Green Co.*\(^2\) In *Shapiro, Bernstein & Co.*, the owner of copyrights in musical compositions, sued H.L. Green Co., a chain of department stores, for copyright infringement because a concessionaire was selling bootleg recordings of copyrighted musical compositions in the department store.\(^3\) The Second Circuit enforced the copyrights against H.L. Green Co. because its economic interests were intertwined with the directly infringing concessionaire’s economic interest.\(^4\)

The Ninth Circuit looked to *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*\(^5\) for assistance in determining whether to impose vicarious liability on a defendant in the absence of an employer-employee relationship.\(^6\) The *Fonovisa* court first considered whether the defendant had the right and ability to supervise the infringing activity.\(^7\) Second, the court determined whether

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\(^{106}\) See *id.* (citing *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 435 (1984) (noting vicarious liability imposed in all areas of law and concept of contributory infringement is species of broader problem of identifying circumstances when it is just to hold one individually accountable for actions of another); *Inwood Lab. v. Ives Lab.*, 456 U.S. 844 (1982) (vicarious and contributory liability imposed upon third party for trademark infringement); *Hard Rock Cafe Licensing Corp. v. Concession Services Inc.*, 955 F.2d 1143 (7th Cir. 1992) (imposed liability for contributory trademark infringement against owners of flea market similar to swap meet operated by Cherry Auction)).

\(^{107}\) 316 F.2d 304 (2d Cir. 1963).

\(^{108}\) See *Fonovisa, Inc.*, 76 F.3d at 262 (quoting *Shapiro, Bernstein & Co.*, 316 F.2d at 306).

\(^{109}\) See *id.* at 262. The *Shapiro, Bernstein & Co.* court did not view the imposition of vicarious liability on the store owner as unduly harsh nor unfair because the store owner had the power to cease the conduct of the concessionaire and because the store owner derived an obvious and direct financial benefit from the infringement. See *id.* (quoting *Shapiro, Bernstein & Co.*, 316 F.2d at 307). For a detailed discussion of *Shapiro, Bernstein & Co.*, see supra notes 62-67 and accompanying text.

\(^{110}\) 443 F.2d 1159 (2d Cir. 1971).

\(^{111}\) See *Fonovisa, Inc.*, 76 F.3d at 262 (citing *Gershwin Publ’g Corp.*, 443 F.2d at 1162).

\(^{112}\) See *id.* at 263.
the defendant had a direct financial interest in the infringing activity.\textsuperscript{113}

The Ninth Circuit rejected the United States District Court for the Eastern District of California’s conclusion that Cherry Auction neither supervised nor profited from the vendor’s sale of counterfeit tapes.\textsuperscript{114} The court also examined and rejected the district court’s absentee landlord analogy, as not in accord with the facts of the case.\textsuperscript{115}

\textbf{a. Element of Control}

The Ninth Circuit examined the facts as set forth in the parties’ pleadings and concluded that Cherry Auction controlled and patrolled the vendors during the swap meet.\textsuperscript{116} The court deemed Cherry Auction’s reservation of the right to terminate the vendors at any time for any reason to be evidence of Cherry Auction’s control over the vendors conduct.\textsuperscript{117}

In \textit{Shapiro, Bernstein \& Co.}, the formal licensing agreement between H.L. Green Co., the department store owner, and Jalen Amusement, the directly infringing concessionaire, contained a provision similar to the one in \textit{Fonovisa, Inc.}\textsuperscript{118} The \textit{Shapiro, Bernstein \& Co.} court and the Ninth Circuit viewed such a provision as conferring a policing power sufficient enough to control the con-

\begin{itemize}
  \item \textsuperscript{113} \textit{See id.} For a detailed discussion of \textit{Gershwin Publ’g Corp.} and the doctrine of vicarious liability, see \textit{supra} notes 80-86 and accompanying text.
  \item \textsuperscript{114} \textit{See Fonovisa, Inc.}, 847 F. Supp. at 1496. For a discussion of the Ninth Circuit’s reasoning on the control element, see \textit{infra} notes 116-24 and accompanying text.
  \item \textsuperscript{115} \textit{See Fonovisa, Inc.}, 847 F. Supp. at 1496. According to the district court Cherry Auction was in the same position as an absentee landlord who surrendered his exclusive right of occupancy in leased property to his tenants. \textit{See id.} For a brief discussion of the landlord-tenant line of cases as set forth in \textit{Shapiro, Bernstein \& Co.}, see \textit{supra} note 65 and accompanying text.
  \item \textsuperscript{116} \textit{See Fonovisa, Inc.}, 76 F.3d at 262. The Ninth Circuit stated that Cherry Auction’s reservation of the right to terminate the vendors for any reason at any time was deemed a method of controlling the vendor’s behavior. \textit{See id.} Moreover, it was noted that Cherry Auction also controlled customer access to the swap meet. \textit{See id.}
  \item \textsuperscript{117} \textit{See id.} The Ninth Circuit also referenced the \textit{Shapiro} court’s focus upon the formal licensing agreement between the department store owner and the direct infringer-concessionaire. \textit{See id.} The agreement between the department store and the concessionaire provided that the concessionaire must abide by the rules and regulations set forth by the department store, H.L. Green Co., and that H.L. Green Co. had the “unreviewable discretion” to discharge the concessionaire employees. \textit{Id.} (quoting \textit{Shapiro, Bernstein \& Co. v. H.L. Green Co.}, 316 F.2d 304, 906 (2d Cir. 1963)).
  \item \textsuperscript{118} \textit{See id.} at 263.
\end{itemize}
duct of concessionaires such as those in Shapiro, Bernstein & Co. and the vendors on Cherry Auction’s swap meet grounds.119

The Fonovisa court relied upon Gershwin Publishing Corp. v. Columbia Artists Management120 as further support for its contention that Cherry Auction’s conduct satisfied the control element.121 The Ninth Circuit noted that the Gershwin Publishing Corp. court lacked a formal licensing agreement which conferred policing powers upon the defendant, so it focused on the defendant’s “pervasive participation in the formation and direction” of the direct infringers.122 The Ninth Circuit emphasized that Cherry Auction’s role as promoter and organizer of the swap meet demonstrated that Cherry Auction wielded control over the direct infringers similar to the Gershwin Publishing Corp. defendants.123 Therefore, the Ninth Circuit concluded that the district court’s dismissal of the vicarious copyright infringement claim was not justified.124

b. Element of Financial Benefit

The Ninth Circuit rejected Cherry Auction’s argument that a commission directly tied to the sale of infringing items is required before a defendant can be found to have satisfied the financial benefit prong of the Gershwin Publishing Corp. test.125 The court emphasized that Cherry Auction received substantial financial benefits from the infringing sales, including a daily rental fee from each individual vendor, an admission fee from each customer entering

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119. See id. at 262 (quoting Shapiro, Bernstein & Co., 316 F.2d at 308).
120. 443 F.2d 1159 (2d Cir. 1971).
121. See Fonovisa, Inc., 76 F.3d at 263. Specifically, the Ninth Circuit noted that Gershwin Pub’l’g Corp. supported finding liability for copyright infringement in the absence of an employer-employee relationship. See id.
122. See id. The Gershwin Pub’l’g Corp. court reasoned that the promotion activity created an audience for the direct infringers. See id. Consequently, the defendants were found to be in a position to police the direct infringers. Thus, the control element was satisfied. See id. For a detailed discussion of Gershwin Pub’l’g Corp., see supra notes 80-86 and accompanying text.
123. See id. 76 F.3d at 263; see also Polygram Int’l Publ’g, Inc. v. Nevada/TIG, Inc., 855 F. Supp. 1314, 1329 (D. Mass. 1994) (noting control element satisfied because defendant controlled direct infringers through rules and regulations, policed booths to make sure regulations were followed and promoted show in which direct infringers participated).
124. See Fonovisa, Inc., 76 F.3d at 263.
125. See id. The defendant relied upon the facts of Shapiro, Bernstein & Co. in requesting that the court restrict the financial benefit prong. See id. H.L. Green Co., the defendant in Shapiro, Bernstein & Co., received a ten to twelve percent commission from the direct infringers’ gross receipts. See id.
the swap meet, and incidental payments for parking, food and other services provided to the customers.126

The court garnered further support for its position by citing cases which have imposed vicarious copyright infringement liability on operators of businesses where infringing performances enhance the attractiveness of the venue to potential customers.127 The Ninth Circuit stated that the sale of pirated recordings at the Cherry Auction swap meet was a draw for customers and sufficiently similar to the performance of pirated music in the dance hall cases and their progeny.128

2. Contributory Copyright Infringement

The Ninth Circuit also turned to Gershwin Publishing Corp. v. Columbia Artists Management129 for its classic statement of the doctrine of contributory copyright infringement.130 The doctrine provides that, "[o]ne who with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another may be held liable as a 'contributory' infringer."131 Consequently, the plaintiff in a contributory copyright infringement action must plead and prove that the defendant had knowledge of, and materially contributed to, the infringing activity.132

a. Element of Knowledge

The Ninth Circuit stated that Fonovisa adequately alleged the element of knowledge in this case.133 The facts as stated in the

126. See id.
127. See id.; see also Famous Music Corp. v. Bay State Harnes Horse Racing & Breeding Ass'n, 554 F.2d 1213, 1214 (1st Cir. 1977) (holding race track owner vicariously liable for band that entertained patrons who were not "absorbed in watching the races"); Shapiro, Bernstein & Co. v. H.L. Green Co., 316 F.2d 304, 307 (2d Cir. 1963) (dance hall cases hold proprietor liable where infringing activities provide proprietor with source of customers and enhanced income); Polygram, 855 F. Supp. at 1332 (explaining direct infringers were participants in trade show that used infringing music to communicate with attendees and to cultivate interest in product).
128. See Fonovisa, Inc., 76 F.3d at 263. For a detailed discussion of the dance hall cases as set forth in Shapiro, Bernstein & Co., see supra note 65.
129. 443 F.2d 1159 (2d Cir. 1971).
130. See Fonovisa, Inc., 76 F.3d at 264.
131. Id. (quoting Gershwin Publ'g Corp., 443 F.2d at 1162); see also Universal City Studios v. Sony Corp., 659 F.2d 963, 975 (9th Cir. 1981), rev'd on other grounds, 464 U.S. 417 (1984) (adopting Gershwin Publ'g Corp. rule in Ninth Circuit); Boor- stryn, supra note 53, §10.06[2] at 10-21 (1994) (stating common law doctrine that one who knowingly participates in or furthers tortious act is jointly and severally liable with prime tortfeasor, is applicable under copyright law).
132. See Fonovisa, Inc., 76 F.3d at 264.
133. See id.
pleadings revealed that Cherry Auction’s manager and owners were aware that the sale of counterfeit sound recordings took place at the swap meet.\textsuperscript{134} Moreover, the raids conducted by the Sheriff’s Department served to notify Cherry Auction’s manager and owners that massive quantities of counterfeit sound recordings were being sold on the swap meet grounds.\textsuperscript{135}

b. Element of Material Contribution

The Ninth Circuit also determined that Fonovisa adequately alleged the element of material contribution.\textsuperscript{136} According to the court, Cherry Auction’s provision of support services, such as booth space, utilities, parking, advertising, plumbing and customers, enabled the infringing activity to take place in massive quantities.\textsuperscript{137}

The Ninth Circuit cited the United States Court of Appeals for the Third Circuit’s decision in Columbia Pictures Industries, Inc. \textit{v. Aveco, Inc.}\textsuperscript{138} as additional support for its decision.\textsuperscript{139} \textit{Columbia Pictures} held that providing the site and facilities for known infringing activity is sufficient to establish contributory liability.\textsuperscript{140} Consequently, the Ninth Circuit refused to characterize Cherry Auction’s participation in the infringing sales as merely “passive.”\textsuperscript{141}

\textsuperscript{134} For a detailed discussion of the facts in Fonovisa, Inc., see supra notes 19-41 and accompanying text.

\textsuperscript{135} See Fonovisa, Inc., 76 F.3d at 264.

\textsuperscript{136} See id.

\textsuperscript{137} See id.

\textsuperscript{138} 800 F.2d 59 (3rd Cir. 1986).

\textsuperscript{139} See Fonovisa, Inc., 76 F.3d at 266.

\textsuperscript{140} See Columbia Pictures, 800 F.2d at 59; see also Patry, supra note 54, at 1147 (noting that providing means for infringement may be sufficient to incur contributory copyright liability).

\textsuperscript{141} See Fonovisa, Inc., 76 F.3d at 264. The Ninth Circuit stated that, “Cherry Auction asks us to ignore all aspects of the enterprise described by Fonovisa and to concentrate solely on the rental of space. Yet, Cherry Auction actively strives to provide the environment and the market for counterfeit recording sales to thrive.” Id.

The United States District Court for the Eastern District of California’s limited definition of contribution required an express promotion or encouragement of the sale of counterfeit products or in some manner protecting the identity of the infringer. See id. (quoting Fonovisa, Inc. \textit{v. Cherry Auction, Inc.}, 847 F. Supp. at 1496 (E.D. Cal. 1994)). This narrow definition was rejected by the Ninth Circuit as too limited. See id. Moreover, the Ninth Circuit pointed out that based upon Fonovisa’s allegations that Cherry Auction refused to cooperate with the Fresno sheriff’s lawful request for basic, identifying information on the vendors, Cherry Auction was protecting the identity of the direct infringers and therefore could be held liable under the district court’s own limited standard for defining material contribution. See id.

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B. Critical Analysis

1. Vicarious Liability for Copyright Infringement

The Ninth Circuit correctly determined that Cherry Auction swap meet owners should be subject to liability for vicarious and contributory copyright infringement. According to the Shapiro, Bernstein & Co. court, vicarious liability may be imposed upon a third party "when the right and ability to supervise, coalesce with an obvious and direct financial interest in the exploitation of copyrighted materials . . . ." 142

a. Financial Benefit

The Ninth Circuit's decision to consider the indirect financial benefits that accrued to Cherry Auction as a result of the counterfeit sales is consistent with legal precedent on the issue. 143 It achieves the Shapiro, Bernstein & Co. court's goal of preventing large department stores from shielding their eyes from the possibility of copyright infringement, through "dummy" concessions, while also reaping the proceeds of the infringement. 144 Here, Cherry Auction's owners received fees from vendor rentals, customer admissions, parking as well as revenue from food and drink sales. 145 The Ninth Circuit correctly noted that the availability of counterfeit cassettes increased customer traffic on the swap meet grounds. 146 The opinion also accurately exposes the culpability of third parties, such as Cherry Auction, who facilitate the illegal activity of direct infringers, while reaping financial benefits to their own business enterprises. 147


143. See Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 263 (9th Cir. 1996). The dance hall cases of Buck v. Jewell-LaSalle Realty Co., 283 U.S. 191, 195 (1931); and Dreamland Ball Room v. Shapiro, Bernstein & Co., 36 F.2d 354 (7th Cir. 1929) held proprietors liable when infringing activities provided the proprietors with a source of customers and enhanced income. See also Polygram Int'l Publ'g, Inc. v. Nevada/TIG, Inc., 855 F. Supp. 1328, 1332 (D. Mass. 1994) (holding trade show participants derived significant financial benefit from attention attendees paid to infringing music); Famous Music Corp. v. Bay State Harness Horse Racing and Breeding Ass'n, 554 F.2d 1213, 1214 (1st Cir. 1977) (holding race track owner vicariously liable for band that entertained patrons who were not absorbed in watching races).

144. Shapiro, Bernstein & Co., 316 F.2d at 309.
145. See Fonovisa, Inc., 76 F.3d at 263.
146. See id.
147. For a discussion of the dance hall cases, see supra note 65.
The Ninth Circuit appropriately rejected the notion that financial benefit from infringing sales could only be present if Cherry Auction received a percentage of the counterfeit tape sales from the vendors.\(^{148}\) It should be noted that the *Shapiro, Bernstein & Co.* court did not set forth any requirement that defendants receive a percentage of the profits from infringing sales in order to face vicarious liability for copyright infringement.\(^{149}\)

Furthermore, the congressional definition of financial benefit allows for the evaluation of direct as well as indirect benefits to defendants in vicarious liability suits.\(^{150}\) The legislative history of Section 501—Infringement of Copyright under the Copyright Act of 1976, provides that "[t]o be held a related or vicarious infringer in the case of performing rights, a defendant must either actively operate or supervise the operation of the place wherein the performances occur, . . . and expect commercial gain from the operation and either direct or indirect benefit from the infringing performances."\(^{151}\) This standard has been applied to situations involving infringing sales of copyrighted material.\(^{152}\)

The court’s opinion adhered to legislative intent as articulated in the available legislative history, and correctly determined that Cherry Auction expected commercial gain from the operation through the indirect benefits that resulted from the sale of counterfeit tapes on swap meet grounds.

b. Control

The Ninth Circuit’s opinion represents a rejection of the district court’s narrow definition of the control element.\(^{153}\) The Ninth

\(^{148}\) *See Fonovisa, Inc.*, 76 F.3d at 262 (quoting *Fonovisa, Inc.*, 847 F. Supp. at 1496).

\(^{149}\) *See id.* at 263-64; *see also* Famous Music Corp. v. Bay State Harness Horse Racing & Breeding Ass’n, 554 F.2d 1213, 1214 (1st Cir. 1977) (race track owner vicariously liable for band that entertained patrons who were not absorbed in watching races); Shapiro, Bernstein & Co. v. H.L. Green Co., 316 F.2d 304, 307 (2d Cir. 1963) (noting dance hall cases hold proprietor liable where infringing activities provide proprietor with source of customers and enhanced income); Polygram Int’l Publ’g. Inc. v. Nevada/TIG, Inc., 855 F. Supp. 1314, 1332 (D. Mass. 1994) (holding that trade show participants derived significant financial benefit from attention attendees paid to infringing music).

\(^{150}\) *See Amici Brief for Appellant at 21, Fonovisa, Inc.*, 76 F.3d 259 (No. 94-15717).


\(^{152}\) *See Amici Brief for Appellant at 21, Fonovisa, Inc.*, 76 F.3d 259 (No. 94-15717); *see e.g.*, Polygram, 855 F. Supp. at 1331.

\(^{153}\) *See Fonovisa, Inc. v. Cherry Auction*, Inc., 847 F. Supp. 1492, 1497 (E.D. Cal. 1994). The district court stated that the *Shapiro, Bernstein & Co.* court spoke of
Circuit appropriately relied upon the written agreement between Cherry Auction and the vendors, and equated Cherry Auction's right to terminate the vendors for any reason as evidence that Cherry Auction controlled and supervised the vendors while they were on swap meet grounds. 154 Additional manifestations of Cherry Auction's supervisory control over the vendors were found in Cherry Auction's controlling customer access, patrolling swap meet grounds, organizing as well as promoting the swap meet. 155 All of the above factors led the court to correctly conclude that Cherry Auction had control over the vendors while they were on swap meet grounds. 156

It should also be noted that the legislative history of the Copyright Act provides that "to be held a related or vicarious infringer . . . a defendant must either actively operate or supervise the operation of the place wherein the performances occur." 157 Nothing in either the 1976 Act or the legislative history limits the definition of control or supervision over the vendors to the limited priori conceptualization adopted by the district court. 158 The Ninth Circuit's expansion of the definition of the control element correctly encompasses the implicit power that Cherry Auction possessed over the vendors while they were on swap meet grounds conducting the infringing sales.

2. Contributory Copyright Infringement

The Gershwin Publishing Corp. test provides that knowledge and substantial participation are required for imposing contributory copyright infringement. 159

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154. See Fonovisa, Inc., 76 F.3d at 263. The court stated that, "[a]s the promoter and organizer of the swap meet, Cherry Auction wields the same level of control over the [vendors] as did the Gershwin defendant[s] [over the community concert associations]." Id. For a discussion of Gershwin Publ'g Corp., see supra notes 80-86 and accompanying text.

155. See Fonovisa, Inc., 76 F.3d at 263.

156. See id.


158. The district court stated that the Shapiro, Bernstein & Co. court spoke of a priori supervisory power which is the power to supervise the direct infringers in the general course of business concerning what to sell, whom to hire and how much to charge for the product. See Fonovisa, Inc., 847 F. Supp. at 1497.

159. See Gershwin Publ'g Corp. v. Columbia Artists Management, 443 F.2d 1159, 1160 (2d Cir. 1971).
a. Knowledge

Both the district court and the Ninth Circuit agreed that Cherry Auction had knowledge of counterfeit tape sales occurring on the swap meet grounds.\(^{160}\)

b. Substantial Participation

The Ninth Circuit, however, correctly rejected a narrow definition of the substantial participation element.\(^{161}\) The court's definition of substantial participation correctly considered the support services that Cherry Auction provided to its vendors.\(^{162}\) According to the court, support services included booth space, utilities, parking, advertising, plumbing and customers.\(^{163}\) Under the enterprise theory a defendant may be liable when he provides the environment and market for sales to thrive.\(^{164}\) Here, Cherry Auction's support services allowed the vendors to make infringing sales of the counterfeit tapes in massive quantities.\(^{165}\)

The Ninth Circuit's decision on this issue is also consistent with established legal precedent\(^{166}\) and the available legislative his-

\(^{160}\) See Fonovisa, Inc., 76 F.3d at 263 (quoting Fonovisa, Inc., 847 F. Supp. at 1496).

\(^{161}\) See Fonovisa, Inc., 76 F.3d at 264. The Ninth Circuit stated that, "[t]he district court apparently took the view that contribution to infringement should be limited to circumstances in which the defendant 'expressly promoted or encouraged the sale of counterfeit products, or in some manner protected the identity of the infringers.'" Id. The district court also stated that Cherry Auction's participation was "passive" because they merely rented booth space to the vendors. See Fonovisa, Inc. v. Cherry Auction, Inc., 847 F. Supp. 1492, 1496 (E.D. Cal. 1994). For a discussion of the district court's reasoning, see supra note 39 and accompanying text.

\(^{162}\) See Fonovisa, Inc., 76 F.3d at 264.

\(^{163}\) See id.

\(^{164}\) See Sony Corp. v. Universal City Studio, Inc., 464 U.S. 417, 442 (1984). The United States Supreme Court has stated that the contributory infringement doctrine is grounded on the recognition that adequate protection of a monopoly may require the courts to look beyond actual duplication of a device or publication to the products or activities that make the duplication possible. See id.; see also Cambridge, supra note 51, at 707 (noting 1976 Act did not include language concerning third party liability for copyright infringement); Dobbins, supra note 62, at 229 (describing enterprise liability); Pink, supra note 51, at 621 (discussing enterprise liability and contributory copyright infringement).

\(^{165}\) See Fonovisa, Inc., 76 F.3d at 264.

\(^{166}\) See e.g., Shapiro, Bernstein & Co. v. H.L. Green Co., 316 F.2d 304 (2d Cir. 1963) (store owner liable for unauthorized sale of "bootleg" records infringing on movant's copyright); Gershwin Publ'g Corp. v. Columbia Artists Management, 443 F.2d 1159 (2d Cir. 1971) (event sponsor vicariously liable for performer's violation of author's copyright); Buck v. Jewell-LaSalle Realty Co., 283 U.S. 191 (1931) (in-house music provided to hotel guests without license infringed movant's copyright); Dreamland Ball Room v. Shapiro, Bernstein & Co., 36 F.2d 354 (7th Cir. 1926) (dance hall liable for broadcast of author's composition without li-
tory.\textsuperscript{167} In a closely analogous case the Third Circuit in \textit{Columbia Pictures Industries, Inc. v. Aveco, Inc.}\textsuperscript{168} held that providing the site and the facilities for known infringing activity is sufficient to establish contributory liability.\textsuperscript{169} The Ninth Circuit’s expansion of the factors that may be considered as indicative of substantial participation follows the reasoning of the \textit{Gershwin Publishing Corp.} court in the area of “pervasive participation” of the defendant.\textsuperscript{170} Under the \textit{Gershwin Publishing Corp.} court’s reasoning it is appropriate to look at all aspects of the defendant’s involvement, rather than focus upon promotional and advertising activities.\textsuperscript{171}

The Ninth Circuit’s decision on the vicarious and contributory copyright infringement claims achieves the public policy goal of protecting the United States’ copyright industry, which since 1994 has contributed more to the economy than any other manufacturing industry.\textsuperscript{172} The court’s decision should also reduce the number of marketplace owners willing to ignore the sale of counterfeit merchandise.

\section{V. Impact}

The Ninth Circuit’s decision in \textit{Fonovisa, Inc. v. Cherry Auction, Inc.} will strengthen the position of plaintiffs with vicarious liability and contributory copyright infringement claims against third party organizers and marketplace owners that have provided a safe haven for direct infringers to sell their counterfeit merchandise.\textsuperscript{173} First,
the Ninth Circuit's broad definition of the financial benefit, control, and participation elements is favorable to plaintiffs. Second, the Shapiro, Bernstein & Co. court's goal of preventing large chain and department stores from establishing "dummy" concessions and shielding their own eyes from the possibility of copyright infringement, while also reaping the proceeds of the infringement, has been achieved. Lastly, the burden of taking precautionary steps against copyright infringement has rightly been placed upon market place owners, since they are in the best position economically and proximately to monitor the vendors on their premises.

Fonovisa, Inc. v. Cherry Auction, Inc., has already proven to be an effective tool in the recording industry's fight against piracy. In A&M Records v. Abdallah, the Central District of California relied upon Fonovisa, Inc. to hold Mr. Abdallah, owner of a company selling time-loaded blank audio cassettes, liable for contributory copyright infringement because he had actual knowledge of his customers' counterfeit activity and his provision of time-loaded cassettes was a material contribution to the customers' counterfeiting activities. Consequently, the Fonovisa, Inc. opinion may be used to target both marketplace owners who assist direct infringers in selling their counterfeit products to the public, and suppliers of equipment and goods that assist direct infringers in producing their counterfeit products. This increased exposure to liability for marketplace owners and suppliers should serve as a disincentive to aiding direct infringers in their illegal enterprise.

The courts may eventually apply the concepts of vicarious liability and contributory copyright infringement set forth in Fonovisa, Inc. to Internet access and on-line service providers who fail

174. See Fonovisa, Inc., 76 F.3d at 261-64.
175. See Shapiro, Bernstein & Co. v. H.L. Green Co., 316 F.2d 304, 309 (2d Cir. 1963).
176. See Amici Brief for Appellant at 23, Fonovisa, Inc., 76 F.3d 259 (No. 94-15717).
177. See Goldberg & Bernstein, supra note 55, at 3 (noting A&M Records v. Abdallah decision used Fonovisa, Inc. to hold supplier of blank time-loaded tapes, designed for counterfeiting, liable for contributory copyright infringement).
179. See id. at 1454.
180. See id. at 1457. Time-loaded cassettes contain audio tape that runs for a predetermined time specified by the customer. See Goldberg & Bernstein, supra note 55, at 3. The defendant's time loaded cassettes allowed his customer counterfeiters to produce marketable counterfeit tapes without cutting off music leaving stretches of silent time, which would result from using conventional blank cassettes of thirty, sixty or ninety minute durations. See A&M Records, 948 F. Supp. at 1454.
to take steps to eliminate copyright infringement activity on their networks.\textsuperscript{181}

It may be argued that Internet access and on-line service providers are similar to swap meet owners because they derive a financial benefit from the subscriber fees that they charge users.\textsuperscript{182} On-line service providers also exercise control over users because transmissions may be blocked and access can be terminated at anytime.\textsuperscript{183} Additionally, on-line service providers routinely monitor user activities for marketing purposes, therefore they are in the best position to monitor for copyright infringement activities on the Internet.\textsuperscript{184}

Placing liability for contributory copyright infringement on Internet access and on-line service providers will effect their ability to organize information on the World Wide Web and increase the cost of service to users.\textsuperscript{185} First, the access provider will be required to thoroughly check Web pages for copyright infringement before including any hyperlinks to the larger World Wide Web community.\textsuperscript{186} Second, the access providers would have to continuously monitor the Web pages in case infringing material is later added.\textsuperscript{187} Third, the threat of liability for copyright infringement will deter Web sites from including hyperlinks to other Web pages.\textsuperscript{188} Finally, the inability to use hyperlinks without fear of exposure to copyright infringement liability will make it more difficult for users to navigate the Web and undermine the structure of the Web as a collection of interconnected documents.\textsuperscript{189}

However, exposure to liability for on-line service and access providers may also deter copyright infringement.\textsuperscript{190} First, Web pages will have an added incentive not to include infringing content.\textsuperscript{191} Second, fewer Web sites will be willing to include hyper-

\textsuperscript{181} See William J. Cook, Be Wary Of Internet Casting Shadows On Copyright Holders, CHI. LAW., Apr. 1996, at 60.
\textsuperscript{182} See id.
\textsuperscript{183} See id.
\textsuperscript{184} See id.
\textsuperscript{185} See Freeling & Levi, supra note 93, at S4 (noting that users surf World Wide Web by typing address of particular Web page they want to visit).
\textsuperscript{186} See id. at S4 (stating hyperlinks are critical to effectively managing information on Web because they help users navigate Web and find Web pages relating to particular topic).
\textsuperscript{187} See id.
\textsuperscript{188} See id.
\textsuperscript{189} See id.
\textsuperscript{190} See Freeling & Levi, supra note 93, at S4.
\textsuperscript{191} See id.
links to an infringing Web page and as a result that Web page will be less effective in disseminating infringing material.\textsuperscript{192} The imposition of liability for copyright infringement upon on-line service and access providers will induce them to internalize the cost of prohibiting copyright infringement as a cost of doing business.\textsuperscript{193}

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\textsuperscript{192} See id.

\textsuperscript{193} See Morril & Eaton, \textit{supra} note 93, at 2 (stating that on-line service providers and Internet access providers should be held liable for direct copyright infringement resulting from subscribers infringing activities).