

INDIRECT INFRINGEMENT AND COUNTERFEITING: REMEDIES AVAILABLE AGAINST THOSE WHO KNOWINGLY RENT TO COUNTERFEITERS

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INTRODUCTION

Trademark counterfeiting¹ costs U.S. industry an estimated \$200 billion each year.² New York City alone loses \$400 million each year in tax revenues from the sale of counterfeit goods.³ Indeed, the profit margins for counterfeiting rival those for narcotics.⁴ The risks, however, are not comparable:⁵ low risk and high profit margin make counterfeiting a very lucrative activity.⁶

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¹ The Lanham Act defines a counterfeit mark as "a spurious mark which is identical with, or substantially indistinguishable from, a registered mark." Lanham Act, 15 U.S.C. § 1127 (1994). Similarly, the Trademark Counterfeiting Act of 1984 defines it as "a spurious mark that is used in connection with trafficking in goods or services that is identical with, or substantially indistinguishable from a mark in use and registered on the principal register for those goods or services and the use of which is likely to cause confusion, mistake or deceive . . ." Trademark Counterfeiting Act of 1984, 18 U.S.C. § 2320 (1994). The Lanham Act provides civil remedies for trademark holders against trademark infringement. The Trademark Counterfeiting Act of 1984 criminalizes trademark counterfeiting.

² See S. REP. NO. 104-177, at 3 (1996); H.R. REP. NO. 104-556, *reprinted in* 1996 U.S.C.C.A.N. 1074. In 1982, by contrast, counterfeiting cost the U.S. economy an estimated \$5.5 billion. S. REP. NO. 104-177, at 3 (1996). According to the U.S. Customs Service, counterfeiting results in a loss of an estimated 750,000 jobs annually. *Id.*

³ See Speaker Peter F. Vallone, Address at the Counterfeiting Press Conference (Dec. 7, 1997).

⁴ *The AntiCounterfeiting Consumer Protection Act of 1995: Hearings on S. 1136 Before the Senate Judiciary Comm.*, 104th Cong. 8 (1995) (statement of Dempster Leach, counterfeiting investigator) [hereinafter *Hearings*].

⁵ See generally William Green & Katherine Bruce, *Riskless Crime?*, FORBES, Aug. 11, 1997, at 100; Anthony M. Keats & Jeffrey K. Joyner, *Counterfeiting Reaches New Levels*, 417 P.L.I./PAT 309, 337 (1995).

⁶ See S. REP. NO. 104-177, at 4 (1996). In addition to saving costs by using inferior materials, counterfeiters can sell their goods at a fraction of the legitimate company's costs because they do not incur the substantial costs involved in developing a new product or trademark. For example, it may take a pharmaceutical company ten years and a \$125 to \$160 million investment to bring an effective drug to market. By contrast, a chemist can produce a counterfeit drug in days with a few thousand dollars worth of equipment. Additionally, the pharmaceutical counterfeiter does not have to deal with safety and health concerns involved in product development. See *Hearing on H.R. 2511 Before the Subcomm. on Courts and Intellectual Property of the House Comm. on the Judiciary*, 104th Cong. (1995) (statement of John Bliss, President of the International AntiCounterfeiting Coalition).

What was once thought to be a victimless crime perpetuated by small-time criminals has evolved into an increasingly violent crime run by sophisticated organizations.⁷ Many counterfeiting manufacturers are tied to street gangs and organized crime—often with international connections—threatening and carrying out violent crimes on uncooperative street peddlers and rivals.⁸ For example, in the early 1990s, the notorious Vietnamese street gang “Born to Kill,” dominated the counterfeit designer watch trade in New York City, taking in an estimated \$13 million in revenue.⁹ It used the profits from its counterfeiting operation to finance its criminal activities in three other states.¹⁰ Moreover, it operated in an atmosphere of brutal violence, killing many of its rivals.¹¹ Its leader, David Thai, was eventually convicted of multiple counts of murder, robbery, and extortion, and sentenced to three consecutive life sentences in prison.¹²

Counterfeiting affects all industries. In addition to the traditional counterfeiting of designer goods, counterfeiting extends to video and audio cassettes, computer software, toys, pharmaceuticals, baby formula, auto parts (including brake pads), and airplane parts.¹³ By producing goods that fail to meet the quality control standards imposed by the trademark holder, counterfeiters endanger the health and safety of consumers.¹⁴ For example, federal investigators reported that more than 600 helicopters sold to both

⁷ In enacting the AntiCounterfeiting Consumer Protection Act of 1996, Congress explained that “today most counterfeiters are part of an organized structure that more closely resembles a sophisticated international corporation [than an isolated individual] To combat such criminals, law enforcement officers must be free to attack the entire organization instead of a single person somewhere within the structure.” S. REP. NO. 104-177, at 1 (1996). Counterfeiting is a standard way terrorists raise money. Indeed, the FBI has investigated a link between the sale of counterfeit goods and the World Trade Center bombing. See Willy Stern, *Why Counterfeit Goods May Kill*, BUS. WK., Sept. 2, 1996, at 6.

⁸ See Green & Bruce, *supra* note 5, at 101; AntiCounterfeiting Consumer Protection Act of 1996, P.L. No. 104-153, 110 Stat. 1386 (1996). In enacting that law, Congress explicitly found that the counterfeiting of trademarked and copyrighted merchandise is connected to organized crime. *Id.*

⁹ *Id.*

¹⁰ S. REP. NO. 104-177, at 6 (1996).

¹¹ *Id.*; David Stipp, *Brandnapping*, Fortune, May 27, 1996, at 128.

¹² See *id.*

¹³ S. REP. NO. 104-177, at 3 (1996); H.R. REP. NO. 104-556, (1996), *reprinted in* 1996 U.S.C.A.N. 1074.

¹⁴ H.R. REP. NO. 98-997, at 5 (1984). Additionally, most counterfeiting manufacturers endanger the well-being of their workers by producing their goods in sweatshop conditions, violating labor laws, immigration laws, health and safety laws, including environmental law violations, and fire code violations. See Julie Szabo, *Crimes of Fashion/ The Industry Wages War Against Counterfeit Designer Goods*, NEWSDAY, Nov. 21, 1996, at B13; see also Lawrence Van Gelder, *6 Are Accused of Violating Trademark Laws*, N.Y. TIMES, July 18, 1996, at B5; Stephanie Simon, *Knock Knock, Who's There? Counterfeiters, That's Who*, L.A. TIMES, Aug. 13, 1995, at 1F.

NATO and private entities contained counterfeit parts, resulting in a series of crashes.¹⁵

Counterfeiting is a criminal activity under state¹⁶ and federal¹⁷ laws. Despite the existence of such criminal statutes, counterfeiters

¹⁵ See H.R. REP. NO. 104-556 (1996), *reprinted in* 1996 U.S.C.C.A.N. 1074; *Hearings, supra* note 4, at 1 (statement of Senator Orrin Hatch). S. REP. NO. 98-526 (1984), *reprinted in* 1984 U.S.C.C.A.N. 3627, 3630-31.

¹⁶ See ARIZ. REV. STAT. § 44-1455 (West 1994); CAL. PENAL CODE § 350 (West 1988 & Supp. 1998); FLA. STAT. ANN. §§ 831.03, 831.05 (West 1994 & Supp. 1998); GA. CODE ANN. § 10-1-454 (Supp. 1997); HAW. REV. STAT. ANN. §§ 708-875 (Michie, WESTLAW through 1997); IDAHO CODE §§ 18-3614 (1997); 765 ILL. COMP. STAT. 1040 (West 1993 & Supp. 1997); LA. REV. STAT. ANN. § 14:229 (West Supp. 1997); MD. CODE ANN. art. 27, § 48A (1996); MICH. COMP. LAWS ANN. § 750.263 (West 1991); N.J. STAT. ANN. § 2C:21-32 (West, WESTLAW through 1997); N.Y. PENAL LAW §§ 165.70 to 165.74 (McKinney 1998); N.C. GEN. STAT. § 80-11.1 (1997); N.D. CENT. CODE § 51-07-04 (1997); OHIO REV. CODE ANN. § 2913.34 (Anderson 1996); 18 PA. CONS. STAT. ANN. § 4119 (West Supp. 1997); R.I. GEN. LAWS §§ 11-17-13 (Supp. 1997); S.C. CODE ANN. § 39-15-1190 (Law Co-op. Supp. 1997); VA. CODE ANN. § 59.1-89 (Michie Supp. 1997); WIS. STAT. ANN. § 132.20 (West 1989). *See also* D.C. CODE ANN. §§ 22-751, 22-752 (Supp. 1997). Most state statutes classify counterfeiting based on the aggregate retail sale value of goods, increasing the severity of the penalties in proportion to value of goods. There is a wide range in the severity of those penalties. For example, Michigan classifies all counterfeiting as a misdemeanor, punishable by no more than one year of imprisonment in a county jail, or a fine of not more than \$500. MICH. COMP. LAWS ANN. § 750.263. By contrast, Georgia's comprehensive statute groups counterfeiting into multiple classifications, providing harsher penalties for those who manufacture (or possess the tools to manufacture) counterfeit goods, than for those who sell such goods, and for the forfeiture of such goods or tools. GA. CODE ANN. § 10-1-454. When a counterfeiter manufactures goods with an aggregate retail value exceeding \$100,000, the statute considers the crime a felony and mandates that those convicted under it serve between five and 20 years in prison *and* receive a fine of the greater of \$200,000 or twice the retail value of the goods or services. *Id.* § 10-1-454(b)(1). Repeat offenders face between 10 and 20 years imprisonment and an identical fine. *Id.* § 10-1-454(b)(4). New York groups trademark counterfeiting into three classifications, classifying the crime as a Class A misdemeanor where the value of such goods is less than \$1,000, a Class E felony where the value is between \$1,000 and \$100,000, and a Class C felony where the value exceeds \$100,000. *See* N.Y. PENAL LAW §§ 165.70 to 165.73. Additionally, it provides for the seizure and destruction of counterfeit goods upon conviction of the counterfeiter. *Id.* § 165.74. In New York, a class A misdemeanor carries a possible prison term of up to one year. *NEW YORK SENTENCE CHARTS*, at 14 (West 1997). A class E felony carries a possible prison term of up to four years. *Id.* at 9. A class C felony carries a possible prison sentence of up to 15 years. *Id.* at 7.

¹⁷ *See* The Trademark Counterfeiting Act of 1984, 18 U.S.C. § 2320 (1994); AntiCounterfeiting Consumer Protection Act of 1996, Pub. L. No. 104-153, 110 Stat. 1386 (1996). The Trademark Counterfeiting Act of 1984 provides in part:

§ 2320. Trafficking in counterfeit goods or services

(a) Whoever intentionally traffics or attempts to traffic in goods or services and knowingly uses a counterfeit mark on or in connection with such goods or services shall, if an individual, be fined not more than \$2,000,000 or imprisoned more than 10 years, or both, and, if a person other than an individual, be fined not more than \$5,000,000. In the case of an offense by a person under this section that occurs after that person is convicted of another offense under this section, the person convicted, if an individual shall be fined not more than \$5,000,000 or imprisoned not more than 20 years, or both, and if other than an individual, shall be fined not more than \$15,000,000.

18 U.S.C. § 2320. Congress enacted that law after recognizing that counterfeiting is an "epidemic," extending far beyond the realm of the individual street vendor selling watches and handbags. S. REP. NO. 98-526, at 4-5 (1984), *reprinted in* 1984 U.S.C.C.A.N. 3627, 3630-31; *see* H.R. REP. NO. 104-556 (1996), *reprinted in* 1996 U.S.C.C.A.N. 1074. *See generally* J.

are rarely prosecuted.¹⁸ Similarly, civil remedies,¹⁹ although obtainable, are often uncollectible since counterfeiters often hide their assets, opening bank accounts in countries with private banking laws, putting their assets in the names of family members, using aliases, and leasing the equipment used to make their illicit

Joseph Bainton, *Reflections on The Trademark Counterfeiting Act of 1984: Score a Few For the Good Guys*, 82 T.M.R. 1 (1992). The Anticounterfeiting Consumer Protection Act of 1996 makes certain intellectual property crimes, including counterfeiting, predicate offenses subject to the Racketeer Influenced and Corrupt Organizations ("RICO") provisions of the Organized Crime Control Act of 1970. See 18 U.S.C. § 1961(1)(B) (1994); AntiCounterfeiting Consumer Protection Act of 1996, 100 Stat. 1386. The AntiCounterfeiting Consumer Protection Act of 1996 also amends 18 U.S.C. § 2318 to criminalize trafficking in counterfeit copyrighted computer programs or computer program documentation or packaging. See § 4, 110 Stat. 1386.

¹⁸ See *Hearings*, *supra* note 4, at 3 (statement of Senator Orrin Hatch). Congress recognized, in enacting the Trademark Counterfeiting Act of 1984, that "it is unlikely that busy federal prosecutors will be able to prosecute more than a fraction of those who traffic in known fakes [under the Act]." S. REP. NO. 98-526, at 2 (1984), *reprinted in* 1984 U.S.C.C.A.N. 3627, 3628. Indeed, Congress intended that the Act be "limited to only the most egregious conduct." *Id.* In enacting the AntiCounterfeiting Consumer Protection Act of 1996, Congress acknowledged that the significant growth of criminal counterfeiting could be attributed to its high profit potential and low risk of meaningful prosecution. H.R. REP. NO. 104-556, at 1 (1996), *reprinted in* 1996 U.S.C.C.A.N. 1074. It also recognized that the Trademark Counterfeiting Act of 1984 is an "inadequate remedy for the explosive growth of criminal commercial counterfeiting." *Id.*; see S. REP. NO. 104-177, at 1 (1996) ("Existing Federal Law is not adequate to protect consumers and American businesses from the crime of counterfeiting copyrighted and trademarked products."). In fact, in enacting the Trademark Counterfeiting Act of 1984, Congress recognized that its *civil* provisions would be its primary benefit. See S. REP. NO. 98-526, at 19-20 (1984), *reprinted in* 1984 U.S.C.C.A.N. 3646, 3646-47 ("Based on information provided by the Department of Justice and the Patent and Trademark Office, we expect that enactment of the bill will not result in any significant increase in agency workloads or costs. Most of the cases [brought under the Act] would be subject to civil adjudication . . .") (letter from Rudy G. Penner, Congressional Budget Office to Senator Strom Thurmond). See *infra* note 19. Recently, the government indicated an increased emphasis on prosecuting counterfeiting, evidenced by the FBI's 1997 nationwide counterfeiting crackdown called "Operation Countercopy." See *Department of Justice News Release*, 1997 WL 230122 (D.O.J. May 8, 1997). In reality, however, the government's focus has done little to significantly impact counterfeiting, with federal prosecutions remaining a rare occurrence. Telephone Interview with John Bliss, President of the International AntiCounterfeiting Coalition (Feb. 20, 1998).

¹⁹ Civil remedies against counterfeiting are available to trademark holders under the Lanham Act, 15 U.S.C. § 1051, and to copyright holders under the Copyright Act, 17 U.S.C. § 101. Additionally, the Trademark Counterfeiting Act of 1984 amended the Lanham Act by providing for the *ex parte* seizure of counterfeit goods. 15 U.S.C. § 1116(d) (1994). Congress recognized the need for *ex parte* seizures because after receiving notice, counterfeiters destroyed or hid their counterfeit goods before courts could examine such goods. The Act standardizes the procedures for an *ex parte* order. See *id.*

The Act also provides for the mandatory award of treble damages or profits. 15 U.S.C. § 1117(b) (1994). Prior to the enactment of this law, the award of treble damages was available at the discretion of the court. That remedy, however, was rarely used, even in egregious cases of counterfeiting. See S. REP. NO. 98-526, at 2 (1984), *reprinted in* 1984 U.S.C.C.A.N. 3628, 3629; H.R. REP. NO. 98-997, at 6 (1984). One of the primary reasons the Act provides for mandatory treble damages or profits is because of the difficulty in proving more than a fraction of the losses that a plaintiff has in fact incurred. S. REP. NO. 98-526, at 6 (1984), *reprinted in* 1984 U.S.C.C.A.N. 3628, 3634. This provision encourages plaintiffs to bring an action under the Act by providing a chance to be made whole. *Id.* The *Senate Report* observed that the Act's primary benefit would be that the civil remedy of treble damages serves as an incentive for trademark holders to bring a civil action. See *id.*

goods.²⁰ Indeed, the significant costs involved in initiating a seizure of counterfeit goods makes the use of that option increasingly rare.²¹

This Article examines the various remedies available to trademark holders against counterfeiting. Specifically, this Article discusses remedies available against indirect infringers: entities such as landlords, trade show operators, and flea market²² operators who knowingly rent to counterfeiters, and refuse to evict them, turning a blind eye to the infringement. Holding such entities liable for the actions of their infringing tenants or vendors should prove to be a significant deterrent to this serious and pervasive problem.

Part I reviews the history and development of indirect infringement. In particular, it examines the doctrines of vicarious liability²³ and contributory infringement.²⁴ Vicarious liability de-

²⁰ See Green & Bruce, *supra* note 5, at 102.

²¹ See *id.* See generally Woody Jameson & John Herman, *Seizure is Costly Counterfeiting Tool*, NAT'L L.J., May 12, 1997, at C9. The costs involved in taking all of the necessary steps to obtain an *ex parte* seizure, including the costs in conducting a thorough investigation sufficient to meet the high standards of proof required of preparing the necessary pleadings and supporting affidavits can be significant, often exceeding the amount of monetary recovery. *Id.* Such costs include investigative support, storage and transportation costs for the seized goods, and the posting of a bond. The logistics, moreover, may be overwhelming. For example, the Atlanta Committee for the 1996 Summer Olympics had to catalog and rent warehouse space for more than 50,000 seized counterfeit items. *Id.* at C9 n.6.

²² A flea market is a place where customers come to purchase various merchandise from individual vendors. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261 (9th Cir. 1996). Flea markets are also known as "swap meets." *Id.* at 260.

²³ The theory of vicarious liability has its roots in the common law agency doctrine of respondeat superior. *Id.* at 261-62 (trademark infringement); *Gershwin Publ'g Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (copyright infringement). The doctrine of respondeat superior, which is based on the master/servant relationship, provides that an employer is liable for the unauthorized torts of his employee if committed while the employee is acting within the scope of his employment. See generally HAROLD GILL REUSCHLEIN & WILLIAM A. GREGORY, *THE LAW OF AGENCY AND PARTNERSHIP* § 52 (2d ed. 1990). Although vicarious liability is based on respondeat superior, one may be vicariously liable even in the absence of an employer-employee relationship. See *Shapiro, Bernstein & Co., Inc. v. H.L. Green Co.*, 316 F.2d 304 (2d Cir. 1963).

²⁴ Contributory trademark infringement is derived from traditional tort liability. See *Inwood Labs. v. Ives Labs., Inc.*, 456 U.S. 844 (1982); *AT & T v. Winback & Conserve Program, Inc.*, 42 F.3d 1421 (3d Cir. 1994) (1995) ("[B]ecause section 43(a) [of the Lanham Act] parallels state tort law and is derived from tort common law, it is self-evident that application of at least some tort concepts of liability will 'advance the goals of [the Act].'" (citation omitted)).

Similarly, contributory copyright infringement is derived from the tort concept of enterprise liability. *Demetriades v. Kaufman*, 690 F. Supp. 289, 292 (S.D.N.Y. 1988); see *Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc.*, 256 F. Supp. 399, 402-03 (S.D.N.Y. 1966) ("Since infringement constitutes a tort, common law concepts of tort liability are relevant in fixing the scope of the statutory copyright remedy, and the basic common law doctrine that one who knowingly participates in or furthers a tortious act is jointly and severally liable with the prime tortfeasor . . ."); see also *Kalem Co. v. Harper Bros.*, 222 U.S. 55, 63 (1911) (observing that when defendant has knowledge that its product will be used to assist in an infringement, "it is liable on principles recognized in every

depends on the defendant's relationship to the direct infringer, regardless of the defendant's knowledge of the infringing activity.²⁵ By contrast, liability under a theory of contributory infringement depends on the defendant's relationship to the activity—the direct infringement. In essence, courts applying that theory hold a defendant liable when he or she directly contributes to another's infringement. The test for contributory infringement is virtually the same for both copyright and trademark infringement; liability depends on the defendant's knowledge of the infringing activity and his participation in that activity.²⁶ Generally, contributory infringement is the more applicable theory in addressing the liability of a landlord or flea market operator who knowingly rents to a counterfeiter.²⁷ As the Supreme Court observed, however, "the lines between direct infringement, contributory infringement and vicarious liability are not clearly drawn."²⁸ Consequently, courts often blur the distinction between the two indirect infringement theories.²⁹ Indeed, courts occasionally hold a defendant simultaneously liable under both.³⁰

area of the law") (Holmes, J.); *Underhill v. Schenck*, 143 N.E. 773, 776 (N.Y. 1924) (observing that one who knows his conduct will contribute to an infringement "stands in a position similar to that of a contributing infringer.") (Cardozo, J.).

²⁵ See *Hard Rock Cafe Licensing v. Concession Servs.*, 955 F.2d 1143 (7th Cir. 1992); *F.E.L. Publications, Ltd. v. National Conference of Catholic Bishops*, 466 F. Supp. 1034, 1044 (N.D. Ill. 1978) ("[T]he Lanham Act . . . impose[s] vicarious liability on those who induce or are responsible for those who perform the violative Acts."); JANE C. GINSBERG ET AL., *TRADEMARK AND UNFAIR COMPETITION LAW* 498 (2d ed. 1991) (explaining that vicarious liability is "imposed on defendants who are being held legally responsible for others' actions."). Vicarious copyright infringement focuses on the defendant's control over the direct infringer's activities and his financial interest in those activities. See *Shapiro, Bernstein & Co., Inc.*, 316 F.2d at 304. (This test is commonly referred to as the *Shapiro* test.)

²⁶ See *Inwood Labs.*, 456 U.S. at 854-55 (trademark infringement); *Gershwin Publ'g Corp.*, 443 F.2d at 1162 (copyright infringement). See generally 3 MELVILLE NIMMER, *NIMMER ON COPYRIGHT* § 12.04 (A) (1997).

²⁷ No court has held such parties vicariously liable for trademark infringement. This is due, in part, to the stringent vicarious trademark infringement standard. See *infra* notes 100-01 and accompanying text & note 117. In the context of copyright infringement, courts have reached disparate results in addressing the vicarious liability of a defendant, like a landlord, who receives fixed rentals from the direct infringer. See *infra* notes 118-38 and accompanying text. As a result of the Ninth Circuit decision *Fonovisa, Inc. v. Cherry Auction*, 76 F.3d 259 (9th Cir. 1996), which held a swap meet operator vicariously liable for copyright infringement, the likelihood of holding a landlord similarly liable has increased. See *infra* notes 173-79 and accompanying text.

²⁸ *Sony Corp. of Am. v. Universal City Studios, Inc.* 464 U.S. 417, 435 n.17 (1984) (quoting *Universal City Studios, Inc. v. Sony Corp. of Am.*, 480 F. Supp. 429, 457-58 (C.D. Cal. 1979)).

²⁹ See *Demetriades*, 690 F. Supp. at 292 n.5; 3 NIMMER, *supra* note 26, § 12.04(A)(1), at 12-67 ("The boundaries between [vicarious liability and contributory infringement] are often fluid.").

³⁰ See, e.g., *Fonovisa, Inc.*, 76 F.3d 259; *Gershwin Publ'g Corp.*, 443 F.2d at 1161-63; *Johnson v. Solomon*, 197 U.S.P.Q. (BNA) 801 (D. Minn. 1977).

This Part examines the evolution of the common law from the "landlord tenant"³¹ and "dance hall" cases³² to the current standards for indirect copyright infringement enunciated in *Shapiro Bernstein & Co. v. H.L. Green Co.*³³ and *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*³⁴ It concludes with the current standard for indirect trademark infringement, enunciated in *Inwood Laboratories v. Ives Laboratories, Inc.*,³⁵ and *Hard Rock Cafe Licensing v. Concession Services, Inc.*³⁶ Part II discusses recent applications of these standards to cases involving indirect infringers. Courts have applied these doctrines to a wide array of defendants, including trade show organizers, corporate parents, and electronic bulletin board system ("BBS")³⁷ operators, holding such defendants liable in the majority of recent decisions. Part III discusses *Fonovisa, Inc. v. Cherry Auction*³⁸ and its impact on indirect infringement. In that case, the Ninth Circuit examined the liability of a swap meet³⁹ owner for the infringing acts of its vendor. It held that the plaintiff stated a cause of action against the swap meet owner for contributory and vicarious copyright infringement, and contributory trademark infringement. In so doing, it reaffirmed the application of the theory of "willful blindness"⁴⁰ to satisfy the

³¹ These cases hold that where a landlord leases his or her property to a direct infringer for a fixed rental and does not participate in any infringing activity, that landlord is not liable for that infringement. See *infra* Part I.A.1.

³² These cases hold that where a dance hall owner or manager hires a performer who performs copyrighted material without permission of the copyright holder, the dance hall owner is liable for that infringement. See *infra* Part I.A.2.

³³ 316 F.2d 304 (2d Cir. 1963).

³⁴ 443 F.2d at 1162.

³⁵ 456 U.S. 844 (1982).

³⁶ 955 F.2d 1143 (7th Cir. 1992).

³⁷ "An electronic computer bulletin board consists of electronic storage media, such as computer memories or hard disks, which are connected to telephone lines by modem devices and are controlled by a computer." *Sega Enters., Ltd. v. MAPHIA*, 948 F. Supp. 923, 927 (N.D. Cal. 1996) (*Sega II*). Users can transfer information from their own computers to the storage media ("upload"), and retrieve information from the BBS to their own computer memories ("download"). See *id.*

³⁸ 76 F.3d 259, 261 (9th Cir. 1996).

³⁹ See *supra* note 22.

⁴⁰ The doctrine of willful blindness, also known as "deliberate ignorance," holds that "knowledge" in criminal statutes is not limited to actual knowledge, but includes "the state of mind of one who does not possess positive knowledge only because he consciously avoided it." *United States v. Jewell*, 532 F.2d 697, 702 (9th Cir. 1976). In other words, in order to constitute willful blindness, a person must "suspect wrongdoing and deliberately fail to investigate." *Hard Rock Cafe Licensing Corp.*, 955 F.2d at 1149 (citing *Louis Vuitton S.A. v. Lee*, 875 F.2d 584, 590 (7th Cir. 1989)). As the *Jewell* court observed:

[o]ne with a deliberate antisocial purpose in mind . . . may deliberately "shut his eyes" to avoid knowing what would otherwise be obvious to view. In such cases, so far as criminal law is concerned, the person acts at his peril in this regard, and is treated as having "knowledge" of the facts as they are ultimately discovered to be.

Jewell, 532 F.2d at 702 (quoting R. PERKINS, CRIMINAL LAW 776 (2d ed. 1969)).

knowledge prong of the contributory infringement test. Willful blindness is at the heart of indirect infringement.⁴¹ Many landlords and other similarly situated entities ignore notice letters⁴² from trademark holders, and shield their eyes to the infringing acts of their tenants. That conduct constitutes knowledge for the purposes of imposing liability on such entities. The case law has now developed to the point where trademark holders have the tools necessary to bring suit against landlords and other such parties who knowingly rent to counterfeiters. Part IV discusses New York Real Property Law ("RPL") section 231,⁴³ and several cases interpreting that law's application to trademark counterfeiting. In essence, RPL section 231 holds landlords strictly liable for the illegal use, including trademark counterfeiting, of its facilities, where the landlord has knowledge of that use. Recently, the New York City Council proposed legislation that permits the padlocking, for up to one year, of buildings that house counterfeiting operations.⁴⁴ Additionally, it would obligate landlords who have previously rented to counterfeiters to carefully screen all subsequent tenants and monitor their premises.⁴⁵ The proposed legislation, along with RPL section 231, serve as examples of the type of expansive law needed to combat counterfeiters, and those who enable them to manufacture and distribute their illicit goods.

I. THE EVOLUTION OF INDIRECT INFRINGEMENT

A trademark or copyright holder may pursue an infringement action against a party, like a landlord or flea market owner, who indirectly aids in a violation of the Lanham Act⁴⁶ or the Copyright

⁴¹ See e.g., *Fonovisa*, 76 F.3d at 265; *Hard Rock Cafe Licensing Corp.*, 955 F.2d at 1149. Although it did not use the term "willful blindness," the *Shapiro* court employed virtually identical language in its reasoning as the *Jewell* court, cautioning against indirect infringers "shielding their eyes" from the infringement. See *infra* note 78 and accompanying text. It is also present in the "dance hall" line of cases. See *Famous Music Corp. v. Bay State Harness Horse Racing & Breeding Ass'n.*, 554 F.2d 1213, 1214 (1st Cir. 1977) (discussed *infra* Part I.A.2). Additionally, it constitutes knowledge under the Trademark Counterfeiting Act of 1984. H.R. REP. NO. 98-997, at 10 (citing *Jewell*, 532 F.2d at 702); see *Louis Vuitton S.A.*, 875 F.2d at 588-89.

⁴² A typical notice letter from a trademark holder to a landlord or other such party provides notice that counterfeiting has been taking place at the location in question. It is sent after some form of legal action is taken against the counterfeiter, including a civil or criminal action or service of a cease and desist letter. Evidence such as copies of criminal search warrants, copies of court orders providing for seizure of counterfeit goods on the property and injunctions enjoining the tenant from the sale of such goods should also be provided. The letters also refer to the pertinent case and statutory law under which the landlord may be held liable, concluding with a request that the landlord evict the tenant.

⁴³ N.Y. REAL PROP. LAW § 231 (McKinney 1997).

⁴⁴ See Speaker Peter F. Vallone, Address, *supra* note 3.

⁴⁵ *Id.*

⁴⁶ 15 U.S.C. § 1051 (1994).

Act⁴⁷ under the theories of vicarious liability and contributory infringement. The case law for trademark infringement based on vicarious or contributory liability is still developing.⁴⁸ Conversely, the case law concerning vicarious or contributory liability in the context of copyright infringement is well settled.⁴⁹

Many cases involve allegations of both trademark and copyright infringement arising out of the same fact pattern.⁵⁰ Indeed, because of the similarity of the contributory infringement test under copyright and trademark law, there is often very little analysis concerning contributory trademark infringement in decisions where courts have first addressed contributory copyright infringement.⁵¹ Thus, in examining vicarious or contributory liability in the trademark arena, it is important to first examine the copyright cases.

⁴⁷ 17 U.S.C. § 101 (1994).

⁴⁸ See *Inwood Labs. v. Ives Labs.*, 456 U.S. 844 (1982); *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996); *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143 (7th Cir. 1992); *A & M Records v. Abdallah*, 948 F. Supp. 1449, 1459 (C.D. Cal. 1996); *Polo Ralph Lauren Corp. v. Chinatown Gift Shop*, 855 F. Supp. 648 (S.D.N.Y. 1994) (*Polo I*). See *infra* Part I.B. While the majority of cases addressing indirect trademark infringement have addressed the doctrine of contributory infringement, courts have had very few opportunities to consider vicarious liability. See *Banff, Ltd. v. Limited, Inc.*, 869 F. Supp. 1103, 1111 (S.D.N.Y. 1994) (observing that neither the Supreme Court nor the Second Circuit have addressed vicarious liability for trademark infringement).

⁴⁹ See, e.g., *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984); *Kalem Co. v. Harper Bros.*, 222 U.S. 55 (1911); *Softel v. Dragon Med. & Scientific Comm.*, 118 F.3d 955, 971 (2d Cir. 1997); *Fonovisa*, 76 F.3d at 259; *Casella v. Morris*, 820 F.2d 362, 365 (11th Cir. 1987); *Columbia Pictures Indus., Inc. v. Redd Horne, Inc.*, 749 F.2d 154 (3d Cir. 1984); *Famous Music Corp. v. Bay State Harness Horse Racing & Breeding Ass'n*, 554 F.2d 1213 (1st Cir. 1977); *Gershwin Publ'g Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159 (2d Cir. 1971); *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304 (2d Cir. 1963); *Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.*, 36 F.2d 354 (7th Cir. 1929); *Sega Enters., Ltd v. MAPHIA*, 948 F. Supp. 923 (N.D. Cal. 1996); *Artist Music, Inc. v. Reed Publ'g, Inc.*, 31 U.S.P.Q.2d (BNA) 1623 (S.D.N.Y. 1994); *Polygram Int'l Publications, Inc. v. Nevada/TIG, Inc.*, 855 F. Supp. 1314 (D. Mass. 1994); *Apple Computer, Inc. v. Microsoft Corp.*, 821 F. Supp. 616, 625-26 (N.D. Cal. 1993); *SBK Catalogue Partnership v. Orion Pictures Corp.*, 723 F. Supp. 1053, 1065 (S.D.N.Y. 1989); *Demetriades v. Kaufman*, 690 F. Supp. 289, 292 (S.D.N.Y. 1988); *Broad. Music, Inc. v. Hartmax Corp.*, 9 U.S.P.Q.2d (BNA) 1561 (N.D. Ill. 1988); *Broad. Music, Inc. v. Terrose*, 223 U.S.P.Q. (BNA) 137 (W.D.N.Y. 1983); *Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc.*, 256 F. Supp. 399 (S.D.N.Y. 1966).

⁵⁰ See, e.g., *CMM Cable Reprod., Inc. v. Ocean Coast Properties, Inc.*, 97 F.3d 1504 (1st Cir. 1996) (radio promotional contest); *Fonovisa*, 76 F.3d 259 (bootleg records); *Denbicare U.S.A., Inc. v. Toys "R" US, Inc.*, 84 F.3d 1143 (9th Cir. 1996) (reusable diapers and packaging); *Nintendo of Am., Inc. v. Dragon Pac. Int'l*, 40 F.3d 1007 (9th Cir. 1994) (video game cartridges); *Twin Peaks Prods., Inc. v. Publications Int'l, Ltd.*, 996 F.2d 1366 (2d Cir. 1993) (book based on television show).

⁵¹ See, e.g., *Fonovisa*, 76 F.3d 259; *A & M Records*, 948 F. Supp. 1449.

A. Indirect Copyright Infringement

While the Copyright Act⁵² does not include express language permitting liability for copyright infringement under contributory or vicarious infringement, "courts have long recognized that in certain circumstances, vicarious or contributory liability will be imposed."⁵³ The early cases addressing indirect liability under the copyright law arose primarily in the context of "landlord cases,"⁵⁴ where a landlord leases his or her property to a tenant who engages in copyright infringement on the leased premises, and in the so-called "dance hall cases,"⁵⁵ where a dance hall owner or manager hires a performer who performs copyrighted material without the permission of the copyright holder.⁵⁶ The "landlord tenant cases" hold that something more than the mere landlord tenant relationship is needed to invoke liability on the landlord. The "dance hall cases," hold the dance hall owner liable based on the benefit that he or she derives from the infringement. Hence, often a vicarious liability case will turn on where the defendant's relationship to the direct infringer falls on the spectrum. In other words, if it is analogous to the landlord tenant line, the plaintiff will lose;⁵⁷ if

⁵² 17 U.S.C. § 101 (1994).

⁵³ *Fonovisa*, 76 F.3d at 261 (citing *Sony*, 464 U.S. at 435). See generally 3 NIMMER, *supra* note 26, § 12.04(A); 1 PAUL GOLDSTEIN, COPYRIGHT § 6 (2d ed. 1997); 2 WILLIAM F. PATRY, COPYRIGHT LAW AND PRACTICE 1147-49 (1994). The *Sony* Court explained 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." *Sony*, 464 U.S. at 435. In imposing vicarious liability based on constructive knowledge, the *Sony* Court drew an analogy between the Patent Act, which explicitly provides for such liability, and the Copyright Act, which does not. *Id.* at 439. The Court observed that "the closest analogy is provided by the patent law cases to which it is appropriate to refer because of the historic kinship between patent law and copyright law." *Id.* The Court further explained that indirect liability for trademark infringement should be more narrowly drawn than for copyright infringement, observing the "fundamental differences" between copyright and trademark law. *Id.* at 439 n.19.

⁵⁴ See *Deutsch v. Arnold*, 98 F.2d 686 (2d Cir. 1938); *Fromont v. Aeolin Co.*, 254 F. 592 (S.D.N.Y. 1918).

⁵⁵ See *Buck v. Jewell-LaSalle Realty Co.*, 283 U.S. 191, 198-99 (1931); *Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.*, 36 F.2d 354 (7th Cir. 1929); *M. Witmark & Sons v. Tremont Soc. & Athletic Club*, 188 F. Supp. 787 (D. Mass. 1960); *Remick Music Corp. v. Interstate Hotel Co.*, 58 F. Supp. 523 (D. Neb. 1944), *aff'd*, 157 F.2d 744 (8th Cir. 1946); *Buck v. Pettijohn*, 34 F. Supp. 968 (E.D. Tenn. 1940); *Buck v. Crescent Gardens Operating Co.*, 28 F. Supp. 576 (D. Mass. 1939); *Buck v. Russo*, 25 F. Supp. 317 (D. Mass. 1938); *Irving Berlin, Inc. v. Daigle*, 26 F.2d 149, *rev'd on other grounds*, 31 F.2d 832 (5th Cir. 1929); *M. Witmark & Sons v. Fastime Amusement Co.*, 298 F. 470 (E.D.S.C.), *aff'd*, 2 F.2d 1020 (4th Cir. 1924); *Harms v. Cohen*, 279 F. 276 (E.D. Pa. 1922).

⁵⁶ See *Sony*, 464 U.S. at 437-38 n.18.

⁵⁷ See, e.g., *Artist Music, Inc. v. Reed Publ'g (USA) Inc.*, 31 U.S.P.Q.2d (BNA) 1623 (S.D.N.Y. 1994); *Childress v. Taylor*, 20 U.S.P.Q.2d (BNA) 1181, 1189-90 (S.D.N.Y. 1990).

it is analogous to the dance hall line, the plaintiff will win.⁵⁸ It is from these two lines of cases that the Second Circuit derived the modern standard for vicarious liability.⁵⁹

1. "Landlord Tenant Cases"

In *Deutsch v. Arnold*,⁶⁰ the seminal landlord tenant case, owners of a copyrighted "handwriting analyzing" chart sued a former employee who had opened up her own handwriting analysis business, which included the sale of her own similar chart. The plaintiffs also sued the landlord and renting agent who leased the booth where she sold the charts.⁶¹ The Second Circuit held that the landlord and her agent were not liable for copyright infringement because they were not partners with the defendant, had "received nothing and were not entitled to receive anything through her acts of infringement," and had no knowledge of the infringing act at the time the lease was made.⁶² The court explained that "something more than the mere relation of landlord and tenant must exist to give rise to a cause of action" for copyright infringement against a landlord for an infringement occurring on the leased premises.⁶³

2. The "Dance Hall Cases"

The classic "dance hall cases" hold the dance hall proprietor liable for copyright infringement resulting from the infringing performance by musicians, whose activities provide the proprietor with a source of customers and enhanced income.⁶⁴ In these cases, the

⁵⁸ See, e.g., *Fonovisa*, 76 F.3d at 261; *Shapiro, Bernstein & Co v. H.L. Green*, 316 F.2d 304, 308 (2d Cir. 1963); *Polygram Int'l Publication, Inc. v. Nevada/TIG, Inc.*, 855 F. Supp. 1314, 1325 (D. Mass. 1994).

⁵⁹ See *Shapiro, Bernstein & Co*, 316 F.2d at 307.

⁶⁰ 98 F.2d 686, 687-88 (2d Cir. 1938).

⁶¹ *Id.* The plaintiff sold its charts at various department stores and amusement parks; the defendant previously managed its booth at Coney Island. *Id.*

⁶² *Id.* at 688.

⁶³ *Id.* See *Childress v. Taylor*, 20 U.S.P.Q.2d (BNA) 1181 (S.D.N.Y. 1990) (refusing to hold a theater owner, who leased his premises for the performance of a play that infringed a copyrighted work, liable under vicarious liability based solely on his position as a landlord).

⁶⁴ See, e.g., *Shapiro, Bernstein & Co*, 316 F.2d at 307 (observing that these cases are legion); see also *Famous Music Corp. v. Bay State Harness Horse Racing*, 554 F.2d 1213 (1st Cir. 1977) (holding horse track owners liable for infringing performances of independent contractor musicians); *Broad. Music, Inc. v. Terrose*, 223 U.S.P.Q. (BNA) 137 (W.D.N.Y. 1983) (holding night club owner liable for infringing performance of copyrighted music at his club, notwithstanding owner's lack of control over music performed); *KECA Music, Inc. v. Dingus McGee's Co.*, 432 F. Supp. 72 (W.D. Mo. 1977) (holding cocktail lounge owner liable for infringing performance of copyrighted music at his restaurant, notwithstanding owner's specific instructions that performer was to perform only original musical compositions).

infringing performances enhance the attractiveness of the venue to potential customers.⁶⁵ For example, in *Dreamland Ball Room v. Shapiro, Bernstein & Co.*,⁶⁶ the Seventh Circuit held a dance hall operator liable for the infringing performance of an orchestra that he hired to perform in his dance hall. Although the owner had neither control over the selection of musicians nor the compositions played—he merely contracted with the orchestra to perform music for his paying customers—the court found the dance hall operator liable for the infringing performance, notwithstanding his lack of knowledge. The court, in rejecting the owner's argument that because the musicians were independent contractors, they alone were liable for the infringement, found that the dance hall operator benefitted from the infringement.

The rejection of the "independent contractor" theory has been subsequently affirmed several times, most notably, in *Famous Music Corp. v. Bay State Harness Horse Racing*.⁶⁷ In that case, a horse racing track owner, Bay State, hired Music Box Inc., an independent contractor, to supply music that would be played over the public address system between races. The independent contractor supplied the music without permission of the copyright holders. The copyright holder sued Bay State for copyright infringement.⁶⁸ In rejecting Bay State's claim that Music Box, Inc. was solely liable as an independent contractor, the court reasoned that if the owner was not held liable, "[t]he proprietor of a public establishment operated for a profit could otherwise reap the benefits of countless violations by orchestras, itinerant or otherwise, by merely claiming ignorance that any violation would take place."⁶⁹ Thus, the court uses similar language to that used by later courts applying the doctrine of willful blindness.

3. The *Shapiro* Standard—Vicarious Liability

In *Shapiro, Bernstein & Co v. H.L. Green*,⁷⁰ the Second Circuit, after analyzing the landlord tenant and dance hall lines of cases, articulated the modern standard for vicarious copyright liability. In that case, Green, the owner of a chain of department stores, licensed the direct infringer, Jalen, to run its record department in

⁶⁵ See *Fonovisa, Inc. v. Cherry Auction*, 76 F.3d 259, 263 (9th Cir. 1996).

⁶⁶ 36 F.2d 354 (7th Cir. 1929).

⁶⁷ 554 F.2d at 1213. See also *Buck v. Jewell-LaSalle Realty Co.*, 283 U.S. 191 (1931); *M. Witmark & Sons v. Tremont Soc. & Athletic Club*, 188 F. Supp. 787 (D. Mass. 1960); *Shapiro, Bernstein & Co. v. Veltin*, 47 F. Supp. 648 (W.D. La. 1942).

⁶⁸ *Bay State*, 554 F.2d at 1214.

⁶⁹ *Id.* at 1215.

⁷⁰ 316 F.2d 304, 307 (2d Cir. 1963).

twenty-three stores.⁷¹ The plaintiffs, copyright holders of popular musical compositions, alleged that Jalen infringed their copyrights by manufacturing bootleg recordings containing copyrighted works without obtaining a license from the copyright holders.⁷²

In holding the store owner liable, the Second Circuit reviewed the "landlord tenant cases" and the "dance hall cases," and determined that the relationship between the store owner and the concessionaire fit more closely with the dance hall cases than with the landlord tenant cases.⁷³ The court held that vicarious liability occurs when a defendant has the power to exercise control over the infringing activity and has a "direct financial interest in the exploitation of copyrighted materials—even in the absence of actual knowledge that the copyright monopoly is being impaired."⁷⁴ The court explained that holding the owners vicariously liable for such conduct provides the owners with an incentive to monitor the lessees' activities. The court observed that the store owner had the "power to police carefully the conduct of its concessionaire . . . [and that its] judgment will simply encourage it to do so, thus placing responsibility where it can and should be effectively exercised. Green's burden will not be unlike that quite commonly imposed upon publishers, printers, and vendors of copyrighted materials."⁷⁵ The court's imposition of liability was supported by the fact that the bootleg recordings were "suspicious on their face," and that, prior to filing this suit, the copyright holder alerted Green to the presence of bootleg recordings at the store with a written request for pertinent information regarding such recordings.⁷⁶ The court explained that while those facts are not essential to the court's holding, it reinforces the court's conclusion that "the party found strictly liable is in a position to police the conduct of the 'primary' infringer."⁷⁷ The court cautioned that were it to hold otherwise, department stores could create "dummy" concessions and "shield [] their eyes from the possibility of copyright infringement, thus cre-

⁷¹ *Id.* at 305-06.

⁷² *Id.*

⁷³ *Id.* at 308.

⁷⁴ *Id.* at 307. For the argument that vicarious liability does not require *both* financial benefit *and* control, see 2 PATRY, *supra* note 53, at 1143 n.297 ("The requirement . . . that there be both financial benefit *and* control in order for vicarious liability to lie is unnecessary; either will suffice, otherwise a midlevel manager, with no direct financial interest, could escape liability even though he or she directly ordered the infringing activity."); see also *Syigma Photo News, Inc., v. High Soc'y Magazine, Inc.*, 778 F.2d 89, 92 (2d Cir. 1985) ("All persons and corporations who participate in, exercise control over, or benefit from the infringement are jointly and severally liable as copyright infringers.").

⁷⁵ *Shapiro, Bernstein & Co*, 316 F.2d at 308.

⁷⁶ *Id.* at 309.

⁷⁷ *Id.*

ating a buffer against liability while reaping the proceeds of infringement."⁷⁸ Thus, similar to the "dance hall" line of cases, the court explained its reasoning in language virtually identical to that of later courts employing the willful blindness doctrine.

4. The *Gershwin* Standard—Contributory Infringement

In *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*,⁷⁹ the Second Circuit articulated the modern standard for contributory copyright infringement. The court held that an indirect infringer is liable for contributory copyright infringement where he, "with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another."⁸⁰

In *Gershwin*, the American Society of Composers, Authors, and Publishers ("ASCAP") brought a copyright infringement action against Columbia Artists Management, Inc. ("CAMI"), an organization which managed concert artists, and provided audiences for them.⁸¹ CAMI knew that its artists included copyrighted compositions in their performances without securing licenses from the copyright holders.⁸² The Second Circuit held CAMI liable as a contributory infringer.⁸³ The court observed that "it has long been held that one may be liable for copyright infringement even though he has not himself performed the protected composition."⁸⁴ After reviewing *Shapiro* and the vicarious liability doc-

⁷⁸ *Id.*

⁷⁹ 443 F.2d 1162 (2d Cir. 1971).

⁸⁰ *Id.* In *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), the Supreme Court slightly modified the *Gershwin* test. In addressing the contributory liability of the Sony Betamax Video Cassette Recorder, it held that the sale of copying equipment does not constitute contributory infringement if that product is "widely used for legitimate, unobjectionable purposes." *Id.* at 442. The Court observed that "[i]ndeed, it need merely be capable of substantial noninfringing uses." *Id.* In *A & M Records, Inc. v. Abdallah*, 948 F. Supp. 1449 (C.D. Cal. 1996), a California district court opined that Sony only applies to "staple articles of commodities of commerce," such as VCRs, photocopiers, and blank, standard-length cassette tapes." *Id.* at 1456.

⁸¹ *Gershwin*, 443 F.2d at 1161-62.

⁸² *Id.* at 1162-63.

⁸³ *Id.*

⁸⁴ *Id.* at 1161-62. The court explained that

[t]his principle was first enunciated in *Gross v. Van Dyk Gravure Co.*, 230 F. 412, 414 (2d Cir. 1916), in which the maker, printer and seller of an infringing photograph were held jointly liable for the complainant's damages. The court said "Why all who unite in an infringement are not, under the statute, liable for damages sustained by plaintiff, we are unable to see . . . as all united in infringing, all are responsible for the damages resulting from the infringement. *Id.* at 414."

Id. at 1162 n.7.

trine,⁸⁵ the court enunciated the standard of contributory infringement,⁸⁶ and upheld the lower court's decision. The court held that CAMI met the standard for contributory infringement. It knew that its artists performed copyrighted compositions in their performances without securing the proper copyright license and, by providing the audience and promoting the concert, it had the requisite level of participation.⁸⁷

B. *Indirect Trademark Infringement*

Similar to the Copyright Act, there is no explicit language in the Lanham Act⁸⁸ allowing a cause of action for contributory infringement or vicarious liability.⁸⁹ The Supreme Court has interpreted that statute, however, to include such a cause of action.⁹⁰ In general, indirect liability for trademark infringement is more narrowly drawn than for copyright infringement.⁹¹ In *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, the Court enunciated the current standard for contributory trademark infringement.⁹² The Court explained that

if a manufacturer or distributor intentionally induces another to infringe on a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit.⁹³

⁸⁵ *Id.* at 1162, 1163. The court also held CAMI vicariously liable under *Shapiro*. Because CAMI provided the audience and promoted the artists, it had sufficient control and derived substantial financial benefit from the actions of the direct infringers. *Id.*

⁸⁶ *Id.* (citing *Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc.*, 256 F. Supp. 399 (S.D.N.Y. 1966)). In *Screen Gems*, Mark-Fi Records copied and reproduced four musical compositions without permission of the copyright holder. In addition to suing Mark-Fi Records for the direct infringement, the plaintiff sued the advertising agency that placed advertisements for the sale of the infringing records, a radio station that broadcast such advertisements, and a packaging agent that shipped the infringing records. The district court held each party could be liable as a contributory infringer for engaging in such conduct, if the party knew or should have known of the infringing nature of the records.

⁸⁷ *Id.* at 1162-63.

⁸⁸ 15 U.S.C. § 1051 (1994).

⁸⁹ See *Polo Ralph Lauren Corp. v. Chinatown Gift Shop*, 855 F. Supp. 648, 650 (S.D.N.Y. 1994).

⁹⁰ *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844 (1982).

⁹¹ *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 439 n.19 (1984); see *Banff Ltd. v. Limited, Inc.*, 869 F. Supp. 1103, 1111 (S.D.N.Y. 1994).

⁹² *Id.*

⁹³ *Inwood Labs.*, 456 U.S. at 854; see also RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 26 (1985) (imposing liability when the actor intentionally induces a third person to engage in the infringing conduct, or the actor fails to take reasonable precautions against the occurrence of a third person's infringing conduct in circumstances in which the infringing conduct can be reasonably anticipated).

The Court referred only to *manufacturers* and *distributors*; it would be ten years before a court answered the question of whether the *Inwood* test is applicable beyond those two groups.

In *Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.*,⁹⁴ the Seventh Circuit addressed the applicability of the *Inwood* doctrine to the operators of a flea market. In that case, the Hard Rock Cafe Licensing Corporation ("Hard Rock"), owners of trademarks on Hard Rock Cafe apparel, sued a vendor at an Illinois flea market for selling counterfeit Hard Rock Cafe clothing, as well as the flea market owner Concession Services, Inc. ("CSI") for its vendor's infringement.⁹⁵

The Seventh Circuit held that the *Inwood* test applied to CSI, thereby imposing liability on a party who neither manufactures nor distributes the infringing goods.⁹⁶ The court explained that although trademark infringement liability is more narrowly circumscribed than copyright infringement, it is a "species of tort," and CSI is responsible for the "torts of those that it permits on its premises 'knowing or having reason to know that the other is acting or will act tortiously . . .'"⁹⁷ The court explained that CSI's responsibility does not depend on how it is characterized: "[t]he common law . . . imposes the same duty on landlords and licensors that the Supreme Court has imposed on manufacturers and distributors."⁹⁸ The court remanded the case for the district court to determine whether CSI had reason to learn of the infringing activities, but chose not to know in order to avoid contributory liability. Hence, if CSI was willfully blind to the infringing activity, it could be contributorily liable. The court cautioned, however, that CSI has no affirmative duty to take precautions against the sale of counterfeits, and that although the "reason to know" part of the *Inwood* standard requires CSI to understand what a "reasonably prudent person would understand, it does not impose any duty to seek out and prevent violations."⁹⁹

The court refused to hold the flea market vicariously liable for the infringement. It rejected Hard Rock's request that the court apply the *Shapiro* test, observing that under *Sony*, indirect liability for trademark infringement should be more narrowly drawn than

⁹⁴ 955 F.2d 1143 (7th Cir. 1992).

⁹⁵ *Id.*

⁹⁶ *Id.* at 1149.

⁹⁷ *Id.* at 1148-49 (quoting RESTATEMENT (SECOND) OF TORTS § 877(c) & cmt. d (1979)).

⁹⁸ *Id.*

⁹⁹ *Id.*

under copyright infringement.¹⁰⁰ The court explained that vicarious liability occurs when a "defendant and the infringer have an apparent or actual partnership, have authority to bind one another in transactions with third parties, or exercise joint ownership or control over the infringing product," and that this case does not fit into that model.¹⁰¹ Thus, it is very difficult to find a landlord, flea market owner, or BBS operator vicariously liable for trademark infringement.

II. RECENT APPLICATIONS OF THE *SHAPIRO* AND *GERSHWIN* TEST

Several recent decisions, involving identical fact patterns, illustrate the disparity in courts' interpretation of the *Shapiro* test. For example, two courts addressing the vicarious liability of a corporate parent for its subsidiary's infringement reached opposite results.

In *Broadcast Music, Inc. v. Hartmarx Corp.*,¹⁰² an Illinois federal district court held a parent company vicariously liable for the infringing acts of two stores owned by its subsidiaries, partly on the basis of its legal relationship to its subsidiaries.¹⁰³ The court held that the parent company had the requisite control under *Shapiro*, since it had the right and ability to police the infringing activity.¹⁰⁴ Specifically, the court observed that "[i]t is the existence of the right to supervise, not whether [the parent company] in fact chose to exercise that right, that is at issue."¹⁰⁵ Beyond the existence of that right, the court also found that the fact that Hartmarx responded to an inquiry about the infringing activities directed to the subsidiary, indicated its ability to supervise its subsidiaries.¹⁰⁶ The court further held that the subsidiaries' intention in playing music in the stores was to create an attractive environment for customers, which attracts more customers and consequently generates greater profits for the subsidiaries and ultimately the corporate parent.¹⁰⁷ Since Hartmarx owned all or nearly all of the stock in the subsidiaries, it clearly had a direct financial interest in the in-

¹⁰⁰ *Id.* at 1150 (citing *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 439 n.19 (1984)).

¹⁰¹ *Id.* (citing *David Berg & Co. v. Gatto Int'l Trading Co.*, 884 F.2d 306, 311 (7th Cir.1989); see *supra* note 25).

¹⁰² 9 U.S.P.Q.2d (BNA) 1561 (N.D. Ill. 1988).

¹⁰³ The infringing acts consisted of the public performance of copyrighted songs at the stores without permission of the copyright holders. *Id.* at 1562.

¹⁰⁴ *Id.* at 1563.

¹⁰⁵ *Id.*

¹⁰⁶ *Id.* The court noted that, while knowledge of the infringing act is not a prerequisite to vicarious liability under *Shapiro*, Hartmarx's knowledge reinforced its opinion. See *Shapiro, Bernstein & Co. v. H.L. Green*, 316 F.2d 304, 308-09 (2d Cir. 1963).

¹⁰⁷ *Broad. Music Inc.*, 9 U.S.P.Q.2d (BNA) at 1562-63. Although the court did not cite the "dance-hall cases," this analysis is consistent with the reasoning in those cases.

fringing activity.¹⁰⁸ Thus, the court determined that Hartmarx's relationship to its subsidiaries satisfied the *Shapiro* test, and consequently, the court held Hartmarx liable for the infringing activities of its subsidiaries.¹⁰⁹

*Banff Ltd. v. Limited, Inc.*¹¹⁰ is on the other end of the spectrum. In that case, a knitwear manufacturer sued a parent company, and its subsidiary, a retail clothing store chain, for the subsidiary's sale of an infringing copy of plaintiff's sweater.¹¹¹ A New York district court refused to hold the parent company liable for its subsidiary company's copyright infringement.¹¹² The court criticized *Hartmarx Corp.*, explaining that *Shapiro* requires something more than a formal relationship between the parties.¹¹³ The court explained that

the parties' paths must cross on a daily basis, and the character of this intersection must be such that the party against whom liability is sought is in a position to control the personnel and activities responsible for the direct infringement. . . . Like the landlord-tenant relationship, the parent subsidiary relationship is not marked by a presumption that the acts of the one are intimately associated with the other.¹¹⁴

In contrast to the *Hartmarx* decision, the court opined that the defendant must actually exercise control. In other words, the mere existence of control is insufficient to satisfy the second prong of the *Shapiro* test.¹¹⁵ Here, the subsidiary made its own day-to-day decisions, including the decision of which sweater to purchase and sell.¹¹⁶ Thus, the parent company did not exercise the requisite control over its subsidiary.¹¹⁷

Disparate reasoning and contrasting decisions also occur when courts address the vicarious liability of a defendant, like a landlord, who receives a financial benefit in the form of a fixed fee from the direct infringer. For example, in *Artists Music, Inc. v. Reed*,¹¹⁸ a New

¹⁰⁸ *Id.* at 1563.

¹⁰⁹ *Id.*

¹¹⁰ 869 F. Supp. 1103 (S.D.N.Y. 1994).

¹¹¹ *Id.* at 1105.

¹¹² *Id.*

¹¹³ *Id.* at 1107-09.

¹¹⁴ *Id.* at 1109.

¹¹⁵ *Id.* at 1110.

¹¹⁶ *Id.*

¹¹⁷ The court did not address the second prong of the test. Plaintiff also sued for trademark infringement. The court explained that the parent could not be vicariously liable for trademark infringement, since that standard, if it exists in the Second Circuit, requires a greater showing of involvement with the infringement, than does vicarious copyright infringement. *Id.* at 1111.

¹¹⁸ 31 U.S.P.Q.2d (BNA) 1623 (S.D.N.Y. 1994).

York district court refused to hold a trade show organizer vicariously liable for the infringing acts of its exhibitors.¹¹⁹ In 1991, at the "Fifth Annual Greater New York Apartment and Home Show," a piano company, a radio station, a furniture company, and an audio visual company, all of whom rented space from defendant at the show, publicly performed copyrighted music without permission of the copyright holders.¹²⁰ The court observed that since the relationship between the trade show organizer and its exhibitors is the "legal and functional equivalent of the relationship between landlord and tenants," the organizer did not have the supervision and control required by the *Shapiro* test.¹²¹ The organizers did not determine how exhibitors conducted their business at all.¹²² Similar to *Banff*, the court observed that "[t]he mere fact that they could have policed the exhibitors at great expense is insufficient to impose vicarious liability."¹²³

The court further held that the organizers derived no financial benefit from the exhibitors' performance of music, and thus failed to satisfy the second prong of the *Shapiro* test.¹²⁴ Specifically, it held that although the organizers received revenue from a fixed fee for leasing space to the exhibitors, that rent was not tied to the infringing act, and therefore, under *Deutsch*, they were not liable.¹²⁵ The organizers would have received the flat fee regardless of whether the exhibitors played music.

Other courts have approached this issue differently, holding that a fixed fee does not automatically preclude liability.¹²⁶ For example, in *Polygram International Publications, Inc. v. Nevada/TIG, Inc.*,¹²⁷ a Massachusetts district court found a trade show organizer vicariously liable for its vendors' infringing performance of copy-

¹¹⁹ *Id.*

¹²⁰ *Id.* The infringing activities included the piano company's use of copyrighted songs in demonstrating its pianos and organs. The furniture company played a cassette tape of a Bob Marley album. Additionally, the radio station sponsored a "singing in the shower" contest where contestants stood in a shower stall in an exhibitor's booth and sang copyrighted songs and the audio visual company exhibited an audio visual disc player featuring a performance of two copyrighted songs. *Id.*

¹²¹ *Id.*

¹²² *Id.*

¹²³ *Id.* at 1627.

¹²⁴ *Id.*

¹²⁵ *Id.*

¹²⁶ See *Realsongs v. Gulf Broad. Corp.*, 824 F. Supp. 89 (M.D. La. 1993) (holding radio station owners vicariously liable for the infringing performance of an independent group that rented air time for a fixed fee); *Boz Scaggs Music v. KND Corp.*, 491 F. Supp. 908 (D. Conn. 1980) (holding radio station corporate vice-president and general manager, who had responsibility for day-to-day operations, vicariously liable for infringing performances of disc jockeys).

¹²⁷ 855 F. Supp. 1314 (D. Mass. 1994).

righted music.¹²⁸ The defendants, Interface, organized the world's largest trade show for the computer industry, COMDEX/Fall. Interface refused to obtain a licensing agreement from plaintiff, ASCAP, that would have permitted performances of ASCAP-owned music at the trade show.¹²⁹ Interface believed that since it was not performing the songs itself, it did not need the agreement.¹³⁰ At the show, 5 of the 2,000 exhibitors performed ASCAP-owned music.¹³¹

The court concluded that, similar to the defendant in *Shapiro*, Interface's relationship to its exhibitors fell closer to the "dance hall" line than the "landlord tenant" line of cases.¹³² The court explained that "although Interface's computer show may not evoke this image, another trade show organizer and its exhibitors might aptly fit the model foreseen by the Second Circuit of a large organization establishing 'dummy' concessions that buffer the organization from liability for profitable infringement."¹³³ The court rejected Interface's argument that it merely functioned as a landlord.¹³⁴ It observed that Interface not only rented space to the exhibitors, but it exercised "pervasive and continuing control over the exhibitors," in accordance with a contract, as opposed to a lease.¹³⁵ The court analogized Interface's control to the *Gershwin* defendant's creation of the audience for the infringing performance, and its ability to police the infringing conduct.¹³⁶

In addressing the financial benefit prong of the *Shapiro* test, the court observed that Interface benefitted from the infringing performances of the exhibitors, since music was an integral part of the show, and Interface received over \$44 million in gross revenues from the show.¹³⁷ The court explained that the fact that only a

¹²⁸ In order to hold a defendant vicariously liable, there must be a direct infringement. See *Demetriades v. Kaufmann*, 690 F. Supp. 289, 294 (S.D.N.Y. 1988). Here, the court held that there was no proof of a direct infringement by the vendors. Nevertheless, it addressed the issue of vicarious liability in order to create a full record that includes all potentially material factual findings. *Polygram*, 855 F. Supp. at 1324.

¹²⁹ *Id.* at 1318.

¹³⁰ *Id.*

¹³¹ *Id.* There were also infringing performances by a disc jockey and band at an Interface sponsored awards ceremony. *Id.*

¹³² *Id.* at 1325.

¹³³ *Id.*

¹³⁴ *Id.* at 1329.

¹³⁵ *Id.*

¹³⁶ *Id.*

¹³⁷ *Id.* at 1332-33. The court based its interpretation of the financial benefit prong, in part, on the legislative history to the 1976 amendments to the Copyright Act. Congress rejected a proposal to exempt the proprietor of establishments such as ballrooms or nightclubs from liability for the infringing performances by independent contractors such as bands. See H.R. REP. NO. 94-1476 (1976), reprinted in 1976 U.S.S.C.A.N. 5659. The House committee explained that

very small percentage of the exhibitors performed infringing music has no impact on the determination of liability. Rather, it is a factor in determining damages.¹³⁸

Most of the recent cases addressing indirect liability have involved the Internet, where courts have been faced with the issue of the liability of BBS operators for the infringing activities of their subscribers.¹³⁹ The courts that have addressed this issue have applied different theories of liability. In the first BBS operator case to reach the federal courts, *Playboy Enterprises, Inc., v. Frena*,¹⁴⁰ a Florida district court granted partial summary judgment against a BBS operator for direct copyright infringement where the BBS operator copied, displayed, and distributed photographs from *Playboy* magazine, through his BBS, without permission.¹⁴¹ In a much criticized decision,¹⁴² the court found the defendant liable for *direct* copyright infringement, notwithstanding the fact that the BBS's subscribers had apparently uploaded the photographs (the defendant denied uploading any of them) and defendant was not aware

[a] well-established principle of copyright law is 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. To 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, or control the content of the infringing program, and expect commercial gain from the operation and either direct or indirect benefit from the infringing performance. The committee has decided that no justification exists for changing existing law, and causing a significant erosion of the public performance right.

Id. at 159-60, reprinted in 1976 U.S.S.C.A.N. 5659, 5775-76. The court also cited cases imposing liability notwithstanding the financial benefit of fixed rental fees, and the dance hall line of cases where defendants such as restaurant owners benefitted from the infringing performances of musicians. *Polygram*, 855 F. Supp. at 1331.

¹³⁸ *Id.* at 1333.

¹³⁹ See generally Niva Elkin-Koren, *Copyright Law and Social Dialogue on the Information Superhighway: The Case Against Copyright Liability of Bulletin Board Operators*, 13 CARDOZO ARTS & ENT. L.J. 345 (1995); Kelly Tickle, Comment, *The Vicarious Liability of Electronic Bulletin Board Operators for the Copyright Infringement Occurring on Their Bulletin Boards*, 80 IOWA L. REV. 391 (1995).

¹⁴⁰ 839 F. Supp. 1552 (M.D. Fla. 1993).

¹⁴¹ *Id.* at 1559. For other courts finding direct infringement, see *Central Point Software, Inc. v. Nugent*, 903 F. Supp. 1057 (E.D. Tex. 1995) (holding a BBS operator liable for direct infringement where the operator permitted and encouraged its subscribers to download copyrighted software which had been copied without permission); see also *Playboy Enters., Inc. v. Russ Hardenburgh, Inc.*, 982 F. Supp. 503 (N.D. Ohio 1997) (distinguishing *Frena*, finding a BBS corporate owner and president liable for direct infringement based on his *active* participation in the infringement). The *Russ Hardenburgh, Inc.* court also found the BBS operators contributorily liable under the *Gershwin* test. *Id.* at 514. The court explained that they encouraged the subscribers to upload information that included adult photographs, and had at least constructive knowledge that some of the photos were owned by *Playboy*. *Id.* Thus the defendants "clearly induced, caused, and materially contributed to any infringing activity which took place on their BBS." *Id.*

¹⁴² See *Religious Tech. Ctr. v. Netcom On-line Communications Servs., Inc.*, 907 F. Supp. 1361, 1370 n.7 (N.D. Cal. 1995) (discussed *infra*); see also 3 NIMMER, *supra* note 26, § 12.04(A)(3)(e), at 12-102.

of the photograph's presence on his BBS until he received the summons.¹⁴³ In essence, the court held the BBS operator liable for having made a copy, based on the fact that the images, which were an exact copy of the copyrighted work, appeared on his bulletin board.¹⁴⁴

In Religious Technology Center v. Netcom On-line Communications Services, Inc.,¹⁴⁵ perhaps the most well known of the BBS cases, a California district court addressed the vicarious and contributory liability of a BBS operator and an Internet service provider ("ISP"), Netcom On-line Communications Services, Inc. ("Netcom") as well as Netcom's liability for direct infringement. That court refused to find either party liable for direct or vicarious infringement, and remanded the case to determine whether they had the requisite knowledge for the contributory infringement standard.

Dennis Erlich, a former minister of Scientology, uploaded some of L. Ron Hubbard's¹⁴⁶ works, without permission of the copyright holder, into Thomas Klemesrud's BBS for access on the Internet.¹⁴⁷ After a court granted a preliminary injunction against Erlich, the copyright holder brought an infringement action against Klemesrud and Netcom.¹⁴⁸ After failing to convince Erlich to stop his postings, plaintiffs notified Netcom about Erlich's infringing activities.¹⁴⁹ Netcom refused to honor the request that Erlich be denied access to the Internet through its system.¹⁵⁰

The court addressed the liability of Netcom and Klemesrud separately. First, it addressed Netcom's liability for direct infringement. It declined to follow the *Frena* decision, observing that the "[*Frena* decision] has been much criticized."¹⁵¹ The court ex-

¹⁴³ *Frena*, 839 F. Supp. at 1554.

¹⁴⁴ *Id.* The court applied the test for direct copyright infringement: access and substantial similarity. The photographs were available in *Playboy* magazine, meeting the access requirement. The existence of the exact copyrighted image on the BBS was evidence of substantial similarity.

¹⁴⁵ 907 F. Supp. 1361 (N.D. Cal. 1995).

¹⁴⁶ L. Ron Hubbard was the founder of the Church of Scientology. The defendant, Dennis Erlich, after leaving the ministry, became a vocal critic of Scientology and used the Internet as a forum for that criticism. *Id.* at 1365-66.

¹⁴⁷ Erlich used defendant Klemesrud's BBS, which he ran out of his home. Klemesrud gained access to the Internet through defendant Netcom, one of the largest providers of Internet access in the United States. *Id.* at 1366.

¹⁴⁸ *Id.*

¹⁴⁹ *Id.* Klemesrud requested proof of the infringement, which plaintiff declined to provide.

¹⁵⁰ Plaintiff refused Klemesrud's request as unreasonable; Netcom refused plaintiff's request, contending that it would be impossible to pre-screen the postings, and complying with the request would force it to kick hundreds of users of the BBS off of the Internet. *Id.*

¹⁵¹ *Id.* at 1370 n.16. The court also explained that the *Frena* court addressed only the exclusive right to distribute copies, where liability exists regardless of whether the defendant made the copies. And that issue was not before the *Netcom* court.

plained that "[w]here the infringing subscriber is clearly directly liable for the same act, it does not make sense to adopt a rule that could lead to the liability of countless parties whose role in the infringement is nothing more than setting up and operating a system that is necessary for the functioning of the Internet."¹⁵² The court observed that a BBS operator's liability cannot be based on a "theory of direct infringement where knowledge is irrelevant."¹⁵³ Such a theory is unworkable since it would "hold the entire Internet liable for activities that cannot reasonably be deterred."¹⁵⁴

Next, the court addressed Netcom's contributory liability. Following the *Gershwin*¹⁵⁵ standard, the court rejected Netcom's contention that under *Deutsch*,¹⁵⁶ it merely had the liability of a landlord.¹⁵⁷ The court found that Netcom is unlike a landlord because it retains some control over the system.¹⁵⁸ It observed that Netcom not only acted as a lease provider, like a landlord, but it went beyond the realm of a landlord by providing access to the Internet by including the storage and transmission of information necessary to facilitate Erlich's posting to his Internet site.¹⁵⁹

The court held that since some of the infringements occurred after Netcom received notice from the plaintiffs, a question of fact existed as to whether Netcom knew or should have known about the infringing activities.¹⁶⁰ It concluded by explaining that "[i]f plaintiffs can prove the knowledge element, Netcom will be liable for contributory infringement since its failure to simply cancel Erlich's infringing message and thereby stop an infringing copy from being distributed worldwide constitutes substantial participation in Erlich's public distribution of the message."¹⁶¹

The court also addressed Netcom's possible vicarious liability based on its relationship to Erlich.¹⁶² The court applied the *Shapiro* test, and concluded that although there was an issue of fact as to

¹⁵² *Id.* at 1372.

¹⁵³ *Id.*

¹⁵⁴ *Id.*

¹⁵⁵ 443 F.2d 1159 (2d Cir. 1971).

¹⁵⁶ 98 F.2d 686 (2d Cir. 1938).

¹⁵⁷ *Netcom*, 907 F. Supp. at 1373-74. This argument is an example of the "blurred lines" between vicarious and contributory infringement. *See supra* notes 28-29 and accompanying text. In general, this is an argument better suited to vicarious liability analysis. The court takes it back into the realm of contributory liability by addressing Netcom's participation in the infringement. That participation is a function of its relationship to the direct infringer.

¹⁵⁸ *Netcom*, 907 F. Supp. at 1374.

¹⁵⁹ "Providing a service that allows for the automatic distribution of all . . . postings, infringing and noninfringing, goes well beyond renting a premise to an infringer." *Id.*

¹⁶⁰ *Id.* at 1374.

¹⁶¹ *Id.*

¹⁶² *Id.* at 1375-77.

whether Netcom has the right and ability to exercise control over its subscribers' activities, there was no question of fact regarding a direct financial benefit.¹⁶³ Relying primarily on the subsequently reversed district court decision in *Fonovisa*,¹⁶⁴ the court observed that, similar to the swap meet, Netcom's fixed rental fee for its services does not depend on the nature of the activity of the renter.¹⁶⁵ Thus, it does not satisfy the financial benefit prong of the *Shapiro* test. Consequently, with no direct financial benefit, the claim of vicarious liability failed.¹⁶⁶

In addressing Klemesrud's motion for judgment on the pleadings, the court, using the same reasoning it applied to Netcom's liability, found Klemesrud not liable for direct infringement. The court, however, held that the plaintiff's pleadings were sufficient to raise an issue of contributory infringement. It explained that despite receiving numerous written warnings from the plaintiff regarding Erlich's infringing postings, Klemesrud refused to assist in compelling Erlich to stop. Thus, there was an issue of whether Klemesrud knew or should have known of the infringement, and in refusing assistance, substantially participated in the infringement. The court granted Klemesrud's motion regarding the vicarious liability claim, holding that it failed as a matter of law because of insufficient factual allegations to support that claim.¹⁶⁷ Specifically, nothing in the complaint alleged that "Klemesrud's fee or any other direct financial benefit received by Klemesrud varied in any way with the content of Erlich's postings."¹⁶⁸ Thus plaintiff's allegations failed to satisfy the *Shapiro* test.

¹⁶³ *Id.*

¹⁶⁴ 847 F. Supp. 1492, 1496 (E.D. Cal. 1994), *rev'd*, 76 F.3d 259 (9th Cir. 1996) (discussed *infra*). Since the *Netcom* court's primary authority has been overruled, it is questionable whether today, this part of its decision would have the same outcome. *But see* 3 NIMMER, *supra* note 26, § 12.04 (A)(3)(e), at 12-107 (explaining that, regardless of the reversal of *Netcom*'s main authority, it is possible to argue that under the "dance hall" line of cases, Internet access providers "derive insufficient revenue from isolated infringing bits, in the context of the billions of bits that cross their servers, to characterize them as financially benefitting from the conduct of which the complaint was made").

¹⁶⁵ *Netcom*, 907 F. Supp. at 1376-77. The court also distinguished several cases, on a factual basis, where courts found a direct financial benefit notwithstanding the fixed fees rental agreement. *Id.* See *Realsongs v. Gulf Broad. Corp.*, 824 F. Supp. 89 (M.D. La. 1993); *Boz Scaggs Music v. KND Corp.*, 491 F. Supp. 908 (D. Conn. 1980).

¹⁶⁶ *Netcom*, 907 F. Supp. at 1376-77. In August 1996, the Church of Scientology reached an agreement with Netcom to settle its copyright infringement action. As part of the settlement, Netcom established new guidelines entitled "Intellectual Property Rights on the Internet," which prohibit using its services to unlawfully distribute the intellectual property of others. See Ian C. Ballon, *Intellectual Property Protection and Related Third Party Liability*, 482 P.L.I./PAT 559, 601, June 1997.

¹⁶⁷ *Netcom*, 907 F. Supp. at 1376-77.

¹⁶⁸ *Id.* Klemesrud subsequently settled with the Church of Scientology for \$50,000, neither side admitting fault. See *Internet Copyright Case Settled*, L.A. TIMES, Aug. 23, 1996, at D2.

III. *FONOVISIA* AND ITS RAMIFICATIONS

In *Fonovisa, Inc. v. Cherry Auction, Inc.*,¹⁶⁹ the Ninth Circuit held that a copyright and trademark owner of musical recordings stated a cause of action for vicarious and contributory copyright infringement, and contributory trademark infringement, against a swap meet owner for the infringing activities of independent vendors at its swap meet. This was the first time that a federal court of appeals addressed these issues in the context of a swap meet or flea market. Fonovisa, Inc., a California corporation that owns copyrights and trademarks to Latin/Hispanic musical recordings, brought an action for copyright and trademark infringement against the operators of a California swap meet, for the sale of counterfeit recordings by vendors at that swap meet. There was no question that Cherry Auction knew about the infringing activities. In 1991, the Fresno County Sheriff's Department seized over 38,000 counterfeit recordings from the swap meet.¹⁷⁰ Cherry Auction agreed to provide the Sheriff with identifying information from each vendor. Subsequent to that seizure, the Sheriff notified Cherry Auction, in writing, of the continuing counterfeit recording sales.¹⁷¹ Finally, in 1993, Fonovisa's investigator observed that the sales continued.¹⁷²

Regarding vicarious copyright infringement, the court applied the *Shapiro* test as articulated in *Gershwin*,¹⁷³ holding that Fonovisa satisfied that test and thus stated a claim for vicarious copyright infringement.¹⁷⁴ The district court previously held that Cherry Auction satisfied neither the control nor financial benefit prong of the *Shapiro* test because it "was in the same position as an absentee landlord who surrendered its exclusive right of occupancy in its leased property to its tenants."¹⁷⁵ The Ninth Circuit rejected that application of the *Shapiro* test, explaining that Cherry Auction, in fact, controlled and patrolled the vendors' booths. It had the right and ability to terminate vendors for any reason at all, it promoted the swap meet, and it controlled the access of the customers to the swap meet area; thus it had the requisite control.¹⁷⁶ The court anal-

¹⁶⁹ 76 F.3d 259 (9th Cir. 1996).

¹⁷⁰ *Id.* at 261.

¹⁷¹ *Id.*

¹⁷² *Id.*

¹⁷³ 443 F.2d 1159, 1162 (2d Cir. 1971). The *Gershwin* court held that "even in the absence of an employer-employee relationship one may be vicariously liable if he has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities." *Id.*

¹⁷⁴ *Fonovisa*, 76 F.3d at 264.

¹⁷⁵ *Fonovisa v. Cherry Auction*, 847 F. Supp. 1492, 1496 (E.D. Cal. 1994)

¹⁷⁶ *Fonovisa*, 76 F.3d at 262.

ogized the relationship between Cherry Auction and the vendors to that of the defendants and the direct infringers in *Gershwin* and *Shapiro*. Specifically, Cherry Auction's ability to police its vendors parallels the *Shapiro* defendant's ability to police its department stores and it "wields the same level of control over the direct infringers as did the *Gershwin* defendant."¹⁷⁷

The court rejected Cherry Auction's contention that the *Shapiro* financial benefit prong be restricted to the precise facts of that case, where the defendant received a commission from the direct infringer's gross receipts. The court held that the sale of counterfeit recordings drew customers to the swap meet, thereby benefiting Cherry Auction financially.¹⁷⁸ The court explained that its "conclusion is fortified by the continuing line of cases, starting with the "dance hall cases," imposing vicarious liability on the operator of a business where infringing performances enhance the attractiveness of the venue to potential customers."¹⁷⁹

As there was no dispute as to Cherry Auction's knowledge of the infringing activities, the issue for determining contributory copyright infringement hinged on whether Cherry Auction materially contributed to the infringing activity. The court held that it did, observing that the pervasiveness of the infringing activities indicates that it would be difficult for it to have taken place without the support services of Cherry Auction.¹⁸⁰

The court rejected the lower court's 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.'"¹⁸¹ The Ninth Circuit held that providing the site and facilities for known infringing activities establishes contributory liability.¹⁸² This holding is significant because it applied a lower

¹⁷⁷ *Id.* at 263.

¹⁷⁸ *Id.* (citing *Polygram Int'l Publications, Inc. v. Nevada/TIG, Inc.*, 855 F. Supp. 1314 (D. Mass. 1994)); *Famous Music Corp. v. Bay State Harness Horse Racing & Breeding Ass'n*, 554 F.2d 1213, 1214 (1st Cir. 1977); *Shapiro, Bernstein & Co., Inc. v. H.L. Green*, 316 F.2d 304, 307 (2d Cir. 1963).

¹⁷⁹ *Fonovisa*, 76 F.3d at 264.

¹⁸⁰ *Id.*

¹⁸¹ *Id.*

¹⁸² *Id.* (citing *Columbia Pictures Indus., Inc. v. Aveco, Inc.*, 800 F.2d 59 (3d Cir. 1986)). In *Columbia Pictures*, the Third Circuit held a company liable for copyright infringement where it rented private rooms to customers to view copyrighted video cassettes. *Id.* at 64. See 2 PATRY, *supra* note 53, at 1147 ("Whether a given defendant is liable as a contributory infringer is not governed by a quantitative analysis, but instead by a determination of the role that defendant played in the acts giving rise to liability. Merely providing the means for the infringement may be sufficient . . ."). See also 3 NIMMER, *supra* note 26, § 12.04 (A) (2) (a), at 12-72 ("Contributory infringement . . . is of two types—personal conduct that

standard than the *Gershwin* standard, which requires that the "defendant induces, causes or materially contributes to the infringing conduct of another."¹⁸³

The court then addressed Cherry Auction's liability for contributory trademark infringement. It held that Cherry Auction's inaction regarding the infringing activities of its vendors satisfied the *Inwood* standard for contributory trademark liability. It followed the *Hard Rock Cafe Licensing Corp.* court's interpretation of that standard, acknowledging that *Inwood's* holding is not limited to manufacturers or distributors,¹⁸⁴ and that proof of actual knowledge is not required if there is proof of willful blindness. The court concluded by observing that "a swap meet can not disregard its vendors' blatant trademark infringements with impunity."¹⁸⁵

The impact of *Fonovisa* may be far-reaching. Its reasoning has been relied on by several recent courts addressing the liability of BBS operators,¹⁸⁶ Website operators,¹⁸⁷ and duplicating equipment

forms part of or furthers the infringement and contribution of machinery or goods that provide the means to infringe.").

¹⁸³ See *Gershwin Publ'g Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971). That level of participation has been termed "substantial participation" by several courts. See *Religious Tech. Ctr. v. Netcom On-line Communication Servs., Inc.*, 907 F. Supp. 1361, 1382 (N.D. Cal. 1995); *Sega Enters., Ltd. v. MAPHIA*, 948 F. Supp. 923, 932 (N.D. Cal. 1996); *Apple Computer, Inc. v. Microsoft Corp.*, 821 F. Supp. 616, 625 (N.D. Cal. 1993); *Demetriades v. Kaufmann*, 690 F. Supp. 289, 294 (S.D.N.Y. 1988). The tort concept of enterprise liability, upon which contributory infringement is based, is established when "one knows of another's tortious conduct and substantially aids or encourages that endeavor." *Id.* (citing RESTATEMENT (SECOND) OF TORTS § 876(b) (1977)). Post *Fonovisa* courts have applied both the *Fonovisa* standard and the "substantial participation" standard. See *Playboy Enters., Inc. v. Russ Hardenburgh, Inc.*, 982 F. Supp. 503, 514 (N.D. Ohio 1997); *Sega II*, 948 F. Supp. at 932.

¹⁸⁴ The court also observed that in *Inwood* itself, the Supreme Court did not limit its holding to manufacturers or distributors. *Fonovisa*, 76 F.3d at 265.

¹⁸⁵ *Id.*

¹⁸⁶ See *Russ Hardenburgh, Inc.*, 982 F. Supp. at 503 (holding BBS operator contributorily liable where it encouraged its subscribers to upload information that included adult photographs, and had at least constructive knowledge that some of the photos were owned by *Playboy* magazine); *Sega II*, 948 F. Supp. at 923 (discussed *infra*); *Sega Enters., Ltd. v. Sabella*, No. C 93-04260, 1996 WL 780560, at *8 (N.D. Cal. Dec. 18, 1996) (finding BBS operator engaged in contributory infringement by providing facilities, direction, and encouragement for the unauthorized copying of video games).

¹⁸⁷ See *Playboy Enters., Inc. v. Webbworld, Inc.*, 968 F. Supp. 1171 (N.D. Tex. 1997) (holding operators of website that contained unauthorized copyrighted images vicariously liable for copyright infringement).

suppliers.¹⁸⁸ In each case, the courts found the indirect infringer liable.¹⁸⁹

For example, in *Sega Enterprises, Ltd. v. MAPHIA*,¹⁹⁰ a California district court held a BBS operator liable for contributory infringement,¹⁹¹ granting summary judgment in favor of the plaintiff, and granting a permanent injunction enjoining the defendant from facilitating the copying of Sega's copyrighted video games. The BBS operator had made such games available on its BBS, where its users downloaded them. The court applied the *Gershwin* standard, and held that the BBS operator's knowledge¹⁹² of the infringing activities and participation in those activities constituted contributory infringement. The court addressed both the "substantial participation" standard,¹⁹³ and the lesser standard enunciated in *Fonovisa*.¹⁹⁴ The court found that the defendant's conduct met

¹⁸⁸ *Nintendo of Am., Inc. v. Computer & Entertainment, Inc.*, No. C96-0187, 1996 WL 511619, at *4 (W.D. Wash. May 31, 1996) (granting preliminary injunction against manufacturer of video game copying device and its president based on contributory and vicarious copyright infringement and contributory trademark infringement); *A & M Records v. Abdallah*, 948 F. Supp. 1449 (C.D. Cal. 1996) (holding distributor of blank audiotapes and duplicating equipment contributorily liable for copyright and trademark infringement where that supplier provided such equipment with the knowledge that it would be used to manufacture bootleg recordings) (discussed *infra*).

¹⁸⁹ *Fonovisa* has been distinguished, on its facts, in two recent cases involving the liability of Network Solutions, Inc. ("NSI"), a company that manages domain names on the Internet. See *Academy of Motion Picture, Arts, and Sciences v. Network Solutions Inc.*, No. CV 97-6394-LEWMCX, 1997 WL 810472 (C.D. Cal. Dec. 22, 1997); *Lockheed Martin Corp. v. Network Solutions, Inc.*, No. CV 96-7438 DDP (ANX), 1997 WL 721899 (C.D. Cal. Nov. 17, 1997). Domain names are used to locate information on the Internet. See *Academy of Motion Picture, Arts, and Sciences*, 1997 WL 810472, at *1 n.1. In the *Academy* case, the Academy of Motion Picture Arts and Sciences, which owns trademarks including "Academy Awards" and "Oscar," sued NSI for registering domain names such as *academyaward.com* and *theoscars.net*. *Id.* at *1. The court denied plaintiff's motion for a preliminary injunction for defendant to stop registering such names. *Id.* In addressing contributory infringement, the court explained that the facts here were unlike those in *Fonovisa*. *Id.* at *2. Specifically, NSI did not have the requisite knowledge of the infringement, since there had been no determination that the domain names infringe the Lanham Act, and unlike the swap meet owner and its vendor, NSI has no contact with its registrants. *Id.* Similarly, the *Lockheed* court rejected plaintiff's contributory infringement claim since NSI neither controls nor monitors the Internet. *Lockheed Martin Corp.*, 1997 WL 721899, at * 13.

¹⁹⁰ *Sega II*, 948 F. Supp. at 923. The court previously granted a preliminary injunction against the same defendant. See *Sega I*, 857 F. Supp. 679, 683 (N.D. Cal. 1994) (holding that Sega established a *prima facie* case for contributory infringement based upon the BBS operator providing the "facilities, direction, knowledge and encouragement" of the copying).

¹⁹¹ The court refused to hold the defendant liable for *direct* copyright infringement, finding *Netcom* persuasive. *Sega II*, 948 F. Supp. at 932. The court, however, found the BBS operator liable for direct trademark infringement. *Id.* at 936.

¹⁹² The court observed that the knowledge requirement is an objective standard, and that in this case, the defendant's knowledge is undisputed—the BBS operator admitted that users were allowed to upload and download Sega games and it had the ability to track uploads and downloads. *Id.* at 933.

¹⁹³ See *supra* note 183.

¹⁹⁴ *Fonovisa, Inc. v. Cherry Auction*, 76 F.3d 259, 264 (9th Cir. 1996).

both standards.¹⁹⁵ It observed that the BBS operator "actively solicited users to upload unauthorized games, and provided a road map on his BBS for easy identification of Sega games available for downloading;" hence, its participation went beyond providing the site and facilities for the infringement.¹⁹⁶ Thus, the operator's activities clearly constituted the requisite participation.¹⁹⁷

Another recent decision, *A & M Records, Inc. v. Abdallah*,¹⁹⁸ relied on *Fonovisa* to hold a defendant liable for contributory copyright and trademark infringement based on his sale of "time loaded" audiotapes¹⁹⁹ and duplicating equipment to customers who engaged in counterfeiting. The defendant, Abdallah, was the president and sole owner of General Audio Video Cassettes, Inc. ("GAVC"), a corporation that sold such equipment.²⁰⁰ GAVC sold time-loaded audio tapes to two individuals who used the tapes to illegally counterfeit copyrighted works, and packaged the counterfeit tapes in cassette cartridges containing insert cards that included unlicensed trademarks.²⁰¹ In addition to providing the timed cassette tapes, Abdallah assisted the counterfeiters in obtaining a supplier for the insert cards.²⁰² In 1994, twenty-six major record companies, who owned the copyrighted works and trademarks used by the counterfeiters, brought an infringement action against numerous defendants, including Abdallah.²⁰³

¹⁹⁵ *Sega II*, 948 F. Supp. at 933. The court explained that the BBS operator provided the BBS as a central depository site for the unauthorized copies of games, and allowed subsequent distribution of the games by user downloads. He provided the facilities for copying the games by providing, monitoring, and operating the BBS software, hardware, and phone lines necessary for the users to upload and download games. *Id.*

¹⁹⁶ *Id.*

¹⁹⁷ *Id.* Additionally, the BBS operator, through the same BBS, advertised and sold copiers to facilitate playing the downloaded games. *Id.* The court noted that the sale of such devices could constitute contributory infringement. *Id.* (citing *Nintendo of Am., Inc. v. Computer & Entertainment, Inc.*, No. C96-0187, 1996 WL 511619, *4 (W.D. Wash. May 31, 1996)).

¹⁹⁸ 948 F. Supp. 1449 (C.D. Cal. 1996).

¹⁹⁹ A "time-loaded audio tape is a tape that runs for a certain time period that is specified by a customer." *Id.* at 1453. The tapes must coincide with the times of the specific length of the sound recordings the counterfeiters wish to copy. *Id.* at 1454. Alternatively, if the counterfeiters use "standard" length tapes, at the end of each side, the counterfeit recording would either cut the song off in the middle, or there would be large amounts of silence, thus making the tape less marketable. *Id.* Abdallah timed numerous cassettes for the counterfeiters from non-counterfeit tapes supplied by the counterfeiters, who, in turn, ordered the blank tapes from Abdallah based on these times. *Id.*

²⁰⁰ *Id.*

²⁰¹ *Id.*

²⁰² *Id.*

²⁰³ *Id.* They also sued GAVC, a defendant, but it was not represented by an attorney, and since a corporation cannot proceed *pro se*, the court entered a default judgement against GAVC. *Id.* at 1452 n.1.

In addressing Abdallah's liability for contributory copyright infringement, the court applied *Fonovisa's* application of the *Gershwin* test. Specifically, the court found that Abdallah had actual knowledge of the counterfeit activity²⁰⁴ and, most critically, after gaining that knowledge, continued to provide the counterfeiters with the time-loaded cassettes. By providing those cassettes, Abdallah materially contributed to his customers' counterfeiting activities. That contribution, the court held, seemed at least as significant as Cherry Auction's contribution to the infringing activity in *Fonovisa*. Thus, Abdallah satisfied both prongs of the *Gershwin* test.²⁰⁵

Abdallah argued that the *Sony*²⁰⁶ decision altered the *Gershwin* test. He argued that, similar to the VCRs in *Sony*, the time-loaded cassettes that he sold also had legitimate noninfringing uses, and therefore he was not contributorily liable.²⁰⁷ The court rejected that argument. First, the court explained that "arguably, the *Sony* decision only applies to 'staple articles or commodities of commerce,' such as VCRs, photocopiers, and blank, standard-length cassette tapes."²⁰⁸ Thus, it would not apply to products specifically manufactured for counterfeiting activities, such as a timed cassette, even if such products have substantial noninfringing uses.²⁰⁹ Second, even if the *Sony* ruling applied, that decision requires that the product at issue have a *substantial* non infringing use and such use for the time-loaded cassettes is *insubstantial* in light of the number of Abdallah's customers who used them for counterfeiting.²¹⁰ Finally, unlike the sale of VCR's in *Sony*, Abdallah's actions "went far beyond merely selling blank, time-loaded tapes."²¹¹ In other words,

²⁰⁴ Abdallah timed many of the cassettes himself and admitted to one of his employees that he was worried about the credit he had extended to a large customer because that customer had been arrested for counterfeiting, resulting in the seizure of all of his tapes. Moreover, that employee testified that Abdallah had explained to him that some of GAVC's customers used the blank time-loaded cassettes for counterfeiting and explained the methods they used. *Id.* at 1454.

²⁰⁵ *Id.* at 1455. The court observed that

[r]egrettably, in copyright litigation, enforcement efforts seem ineffective. Misappropriation may often needlessly succeed. Thus, liability for contributory infringement is particularly appropriate here. Given the apparent division of labor in the counterfeit recording industry, the actions of contributory infringers make possible the wide dissemination of the infringing works.

Id. at 1455 n.4.

²⁰⁶ *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984). See *supra* note 80.

²⁰⁷ *Abdallah*, 948 F. Supp. At 1455.

²⁰⁸ *Id.* at 1456.

²⁰⁹ *Id.*

²¹⁰ *Id.*

²¹¹ *Id.* at 1456-57. The court observed that

[Abdallah] acted as a contact between his customers and suppliers of other material necessary for counterfeiting, such as counterfeit insert cards; he sold duplicating machines to help his customers start up a counterfeiting operation

even if *Sony* exonerated Abdallah for selling the tapes, his activities constituted a material contribution to the infringement, and that participation, along with his knowledge, makes him contributorily liable.²¹²

In holding Abdallah contributorily liable for copyright infringement, it established his knowledge and material contribution to the infringement. Consequently, similar to *Fonovisa*, the court's analysis regarding contributory trademark infringement is brief. Since Abdallah continued to supply time-loaded cassettes to his customers after he knew that they used those cassettes to engage in trademark infringement, he is liable under the *Inwood* test.²¹³ The court awarded treble damages of \$7 million to the trademark holders, pursuant to Trademark Counterfeiting Act amendments to the Lanham Act.²¹⁴

The *Fonovisa* decision opens the door to holding landlords, trade show operators, and certainly, flea market operators liable for a tenant or exhibitor's infringement. Its holding lowers the participation threshold requirement to a level commensurate to that of a landlord whose tenants engage in pervasive counterfeiting activities. Hence, such parties who knowingly provide the means for the infringement may be liable. While contributory infringement is generally the more applicable theory for addressing the infringement of such parties, *Fonovisa's* arguably expansive application of vicarious liability to Cherry Auction leaves open the possibility that such parties may be held vicariously liable for copyright infringement.²¹⁵

IV. OTHER REMEDIES: THE EXAMPLE OF NEW YORK

In New York, trademark holders facing a landlord who ignores the counterfeiting activities of his tenant have a weapon at their disposal that is unavailable in any other state—a law that holds landlords liable for the illegal conduct of their tenants—New York Real

or expand an existing one; he timed legitimate cassettes for his customers and assisted them in ordering time-loaded cassettes; and he helped to finance some of his customers when they were starting out or needed assistance after a police raid.

Id. at 1457.

²¹² *Id.* at 1456-57.

²¹³ *Id.* at 1459.

²¹⁴ *Id.* See 15 U.S.C. § 1117(a) (1994). The court also awarded attorney's fees pursuant to 15 U.S.C. § 1117(b).

²¹⁵ By contrast, vicarious trademark infringement, with its more stringent standard, remains an unlikely source for liability for such parties. See *supra* notes 100-01 and accompanying text.

Property Law section 231.²¹⁶ Under that law, a landlord who knowingly permits a tenant to engage in an unlawful trade, manufacture, or business on the premises is jointly and severally liable with the tenant for any resulting damage.²¹⁷ In addition, RPL section 231 states that when the tenant uses the premises for an illegal trade or business, the lease shall become void.²¹⁸ This law has been typically applied to cases in which a landlord sought to treat a lease as void because of "illegal uses of premises that negatively affected the health, morals, welfare, or safety of the public."²¹⁹

In *Dayana*,²²⁰ the Civil Court of the State of New York addressed the issue of whether the crime of trademark counterfeiting constitutes an illegal use under RPL section 231.²²¹ *Dayana* involved summary holdover proceedings brought by a landlord against four separate tenants in his building. The police had searched the building under warrant, and found counterfeit goods valued at over \$1,000 in each of the premises. The New York County District Attorney requested that the landlord bring proceedings to evict the tenants pursuant to RPL section 231. The

²¹⁶ New York Real Property Law section 231 provides, in part:

§ 231. Lease, when void; liability of landlord where premises are occupied for unlawful purpose

1. Whenever the lessee or occupant other than the owner of any building or premises, shall use or occupy the same, or any part thereof, for any illegal trade, manufacture or other business, the lease or agreement for the letting or occupancy of such building or premises, or any part thereof shall thereupon become void, and the landlord of such lessee or occupant may enter upon the premises so let or occupied.

2. The owner of real property, knowingly leasing or giving possession of the same to be used or occupied, wholly or partly, for any unlawful trade, manufacture or business, or knowingly permitting the same to be so used, is liable severally, and also jointly with one or more of the tenants or occupants thereof, for any damage resulting from such unlawful use, occupancy, trade, manufacture or business.

N.Y. REAL PROP. LAW § 231 (McKinney 1989).

²¹⁷ *Id.*

²¹⁸ *Id.*

²¹⁹ *Polo Ralph Lauren Corp. v. Chinatown Gift Shop*, No. 93 Civ. 6783 (S.D.N.Y. Feb. 15, 1996) (*Polo II*); *1165 Broadway Corp. v. Dayana of N.Y. Sportwear, Inc.*, 633 N.Y.S.2d 724, 728 (N.Y. Civ. Ct. 1995) (observing that RPL section 231 has been applied where: (1) the premises in question were used for the storage and distribution of drugs, illegal fireworks, and obscene materials; (2) the illegal operation of a rooming house; (3) operation of a house of prostitution; (4) a gambling hall; and (5) the illegal sale of liquor during prohibition) (citations omitted).

²²⁰ 633 N.Y.S.2d at 724.

²²¹ The court also addressed the landlord's recovery of its property when it is used for illegal purposes under N.Y. Real Property Law section 715. That statute grants a landlord the ability to maintain a summary proceeding for the recovery of real property where that property is: "used or occupied in whole or in part as a bawdy-house, or house or place or assignation for lewd persons, or for purposes of prostitution, or for any illegal trade, business or manufacture" N.Y. REAL PROPERTY LAW § 715 (McKinney 1994). The court held that this statute applies to trademark counterfeiting. For the purposes of this Article, however, the focus will be on RPL section 231.

tenants argued that the selling and holding of counterfeit goods was not the type of illegal activity meant to be covered by RPL section 231. The court rejected that argument, holding that RPL section 231 "certainly includes any enterprise operated in violation of the Penal Law," including use of "commercial premises in violation of Penal Law 165.72, known as trademark counterfeiting in the second degree, a class E felony."²²² Under RPL section 231(2), if the landlord has knowledge of the counterfeiting activity, he or she is jointly and severally liable with the lessor for damages resulting from the infringement.

The court explained that there is a difference between illegal acts committed within a premises that violate RPL section 231 and those that do not.²²³ Specifically, RPL section 231 is limited to premises that are *used* for an illegal *trade, business, or manufacture*.²²⁴ For example, the court observed that "the personal use of illegal drugs within a premises, even if habitual and customary, does not constitute an illegal use of that premises for the purposes of RPL section 231(1) . . . because such conduct does not amount to a commercial activity or enterprise."²²⁵ Additionally, the requirement that the premises be *used* for illegal purposes means "conduct with some measure of continuity."²²⁶ Thus, an isolated use of the premises does not constitute an "illegal use" within the meaning of the statute.²²⁷

Shortly after the *Dayana* decision, a New York federal court addressed the application of RPL 231 to landlords in Chinatown for the infringing activities of their counterfeiting tenants. In *Polo Ralph Lauren v. Chinatown Gift Shop*,²²⁸ Polo Ralph Lauren Corp., Rolex Watch U.S.A., Inc., and Louis Vuitton sued three retailer defendants for their sale of counterfeit goods bearing the three com-

²²² 633 N.Y.S.2d at 726. Section 165.72 provides:

§ 165.72 Trademark counterfeiting in the second degree

A person is guilty of trademark counterfeiting in the second degree when, with the intent to deceive or defraud some other person or with the intent to evade a lawful restriction on the sale, resale, offering for sale, or distribution of goods, he or she manufactures, distributes, sells, or offers for sale goods which bear a counterfeit trademark, or possesses a trademark knowing it to be counterfeit for the purpose of affixing it to any goods, and the retail value of all such goods bearing counterfeit trademarks exceeds one thousand dollars.

Trademark counterfeiting in the second degree is a class E felony.
N.Y. PENAL LAW § 165.72 (McKinney 1997).

²²³ *Dayana*, 633 N.Y.S.2d at 727.

²²⁴ *Id.*

²²⁵ *Id.*

²²⁶ *Id.*

²²⁷ *Id.*

²²⁸ 855 F. Supp. 648 (S.D.N.Y. 1994); *Polo Ralph Lauren Corp. v. Chinatown Gift Shop*, No. 93 Civ. 6783 (S.D.N.Y. Feb. 15, 1996).

panies' trademarks. Additionally, they sued three landlords, who leased premises to the retailer defendants, for contributory liability under the Lanham Act and under RPL section 231.²²⁹ The plaintiffs contended that the landlord defendants were providing their tenants, the retailer defendants, with a safe haven and marketplace in which the retailers sold counterfeit products bearing the plaintiffs' registered trademarks. Moreover, they alleged that the tenants had been openly selling the counterfeit goods with impunity. The plaintiffs also contended that the landlord defendants had knowledge of their tenants' illegal acts and had knowledge that their premises were being used for this unlawful trade.

The plaintiffs based their case upon several civil seizures of counterfeit goods at each of the retail locations, followed by notice letters to the landlords regarding the tenants' illegal sale of counterfeit goods. After receiving no response from the landlords to these letters, the plaintiffs commenced litigation. The retailer defendants defaulted and the plaintiffs secured a substantial default judgment against them.²³⁰

Jolania Properties, Inc. ("Jolania"), filed a motion to dismiss the complaint for failure to state a claim pursuant to Federal Rule of Civil Procedure 12(b)(6).²³¹ The court denied that motion, holding that under *Inwood* and the Seventh Circuit's application of *Inwood* to landlords in *Hard Rock Cafe Licensing Corp.*,²³² the plaintiffs stated a cause of action for contributory trademark infringement against the landlord.²³³

Plaintiffs and Jolania cross-moved for summary judgment.²³⁴ The court denied the plaintiffs' motion, dismissing the case. In addressing liability under the Lanham Act, the court observed that

[t]he Lanham Act has no express provision about contributory liability, much less about landlords. Contributory liability has emerged from judicial decisions. As to whether a landlord can be held on this ground, the effect of the relevant decisions is that a landlord is neither automatically liable for the counterfeiting of a tenant, nor is the landlord automatically shielded

²²⁹ *Id.*

²³⁰ The plaintiffs obtained the judgment by submitting affidavits of investigators who watched the stores for several hours on several days and chronicled the volume of sales of counterfeit goods at each location. Then, based on various factors, including weather patterns and legitimate retail sales, a consultant calculated an estimate of sales figures for a longer period of time.

²³¹ *Polo I*, 855 F. Supp. at 648.

²³² See *supra* Part I.B.

²³³ *Polo I*, 855 F. Supp. at 650.

²³⁴ *Polo II*, No. 93 Civ. 6783.

from liability. The question of liability depends on the circumstances.²³⁵

The court held that the landlord had a responsibility under both federal and state law, commencing at the time it received notice from the plaintiffs regarding the counterfeiting, to take "reasonable steps to rid the premises of the illegal activity."²³⁶ The most obvious course of action would be to attempt to force the tenant to vacate.²³⁷ Here, Jolania indeed served notice for the tenant to vacate. The tenant, however, did not vacate. The plaintiffs contended that Jolania should have brought an eviction action against its tenant after the tenant's refusal to vacate. The court, however, accepted Jolania's contention that it believed in good faith that there was insufficient evidence for a successful eviction suit against its tenant.²³⁸ Specifically, in the court's opinion, copies of federal court orders allowing for the seizure of the tenant's counterfeit goods, and injunctions enjoining the tenant from the sale of counterfeit goods did not support an eviction proceeding against the tenant. Moreover, the court opined that regardless of whether an eviction action would have been successful, the plaintiffs had failed to demonstrate that such action could have been completed during the time frame covered by the default judgment against the tenant.²³⁹

Thus, this decision seems to indicate that a court may require that a trademark holder prove that the landlord's failure to act is the proximate cause of the trademark holders damages. Additionally, it seems that, under that court's reasoning, there is a fixed period of time to make that causal showing. The *Polo II* decision, however, is at odds with the plain language of RPL section 231, which makes an owner who knows that an ongoing criminal enterprise is occurring on his property strictly liable for damages. Thus, in contrast to the *Polo II* court's opinion, a landlord's reasonable efforts to cure is not a defense under RPL section 231.

RPL section 231, along with the *Dayana* court's application of it to trademark counterfeiting, exemplifies the type of weapon needed to combat counterfeiting. As a practical matter, landlords often cooperate in response to notice letters that inform them of

²³⁵ *Id.*, slip op. at 1-2 (citing *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844 (1982); *Hard Rock Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143 (7th Cir. 1992)).

²³⁶ *Id.* at 3.

²³⁷ *Id.*

²³⁸ It also noted that Jolania's subsequent refusal of its tenant's lease renewal request resulted in the tenant vacating the lease shortly after the refusal. *Id.* at 4.

²³⁹ *Polo II*, No. 93 Civ. 6783, slip op. at 4-5.

the infringing activities of their tenants. This law, along with laws like the proposed New York City legislation, provide trademark holders with the type of strong deterrent necessary to prompt uncooperative, willfully blind landlords, or others, to evict infringing tenants.

CONCLUSION

Counterfeiting has reached epidemic proportions: it affects all industries and is run by sophisticated and often violent international criminal enterprises, producing their illicit goods in sweatshop conditions. Federal and State criminal statutes provide for significant terms of imprisonment as well as monetary penalties that should act as a deterrent.²⁴⁰ In reality, counterfeiters rarely serve significant jail time or are assessed meaningful penalties. Indeed, prosecuting counterfeiting cases remains a low priority for the government.²⁴¹ Moreover, counterfeiters consider paying fines and civil seizures as merely a cost of doing business.²⁴² They routinely hide their assets, launder money, and lease their equipment, thereby making judgments against them unenforceable.²⁴³ Consequently, current civil and criminal remedies do not deter counterfeiters from their illicit activities. Seeking relief from landlords and others in similar relationships, such as flea market owners, should act as a significant deterrent.

The case law has evolved to the point where a trademark holder now has several weapons available against indirect infringers. A landlord is neither automatically liable for the counterfeiting of a tenant, nor automatically shielded from liability.²⁴⁴ A mere landlord tenant relationship without a landlord's knowledge of the tenant's counterfeiting activities will not result in liability.²⁴⁵ Landlords or flea market operators who benefit from the infringing activities of their tenant or vendor are vicariously liable for copyright infringement.²⁴⁶ Similarly, under *Inwood* and *Hard Rock Cafe Licensing Corp.*, landlords who know or have reason to know that their tenant is engaging or will engage in counterfeiting are liable for contributory trademark infringement.²⁴⁷ A landlord who has

²⁴⁰ See *supra* notes 16-17.

²⁴¹ See *supra* note 18.

²⁴² See *supra* notes 20-21 and accompanying text.

²⁴³ See Green & Bruce, *supra* note 5, at 102.

²⁴⁴ See *Polo II*, No. 93 Civ. 6783, slip op. at 1-2.

²⁴⁵ See *supra* Part I.A.1.

²⁴⁶ See *supra* notes 178-79 and accompanying text & Part I.A.2.

²⁴⁷ See *supra* notes 93, 97-99 and accompanying text.

knowledge of the counterfeiting activities of its tenant will meet the first prong of the *Gershwin* test.²⁴⁸

From the "dance hall" line to *Hard Rock Cafe Licensing Corp.* and *Fonovisa*, the doctrine of willful blindness is well entrenched in the case law. Those who shield their eyes to the infringing acts of their tenants or vendors have the requisite knowledge. Trademark holders can build a case for proving such knowledge by providing notice letters to landlords or other such parties by informing them of legal action, including civil or criminal seizure of counterfeit merchandise and cease and desist letters, taken against their tenants. Routinely putting indirect infringers on notice, and creating a record of such notice, is necessary in building a case to prove the knowledge of an uncooperative landlord or other such party. Pervasive activities by a direct infringer similar to those of Cherry Auction's vendors in *Fonovisa* will satisfy the second prong of the contributory infringement test.²⁴⁹ Under *Fonovisa*, providing the site and facilities for known infringing activities establishes contributory infringement.²⁵⁰ That language could have a far-reaching effect on cases involving landlords who continually rent to counterfeiters. One who knowingly rents to counterfeiters and provides the means for counterfeiting may be liable for that infringement.²⁵¹ Just as a swap meet owner cannot disregard its vendors' blatant trademark infringement with impunity, a landlord cannot disregard such infringements by its tenants.

State and local statutes, such as RPL section 231 and the recently proposed New York City legislation serve as examples of the type of remedy needed against indirect infringers. Often, when landlords evict their counterfeiting tenants, they replace them with new counterfeiting tenants. Laws such as those recently proposed in New York City are needed to ensure that such landlords monitor these premises carefully. Trademark and copyright holders should be protected from landlords, trade show organizers, and flea market operators who provide the location and means for counterfeiting and continually ignore notice of those activities by shielding their eyes. Holding such parties accountable for the infringing activities of those who rent from them will make a difference in the war against counterfeiting.

²⁴⁸ See *supra* notes 181-83 and accompanying text.

²⁴⁹ This is particularly relevant in known counterfeiting hotbeds such as Los Angeles' Santee Alley, and New York City's Chinatown and Broadway wholesale district.

²⁵⁰ See *supra* note 182 and accompanying text.

²⁵¹ See *Fonovisa, Inc. v. Cherry Auction*, 76 F.3d 259, 264 (9th Cir. 1996); *A & M Records, Inc. v. Abdallah*, 948 F. Supp. 1229, 1455 (C.D. Cal. 1996). See *supra* notes 182-83 and accompanying text.