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# Copyrights-Liabilty of Store Owner for Sale of Infringing Phonograph Records by Concessionaire

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COPYRIGHTS—LIABILITY OF STORE OWNER FOR SALE OF INFRINGING PHONOGRAPH RECORDS BY CONCESSIONAIRE—Defendant H. L. Green Company licensed defendant Jalen Amusement Company as concessionaire of the record departments in twenty-three of its stores. The licensing agreement required Jalen's employees to follow all Green's rules and regulations and empowered Green to discharge any employee found to be conducting himself improperly. The gross receipts of the record department were collected by Green, Jalen receiving only the amount remaining after deductions for the license fee, salaries, and taxes. Although Jalen ordered and paid for the records and its employees made all the sales, record purchasers were unaware of Jalen's autonomy in the record department. Plaintiff, copyright proprietor of several musical compositions, alleged that Jalen had manufactured recordings of these compositions in violation of section 101(e) of the Copyright Act.[1] Plaintiff also alleged that Green had violated the same section by contributing to and participating actively in the sale of these recordings. The trial court found Jalen liable[2] but dismissed the complaint as to Green. On appeal from the order dismissing Green, *held*, reversed and remanded for determination of damages. A concession licensor having control over the employees and benefiting proportionately from the sales of a licensee-vendor is liable in the amount of the statutory damages assessed for the sale of records infringing on copyrighted musical compositions. *Shapiro, Bernstein & Co. v. H. L. Green Co.*, 316 F.2d 304 (2d Cir. 1963).

The Copyright Act,[3] while not applying to phonograph records as such, extends protection to the musical composition—the words and tune—which represents a part of the composite sound reproduced by the recording disk.[4] Once the proprietor of the copyright on a musical composition

1 17 U.S.C. § 101(e) (1958).

2 135 U.S.P.Q. 181 (S.D.N.Y. 1962).

3 17 U.S.C. §§ 1-216 (1958).

4 17 U.S.C. §§ 1(e), 101(e) (1958); see White-Smith Music Publishing Co. v. Apollo Co., 209 U.S. 1 (1908); SHAFTER, MUSICAL COPYRIGHT 330 (2d ed. 1939). Among the many factors which contribute to the sound heard when a record is played are the musical composition of the composer, the arrangement of the arranger, the style of the musicians, the techniques of the recording engineers, the style of the vocalist, the style of the director or conductor, and the ability of the record manufacturer to coordinate these ingredients effectively. The Copyright Act gives partial protection to the proprietor of a copyright solely on the musical composition element. Protection of the other elements comprising the recorded

publishes the composition by releasing or authorizing the release of a recording of the composition, compulsory licensing of any and all manufacturers complying with the requirements of the Copyright Act is required by section 1(e) of the act, thus depriving the proprietor of the right to refuse to license or to grant an exclusive license. The requirements prescribed by the act are, first, filing notice of intention to manufacture, use, or sell with the copyright office and the copyright owner, and second, payment of a two-cent royalty for each time the composition is recorded on a phonograph disk.[5] The *manufacture* of unlicensed recordings, those as to which these requirements have not been met, subjects the manufacturer to liability for the royalty in lieu of damages and profits, plus a sum not greater than treble the royalty as well as costs and reasonable counsel fees at the court's discretion.[6] The *sale* of unlicensed recordings, however, while also infringing the rights or the copyright proprietor, subjects the seller only to liability for the two-cent royalty payment plus costs and counsel fees.[7] Although two prior cases imposed liability for the sale of infringing records, neither these cases nor the Copyright Act provide any guidance regarding the application of the act to other than the immediate seller of the infringing records.[8]

In the principal case the court held that the term "sellers" includes those who "contributed to and participated actively in the sale of" the infringing records. In reaching this result the court relied upon a series of dance hall cases in which the hall proprietor was held liable for infringement when the band played a copyrighted musical composition without authorization from the copyright owner. This liability was imposed without regard to the hall proprietor's knowledge or control of the selections played or to whether the bandleader was considered an employee or independent contractor.[9] The

sound has been achieved primarily under theories of unfair competition, including unjust enrichment, misappropriation, "palming-off," and unjust interference. International News Serv. v. The Associated Press, 248 U.S. 215 (1918); Metropolitan Opera Ass'n v. Wagner-Nichols Recorder Corp., 199 Misc. 786, 101 N.Y.S.2d 483 (Sup. Ct. 1950); Waring v. WDAS, 327 Pa. 433, 194 Atl. 631 (1937). *But see* RCA Mfg. Co. v. Whiteman, 114 F.2d 86 (2d Cir.), *cert. denied*, 311 U.S. 712 (1940). See generally Cary, *The Common Law and Statutory Background of the Law of Musical Property*, 15 VAND. L. REV. 397 (1962); Diamond, *Copyright Problems of the Phonograph Record Industry*, 15 VAND. L. REV. 417 (1962); Comment, 33 So. CAL. L. REV. 190 (1960).

5 17 U.S.C. § 1(e) (1954). The royalty due on an LP record with six songs on each side would be $6 \times 2 \times 2 = 24$ cents.

6 *Ibid.*

7 Shapiro, Bernstein & Co. v. Goody, 248 F.2d 260, 266, 267 (2d Cir. 1957), *cert. denied*, 355 U.S. 952 (1958); 17 U.S.C. §§ 1(e), 101(e) (1958).

8 Shapiro, Bernstein & Co. v. Goody, *supra* note 7; Harms, Inc. v. F. W. Woolworth Co., 163 F. Supp. 484 (S.D. Cal. 1958). Kaufman, J., described the situation in the principal case as "[A] legal problem vexing in its difficulty, a dearth of squarely applicable precedents, a business setting so common that the dearth of precedents seems inexplicable, and an almost complete absence of guidance from the terms of the Copyright Act. . . ." Principal case at 305.

9 Principal case at 309. The court decided the situation in the principal case more nearly resembled that in the dance hall cases than that in the landlord-tenant cases where the

similarity between the increased income accruing to the dance hall proprietor from the infringing music and that accruing to Green[10] from the infringing records apparently influenced the court. Because the trial court had based its dismissal of Green in part on the grounds that Green had no knowledge that the manufacture of the records had been unlicensed, the court in the principal case, while noting facts tending to belie Green's innocence,[11] pointed out that liability for innocent infringement is not unusual or unjust.[12] The innocent infringer has both the opportunity to guard against infringement by diligent inquiry and the ability to protect himself from liability for infringement by indemnity agreement or insurance.[13] In addition, the fact that the infringer, innocent or not, is the party who profits from the copyright owner's losses was given particular emphasis by the court. Although the dance hall cases which were cited as authority supporting the holding in the principal case did not require that the hall proprietor have knowledge of or control over the infringement, the principal case, while noting Green's possible ignorance, emphasized his control over Jalen in further justification of its decision.[14]

The congressional intent in formulating the Copyright Act was in part to obviate the possibility of monopoly in the music publishing industry.[15]

tenant has engaged in copyright infringement. In the latter cases the landlord, held not liable for the tenant's wrongdoing, had no knowledge of the infringement, no control over the tenant, received no benefit from the infringement, and charged a fixed rental. See Deutsch v. Arnold, 98 F.2d 686 (2d Cir. 1938).

10 The compensation Green received was ten to twelve percent of Jalen's gross receipts from sale of records. If the rental charge had been fixed, rather than a percentage, the court would have been faced with a situation more nearly resembling the landlord-tenant cases, which it rejected. See note 9 *supra*.

11 These facts were that, contrary to trade practice, the record jackets carried no manufacturer's name, and that prior to filing suit, the plaintiff's attorneys informed Green of the infringement.

12 See Platt & Munk Co. v. Republic Graphics, Inc., 315 F.2d 847 (2d Cir. 1963); Shapiro, Bernstein & Co. v. Goody, 248 F.2d 260 (2d Cir. 1957), *cert. denied*, 355 U.S. 952 (1958); F. W. Woolworth Co. v. Contemporary Arts, Inc., 193 F.2d 162 (1st Cir. 1951), *aff'd*, 344 U.S. 228 (1952); De Acosta v. Brown, 146 F.2d 408 (2d Cir. 1944) (L. Hand, J., dissenting), *cert. denied*, 325 U.S. 862 (1945); Hein v. Harris, 183 Fed. 107 (2d Cir. 1910); Remick Music Corp. v. Interstate Hotel Co., 58 F. Supp. 523 (D. Neb. 1944), *aff'd*, 157 F.2d 744 (8th Cir. 1946), *cert. denied*, 329 U.S. 809 (1946); Buck v. Heretis, 24 F.2d 876 (E.D.S.C. 1928); Latman & Tager, *Liability of Innocent Infringers of Copyrights*, in COPYRIGHT OFFICE, GENERAL REVISION STUDIES (No. 8) (1957). See also Belford v. Scribner, 144 U.S. 488, 506, 507 (1892) (printer of infringing work may be liable); Greene v. Bishop, 10 Fed. Cas. 1128, 1135 (No. 5763) (C.C.D. Mass. 1858) (retail seller of infringing books held liable).

13 Letter from Ralph S. Brown appended to Latman & Tager, *Liability of Innocent Infringers of Copyrights*, COPYRIGHT OFFICE, GENERAL REVISION STUDIES (No. 8) (1957).

14 See text accompanying note 9 *supra*.

15 H.R. REP. No. 2222, 60th Cong., 2d Sess. 9 (1909), which states in part: "How to protect him [the composer] in these rights [compensation for use of composition and right to forbid rendition of his copyrighted music by mechanical reproducers] without establishing a great music monopoly was the practical question the committee had to deal with." See Henn, *The Compulsory License Provisions of the U.S. Copyright Law* 3, 4, 64, in COPYRIGHT OFFICE, GENERAL REVISION STUDIES (No. 1) (1957); 58 COLUM. L. REV. 411, 412 (1958).

The choice of the compulsory license at its present meager rate as a method of preventing a monopoly seems an unfortunate compromise between no protection and full protection for musical compositions. Although the fear that a monopoly would develop in the music publishing business if copyright holders were able to grant exclusive licenses may have been valid when the recording industry was in its infancy, it now appears that such a fear is no longer justified. The compulsory license has been held inapplicable to musical plays, motion pictures, and filmed television programs, and from the incipiency of these media there has been no indication of a monopoly developing in the use of music in these areas.[16] Even though leading performers are usually under contract to make records exclusively for one company, there has been no indication of a monopoly of talent.[17] The fact that there are many record producers and music publishers now firmly established in the recording industry reduces the possibility of a monopoly or oligopoly developing should the compulsory license be abandoned.[18] In addition, there would appear to be no reason why the federal antitrust laws should not provide a sufficient sanction to prevent a monopoly in this industry.[19]

The Constitution speaks of securing to an author the "exclusive right" to his works,[20] thus encouraging artistic and creative endeavor. It has been suggested that giving the composer the right to grant exclusive licenses would greatly encourage the creation and use of music, with resultant improvement in entertainment value.[21] Regardless of the quality of the composition, however, the price of the compulsory license remains fixed, the statute, rather than the competitive market place, determining its value. Increasing the royalty might abate the harshness of the situation, but the copyright proprietor would still be unable to choose those with whom he wishes to deal. He would therefore be deprived of the right to refuse to deal with irresponsible or even dishonest record manufacturers who can jeopardize the popularity of a composition by releasing inartistic or faulty recordings or who may become insolvent, reducing the copyright proprietor's remedy to an injunction which may come too late to be effective.[22] A record manufacturer who undergoes the publicity expenses connected with the first release of a composition may have his efforts absorbed by the

16 See generally Blaisdell, *The Economic Aspects of the Compulsory License* 33, in COPYRIGHT OFFICE, GENERAL REVISION STUDIES (No. 12) (1957). Other countries which have granted exclusive rights to authors have not been troubled with monopolies. See Joiner, *Analysis, Criticism, Comparison and Suggested Corrections of the Copyright Law of the United States Relative to Mechanical Reproduction of Music*, 2 COPYRIGHT LAW SYMPOSIUM 43, 58, 64 (1939).

17 *Id.* at 34.

18 *Id.* at 35.

19 See generally OPPENHEIM, FEDERAL ANTITRUST LAWS 904-08 (2d ed. 1959); White, *Musical Copyrights v. The Anti-Trust Laws*, 30 NEB. L. REV. 50 (1950).

20 U.S. CONST. art. I, § 8.

21 Letter from Ralph S. Peer reprinted in Blaisdell, *supra* note 16.

22 17 U.S.C. § 101(e) (1958).

release of any other manufacturer who wishes to obtain the relatively inexpensive compulsory license. This can prove especially unfortunate for the small record producers who can least afford to pave the way for the major manufacturers;[23] thus it may reduce competition by foreclosing the smaller producers from the market for original recordings.

Insofar as the full measure of existing protection afforded proprietors of copyrights covering published musical compositions by the Copyright Act should be granted to them to encourage greater quantity and quality of musical compositions, the result in the principal case facilitates a more effective copyright system. Unfortunately, under the present Copyright Act the practical protection given to copyright owners is often less than the two-cent royalty the statute provides because collection of even that sum[24] may be difficult since many of the infringing manufacturers are small, obscure, transient operators, often jugdment-proof.[25] The extension of the liability of the seller to one such as Green, who contributes to the sale and profits in direct proportion to it,[26] will not only increase the total perspicacity exercised in the selection of records for retail sale,[27] but will also provide still another party—most probably solvent and accessible—against whom the copyright proprietor may proceed. Although the decision in the principal case results in slightly increased protection for the copyright proprietor, legislative action is needed either substantially increasing the two-cent royalty, or perhaps doing away with the compulsory license provision and giving the copyright proprietor the right to grant exclusive licenses to record his compositions. Perhaps a combination of these suggestions would serve to remedy the situation; the proprietor could be given the right to grant exclusive licenses for an initial period of from six months to a year, after which the compulsory license at an increased rate could be obtained. This or similar legislation would protect the copyright proprietor

23 It is argued that if the compulsory license is abandoned records will cost more, fewer versions of each composition will be made, the various tastes of the public will be circumscribed and fewer records sold, new composers may never get a chance to have songs recorded, and small music publishers will not be able to survive. Letter from Ernest S. Meyers reprinted in Blaisdell, *supra* note 16. Even if these dubious prognostications are valid, they are merely reflecting necessary elements of free competition which the recording industry, now well established, seems able to withstand. The theory of a competitive economy would seem to require that this industry be treated as others are.

24 It seems unlikely that the economic factors which influenced Congress to set the royalty at two cents per recording in 1909 remain unchanged today.

25 Note, 5 STAN. L. REV. 433, 435 (1953).

26 Green profited from the agreed percentage of Jalen's gross receipts, but Green must also have profited, though less directly, from the customers attracted to the store by the record concession. If Green had leased a whole store to Jalen, then, perhaps, the landlord-tenant cases, note 9 *supra*, might have been thought more analogous to the principal case than the dance hall cases, but the percentage charge for the rental would still create a crucial issue.

27 Many sellers are now requiring manufacturers to provide indemnification or other guarantees that the sellers will not be responsible for recordings not authorized by the copyright proprietors. Variety, Oct. 16, 1957, p. 63, col. 1. Green had such indemnification from Jalen.

during the primary period of popularity of the composition, but would not prevent music which has a longer public life from being given extensive promotion and release by many record manufacturers. However, until action is taken to rectify this anachronism in the copyright law, the rule of the principal case does provide copyright proprietors[28] with a useful weapon in their struggle to suppress piracy of their compositions.[29]

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[28] Although the rule of Shapiro, Bernstein & Co. v. Goody, 248 F.2d 260 (2d Cir. 1957), *cert. denied*, 355 U.S. 952 (1958) (sellers of infringing records liable for two-cent royalty), and the extension of that rule by the principal case better assure copyright proprietors of receiving their royalty, performers and licensed manufacturers must still search outside the statute for adequate protection of their rights. See Nimmer, *Copyright 1956: Recent Trends in the Law of Artistic Property*, 4 U.C.L.A.L. REV. 323, 346 (1957) stating, "[P]ayment of the statutory royalties . . . will not in itself prove a deterrent to record pirates since they still will be saving the major costs of employing performers and recording technicians."

[29] Kaufman, J., the author of the opinion in the principal case *extending* sellers' liability, had written a previous opinion which held sellers not liable at all. Miller v. Goody, 139 F. Supp. 176 (S.D.N.Y. 1956), *rev'd sub nom.* Shapiro, Bernstein & Co. v. Goody, *supra* note 28.