

A&M RECORDS, INC. et al.
v.
MOHAMMAD ABDALLAH et al.

**UNITED STATES DISTRICT COURT FOR THE CENTRAL
DISTRICT OF CALIFORNIA**

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

OPINION BY: LAUGHLIN E. WATERS

. . . II. Findings of fact

A. The following facts are undisputed by the parties and are thus accepted by this Court as true:

Plaintiffs are twenty-six major record companies in the United States, doing business in Los Angeles, California. Together they own the copyrights and trademarks for the 156 sound recordings and 24 trade names that are listed in Appendices A and **[**7]** B attached hereto.

Defendant Mohammad Abdallah is the president and sole owner of GAVC. GAVC is a California corporation doing business in California, with a branch office in New Jersey. GAVC sells empty cassette cartridges, spools of blank recording tape, audio duplicating equipment, and "time-loaded" audio tapes. A "time-loaded" audio tape is a tape that runs for a certain time period that is specified by the customer. For example, a customer would order 10,000 tapes with a playing time of 27 minutes and 45 seconds, and GAVC would then assemble 10,000 cassette tapes of that length out of blank recording tape and empty cassette cartridges using tape loading machines.

Between 1990 and 1992, GAVC sold time-loaded audio tapes to defendants Rizik Muslet, Mohammed Issa Halisi, and Mohammed Alabed. These individuals used the time-loaded audio tapes to illegally counterfeit the plaintiffs' copyrighted works, including the 156 titles listed in Appendix A. These individuals also packaged these counterfeit tapes in cassette cartridges using insert cards with the plaintiffs' trademarks. The counterfeiters **[*1454]** were never licensed to use the plaintiffs' copyrights or trademarks.

B. The Court finds **[**8]** the following facts to be true by a preponderance of the evidence, primarily from the testimony of Rizik Muslet and Asmar Chabbo, whom this Court found to give credible testimony:

[9]** Audiocassette counterfeiters such as Mr. Muslet, Mr. Halisi, and Mr. Alabed must have blank cassettes timed to specific lengths in order to produce marketable counterfeit tapes. Tapes of standard lengths (e.g., 30 or 60 minutes) are unacceptable because they either cut off the music of the sound recording or leave large amounts of silent time on each side of the tape. Therefore, counterfeiters are dependent on suppliers such as GAVC to acquire blank tapes that are timed to the specific length of the sound recording that they wish to counterfeit.

In September of 1991, Mr. Muslet was searching for a new supplier of time-loaded tapes for his counterfeiting operation. He met with Mr. Abdallah and informed him about the nature of the

counterfeit operation, and the two agreed on a price for blank time-loaded cassettes. Mr. Muslet also needed a new supplier for insert cards for the counterfeit tapes, and asked Mr. Abdallah to assist him in that regard. Mr. Abdallah said that he would have somebody contact Mr. Muslet, and a few days later a supplier called Mr. Muslet having been referred by Mr. Abdallah.

Throughout their business relationship, Mr. Muslet sent Mr. Abdallah numerous "legitimate" **[**10]** tapes (i.e., non-counterfeit tapes of sound recordings) to time. Mr. Abdallah would time these cassettes and send them back to Mr. Muslet with the time of the cassette written on it. Mr. Muslet would then use these times when ordering blank tapes from Mr. Abdallah.

From September of 1991 to October of 1992, Mr. Muslet purchased over 300,000 blank cassettes and a tape duplicating machine from GAVC. In October of 1992, Mr. Muslet's counterfeiting operation was raided by the police and he was arrested.

Mr. Abdallah's knowledge of his customer's counterfeiting activities was also demonstrated by his conversations with his employee, Asmar Chabbo. Mr. Chabbo worked for GAVC from July 1990 until July 1992. During that period, he became Mr. Abdallah's office manager in GAVC's branch office in New Jersey. Mr. Chabbo testified that Mr. Abdallah explained to him that some of GAVC's customers used the blank time-loaded tapes to counterfeit legitimate sound recordings, and also explained the methods that his customers used to counterfeit tapes.³

3 This testimony is confirmed by Mr. Chabbo's extensive knowledge of counterfeiting activity after leaving GAVC's employment. It was undisputed that prior to working for GAVC, Mr. Chabbo had no contact with the audiocassette counterfeiting industry, and yet one week after he left GAVC, he was able to provide authorities with a comprehensive list of names and addresses of counterfeiting operations around the country. The only reasonable inference is that he learned this information while working for GAVC, and that if he knew of these counterfeiting activities, Mr. Abdallah did as well.

[11]** **[*1455]** Mr. Chabbo further testified as to Mr. Abdallah's relationship with Mohammed Halisi, GAVC's largest customer. At one point Mr. Abdallah mentioned that he was worried about the credit he had extended to Mr. Halisi, because Mr. Halisi had been raided by the police for counterfeiting activities and all his merchandise had been seized. On another occasion, Mr. Halisi complained to Mr. Abdallah that the time-loaded cassettes he had purchased from GAVC were too short for the "Michael Jackson cassette." These and other episodes related by Mr. Chabbo made it clear that Mr. Abdallah was aware of Mr. Halisi's illegal counterfeiting activities and yet still continued to supply him with time-loaded audio cassettes.

Mr. Chabbo also testified that Mr. Abdallah frequently timed new legitimate cassettes for his customers. Sometimes, as Mr. Muslet had previously explained, the customer would send in the legitimate cassette and Mr. Abdallah would time it, write the time on the cassette, and send the cassette back to the customer. On other occasions, the customer would send Mr. Abdallah the legitimate cassette and an order for time-loaded cassettes. Mr. Abdallah would then time the legitimate cassette **[**12]** and manufacture thousands of blank time-loaded cassettes based on the time of the legitimate cassette. The blank time-loaded cassettes were sent back to the customer along with the original legitimate cassette.

To support this contention, plaintiffs introduced numerous legitimate cassettes that had been seized from a raid on Mr. Muslet's warehouse. These cassettes had their time written on them in Mr.

Abdallah's handwriting, as identified by both Mr. Chabbo and an independent handwriting expert. Thus, there was credible evidence from three different sources that Mr. Abdallah had timed legitimate cassettes for his customers. This fact strongly indicates that Mr. Abdallah knew what his counterfeiting customers were doing with the tapes that he sold them.

In conclusion, this Court finds that at least three of Mr. Abdallah's customers engaged in a substantial amount of counterfeiting and trademark infringement, including the 156 copyrighted sound recordings and 24 trade names listed in Appendices A and B, respectively. This Court further finds that the time-loaded cassettes which Mr. Abdallah sold to these customers was a material contribution to their counterfeiting activities, since **[**13]** audiocassette counterfeiters must have blank tapes timed to specific lengths. Finally, and most critically, this Court concludes that Mr. Abdallah had actual knowledge of the counterfeiting and trademark infringement being done by his customers, and that, notwithstanding that knowledge, he continued to supply these customers with the time-loaded audiocassettes necessary to continue their counterfeiting activities.

There was no evidence that Mr. Abdallah or anyone at GAVC ever copied any sound recordings themselves.

III. Conclusions of law

A. Copyright infringement

Since it is undisputed that Mr. Abdallah did not participate in any copyright or trademark violations directly, the plaintiff's only basis for liability rests on a theory of contributory liability. This theory was outlined in *Gershwin Publishing Corp. v. Columbia Artists Management*, 443 F.2d 1159, 1162 (2d Cir. 1971), which stated that "one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another" is "equally liable with the direct infringer." This theory of liability was adopted in the Ninth Circuit by *Universal City Studios v. Sony Corp. of America*, 659 F.2d 963, 975 (9th Cir. 1981), *rev'd on other grounds*, 464 U.S. 417, 78 L. Ed. 2d 574, 104 S. Ct. 774 (1984). Under *Gershwin*, a plaintiff must prove two elements in order to establish a **[*1456]** case of contributory liability: 1) the underlying copyright violation; and 2) the defendant knowingly induced, caused or materially contributed to that violation.

The Ninth Circuit's most recent analysis of contributory copyright infringement is found in *Fonovisa v. Cherry Auction*, 76 F.3d 259 (9th Cir. 1996). *Fonovisa* involved a swap meet where numerous vendors were selling counterfeit sound recordings. The owner of **[**15]** the infringed copyrights sued the company that organized the swap meet, claiming that the company was liable for contributory infringement. After the district court granted a motion by the defendants for failure to state a claim, Fonovisa appealed. The Ninth Circuit applied the *Gershwin* test, noting that both the underlying violation and the defendant's knowledge of that violation were properly pled. The only question was whether or not the defendant had "induced, caused, or materially contributed to" the copyright violation. *Id.* at 264 (citing *Gershwin*). The Ninth Circuit held that merely "providing the site and facilities for known infringing activity is sufficient to establish contributory liability," *Id.*, and thus allowed the plaintiff's case to go to trial.

In the present case, the plaintiffs have established every element set out by *Gershwin*. As in *Fonovisa*, the underlying counterfeit activity is undisputed. This Court has concluded that Mr. Abdallah had actual knowledge of his customer's counterfeit activity and continued to provide them with

time-loaded cassettes. And finally, the Court has found that Mr. Abdallah's provision of time-loaded cassettes **[**16]** was a material contribution to his customers' counterfeiting activities. Mr. Abdallah's contribution to the underlying counterfeiting activity seems at least as significant as the contribution made by the swap meet in *Fonovisa*. Therefore, the plaintiffs have successfully demonstrated that Mr. Abdallah is liable for contributory copyright infringement.

The defendant argues that the Supreme Court's decision in *Sony Corp. of America v. Universal City Studios*, 464 U.S. 417, 78 L. Ed. 2d 574, 104 S. Ct. 774 (1984) has altered the *Gershwin* test. In *Sony*, the plaintiffs argued that the sale of video cassette recorders ("VCR's") constituted contributory copyright infringement because the sellers had at least constructive knowledge that the VCR's were being used to illegally copy movies broadcast on television. The Supreme Court ruled against the plaintiffs, holding that "the sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing uses." *Id.* at 442. In the present case, Mr. Abdallah **[**17]** argues that, just as VCR's have legitimate, noninfringing uses, the time-loaded cassettes that he sold also have legitimate, noninfringing uses.⁵

5 Mr. Abdallah testified that most of his customers used the time-loaded cassettes to record their own original works, such as church sermons, language classes, or advertisements. The plaintiffs did not dispute the fact that Mr. Abdallah had some legitimate customers for his time-loaded cassettes, although they claimed that the vast majority of his customers were counterfeiters.

This Court rejects the defendant's argument for three reasons. First, the Supreme Court developed the *Sony* doctrine by borrowing a concept from patent law, which provides that the sale of a "staple article or commodity of commerce suitable for substantial noninfringing use" cannot constitute contributory infringement." *See* 35 U.S.C. β 271(c) (1984); *Sony* at 439-40). Arguably, the *Sony* doctrine only applies to "staple articles or commodities of commerce," such as VCR's, **[**18]** photocopiers, and blank, standard-length cassette tapes. Its protection would not extend to products specifically manufactured for counterfeiting activity, even if such products have substantial noninfringing uses. Second, even if the *Sony* doctrine does apply to items specifically designed for counterfeit use, *Sony* requires that the product being sold have a "substantial" noninfringing use, and although time-loaded cassettes can be used for legitimate purposes, these purposes are insubstantial given the number of Mr. Abdallah's customers that were using them for counterfeiting purposes.

Finally, even if *Sony* protected the defendant's sale of a product specifically designed **[*1457]** for counterfeiters to a known counterfeiter, the evidence in this case indicated that Mr. Abdallah's actions went far beyond merely selling blank, time-loaded tapes. He 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 or expand an existing one; he timed legitimate cassettes for his customers to assist them in ordering time-loaded **[**19]** cassettes; and he helped to finance some of his customers when they were starting out or needed assistance after a police raid. Therefore, even if *Sony* were to exonerate Mr. Abdallah for his selling of blank, time-loaded cassettes, this Court would conclude that Mr. Abdallah knowingly and materially contributed to the underlying counterfeiting activity. . . .