No. ____

IN THE

Supreme Court of the United States

PERFECT 10, INC.,
Petitioner,

v.

VISA INTERNATIONAL SERVICE ASSOCIATION, *ET AL.*,
Respondents.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Did the Ninth Circuit err in holding, contrary to long-established principles of secondary copyright liability, that financial institutions and credit card companies cannot be liable, as a matter of law, for the services they provide to websites that traffic in stolen copyrighted works, even if they know the websites are engaged in massive infringement, they profit from each infringing transaction, they have both the contractual right and the practical ability to stop or limit the infringing activity, and the infringing websites cannot viably function without the services these companies provide?

PARTIES TO THE PROCEEDING

Pursuant to Rule 14.1(b), the following list identifies all of the parties appearing here and before the United States Court of Appeals for the Ninth Circuit.

The petitioner here and the plaintiff and appellant below is Perfect 10, Inc.

Respondents here and the defendants and appellees below are Visa International Service Association; Mastercard International, Inc.; First Data Corporation; Cardservice International, Inc.; and Humboldt Bank.

CORPORATE DISCLOSURE STATEMENT

Pursuant to Rule 29.6, petitioner states as follows:

Perfect 10, Inc. ("Perfect 10") has no parent company, and no publicly held corporation owns 10% or more of Perfect 10's stock.

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PETITION FOR A WRIT OF CERTIORARI

Perfect 10, Inc. ("Perfect 10") respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Ninth Circuit in this case.

OPINION BELOW

The divided opinion of the court of appeals is reported at 494 F.3d 788, and it is reprinted in the appendix to this petition ("Pet. App.") at 1a-75a. The district court's opinions rendered on August 5, 2004 (71 U.S.P.Q.2d 1914) and December 3, 2004 (73 U.S.P.Q.2d 1736) are reprinted at Pet. App. 76a-112a.

JURISDICTION

The court of appeals entered its judgment on July 3, 2007. A timely petition for rehearing and rehearing en banc was denied on October 9, 2007. Pet. App. 113a-114a. Justice Kennedy extended the time for filing this petition to February 6, 2008. This Court has jurisdiction under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

This case involves provisions of the Copyright Act, 17 U.S.C. § 101, *et seq.* The pertinent provisions are reproduced at Pet. App. 115a-116a.

STATEMENT

This case presents critical questions concerning the viability of copyright protection in the digital age. Vast quantities of copyrighted motion pictures, television shows, sound recordings, computer programs, and photographs are being sold illegally on the Internet by companies that have set up shop in foreign locations where copyright law is brazenly ignored. These illegal operations often hide behind phony domain name registrations, and change locations or domain names on a regular basis. Through these stratagems, the operators of pirate websites remain beyond the effective reach of this nation's courts and enforcement authorities, while continuing to sell millions of pirated digital works to customers in the United States over the Internet.

The pirate websites cannot, however, insulate themselves entirely: they depend on credit card transactions to receive payment for their unlawful sales. Indeed, it is precisely the ability to offer convenient electronic payment options that allows pirate websites to transact business with U.S. customers without having to maintain a physical presence here.

The respondents in this case are credit card companies and financial institutions that process the websites' credit card transactions. Respondents set up merchant bank accounts for pirate website operators and earn substantial fees on every illegal sale of a copyrighted work by the websites. In fact, respondents charge the pirate website operators higher per-transaction fees than they charge legitimate businesses. Moreover, respondents know that the websites are engaged in massive infringement. Petitioner has repeatedly informed respondents that particular websites are using respondents' services to consummate illegal transactions in petitioner's copyrighted works. And even without that express notice, respondents' own due diligence (which they perform before establishing a merchant bank account and extending credit card services) has put them on notice that the companies in question are trafficking in stolen intellectual property. Respondents have the contractual right to require the pirate websites to cease infringement as a condition of receiving continued services. It would be easy for them to require these unlawful businesses to stop selling stolen materials or to revoke their credit card processing privileges. Nonetheless, respondents continue to process payments from these websites, refuse to exercise their contractual rights to demand that the illegal conduct cease, and even lend an aura of respectability to the websites by requiring them to display the Visa and MasterCard logos.

Under longstanding, uniformly applied principles of copyright law, respondents would be subject to secondary liability for their active participation in this massive copyright piracy. Departing sharply from these established principles, a divided panel of the Ninth Circuit held that, as a matter of law, respondents' actions could never justify the imposition of secondary copyright liability. According to the Ninth Circuit, respondents' *actual* contribution to the massive infringement perpetrated by pirate websites is not actionable as contributory infringement because these websites might *theoretically* develop alternative payment mechanisms, and because respondents do not participate directly in the infringing acts of copying and distribution. Likewise, the Ninth Circuit held that respondents could not be subject to vicarious liability, notwithstanding that they obtain a direct financial benefit from the infringing activity while declining to exercise their contractual rights to stop or limit it.

As Judge Kozinski's dissent explained, the majority's decision has made "very new – and very bad – law," "conflicts with . . . every material assistance case that I know of," and "will prove to be no end of trouble." Pet. App. 49a, 51a, 75a. Based on its own misguided view of public policy, and in disregard of decades of settled law, the Ninth Circuit majority has whittled the scope of secondary liability down to practically nothing. As Judge Kozinski put it:

> Accepting the truth of [petitioner's] allegations, as we must on a motion to dismiss, the credit cards are easily liable for indirect copyright infringement: They knowingly provide a financial bridge between buyers and sellers of pirated works, enabling them to consummate infringing transactions, while making a profit on every sale. *If such active participation in infringing conduct does not amount to indirect infringement, it's hard to imagine what would.*

Id. at 43a (emphasis added, footnotes omitted).

The Ninth Circuit's ruling threatens devastating consequences. By effectively providing immunity to the U.S.-based payment networks that make this offshore piracy commercially viable, the Ninth Circuit's decision allows pirates to operate with impunity. Without this Court's immediate intervention, pirate websites will have free rein to sell billions of dollars in copyrighted content, leaving U.S. rights-holders without any effective remedy.

A. Factual Background.

1. The Internet, for all of its benefits, also makes possible copyright infringement on a previously unimaginable scale. Content owners such as movie studios, record companies, computer programmers, and magazine publishers (such as the petitioner) are the victims of massive theft by pirate websites that unlawfully make those copyrighted works available for sale over the Internet.

These websites offer vast amounts of pirated content of all varieties: music, movies, television shows, photographs, and even computer software. Some allow users to download this material in exchange for a per-item fee (much like legitimate sites such as Apple's iTunes) or charge users based on the amount of data they download. *See, e.g.*, http://www.zml.com (offering access to "[o]ver 1500 movies of premium DVD quality"). The website eurofeeds.com, for example, which has stolen over 15,000 of petitioner's images, also offers massive quantities of pirated full-length movies and songs, all in exchange for subscription fees. *See* http://www.eurofeeds.com (offering access to "Videos, MP3, Software, Games, and Erotica"); *see also* http://www.eurofeeds.com/nav.php?name=Faq&op=view&id=15 (specifying price tiers for "[u]nlimited" downloads). Such pirate websites perpetrate copyright infringement on a massive scale.

As copyright owners have stepped up their efforts to combat piracy in the United States, operators of pirate websites – following the lead of Internet gambling operators – have moved their operations to "far-off jurisdictions, where lawsuits are difficult to bring and remedies impossible to enforce." Pet. App. 72a (Kozinski, J., dissenting). The Internet's global reach allows these illegal operations to continue to reach customers in the United States, but only if they have access to the network of payment services offered by respondents. As Judge Kozinski put it, "[t]he weak link in the pirates' nefarious scheme is their need to get paid; for this they must use the services of legitimate financial institutions." Pet. App. 72a; *see also* Compl. ¶ 35 (Pet. App. 128a-129a) (access to MasterCard and Visa "is tantamount to a pre-condition for running a successful online business," and the inability to access those payment networks would make it "impossible" for many online websites "to compete and operate at a profit").

2. Respondents Visa and Mastercard are joint ventures, owned by thousands of member banks. They operate vast networks that process hundreds of millions of dollars in payment card transactions every day. Member banks issue MasterCard and Visa cards, and they contract with merchants to accept those cards and to sell the resulting sales drafts to the member banks. Respondents receive substantial payments from the pirate websites for helping them set up merchant bank accounts and credit card processing capabilities. Then, by purchasing the sales drafts at a discount, respondents earn a fee on every infringing

transaction. *See generally Emery v. Visa Int'l Serv. Ass'n*, 95 Cal. App. 4th 952, 956 (2002) (describing respondents' credit card operations), *cited in* Pet. App. 43a n.2 (Kozinski, J., dissenting); *see also* Compl. ¶¶ 8-13 (Pet. App. 120a-122a).

Merchants must undergo a rigorous review of their business operations prior to being accepted into respondents' networks. Every approved merchant must enter into a formal merchant agreement. Compl. ¶ 15 (Pet. App. 122a-123a). The agreement requires the merchant to "comply with all laws, ordinances and regulations applicable to Merchant, Merchant's business, and any Card transaction," and it also provides that the merchant "warrants that it has the right to sell the product it sells." Compl. ¶ 19 (Pet. App. 123a-124a). When MasterCard or Visa "learns of a merchant engaged in illegal, fraudulent, or otherwise improper business practices, their own regulations require them to cause member banks to investigate and, depending on the nature of the misconduct, terminate the merchants from the Visa and MasterCard systems." Compl. ¶ 20 (Pet. App. 124a).

Moreover, respondents' agreements give them "the right . . . to suspend merchants from the Visa and MasterCard systems, or to exclude them altogether." Compl. ¶ 21 (Pet. App. 124a-125a). Among the grounds for suspension or exclusion is that merchants have engaged in illegal transactions or sell illegal products or services. Compl. ¶ 22 (Pet. App. 125a).

Respondents "frequently exercise" these contractual rights. Compl. ¶ 21 (Pet. App. 124a-125a). Among other things, respondents refuse to process payments from sites that offer child pornography. And federal law bars respondents from processing payments stemming from illegal Internet gambling. 31 U.S.C. § 5364.[1]

3. The instant case arises out of petitioner Perfect 10's request that respondents cease their support of these known pirate websites. Perfect 10 operates the website perfect10.com and previously published Perfect 10 Magazine, which was forced to cease publication due to massive infringement. Perfect 10 has spent millions of dollars to create and acquire the copyrights for thousands of photographs of models and actresses, which are made available on its website for a subscription fee. Perfect 10 owns the registered trademark "Perfect 10" in connection with these goods and services. Perfect 10 Magazine has been featured on many television and radio shows, including the Tonight Show, The Sopranos, and Monday Night Football. Compl. ¶ 55 (Pet. App. 136a).

Perfect 10's copyrighted photographs are of high quality and are in great demand. As a result,

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[1] In addition, in 2002 the New York Attorney General reached a settlement of potential enforcement actions against financial institutions in which they agreed to "block cardholders from using their credit cards for transactions identified as online gambling." *See* Press Release, Office of the New York Attorney General, *Spitzer Hails Establishment of New Banking Industry Standard* (Feb. 11, 2003), *available at* http://www.oag.state.ny.us/press/2003/feb/feb11b_03.html.

virtually all of them have been unlawfully expropriated by cyberthieves around the world and are being offered for sale on pirate websites. Petitioner repeatedly notified respondents that specific pirate websites with which they are doing business are engaged in massive infringement, and asked respondents to exercise their contractual rights to stop providing credit card services to these websites.

As the Ninth Circuit recognized, respondents "took no action in response to the[se] notices." Pet. App. 2a-3a. To the contrary, despite the clear notice to respondents identifying specific infringing websites and infringing sales, respondents continue to process payments to pirate websites devoted to the illegal sale of billions of dollars of copyrighted content, and they consistently refuse to exercise their broad rights of suspension or exclusion. Compl. ¶¶ 31, 38, 74-79 (Pet. App. 127a, 131a, 141a-143a).

The reason for this is plain enough: respondents receive substantial fees from the unlawful sale of copyrighted content. They receive a percentage of every infringing sale, thus assuming a direct stake in the success of the pirate website operators. And they charge these enterprises higher fees than other merchants pay for the same services. Compl. ¶ 34 (Pet. App. 128a); ER 106-08.

B. Proceedings Below.

1. Petitioner filed this action in the United States District Court for the Northern District of California, alleging that respondents were liable for

contributory and vicarious copyright infringement for their active provision of payment services to – and receipt of substantial fees from – websites they knew to be selling stolen copies of petitioner's copyrighted material. The district court granted respondents' motion to dismiss Perfect 10's complaint, and Perfect 10 appealed.

2. A sharply divided Ninth Circuit panel affirmed. From the outset, Judge Milan Smith (joined by Judge Reinhardt) made clear that policy concerns would drive the majority's analysis. Thus, purporting to discover "the policy of the United States," the majority stated that it would "evaluate Perfect 10's claims with an awareness that credit cards serve as the primary engine of electronic commerce," and it asserted that Congress sought "to preserve the vibrant and competitive free market that presently exists for the Internet and other interactive computer services." Pet. App. 6a (citing 47 U.S.C. § 230(b)(1) & (2)).

Turning from policy to law, the majority held first that respondents were not liable for contributory infringement, which requires a showing that the defendant, "with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another." *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (footnote omitted). The majority acknowledged that respondents had the requisite level of knowledge. Pet. App. 2a-3a ("Perfect 10 alleges that it sent [respondents] repeated notices specifically identifying infringing websites and informing [respondents] that some of their consumers use their payment cards to purchase infringing images. [Respondents] admit receiving some of these notices, but they took no action in response to the notices after receiving them."). And the majority recognized that respondents' credit card systems "make it easier for . . . infringement to be profitable, and that they therefore have the effect of increasing such infringement." *Id.* at 13a. The majority concluded nevertheless that respondents did not materially contribute to the infringement, for two reasons.

First, conjecturing that the website operators "might develop other payment mechanisms that do not depend on the credit card companies," the majority concluded that "other viable funding mechanisms are available" and thus, hypothetically, "infringement of Perfect 10's copyrights can occur without using [respondents'] payment system." Pet. App. 12a-13a. Second, even if the removal of credit cards would "undermine [the pirate websites'] commercial viability," the credit card companies still had "no direct connection" to the infringement because the relevant infringement consisted of "reproduction, alteration, display and distribution," all of which "can occur without payment." *Id.* at 10a, 19a.

The majority also held that petitioner had failed to state a claim for vicarious infringement, which exists when a defendant "is profiting from direct infringement while declining to exercise a right to stop or limit it." *MGM Studios, Inc. v. Grokster,* 545 U.S. 913, 930 (2005). The majority's holding did not rest on the absence of financial benefit. In fact, as

Judge Kozinski stated, "[t]here is no doubt that [respondents] profit from the infringing activity of the Stolen Content Websites; after all, they take a cut of virtually every sale of pirated material. … The majority does not dispute this point . . . ." Pet. App. 56a. Instead, the majority held, as a matter of law, that petitioner had failed to plead that respondents had sufficient ability to stop or limit the infringing activity. The majority recognized that the credit card companies' rules "permit them to require member merchants to cease illegal activity – presumably including copyright infringement – as a condition to their continuing right to receive credit card payments." *Id.* at 28a. The majority also recognized that respondents' contracts with the pirates "give [respondents] some measure of control over the offending websites since it is reasonable to believe that fear of losing access to credit card payment processing services would be a sufficient incentive for at least some website operators to comply with a content-based suggestion from [respondents]," and that respondents had sufficient knowledge of infringing activity that they "could have stopped processing credit card payments to the infringing sites." *Id.* at 25a, 29a. The majority concluded, however, that respondents' practical ability to control the websites by exerting financial pressure – in accordance with their contractual rights – could not establish the necessary power to stop or limit infringement. *Id.* at 31a-33a & n.17.

Judge Kozinski dissented. He concluded that the credit card companies engage in "active participation in infringing conduct" by "knowingly provid[ing] a financial bridge between buyers and sellers of pirated works, enabling them to consummate infringing transactions, while making a profit on every sale." Pet. App. 43a. The majority's contrary conclusion, Judge Kozinski asserted, "leaves our law in disarray," makes "very new – and very bad – law," and "will prove to be no end of trouble." *Id.* at 44a, 51a, 75a.

With respect to contributory infringement, Judge Kozinski took issue with the majority's contention that there was "no direct connection" between the credit card companies and the infringement. Noting that the credit card companies "participate in every credit card sale of pirated images," and that "the images are delivered only after respondents approve the transaction and process the payment," Judge Kozinski concluded that "[t]his is not just an economic incentive for infringement; it's an essential step in the infringement process." Pet. App. 45a. Judge Kozinski criticized the majority's principal response, namely, its effort to "dismiss[] the significance of credit cards by arguing that 'infringement could continue on a large scale [without them] because other viable funding mechanisms are available.'" *Id.* at 47a. He noted that the majority's "'other viable . . . mechanisms' test" conflicts with "every other material assistance case that I know of." *Id.* at 49a.

Judge Kozinski similarly rejected the majority's effort to argue that "helping an infringer get paid cannot materially assist infringement because the actual process of infringement – 'reproduction, alteration, display and distribution' – does not include payment." Pet. App. 51a. Among other things, as Judge Kozinski noted, Perfect 10 alleged that the websites were infringing petitioner's right, under Section 106(3) of the Copyright Act, of distribution "by sale," and "[i]t's not possible to distribute by sale without receiving compensation, so payment is in fact part of the infringement process." *Id.*

Turning to vicarious liability, Judge Kozinski concluded that respondents "have a right to stop or limit the infringing activity, a right they have refused to exercise." Pet. App. 56a. As Judge Kozinski noted, respondents "have the authority, given to them by contract, to force the Stolen Content Websites to remove infringing images from their inventory as a condition for using [respondents'] payment systems." *Id.* at 57a. That infringement might continue by other means was irrelevant. Invoking the paradigm "dance hall" cases (which the majority had dismissed as irrelevant to Internet-based infringement, *id.* at 13a-14a & n.9), Judge Kozinski stated:

> [T]here is no case involving secondary infringement, going back to the dance hall cases of the last century, where the secondary infringer's refusal to do business with the direct infringer could have stopped infringement altogether and forever. Yet courts have presumed that removing the particular means of infringement challenged in each case would make direct infringement more difficult and thereby diminish the scale of infringing activity.

Id. at 58a. Here, "[e]ven if the pirates could find an alternative way of plying their illegal trade, being denied their preferred means of doing business would sharply curtail their unlawful activities." *Id.* at 59a. Nothing more is required.

Finally, Judge Kozinski addressed the majority's effort to bolster its analysis by divining the "policy of the United States":

> I am aware of no policy of the United States to encourage electronic commerce in stolen goods, illegal drugs or child pornography. When it comes to traffic in material that violates the Copyright Act, the policy of the United States is embedded in the FBI warning we see at the start of every lawfully purchased or rented video: Infringers are to be stopped and prosecuted. Preventing financial intermediaries from servicing such shady transactions is entirely consistent with that policy. … It does not serve the interests of a free market, or a free society, to abet marauders who pilfer the property of law-abiding, tax-paying rights holders, and who turn consumers into recipients of stolen property.

Pet. App. 73a-74a.

REASONS FOR GRANTING THE WRIT

As this Court knows, the Internet makes possible copyright infringement on a mind-boggling scale. In *MGM Studios Inc. v. Grokster, Ltd.*, the Court addressed one aspect of that infringement: the distribution of copies for free by individuals through so-called "peer-to-peer" networks. In *Grokster*, the Ninth Circuit had rewritten the rules of secondary liability to grant effective immunity to the operators of those networks and distributors of the software that created the networks. Recognizing the importance of the issue and the confusion the Ninth Circuit's decision had caused, this Court granted certiorari and reversed. The Court's decision reflected a keen appreciation that suing individuals who acquire infringing material is not a feasible means of combating such large-scale infringement, *see* 545 U.S. at 929-30, and it recognized that secondary liability plays a critical role in protecting intellectual property. Criticizing the Ninth Circuit for unduly limiting the scope of secondary liability, the Court in *Grokster* held unanimously that third parties can be liable for conduct undertaken with the object of inducing direct infringement. *See id.* at 933-37.

As in *Grokster*, the direct infringement here is egregious. The infringers are sophisticated entities that brazenly sell stolen material out of the reach of the United States and its courts. Yet the Ninth Circuit majority has once again sharply curtailed the law of secondary liability to deny copyright owners their previously well-settled right to sue entities that knowingly aid infringement, or that profit directly from infringement that they have the power to stop or limit.

The Ninth Circuit's drastic revision of the law of secondary copyright liability merits this Court's immediate attention. The decision below leaves the law of secondary liability "in disarray." Pet. App. 44a (Kozinski, J., dissenting). It sharply restricts the role of secondary liability and creates insuperable obstacles to combating infringement. It encroaches on the legislative function, based on a misunderstanding of the "policy of the United States." And it creates a set of restrictions that conflict with secondary liability cases from numerous other circuits. A great deal is at stake here for content owners, whose survival is at risk. Very little is at stake for the respondents, who could very easily stop or drastically limit the massive infringement by pirate websites that constitute only a tiny fraction of respondents' clientele and are already known to respondents. As Judge Kozinski put it, petitioner "is not asking for a huge change in the way credit cards do business; [it asks] only that [respondents] abide by their own rules and stop doing business with crooks." *Id.* at 74a-75a.

Because the Ninth Circuit is home to much of the entertainment industry and is thus a principal venue for important copyright litigation, the decision – like *Grokster* before it – is bound to wreak disproportionate havoc on federal copyright law. It also inflicts a crushing practical blow upon content owners by denying them the only realistic means at their disposal to shut down these pirate websites. This Court should therefore grant the petition.[2]

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[2] Perfect 10 also asserted claims for secondary trademark infringement, as well as various state law claims. In upholding the dismissal of these claims, the panel majority relied heavily

I. THIS CASE PRESENTS AN IMPORTANT QUESTION OF FEDERAL LAW THAT THIS COURT SHOULD SETTLE.

The Ninth Circuit held that respondents cannot as a matter of law be liable for contributory copyright infringement even though they have specific and detailed knowledge that they are providing services that enable pirate websites to perpetrate massive infringement, and even though their payment systems "make it easier [for pirates] to profit from th[e] infringing activity" and thus "have the effect of increasing [the] infringement." Pet. App. 13a. That is so, according to the Ninth Circuit, simply because the actual copying of infringing material does not take place on respondents' payment systems and could in theory occur without those systems.

Similarly, the Ninth Circuit held that respondents cannot be subject to vicarious liability, even though respondents profit directly (both by receiving a percentage of each infringing sale and by charging premium fees to known infringers), and even though respondents have – but decline to exercise – the contractual right "to require member merchants to cease illegal activity," including copyright infringement. Pet. App. 28a.

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on its reasoning with respect to the secondary copyright infringement claims. *See* Pet. App. 34a-36a, 39a n.20, 40a. For that reason, if this court grants the petition for a writ of certiorari and reverses the judgment below, it should remand for the court of appeals to reconsider *all* of Perfect 10's claims.

In both of these respects, the Ninth Circuit's decision represents a substantial and unwarranted revision of the law of secondary copyright liability, and directly threatens the viability of copyright in the digital age.

A. Federal law has long given copyright owners robust ways to combat infringement by suing secondary infringers.

Federal law has long provided an avenue for copyright owners to secure legal redress by suing entities other than direct infringers. *See Kalem Co. v. Harper Bros.*, 222 U.S. 55 (1911) (Holmes, J.). As the Court explained in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), secondary 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." *Id.* at 435. Secondary liability thereby furthers the "basic purposes" of the copyright laws to "stimulate artistic creativity for the general public good." *Id.* at 432 (internal quotation marks omitted).

Under that well-established law, which this Court reaffirmed in *Grokster*, a defendant is liable for contributory infringement when, "with knowledge of the infringing activity," he "induces, causes or materially contributes to the infringing conduct of another." *Gershwin*, 443 F.2d at 1162 (footnote omitted). And a defendant is subject to vicarious liability if the defendant is "profiting from direct infringement while declining to exercise a right to stop or limit it." *Grokster*, 545 U.S. at 930-31 (citing *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 307-08 (2d Cir. 1963)); *see also Sony*, 464 US. at 435 n.17, 437-39; *Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc.*, 256 F. Supp. 399, 403 n.9 (S.D.N.Y. 1966) (Weinfeld, J.).

These theories of secondary liability reflect the traditional tort principle of placing liability on "gatekeepers" who can most efficiently stop tortious activity. *See, e.g.*, *In re Aimster Copyright Litig.*, 334 F.3d 643, 645-46 (7th Cir. 2003) (Posner, J.); *see also* Jane C. Ginsburg, *Putting Cars on the "Information Superhighway*," 95 Colum. L. Rev. 1466, 1488 (1995); Tim Wu, *When Code Isn't Law*, 89 Va. L. Rev. 679, 711, 716-17 (2003). And courts have continued to recognize such "gatekeeper" liability even as new technologies change the nature and scope of both the underlying direct infringement and the assistance provided and control exercised by the secondary infringers. *See, e.g.*, *Grokster*, 535 U.S. at 929-32; *Aimster*, 334 F.3d at 654 (finding the dance hall cases relevant in the Internet context); *see also* Pet. App. 54a-55a & n.10 (Kozinski, J., dissenting) (same).

B. The Ninth Circuit has sharply departed from settled federal law.

1. The decision below has radically altered the legal landscape, severely restricting the availability of secondary liability in two significant respects.

First, with respect to contributory liability, the Ninth Circuit held that a defendant does not materially contribute to infringement when the relevant infringing activities – which the Ninth Circuit described as "reproduction, alteration, display and distribution" – "can occur" without the respondents' participation. Pet. App. 10a, 13a, 19a. Thus, for the panel majority, it is not enough that respondents' provision of payment services to known infringers *in fact* "make[s] it easier to profit from this infringing activity," that such services "have the effect of increasing such infringement," or even that respondents' refusal to process payments for the pirate websites would "undermine [the pirate websites'] commercial viability." *Id.* at 10a, 13a, 19a. Quite the contrary: because infringement could *theoretically* continue "without using [respondents'] payment system," according to the Ninth Circuit, "payment processing . . . does not constitute 'material contribution' under the test for contributory infringement." *Id.* at 13a; *see also id.* at 10a-11a ("[T]he issue here is reproduction, alteration, display and distribution, which can occur without payment. Even if infringing images were not paid for, there would still be infringement.").

Second, the Ninth Circuit held that a defendant cannot be vicariously liable for copyright infringement based on the defendant's "practical ability" to stop or limit the direct infringer's actions – for example, by exerting economic pressure. Pet. App. 31a n.17. And that is so even if that ability is ultimately grounded in contractual rights, *id.* at 28a-29a, and if exercising those rights would as a practical matter bring a complete halt to the sale of infringing material, *id.* at 31a & n.18.

That the Ninth Circuit did all of this at the Rule 12(b)(6) stage only confirms its opinion's sweep. As Judge Kozinski explained: "Accepting the truth of [petitioner's] allegations, as we must on a motion to dismiss, [respondents] are easily liable for indirect copyright infringement." Pet. App. 43a. That is because petitioner amply alleged that respondents "knowingly provide a financial bridge between buyers and sellers of pirated works, enabling them to consummate infringing transactions, while making a profit on every sale." *Id.*

2. The majority's holding that the respondents are insulated from secondary copyright liability as a matter of law because the infringement "can occur without" their conduct, Pet. App. 13a, eviscerates the law of contributory infringement. As Judge Kozinski observed, "infringement can always be carried out by other means; if the existence of alternatives were a defense to contributory infringement then there could never be a case of contributory infringement based on material assistance." *Id.* at 51a .

The crux of the panel majority's decision was its holding that "merely" providing a "method of payment" for infringing transactions cannot warrant liability for contributory infringement. Pet. App. 18a; *see id.* at 46a-47a (Kozinski, J., dissenting). But there is no principled basis to distinguish between providing known infringers with vital payment services, on the one hand, and providing them with services that the Ninth Circuit perceived as more directly linked to "reproduction" or "distribution," on the other. At the outset, the statute itself refutes the purported distinction: 17 U.S.C. § 106(3) explicitly grants copyright owners the exclusive right of distribution "by sale." Thus, under the statute, the sale of infringing material is itself part of the infringement – a fact belying any notion that payment services are intrinsically less blameworthy than other kinds of material assistance, or are otherwise outside the scope of material contribution.

Even more fundamentally, providing efficient payment services to known infringers obviously increases infringement because "people are generally more inclined to engage in an activity when it is financially profitable." Pet. App. 11a. And here, the commercial viability of the infringing websites depends on the payment services respondents provide, Compl. ¶¶ 7, 35, 38 (Pet. App. 120a, 128a-130a). To deny that payment services constitute material contribution when those services are the lifeblood of the known infringing operation is to turn the doctrine of secondary liability on its head. Judge Kozinski stated: "Defendants are directly involved in every infringing transaction where payment is made by credit card . . . . Credit cards don't provide some tangential service that marginally affects sales; they are the financial lifeblood of the Stolen Content Websites." Pet. App. 53a.

Outside the context of copyright law, the knowing provision of payment services and other financial support to wrongdoers falls well within the scope of traditional aiding-and-abetting liability, whether or not such services are strictly "necessary" for the wrongdoing to succeed. *See, e.g., Aetna Cas. & Sur. Co. v. Leahey Constr. Co.*, 219 F.3d 519, 537 (6th Cir. 2000) (holding that loan to wrongdoer provided "substantial assistance" regardless of whether the loan was a "necessary component" of the scheme); *see also United States v. $734,578.82 in Currency*, 286 F.3d 641, 649-50 (3d Cir. 2002); *United States v. Phibbs*, 999 F.2d 1053, 1074-75 (6th Cir. 1993); *United States v. Orozco-Prada*, 732 F.2d 1076, 1080 (2d Cir. 1984); *Lawyers Title Ins. Corp. v. United Am. Bank of Memphis*, 21 F. Supp. 2d 785, 798-801 (W.D. Tenn. 1998). As Judge Kozinski observed, "[i]f you lend money to a drug dealer knowing he will use it to finance a drug deal, you materially assist the transaction." Pet. App. 53a.

It is therefore not surprising that in the area of copyright infringement, too, courts have consistently imposed liability on defendants for the knowing provision of payment and other financial services that aid infringers, whether or not the defendant actually participates in reproducing or distributing the material. *See, e.g.*, *Columbia Pictures Indus., Inc. v. Redd Horne, Inc.*, 749 F.2d 154, 161 (3d Cir. 1984) (upholding liability for advertising, accounting, financial, and administrative services); *Screen Gems*, 256 F. Supp. at 404-05 (permitting liability for placing and broadcasting advertisements for infringing material).[3] What *is* surprising is the Ninth Circuit's departure from this established law.

3. The Ninth Circuit's revision of the law of vicarious liability is equally misguided. According to the panel majority, the exercise of contractual rights that provide the "practical ability" to stop or limit infringement cannot as a matter of law support a claim for vicarious infringement simply because the mechanism for stopping the infringement is a financial one. Pet. App. 31a-32a & n.17. Here, too, the Ninth Circuit placed payment services on an entirely different footing from other forms of conduct. But there is no reason to treat control by means of financial considerations differently from other forms of control. As Judge Kozinski observed, "[w]e live in a commercial world and economic incentives are often the strongest possible motivators . . . . In an economy marked by competition, financial pressure which raises costs or diminishes patronage can be a powerful weapon." *Id.* at 62a n.18.[4]

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[3] Of course, not every entity that somehow knowingly contributes to infringement will be liable. That is not because of categorical exclusions from the scope of liability, however, but because many contributions simply are not "material." And as Judge Kozinski recognized, "courts have shown themselves adept" at this kind of line-drawing. Pet. App. 53a-54a.

[4] In addition, *Grokster*'s "right to stop *or limit*" language, 545 U.S. at 930 (emphasis added), demonstrates that the "right" that a defendant must possess is something less than an "absolute right" to bring a halt to reproduction or distribution of infringing material. *Compare* Pet. App. 30a-31a & n.18.

C. The Ninth Circuit's decision encroaches on the legislative function.

The Ninth Circuit's decision also merits review because its wholesale revision of the law of secondary copyright liability impermissibly encroaches on the legislative function. For all practical purposes, the Ninth Circuit has created a categorical, statute-like immunity for financial institutions. And it has done so based on its own views about the "policy of the United States." Pet. App. 6a. Specifically, the majority sought to implement the "policy of the United States . . . (1) to promote the continued development of the Internet and other interactive computer services and other interactive media [and] (2) to preserve the vibrant and competitive free market that presently exists for the Internet and other interactive computer services, unfettered by Federal or State regulation." *Id.* at 6a (quoting 47 U.S.C. § 230(b)(1)-(2)) (alteration in original).

That endeavor was fundamentally mistaken. It is not the role of the courts to carve out industry-wide immunities from copyright law in light of their view of "the policy of the United States." And that is all the more so here, because Congress has not hesitated to act when policy considerations truly demand defenses to copyright liability. *See, e.g.*, Digital Millennium Copyright Act (DMCA), 17 U.S.C. § 512 (creating a set of defenses to protect Internet service providers against liability stemming from users' copyright infringement).

Moreover, the "policy" that the majority purported to discover is at odds with any reasonable understanding of the policy that Congress actually has set.

First, the statute the majority cited to support its policy analysis is not a piece of copyright- or trademark-related legislation at all, but is the Communications Decency Act of 1996. And the very same section that the Ninth Circuit quoted states (in language apparently overlooked by the majority) that "[n]othing in this section shall be construed to limit or expand any law pertaining to intellectual property." 47 U.S.C. § 230(e)(2). Thus, far from implementing the policies of § 230 of the Communications Decency Act, the Ninth Circuit directly violated them by construing § 230 to limit the reach of intellectual property law.

Second, the majority's apparent conclusion that holding credit card companies liable for their knowing assistance to illegal enterprises would cause "the engine of electronic commerce" to grind to a halt ignores that they *already* exercise their rights of exclusion and suspension to limit the provision of services to illegal enterprises. With respect to at least one category of such services – online gambling – Congress itself has recognized that the obligation not to promote discrete categories of known illegal activity does not unduly burden electronic commerce. *See* 31 U.S.C. § 5364 (requiring payment systems to take measures to block Internet gambling transactions).

Third, the majority's view that credit card companies merit absolute immunity is at odds with the Digital Millennium Copyright Act (DMCA). In that Act, Congress created a set of conditional defenses to protect Internet service providers (ISPs) from liability stemming from users' direct copyright infringement. *See* 17 U.S.C. § 512. To be sure, the DMCA reflected a broad goal of "facilitat[ing] the robust development and world-wide expansion of electronic commerce, communications, research, development, and education in the digital age." S. Rep. No. 105-190, at 1-2 (1998). But the DMCA did not broadly modify the scope of secondary liability for anyone engaged in electronic commerce. It provided only a focused set of protections for ISPs engaged in specific functions (essentially transmission, short-term storage, hosting, and linking). Even more to the point, the DMCA did not confer blanket immunity upon *anybody* (including credit card companies). Rather, eligible ISPs can take advantage of the statute's protections only if they cooperate in the protection of intellectual property by complying with notice and take-down provisions and maintaining policies for dealing with repeat infringers. That balanced approach is a far cry from the sweeping categorical immunity the Ninth Circuit majority created for financial institutions and credit card companies here.

Finally, the majority's policy analysis ignores the critical policies that both the Framers and Congress have sought to pursue through the protection for copyright. As Judge Kozinski put it, there is

> no policy of the United States to encourage electronic commerce in stolen goods, illegal drugs or child pornography. When it comes to traffic in material that violates the Copyright Act, the policy of the United States is embedded in the FBI warning we see at the start of every lawfully purchased or rented video: Infringers are to be stopped and prosecuted. Preventing financial intermediaries from servicing such shady transactions is entirely consistent with that policy.

Pet. App. 73a.

D. The Ninth Circuit's decision will have devastating consequences for the content industry.

The Ninth Circuit's decision erects nearly insurmountable obstacles to invoking secondary liability to combat infringement, thus allowing offshore pirate websites to flourish and threatening to make secondary copyright liability a dead letter. The decision thereby upends the "balance" between copyright owners' "legitimate demand for effective – and not merely symbolic – protection" and the rights of others to engage in "substantially unrelated areas of commerce," which this Court has said must be the hallmark of this area of the law. *Sony*, 464 U.S. at 442.

Take, for example, the majority's holding that material contribution does not exist if the infringement "can occur without" the respondents' payment system. Pet. App. 13a. As Judge Kozinski noted, "infringement can always be carried out by other means; if the existence of alternatives were a defense to contributory infringement then there could never be a case of contributory infringement based on material assistance." *Id.* at 51a.

The same is true regarding the Ninth Circuit's rule that a defendant's contractual right to suspend or terminate a merchant for known infringement does not constitute the requisite "right to stop or limit" infringement to support a vicarious liability claim. Pet. App. 28a-31a. According to the Ninth Circuit, it is not enough, as a matter of law, to show that a defendant has the power to make infringing activity unprofitable. For copyright owners, however, often the only realistic way to combat infringement is to strike at its commercial linchpin. And the Ninth Circuit's decision eliminates that option. As Judge Kozinski stated: "By holding that the legal right to exercise financial pressure is an insufficient basis for establishing vicarious infringement, my colleagues take a hasty and unwise step in the development of the law." Pet. App. 62a n.18.

What all of this means is that, in their battle against Internet piracy, copyright owners have been disarmed. Here, for instance, Perfect 10 asked respondents, which knowingly provide vital payment processing services to offshore infringing websites, to cease that support. They refused. The Ninth Circuit held, on a motion to dismiss, that these entities *cannot* be liable for contributory or vicarious infringement – thereby removing any incentive on their part to cooperate to reduce infringement. The Ninth Circuit's secondary liability rules thus leave offshore pirate websites and their massive infringement beyond the reach of U.S. law.

This Court has often granted certiorari to resolve issues involving the fundamental direction of copyright law, even absent a circuit conflict (which is present here, *see* Point II *infra*). It did so in *Sony-Betamax* and in other seminal copyright decisions, *see, e.g.*, *Teleprompter Corp. v. Columbia Broadcasting. Sys., Inc.*, 415 U.S. 394, 399 (1974); *Fortnightly Corp. v. United Artists Television, Inc.*, 392 U.S. 390, 393 (1968). The need for immediate review here is at least as pressing. The Ninth Circuit's ruling threatens not only petitioners' businesses, but also the very foundations of our copyright system in the digital era.

II. THE DECISION BELOW CONFLICTS WITH DECISIONS OF OTHER CIRCUITS.

In dramatically narrowing the scope of secondary copyright liability, the Ninth Circuit's decision is a stark departure from the law in other circuits. This conflict underscores the importance of the question presented and reinforces the need for review.

1. Regarding material contribution, the Ninth Circuit determined that a defendant is not liable if the known direct infringement "can occur without" the defendant's conduct. Pet. App. 10a, 13a. It also determined that "provid[ing] a method of payment" to known infringers, *id.* at 18a, is not material contribution. And, the Ninth Circuit has concluded

that a defendant's activities to "make infringement more profitable" do not constitute material contribution, because profitability is "an additional step in the causal chain." *Id.* at 11a-12a; *compare id.* at 45a-46a (Kozinski, J., dissenting) ("Materiality turns on how significantly the activity helps infringement, not on whether it's characterized as one step or two steps removed from it.").

That legal rule is directly at odds with the prevailing law in other circuits. Indeed, not only have other courts of appeals addressed contributory infringement claims without imposing restrictions like those the Ninth Circuit has now introduced, *see Gershwin*, 443 F.2d at 1159; *Columbia Pictures*, 749 F.2d at 160; *Bridgeport Music, Inc. v. Rhyme Syndicate Music*, 376 F.3d 615, 621 (6th Cir. 2004); *see also ALS Scan, Inc. v. RemarQ Communities, Inc.*, 239 F.3d 619, 622 n.1 (4th Cir. 2001) (dicta), those courts have repeatedly imposed liability even when the challenged assistance did not involve "reproduction, alteration, display and distribution," Pet. App. 10a, 19a, and even when the assistance functioned principally to make the infringement more profitable.

In *Columbia Pictures*, for example, the primary infringer had illegally screened copyrighted films in its stores for members of the public. The Third Circuit observed that the defendant charged with secondary infringement had "conducted all of the advertising and promotional work for [the primary infringer]. It also provided financial, accounting, and administrative services for [the primary infringer]." 749 F.2d at 161. The court had no trouble finding this conduct sufficient to establish secondary liability: "All of these services, and the advertising services in particular, contributed and, indeed, were essential to the copyright infringement." *Id.* Under the Ninth Circuit's reformulated material-contribution standards, though, the court could not have reached this conclusion. The infringement surely could have occurred without the defendant's advertising and promotional work, because the direct infringer could have used other mechanisms to draw people into the stores. And the defendant's financial and accounting services can only be understood as activities to "make infringement more profitable," which the Ninth Circuit has expressly deemed insufficient. Pet. App. 11a.

In re Aimster Copyright Litigation, 334 F.3d 643 (7th Cir. 2003), likewise conflicts with the decision below. In *Aimster*, the defendant created and distributed peer-to-peer software – similar to the software at issue in this Court's *Grokster* decision – that individual users employed to download copyrighted material. *See id.* at 646-47. While this Court resolved *Grokster* on an inducement theory, the Seventh Circuit in *Aimster* used a conventional contributory infringement theory to uphold the preliminary injunction. *See id.* at 647-53. But the direct infringement plainly could have occurred through other mechanisms. Most obviously, the Aimster service was only "one of a number" of file-sharing services. *Id.* at 645. In addition, a person seeking to reproduce copyrighted music could simply have borrowed the physical CD from a person who owned it. *Cf. id.* at 652 (noting the possibility that the Aimster software might legitimately substitute for loading one's own CD into a computer). Under the material-contribution standards articulated by the Ninth Circuit in this case, the existence of these "other viable . . . mechanisms" of infringement would have prevented liability. Pet. App. 47a (Kozinski, J., dissenting) (omission in original); *see id.* at 12a.

The Second Circuit's decision in *Gershwin* is to similar effect. In *Gershwin*, the defendant managed a group of musical artists. It also helped another organization promote and stage a concert where these artists violated the plaintiff's copyright. As part of the concert enterprise, the defendant printed and sold programs listing the songs to be performed. *See Gershwin*, 443 F.2d at 1160-61. On these facts, the Second Circuit upheld liability for contributory infringement. It explained: "[The defendant] created the . . . audience as a market for [the] artists. [The defendant's] pervasive participation in the formation and direction of this association and its programming of compositions presented amply support the district court's finding that it 'caused this copyright infringement.'" *Id.* at 1163 (citation omitted). In *Gershwin*, the defendant's activities to "create a market" were simply efforts to "make infringement more profitable." Pet. App. 11a. And there were certainly other mechanisms by which the infringement might have occurred: for instance, the artists might have performed the same songs in different venues, or to audiences that had been attracted in other ways.

2. The Ninth Circuit's reformulated standard for vicarious liability is similarly irreconcilable with the

law that prevails in other Circuits. The Ninth Circuit has now held, as a matter of law, that the "practical ability" to stop or limit known infringement through financial pressure, even when grounded in express contractual rights, does not establish the right and ability to supervise the infringement. Pet. App. 28a-31a & n.17. Likewise, the court has now determined that the ability to exercise those rights to completely halt the sale of infringing material is insufficient. *Id.* at 31a-32a & n.18. And the court has gone beyond the requirement of a "right and ability to supervise," demanding instead that the plaintiff show "direct[]" control over the infringing activity, *id.* at 26a, or a "direct role" in reproduction, alteration, or distribution, *id.* at 27a.

As with contributory infringement, other circuits have addressed vicarious liability claims without articulating restrictions like the Ninth Circuit's. *See Shapiro, Bernstein*, 316 F.2d at 307-08; *Gershwin*, 443 F.2d at 1162; *Nelson-Salabes, Inc. v. Morningside Dev., LLC*, 284 F.3d 505, 513 (4th Cir. 2002); *Bridgeport Music*, 376 F.3d at 621; *RCA/Ariola Int'l, Inc. v. Thomas & Grayston Co.*, 845 F.2d 773, 781-82 (8th Cir. 1988); *see also Hard Rock Café Licensing Corp. v. Concession Servs., Inc.*, 955F.2d 1143, 1150 (7th Cir. 1992) (dicta).

And again, the absence of such restrictions has been outcome-determinative. The Second Circuit's *Gershwin* decision upheld vicarious liability even though the defendant "*had no formal power to control* either the local association or the artists for whom it served as agent." 443 F.2d at 1163 (emphasis added). What was critical, the court held, was that "the local association depended upon [the defendant] for direction in matters such as this, that [the defendant] was in a position to police the infringing conduct of its artists, and that it derived substantial financial benefit from the actions of the primary infringers." *Id.* That holding cannot be squared with the Ninth Circuit's proclamation that vicarious liability requires "direct" control over the primary infringer's infringing activities, Pet. App. 26a, and it conflicts sharply with the Ninth Circuit's conclusion that the "practical ability" to limit infringement does not suffice. *Id.* at 30a-31a & n.17.

The result in *Shapiro, Bernstein*, too, conflicts with the Ninth Circuit's restrictions on the scope of vicarious liability. In that case, the direct infringer was a concessionaire operating the record department in the defendant's department store. The concessionaire manufactured bootleg records and sold them in the store. Although the store paid the concessionaire's employees' salaries out of the cash register proceeds, it "did not actively participate in the sale of the records." *Shapiro, Bernstein*, 316 F.2d at 306. The Second Circuit held the defendant liable, explaining: "[The defendant] has the power to police carefully the conduct of its concessionaire . . . ; our judgment will simply encourage it to do so, thus placing responsibility where it can and should be effectively exercised." *Id.* at 308. So while the defendant played no direct role in the reproduction or distribution of the infringing material, the Second Circuit still found it liable. *See* Pet. App. 26a-27a.

And in *RCA/Ariola*, the Eighth Circuit addressed a vicarious infringement claim against the manufacturer of audiotape copying machines placed in others' retail stores, where the retailers assisted customers in copying protected material. *See* 845 F.2d at 776-77. The manufacturer "require[d] compliance with the rules and regulations set out in [its] operation manual." *Id.* at 776. The court upheld liability not because the defendant retained title to the copiers, but "because it exercised control over the retailers' use of the machines by issuing directives on the use of the machines." *Id.* at 781. Here, too, the defendant did not play a "direct role" in reproduction or distribution, nor did it "direct[ly] control" the infringement." Pet. App. 26a-27a. Rather, the defendant merely "provid[ed] instructions for use" of the machines, 845 F.2d at 781 – which did not even include "directions on how to limit or prevent duplication of copyrighted material." *Id.* at 778.

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Websites outside the practical reach of copyright holders are illegally distributing virtually every kind of content imaginable, and the scope of the infringement is massive.[5] That infringement is possible, however, only because the websites have access to the payment services that respondents

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[5] One website, for instance, lists no fewer than *eighty-four* Russian or Ukrainian websites that offer MP3s for download – including mp3sparks.com, successor to the notorious allofmp3.com. *See The Russian Mp3 Download Sites*, http://www.squidoo.com/russianmp3sites (last visited January 31, 2008).

provide. As *Grokster* recognized, suing individual users is not a realistic way of fighting large-scale infringement. And here, it is not feasible to sue the pirates themselves, for they set up shop outside the United States and take other measures precisely to elude enforcement. In this context, it is an appropriate strategy – and the only viable strategy – to pursue the entities that knowingly provide the critical payment connection between the websites and their U.S. customers.

The Ninth Circuit has now placed those entities outside the law's reach. The result is that credit card companies such as respondents may continue to profit directly and handsomely from their assistance to the illegal endeavor, without any incentive to cooperate to stop or limit the known infringement. Internet piracy will inevitably worsen.

The harm from that situation is obvious. No rights-holder can compete with pirates selling its property – music, movies, pictures, or computer software – for a mere fraction of what it cost to produce. As this Court has recognized, "digital distribution of copyrighted material threatens copyright holders as never before." *Grokster,* 545 U.S. at 928. The Ninth Circuit's decision thus strikes a blow at the economic viability of the content industry, for reasons that are unsound as a matter of policy and incorrect as a matter of law. This Court's intervention is needed.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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