KING, HOLMES, PATERNO & BERLINER LLP
HOWARD E. KING, ESQ., STATE BAR NO. 077012
STEPHEN D. ROTHSCHILD, ESQ., STATE BAR NO. 132514
1900 AVENUE OF THE STARS, 25TH FLOOR
LOS ANGELES, CALIFORNIA 90067-4506
E-MAIL: ROTHSCHILD@KHPBLAW.COM
TELEPHONE: (310) 282-8989
FACSIMILE: (310) 282-8903

JEFFREY N. MAUSNER (State Bar No. 122385)
JOHN R. YATES (State Bar No. 120344)
BERMAN, MAUSNER & RESSER
11601 Wilshire Boulevard, Suite 600
Los Angeles, California 90025-1742
E-MAIL: JEFFMAUSNER@BMRLAW.COM
TELEPHONE: (310) 473-3333
FACSIMILE: (310) 473-8303

DANIEL J. COOPER (State Bar No. 198460)
General Counsel, Perfect 10, Inc.

Attorneys for Plaintiff PERFECT 10, INC.

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA - SAN FRANCISCO DIVISION

PERFECT 10, INC., a California corporation,, Plaintiff, vs. VISA INTERNATIONAL SERVICE ASSOCIATION; FIRST DATA CORP, a corporation; CARDSERVICE INTERNATIONAL, INC., a corporation; MASTERCARD INTERNATIONAL INCORPORATED, a corporation; HUMBOLDT BANK, a national banking association; and DOES 1 through 100, inclusive, Defendants.	CASE NO. C 04-00371 JW (PVT) [Assigned for all purposes to Judge James Ware] Action Commenced: January 28, 2004 **PLAINTIFF'S COMBINED OPPOSITION TO MOTIONS TO DISMISS; MEMORANDUM OF POINTS AND AUTHORITIES** Date: November 15, 2004 Time: 9:00 a.m. Ctrm: 8

Plaintiff Perfect 10, Inc. ("plaintiff" or "Perfect 10") respectfully submits the following memorandum of points and authorities in support of its combined opposition to the motions of (1) defendant Visa International Service Association, and (2) First Data Corp., Cardservice International, Inc., MasterCard International Incorporated, and Humboldt Bank, to dismiss Perfect 10's first amended complaint (the "FAC").

MEMORANDUM OF POINTS AND AUTHORITIES

I. INTRODUCTION

Each year, intellectual property worth billions of dollars is stolen by thieves who illegally copy movies, software, and images, including images owned by Perfect 10. The thieves generally operate from hidden locations around the world, unfindable and unserveable, able to operate anonymously only via the use of credit cards. This grand-scale theft cannot occur without the material help of middle men who, in exchange for a percentage of the sale proceeds of each specific transaction, make the distribution of the stolen material possible.

Dismissal of plaintiff's claims at the pleading stage would effectively be an endorsement of a public policy of absolving from any liability all middlemen who make the distribution of the stolen materials possible for a fee, whatever the extent and magnitude of their involvement. Adopting such a blanket approach would leave intellectual property holders, whether they be Microsoft, MGM Studios, or Perfect 10, with no practical recourse to enforce their property rights.

Critically, therefore, this case presents the question whether the financial middle men involved in this massive theft of intellectual property are automatically exempt from liability under any law, including the Copyright Act, despite well-founded allegations of their deliberate, knowing participation in the distribution of such stolen intellectual property.

A. Supervision and Material Contribution

Although defendants urge the Court to see them as akin to public utilities, this analogy bears little relationship to the truth. The differences between a utility and defendants are apparent at the most basic and obvious level. For example, utilities cannot refuse to provide service to anyone with an address and a deposit. In contrast, this is exactly what defendants have done to Perfect 10, as Perfect 10 has been denied the ability to accept VISA cards for its new websites. (FAC, ¶ 84).

Moreover, also unlike a utility, even before defendants "turn on the switch" and provide the thieves with their internet merchant accounts and processing services, all defendants exercise their right to supervise and control that internet merchant. For example, internet merchants are specifically required by each defendant's rules to comply with applicable law, their contractual obligations to defendants, and defendants' extensive rules and regulations. In addition to that overarching supervision, defendants also supervise individual consumer charges, deciding which ones to honor and which to reject. In the process, defendants create and retain records of each transaction, including the identity of the internet merchant and, therefore, the nature of the product or service being sold.

In addition to credit worthiness, defendants require internet merchants to warrant that their businesses do not violate any laws and that they have the right to sell their products. If those representations turn out to be false, defendants require internet merchants to pay penalties and to indemnify defendants against losses that flow from the illegality. Internet merchants must advertise defendants' logos on their websites. Merchants cannot change the type of business they do without defendants' express approval.

Only after internet merchants agree to comply with each of defendants' requirements do the VISA and MasterCard defendants allow licenses to be issued to participate in the Visa or MasterCard networks. Thereafter, all defendants monitor merchants, always reserving (but not always exercising) the right and ability to discontinue services or impose fines at any time for illegal business practices or rules violations. Then, defendants actively examine and affirmatively choose to honor or dishonor every single transaction presented to them.

Defendants know that, when they honor a charge, the direct and immediate result is that a product or service, or the right to receive it, passes from the merchant to the consumer. If defendants are on notice that the merchant's business consists of selling access to infringing images—which defendants herein concede they are for purposes of the instant motions--defendants know that each time they approve a charge they are participating in the publication of such images.

B. Applying the Ninth Circuit's Analysis in *Grokster* Establishes That Defendants Have Stated Claims for Relief

After this Court granted defendants' first motion to dismiss, the Ninth Circuit in *Grokster* clarified secondary liability for copyright infringement. In contrast to defendants' gloss, a thorough reading of *Grokster* and the cases upon which it relies establishes that plaintiff has alleged facts that show that defendants can and should be held legally accountable. Further, plaintiff's first amended complaint alleges additional facts that address each of the concerns this Court stated in its order granting the prior motion.

This Court has made it clear that it is inclined to dismiss this case, with prejudice. Plaintiff respectfully requests that the Court reconsider its views in light of *Grokster* and the new allegations, and deny the instant motion, in its entirety.

II. STATEMENT OF FACTS

A. The August 5, 2004 Order

In its order granting defendants' prior motion to dismiss ("the Order"), this Court identified the following issues with respect to plaintiff's claims for secondary copyright infringement against all defendants.[1]

1. Vicarious Infringement

The Order stated that plaintiff failed to allege facts sufficient to show the right and ability to control the infringing activities. The bases for the ruling were the Court's findings that (1) infringing websites could continue their alleged infringing conduct if defendants rescind their services; (2) defendants cannot dictate the websites' content; and (3) the websites are not bound by defendants' internal

[1] The Court raised the same or similar issues with respect to plaintiff's non-copyright claims. Those issues are addressed in the discussions of those and other claims at sections V and VI, below.

regulations because defendants have no "contractual right to dictate the websites' content" or to prevent the infringing conduct.[2]

2. Contributory Infringement

The Order stated that with respect to contributory infringement, plaintiff had to allege "a relationship between the financial services provided by defendants and the alleged infringing activity as opposed to the mere operation of the website business." The bases for the ruling were (1) defendants' services are "content neutral"; (2) defendants do not promote the websites; (3) defendants do not have content-specific regulations; (4) Stolen Content Websites can obtain credit card processing services elsewhere or accept alternate means of payment; and (5) defendants do not contribute to the copying and distribution of plaintiff's images.

B. Allegations of The Amended Complaint That Respond to the Order

Although the Order stated that defendants had no right and ability to dictate and/or control content, the Amended Complaint contains allegations contrary to this finding. Specifically, it states, "[p]ursuant to Visa and MasterCard rules and regulations, and to the contractual rights they insist upon, defendants direct merchants who accept their credit cards and who operate internet websites to alter or delete contents of those websites in order to comply with laws and/or Visa and MasterCard rules, regulations, and policies." (FAC, ¶ 20). Defendants also inspect websites (FAC, ¶ 26). Moreover, defendants use more subtle techniques to direct merchants to change their content, including confiscating any deposits or monies owed to webmasters, and terminating any automatic, periodic customer billings which webmasters would normally receive from their existing clients. (FAC ¶¶ 21, 22, 29).

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[2] The Court did find that plaintiff had alleged sufficiently that defendants receive a financial benefit from the infringing conduct.

Second, although the Order stated that infringing websites could continue their alleged infringing conduct if defendants rescinded their services, the FAC specifically alleges that the "Stolen Content Websites cannot exist without the knowledge and direct participation of the financial institutions that process the credit card transactions for such unlawful material … ." (FAC, ¶ 7). The reason Perfect 10 has made this allegation is that without the assistance defendants provide, the infringing activity would be devoid of any commercial viability, and the unlawful distribution of infringing content from Stolen Content Websites would disappear. For example, merchant banks (e.g., Humboldt) directly, and indirectly through intermediaries that they supervise and control, provide the infringing webmaster with a merchant account. Without the merchant account, the infringing webmaster would not be able to process any credit cards or electronic checks and would, as alleged in the FAC, be unable to exist. (FAC ¶¶ 7, 35).

Third, although the Order stated that, "[t]he allegedly infringing websites could employ intermediate payment services if defendants terminated their merchant accounts," this is not correct. In the FAC, plaintiff alleges that it cannot process Visa cards for its new website(s), whether through intermediate payment services or otherwise. (FAC, ¶ 84). Perfect 10 did not discover this until after it filed its original complaint. Furthermore, the Court's finding that "[t]he websites could also use alternate forms of payment such as personal checks, money orders, debit cards, or other credit card providers" is contrary to Perfect 10's allegation that "Stolen Content Websites cannot exist without the knowledge and direct participation of the financial institutions that process the credit card transactions for such unlawful material." (FAC, ¶ 7). It simply is not feasible for someone in the United States or Australia who wanted to access a website that was hosted in Bulgaria or Vanuatu to send a personal check to Bulgaria or Vanuatu and then wait several weeks to get a password after the check arrived and cleared a U.S. bank.

Fourth, although the Order stated that defendants' regulations are content-neutral, Perfect 10 has alleged that defendants have enacted, though not enforced, regulations specifically aimed at a specific genre of content—i.e., celebrity pornographic websites, which is where the vast majority of Perfect 10 infringements at issue in this case have been found. Through defendants' merchant agreements, those regulations are binding on Stolen Content Websites.

In addition to the foregoing, plaintiff incorporates the statement of facts in its opposition to defendants' prior motion to dismiss. The following identifies the allegations that pertain to right and ability to supervise and material contribution.

Each Stolen Content Website merchant has a contract with defendant First Data Corp. ("FDC") and/or defendant Cardservice International, Inc. ("CSI") (collectively, the "Acquirer(s).) Exhibit "1" to the FAC is a typical merchant agreement. (FAC, ¶ 16.) The Acquirers act as the agents of member banks, including defendant Humboldt Bank. (FAC, ¶ 12.) Therefore, references to "Acquirers" herein include Humboldt.

Each time a consumer presents a MasterCard or Visa to pay for stolen content, the Acquirer immediately presents that transaction to Visa or MasterCard. Visa and/or MasterCard examine the transaction and authorize or reject it.

(FAC, ¶ 10.) If they approve the transaction, the Acquirer then purchases it from the merchant at a discount. Since the process occurs electronically, the merchant receives the net proceeds immediately after defendants authorize the sale. (FAC, ¶ 11.) Visa and MasterCard receive a fee on each and every transaction. (FAC, ¶ 13.)

Visa and MasterCard administer their credit card networks, imposing rules and regulations on Acquirers and member banks, which the Acquirers enforce on behalf of the associations. Defendants prohibit the Acquirers from providing services to merchants engaged in illegal activity, require them to investigate merchants suspected of illegal activity, and require them to terminate merchants that they find are engaged in illegal activity. Visa and MasterCard also require

Acquirers to terminate merchants with excessive customer complaints of fraudulent, unauthorized or otherwise improper charges (something Stolen Content Websites are prone to). (FAC, ¶ 14.)

Acquirers enter into formal, written agreements with merchants, pursuant to which merchants gain access to the Visa and MasterCard networks. Acquirers impose many of the terms and conditions in the merchant agreements because Visa and MasterCard rules require them to do so. (FAC, ¶ 15.) Those merchant agreements include the following provisions:

1. Merchants have to accept all MasterCard and Visa charge cards presented to them. (FAC, Ex. 1, ¶ 1.01.)

2. Merchants have to display defendants' promotional materials with defendants' proprietary names and symbols, unless they are "expressly exempted" by Visa or MasterCard. (FAC, Ex. 1, ¶ 1.02.) Pursuant to the merchant agreements, merchants also have to allow defendants to use the merchants' names in defendants' advertisements and promotions. (FAC, ¶ 28.)

3. In a paragraph entitled "COMPLIANCE WITH LAW", defendants expressly require every merchant "to comply with all laws, ordinances and regulations applicable to" its business and to "warrant[] that it has the right to sell the products it sells and to use the names it uses." (FAC, Ex. 1, ¶ 3.01.)

4. Defendants direct Internet merchants to alter or delete contents of their websites in order to comply with laws and/or Visa and MasterCard rules, regulations and policies. (FAC, ¶ 20.)

5. When MasterCard or Visa learn a merchant is guilty of illegal, fraudulent, or otherwise improper business practices, their regulations require them to cause member banks to investigate and, depending on the nature of the misconduct, terminate the merchants. (*Id.*)

6. Defendants reserve the contractual right to terminate a merchant "immediately" if the merchant "violates any term, condition, covenant or warranty

of this Agreement." (FAC, ¶ 21, Ex. 1, ¶ 3.04(b).)

7. When defendants exclude merchants from their systems, Visa and MasterCard rules prohibit Acquirers and member banks from providing charge card processing services to that merchant, directly or indirectly through third party aggregators. (FAC, ¶ 22.)

8. Defendants require merchants to use defendants' preapproved forms in all credit card transactions. (FAC, ¶ 23, Ex. 1, ¶ 7.01.)

9. Defendants dictate what products and services a merchant sells. Merchants cannot sell different products without defendants' express pre-approval. (FAC, ¶ 24.) [3]

10. Defendants control the amount of credit card sales merchants make each month. Since defendants know that virtually all of the Stolen Content Websites' business is done through charge card payments, defendants knowingly expand the volume of illegal transactions in which the Stolen Content Websites engage each time defendants increase the volume limits of such websites. (FAC, ¶ 25.) Defendants also know that withdrawing their licenses would put the Stolen Content Websites out of business.

11. To obtain a license to participate in the Visa and MasterCard networks, defendants require internet merchants to establish that they are financially responsible and that their owner/operators have acceptable backgrounds and business practices. Defendants inspect each merchant's website, business premises, merchants' bank statements, tax returns, credit reports, and other private information. Based on reviews of Stolen Content Websites applying for merchant

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[3] Visa's discussion about Macy's and Pizza Hut, at page 11, note 5 of its motion, takes this allegation to an absurd level. A practical example of defendants' control is that a neighborhood shoe store would need approval to go into the pizza business. Another is that a website selling magazine subscriptions would need defendants' approval to sell the ability to download adult images.

accounts, defendants know when Stolen Content Websites maintain no physical presence in the United States in order to evade criminal and civil liability for their illegal conduct. (Id., ¶ 26.)

12. When merchants incur excessive chargebacks, defendants impose even more limitations and require even more detailed information about their businesses. (Id., ¶ 27.)

13. Defendants require questionable merchants, such as the Stolen Content Websites, to maintain substantial reserve accounts with Humboldt in order to secure potential losses as a result of their illegal business practices. (Id., ¶ 29.)

In addition to the foregoing, defendants have special rules and regulations that apply specifically to a special class of merchants that defendants have dubbed "High Risk Sponsored Merchants." Stolen Content Websites are High Risk Sponsored Merchants. (FAC, Ex. 3, pp. 6-8.) Third parties that defendants control, called Internet Payment Service Providers, submit charges for payments on behalf of High Risk Sponsored Merchants. (*Id.*) In addition to the transaction processing fees and high discount rates, Visa charges "High Risk" merchants an extra $500 to join the program, plus membership dues of $250 per year. (*Id.*, Ex. 3, p. 8.)

Defendants exert even more control over those Stolen Content Websites that feature "celebrity porn." The additional rules include the following:

> (1) Members known by Visa to be processing transactions for such websites will be required to confirm to Visa that any celebrity porn site merchant with whom they have a business relationship does not sell material that would cause the Member to violate Visa regulations prohibiting illegal transactions.
>
> (2) Members registering new celebrity porn site merchants will be required to provide Visa with documentation to demonstrate that the content sold at such websites will not cause the Member to violate Visa regulations that prohibit illegal transactions.
>
> (3) Members that have registered merchants whom Visa believes pose higher chargeback and financial risk (which include many adult-content websites) are required to validate the ownership of the sites.

Id., Ex. 3.

III. DEFENDANTS ARE VICARIOUSLY LIABLE BECAUSE THEY HAVE THE RIGHT AND ABILITY TO SUPERVISE INFRINGING WEBSITES

A variety of factors, not all of which must be present in each case, demonstrate the right and ability to supervise copyright infringers. In *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996), plaintiff stated a claim for vicarious infringement by alleging that defendant swap meet operator (1) controlled and patrolled the premises where vendors sold their infringing recordings; (2) had the ability to control the vendors because it had the right to terminate them for any reason; (3) promoted the swap meet; and (4) controlled customers' access.

In *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1023-1024 (9th Cir. 2001), defendant had (1) "the right to control access to its system," (2) the "right and ability to police its system," and (3) the ability to locate infringing material through its indexing system. In *UMG Recordings, Inc. v. Sinnott*, 300 F.Supp.2d 993 (C.D. Cal. 2004), defendant flea market owner (1) ran the flea market, (2) set its rules and regulations, (3) reserved the right to inspect merchandise and to refuse or cancel rentals, (4) restricted the type of merchandise sold, and (5) employed security guards to enforce the rules. Defendant's "security personnel can, and have, ejected both customers and vendors for violating these rules." *Id.*, at 995.

After this Court granted defendants' earlier motion to dismiss, the court in *Metro-Goldwin-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154 (9th Cir. 2004) held that distributors of peer-to-peer software who did not index infringing files were not secondarily liable for copyright infringement. The court used the examples of a dance hall operator and a landlord, also discussed in *Fonovisa*, to illustrate the difference between having the right and ability to supervise and not having it. Citing *Fonovisa*, 76 F.3d at 262, the court in *Grokster* held as follows:

Allocation of liability in vicarious copyright liability cases has developed from a historical distinction between the paradigmatic "dance hall operator" and "landlord" defendants. … The dance hall operator is liable, while the landlord escapes liability, because the dance hall operator has the right and ability to supervise infringing conduct while the landlord does not. … Thus, the "right and ability to supervise" describes a relationship between the defendant and the direct infringer.

The court then identified a number of "salient characteristics" of the right and ability to supervise which are often, but "not always" present. They are (1) "a formal licensing agreement between the defendant and the direct infringer," (2) the right to block access to users, (3) requiring users to register in order to access a system, (4) promoting the infringers, (5) the ability to block access to customers of the infringers, (6) the ability to control infringers through rules and regulations, and (7) maintenance of "central indices or files." (Id. at 1164-1165.) Each factor need not be present for there to be liability.

Defendants in *Grokster* did not have the right and ability to supervise the infringing parties because they (a) did not have formal licensing agreements with the infringers, (b) did not have the ability to block access to individual users, (c) did not require users to register with them, (d) did "not operate an integrated service … which they monitor and control," and (e) were completely decentralized. (Id. at 1165-1166.)

In contrast, defendants in the case at bar are analogous to, but have much more control than, dance hall operators, and have nothing in common with "a landlord who lack[s] knowledge of the infringing acts of its tenant and who exercised no control over the leased premises." See *Fonovisa*, 76 F.3d at 262. While a dance hall operator controls the activities in his dance hall, defendants control the dissemination and market for stolen materials worldwide. By eliminating a Stolen Content Website's ability to sell stolen materials via MasterCard or Visa cards, defendants can stop sales to the vast majority of the world's consumers. By terminating the Stolen Content website's merchant account, defendants can shut down sales of stolen materials almost completely. This level of control over the worldwide distribution of stolen materials dwarfs any similar control in other cases where liability was found. In this case, defendants have each of the "salient characteristic[s]" of the right and ability to supervise, including those that were absent in *Grokster*.

First, defendants' merchant agreement constitutes "a formal licensing agreement between the defendant and the direct infringer." (*Grokster*, 380 F.3d at 1164.) "The meaning of 'license' … is permission or authority to do a particular thing or exercise a particular privilege." *Galvan v. Superior Court*, 70 Cal.2d 851, 856 (1969). Acquirers, under the auspices of and pursuant to the rules and requirements imposed by MasterCard and Visa, grant merchants permission to exercise the privilege of accepting their credit cards.

Second, defendants have "an express policy reserving the right to block infringers' access," including for the illegal conduct alleged in the FAC. (FAC, ¶¶ 20, 21, Ex. 1, ¶ 3.04(b); see *Grokster*, 380 F.3d at 1165.)

Third, defendants' merchant agreements serve the same function as the registrations referenced in the cases, although they also impose control in many other respects.

Fourth, defendants require merchants to display their logos in order to promote use of defendants' credit cards in order to increase sales volume and thereby increase defendants' revenue.

Fifth, defendants have the ability to block customers' access by declining their charges, which effectively eliminates most of the worldwide market for the stolen materials.

Sixth, defendants have the ability to confiscate money owed to "Stolen Content" webmasters, and to prevent "Stolen Content" webmasters from processing rebills on existing accounts, which is a major portion of the "Stolen Content" webmaster's business. For example, if a Stolen Content webmaster has 2,000 members who each pay $30 a month, the webmaster would receive $60,000 a month in rebills, which would immediately stop if defendants terminated their services. This type of stranglehold over the infringer's business was not present in any of the other cases where liability was found.

Seventh, defendants control merchants through their "rules and regulations".

Finally, defendants maintain records of all transactions, both those between merchants and customers and those between merchants and defendants. Since for purposes of the instant motion defendants do not dispute that they have notice of the Stolen Content Websites' illegal sales, defendants know from their records of a Stolen Content Website's charges each time an illegal transaction occurs.

Defendants' reliance on the district court's opinion in *Adobe Systems Incorporated v. Canus Productions, Inc.*, 173 F.Supp.2d 1044 (C.D. Cal. 2001), is misplaced. First, that case had survived the pleading stage and the court was ruling on a motion for summary judgment. Second, the court denied summary judgment because there were questions of fact as to whether defendant computer fair operator had the right and ability to supervise vendors. Specifically, the court found questions of fact as to whether defendant had enough security personnel to exert control and whether the small number of defendant's security personnel were capable of locating and recognizing infringing products.

In the case at bar, plaintiff has alleged that defendants employ specific measures to assure their control over merchants and their ability to locate products that merchants have no right to sell. Plaintiff has alleged that defendants impose a web of rules and regulations on merchants, that defendants inspect merchants and their websites as a matter of course, and that defendants are aware of each and every infringing transaction. Indeed, defendants' acceptance of a charge serves the function of a switch that immediately opens the gate for publication of the infringing material. Plaintiff has alleged more facts showing defendants' right and ability to supervise than were present in any of the cases where courts found that defendants were or could be found vicariously liable for copyright infringement. That is not surprising in view of the strict control that defendants exert over merchants and consumers.

Finally, although Stolen Content Websites would not be able to find alternative processing if defendants used their right and ability to enforce their rules evenhandedly, whether infringing merchants can obtain charge card processing elsewhere is a red herring. Vendors in *Fonovisa* could find other swap meets. The kids who used Napster now use *Grokster*. The issue in this motion is defendants' relationship with the infringing merchants, not speculation about the existence of potential relationships with third parties.

In the Order, this Court suggested that, since Perfect 10 was able to obtain processing after defendants put it on the black list, therefore Stolen Content Websites could also obtain processing elsewhere, somehow reducing the materiality of defendants' contributions. First, as previously discussed, defendants have severely curtailed Perfect 10's ability to obtain processing, so that Perfect 10 cannot accept Visa cards on new websites. Second, even if it were relevant, which it is not, whether Stolen Content Websites could obtain processing elsewhere is a question of fact not appropriate for a Rule 12(b)(6) motion. Whether merchants that defendants terminate because their businesses consist wholly of illegal transactions could obtain processing is a question of fact, not a question of law. Accordingly, plaintiff has alleged facts sufficient to state a claim for vicarious copyright infringement.

IV. PLAINTIFF HAS STATED A CLAIM FOR CONTRIBUTORY COPYRIGHT INFRINGEMENT

Perfect 10 has alleged that "Stolen Content Websites cannot exist without the knowledge and direct participation of the financial institutions that process the credit card transactions for such unlawful material" (FAC, ¶ 7).

Defendants' financial support effectively eliminates the need for any physical "site and facilities". Solely due to defendants' support, Stolen Content Websites need only a computer to operate, and can do so from any location in the world, effectively immunizing them from civil liability. Indeed, defendants' involvement is tantamount to a virtual "site and facilities" contribution. Defendants record each transaction and are the virtual conduit for each transaction. Defendants provide the financial forum for the infringements.

In addition, defendants have the right and ability to terminate or suspend merchants and their customers. Nor are defendants' services content neutral, because defendants evaluate each merchant based, among other things, on the legality of the enterprise. Plaintiff has alleged that the infringing websites could not survive without the ability to accept credit cards in payment of their illegal transactions. Whether that is true is a question of fact.

The *Grokster* court was clear that providing "site and facilities" is not the only indicia of liability. See *Grokster*, 380 F.3d at 1163 (material contribution requires provision of "'site and facilities' for infringement, and/or otherwise materially contributing to direct infringement." (Emphasis added.) An example of a non-"site and facilities" case in which the court found secondary liability for copyright infringement is *A & M Records, Inc. v. General Audio Video Cassettes, Inc*., 948 F.Supp. 1449 (C.D. Cal. 1996). In that case the court held a defendant that sold blank audio tapes knowing that the buyers intended to use them to illegally copy copyrighted material materially contributed to the infringement because defendant's contribution to the infringement was "at least as significant as the contribution made by the swap meet in *Fonovisa*." (*Id.*, 1456)

Defendants' material contribution in the case at bar vastly exceeds that present in other cases where liability was found because without defendants' provision of a merchant account and the ability to process MasterCard and Visa cards, infringers would not be able to function viably in any location. In the site and facilities cases defendants only provided vehicles for infringement. Here, defendants control, are "virtually present" at, and pass on the validity of, each individual transaction. As previously stated, no court has held that a defendant must be the only means of support available to materially contribute, and even if that were the criteria, whether websites could obtain processing elsewhere is a question of fact. Nevertheless, without defendants' provision of a merchant account and ability to process MasterCard and Visa charges, the vast preponderance of infringers would lose their ability to sell to most consumers worldwide.

Plaintiff's allegations of material contribution (knowledge is already conceded for purposes of this Motion) fall comfortably within the parameters of the other cases in this Circuit in which secondary infringement has been found.

V. PLAINTIFF HAS ALLEGED FACTS SUFFICIENT TO STATE CLAIMS FOR TRADEMARK INFRINGEMENT

A. Contributory Trademark Infringement

A defendant is liable for contributory trademark infringement if it "(1) intentionally induces another to infringe on a trademark or (2) continues to supply a product knowing that the recipient is using the product to engage in trademark infringement." *Fonovisa v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996) (emphasis added). Defendants are liable under both of these standards for the same reasons that they are secondarily liable for copyright infringement.

Defendants knowingly induce the Stolen Content Websites to infringe plaintiff's trademarks. Indeed, defendants provide the ultimate inducement: payment for products and services. The Acquirers actually purchase individually from the websites every credit card charge of stolen material. (FAC, ¶ 9.) Therefore, the Acquirers provide the Stolen Content Websites with a direct incentive for each sale. Since defendants fund the websites, defendants provide the financial incentive for the websites' operations.

Defendants also satisfy the alternative test for liability. Defendants do not dispute that they are on notice that the Stolen Content Websites' use their product, charge card transactional services, to infringe plaintiff's trademarks. Moreover, defendants do not merely provide the ability to accept credit cards. Defendants' contributions include licensing merchants to use an entire financial system. Defendants also monitor and apply strict regulations to each and every transaction, unilaterally deciding which ones to decline and which ones to accept.

B. Vicarious Trademark Infringement

Plaintiff has also alleged facts sufficient to state a claim for vicarious trademark infringement, because defendants and the Stolen Content Websites "have an apparent or actual partnership, having authority to bind one another in transactions with third parties or exercise joint … control over the infringing product." *Hard Rock Café Licensing Corp. v. Concession Services, Inc.*, 955 F.2d 1143, 1150 (9th Cir. 1992). Defendants and the websites are in a symbiotic financial partnership pursuant to which the websites operate their businesses according to defendants' rules and regulations and defendants share the profits, transaction by transaction.

Defendants and the websites have authority to bind each other in transactions with third parties. When defendants accept a charge, their agreement with the websites binds them to process the charge and to cause the consumer's account to be debited. Defendants' acceptance of a charge binds merchants to provide promised products to third parties. It also requires merchants to adhere to the charge back system, pursuant to which merchants must refund fraudulent or otherwise improper charges. Accordingly, plaintiff has stated claims for contributory and vicarious trademark infringement.

VI. PLAINTIFF HAS ALLEGED FACTS SUFFICIENT TO STATE ITS REMAINING CLAIMS

A. Rights of Publicity

Defendants aid and abet Stolen Content Websites' theft of plaintiff's rights of publicity for the same reasons that they are liable for vicarious and contributory copyright infringement. As set forth above, defendants "affirmatively participate" in the websites' overall business and in each individual charge transaction. *Emery v. Visa International Service Association*, 95 Cal.App.4th 952, 962.

Defendants' participation includes, but is not limited to, that they require websites to warrant the legality of their products; defendants require websites to follow defendants' rules and regulations; defendants review websites and their business practices; defendants set volume limits and, therefore, the amount of business a website may conduct; defendants monitor what products merchants can and cannot sell; and defendants require Stolen Content Websites to maintain substantial reserve accounts. Accordingly, plaintiff has alleged facts sufficient to state a claim for violation of the right of publicity.

B. Unfair Competition and False Advertising

Defendants are liable for unfair competition under California Business and Professions Code section 17200, et seq. because they participate directly in the Stolen Content Websites' illegal activity and aid and abet that activity. As set forth more fully above, defendants are virtually present at and directly involved in each and every transaction. When they accept a transaction, they knowingly open the gate for the websites' publication of stolen material. Defendants aid and abet the activity by providing the financial services, and imposing the myriad of attendant rules and regulations, that allow the websites to survive. Therefore, the FAC alleges facts sufficient to state claims for unfair competition and false advertising.

VII. CONCLUSION

For each of the foregoing reasons plaintiff respectfully requests that this Court deny the instant motion, in its entirety.

DATED: October 18, 2004 KING, HOLMES, PATERNO & BERLINER, LLP

By: ______________________________
STEPHEN D. ROTHSCHILD
Attorneys for Plaintiff PERFECT 10, INC.

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