517 F.3d 1137, 2008-1 Trade Cases P 76,091, 2008 Copr.L.Dec. P 29,529, RICO Bus.Disp.Guide 11,446, 86 U.S.P.Q.2d 1065, 08 Cal. Daily Op. Serv. 2345, 2008 Daily Journal D.A.R. 2898
(Cite as: 517 F.3d 1137)

United States Court of Appeals,
Ninth Circuit.
SYBERSOUND RECORDS, INC., Plaintiff-Appellant,
v.
UAV CORPORATION, doing business as Karaoke Bay doing business as Sterling Entertainment; Madacy Entertainment LP, doing business as Karaoke Party; Audio Stream, Inc., doing business as Keynote Karaoke; Top Tunes, Inc.; Singing Machine Company, Inc.; BCI Eclipse Company, LLC; Amos Alter; David Alter; Edward Goetz; Dennis Norden; Frank Robertson; Douglas Vogt; Richard Vogt, Defendants-Appellees.

No. 06-55221.
Argued and Submitted Oct. 18, 2007.
Filed Feb. 27, 2008.

MILAN D. SMITH, JR., Circuit Judge:

Sybersound Records (Sybersound), a karaoke record producer, appeals the district court's judgment dismissing the first amended complaint (FAC) it filed against its competitors (collectively, Corporation Defendants), and their officers and employees (collectively, Individual Defendants). We affirm the judgment of the district court.

***1141** In this appeal, we determine whether a party lacking standing to bring a copyright infringement suit under the Copyright Act, but who complains of competitive injury stemming from acts of alleged infringement, may bring a Lanham Act claim, Racketeer Influenced and Corrupt Organizations Act (RICO) claim, or related state law unfair competition claims, whose successful prosecution would require the litigation of the underlying infringement claim. We hold that it cannot.

We also consider whether the transfer of an interest in a divisible copyright interest from a copyright co-owner to Sybersound, unaccompanied by a like transfer from the other copyright co-owners, can be an assignment or exclusive license that gives the transferee a co-ownership interest in the copyright. We hold that it cannot.

I. Factual Background

A. Copyright Compliance Statements

Sybersound and the Corporation Defendants are competitors that produce and sell karaoke records. They primarily sell to a group of distributors and retailers that resell these records to the public. This purchasing group (collectively, Customers) includes Anderson Merchandising, Handleman Entertainment Resources, Alliance Entertainment Corporation, Wal*Mart, KMart, Best Buy, Toys "R" Us, and Fry's Electronics.

According to Sybersound, to reproduce and distribute karaoke records, karaoke record producers must obtain karaoke synchronization licenses from each copyright holder with an interest in each song included on the record. The Customers require that the karaoke records they buy be 100% licensed. To comply with the Customers' policies, sellers of karaoke records must obtain copyright licenses from and pay fees and full royalties to each of the copyright owners. Some Customers have instituted measures to ensure compliance with their licensing requirements. For example, in 2003, Handleman required its vendors to sign an indemnification agreement in which each vendor "represents that it has all the appropriate and necessary licenses in order for Handleman to sell Vendor's merchandise to Handleman's customers." The following year, Handleman began requiring that each karaoke vendor annually provide a written certification that it has acquired karaoke licenses from each copyright holder and that "each such license is current, valid and paid in full to the date of the opinion letter." Similarly, Anderson requires its vendors to provide written documentation that its karaoke recordings are fully licensed and that vendors are accurately reporting sales and accounting for royalties.

Sybersound alleges that the Corporation Defendants misrepresent to the Customers that their karaoke records are 100% licensed and that all applicable royalties have been paid. Specifically, Sybersound alleges that its competitors claim to have all necessary licenses when they hold only compulsory licenses, licenses from less than 100% of the copy-

right holders, or no licenses at all. It further alleges that the Individual Defendants have, on various occasions, admitted that they intentionally failed to acquire the appropriate licenses for their karaoke recordings.

Sybersound also alleges that Madacy and Singing Machine use misleading labeling on their karaoke records which state, for example, that all songs are "used with permission" or that "The Singing Machine, The Leader in Home Karaoke, strictly adheres to all applicable music copyright and licensing laws."

Finally, Sybersound alleges that UAV and Madacy's licensing agent sent a letter to the Customers and publishers falsely claiming that Sybersound did not have karaoke-use***1142** licenses for many songs included in its recordings.

B. Sybersound's Copyright Infringement Claim

Sybersound also claims that UAV, Madacy, Audio Stream, Top Tunes, and BCI are infringing Sybersound's copyrights in several songs by producing karaoke records of these songs without obtaining a license from Sybersound or its copyright assignor, TVT Music Publishing (TVT). Sybersound claims to have acquired an ownership interest in these songs by entering into a written agreement with TVT, an original co-claimant [FN1] to the copyright of these songs. This written agreement allegedly made Sybersound an "exclusive assignee and licensee of TVT's copyrighted interests for purposes of karaoke use, and also the exclusive assignee of the right to sue to enforce the assigned copyright interest." According to Sybersound, the copyright holders of these songs had an understanding that each could license only his or her respective shares and that a duly authorized karaoke recording would require a written license from each.

> FN1. A copyright claimant is either the "author of the work," or the "person or organization that has obtained ownership of all rights under the copyright initially belonging to the author." 37 C.F.R. § 202.3(a)(3).

II. Procedural Background

Sybersound, along with six music publishing companies, filed a complaint against the Corporation Defendants, alleging copyright infringement, violation of the Lanham Act, intentional interference with prospective economic relations, unfair competition under California Business and Professions Code § 17200 et seq., common law unfair competition, unfair trade practices under California Business and Professions Code § 17000 et seq., and seeking rescission and an accounting. The district court severed the music publishing plaintiffs from the suit and dismissed the claims for rescission of licenses and an accounting without prejudice. The Corporation Defendants then filed motions to dismiss for failure to state a claim, pursuant to Federal Rule of Civil Procedure 12(b)(6). The district court granted these motions, dismissing the remaining claims with leave to amend.

Sybersound then filed a FAC that included most of the alleged causes of action pled in the original complaint, but also added claims against the Individual Defendants for violations of RICO, 18 U.S.C. § 1962(a), (c). The Corporation Defendants and the Individual Defendants (collectively, Defendants) filed motions to dismiss the FAC for failure to state a claim. The district court granted these motions, dismissing all claims with prejudice, and entered final judgment for the Defendants.[FN2] Sybersound timely appealed.

> FN2. Defendants Madacy, Amos Alter, and David Alter filed a motion to stay or dismiss the FAC based on international comity and forum non conveniens arguments. The district court denied this motion as moot.

III. Standard of Review and Jurisdiction

Dismissals for failure to state a claim are reviewed de novo. *Livid Holdings Ltd. v. Salomon Smith Barney, Inc.*, 416 F.3d 940, 946 (9th Cir.2005). Generally, the review is limited to the consideration of the complaint, and all allegations of material fact are construed in the light most favorable to the nonmoving party. *Id.* Dismissal is appropriate only where "it appears beyond doubt that the plaintiff can prove no set of facts in support of the claim entitling plaintiff to relief." *Id.* (citations omitted). "This court can affirm the district court's dismissal on any ground supported by the record, even if the district***1143** court did not rely on the ground." *Id.* at 950 (citations omitted).

We have jurisdiction under 28 U.S.C. § 1291.

* * * *

C. RICO Claims

1) Statutory Standing

RICO provides a private right of action for "[a]ny person injured in his business or property" by a RICO violation. ***1147**18 U.S.C. § 1964(c). Sybersound seeks relief pursuant to RICO statutes, 18 U.S.C. § 1962(a) and (c). 18 U.S.C. § 1962(a) prohibits a person who receives income derived from a pattern of racketeering activity from using or investing such income in an enterprise engaged in interstate commerce.[FN4] 18 U.S.C. § 1962(c) prohibits a person employed by or associated with any enterprise engaged in interstate commerce to conduct or participate in the conduct of the enterprise through a pattern of racketeering activity.[FN5]

FN4. Section 1962(a) states:

> It shall be unlawful for any person who has received any income derived, directly or indirectly, from a pattern of racketeering activity or through collection of a unlawful debt in which such person has participated as a principal within the meaning of section 2, title 18, United States Code to use or invest, directly or indirectly, any part of such income, or the proceeds of such income, in acquisition of any interest in, or the establishment or operation of, any enterprise which is engaged in, or the activities of which affect, interstate or foreign commerce.

FN5. Section 1962(c) states:

> It shall be unlawful for any person employed by or associated with any enterprise engaged in, or the activities of which affect, interstate or foreign commerce, to conduct or participate, directly or indirectly, in the conduct of such enterprise's affairs through a pattern of racketeering activity or collection of unlawful debt.

Sybersound alleges that some of the individual executives of the Corporation Defendants engaged in racketeering in violation of § 1962(c) by engaging in the predicate acts of criminal copyright infringement, mail fraud, and wire fraud. Specifically, it alleges that the Individual Defendants engaged in copyright infringement by copying and distributing karaoke records for which they lacked licenses and did not pay royalties, and further engaged in mail and wire fraud by representing to the Customers via mail or fax that they comply with the Customers' policies.[FN6] Sybersound also seeks recovery under § 1962(a), alleging that the Corporation Defendants invested the proceeds from these predicate acts to unfairly reduce prices to undercut their competitors. Sybersound contends that it has met the standing requirements under 18 U.S.C. § 1962(a) and (c) because it is a competitor that has been directly injured by the resulting undercutting of its prices.

FN6. Sybersound also alleged in the FAC that the letters sent by individuals at UAV and Madacy to Customers that falsely stated that Sybersound's karaoke records lacked the requisite licenses were acts of mail and wire fraud. Sybersound, however, failed to raise this argument in its brief, and we decline to reach the merits of this claim. *Smith v. Marsh,* 194 F.3d 1045, 1052 (9th Cir.1999).

In *Holmes v. Securities Investor Protection Corp.,* 503 U.S. 258, 267-68, 112 S.Ct. 1311, 117 L.Ed.2d 532 (1992), the Supreme Court held that Congress intended the statute conferring a private right of action under RICO, 18 U.S.C. § 1964(c), to include a proximate causation requirement because the relevant language in the RICO statute mirrored that of the civil-action portions of the federal antitrust laws. *Holmes,* 503 U.S. at 267-68, 112 S.Ct. 1311. It reasoned that at the time RICO was enacted, courts had interpreted the anti-trust provision to include a proximate causation requirement. *Id.* Because Congress is presumed to know how the federal courts interpret its statutes, the Supreme Court concluded that Congress intended that the courts read a similar proximate causation requirement into RICO. *Id.*

Following the Supreme Court's analysis in *Holmes,* this court formulated three non-exhaustive factors to determine whether the RICO proximate causation requirement has been met:

> ***1148** (1) whether there are more direct victims of the alleged wrongful conduct who can be counted on to vindicate the law as private attorneys general; (2) whether it will be difficult to ascertain the

> amount of the plaintiff's damages attributable to defendant's wrongful conduct; and (3) whether the courts will have to adopt complicated rules apportioning damages to obviate the risk of multiple recoveries.

Mendoza v. Zirkle Fruit Co., 301 F.3d 1163, 1168-69 (9th Cir.2002) (quotations and citation omitted). The district court dismissed Sybersound's RICO claim, reasoning that it had failed to overcome this proximate causation hurdle.

Sybersound argues that as a competitor injured by unlawful predicate acts, it is the quintessential RICO plaintiff that has suffered a direct injury. Furthermore, Sybersound claims that because of the small number of Customers involved, damages would not be difficult to ascertain because it can establish when it lost a contract to a competitor charging lower prices. It also claims that its injuries are separate and distinct from the injuries to the copyright holders, eliminating the risk of multiple recoveries.

The Supreme Court recently clarified the proximate causation requirement for a suit brought under § 1962(c), thereby foreclosing Sybersound's argument. *Anza v. Ideal Steel Supply Corp.*, 547 U.S. 451, 126 S.Ct. 1991, 164 L.Ed.2d 720 (2006).

In *Anza*, National Steel Supply (National) failed to charge New York sales tax to its cash-paying customers and submitted fraudulent tax returns, which allegedly allowed it to undercut Ideal Steel Supply Corporation's (Ideal) prices. *Id.* at 1994-95. Ideal brought suit under RICO, 18 U.S.C. § 1962(a) and (c). *Id.* at 1995. The district court granted National's Rule 12(b)(6) motion to dismiss for failure to state a claim. *Id.* at 1995. The Second Circuit vacated the district court's judgment, holding that the plaintiff has standing "even where the scheme depended on fraudulent communications directed to and relied on by a third party rather than the plaintiff." *Id.* The Supreme Court reversed, holding that the attenuated harm suffered by Ideal did not meet the directness requirement laid out in *Holmes* as to the § 1962(c) claim. *Id.* at 1996.

In reaching its conclusion, the Supreme Court considered the principles underlying the directness requirement. *Id.* at 1997-98. First, "[o]ne motivating principle is the difficulty that can arise when a court attempts to ascertain the damages caused by some remote action." *Id.* at 1997. The Supreme Court noted that defrauding the tax authority did not require National to lower prices, since lower prices may have resulted from, for example, a decision that "additional sales would justify a smaller profit margin." *Id.* Moreover, "Ideal's lost sales could have resulted from factors other than petitioner's alleged acts of fraud. Businesses lose and gain customers for many reasons...." *Id.*

Similarly in this case, the court would have to engage in a speculative and complicated analysis to determine what percentage of Sybersound's decreased sales, if any, were attributable to the Corporation Defendants' decision to lower their prices or a Customer's preference for a competitor's products over Sybersound's, instead of to acts of copyright infringement or mail and wire fraud. *See id.* This case would require an even more speculative analysis than *Anza* because Sybersound has more than one principal competitor.

[4] As noted by the Supreme Court,

> [t]he element of proximate causation recognized in *Holmes* is meant to prevent these types of intricate, uncertain inquiries from overrunning RICO litigation. It has particular resonance when ***1149** applied to claims brought by economic competitors, which, if left unchecked, could blur the line between RICO and the antitrust laws.

Id. at 1998. "When a court evaluates a RICO claim for proximate causation, the central question it must ask is whether the alleged violation led directly to plaintiff's injuries." *Id.*

Second, "[t]he requirement of direct causal connection is especially warranted where the immediate victims of an alleged RICO violation can be expected to vindicate the laws by pursuing their own claims." *Id.* at 1998. The Supreme Court noted that the direct victim, the state tax authority, could be expected to pursue National for its tax violations. *Id.* Here, as well, the more direct victims of the Corporation Defendants' alleged infringement actions, the copyright holders, can be expected to pursue their own claims. In fact, prior to the severing of their claims, six music publishers pursued their copyright infringement claims as part of this very action.

The third factor discussed in *Holmes* was the risk of multiple recoveries. *Holmes,* 503 U.S. at 269, 112 S.Ct. 1311. *Anza* makes clear, however, this is not a necessary condition for concluding that proximate cause is lacking. *See Anza,* 126 S.Ct. at 1997-98 (acknowledging that there was no appreciable risk of duplicative recoveries).

Following *Anza,* we hold that Sybersound cannot overcome the proximate causation hurdle to assert a RICO violation under § 1962(c).

2) Investment Injury

Sybersound has not alleged an investment injury separate and distinct from the injury flowing from the predicate act, as required for a RICO claim brought under § 1962(a).

In *Nugget Hydroelectric, L.P. v. Pacific Gas and Electric Co.,* 981 F.2d 429, 437 (9th Cir.1992), we held that a "plaintiff seeking civil damages for a violation of section 1962(a) must allege facts tending to show that he or she was injured by the use or investment of racketeering income." In this case, Sybersound must allege that the investment of racketeering income was the proximate cause of its injury. Reinvestment of proceeds from alleged racketeering activity back into the enterprise to continue its racketeering activity is insufficient to show proximate causation. *See Wagh v. Metris Direct, Inc.,* 363 F.3d 821, 829 (9th Cir.2003), *overruled on other grounds, Odom v. Microsoft Corp.,* 486 F.3d 541, 551 (9th Cir.2007) (en banc); *Westways World Travel v. AMR Corp.,* 182 F.Supp.2d 952, 960-61 (C.D.Cal.2001) (explaining that when racketeering is committed on behalf of a corporation, almost every racketeering act committed by a corporation would also result in a § 1962(a) violation because corporations generally reinvest their profits, eviscerating the distinction between § 1962(c) and (a)).

Sybersound argues that it meets § 1962(a)'s investment injury requirement because it is the direct victim of the use of proceeds generated by the predicate acts. Its competitors used the proceeds from their copyright infringements and mail fraud to undercut Sybersound's prices. Sybersound, however, has not alleged any injury separate and distinct from the injuries incurred from the predicate act itself.

Here, Sybersound's injury stems from the alleged copyright infringement. The purported infringement by the Corporation Defendants, not the income from the sale of pirated records, allegedly allowed the Corporation Defendants to undercut Sybersound's prices. Sybersound's reliance on *Simon v. Value Behavioral Health,* 208 F.3d 1073, 1083 (9th Cir.2000), ***1150** *overruled on other grounds, Odom,* 486 F.3d at 551, is unavailing. In that case, Value Behavioral Health fraudulently denied health benefit claims to patients and reinvested that income to build a group of preferred medical providers who undertook to eliminate outside providers. *Id.* The court, in dicta, noted that the victims of the investment were competitors who were driven out of business by the preferred providers. *Id.* There, the competitors in *Simon* would not have been injured by the predicate act of the fraudulent denial of health care benefits, but would have been directly injured by the reinvestment of the proceeds resulting from such denial. In contrast, Sybersound's competitive injury stems from the alleged copyright infringement for which it does not have statutory standing to bring a RICO claim.

Accordingly, we hold that the district court properly dismissed Sybersound's § 1962(a) and (c) RICO claims.

* * * *

V. Conclusion

For the foregoing reasons, the judgment of the district court is AFFIRMED.

C.A.9 (Cal.),2008.
Sybersound Records, Inc. v. UAV Corp.
517 F.3d 1137, 2008-1 Trade Cases P 76,091, 2008 Copr.L.Dec. P 29,529, RICO Bus.Disp.Guide 11,446, 86 U.S.P.Q.2d 1065, 08 Cal. Daily Op. Serv. 2345, 2008 Daily Journal D.A.R. 2898