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Piracy by Plastic: Why the Ninth Circuit Should Have Held Credit Cards Liable for Secondary Copyright Infringement

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PIRACY BY PLASTIC: WHY THE NINTH CIRCUIT SHOULD HAVE HELD CREDIT CARDS LIABLE FOR SECONDARY COPYRIGHT INFRINGEMENT

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I. INTRODUCTION

Copyright lawsuits are ubiquitous in the age of Napster² and its progeny.³ It almost seems as though everyone is either a victim or an aggressor in this war between the protection of ideas and the propagation of ideas. Plaintiffs are well-known to love deep pockets, but whose pockets can they reach? Copyright law provides two causes of action for imposing secondary liability on parties indirectly involved in infringing activities.⁴ Those who materially aid, induce, or cause copyright infringement by another may be held liable for contributory infringement

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² Napster, the popular Internet music file-sharing service, brought mainstream attention to online file-sharing before it was eventually brought to court. *See Napster, infra* notes 120-125 and accompanying text.

³ Those who keep up with the news are probably most aware of the RIAA (Recording Industry Association of America), an organization of music artists and publishers which gained recent notoriety as a highly litigious anti-piracy group.

⁴ *See infra* Part II, D and E, notes 60-136 and accompanying text.

of copyright.⁵ Those who profit from the infringement of another while possessing the power to stop or limit the infringer's activities may be held liable for vicarious infringement of copyright.⁶ Both forms of secondary liability have persisted through history, subtly adapting to a moving target: infringement aided by increasingly newer technology.⁷ Recent cases have already applied secondary copyright liability to piracy over the Internet;⁸ and now, the Ninth Circuit has addressed the issue of online piracy funding.⁹

In *Perfect 10 v. Visa*, adult entertainment publisher Perfect 10 ran an Internet website distributing copyrighted photos to paid subscribers.¹⁰ Other websites copied these photos without permission and offered the material for sale online.¹¹ Payment processing for these sales was handled by Visa and other defendants.¹² Perfect 10 notified the defendants of this infringing activity and requested that the offending sites be denied payment processing services.¹³ The defendants did not comply and Perfect 10 brought action for secondary copyright liability, among other claims.¹⁴ The trial court's dismissal was affirmed by the Ninth Circuit Court of Appeals, which held that Perfect 10 could not establish claims for contributory or vicarious infringement of copyright.¹⁵ In short, Visa escaped liability because it was not directly involved in the distribution or advertisement of the infringing materials; rather, it was only involved in financial transactions connected to the infringement.¹⁶

In this environment where every copyright holder seems to be looking for someone to sue, *Perfect 10* represents a major windfall for credit card companies. While financial processors operating on the Internet have fewer obligations than other online service providers, copyright holders are now denied a major avenue in enforcing their intellectual property interests.

This case note discusses the origins, reasoning, and impact of the *Perfect 10* decision. It argues that the Ninth Circuit's analysis of *Perfect 10* was based on flawed reasoning and misapplication of precedent, thereby creating an erroneous decision inconsistent with the law. Part II summarizes United States copyright law, the Digital Millennium Copyright Act, contributory copyright infringement, and vicarious copyright infringement.¹⁷ Part III describes the relevant facts of *Perfect 10* as well as its technological and economic contexts.¹⁸ Part IV examines the arguments and interplay between the majority and dissenting opinions of

⁵ See *Gershwin*, *infra* note 64 and accompanying text.

⁶ See *Shapiro*, *infra* notes 106-15 and accompanying text.

⁷ See *Gershwin*, *infra* note 64 and accompanying text.

⁸ See *Napster*, *infra* notes 120-25; *Grokster*, *infra* notes 88-96; *Amazon*, *infra* notes 126-36.

⁹ See *Perfect 10, Inc. v. Visa Int'l Serv. Ass'n*, 494 F.3d 788 (9th Cir. 2007).

¹⁰ *Id.* at 793.

¹¹ *Id.*

¹² *Id.*

¹³ *Id.*

¹⁴ *Id.*

¹⁵ *Perfect 10*, 494 F.3d at 792.

¹⁶ See *infra* note 195 and accompanying text.

¹⁷ See *infra* Part II, notes 22-136 and accompanying text.

¹⁸ See *infra* Part III, notes 137-172 and accompanying text.

Perfect 10.¹⁹ Part V presents the future implications of the *Perfect 10* decision.²⁰ The case note is concluded in Part VI.²¹

II. COPYRIGHTS AND SECONDARY LIABILITY

A. Copyright Law in the United States

A “creative work” is “the product of creative expression” ranging from blockbuster films to this very article.²² It is a fruit of labor; a creation similar to a handcrafted chair or a loaf of bread. And like these tangible goods, creative works carry value: real economic worth in their usefulness and other qualities. Yet, unlike other goods, the very nature of a creative work often allows its worth to easily be diluted. For instance, little effort is needed to reproduce another author’s text and distribute or sell it in place of the author. The original author, who expended the creative energy essential to bringing the work into being, receives less compensation and other benefit than would have been received had all distribution and sale been under the author’s control.²³ This creates a chilling effect on the creative process: a fear of wasted effort that discourages authorship of new works and potentially hinders intellectual progress. Hoping to avoid such pitfalls in their developing nation, the United States’ founding fathers took copyrights into serious concern.²⁴

Thus, the United States Constitution was drafted to include protection for this creative interest.²⁵ The Copyright Clause of the constitution grants Congress the power “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”²⁶ Acting on this authority, federal legislation has defined copyright protection and, over history, extended it.²⁷ The scope of copyright protection generally grants the copyright holder exclusive rights for a limited period²⁸ to reproduce the work, create derivative works based on the work,

¹⁹ See *infra* Part IV, notes 173-271 and accompanying text.

²⁰ See *infra* Part V, notes 272-296 and accompanying text.

²¹ See *infra* Part VI and p. 49.

²² BLACK’S LAW DICTIONARY 1637 (8th ed. 2004).

²³ It is not always solely a matter of losing money: fame and recognition for an author are also affected by unauthorized copying.

²⁴ Thomas A. Mitchell, Note, *Copyright, Congress, and Constitutionality: How the Digital Millennium Copyright Act Goes Too Far*, 79 NOTRE DAME L. REV. 2115, 2120-21 (2004).

²⁵ *Id.* at 2119.

²⁶ U.S. CONST. art I, § 8, cl. 8. In addition to being the basis for copyrights, this clause is also the basis for congressional regulation of patents. *Eldred v. Ashcroft*, 537 U.S. 186, 201 (2003). Copyrights and patents are not to be confused with trademarks, whose protection is targeted towards consumer identification of commercial items. 15 U.S.C. § 1127; see *infra* note 232.

²⁷ See BLACK’S LAW DICTIONARY 361 (8th ed. 2004). Federal copyright statutes reside within Title 17 of the United States Code. See, e.g., 17 U.S.C. § 106 (2000 & Supp. V 2005) (defining rights possessed by copyright holders); 17 U.S.C. § 501 (2000 & Supp. V 2005) (defining infringement of copyright); 17 U.S.C. § 107 (2000) (defining fair-use non-infringement); 17 U.S.C. § 1201-05 (2000) (addressing circumvention of anti-copying measures and other new technology issues in copyright).

²⁸ As copyright essentially creates a monopoly, the intent was to limit its duration. Hideaki Shirata,

transfer the work, display the work, and sell or lease the work.²⁹ Protection is given for “original works of authorship fixed in any tangible medium of expression,”³⁰ including pictures, video, music, audio recordings, literary text, and architecture.³¹ This protection affixes to qualified works at the moment of their creation; for published works, protection attaches at the time of publication.³² These rules apply nationwide—as of 1978, all state common law and statutes regarding copyright are preempted by federal laws.³³

B. Direct Infringement of Copyright

Under Title 17, a violation of any exclusive right granted by a copyrighted work constitutes an infringement of copyright by the violator.³⁴ In the event of an infringement, the copyright holder may sue the infringer subject to the normal rules of civil procedure.³⁵ The remedies available to the copyright holder include injunctions³⁶ and monetary damages, including the infringer’s profits.³⁷

However, after Justice Story’s storied opinion in *Folsom v. Marsh*, we have an exception to the rule: “fair use”³⁸ violations that don’t constitute infringement.³⁹ The doctrine has since been codified into Title 17, allowing the reproduction and derivative use of copyrighted materials for purposes like education, news, and parody.⁴⁰ Courts use four factors to determine whether a use of copyrighted material qualifies as fair use: “(1) the purpose and character of the use . . . ; (2) the nature of the copyrighted work; (3) the [relative] amount and substantiality of the portion used . . . ; and (4) the effect of the use upon the potential market for or value of the copyrighted work.”⁴¹ Works are thus qualified when they have

The Origin of Two American Copyright Theories: A Case of the Reception of English Law, 30 J. ARTS MGMT. L. & SOC’Y 193, 201 (2000). Generally, works created during or after 1978 are protected from the time of creation until seventy years past the author’s death. 17 U.S.C. § 302(a) (2000).

²⁹ 17 U.S.C. § 106. There is also an exclusive right to perform the work if the work is of a performable type (e.g., dramatic scripts, choreographies, and music). 17 U.S.C. § 106(4), (6). In addition to having exclusive rights to sell copies of a work, a copyright holder is allowed to transfer the copyright of the work itself, or a subset of those rights. 17 U.S.C. § 204 (2000).

³⁰ 17 U.S.C. § 102(a) (2000).

³¹ *Id.*; for an enumerated list, see 17 U.S.C. §§ 102(a)(1)-(8), 1301(a)(1)-(2) (2000). It is important to note that ideas themselves are *not* copyrighted—only their expression in a medium is. 17 U.S.C. § 102(b) (2000).

³² 17 U.S.C. § 104(a)-(b) (2000). Under the current statute, copyright protection requires no formal registration of a work, nor does it require marking the work with the omnipresent “©” or other copyright notice. However, works created prior to 1978 must be registered in accordance with older law. See 17 U.S.C. § 408 (2000 & Supp. V. 2005).

³³ 17 U.S.C. § 301(a) (“Rights within the general scope of copyright . . . are governed exclusively by this title. Thereafter, no person is entitled to any such right . . . under the common law or statutes of any State”).

³⁴ 17 U.S.C. § 501(a) (Supp. V 2005).

³⁵ 17 U.S.C. § 501(b) (2000).

³⁶ 17 U.S.C. § 502(a) (2000).

³⁷ 17 U.S.C. § 504 (2000 & Supp. V 2005).

³⁸ BLACK’S LAW DICTIONARY 634 (8th ed. 2004).

³⁹ *Folsom v. Marsh*, 9 F. Cas. 342, 348 (C.C.D. Mass. 1841).

⁴⁰ 17 U.S.C. § 107 (2000).

⁴¹ 17 U.S.C. § 107(1)-(4).

diminished negative impact on the interests and incentives of the original copyright holder, thereby avoiding harms addressed by copyright. The value and usability of fair uses, to society, are often independent of the authors' interests in their original works.⁴² Furthermore, derivative works may carry forth creative value of their own, making new interests to fall within copyright's domain of protection.⁴³

C. *The Digital Millennium Copyright Act*

The most recent significant change to United States copyright law came with the controversial⁴⁴ and technology-conscious Digital Millennium Copyright Act ("DMCA") in 1998.⁴⁵ The new provisions target copyright pirates,⁴⁶ creating causes of action⁴⁷ for the circumvention of copyright protection technology⁴⁸ and interference with or falsification of copyright information.⁴⁹ Both types of conduct are also subject to criminal law: willful and profit-seeking violations mandate substantial fines or prison terms.⁵⁰

While strong new restrictions were given by the DMCA, the DMCA also

⁴² For example: even though a school library contains many copyrighted books, allowing students to photocopy text from these books for educational research is not infringement. See MODEL POLICY CONCERNING COLLEGE AND UNIVERSITY PHOTOCOPYING FOR CLASSROOM, RESEARCH AND LIBRARY RESERVE (American Library Association 1982), available at <http://www.cni.org/docs/infopols/ALA.html>. Rather, it's a fair use because: the author probably won't lose any sales as a result; the author's effort will still be recognized within the student's bibliography or citations; the reproduction is of limited scope; and, finally, it furthers good faith educational interests.

⁴³ For instance, parodies represent an important commodity in the marketplace of ideas. In this marketplace, free expression is necessary for a lively environment in which the better ideas rise to the top. See *Abrams v. United States*, 250 U.S. 616 (1919). Television programs like *South Park* depend on the ability to create derivative work in parody in order to effectively convey social commentary. See *South Park* (Comedy Central television broadcast). This results in entirely new works which possess unique entertainment and philosophical value independent of the derivative source. The *South Park* parody of the film "300", for example, does not replace or diminish interest in the original film. See *South Park: D-Yikes!* (Comedy Central television broadcast Apr. 11, 2007); 300 (Warner Bros. Entertainment, Inc. 2007). Though the two works may share key plot elements, the *South Park* episode injects comedy which can't be found in the movie. The movie, on the other hand, draws audiences with drama, action, and special effects that aren't found in its *South Park* parody. Both can profit in parallel because each fills a distinct niche, despite some overlap in content. As courts have noted, the primary objective of copyright law has been to promote "creativity for the general public good." *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 432 (1984) (emphasis added) (citing *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932)). In this case, the public benefit of having two distinct sources of entertainment outweigh Warner Bros.' interest in monopolizing 300's plot premise.

⁴⁴ Amy P. Bunk, Annotation, *Validity, Construction, and Application of Digital Millennium Copyright Act*, 179 A.L.R. FED. 319 (2002). The controversies stemming from the DMCA's passage are varied. For instance, some argue that the new provisions of the DMCA exceed congressional power. See, e.g., Mitchell, *supra* note 24. Others contend that the DMCA is unacceptably open to abuse by those who want to shut down websites for non-copyright reasons. See, e.g., Mike Masnick, *DMCA Misuse: Trying to Take Down a Negative Movie Review*, TECHDIRT, Jan. 14, 2008, <http://www.techdirt.com/articles/20080113/235553.shtml>.

⁴⁵ 17 U.S.C. §§ 1201-05, 512, 4001, 1301-32 (1999).

⁴⁶ See *infra* note 75.

⁴⁷ 17 U.S.C. § 1203 (2000).

⁴⁸ 17 U.S.C. § 1201(a) (2000).

⁴⁹ 17 U.S.C. § 1202 (2000).

⁵⁰ 17 U.S.C. § 1204(a) (2000).

included a “Safe Harbor”⁵¹ of powerful provisions designed to protect entities such as Internet website hosts.⁵² Under the DMCA Safe Harbor, digital network⁵³ service providers⁵⁴ are not monetarily liable for third party copyright infringement occurring on their hardware or across their transmission lines.⁵⁵ However, such service providers are subject to subpoena by a copyright holder for the identification of any infringing customer⁵⁶ and must comply with a copyright holder’s request to remove infringing material from the service network.⁵⁷ Failure by the service provider to comply with this “take-down notice” allows the copyright holder to seek injunctive relief in the form of court orders prohibiting display of the infringing material.⁵⁸

The significance of the DMCA Safe Harbor is apparent with an examination of Internet infrastructure. The promulgation of data and ideas relies on the use of service providers for Internet distribution. Their presence is essential.

⁵¹ See generally 17 U.S.C. § 512.

⁵² See *infra* note 54. Web hosts are companies which own, apportion, and rent use of servers. Marshall Brain, How Stuff Works, *How Web Servers Work: Clients and Servers*, <http://computer.howstuffworks.com/web-server4.htm>. A server is a computer with a persistent Internet connection on which Internet files and documents are stored and distributed to other Internet users on request—it acts as a physical and virtual repository for Internet data. *Id.*; see *infra* note 158 for more information about the Internet.

⁵³ This seems to generally refer to the Internet, though policy implications make it likely that other digital networks would qualify, such as those used in cell phone communication. See *infra* notes 54-55 and accompanying text.

⁵⁴ For purposes of the DMCA, a “service provider” is “a provider of online services or network access, or the operator of facilities therefor” 17 U.S.C. § 512(k)(1)(B). As it is apparent in the text of the statute, the courts routinely apply DMCA service provider status over “a broad variety of Internet activities” without needing to split hairs. *Corbis Corp. v. Amazon.com, Inc.*, 351 F. Supp. 2d 1090, 1100 (W.D. Wash. 2004). If the issue at action deals only with § 512(a) “transitory digital network communications,” then the definition is limited only to service providers which deal in the routing of the communications. *Corbis*, 351 F. Supp. 2d at 1100 n.5; see 17 U.S.C. § 512(k)(1)(A). Some examples of DMCA-qualifying service providers: Internet access providers, website hosts, user-submitted-content websites, and online auctions. See, e.g., *Ellison v. Robertson*, 357 F.3d 1072 (9th Cir. 2004) (Internet access provider AOL treated as a DMCA service provider); *Tur v. YouTube, Inc.*, No. CV064436 FMC AJWX, slip op. (C.D. Cal. 2007) (user-submitted video site YouTube treated as a DMCA service provider); *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1088 (C.D. Cal. 2001) (online auction lister “eBay clearly meets the DMCA’s broad definition of online ‘service provider’”).

⁵⁵ 17 U.S.C. § 512(a). The “third party” nature of the infringement must be emphasized: the Safe Harbor does not apply to service providers who actively post infringing materials themselves or otherwise take an editorial role regarding the infringing content. See 17 U.S.C. § 512(c). This mirrors the publisher/distributor distinction in defamation law whereby an innocent distributor of a publication (such as a newspaper delivery boy) is not liable for defamatory content contained in the publication’s text. 53 C.J.S. *Libel and Slander; Injurious Falsehood* § 177 (2008). A distributor is only liable if he possesses some editorial control over the publication, like the liable publisher does. *Id.* That is, one is liable for defamation only if they have had the opportunity to review and change the defamatory content. Accordingly, service providers who unknowingly link to or provide locations of infringing material are also exempt from related monetary liability. 17 U.S.C. § 512 (d).

⁵⁶ 17 U.S.C. § 512(h).

⁵⁷ 17 U.S.C. § 512(g). This is also known as the “take-down notice” requirement. While it seems as though this provision could open the door to a flood of fraudulent notices demanding action by a service provider, the DMCA includes harsh penalties, including attorney fees, for misrepresentations. 17 U.S.C. § 512(f). Furthermore, if the true copyright holder has had material improperly removed under the DMCA, they can submit a counter-notice to restore the materials. 17 U.S.C. § 512(g)(3).

⁵⁸ 17 U.S.C. § 512(j). The restraining orders generally force the service provider to block access to the particular material or to block the infringing customer from the service altogether. 17 U.S.C. § 512(j)(1)(i)-(ii).

Furthermore, any given web host may have thousands of separate parties utilizing its services for the storage of hundreds of computer files—monitoring each of them for copyright infringement is highly impractical. While copyright interests still obligate a service provider to remove infringing material, the investigative duty is shifted to the copyright holders through the notice provision. In the meantime, service providers are able to devote their resources towards improving other areas of business without fear of bankruptcy brought on by a third party's actions.⁵⁹ Thus, Internet development is furthered while copyright holders still maintain an avenue through which they can protect their interests.

D. Contributory Infringement of Copyright

As evidenced by the need for protections such as the DMCA Safe Harbor, avenues exist for extending liability beyond direct infringers. In greater tort law, “one who knowingly participates in or furthers a tortious act is jointly and severally liable with the prime tortfeasor.”⁶⁰ Such is also the case with copyright infringement,⁶¹ as the Copyright Act does not differentiate among levels of participation.⁶² A common law doctrine serving to fill that gap, called contributory copyright infringement, has been described as descending from enterprise liability in tort law.⁶³ Under this doctrine, “one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable.”⁶⁴

Even acts such as advertising an infringing product can constitute contributory infringement, so long as there is knowledge.⁶⁵ One helpful and historic example of involvement-liability interactions in contributory infringement is the *Screen Gems* case, from deep in the reign of the phonograph record.⁶⁶ In *Screen Gems*, a record album of hit songs was produced, infringing the copyright of several songs owned by the plaintiff.⁶⁷ The plaintiff brought action against several defendants involved in different areas of the album's production and

⁵⁹ Because of this policy concern, the DMCA Safe Harbor is likely to protect beyond just the Internet. Other technological services may also be used by customers for infringement. See, e.g., *supra* note 54.

⁶⁰ Niel Boorstyn, 1 BOORSTYN ON COPYRIGHT § 10.06[2], 10-21 (1994).

⁶¹ *Id.*

⁶² *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1161 (2d. Cir. 1971).

⁶³ *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996).

⁶⁴ *Gershwin*, 443 F.2d at 1162. The same rule is applied in the Ninth Circuit. *Perfect 10*, 494 F.3d at 795. While the liability here is described as “secondary” or even “vicarious,” it is important to note that contributory infringement differs from vicarious infringement, which also gives rise to secondary or vicarious liability and often appears alongside contributory infringement in lawsuits. See *infra* note 116. Under vicarious infringement, a defendant is liable if he profits from infringement while possessing a right or ability to control the infringer's conduct. See *Shapiro*, *infra* notes 106-15 and accompanying text.

⁶⁵ *Screen Gems-Columbia Music, Inc. v. Mark-Fi Records, Inc.*, 256 F. Supp. 399 (D.C.N.Y. 1966).

⁶⁶ *Id.* The phonograph record was the primary medium for recorded music and other audio prior to the popularization of magnetic tape recording and, later, the compact disc. See Steven Schoenher, Recording Technology History, <http://history.sandiego.edu/GEN/recording/notes.html>.

⁶⁷ *Screen Gems*, 256 F. Supp. at 401.

promotion.⁶⁸ On motion for summary judgment by the defendants, the court held that the radio station that broadcast the advertisements for the album and the company that packaged and shipped the album could both be found liable for contributory infringement.⁶⁹ The court also held that the defendant advertising agency, which created the ads, could also be found liable.⁷⁰ For these three defendants, the court reasoned that a factual evaluation was needed to determine whether they knew or reasonably should have known about the infringement—if they continued acting in spite of such knowledge, the elements for contributory infringement would be satisfied.⁷¹ This result was echoed in *Gershwin*, which held that a concert-promotion association “caused . . . copyright infringement”⁷² by creating an audience for artists whom the association knew were performing unlicensed copyrighted works.⁷³

Likewise, operating a forum for the sale of infringing material can give rise to liability.⁷⁴ In *Fonovisa*, vendors rented a booth from defendant swap meet in order to sell pirated⁷⁵ recordings.⁷⁶ The swap meet’s operators had actual knowledge of the activity, through third party notice and their own investigation, though they participated no further than allowing the infringers to operate as part of the swap meet.⁷⁷ Nevertheless, copyright holders filed suit against the swap meet and successfully established contributory infringement.⁷⁸ Here, the Ninth Circuit had “little difficulty in holding . . . material contribution”⁷⁹ because the swap meet was the knowing source of the “environment and the market for counterfeit recording sales to thrive.”⁸⁰

⁶⁸ *Id.*

⁶⁹ *Id.* at 405.

⁷⁰ *Id.* at 404. An officer and stockholder of the advertising agency, also named as a defendant despite being on a “leave of absence from corporate affairs” at the time, was held not liable as a matter of law. *Id.* at 404-05.

⁷¹ *Id.*

⁷² *Gershwin*, 443 F.2d at 1163 (quoting *Gershwin Publ’g Corp. v. Columbia Artists Mgmt.*, 312 F.Supp. 581, 583 (D.C.N.Y. 1970)).

⁷³ *Gershwin*, 443 F.2d at 1163.

⁷⁴ *Fonovisa*, 76 F.3d at 264.

⁷⁵ In the context of copyrights, “piracy” has little to do with swashbucklers, Jolly Rogers, or the high seas; rather, it is the term used to describe unauthorized duplication of copyrighted materials, as well as distribution of such duplicates. The Software & Information Industry Association, *What is Piracy?*, <http://www.siiia.net/piracy/whatis.asp>. Individuals who participate in unauthorized duplication are known as “pirates” while the copies they make are known as “pirated” materials. *Id.*

⁷⁶ *Fonovisa*, 76 F.3d at 261.

⁷⁷ *Id.* The swap meet operators argued that this was “passive” participation. *Id.* at 264.

⁷⁸ *Id.*

⁷⁹ *Id.*

⁸⁰ *Id.* The Ninth Circuit here adopted the Third Circuit’s rationale in *Columbia Pictures*, whereby providing facilities for infringement was enough to create liability. *Id.*; see *Columbia Pictures Indus., Inc. v. Avco, Inc.*, 800 F.2d 59 (3d Cir. 1986). Specifically, the facility contributions in *Fonovisa* were “provision of space, utilities, parking, advertising, plumbing, and customers.” *Fonovisa*, 76 F.3d at 264. According to the circuit court in *Fonovisa*, overt promotion or encouragement of infringement was not required. *Id.* Furthermore, it did not seem to matter to the court if the infringing materials could have been distributed in an alternate forum, only that “it would be difficult for the infringing activity to take place in the massive quantities alleged” had the swap meet denied the direct infringers. *Id.*

Though contributory infringement liability seems to have a long reach, it does not always extend to creation and sale of products that facilitate infringement. When the advance of consumer technology began enabling easy at-home duplication of copyrighted works, device manufacturers suddenly saw themselves under fire for contributory infringement in the landmark Supreme Court case *Sony v. Universal*.⁸¹ In *Sony*, copyright holders of certain television programming sued manufacturers of video tape recorder (“VTR”)⁸² devices, alleging that consumers were using the VTRs to infringe copyright.⁸³ While the case is often cited for its lengthy discussion on fair use⁸⁴ personal recording of video, the decision ultimately hung on a new standard:⁸⁵ a product does not create secondary liability if it is “capable of commercially significant noninfringing uses.”⁸⁶ After reviewing the district court’s findings, the Supreme Court held that the VTRs in *Sony* did indeed have “substantial noninfringing uses” and thus, the manufacturers were not liable for contributory copyright infringement,⁸⁷ despite the certainty that direct infringement was occurring using their devices.

The *Sony* standard does not override the typical contributory infringement test in all cases, however. In *Grokster*, copyright holders sued the makers of computer software which was used to distribute computer files on the internet.⁸⁸ There, the defendant software company argued for an application of *Sony*, due to their software’s capability for substantial noninfringing use,⁸⁹ which gained them a victory on initial appeal.⁹⁰ When *Grokster* reached the Supreme Court, however, the Court was prompted to temper its decision for clarity.⁹¹ The Court pointed out that, unlike the defendants in *Sony*,⁹² the defendants in *Grokster* intentionally catered to infringing users⁹³ and induced these users to use the software to

⁸¹ *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

⁸² While the subject matter of *Sony* specifically regarded Betamax-format “VTR”, the technology and usage differs little from the successive Video Home System (“VHS”) format video cassette recorder (“VCR”) or even digital hard-disk-based personal video recorders (“PVR”) such as TiVo. See What is TiVo?, <http://www.tivo.com/whattivo/index.html>.

⁸³ *Sony*, 464 U.S. at 419-20.

⁸⁴ *Id.* at 454 (held: use of VTRs to temporarily record inconveniently scheduled programs for viewing at a more convenient time, also known as “time shifting”, constituted fair use). For an overview of fair use in copyright, see *supra* notes 38-43 and accompanying text.

⁸⁵ *Id.* at 442. In this case, the Court applied the staple article of commerce doctrine from patent law as a balancing of policy. *Id.* at 441-42. The rationale behind this application is reminiscent of fair use—in the end, the infringement does not materially destroy the copyright holder’s interests. *Id.*

⁸⁶ *Id.* at 442.

⁸⁷ *Id.* at 435.

⁸⁸ *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 919-20 (2005). Offensive to the plaintiffs here was, of course, the fact that many of the files transferred using the defendants’ software infringed copyright. *Id.* For a more detailed explanation of file sharing software, see *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).

⁸⁹ *Grokster*, 545 U.S. at 927.

⁹⁰ *Id.* The appeals court here was affirming (albeit for separate reasons) the district court decision, which held against liability because it found that the defendant lacked actual knowledge of infringement. *Id.*

⁹¹ *Id.* at 934. The Court stated that the Ninth Circuit had misinterpreted *Sony* and that the intent was never to “displace other theories of secondarily liability.” *Id.*

⁹² *Id.* at 937.

⁹³ *Id.* at 939.

infringe.⁹⁴ Thus, *Sony* is not meant to apply because *Grokster* already handily met the traditional test for contributory liability:⁹⁵ it knowingly induced the infringing conduct of another.⁹⁶

E. Vicarious Infringement of Copyright

Absent direct or contributory involvement with infringement, a party may still be liable for vicarious copyright infringement. Again, we look to tort law for the roots: the principle of *respondeat superior* creates liability for employers on the acts of their employees even with no actual participation (contributory or otherwise) by the employer.⁹⁷ For the employer, this is to be regarded as a liability inherent in enterprise,⁹⁸ or perhaps liability stemming simply from the mere right of control, regardless of whether the tortuous act was actually commanded.⁹⁹ While the standard *respondeat superior* doctrine had already been applied to employees who infringed copyright while working,¹⁰⁰ the historic decision in *Shapiro* extended the reach beyond the employer-employee relationship.¹⁰¹ The general rule for vicarious copyright infringement now is the same as it appeared in *Shapiro*: a party is liable if they had “(1) the right and ability to supervise the infringing conduct and (2) a direct financial interest in the infringing activity.”¹⁰²

Vicarious infringement in older common law was divided into two basic models of application: the “landlord-tenant” model and the “dance hall” model.¹⁰³ In the former, a landlord who leases premises to an infringing tenant is not liable for the tenant’s infringing conduct if the landlord is unaware of the activity, does not contribute to it, and receives no benefit other than the usual rent payments.¹⁰⁴ In the latter, one who manages a dance hall¹⁰⁵ is liable for infringement by live performers, who are considered almost as employees in the *respondeat superior*

⁹⁴ *Id.* at 937-38.

⁹⁵ *Grokster*, 545 U.S. at 941. More specifically, the Court described the *Sony* doctrine as dealing “with a claim of liability based solely on distributing a product with alternative lawful and unlawful uses, with knowledge” rather than cases where a contribution to infringement is more apparent. *Id.* at 941 (emphasis added).

⁹⁶ *Id.* at 940-41.

⁹⁷ BLACK’S LAW DICTIONARY 1338 (8th ed. 2004) (in Latin: “let the superior make answer”). This doctrine also applies to agent/principal relationships. *Id.*

⁹⁸ See *Wilson v. Drake*, 87 F.3d 1073 (9th Cir. 1996).

⁹⁹ See *Fonovisa*, 76 F.3d at 262.

¹⁰⁰ *Shapiro, Bernstein & Co. v. H. L. Green Co.*, 316 F.2d 304, 307 (C.A.N.Y. 1963) (citing, as an example, *M. Witmark & Sons v. Calloway*, 22 F.2d 412, 414 (E.D.Tenn. 1927)).

¹⁰¹ *Fonovisa*, 76 F.3d at 261-62.

¹⁰² *Perfect 10*, 494 F.3d at 802 (citing *Ellison*, 357 F.3d at 1078; *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1022 (9th Cir. 2001)).

¹⁰³ *Shapiro*, 316 F.2d at 307. The *Shapiro* court describes it as “two lines of precedent . . .” *Id.*

¹⁰⁴ *Id.* (citing *Deutsch v. Arnold*, 98 F.2d 686, 688 (2d Cir. 1938)). Even though rent collected by the landlord may have indirectly come from infringement proceeds, rental payments are not sufficiently connected to the infringement to extend liability. *Id.*

¹⁰⁵ The “dance hall” terminology may appear alien to younger readers, but the establishments referred to are synonymous with modern-day nightclubs, bars, and lounges which offer live or recorded music as entertainment for patrons. Thus, if a bar hires a local band to perform and the band performs copyrighted songs without permission, the bar may be liable.

sense. The *Shapiro* court undertook the task of negotiating both models with regards to another business arrangement in the phonograph record industry.¹⁰⁶ In *Shapiro*, a record vendor operated as a department in defendant company's stores and sold infringing records.¹⁰⁷ The store company deducted taxes and its own commission from the vendor's cash proceeds.¹⁰⁸ The vendor's employees were expected to abide by the store's rules of conduct, though they were not actual employees of the store.¹⁰⁹ Otherwise, the store company was not involved in the vendor's record sales and had no knowledge of the infringing activity.¹¹⁰ Despite the lack of knowledge here, which is reminiscent of the "landlord" model, the *Shapiro* court held this situation as more analogous to the "dance hall" cases.¹¹¹ The court reasoned that the store "had a most definite financial interest in the success" of the vendor, because of the commission.¹¹² Further, they "retained the ultimate right of supervision over the conduct of the record concession and its employees."¹¹³ Thus, as far as the court was concerned, this was close enough to an employer-employee relationship to render *respondeat-superior*-like liability.¹¹⁴ The court also had policy considerations behind this result, stating that such companies would exercise greater care in preventing infringement because of this decision, while being in the best position to do so anyway.¹¹⁵

Vicarious copyright infringement claims often appear alongside contributory infringement claims, due to their similarity of application.¹¹⁶ And in many cases, the same outcome has resulted from the same facts. In *Fonovisa*, the swap meet which hosted infringing vendors retained all the necessary power needed to police the infringers: not only did they create rules governing participants, but they also patrolled the premises and reserved the right to remove vendors from the swap meet.¹¹⁷ The defendants argued that their position more closely resembled the landlord model¹¹⁸ due to their position as a lessor to vendors. Despite that fact, those other factors linked the swap meet to the conduct of the vendors and firmly established the element of right to control. As for financial benefit, the court

¹⁰⁶ *Shapiro*, 316 F.2d at 308.

¹⁰⁷ *Id.* at 306.

¹⁰⁸ *Id.*

¹⁰⁹ *Id.*

¹¹⁰ *Id.*

¹¹¹ *Id.* at 308.

¹¹² *Shapiro*, 316 F.2d at 308.

¹¹³ *Id.*

¹¹⁴ *Id.*

¹¹⁵ *Id.* Also, the court argued that refraining to impose liability here would create a loophole for stores wishing to sell infringing goods without consequence. *Id.* at 309.

¹¹⁶ For example, the defendants in *Gershwin* promoted an orchestra's performances while knowing that the orchestra was infringing copyright. *Gershwin*, 443 F.2d at 1163. At the same time, they also received fees from the orchestra while providing "direction in matters such as" copyright. *Id.* Thus, their conduct matched both contributory infringement and vicarious infringement; and the defendants were simultaneously found liable for both. *Id.* at 1162. Both types of secondary infringement were alleged in *Grokster*, though the Supreme Court saw no need to evaluate vicarious infringement after already resolving contributory infringement there. *Grokster*, 545 U.S. at 930 n.9.

¹¹⁷ *Fonovisa*, 76 F.3d at 263.

¹¹⁸ See *supra* notes 103-05.

reasoned that swap meet operators saw increased income from the parking and admission fees of customers arriving solely to purchase the infringing materials—more than enough to satisfy this element of the claim.¹¹⁹

The *Fonovisa* application of vicarious infringement has applied handily to high-tech analogs as well. In *Napster*, similar to *Grokster*,¹²⁰ the defendant company was sued for creating software that allowed widespread Internet distribution of infringing material.¹²¹ There, infringing activities on the software network was likened to the swap meet in *Fonovisa*, since the defendant created incentives for more users to join and increased its own ad revenue as a result.¹²² Furthermore, network operators easily had the capability to detect infringing activity¹²³ and to block offending users.¹²⁴ Thus, the vicarious infringement holding here was affirmed.¹²⁵

Not all internet services associated with infringement are at risk, however. In *Perfect 10 v. Amazon.com*, the ubiquitous search engine Google¹²⁶ was sued over its image indexing service.¹²⁷ This service automatically indexed publicly-available images on the Internet and allowed users to search for particular ones.¹²⁸ Included in the index were images which infringed copyright, published by a third party on a separate website and made available for search by Google's pan-Internet service.¹²⁹ Among the various claims brought by the copyright holders was a claim for vicarious copyright infringement.¹³⁰ While invoking *Grokster*¹³¹ and *Fonovisa*,¹³² the Ninth Circuit held it unlikely that the plaintiff could establish the

¹¹⁹ *Fonovisa*, 76 F.3d at 263.

¹²⁰ See *Grokster*, *supra* notes 88-96 and accompanying text. Both cases deal with Internet file sharing as the means for copyright infringement.

¹²¹ *Napster*, 239 F.3d at 1011.

¹²² *Id.* at 1023.

¹²³ *Id.* at 1024.

¹²⁴ *Id.* at 1023. The defendants even had rules of conduct similar to *Fonovisa*'s swap meet, reserving them the right to "refuse service and terminate accounts" on the network. *Id.*

¹²⁵ *Id.* at 1024.

¹²⁶ Due to the vast number of web sites on the Internet, the "search engine" has long been a popular tool for users seeking particular sites. Curt Franklin, *How Internet Search Engines Work*, <http://computer.howstuffworks.com/search-engine.htm>. With a search engine, a user need only submit a phrase describing their desired website and the search engine software compares the phrase against the engine's large index of websites, creating a list of suggested matches for the user to visit. *Id.* At the time of this writing, Google has established itself as the dominant search engine through its unique indexing method. Google Corporate Information: Company Overview, <http://www.google.com/intl/en/corporate/index.html>. Google has expanded its services to include online searches for digital images, among others. *Id.* As of this writing, all Google services online are free, with revenue generated for the company purely through advertising sales. *Id.*

¹²⁷ *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701 at 711.

¹²⁸ *Id.* at 711. As part of the indexing process, not only is the location of the image stored for web searchers, but a downsized copy of the image (called a "thumbnail" for its diminutive dimensions) is stored, in order to give web searchers a preview of their results without having to download all of the full images in their results list. *Id.*; see *supra* note 126 for more on Google and Internet searching.

¹²⁹ *Amazon*, 487 F.3d at 713.

¹³⁰ *Id.* at 729.

¹³¹ See *supra* notes 88-96 and accompanying text.

¹³² See *supra* notes 74-80, 116-19 and accompanying text.

requisite control element of vicarious infringement.¹³³ According to the court, the plaintiff “ha[d] not shown that Google ha[d] contracts with [infringing] third-party websites that empower Google to stop or limit them”—as opposed to the vendors in *Fonovisa* who operated under the swap meet’s express regulations.¹³⁴ Ultimately, the infringing activity was occurring on third-party websites outside of Google’s control, so the court was unable to see that the control requirement was satisfied.¹³⁵ As a result, the court affirmed the district court’s holding that the plaintiffs were unlikely to prove vicarious infringement.¹³⁶

III. PERFECT 10 V. VISA: FACTS AND PROCEDURAL HISTORY

Plaintiff Perfect 10, Inc. is an adult entertainment company which photographs nude models and creates other media content for publication, among other related activities.¹³⁷ Relevant to this case is Perfect 10’s website, which offers digital photos and other content exclusively to paying subscribers.¹³⁸

Perfect 10 claims copyright over content featured in its magazine and on its website.¹³⁹ Perfect 10 also claims ownership and registration of the “PERFECT 10”, “P10”, and “PERFECT10.COM” trademarks.¹⁴⁰ Lastly, Perfect 10 claims “blanket publicity rights” for models they have photographed.¹⁴¹

Perfect 10 alleged that several unnamed parties directly copied and altered materials from Perfect 10’s members-only area.¹⁴² These parties then offered the

¹³³ *Amazon*, 487 F.3d at 730.

¹³⁴ *Id.* As to the potential effect of Google’s service to “empower” infringers by pointing additional customers (i.e., users of the image search) towards an infringing site, the court argued that “Google lacks the practical ability” to selectively exclude images from their service. *Id.* at 731.

¹³⁵ *Id.* at 730-31.

¹³⁶ *Id.* at 731. With the control element failed, the court did not bother addressing the financial benefit element. *Amazon*, 487 F.3d at 731. However, for contributory infringement, the court held that Google *could* be held liable if knowledge of the infringement could be shown. *Id.* at 729.

¹³⁷ *Perfect 10*, 494 F.3d at 793; *see also* Dawn Kawamoto, *Porn, Google and the courts*, CNET NEWS.COM, March 3, 2006, http://www.news.com/Porn,-Google-and-the-courts/2008-1030_3-6045732.html (interview of Perfect 10’s founder, including the company’s anti-cosmetic-surgery philosophy). The Perfect 10 magazine has ceased publication since this case was decided, though it continues selling back issues and subscriptions to its website. *See Perfect10.com Summer 2007*, <http://www.perfect10.com/popups/magazine.html> (site may contain sexually explicit material); *see also* Perfect 10 Magazine: MagazineCity, <http://www.ccgdata.com/6404-4.html> (site may contain sexually explicit material).

¹³⁸ *Perfect 10*, 494 F.3d at 793. Subscriptions are purchased by month or blocks of months. *See* PERFECT 10: Join Now, <http://perfect10.com/join.html> (site may contain sexually explicit material). For more information about the Internet and Internet business, *see infra* notes 158-59 and accompanying text.

¹³⁹ *Perfect 10*, 494 F.3d at 793 (citing Plaintiff and Appellant Perfect 10, Inc.’s Reply Brief, *Perfect 10, Inc. v. Visa Int’l Serv. Ass’n*, 494 F.3d 788 (9th Cir. 2007) (No. 05-15170)). Perfect 10’s ownership of these copyrights is not disputed in the case.

¹⁴⁰ *Perfect 10*, 494 F.3d at 793; *see also* U.S. Trademark No. 75,584,611 (filed Nov. 6, 1998); U.S. Trademark No. 78,481,207 (filed Sept. 9, 2004); U.S. Trademark No. 75,292,307 (filed Apr. 27, 1999) (registration records for three marks belonging to Perfect 10, Inc. related to their adult entertainment and media services).

¹⁴¹ *Perfect 10*, 494 F.3d at 793.

¹⁴² *Id.*

materials on websites of their own for sale.¹⁴³ For the purposes of this case, this is treated without dispute as direct copyright infringement by the unnamed parties against Perfect 10.¹⁴⁴ Sale of the infringing materials was carried out using the defendants' electronic payment processing service.¹⁴⁵ As Perfect 10 was unable to stop the direct infringers through other means,¹⁴⁶ Perfect 10 sent notices to the defendants about the infringing activity.¹⁴⁷ The defendants took no action in response.¹⁴⁸

Defendant VISA, Inc. (Visa International Service Association, Inc., or "Visa") describes itself as "the world's largest retail electronic payments network" providing credit card and other payment platforms for their "clients": an international collection of thousands of financial institutions.¹⁴⁹ These member institutions issue Visa cards to their own customers for the customers' use with participating merchants.¹⁵⁰ The cards, known colloquially as "credit cards", create limited loans of money from the financial institution to the customer.¹⁵¹ Through a credit card, merchants providing goods or services to the cardholder are paid directly by the issuing bank, at the cardholder's election and convenience.¹⁵² These charges are then repaid to the bank at a later time by the cardholder along with interest and other fees.¹⁵³ Visa provides clearinghouse services to track transactions among participating customers, member banks, and merchants across the Visa computer network.¹⁵⁴ Visa's only direct contractual relationships are with

¹⁴³ *Id.* While Visa did not expressly concede these occurrences, the issue has gone largely uncontested. *See generally id.* Presumably, the infringing items (e.g., erotic pictures and videos) were offered at a price lower than the cost of regular membership at Perfect 10's website.

¹⁴⁴ *Id.* at 800.

¹⁴⁵ *Perfect 10*, 494 F.3d at 793.

¹⁴⁶ While no specific reasons were given as to why Perfect 10 was unable to stop the infringers, it was mentioned that the infringers belonged to several different foreign countries. *Id.*

¹⁴⁷ *Perfect 10*, 494 F.3d at 793. In the notices, Perfect 10 identified the infringing websites, stated the nature of the infringement, and informed of the defendants' involvement in the infringers' business. *Id.*

¹⁴⁸ *Id.* It is unclear whether Perfect 10 requested specific action (such as revocation of the payment processing service) be taken by the defendants.

¹⁴⁹ Visa Inc. Corporate Overview, 1, http://www.corporate.visa.com/av/pdf/Visa_Inc_Overview.pdf. Another named defendant, Humboldt Bank, is a financial institution operating as a member bank in the Visa network. *See* Jim Bruene, *Humboldt Bank Offers Secured and Unsecured Visa Cards*, NETBANKER, June 19, 1997, http://www.netbanker.com/1997/06/humboldt_bank_offers_secured_unsecured_visa.html. The other remaining named defendants, First Data Corporation, Cardservice International, Inc., and Mastercard International, Inc., are credit/debit networks similar to Visa. About First Data, <http://www.firstdata.com/about/index.htm>; Cardservice International Company profile, <http://www.cardservice.com/company-profile.aspx>; MasterCard Corporate Overview, <http://www.mastercard.com/us/company/en/index.html>. While Cardservice International, Inc. and Mastercard International, Inc. appear to be involved with this case in the same capacity that Visa is, First Data Corporation may have been named only with regards to a separate, unrelated action by Perfect 10.

¹⁵⁰ *Perfect 10*, 494 F.3d at 793; *see also* Visa Inc. Corporate Overview, *supra* note 149 at 1. Visa reports 1.4 billion issued cards and 27 million merchant outlets worldwide. *Id.*

¹⁵¹ HowStuffWorks How Credit Cards Work, <http://money.howstuffworks.com/credit-card.htm>.

¹⁵² *Id.*

¹⁵³ *Id.* Interest rates, fees, spending limits, and other terms of the card agreement are set by the issuing bank alone. Visa Inc. Corporate Overview, *supra* note 149 at 1.

¹⁵⁴ *Emery v. Visa Int'l Serv. Ass'n*, 95 Cal. App. 4th 952, 956 (Cal. App. 3d 2002).

member banks, not cardholders or merchants.¹⁵⁵ Thus, Visa's involvement is limited to regulating member bank behavior, collecting fees from member banks, and promoting the Visa name to the benefit of network participants.¹⁵⁶

Due to its instantaneous and electronic nature, credit card payments have become the "primary engine of electronic commerce"¹⁵⁷ where cash and other payment methods are inconvenient or even impracticable. In this case, "electronic commerce" refers to business conducted over the Internet.¹⁵⁸ There, as with traditional commerce, merchants are able to offer goods and services through virtual storefronts or direct communications targeted at customers accessing the Internet.¹⁵⁹ In order to make payments, online customers can provide their credit card number and authorize a charge, allowing the online merchant to utilize networks such as Visa's in order to obtain instant payment from the customer's issuing bank.¹⁶⁰ Indeed, this payment system is so widespread that even Perfect 10's website is a participating merchant, accepting Visa payments for membership subscriptions.¹⁶¹

Following the defendants' inaction regarding Perfect 10's notices, Perfect 10 filed suit in federal district court, bringing actions for (1) contributory copyright infringement, (2) vicarious copyright infringement, (3) contributory trademark infringement, and (4) vicarious trademark infringement.¹⁶² Additionally, Perfect 10 brought claims under California state law for "unfair competition and false advertising, violation of the statutory and common law right of publicity, libel, and intentional interference with prospective economic advantage."¹⁶³ The defendants

¹⁵⁵ *Id.*

¹⁵⁶ *Id.* By promoting its name, Visa encourages widespread use of its network, thus promoting extended compatibility for participants. For example, cardholders benefit when more merchants accept Visa for payment and also when more banks are available to compete for better issuance deals.

¹⁵⁷ *Perfect 10*, 494 F.3d at 794. The importance of credit card processing to Internet commerce (and, consequently, to the legislature) has been specifically recognized by the Ninth Circuit and applied to its reasoning. *Id.*; see *infra* note 180 and accompanying text. Alternative payment methods do exist, however. One popular example is PayPal (<http://www.paypal.com/>). PayPal is the primary payment system for its current owner, online auctioneer eBay (<http://www.ebay.com/>) and allows a user to store money (received from other PayPal accounts, withdrawn from the user's bank account, or transferred from the user's credit card) for withdrawal or transfer to other PayPal accounts. Margaret Kane, *eBay picks up PayPal for \$1.5 billion*, CNET NEWS.COM, July 8, 2002, <http://www.news.com/2100-1017-941964.html>. In the event that a PayPal user wishes to use add credit card funds to their PayPal account, normal credit card processors such as Visa must be used.

¹⁵⁸ The Internet is a global network linking millions of computers for the purposes of communication, information sharing, entertainment, and business. Among other functions of the Internet, computer users can freely publish and view documents known as "web pages" to and from the Internet public. *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701 (9th Cir. 2007); see also Vint Cerf, A Brief History of the Internet and Related Networks, <http://www.isoc.org/internet/history/cerf.shtml>.

¹⁵⁹ Marshall Brain, *How E-commerce Works*, <http://communication.howstuffworks.com/ecommerce.htm>.

¹⁶⁰ Consolidated Answering Brief of All Defendants-Appellees at 9, *Perfect 10, Inc. v. Visa Int'l Serv. Ass'n*, 494 F.3d 788 (9th Cir. 2007) (No. 05-15170) (customer requests card processing, merchant forwards to Visa, Visa forwards to appropriate bank, bank accepts and transfers funds or denies, merchant relays the outcome to customer).

¹⁶¹ See Secure Purchase for Perfect 10, <https://wnu.com/secure/form.cgi?f83+ptf83m1c+a+pa>.

¹⁶² *Perfect 10*, 494 F.3d at 793.

¹⁶³ *Id.* Perfect 10 is a California corporation. Plaintiff and Appellant Perfect 10, Inc.'s Reply Brief at 1, *Perfect 10, Inc. v. Visa Int'l Serv. Ass'n*, 494 F.3d 788 (9th Cir. 2007) (No. 05-15170). Lastly,

filed a 12(b)(6) motion¹⁶⁴ which was granted by the district court.¹⁶⁵ The libel and intentional interference claims were dismissed with prejudice, while leave to amend was granted for Perfect 10's other claims.¹⁶⁶ Perfect 10 amended its complaint with the remaining claims "essentially repeated" and the defendants made another 12(b)(6) motion.¹⁶⁷ This motion was also granted by the district court and all claims were dismissed with prejudice.¹⁶⁸ Perfect 10 appealed the district court's dismissal,¹⁶⁹ arguing that the contributory and vicarious copyright and trademark infringement claims had been properly pled.¹⁷⁰ The Ninth Circuit Court of Appeals affirmed the district court's decision with two judges in the majority and one dissenting.¹⁷¹ Both the majority and dissenting opinions are analyzed in the next section.¹⁷²

IV. THE PERFECT 10 V. VISA DECISION

A. The Majority Opinion

Circuit Judge Milan D. Smith, Jr. begins the majority opinion with a brief overview of the case procedural background¹⁷³ and gives the court's majority disposition.¹⁷⁴ This is followed by the recitation of facts,¹⁷⁵ a more detailed procedural history,¹⁷⁶ and a short discussion of jurisdiction.¹⁷⁷ The standard of review for the district court's dismissal is *de novo* for all claims.¹⁷⁸

Judge Smith then begins the discussion with an explanation of the choice in defendants¹⁷⁹ and a nod to the legislative policy in favor of Internet commerce.¹⁸⁰

there was an unrelated claim that defendant First Data Corporation improperly blacklisted Perfect 10's merchant account. *See Perfect 10*, 494 F.3d at 793.

¹⁶⁴ *See* FED. R. CIV. P. 12(b)(6) (motion to dismiss for the "failure to state a claim upon which relief can be granted").

¹⁶⁵ *Perfect 10*, 494 F.3d at 793.

¹⁶⁶ *Id.*

¹⁶⁷ *Id.*

¹⁶⁸ *Id.*

¹⁶⁹ *Id.*

¹⁷⁰ *See* Plaintiff and Appellant's Reply Brief at Perfect 10, Inc.'s Reply Brief, Perfect 10, Inc. v. Visa Int'l Serv. Ass'n, 494 F.3d 788 (9th Cir. 2007) (No. 05-15170).

¹⁷¹ *Perfect 10*, 494 F.3d at 792.

¹⁷² *See* Part IV, *infra* notes 173-271 and accompanying text.

¹⁷³ *See supra* notes 162-70 and accompanying text.

¹⁷⁴ *Perfect 10*, 494 F.3d at 792-93; *see supra* note 171 and accompanying text.

¹⁷⁵ *See supra* notes 137-61 and accompanying text.

¹⁷⁶ *Perfect 10*, 494 F.3d at 793.

¹⁷⁷ *Perfect 10*, 494 F.3d at 793-94. Original jurisdiction over the federal claims is given to the district court through 28 U.S.C. §§ 1331 and 1338; supplemental jurisdiction covers the state law claims because of § 1367. § 1291 gives appellate jurisdiction to the Ninth Circuit, which writes this opinion.

¹⁷⁸ *Perfect 10*, 494 F.3d at 794. Thus, facts must be construed in favor of Perfect 10, the plaintiff and appealing party. *Id.* (citing *Rodriguez v. Panaviotou*, 314 F.3d 979, 983 (9th Cir. 2002)). Circuit Judge Kozinski contends that this standard is sorely missed by the majority. *Perfect 10*, 494 F.3d at 819 (Kozinski, J., dissenting).

¹⁷⁹ *Perfect 10*, 494 F.3d at 794. Made clear here is the decision to sue involved parties other than the direct infringers. *Id.* The direct infringers are apparently out of reach of judicial enforcement. *Id.*

Next, Judge Smith evaluates Perfect 10's claim for contributory infringement of copyright,¹⁸¹ stating that the requirements are essentially the same between the Ninth Circuit and the United States Supreme Court:¹⁸² knowledge of the infringement and either inducement, causation, or material contribution.¹⁸³ With regards to the doctrine's application to the Internet, Judge Smith cites the contributory infringement varieties found in *Napster*, *Grokster*, and *Amazon*.¹⁸⁴ Smith also notes possible application of the noninfringing-uses doctrine of *Sony*.¹⁸⁵

Judge Smith declines to "address the Defendants' knowledge of the infringing activity" because the court has decided that Perfect 10 has failed to meet the other prong of the contributory infringement test: material contribution or inducement.¹⁸⁶ Discussion is provided for the two remaining elements of the

at 810 n.1 (Kozinski, J., dissenting) (quoting First Amended Complaint at 8, *Perfect 10, Inc. v. Visa Int'l Serv. Ass'n*, 494 F.3d 788 (9th Cir. 2007) (No. 05-15170)). The defendants here are favored targets for copyright litigation where the real infringers are overseas. Susan Crawford, *Perfect10 -- stretching towards private police*, SUSAN CRAWFORD BLOG, July 4, 2007, http://scrawford.blogware.com/blog/_archives/2007/7/4/3071711.html. The court also points out that "Perfect 10's complaint does not clearly specify which of Perfect 10's rights are being infringed," guessing that Perfect 10 intended reproduction, derivative works, distribution, and public display. *Perfect 10*, 494 F.3d at 794 n.1; see 17 U.S.C. §§ 106(1).

¹⁸⁰ *Perfect 10*, 494 F.3d at 794. Specifically, the two congressional interests here are Internet development and the Internet free market, to which "credit cards serve as the primary engine" according to this court. *Id.* (citing 47 U.S.C. § 230(b)(1)). Judge Smith mentions the Digital Millennium Copyright Act ("DMCA") as further affirmation of this. *Id.* n.2 (citing S. Rep. 105-190, at 1-2 (1998)); see 17 U.S.C. § 512.

¹⁸¹ See *supra* note 64 and accompanying text.

¹⁸² *Perfect 10*, 494 F.3d at 794-95.

¹⁸³ *Id.* at 795 (quoting *Ellison*, 357 F.3d at 1076 (citing *Gershwin*, 443 F.2d at 1162)).

¹⁸⁴ *Id.* at 795; see *Napster*, *supra* notes 120-25; *Grokster*, *supra* notes 88-96; *Amazon*, *supra* notes 126-36 and accompanying text.

¹⁸⁵ *Id.* at 795 n.3; see *supra* notes 81-87 and accompanying text. Judge Smith admits, however, that Perfect 10 is not attempting to argue along the lines of this doctrine. *Perfect 10*, 494 F.3d at 785 n.3.

¹⁸⁶ *Id.* at 795. Were this element discussed by the majority, it most certainly would have been met for the purposes of reversing the dismissal. Since notices and identifications of infringing activity have been alleged by Perfect 10, the action cannot be dismissed for lack of knowledge by the defendant. *Id.*; see Plaintiff and Appellant Perfect 10, Inc.'s Reply Brief at 13, *Perfect 10, Inc. v. Visa Int'l Serv. Ass'n*, 494 F.3d 788 (9th Cir. 2007) (No. 05-15170). Furthermore, the receipt of notice is not disputed by the defendants, pointing even more strongly towards the existence of the requisite knowledge. *Perfect 10*, 494 F.3d at 793.

Here, Judge Smith also takes the opportunity to address arguments relating to the DMCA's safe-harbor provision. *Perfect 10*, 494 F.3d at 795 n.4; see also *supra* notes 51-58 and accompanying text. Judge Smith asserts that the defendants here do not qualify as service providers under the DMCA. *Perfect 10*, 494 F.3d at 795 n.4. No analysis or citation is provided to support this conclusion that an online credit card processor is outside the "broad scope" of the DMCA's service provider definition. See *supra* note 54. Regardless, Judge Smith further argues that Perfect 10 desires an "anomalous result" in that the take-down provision normally applies to parties who have the power to actually remove or block infringing content; and this is outside of Visa's power. *Perfect 10*, 494 F.3d at 795 n.4. Judge Kozinski of the dissent seems to think (with an equal lack of support provided) that Visa is a DMCA service provider and entitled to the same protections as a typical Internet access provider. *Id.* at 824 n.25 (Kozinski, J., dissenting). Judge Kozinski's argument is indeed in line with the DMCA safe-harbor policy and procedure of infringing third parties and their passive service providers. See *supra* note 55. While Judge Smith is right insofar as Visa's inability to participate in take-down compliance, it's not the case that Visa is off the hook completely. Judge Smith seems to argue that allowing Visa into the DMCA would mean granting the safe-harbor protection without also creating the act-after-notice responsibility. Service providers are restricted by more than just the take-down obligations,

second prong, however.¹⁸⁷

In addressing the material contribution element, Judge Smith affirms that the defendants had “no direct connection to th[e] infringement.”¹⁸⁸ He first characterizes the infringement as resting “on the reproduction, alteration, display and distribution Perfect 10’s images over the Internet.”¹⁸⁹ He then notes that none of these listed infringements occur over the defendants’ systems and that the defendants did not aid the infringers except to allow receipt of profits.¹⁹⁰ Judge Smith argues that payments are not important here, as every other infringement occurring in this case “can occur without payment.”¹⁹¹ He argues even further that this other infringement *would* occur without payment.¹⁹² As support, Judge Smith uses *Napster*, where the infringement took place without monetary transactions.¹⁹³

however. The DCMA also provides an injunctive relief option against service providers despite their immunity to monetary relief claims! 17 U.S.C. § 512(j). The types of relief available here are much more fitting for defendants such as Visa. For instance, a plaintiff could obtain “an order restraining the service provider from providing access to a subscriber or account holder of the service provider’s system or network who is engaging in infringing activity” 17 U.S.C. § 512(j)(1)(A)(ii).

¹⁸⁷ *Perfect 10*, 494 F.3d at 795-802.

¹⁸⁸ *Id.* at 796.

¹⁸⁹ *Id.* Oddly missing here is the *sale* of Perfect 10’s images, which, of course, provides the necessary link to the defendants of this case. Sale of copyrighted materials is indeed an exclusive right for copyright holders under 17 U.S.C. §106(3) (“to distribute copies or phonorecords of the copyrighted work to the public by sale”), thus making unauthorized sale infringement under 17 U.S.C. §501(a) (“Anyone who violates any of the exclusive rights of the copyright holder . . . is an infringer”). While it’s clear how this aids the court’s argument, Judge Smith gives no reasons why infringing sale is not an item on which “infringement rests on” here. *Perfect 10*, 494 F.3d at 796.

¹⁹⁰ *Id.* Here, Judge Smith draws distinction from *Fonovisa*, where the infringing sale and distribution took place directly on the defendants’ premises. *Id.*; see *Fonovisa*, *supra* notes 74-80 and accompanying text. According to Judge Smith, it is the locality of distribution that solely mattered there. *Id.*; see also *id.* at 798 n.8 (yet another distinction, this time “between location services and payment services”). Since the defendants of this case were only involved in payments rather than the actual transfer of infringing materials, Judge Smith reasons that they are unconnected with the infringement. *Id.* at 796. The reasoning in *Fonovisa* doesn’t indicate that the locality of distribution is of particular importance above others, however. While the facts of *Fonovisa* left the court no choice but to focus on distribution locality, contributory infringement is described in much more general terms: “a company ‘is responsible for the torts of those it permits on its premises’” *Fonovisa*, 76 F.3d at 265 (quoting *Hard Rock Cafe Licensing Corp. v. Concession Serv., Inc.*, 955 F.2d 1143 (7th Cir. 1992)). Judge Smith also distinguishes from *Amazon*, *Napster*, and *Grokster*, which all involved services that aided in finding infringing material online. *Id.*; see *Amazon*, *supra* notes 126-36; *Napster*, *supra* notes 120-25; *Grokster*, *supra* notes 88-96 and accompanying text. The services of the defendants here cannot be used to find infringing material, so Judge Smith asserts that involvement is not established under any of those three cases either. *Perfect 10*, 494 F.3d at 796. Judge Smith’s reasoning here is based on his “reproduction, alteration, display and distribution” infringement list, which oddly conflicts with the precedent cited just as much as it does with the pleadings of this case. *Id.* Judge Kozinski points out that locating infringing images, like paying for them, also does not fit into Judge Smith’s list. *Id.* at 814 (Kozinski, J., dissenting). This discrepancy casts more doubt on strict adherence to Smith’s infringement definition.

¹⁹¹ *Id.* at 796. In other words, it’s possible the pirates’ sites could continue operating for free, infringing Perfect 10’s copyright in substantially the same manner, only without the involvement of any payment processors.

¹⁹² *Id.*

¹⁹³ *Id.* at 796-97; see *Napster*, *supra* notes 120-25 and accompanying text. This is a rather loose connection, especially after Judge Smith had distinguished the current case from *Napster* just three sentences earlier. *Perfect 10*, 494 F.3d at 796. By this logic, shouldn’t the defendants in *Napster* have also been absolved of liability? After all, their users could have gone to pirate music on some other file-sharing network; thus, the same infringement could have taken place without the involvement of the defendants in *Napster* (the very existence of *Grokster* shows that alternatives were, indeed, available).

He continues to reiterate that the defendants' systems "in no way assist or enable Internet users to locate infringing material, and they do not distribute it."¹⁹⁴ In support, Judge Smith summarizes the *Amazon* holding (that having simple measures available to prevent infringement and failing to take them satisfied material contribution) and insists that this cannot be applied to payment systems as it had for search engines.¹⁹⁵ While admitting that the payments do provide financial incentive, Judge Smith argues that this creates "an additional step in the causal chain."¹⁹⁶ In this chain, the systems affect profitability, which affects incentives for infringement, which affects infringement itself.¹⁹⁷ This is contrasted with the system in *Amazon*, which affects infringement directly.¹⁹⁸

Aside from available alternatives for infringement, Judge Smith argues that "other viable funding mechanisms are available" for the distributors' operation as

Judge Smith's argument here only seems to work in conjunction with his earlier argument that the infringement is attached to the locality of distribution. See *supra* note 190 and accompanying text. Though an act of infringement may look the same to the end user no matter what network it occurs on, if we think of infringement as tied to its locality, infringement on two different networks becomes entirely separate. Under this line of thinking, we can think of the infringement in *Napster* as "Napster-network infringement" which indeed cannot occur without involvement of *Napster's* defendants. Users can still infringe elsewhere, but then it becomes "Grokster-network infringement" and so forth. Since infringement, according to Judge Smith, is not tied to payment systems, we have no "Visa-network infringement" which can be dissolved by removing involvement by Visa. Again, however, this is all dependent on the notion that infringement does indeed attach where Judge Smith says it does. This argument is revisited later by Judge Smith. See *infra* note 204.

¹⁹⁴ *Perfect 10*, 494 F.3d at 797.

¹⁹⁵ *Id.* It appears that Judge Smith wishes to distinguish between the recipients of infringing material (who also pay money, in this case) and the suppliers of infringing material (who receive the money here), given his rhetoric. See also *id.* at 799 ("Perfect 10's images are easy to locate because of the very nature of the Internet . . . Defendants play no role in any of these functions."). Search engines principally benefit the infringing aims of to-be recipients whereas payment systems only represent a hoop they might have to reluctantly jump through—it might be needed in order for them to get what they want, but it's not exactly a benefit to them. The real benefit of the money here goes to the distributors—it's the price they themselves have named. But why the distinction here? Judge Kozinski calls this distinction "wishful thinking" and believes both should be considered material contributions. *Id.* at 811 (Kozinski, J., dissenting). Both the recipients *and* the distributors are direct infringers—why does a benefit to one count as contributory while a benefit to the other does not? Indeed, this court held in *Amazon* that search engine Google could be a contributory infringer because "Google substantially assists websites to distribute their infringing copies to a worldwide market *and* assists a worldwide audience of users to access infringing materials." *Amazon*, 487 F.3d at 729 (emphasis added). The court gives little reason to separate the two; Judge Kozinski describes their only support as consisting of "disparaging use of 'merely,' 'simply' and 'only.'" *Perfect 10*, 494 F.3d at 812 (Kozinski, J., dissenting). Or does Judge Smith intend to mean that the payment systems do not "assist" either party? If that were the case, then the phrase "financial assistance" must be a misnomer to Judge Smith.

¹⁹⁶ *Id.* at 797.

¹⁹⁷ *Id.*

¹⁹⁸ *Id.* No authority is cited as to how many causal steps are sufficient to discharge a party from liability, nor can any clues about this issue can be found in federal copyright statutes. In the dissenting opinion, Judge Kozinski dismisses the "additional step" as unnecessary. *Id.* at 812 (Kozinski, J., dissenting). To him, "[m]ateriality turns on how significantly the activity helps infringement, not on whether it's characterized as one step or two steps removed from it." *Perfect 10*, 494 F.3d at 812. Judge Kozinski appears to favor a broader application of liability, though he seems confident that it would not create excess undue litigation in practice. *Perfect 10*, 494 F.3d at 815 ("[C]ourts have shown themselves adept at dealing with it from time out of mind, in resolving such issues as proximate causation and reasonable suspicion"). The majority might even have been unable to reach a different holding because of this fear. See *id.* at 798 n.9 ("We take little comfort in . . . a large number of expensive and drawn-out pieces of litigation that may, or may not, ever be filed").

well, meaning that not only can the infringement still occur without the defendants' involvement,¹⁹⁹ but it can be funded without the defendants' involvement as well.²⁰⁰ In a footnote, Judge Smith also expresses concern that allowing liability here would create a flood of "bogus notices to a credit card company claiming infringement" and further discourage the business out of general fear of litigation.²⁰¹

¹⁹⁹ See *supra* note 193.

²⁰⁰ *Perfect 10*, 494 F.3d at 797-98. As examples of alternatives for profits, Judge Smith suggests advertising revenue and "other payment mechanisms that do not depend on the credit card companies." *Id.* Indeed, there are other ways of making payments online that do not use credit cards, with perhaps the most prominent example being PayPal. See *supra* note 157. However, if alternative payment online is "viable", what is the meaning of the earlier recognition that "credit cards serve as the primary engine" for Internet commerce? *Perfect 10*, 494 F.3d at 794; see *supra* note 180 and accompanying text. If they are so important for online transactions that protecting them is necessary to maintain a free market online, then how effective can these alternative methods be? Judge Kozinski argues that the initial policy recognition is correct—that "experience tells us . . . there are no adequate substitutes for credit cards" or we must at least accept this fact as alleged by *Perfect 10*. *Id.* at 814 (Kozinski, J., dissenting). However, Kozinski also argues that the presence of alternatives is immaterial anyway. *Id.* ("It makes no difference whether the primary infringers might do without it by finding a workaround"). Even PayPal itself makes use of regular credit card processing. See *supra* note 157. If credit cards are just one of many equally effective payment methods, there should be no worry that it requires sanctuary.

Judge Smith's line of reasoning here is also inconsistent with *Fonovisa*, where swap meet operators were still held liable despite the fact that alternative swap meets were available for vendors to profit from selling pirated works. *Fonovisa*, 76 F.3d at 264. Despite the possibility of alternatives in *Fonovisa*, the court there still held that "it would be difficult for the infringing activity to take place in the massive quantities alleged without the support services provided by the swap meet." *Id.* Judge Kozinski makes the same argument against Judge Smith with regards to *Amazon*. *Perfect 10*, 494 F.3d at 812-13 (Kozinski, J., dissenting). There seems to be no shortage of cases where liability has applied despite the presence of alternatives. Further, Judge Kozinski argues that the fabrication of possible alternative methods of payment is a violation of procedure here, as it is contrary to *Perfect 10*'s allegation that the infringers depend on Visa for their sales (and all allegations must be taken as true for the purposes of a 12(b)(6) motion). *Id.* at 812 n.7, 813 ("we must work with the facts the parties presented below, not invent new facts on appeal."); see also FED. R. CIV. P. 12(b)(6).

²⁰¹ *Perfect 10*, 494 F.3d at 798 n.9. Judge Smith's worries here have already been at issue with the Internet economy (albeit in a slightly different sector of it) and already answered by Congress in the form of the DMCA. 17 U.S.C. § 512(g); see *supra* notes 51-58 and accompanying text. Apparently recognizing the potential for the very occurrence of "bogus notices," § 512(g) could easily be applied to protect companies like Visa by punishing frauds. The nature of their services' uses over the Internet in relation to the rest of the Internet should more than qualify them under the DMCA's broad "service provider" umbrella. See *supra* note 54. Other online payment services have already been included. *E.g.*, *Perfect 10, Inc. v. CCBill LLC*, 481 F.3d 751 (9th Cir. 2007) (holding DMCA service provider status applied to middleman service which facilitated, for smaller merchants, use of major credit card networks); *Novotny v. Chapman*, No. 3:05cv370, slip op. (W.D.N.C. 2006) (online fund-transfer service PayPal is regarded as a DMCA service provider). While such examples are of services that are wholly and exclusively online, Visa's presence in the offline world probably would not disqualify them for service provider status with regards to their online involvement. One can imagine that an Internet service provider wouldn't cease to be a DMCA service provider merely by branching off into non-Internet activities. Instead, the problem lies in the compliance with a DMCA take-down notice. See 17 U.S.C. § 512(g). As pointed out by Judge Smith earlier, credit card companies do not have the power to take down infringing content after receiving a notice. *Perfect 10*, 494 F.3d at 795 n.4. And while they would still be open to injunctions under the DMCA, the injunction subsection provides no statutory equivalent "grace period" of immunity in which a credit card company can act to *prevent* impending litigation, rather than acting as a result of litigation and court order. See 17 U.S.C. § 512(j). Then again, service of a subsection (j) injunction action itself could be seen as a take-down notice of sorts. If a copyright holder threatens to injunctively force Visa to drop a merchant, the action dissolves if Visa complies before any litigation begins and before any substantial legal fees accrue. But ideally, congressional creation of a take-down-like procedure to *precede* subsection (j) action would be a friendlier way of achieving the same result. Under this treatment, credit card companies need not worry

Judge Smith again emphasizes his distinction between the location of distribution and the location of payment.²⁰² After summarizing the facts and holdings of *Fonovisa* and *Napster* in greater detail, Judge Smith insists that it is the “site and facilities” provided that created the liability; wholly different from the current case.²⁰³ He uses this same concept to refute Perfect 10’s argument that the defendants’ services “allow [infringement] to happen on a larger scale than would otherwise be possible.”²⁰⁴ While Perfect 10 clearly wants Visa’s services to be considered “site and facilities” in order to create the analogy to precedent, Judge Smith sees this as an “extremely broad conception” which “appears to include any tangible or intangible component related to any transaction in which infringing material is bought and sold.”²⁰⁵ In Judge Smith’s view, accepting this conception would improperly threaten too many “peripherally-involved third parties,” including even computer manufacturers and electric utilities.²⁰⁶

about litigation until after they’ve received notice—they wouldn’t even need to pre-screen potential merchants for infringing activity before approving them! For copyright holders, it would be a standardized way to stop specific instances of infringement, which they already enjoy with regard to other service providers.

²⁰² *Perfect 10*, 494 F.3d at 798-99; see *supra* note 190.

²⁰³ *Perfect 10*, 494 F.3d at 798-99 (quoting *Fonovisa*, 76 F.3d at 264; *Napster*, 239 F.3d at 1022). He further attempts to distinguish from *Napster* by noting the lack of intent by Visa: they didn’t set out to create their payment system for the purposes of funding copyright infringement, unlike the defendants in *Napster* who did. *Perfect 10*, 494 F.3d at 799 n.10. Thus, the members of the majority here “decline to radically expand *Napster*’s cursory treatment of ‘material contribution’ to cover a . . . system that was not so designed.” *Id.* However, the court seems to have forgotten that they *had* done that very thing, in the same year that this opinion was written, no less. Remember that in *Amazon*, even though Google wasn’t held liable for vicarious infringement, the court did hold that Google could be found liable for contributory infringement if knowledge could be established. *Amazon*, 487 F.3d at 729. In fact, in that case, Google itself tried to make the argument that Judge Smith wants to make here: that its system wasn’t created for use by infringers. *Id.* at 727. Furthermore, Google wanted to establish that their system was capable of substantial non-infringing use under *Sony*. *Id.* (citing *Sony*, 464 U.S. at 442). The court held that this argument did not apply because Perfect 10’s claim (it was the plaintiff in that action as well) was based on the *effects* of Google’s service, not of the service’s original design. *Amazon*, 487 F.3d at 727. Here, too, Perfect 10’s complaint is not directed at Visa’s payment system design, so the purpose of the design should not be a reason against material contribution here.

²⁰⁴ *Perfect 10*, 494 F.3d at 799. Judge Smith argues that making infringement profitable (as seen in this case) is not the same as increasing infringement (as seen in *Fonovisa*) or making infringement easier (as seen in *Napster*). *Id.* He also points out that the defendants here did not create a “centralized place” for infringement as was seen in *Napster* and *Fonovisa*. *Id.* However, Judge Smith then states that “[t]he provision of . . . accoutrements in *Fonovisa* was significant only because this was part of providing the environment and market for counterfeit recording sales to thrive.” *Id.* This seems to mean that the determination should really hinge on the ultimate effect of the actions in question to the infringement in question, if indeed the actions themselves only matter to the extent that they make the infringement prosper. Judge Smith might merely be speaking of the “centralized place” again when saying “environment and market” but an environment or market need not be centralized. For instance, the so-called “Black Market” is far from being a centralized place or operation; the same goes for what’s known as the “job market”. The Third Circuit seems to have no such problem extending liability “to the person who knowingly makes available other requisites” of infringement. *Columbia Pictures*, 800 F.2d at 62 (reasoning that since an individual is liable by renting a video for the purposes of unauthorized public performance, liability should also apply to those who provide other services necessary for the public performance to happen).

²⁰⁵ *Perfect 10*, 494 F.3d at 799. Also on this page, Judge Smith reiterates his apparent distinction between contribution to infringing distributors and contribution to infringing recipients. *Id.*; see *supra* note 195.

²⁰⁶ *Perfect 10*, 494 F.3d at 800. The favored construal seems to be limited to where Judge Smith believes the heart of the infringements lay. See *supra* notes 190 and 195. This presumably stems from

Judge Smith admits that Visa could “undermine the commercial viability of infringement” by refusing service. However, Judge Smith refuses to see Visa as a contributory infringer because of its lack of involvement with what he sees as the direct infringement: “reproduction, alteration, display and distribution”—not sale.²⁰⁷

Having found no material contribution, Judge Smith addresses inducement next.²⁰⁸ Perfect 10 has argued that the defendants have induced their customers to “use their cards to purchase goods and services,” which can include infringing purchases.²⁰⁹ Thus, Perfect 10 alleged induced infringement under *Grokster*.²¹⁰ However, Judge Smith reads *Grokster* as showing a much higher standard for inducement, whereby a product or service is presented “with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement” and not merely promotion to use a product or service in general, despite how some might use it.²¹¹ This can take the form of active promotion of infringing capabilities of a product or service or it can be found if “the article is good for nothing else but infringement,” in which case the infringing capability may be too obvious to require promotion.²¹² Judge Smith cites to *Amazon* as well for this principle.²¹³ Since Perfect 10 had not alleged any specific acts by the defendants or any other such “clear expression” to encourage customers to use the cards for infringement, Judge Smith holds that inducement has not been established.²¹⁴ Thus, with material contribution and inducement held insufficiently pled,²¹⁵ the dismissal of Perfect 10’s contributory infringement claim

the main precedent cited for this case, which does not include actual credit card processors; rather, the contributory infringers all seem to have something to do with distribution. Judge Smith makes it clear in the text that he is very unwilling to let liability extend past what’s strictly seen in precedent. *Perfect 10*, 494 F.3d at 800.

²⁰⁷ *Id.* Again, we are left with no rationale for why “sale” isn’t regarded as one of the direct infringements of this case, despite its inclusion in statute. 17 U.S.C. § 106(3); *see also supra* note 189.

²⁰⁸ *Perfect 10*, 494 F.3d at 800.

²⁰⁹ *Id.*

²¹⁰ *Id.*

²¹¹ *Id.* In other words, it is like the difference between advertising a gun’s ability to carry out murder as opposed to merely advertising the physical features of a gun.

²¹² *Id.* at 801. The former was clearly seen in *Grokster*, where defendants “explicitly targeted then-current users of the Napster program” to use their network for piracy instead. *Perfect 10*, 494 F.3d at 801. (citing *Grokster*, 545 U.S. at 925-26). In contrast, the latter route is reminiscent of *Sony*: had the VTRs been found to have no other use than piracy, the “significant noninfringing use” idea would have never come into play to save them. *See Sony, supra* notes 81-87.

²¹³ *Perfect 10*, 494 F.3d at 801-02. *Amazon*’s inclusion is quite passive, though it is indeed consistent with *Grokster*. The *Amazon* court “did recognize that contributory liability ‘may be predicated on actively encouraging (or inducing) infringement through specific acts.’” *Id.* at 801 (quoting *Amazon*, 487 F.3d at 726).

²¹⁴ *Perfect 10*, 494 F.3d at 801-02. This appears to be a correct reading and application of inducement. Even with Visa’s knowledge of the infringement and their continued promotion of card use, this promotion is far too general to show that Visa wanted to encourage the infringement in particular. However, Judge Smith’s affinity to the recipient-centric view of infringement remains apparent in this analysis. *See supra* note 195. In the inducement discussion, Judge Smith only speaks of how Visa treated its *cardholders* with regards to infringement promotion. *Perfect 10*, 494 F.3d at 801-02. Though the result should hardly be different from Visa’s inducement of merchants, that relationship is completely absent from Judge Smith’s analysis.

²¹⁵ And with causation and knowledge of infringement essentially ignored (the former presumably not pled; the latter unnecessary to discuss given other holdings).

is affirmed.²¹⁶

Judge Smith covers the vicarious infringement claim in the next section of the opinion.²¹⁷ He briefly recites the history and then the rule: “(1) the right and ability to supervise the infringing conduct and (2) a direct financial interest in the infringing activity.”²¹⁸ Judge Smith also takes note of an “alternate formulation” by the Supreme Court: “‘profiting from direct infringement while declining to exercise a right to stop or limit it.’”²¹⁹

The supervision prong is addressed first.²²⁰ Here, Judge Smith notes that Visa has a set of rules regulating the conduct of member banks, including a prohibition on “providing services to merchants engaging in certain illegal activities” if such is discovered through investigation.²²¹ However, Judge Smith maintains that the ability to enforce these rules does not equate to the right and ability to control the infringers.²²² He draws similarity with *Amazon*, where Google’s abilities to avoid indexing infringers and to remove infringers from the Google advertising system were deemed insufficient for demonstrating a right of control over infringement.²²³ Like Google, writes Judge Smith, Visa can limit infringement, but “the mere ability to withdraw a financial ‘carrot’ does not create the ‘stick’ . . . that vicarious infringement requires.”²²⁴

Judge Smith sees the defendant’s ability to control in *Napster* as far more related to the relevant infringement than that in this case.²²⁵ Specifically, Judge

²¹⁶ *Id.* at 795.

²¹⁷ *Id.* at 802.

²¹⁸ *Id.* (citing *Ellison*, 357 F.3d at 1078; *Napster*, 239 F.3d at 1022).

²¹⁹ *Perfect 10*, 494 F.3d at 802 (quoting *Grokster*, 545 U.S. at 930).

²²⁰ *Perfect 10*, 494 F.3d at 802. In a note, Judge Smith reflects two courts’ views on “supervision” with regard to vicarious infringement, presumably to give foundation for his own view. *Id.* n.13 (“the swap meet operator’s ability to control the activities of the vendors” in *Fonovisa*; “Napster’s ability to police activities of its users” in *Napster*). *Id.*

²²¹ *Perfect 10*, 494 F.3d at 802-03.

²²² *Id.* at 803. Judge Smith also concedes that the direct infringement, defendants’ knowledge of it, and defendants’ ability to cease processing were “adequately pled” by *Perfect 10*. *Id.*

²²³ *Id.* (citing *Amazon*, 487 F.3d at 730-32). However this holding was particularly targeted at the control exercised through Google’s advertising program. *See id.* Though Google’s control over its index listing was not found to be sufficient either, no analysis was given by the *Amazon* court about what kind of indexing factors might qualify to establish the supervision needed (e.g., if Google’s index happened to be the sole means of accessing the infringing websites). *Id.*

²²⁴ *Perfect 10*, 494 F.3d at 803. The analogy to *Amazon* is very weak, though. While Google’s advertising program is the sole source of income for many websites, there were no facts indicating that this was the case for the sites at issue in *Amazon*. Visa’s network plays a far more prominent role in the infringing businesses here than Google’s index or ad program did in *Amazon*. Judge Smith thinks that finding vicarious liability here “would also require a finding that Google is vicariously liable” but that’s not necessarily the case. *Id.* In *Amazon*, the other prong for vicarious liability (financial benefit) was not evaluated at all. *Amazon*, 487 F.3d at 731 n.15. Furthermore, the clear distinction in magnitude of impact should be enough to make these situations independent of the same holding.

²²⁵ *Perfect 10*, 494 F.3d at 803. The two are far more similar than Judge Smith describes, however. He repeats yet again the difference in distribution as opposed to payment, which has no bearing on a right to control issue. *Id.* at 803-04. He further lists Napster’s powers as the “ability to block user access to its program and thereby deprive particular users of access to their forum” yet does not state how this is different from Visa. *Id.* at 804. Visa can block merchants from its payment network and therefore deprive access to their forum of business. While it is true that other credit card networks or payment methods might be utilized instead and also true that the infringers could continue to distribute the material free of charge, any blocked Napster user could have switched to a different network or

Smith believes that Visa's power "does not extend to directly stopping [infringing] violations themselves" while Napster's did.²²⁶ Besides this, Judge Smith also writes that "indirect economic pressure" is not enough to constitute the requisite control, at least in Visa's case.²²⁷

found some other way to exchange pirated material—yet, that did not stop a finding for vicarious infringement by the *Napster* court.

²²⁶ *Id.* Judge Smith argues that Visa is limited because they can not "block access to the Internet" or to any particular sites or search engines. *Id.* But Napster could not block Internet access either. *See also id.* at 813 (Kozinski, J., dissenting) ("The majority's claim that search engines 'could effectively cause a website to disappear' . . . is quite a stretch"). Judge Smith says Napster was able to "block . . . violation of the distribution right" but that is not entirely accurate. *Id.* at 804 n.14. Rather, what they were really blocking was the distribution right *with regards to their own service*. This amount of control is quite diminished from Judge Smith's description, though it does not necessarily mean Napster should have escaped vicarious liability. Even though no singular file-sharing service has the power to completely bar users from piracy (because users can always switch to an alternate service), the entire body of services, together, can. Each service *does* have the power to make *itself* uninvolved. And one which chooses to stay involved exposes itself to liability. If each service chooses to avoid this risk, then there are no more services for the user to turn to. Only in that situation of group action do we have anything close to blocking global distribution in the meaningful sense; but it starts at the individual provider level. Like Napster, Visa's power is indeed weak, but this should not preclude a finding of sufficient control because the real control only manifests in the broader picture. *See also id.* at 817 (Kozinski, J., dissenting) ("[C]ourts have presumed that removing the *particular* means of infringement challenged in each case would . . . diminish the [overall] scale of infringing activity") (emphasis added).

Judge Smith insists that "absolute right to stop the infringement" is not an actual requirement for right and ability to control. *Id.* at 805 n.16. This appears to be exactly what he wants to require of Visa, however. *See, e.g., id.* at 806 n.18 (*Perfect 10* does not allege "that the websites would completely vanish or that infringement by these sites in all its forms would necessarily cease"). Again, while its control is limited, it holds the same type of individual power seen in *Napster*, which blossoms when applied more broadly. If we instead assume that Judge Smith does not actually intend that, then we must believe his alternative argument, premised on his oft-used idea that only the reproduction, distribution, and availability of the pirated materials count as the infringement. *Id.* Thus, Visa's control over the payment aspect is not control of one of the "tools needed" for infringement as defined by Judge Smith. *Id.* at 804 n.15. The ability to receive payment certainly is a tool of sale, however. Yet sale, an enumerated exclusive right under statute, remains neglected by Judge Smith's analysis. *See* 17 U.S.C. § 106(3) (2002).

²²⁷ *Perfect 10*, 494 F.3d at 805. While refusing service would be an exercise of Visa's contractual rights with its merchants, Judge Smith asserts that the reduction would come only from the economic threat rather than the use of the contract. *Id.* at 804, 805. However, this is not true given the procedures Visa has in place to combat infringers, criminals, and other unwanted parties. *See infra* note 271. There are plenty of measures available preceding actual refusal of service which are quite similar to the swap meet's regulatory measures in *Fonovisa* and the overall practical effect is identical. At least one prior case has even treated attempts to prevent infringement as establishment of control. *Warner Bros., Inc. v. Lobster Pot, Inc.*, 582 F.Supp. 478, 483 (N.D. Ohio 1984) ("[T]he fact that the defendant told his manager to instruct people *not* to play copyrighted music is indicative of Defendant Haffey's right and ability to control"). *See also* *Chess Music, Inc. v. Sipe*, 442 F.Supp. 1184, 1185 (D.C. Minn. 1977) (finding requisite control where "[t]he defendant ha[d] a choice as to whether he will have [infringing] live music or do without, and has chosen to profit thereby").

Apparently sensing further misunderstanding of his opinion, Judge Smith makes clear that financial pressure is not per se insufficient control. *Perfect 10*, 494 F.3d at 807 n.17. Indeed, financial pressure appeared to be at least one of the main factors under the vicarious infringement evaluation in *Fonovisa*. But Judge Smith states here that Visa's particular ability to financially pressure is not "the sort" that the court would extend liability to, for reasons of policy. *Id.* This policy consideration is the same as appears in Judge Smith's earlier remarks: that liability should be limited here because we would otherwise be endangering parties even further removed from the incidents. *See supra* note 201 and accompanying text. If that is indeed the real reason why Judge Smith doesn't see Visa's financial pressure as sufficient, then there is hardly need for this holding anymore. Such parties are easily protected by clever systems of law that have already been in place for decades. Judge Smith also argues that the mere ability to refuse service should not be used to implicate any of these parties. *Perfect 10*, 494 F.3d at 805 n.17. Congress seems to think otherwise, however; as evidenced by the DMCA and its

At the end of the section, Judge Smith describes Visa as just one of many entities necessary for the acts of the direct infringers while also receiving profit.²²⁸ He even admits that Visa possesses “literal power to ‘stop or limit’ the infringement,” yet this is still not sufficient because the power does not stem precisely from the infringing acts.²²⁹

Given the insufficiency held for right to control, the court declined to address the financial interest element.²³⁰ The court held that the defendants did not have the right and ability to control the direct infringers; thus, the district court’s decision to dismiss Perfect 10’s claim for vicarious infringement of copyright was affirmed.²³¹

In the final sections of Judge Smith’s opinion, contributory and vicarious trademark infringement were both analyzed, as were some claims under Californian state law.²³² The dismissals for each of these claims were also

safe harbor, which clearly anticipate and temper this kind of result. *See* 17 U.S.C. § 512.

²²⁸ *Perfect 10*, 494 F.3d at 806.

²²⁹ *Id.* In other words, Visa does have influence over the infringement, but only through sales that are incidental to the infringing acts; the influence and control, according to Judge Smith, must come through the acts themselves. *Id.* at 804. But again, this only works if we defy the legislation and deny that unauthorized sale of copyrighted works is infringement. If Judge Smith would remember § 106(3), he could see that Visa’s power does indeed arise directly from one particular, enumerated protection: sale. 17 U.S.C. § 106(3); *see also Perfect 10*, 494 F.3d at 814 (Kozinski, J., dissenting). Furthermore, we can look to the intent of *respondeat superior*, upon which vicarious infringement is based. The idea is to reduce and/or properly compensate tortious acts; employers and principals are made liable for compensation simply because it is in their power to reduce the occurrence of these torts. *See Lisa M. v. Henry Mayo Newhall Mem’l Hosp.*, 907 P.2d 358 (Cal. 1995). The manner of this power is decalcentral to the thrust of *respondeat superior*—all that matters is that the extension of liability encourages reduction of torts by those who can reduce them; and that those same parties are made available as defendants to better insure that tort victims are made whole. *See id.* The *Grokster* language is quite compatible with this: “One . . . infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it.” *Grokster*, 545 U.S. at 930. Visa fits this handsomely: Judge Smith himself recognizes Visa’s ability to at least reduce these infringements; and the resulting profits received are undisputed by the defendants.

²³⁰ *Perfect 10*, 494 F.3d at 806. Defendants do not dispute this element and Visa’s system is described as generating profit from every transaction, with no facts or allegations to indicate that transactions from the infringing sites were exempt from this. In the dissent, Judge Kozinski asserts that “[t]here is no doubt that defendants profit from the infringing activity” due to the nature of the payment system. *Id.* at 816 (Kozinski, J., dissenting) (citing First Amended Complaint at 4 and 7, *Perfect 10, Inc. v. Visa Int’l Serv. Ass’n*, 494 F.3d 788 (9th Cir. 2007) (No. 05-15170)). Even if the fee for Visa’s services is very low, it’s sufficient that money comes from customers who are purchasing infringing materials. *Ellison*, 357 F.3d at 1078-79 (clarifying that *Fonovisa* did not create a “requirement that the draw be ‘substantial’”); *see, e.g., Shapiro*, 316 F.2d at 308 (defendant “had a most definite financial interest” when it received “10% or 12% of the sales price of every record sold . . . whether ‘bootleg’ or legitimate”); *Polygram Int’l Publ’g, Inc. v. Nevada/TIG, Inc.*, 855 F.Supp. 1314 (D. Mass. 1994) (trade show participants received direct financial benefit from infringing use of background music at the show).

²³¹ *Perfect 10*, 494 F.3d at 802.

²³² *Id.* at 806-10. As these claims are outside of the scope of this article, their analysis will only be reviewed briefly here. While copyright and trademark law share a “kinship” of commonality, their differences are important to recognize. *Sony*, 464 U.S. at 439 (1984). Trademark law protects registered marks of businesses from unauthorized use, confusion, or dilution by similar or identical marks used by other parties. *See* 15 U.S.C. §§ 1051 et seq. For contributory trademark infringement, one must show inducement to infringe trademark or knowing supply of an infringing/mislabeled product to a direct infringer. *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844 (1982). According to Judge Smith, *Perfect 10* did not plead facts for inducement or for the supply of the right type of instrumentality. *Perfect 10*, 494 F.3d at 807. For vicarious trademark infringement, one must show

affirmed.²³³

B. *The Dissenting Opinion*

Circuit Judge Alex Kozinski dissents from the majority “for the most part.”²³⁴ He begins the dissenting opinion with his own brief narrative of the facts, emphasizing the fact that this case is essentially the final avenue Perfect 10 may use to protect their copyright and other interests.²³⁵ In a note, Judge Kozinski makes clear that most of his dissent specifically refers to member bank defendants, rather than the Visa network itself, where any defendants are mentioned.²³⁶ He also notes at the outset that the defendants here might even qualify as direct infringers of copyright, though such was not actually pleaded by Perfect 10.²³⁷

Judge Kozinski argues similarity with *Amazon* for contributory infringement: that the defendants here run a payment system rather than a search engine and all other facts match.²³⁸ The focus is straightforward: Judge Kozinski’s idea of contributory liability is based on the significance of contribution in any form.²³⁹ Applied to *Amazon* and this case, “[i]f infringing images can’t be found, there can be no infringement; but if infringing images can’t be paid for, there can be no infringement either.”²⁴⁰ While the majority is adamant in their distinctions

“apparent or actual partnership . . . authority to bind one another in transactions . . . or exercise[d] joint ownership or control over the infringing product.” *Hard Rock Cafe*, 955 F.2d at 1150. Judge Smith saw the Visa-infringer relationship as insufficiently strong enough to qualify for this claim. *Perfect 10*, 494 F.3d at 808. Perfect 10’s basis for its California state claims for unfair competition and false advertising were based on unusable authority. *Id.* at 809. Its California state claim for violation to right of publicity also lacked authority. *Id.* Its California state claims for libel and intentional interference with prospective economic advantage were barred by statutes of limitation. *Id.* at 810.

²³³ *Id.*

²³⁴ *Perfect 10*, 494 F.3d at 810 (Kozinski, J., dissenting). Specifically, Judge Kozinski disagreed with the majority’s opinion and decision for all claims except for the two time-barred state law claims. *Id.* n.1.

²³⁵ *Id.* at 810. This is because the direct infringers are abroad and out of reach and the defendants refuse to comply with Perfect 10’s requests to halt service to the direct infringers. *Id.*

²³⁶ *Id.* at 811 n.2. This is probably because the member banks are the entities that interact most closely with the infringing merchants, though Judge Kozinski also notes that liability among individual defendants “is a matter to be sorted out after discovery” and not truly an issue at this point in the case. *Id.*

²³⁷ *Id.* n.3. The majority seems to find this idea shocking. *See, e.g., id.* at 797 n.6 (dissent’s language “suggests that the dissent believes that the Defendants are *directly* infringing when they process these payments”) (emphasis in original); *id.* at 800 n.11 (if dissent’s argument is correct, “it is difficult to see why Defendants would be not be [sic] *direct* infringers of the distribution right”) (emphasis in original). Judge Kozinski points out, however, that it is possible for one party to be simultaneously liable of both direct and indirect infringement. *Id.* at 811 n.3 (citing *Alcatel USA, Inc. v. DGI Technologies, Inc.*, 166 F.3d 772 (5th Cir. 1999)).

²³⁸ *Perfect 10*, 494 F.3d at 811 (Kozinski, J., dissenting). And for these purposes, Judge Kozinski believes that payment systems and search engines are also the same. *Id.* at 811-12. The majority protests this argument, insisting that a search engine’s actions are material contributions because they assist the recipient-user, while credit card processing does not. *Id.* at 797. Judge Kozinski calls it “wishful thinking” to think that only the search engine substantially assists infringement. *Id.* at 811 (Kozinski, J., dissenting).

²³⁹ *Id.* at 812

²⁴⁰ *Id.* Under this test, “[I]ocation services and payment services are *equally* central to infringement” with no further distinction. *Id.* (emphasis added). An inequality wouldn’t remove a lesser service either. *Id.* n.6 (“[T]his is not a race where there can be only one winner”).

between types of infringement aid, Judge Kozinski points out that relevant authority in their favor is nonexistent.²⁴¹

As to Judge Smith's classification of sale as non-infringement,²⁴² Judge Kozinski makes two arguments.²⁴³ First, he points out that sale is indeed an infringement, both alleged and enumerated in statute.²⁴⁴ Second, he demonstrates that the "reproduction, alteration, display [or] distribution" definition, used by Judge Smith to exclude Visa in the majority opinion,²⁴⁵ also excludes the defendant in *Amazon*, where infringement was not dismissed.²⁴⁶

Judge Kozinski also argues analogy with *Fonovisa*, in that the online marketplace maintained by Visa much resembles the swap meet environment, including the consequences of service denial available to both.²⁴⁷ He then bolsters his material contribution argument by drawing analogies to other crimes:

If you lend money to a drug dealer knowing he will use it to finance a drug deal, you materially assist the transaction, even if you never see the drugs. . . . [I]f you knowingly drive a principal to the scene of the crime, you provide material assistance, even if nothing happens during the ride.²⁴⁸

Judge Kozinski writes that the significance of contribution test automatically guards against litigation of excess defendants, thus eliminating a major roadblock between the majority and a decision in favor of Perfect 10.²⁴⁹ Kozinski also encourages use of the older landlord-tenant and dance hall models of precedent as standards for additional significance testing.²⁵⁰

²⁴¹ *Id.* at 813.

²⁴² Or, more accurately, Judge Smith's failure to classify sale as infringement. *See supra* notes 189, 207 and accompanying text.

²⁴³ *Perfect 10*, 494 F.3d at 814 (Kozinski, J., dissenting).

²⁴⁴ *Id.*; *see* 17 U.S.C. § 106(3) (2002).

²⁴⁵ *See Perfect 10*, 494 F.3d at 796.

²⁴⁶ *Id.* at 814 (Kozinski, J., dissenting); *see Amazon*, *supra* notes 126-36 and accompanying text.

²⁴⁷ *Id.* at 814-15. In fact, Judge Kozinski argues that the "assistance provided here" goes even further than it did in *Fonovisa*, because Visa's network reaches far more of the Internet than a single swap meet could reach in the brick-and-mortar world. *Id.* at 815.

²⁴⁸ *Id.* (citing *United States v. Lopez*, 482 F.3d 1067, 1076-79 (9th Cir. 2007)).

²⁴⁹ *Perfect 10*, 494 F.3d at 815 (Kozinski, J., dissenting). Judge Kozinski explains that such a test fits in easily among routine evaluations by courts, which are already designed to sort through many defendants connected by cause-in-fact. *Id.*; *see supra* notes 201, 206 and accompanying text.

²⁵⁰ *Perfect 10*, 494 F.3d at 815-16 (Kozinski, J., dissenting). Judge Smith protests the use of these prior lines of cases, asserting that it was "developed for a brick-and-mortar world, and . . . do not lend themselves well to application in an electronic commerce context." *Id.* at 798 n.9. Smith uses *Napster* and *Grokster* (two Supreme Court cases which evaluated contributory infringement but did not utilize the landlord/dancehall precedent) as support for this proposition. *Id.*; *see also Napster*, *supra* notes 120-25; *Grokster*, *supra* note 88-96. However, as Judge Kozinski points out, those tests were inapplicable to both *Napster* and *Grokster*, as their systems were created for the express purpose of piracy. *Perfect 10*, 494 F.3d at 816 n.10 (Kozinski, J., dissenting). Since the defendants' relationship to the infringement was far more obvious in those two cases, there was no gray area requiring a landlord/dancehall distinction. *Id.* Though new technology may tempt judges to replace old standards, it seems the Supreme Court has urged carefulness in displacing older law. *See Grokster*, *supra* note 91 (Supreme Court did not want the newer *Sony* standard to displace the older precedent). Judge Kozinski also points to a Seventh Circuit case decided subsequent to *Napster* and *Grokster* which used the landlord/dancehall determination. *Perfect 10*, 494 F.3d at 816 n.10 (Kozinski, J., dissenting) (citing *In re Aimster Copyright Litig.*, 334 F.3d 643, 654 (7th Cir. 2003)).

In the next section of the dissent, Judge Kozinski addresses the vicarious infringement claim, using the *Grokster* phrasing of the rule: “profiting from direct infringement while declining to exercise a right to stop or limit it.”²⁵¹ He declares that the profit element is already met²⁵² and then moves on to the “stop or limit” requirement.²⁵³ Using *Amazon*, Judge Kozinski takes this as meaning both a legal right and a practical ability.²⁵⁴

Judge Kozinski notes that Visa’s member-bank regulations describe procedures for responding to illegal activity such as infringement.²⁵⁵ Thus, the defendants reserve contractual power to demand cessation of infringement, with threat of exclusion as their ultimate means of enforcement.²⁵⁶ Judge Kozinski argues that this matches *Fonovisa*, where the defendants’ power and enforcement were identical to what was described here.²⁵⁷ He disputes the majority’s need for Visa to be able to stop infringement beyond their own networks; Judge Kozinski is convinced that the defendants here have the same “practical ability” to stop or limit infringement as seen in *Fonovisa* and *Amazon*.²⁵⁸ Again, Judge Kozinski stresses that the availability of alternatives is immaterial to this issue, as alternatives were also available in every other case where vicarious infringement was found.²⁵⁹ Judge Kozinski does not see credit card processing as being merely a small part of

²⁵¹ *Perfect 10*, 494 F.3d at 816 (Kozinski, J., dissenting) (quoting *Grokster*, 545 U.S. at 930) (internal quotation marks omitted). This is the same as the “alternate formulation” rule quoted by the majority. *Perfect 10*, 494 F.3d at 802.

²⁵² Judge Smith did not address this element. See *supra* note 230 and accompanying text.

²⁵³ *Perfect 10*, 494 F.3d at 816 (Kozinski, J., dissenting).

²⁵⁴ *Id.* n.11.

²⁵⁵ *Id.* at 816.

²⁵⁶ *Id.* at 817. Two notes by Judge Kozinski examine credit card internal rules in more detail. See *id.* at 816 n.12; *id.* at 817 n.13. The majority also argues that the defendants here need to “supervise and control” (the dissent’s statement of the rule does not phrase it that way), but even that requirement seems met by the imposition and enforcement of rules—in the end, they are as good as any other contractual provision. *Id.* at 805.

²⁵⁷ *Id.* at 817 (Kozinski, J., dissenting). Recall that in *Fonovisa*, the swap meet had rules for vendors and contractual provisions allowing them to make demands of vendors, with threat of removal as their power of enforcement. *Fonovisa*, 76 F.3d at 263.

²⁵⁸ *Perfect 10*, 494 F.3d at 817-18 (Kozinski, J., dissenting). Though Judge Smith expressly denies using the higher standard, Judge Kozinski insists that the majority is exaggerating the requirements set in precedent. *Id.* at 818 n.15. He points out that the majority expressly rejected “practical ability” despite *Amazon*. *Id.* at 817 n.16; see also *id.* at 805 n.17. And, going by the majority’s contention that the absence of an absolute right is evidence against vicarious infringement, Judge Kozinski argues that the issue should thus be developed in discovery and later stages of litigation. *Id.* at 818 n.15 (Kozinski, J., dissenting).

Though the majority harps on the fact that *Amazon* held against vicarious infringement for Google, Judge Kozinski distinguishes that evaluation because it was presented on a preliminary injunction with stricter standards against plaintiffs than the motion to dismiss here. *Id.* at 821. Furthermore, Judge Kozinski reminds us that Google lacked any contractual agreement with sites indexed on its image-search service (contracts were involved in their advertising program, but constituted a separate, peripheral enterprise). *Id.* at 820. Thus, Google had hardly any of the leverage against infringers we see here. *Id.*

²⁵⁹ *Id.* The power here lies in the power of refusal to do business, an ability which Judge Smith deemed insufficient. *Id.* at 805. Judge Kozinski interprets the precedent as indicating that the refusal of service need only disinvolve the direct infringer from the defendant’s particular sphere of control, thereby reducing infringement in the aggregate. *Id.* at 817 (Kozinski, J., dissenting).

this infringement business, either.²⁶⁰ Rather, he argues that credit cards were originally chosen as the infringers' "preferred means of doing business"—thus, forcing infringers to use an alternative results in discouragement of infringement because it forces them to infringe in a less-preferred manner.²⁶¹

Judge Kozinski notes many ways that refusal of service could "stop or limit" infringement, including bankruptcy and the loss of customers who are unwilling to use an alternative system.²⁶² He argues that even the majority's description of the defendants' potential influence meets the "stop or limit" requirement:²⁶³ "fear of losing access to credit card payment processing services would be a sufficient incentive for at least some website operators to comply with . . . Defendants."²⁶⁴

Finally, Judge Kozinski attacks the majority for distinguishing *Napster* and *Grokster*.²⁶⁵ While Judge Smith wrote that Visa isn't as "directly intertwined" with infringement as the defendants in *Napster*, Judge Kozinski is adamant that it is.²⁶⁶ He argues that payment processing is easily a major element in any other crime²⁶⁷ and also an effective means of stopping infringement.²⁶⁸ Judge Kozinski suggests that the majority didn't adopt *Grokster* only because they feared that too many parties would be swept into vicarious infringement actions.²⁶⁹

²⁶⁰ *Id.* at 817-18.

²⁶¹ *Id.* There are no indications of what the pirates' actual decision-making process was, however, nor of what their next highest preference was. Judge Kozinski seems to infer that credit cards were the top choice simply because it's what the pirates ultimately chose. *Id.* Judge Kozinski also remarks that credit card features such as dispute resolution support and processing speed also directly benefit purchasers of infringing material. *Id.* at 817; *see also id.* at 818 ("[H]ow many consumers would be willing to send a check or money order to a far-off jurisdiction in the hope that days or weeks later they will be allowed to download some saucy pictures?"). Thus, the recipients have particular interest in keeping the services of the defendants.

²⁶² *Id.* at 818-19. Kozinski states that the customers might even be compelled to purchase membership from Perfect 10's site, whose support from Visa would not be barred by infringing activities. *Id.* at 819 n.17.

²⁶³ *Perfect 10*, 494 F.3d at 819.

²⁶⁴ *Id.* at 804.

²⁶⁵ *Id.* at 821 (Kozinski, J., dissenting).

²⁶⁶ *Id.*

²⁶⁷ *Id.* Again, Judge Kozinski draws analogy to a drug deal here, where "we would never say that the guy entrusted with delivery of the purchase money is less involved in the transaction than the guy who helps find the seller." *Id.* Judge Smith would argue that the money courier *is* less involved than someone who is both a money and drug courier (the latter possesses the distribution role which the majority argues is required by precedent), once again making the distribution/sale distinction. *See supra* notes 190, 195 and accompanying text. One blogger notes that the reason credit card companies seem to rarely be involved in other illegal activities is because of the paper trail created. Susan Scafidi, *Of Credit Cards and Counterfeits*, COUNTERFEIT CHIC, July 9, 2007, http://www.counterfeitchic.com/2007/07/of_credit_cards_and_counterfeits.php (commenting on the *Perfect 10* decision in general). However, Judge Kozinski seems to be arguing that the money-handling alone is more than enough and that we're trying to determine whether things pass a threshold, not which of two things is more.

²⁶⁸ *Perfect 10*, 494 F.3d at 821. He even remarks that financial pressure is even "sometimes more effective, than technical measures that can often be circumvented." *Id.* Judge Kozinski also claims that "financial support has long been held to be a basis for vicarious infringement," though he only cites to one example outside of this jurisdiction. *Id.* n.21 (citing *Davis v. E.I. DuPont de Nemours & Co.*, 240 F.Supp. 612 (S.D.N.Y. 1965)).

²⁶⁹ *Perfect 10*, 494 F.3d at 821-22. Here, Judge Kozinski argues that the contractual right is what sets Visa apart from other possible defendants such as computer manufacturers, whose contracts grant virtually no leverage against a criminal after the criminal has purchased a computer. *Id.* Thus, there should be no worry of excess litigation and *Grokster* is otherwise quite applicable.

In the final sections of his dissent, Judge Kozinski argues that the trademark claims and state law claims were also properly pleaded, using much the same reasoning as he did for the copyright claims.²⁷⁰ He concludes that credit card companies simply need to be held responsible while knowingly aiding and profiting from infringement; that they've already taken measures against other crimes and could easily do the same to help protect copyright.²⁷¹

V. IMPACT OF PERFECT 10 v. VISA

A. Generally

Perfect 10 draws a bold line which secondary copyright liability cannot cross in the Ninth Circuit, perhaps in disagreement with what the Ninth Circuit has said before.²⁷² Amid the vast, growing landscape of Internet piracy and flying speculations on who will next be bitten by an RIAA lawsuit, *Perfect 10* blocks liability for an entire class of defendants. Credit card companies are now able to operate with fewer worries and fewer obligations with regard to controlling the conduct of merchants they deal with.

There could be general advantages as a result of this decision. If the majority is to be believed, this affirmation of freedom for credit card companies will foster rigorous growth and development of the Internet economy and the Internet itself.²⁷³ Furthermore, the majority believes that this limitation on liability will allow many entities peripherally involved in copyright infringement to breathe easier and continue business without fear of litigation.²⁷⁴ Less litigation of this sort will be seen in the Ninth Circuit because of the newfound protection for this type of defendant. If the dissent is to be believed, the court has just allowed a significant partner in copyright infringement to escape responsibility,²⁷⁵ while copyright holders are unjustly limited from protecting their assets.²⁷⁶

²⁷⁰ *Id.* at 822-23. These claims are outside the scope of this article.

²⁷¹ *Id.* at 824.

²⁷² And this jurisdiction is not to be taken lightly either, as a significant portion of the technology and media industries of this country call the Ninth Circuit home.

²⁷³ See *Perfect 10*, 494 F.3d at 794. And indeed, the court has been lauded for this very reason. One intellectual property lawyer described the decision as “a pro-commerce, pro-Internet decision that could have slowed down commerce significantly if it had gone the other way.” Julius Melnitzer, *Porn Site Loses High Stakes*, INSIDECOUNSEL, Sept. 2007 (internal quotations omitted), available at <http://www.insidecounsel.com/section/litigation/1369>.

²⁷⁴ See *Perfect 10*, 494 F.3d at 798 n.9. One blogger agrees with this, applauding the decision which otherwise “would have opened potentially endless claims of liability against a wide range of potential defendants who simply do business with infringers.” Alfred Yen, *Ninth Circuit Affirms Dismissal in Perfect 10 v. Visa*, MADISONIAN.NET, July 9, 2007, <http://madisonian.net/archives/2007/07/09/ninth-circuit-affirms-dismissal-in-perfect-10-v-visa/>.

²⁷⁵ See *Perfect 10*, 494 F.3d at 821 (Kozinski, J., dissenting). In the wake of the decision, *Perfect 10* is, of course, unhappy. Its founder, Norm Zada, described this turn of events as a “horrible blow” against “the victims of massive intellectual property theft” Dawn C. Chmielewski, *Credit Card Firms Not on Hook for Piracy*, L.A. TIMES, July 4, 2007, available at http://msl1.mit.edu/furdlog/docs/latimes/2007-07-04_latimes_perfect10_decision.pdf.

²⁷⁶ *Perfect 10*, 494 F.3d. at 810.

B. Impact on Ninth Circuit Law

As discussed in the analysis of the majority's opinion, *Perfect 10* has committed grave errors in failing to recognize "sale" as a means of infringement,²⁷⁷ not to mention its overstated fears of excessive future litigation²⁷⁸ and unpersuasive attempts to distinguish Visa from past defendants.²⁷⁹ The dissent also argues that this decision represents a massive departure from prior, even recent, precedent.²⁸⁰ The sentiment is echoed throughout the intellectual property blogosphere, which seems to point at all three *Perfect 10* cases of 2007 as being problematic for this area of law.²⁸¹ This could be the cause for confusion in future cases, which must reconcile this new line that the majority has drawn between distribution and payment;²⁸² a line which the dissent finds arbitrary and unsupported.²⁸³ Other circuits may side with the dissent here and forge their own standards in conflict with the Ninth Circuit majority, though they will undoubtedly see fewer cases of this sort in their jurisdictions. Even the Ninth Circuit, which is now technically bound by this decision, may find reason to abandon the *Perfect 10* reasoning after all, or find reason to forever distinguish it. A significant majority of legal commentators have come out in support of Judge Kozinski's dissent over the majority's shaky argumentation,²⁸⁴ with one blog even giving the dissent a "runner-up" prize for the "Best Legal Decision" of 2007.²⁸⁵ Another openly calls for the Ninth Circuit to re-evaluate their entire line of precedent; to "bite the bullet and wipe those cases (and their progeny) off the books. Otherwise, the Ninth Circuit will torture itself each time it tries to reconcile new opinions with those erroneous opinions."²⁸⁶ Perhaps more practical advice for intellectual property lawyers is to be quite aware of the strong arguments made in Kozinski's dissent—

²⁷⁷ See *supra* notes 189, 207 and accompanying text.

²⁷⁸ See *supra* note 201 and accompanying text.

²⁷⁹ See, e.g., *supra* note 193.

²⁸⁰ *Perfect 10*, 494 F.3d. at 814 ("The majority makes some very new—and very bad—law here").

²⁸¹ E.g., Crawford, *supra* note 179 ("The Amazon standard is a swamp, which isn't great news for the internet ecosystem"); Eric Goldman, *Credit Card Providers Aren't Liable for Third Party Infringement—Perfect 10 v. Visa*, TECH. & MKTG. L. BLOG, July 9, 2007, http://blog.ericgoldman.org/archives/2007/07/credit_card_providers.htm ("In contrast, wading through the details shows just how problematic Ninth Circuit cyberlaw jurisprudence has become. The Ninth Circuit has chunked a few major Internet cases—Napster and Brookfield are two conspicuous examples—which has produced a long list of tortured subsequent precedent."); Rebecca Tushnet, *Visa: It's Everywhere You Want to Infringe*, 43(B)LOG, July 4, 2007, <http://tushnet.blogspot.com/2007/07/visa-its-everywhere-you-want-to.html> ("[B]ut I'm inclined to see that as a problem with *Perfect 10 v. Google* rather than a problem with this ruling").

²⁸² *Perfect 10*, 494 F.3d. at 796; see *supra* notes 190, 195 and accompanying text.

²⁸³ E.g., *Perfect 10*, 494 F.3d. at 811 (Kozinski, J., dissenting).

²⁸⁴ See, e.g., Crawford, *supra* note 179 ("Kozinski's reasoning may be persuasive."); Tushnet, *supra* note 280 ("Kozinski's dissent does a pretty good job of pointing out the thinness of the distinctions required."); Eugene Volokh, *Are Credit Card Providers Liable for Knowingly Facilitating Sales of Infringing Material?*, THE VOLOKH CONSPIRACY, July 3, 2007, <http://volokh.com/posts/1183485027.shtml> ("Kozinski's opinion is more persuasive as a matter of current law.").

²⁸⁵ J. Craig Williams, *2007 Legal News: The Third Annual Legal Louie Awards*, MAY IT PLEASE THE COURT LAW WEBLOG, Dec. 31, 2007, <http://www.mayitpleasethecourt.com/journal.asp?blogid=1703>.

²⁸⁶ Goldman, *supra* note 281.

though dicta, it certainly holds persuasive weight.²⁸⁷ The Californian courts may have already been acting in line with Kozinski, at least with regard to the state law claims that later appeared in *Perfect 10*.²⁸⁸ Time will tell whether the majority opinion actually holds weight in federal practice.

It is also possible that Congress will amend the DMCA to specifically include online credit card processors as service providers,²⁸⁹ thereby affording the processors a protective procedure and a clearer delineation of liability.²⁹⁰ Clarity in this area of the law is very much needed from Congress, if the courts are unable to agree.

C. Online Payment Processors

Credit card companies like Visa and other online payment services operating in the Ninth Circuit can rejoice. For now. Though the Ninth Circuit has essentially given carte blanche to payment processors with regards to merchants who infringe copyright, a district court may not take *Perfect 10* so seriously. Or it may construe the majority's confusing reasoning in *Perfect 10* in an unpredictable manner, finding that the particular circumstances perhaps warrant liability for a payment processor that differs from Visa in minute ways. Lastly, a district court may simply like Kozinski's dissent better, as many readers have, and swiftly impose liability on a defendant who didn't see it coming. The best advice for payment processors is to realize that they may not be out of the woods just yet. Be well-versed with Judge Kozinski's arguments if you're served with process for secondary copyright liability.²⁹¹ Safer still, listen to legitimate complaints about infringing conduct by your member merchants—if anything, it is a good public-relations move to deny support for those who profit from illegal activity.²⁹² After all, as seen in *Perfect 10*, the complainant at your door might even be another member merchant of yours²⁹³ who needs your help.

D. Copyright Holders

If your income derives substantially from exclusive control over your

²⁸⁷ Ray Dowd, *May Credit Card Processors Be Contributorily Liable for Copyright Infringement?*, COPYRIGHT LITIGATION BLOG, Dec. 9, 2007, <http://copyrightlitigation.blogspot.com/2007/12/may-credit-card-processors-be.html> (“If you are suing a copyright infringer who is operating offshore and profiting through use of credit cards, you should be aware of [Kozinski’s] well-reasoned dissent when you put your pleadings together”).

²⁸⁸ Rebecca Tushnet, *Credit Card Processors Aiding and Abetting California Unfair Competition Violations: Perfect 10 Revisited?*, 43(B)LOG, July 18, 2007, <http://tushnet.blogspot.com/2007/07/credit-card-processors-aiding-and.html>. See *Schulz v. Neovi Data Corp.*, 60 Cal. Rptr. 3d 810 (Cal. Ct. App. 2007).

²⁸⁹ See *supra* notes 54, 201.

²⁹⁰ See *supra* note 201.

²⁹¹ See Dowd, *supra* note 287.

²⁹² One might be concerned over inciting backlash from the filesharing community, who are often portrayed as being very pro-piracy and adamant against those who try to enforce copyrights. Such groups, outspoken as they are, generally do not speak out in favor of actually *profiting* from piracy, however. Rather, their sentiment seems to favor the sharing of information for free.

²⁹³ See *supra* note 161 and accompanying text.

copyrighted works, this decision hurts for you. Under the *Perfect 10* holding, offshore pirates of content are free to profit from the unauthorized online distribution of your works. Due to jurisdictional problems, you can't sue them directly. Due to *Perfect 10*, you can't go after their payment systems in order to stop their flow of money. However, you do have supporters on your side, including at least one adamant Ninth Circuit Court of Appeals Judge. They may very well change the landscape of the Ninth Circuit's treatment and make it viable again to sue credit card companies as secondary infringers. But for now, it may prove more successful to litigate in another venue where the *Perfect 10* majority isn't binding and where the *Perfect 10* dissent may find open ears. Try litigating from a standpoint of the DMCA's injunction provisions,²⁹⁴ where you need only show that the defendant is a qualified service provider and can limit the infringement by banning a particular member of their service.²⁹⁵

Concerned parties and their respective interest groups may also want to lobby Congress for an extension of the DMCA. If Congress were to include a specific take-down procedure for entities such as payment processors, protection of one's copyright interests against these offshore pirates can be achieved in a simple, standardized process. Copyright holders may already be used to exercising this type of procedure when their work appears unauthorized on a user-submission site like YouTube.²⁹⁶

VI. CONCLUSION

In *Perfect 10 v. Visa*, the court upheld secondary liability for distribution services that aided copyright infringement but refused to allow this liability to extend to payment processing services used by infringers. While the majority rightly charged itself with the duty to define limits for secondary liability, it may have drawn this line too short of where it should be. The key distinctions made appear to be based in naïveté, speculation, and selective ignorance. And though legitimate concerns also formed this decision, the majority seems to analyze precedent in a peculiar, self-affirming manner. The dissent would say the court is simply reading it wrong.

The great divide created here, right or wrong, has a powerful impact both on online sales and on copyright enforcement. Given that his means of distribution are overseas or otherwise judgment-proof, the pirate's ability to profit in the Ninth Circuit is, for now, untouchable.

²⁹⁴ See 17 U.S.C. § 512(j).

²⁹⁵ This strategy, not used in *Perfect 10*, may work to get the payment processor to drop support for direct infringers, though you won't see any monetary damages out of it.

²⁹⁶ See YouTube, <http://www.youtube.com/>.