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## Perfect 10 v. Visa: The Future of Contributory Copyright Infringement

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# *Perfect 10 v. Visa: The Future of Contributory Copyright Infringement*

## *I. Introduction*

In 1984, the United States Supreme Court noted that “[f]rom its beginning, the law of copyright has developed in response to significant changes in technology.”<sup>1</sup> In fact, it was the invention of a new technology—the printing press—that necessitated copyright protection in the first place.<sup>2</sup> Advances in technology, particularly on the Internet, have led to new methods of copyright infringement hardly imaginable two decades ago,<sup>3</sup> and these new methods of infringement threaten copyright holders “as never before.”<sup>4</sup> Consequently, as technology leads to new methods of infringement, copyright owners seek new methods of protecting their property interests.

In an age of global technology, it is often impractical, if not impossible, for copyright owners to successfully pursue direct infringers.<sup>5</sup> A website hosted in Bangkok can be found online just as easily as one hosted in Boston.<sup>6</sup> Both jurisdictional and practical concerns have led copyright holders to seek methods of protection with greater efficiency than simply filing suit against those directly involved in copyright infringement.<sup>7</sup>

Copyright owners have found some avail in a recent line of cases that have held parties other than direct infringers liable under theories of contributory copyright infringement and vicarious copyright infringement.<sup>8</sup> While there has

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1. Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 430 (1984).

2. *Id.*

3. Kevin Michael Lemley, Comment, *Protecting Consumers from Themselves: Alleviating the Market Inequalities Created by Online Copyright Infringement in the Entertainment Industry*, 13 ALB. L.J. SCI. & TECH. 613, 639 (2003) (noting that the Internet has “provided infringers with new methods of infringement”).

4. Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., 545 U.S. 913, 928-29 (2005).

5. Benjamin H. Glatstein, Comment, *Tertiary Copyright Liability*, 71 U. CHI. L. REV. 1605, 1626 (2004) (“[N]ew technologies that mask the identity of direct infringers may make recovery and deterrence against direct infringers impossible, or at least extremely difficult and costly. In the arena of digital copyright infringement, many users are judgment-proof, effectively limiting the ability of standard copyright law to deter their behavior.” (footnote omitted)).

6. *Id.* (“[M]any infringers will respond to the jurisdictional limitations of U.S. courts by moving their infringing activity—or just enough of their infringing activity to avoid liability—overseas.”).

7. *Id.* (“The specter of judgment-proof direct infringers and jurisdictionally immune secondary infringers militates in favor of tertiary liability.”).

8. Mohsen Manesh, *The Immorality of Theft, the Amoralty of Infringement*, 2006 STAN. TECH. L. REV. 5, ¶ 19 (2006) (“*Napster* litigation appeared to be a significant success for

been significant success in dealing with such infringement in peer-to-peer file sharing programs such as Napster<sup>9</sup> and Grokster,<sup>10</sup> a recent decision by the United States Court of Appeals for the Ninth Circuit has foreclosed a whole industry from potential responsibility in online copyright infringement.<sup>11</sup> In *Perfect 10, Inc. v. Visa International Service, Ass'n*,<sup>12</sup> decided by a split panel on July 3, 2007, the Ninth Circuit held that “credit card companies cannot be said to materially contribute to . . . infringement . . . because they have no direct connection to that infringement.”<sup>13</sup> The *Perfect 10 v. Visa* holding represents an inaccurate reading of the United States Supreme Court’s recent decision in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*,<sup>14</sup> as well as a misguided balancing of equities in the field of copyright law. The Ninth Circuit’s holding in *Perfect 10 v. Visa* puts copyright owners at a severe disadvantage in protecting their property rights in this new technological field. Courts should examine not only the soundness of the legal principles behind the decision, but the consequences it will have on intellectual property in the future.

To better understand the Ninth Circuit’s ruling in *Perfect 10 v. Visa*, Part II of this note will explore the development of copyright infringement law in the United States. Part III will examine the background and facts of *Perfect 10 v. Visa*, the majority’s analysis and arguments, and the dissent’s criticism of the decision. Part IV analyzes the court’s decision and its implications on the future of copyright law and the Internet. Part V concludes this note.

## II. The Evolution of Copyright Law

The law of contributory copyright infringement has changed dramatically since its inception in the common law almost one hundred years ago.<sup>15</sup> Having to apply old legal maxims to cutting edge technologies, courts have remained one step behind the latest methods of infringement.<sup>16</sup> These changes in the law

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copyright owners.”).

9. See *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).

10. See *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005).

11. See *Perfect 10, Inc. v. Visa Int’l Serv., Ass’n*, 494 F.3d 788, 798 (9th Cir. 2007) (holding that payment processing by credit card companies does not constitute contributory copyright infringement).

12. *Id.*

13. *Id.* at 796 (emphasis added).

14. 545 U.S. at 913.

15. See *Kalem Co. v. Harper Bros.*, 222 U.S. 55 (1911) (representing the birth of the law of contributory copyright infringement).

16. Lisa A. Flate, Note, *New Technology Clauses Aren’t Broad Enough: Why a New Standard of Interpretation Must be Adopted for Internet Distribution*, 23 HASTINGS COMM. & ENT. L.J. 171, 188 (2000) (“[T]echnology continues to outpace intellectual property law.”).

have at times benefited copyright owners, and at other times copyright users.<sup>17</sup> This section will explore the origins and history of copyright law, contributory copyright infringement, and recent changes in the law preceding the Ninth Circuit's *Perfect 10 v. Visa* decision.

*A. Origins of Copyright Law in the United States*

In *Sony Corp. of America v. Universal City Studios, Inc.*,<sup>18</sup> the United States Supreme Court summarized the underlying rationale behind the protection of copyrights, stating that “[t]he sole interest of the United States and the primary object in conferring the monopoly lie in the general benefits derived by *the public* from the labors of authors.”<sup>19</sup> Protection, therefore, lies in the interests of the public, not in the authors’ interests,<sup>20</sup> as the “reward to the author or artist serves to induce release to the public of the products of his creative genius.”<sup>21</sup>

Copyright law in the United States is predicated on the Intellectual Property Clause of the U.S. Constitution,<sup>22</sup> stating that “Congress shall have Power . . . To 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.”<sup>23</sup> There was little discussion of the clause during either the drafting of the Constitution or the ratification process, making the intent of the Framers difficult to determine.<sup>24</sup> Two conclusions to be drawn

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17. Mary L. Mills, Note, *New Technology and the Limitations of Copyright Law: An Argument for Finding Alternatives to Copyright Legislation in an Era of Rapid Technological Change*, 65 CHI.-KENT L. REV. 307, 310 (1989) (“Changes in technology tend to upset the balance set by copyright law in favor of either the copyright owner, who may be able to exclude others from his work more effectively, or the user, who may make use of some technological innovation to access or exploit more easily a protected work.”).

18. 464 U.S. 417 (1984).

19. *Id.* at 429 (emphasis added) (quoting *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 158 (1948)).

20. *Id.* (“The copyright law, like the patent statutes, makes reward to the owner a secondary consideration.” (quoting *Paramount Pictures*, 334 U.S. at 158)).

21. *Id.* (quoting *Paramount Pictures*, 334 U.S. at 158).

22. Edward C. Walterscheid, *The Nature of the Intellectual Property Clause: A Study in Historical Perspective* (Part 1), 83 J. PAT. & TRADEMARK OFF. SOC’Y 763, 765 n.1 (2001) (“This clause is frequently referred to as either the patent clause, the copyright clause, or the intellectual property clause, depending on the context in which it is being discussed.”).

23. U.S. CONST. art. I, § 8, cl. 8.

24. Walterscheid, *supra* note 22, at 766 (“The almost total lack of discussion in the federal convention was followed by an equal lack of discussion in the ratifying conventions. It received only the briefest of mention and there was no opposition to it. The impression is left that it was one of those innocuous and straightforward clauses which failed to raise the passions or concerns of anyone in the debates on either the content of the Constitution or its ratification.”)

from the lack of debate over the clause are that it was either uncontroversial or simply unimportant.<sup>25</sup>

Under the Copyright Act of 1976, copyright protection is provided for “original works of authorship fixed in any tangible medium of expression.”<sup>26</sup> A copyright begins at the time of creation and endures for the life of the author and seventy years after the author’s death.<sup>27</sup> Under the Act, “[a]nyone who violates any of the exclusive rights of the copyright owner . . . or of the author . . . is an infringer of the copyright . . . .”<sup>28</sup> While this protection does not give the copyright owner complete control over all of the uses of his work, it grants the copyright owner “exclusive” rights to use and authorize the use of his work in five ways, including reproduction and sale.<sup>29</sup> To establish direct copyright infringement, one must prove both: “(1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original.”<sup>30</sup>

#### *B. Origins of Common Law Contributory Copyright Infringement*

The United States Supreme Court first recognized a form of contributory copyright infringement in 1911.<sup>31</sup> The case, *Kalem Co. v. Harper Bros.*, involved a motion picture production company that released a film entitled *Ben Hur*. This film was based, without permission, on a novel written by General Lew Wallace.<sup>32</sup> The production company did not commercially exhibit the film, but rather sold the film to third parties to exhibit publicly.<sup>33</sup> The Court held that even though the production company “did not produce the representations, but merely sold the films,”<sup>34</sup> the production company could still be held liable for the infringement.<sup>35</sup> The production company’s liability was based on intentional infringement through advertisements.<sup>36</sup> As the court

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(footnote omitted)); see also Thomas B. Nachbar, *Intellectual Property and Constitutional Norms*, 104 COLUM. L. REV. 272, 338 (2004).

25. Nachbar, *supra* note 24, at 338.

26. 17 U.S.C. § 102(a) (2000).

27. *Id.* § 302(a) (“Copyright in a work created on or after January 1, 1978, subsists from its creation and, except as provided by the following subsections, endures for a term consisting of the life of the author and 70 years after the author’s death.”).

28. *Id.* § 501(a).

29. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 432-33 (1984).

30. *Feist Publ’ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 361 (1991).

31. *Kalem Co. v. Harper Bros.*, 222 U.S. 55, 63 (1911).

32. *Id.* at 60.

33. *Sony*, 464 U.S. at 435 (citing *Kalem*, 222 U.S. at 62).

34. *Kalem*, 222 U.S. at 62.

35. *Id.* at 63.

36. *Id.* at 62-63.

stated, “[i]f the [production company] did not contribute to the infringement it is impossible to do so except by taking part in the final act. It is liable on principles recognized in every part of the law.”<sup>37</sup>

The doctrine of contributory copyright infringement originates in tort law.<sup>38</sup> The doctrine “stems from the notion that one who directly contributes to another’s infringement should be held accountable.”<sup>39</sup> As articulated by the United States Supreme Court, “the concept of contributory infringement is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another.”<sup>40</sup> Judge Posner, of the Seventh Circuit, provides a more pragmatic reason for contributory copyright law:

Recognizing the impracticability or futility of a copyright owner’s suing a multitude of individual infringers (“chasing individual consumers is time consuming and is a teaspoon solution to an ocean problem”), the law allows a copyright holder to sue a contributor to the infringement instead, in effect as an aider and abettor.<sup>41</sup>

The modern adaptation of contributory copyright infringement has largely been spawned from a test given by the United States Court of Appeals for the Second Circuit in 1971, stating that “one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a ‘contributory’ infringer.”<sup>42</sup> This test has been modified by many courts over the years, but was a starting point for the United States Supreme Court when they confronted the issue of contributory copyright infringement and emerging technologies in *Sony Corp. of America v. Universal City Studios, Inc.*<sup>43</sup>

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37. *Id.* at 63 (citing *Rupp & Wittgenfeld Co. v. Elliot*, 131 F. 730, 732 (6th Cir. 1904)).

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

39. *Id.*; see also *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 417 (1984).

40. *Sony*, 464 U.S. at 435.

41. *In re Aimster Copyright Litig.*, 334 F.3d 643, 645-46 (7th Cir. 2003) (citation omitted) (quoting Randal C. Picker, *Copyright as Entry Policy: The Case of Digital Distribution*, 47 ANTITRUST BULL. 423, 442 (2002)).

42. *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (footnote omitted).

43. 464 U.S. at 487.

*C. Sony: The United States Supreme Court's First Attempt at Secondary Copyright Liability and New Technology*

The *Sony* case appeared before the United States Supreme Court in 1984. The issue arose out of the manufacture and sale of Sony's Betamax video tape recorder (VTR).<sup>44</sup> Universal City Studios owned copyrights on several television programs that were broadcast over public airwaves.<sup>45</sup> Some members of the public used VTRs sold by Sony to record these copyrighted programs.<sup>46</sup> The Court addressed the issue of whether Sony could be held contributory liable for an individual third party's copyright infringement carried out by use of its product.<sup>47</sup>

Balancing the needs of both copyright law and emerging technologies, the Court found that Sony was not liable for copyright infringement.<sup>48</sup> The Court framed the issue by stating that "[i]f vicarious liability is to be imposed on Sony in this case, it must rest on the fact that it has sold equipment with constructive knowledge of the fact that its customers may use that equipment to make unauthorized copies of copyrighted material."<sup>49</sup> Based partly on the public's interest in access to the article of commerce in question,<sup>50</sup> the Court adopted the "staple article of commerce doctrine" from patent law.<sup>51</sup> The staple article of commerce doctrine holds that an article of commerce, such as the Betamax, "does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing uses."<sup>52</sup>

Applying this test, the Court concluded that the Betamax was "capable of substantial noninfringing uses" and that the "sale of such equipment to the general public does not constitute contributory infringement of respondent's copyrights."<sup>53</sup> By finding Sony not liable for contributory copyright infringement, the Court allowed producers of emerging technologies to place a new product on the market without fear of suit.<sup>54</sup> Even if the producer has knowledge of possible infringing uses of their new technology, they are not

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44. *Id.* at 420.

45. *Id.* at 419-20.

46. *Id.* at 420.

47. *Id.* at 442.

48. *Id.* at 456.

49. *Id.* at 439.

50. *Id.* at 440.

51. *Id.* at 442.

52. *Id.*

53. *Id.* at 456.

54. *Id.*

liable for contributory copyright infringement as long as the product is capable of “substantial noninfringing uses.”<sup>55</sup>

*D. Fonovisa: the Ninth Circuit’s Pre-Napster Take on Contributory Copyright Infringement*

*Fonovisa, Inc. v. Cherry Auction, Inc.*<sup>56</sup> was the first post-*Sony* contributory copyright infringement case considered by the United States Court of Appeals for the Ninth Circuit. Fonovisa, a collection of music copyright owners, sued Cherry Auction, Inc., the owner and operator of a swap meet “where customers c[a]me to purchase various merchandise from individual vendors.”<sup>57</sup> While Cherry Auction did not directly violate any Fonovisa copyrights, the undisputed facts showed that it was “aware vendors in their swap meet were selling counterfeit recordings in violation of Fonovisa’s trademarks and copyrights.”<sup>58</sup>

The main issue for the court was whether Cherry Auction’s furnishing of space and services to its vendors was a “material contribution” to their infringement.<sup>59</sup> The court found “that providing the site and facilities for known infringing activity is sufficient to establish contributory liability”<sup>60</sup> and specifically pointed to Cherry Auction’s knowledge of the infringing activities and their support services, such as providing space and parking for the infringing businesses.<sup>61</sup>

*E. The Ninth Circuit in a Digital Age*

*A&M Records, Inc. v. Napster, Inc.* was the first major case in the Ninth Circuit to deal with the issue of contributory copyright infringement on the Internet.<sup>62</sup> The plaintiffs were “engaged in the commercial recording, distribution and sale of copyrighted musical compositions and sound recordings.”<sup>63</sup> Napster produced a peer-to-peer file sharing program that allowed users throughout the world to share music files over the Internet.<sup>64</sup> These files were stored and transmitted between individual Napster users’ computers.<sup>65</sup> Napster never actually stored any of these files on its computers,

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55. *Id.* at 442.

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

57. *Id.* at 261.

58. *Id.*

59. *Id.* at 264.

60. *Id.*

61. *Id.*

62. 239 F.3d 1004, 1019 (9th Cir. 2001).

63. *Id.* at 1010-11.

64. *Id.* at 1011.

65. *Id.*

but it stored a list of the filenames that its users had made available over the network to other users.<sup>66</sup> There was no question that third party users routinely used Napster's software to infringe on the plaintiffs' copyrights.<sup>67</sup>

On the issue of contributory copyright infringement, the court focused on Napster's knowledge of<sup>68</sup> and material contribution to<sup>69</sup> direct infringement by its users. As to the knowledge element, the court found that Napster had both actual and constructive knowledge of direct infringement.<sup>70</sup> Because Napster had access to a list of filenames its users made available over the network, the company had knowledge of specific infringing material on its system and failed to purge such material, amounting to a knowing contribution of direct infringement.<sup>71</sup>

The *Napster* court next disposed of the material contribution issue, relying on *Fonovisa*.<sup>72</sup> Agreeing with the district court, the Ninth Circuit found that, like the swap meet in *Fonovisa*, Napster provided users with "the site and facilities' for direct infringement."<sup>73</sup> Because Napster had both actual and constructive knowledge of the infringing activities, in addition to its material contribution to this activity, the Ninth Circuit had little difficulty holding Napster liable for contributory copyright infringement.<sup>74</sup>

#### *F. Aimster: The Seventh Circuit's Take on Peer-to-Peer Networks and Contributory Copyright Infringement*

The *In re Aimster Copyright Litigation*<sup>75</sup> case is factually similar to the *Napster* case in the Ninth Circuit, based on a peer-to-peer file sharing program that allowed users throughout the world to share music and video files over the

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66. *Id.* at 1011-12.

67. *Id.* at 1013. ("[A]s much as eighty-seven percent of the files available on Napster may be copyrighted and more than seventy percent may be owned or administered by plaintiffs." (quoting *A & M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896, 911 (N.D. Cal. 2000))).

68. *Id.* at 1020 ("Contributory liability requires that the secondary infringer 'know or have reason to know' of direct infringement." (quoting *Cable/Home Commc'n Corp. v. Network Prods., Inc.*, 902 F.2d 829, 845-46 (11th Cir. 1990))).

69. *Id.* at 1022.

70. *Id.* at 1020 ("It is apparent from the record that Napster has knowledge, both actual and constructive, of direct infringement." (footnote omitted)).

71. *Id.* at 1021 ("[I]f a computer system operator learns of specific infringing material available on his system and fails to purge such material from the system, the operator knows of and contributes to direct infringement.").

72. *Id.* at 1022 ("The district court correctly applied the reasoning in *Fonovisa*, and properly found that Napster materially contributes to direct infringement.").

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

74. *Id.* at 1022.

75. 334 F.3d 643 (7th Cir. 2003).

Internet.<sup>76</sup> Both cases had similar parties and a similar result, but the reasoning of the Seventh Circuit substantially differed from that of the *Napster* court.<sup>77</sup>

Written by Judge Posner, the Seventh Circuit approached this case with an eye toward balancing the interests of both emerging technologies and copyright holders, reasoning that “when a supplier is offering a product or service that has noninfringing as well as infringing uses, some estimate of the respective magnitudes of these uses is necessary for a finding of contributory infringement.”<sup>78</sup> The court found that the Ninth Circuit erred in *Napster* by “suggesting that actual knowledge of specific infringing uses is a sufficient condition for deeming a facilitator a contributory infringer.”<sup>79</sup>

In the decision, the evidence showed that there was a possibility of substantial noninfringing use, but *Aimster* failed to show that any of these potential uses were actualized by its users.<sup>80</sup> The court found that

[e]ven when there are noninfringing uses of an Internet file-sharing service . . . if the infringing uses are *substantial* then to avoid liability as a contributory infringer the provider of the service must show that it would have been *disproportionately costly* for him to eliminate or at least reduce substantially the infringing uses.<sup>81</sup>

Because *Aimster* could not show that its product was *actually* used for any noninfringing use,<sup>82</sup> and likewise could not show that any possible measures to stop infringement would be disproportionately costly, the court found that *Aimster*'s activity fell outside of the protection offered to producers of emerging technologies afforded by the *Sony* decision.<sup>83</sup>

#### G. *Grokster*: *Technology Adapts, So Does the Supreme Court*

In the wake of the Seventh and Ninth Circuits' attempts at divining the true meaning of *Sony* in a new digital era, the United States Supreme Court attempted to lay a framework for such cases.<sup>84</sup> The facts of the *Grokster*

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76. *Napster*, 239 F.3d at 1011.

77. Tom Graves, Note, *Picking Up the Pieces of Grokster: A New Approach to File Sharing*, 27 HASTINGS COMM. & ENT. L.J. 137, 159 (2004) (“*Aimster*'s subsequent limitation of *Sony* differs greatly from the heightened knowledge requirement imposed by *Napster*.”).

78. *Aimster*, 334 F.3d at 649.

79. *Id.*

80. *Id.* at 653.

81. *Id.* (emphasis added).

82. *Id.*

83. *Id.*

84. Alfred C. Yen, *Third-Party Copyright Liability After Grokster*, 91 MINN. L. REV. 184, 189 (2006) (analyzing *Grokster* and arguing that it “created an improved framework for future

decision were in essence very similar to *Napster*, but with one major difference.<sup>85</sup> Grokster did not have a database of files available on a corporate computer, but rather all information relating to what files were available over their network was stored on the individual users' computers.<sup>86</sup> This, according to Grokster, differentiated their software from Napster, in that they only provided software capable of both infringing and non-infringing uses.<sup>87</sup> Also, unlike Napster, they had no actual or constructive knowledge of *specific* acts of infringement.<sup>88</sup>

Both the district court and the Ninth Circuit Court of Appeals found that Grokster was not liable for contributory copyright infringement, even though the undisputed facts showed that their users were liable.<sup>89</sup> For the Ninth Circuit, the fact that the software was capable of substantial noninfringing uses meant that Grokster was "not liable, because they had no such actual knowledge, owing to the decentralized architecture of their software."<sup>90</sup>

The United States Supreme Court reversed the Ninth Circuit Court of Appeals, finding that "this case is significantly different from *Sony* and reliance on that case . . . was error."<sup>91</sup> The Court held that when the "evidence goes beyond a product's characteristics or the knowledge that it may be put to infringing uses, and shows statements or actions [such as found here by Grokster] directed to promoting infringement, *Sony*'s staple-article rule will not preclude liability."<sup>92</sup> Although there were some potential non-infringing uses, the evidence in the *Grokster* decision established that the majority of Grokster's profits were based on the infringing uses. Therefore, the non-infringing uses were not substantial.<sup>93</sup>

The Court also distinguished *Sony* from *Grokster* in another important way. *Sony* put a product on the market with constructive knowledge of possibly infringing uses.<sup>94</sup> Grokster, on the other hand, actively promoted their product for infringing uses.<sup>95</sup> Even though the two products might have had similar possibilities for both infringing and noninfringing uses, Grokster's intent and

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construction of third-party copyright liability").

85. *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 922 (2005).

86. *Id.*

87. *Id.* at 922-23.

88. *Id.* at 923.

89. *Id.* at 928.

90. *Id.* at 927-28.

91. *Id.* at 941.

92. *Id.* at 935.

93. *Id.* at 941.

94. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984).

95. *Grokster*, 545 U.S. at 924-25, 941.

actual knowledge of infringing activity prompted the Court to rule against them.

*H. Perfect 10 v. Amazon.com: Reconciling Grokster and Napster*

The Ninth Circuit's first opportunity to align its contributory copyright jurisprudence with the United States Supreme Court's *Grokster* decision arose in *Perfect 10, Inc. v. Amazon.com, Inc.*<sup>96</sup> The *Perfect 10 v. Amazon.com* decision involved the same plaintiff as in the *Perfect 10 v. Visa* case, who also filed suit against Amazon.com and Google.com for, inter alia, contributory copyright infringement.<sup>97</sup> The plaintiff's claim in *Perfect 10 v. Amazon.com* was that Google had continued to show thumbnail photos in its web searches that were copyrighted by Perfect 10.<sup>98</sup> Perfect 10 also alleged that Google continued to show Perfect 10's thumbnail photos despite the fact that Google had actual knowledge of these photos, as well as knowledge that the websites that hosted them were infringing on the plaintiff's copyrights.<sup>99</sup> The district court enjoined Google from creating and displaying thumbnail versions of Perfect 10's images, but did not enjoin their ability to link to third-party infringing websites.<sup>100</sup>

Upon appeal, the Ninth Circuit framed the issue of contributory copyright infringement in the words of the United States Supreme Court's *Grokster* decision, noting that "[o]ne infringes contributorily by intentionally *inducing* or *encouraging* direct infringement . . ."<sup>101</sup> As the Ninth Circuit found direct infringement with relative ease,<sup>102</sup> the real test for Google was whether it intentionally induced or encouraged this infringement.<sup>103</sup> Reading common law tort rules into the *Grokster* decision, the court stated that "under *Grokster*, an actor may be contributorily liable for intentionally encouraging direct infringement if the actor *knowingly takes steps* that are *substantially certain* to result in such direct infringement."<sup>104</sup>

Applying this test, the court held that

[t]here is no dispute that Google substantially assists websites to distribute their infringing copies to a worldwide market and assists

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96. 487 F.3d 701 (9th Cir. 2007).

97. *Id.* at 713.

98. *Id.* at 710.

99. *Id.* at 713.

100. *Id.* at 710.

101. *Id.* at 725 (emphasis added) (quoting *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930 (2005)).

102. *See id.* at 717.

103. *Id.* at 727.

104. *Id.* (emphasis added).

a worldwide audience of users to access infringing materials. . . . Google could be held contributorily liable if it had knowledge that infringing Perfect 10 images were available using its search engine, could take simple measures to prevent further damage to Perfect 10's copyrighted works, and failed to take such steps.<sup>105</sup>

Questions remained, however, as to Google's actual knowledge of infringing activity and their ability to feasibly stop such infringement, and the case was remanded to the district court to determine the adequacy of Perfect 10's notice to Google.<sup>106</sup> The Ninth Circuit soon revisited the issue of contributory copyright infringement in *Perfect 10 v. Visa*.

### III. Perfect 10 v. Visa

#### A. Facts

Perfect 10, Inc. publishes "PERFECT10" magazine and operates the subscription website [www.perfect10.com](http://www.perfect10.com).<sup>107</sup> Both of these products feature, as described by Perfect 10, "tasteful copyrighted images of the world's most beautiful natural models."<sup>108</sup> Perfect 10 claims copyrights in the photographs both in the magazine and on the website, and alleged that "numerous websites based in several countries have stolen its proprietary images . . . and illegally offered them for sale online."<sup>109</sup>

Instead of suing the direct infringers of its copyrights, however, Perfect 10 decided to sue Visa International Service, Ass'n, MasterCard International, Inc., and several affiliated banks and data processing services.<sup>110</sup> The defendants' customers allegedly used the defendants' credit cards to purchase infringing images on foreign websites.<sup>111</sup> The defendants admitted to receiving repeated notices from Perfect 10 informing them of the infringing websites and their customers' activities, but they took no action in response to these notices.<sup>112</sup>

After failing to receive a response to its repeated notices, Perfect 10 filed suit on January 28, 2004, alleging, inter alia, contributory and vicarious copyright infringement.<sup>113</sup> The defendants quickly moved to dismiss the case

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105. *Id.* at 729.

106. *Id.*

107. *Perfect 10, Inc. v. Visa Int'l Serv., Ass'n*, 494 F.3d 788, 793 (9th Cir. 2007).

108. *Id.*

109. *Id.*

110. *Id.* at 792.

111. *Id.* at 793.

112. *Id.*

113. *Id.*

under Fed. R. Civ. P. 12(b)(6) for failure to state a claim upon which relief can be granted.<sup>114</sup> The district court granted the defendants' motion, dismissing the case with prejudice.<sup>115</sup> Perfect 10 appealed to the United States Court of Appeals for the Ninth Circuit, who, by a 2-1 panel vote, upheld the dismissal.<sup>116</sup>

The issue for the Ninth Circuit, therefore, was whether Perfect 10 could "prove no set of facts in support of [its] claim which would entitle [them] to relief"<sup>117</sup> under a theory of contributory copyright infringement for knowingly processing credit card transactions that assisted the violation of Perfect 10's copyrights.

*B. The Majority's Holding: Very New and Very Bad Law*

The court began their discussion of the contributory copyright infringement claim with a brief history of recent cases in the field of copyright law.<sup>118</sup> Attempting to reconcile Ninth Circuit case law with the recent United States Supreme Court decision in *Grokster*,<sup>119</sup> the court held that these cases are all "non-contradictory variations on the same basic test."<sup>120</sup> The court went on to outline the test for contributory copyright infringement, stating that "one contributorily infringes when he (1) has knowledge of another's infringement and (2) either (a) materially contributes to or (b) induces that infringement."<sup>121</sup> Here, taking into consideration the *Grokster* and *Amazon.com* decisions, the court bifurcated the second prong of contributory liability into an either "materially contributes" or "induces" standard.<sup>122</sup>

The court refused to address the first prong of the test, noting that because "Perfect 10 has not pled facts sufficient to establish that Defendants induce or materially contribute to the infringing activity . . . we need not address the Defendants' knowledge of the infringing activity."<sup>123</sup> Although the court was disinclined to address Perfect 10's claim under the first prong of the test, it seems almost certain that they would have prevailed. As the court states elsewhere, Perfect 10 not only alleged that it sent the defendants notice of the infringing activities, but also that "[d]efendants admit[ted to] receiving some

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114. *Id.*

115. *Id.*

116. *Id.* at 810.

117. *Id.* at 794 (internal citations omitted in original) (quoting *Rodriguez v. Panayiotou*, 314 F.3d 979, 983 (9th Cir. 2002)).

118. *Id.* at 794-95.

119. *Id.* at 795.

120. *Id.*

121. *Id.*

122. *Id.* at 795, 801-02.

123. *Id.* at 795.

of these notices.”<sup>124</sup> Because the defendants readily admitted to receiving notice of the direct infringers’ activities, they almost certainly had the knowledge required under the first prong of the contributory infringement test.

Turning next to the second prong of the contributory infringement test, the court began its analysis with the “material contribution” sub-prong.<sup>125</sup> In finding that the defendants’ activities did not amount to a material contribution to infringing activities, the court articulated several rationales for their holding.<sup>126</sup> First, the court noted the lack of a “direct connection” to the infringement.<sup>127</sup> Acknowledging that the credit card services of the defendants made infringement more profitable and, therefore, encouraged consumers to engage in such infringing activity, the court nonetheless found that this was not enough for material contribution.<sup>128</sup> The question the court addressed was whether the defendants materially contributed to the infringing activities.<sup>129</sup> These infringing activities consisted of “reproduction, alteration, display and distribution, which can occur without payment. Even if infringing images were not paid for, there would still be infringement.”<sup>130</sup>

In this case, according to the court, there was an additional step in the casual chain.<sup>131</sup> The “Defendants make it easier for infringement to be *profitable*, which tends to increase financial incentives to infringe, which in turn tends to increase infringement.”<sup>132</sup> This extra step led the court to find that there was not a sufficiently direct connection to allege a material contribution to infringing activities.<sup>133</sup> For the court, the distinction was mainly one of location services versus payment services.<sup>134</sup> They found that “location services are more important and more essential—indeed, more ‘material’—to infringement than payment services are.”<sup>135</sup>

Next, the court discussed potential public policy problems with holding that the defendants’ activities amounted to a material contribution to infringing activities.<sup>136</sup> Examining the possible implications of such a finding, the court conjectured that the mere threat of a contributory infringement suit could lead

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124. *Id.* at 793.

125. *Id.* at 796.

126. *Id.* at 796-800.

127. *Id.* at 796.

128. *Id.* at 797.

129. *Id.*

130. *Id.* at 796.

131. *Id.* at 797.

132. *Id.*

133. *Id.* at 796-97.

134. *Id.* at 797 n.8.

135. *Id.*

136. *Id.* at 798 n.9.

credit card companies to decline to finance purchases that were legally risky, which could have enormous implications for the economy.<sup>137</sup> The court even went as far as to speculate that such a turn of events could lead to the violation of consumers' First Amendment rights.<sup>138</sup> These factors, though not dispositive, explain why the court was reluctant to apply contributory infringement against the defendants in this case.

The court went on to compare the circumstances in *Fonovisa* to the current case.<sup>139</sup> According to the court, “[t]he *Fonovisa* court found liability because the swap meet operator knowingly provided the ‘site and facilities’ for the infringing activity.”<sup>140</sup> The court found that the “site and facilities” increased the level of infringement by providing a centralized location for the exchange of infringing works.<sup>141</sup> According to the court, there was no way to reconcile the facts of *Perfect 10* with those of *Fonovisa* and *Napster* without broadening the concept of “site and facilities” beyond recognition.<sup>142</sup> The defendants in this case “merely provide a method of payment, not a ‘site’ or ‘facility’ of infringement.”<sup>143</sup>

Turning to the second sub-prong in the contributory infringement analysis, the court examined possible inducement by applying *Grokster* to the current case.<sup>144</sup> *Perfect 10* claimed that “*Grokster* [was] analogous because Defendants induce customers to use their cards to purchase goods and services, and are therefore guilty of specifically inducing infringement if the cards are used to purchase images from sites that have content stolen from *Perfect 10*.”<sup>145</sup> Disagreeing with this argument, the court noted that there were no affirmative steps taken by the defendants to specifically promote the payment system as a means to infringe and that *Perfect 10* had failed to allege any specific acts intended to encourage or induce infringement.<sup>146</sup> Providing credit card services alone did not establish that the defendants intended to induce customers to purchase infringing items.<sup>147</sup> In the court’s view, “it does not follow that Defendants affirmatively promote each product that their cards are used to purchase.”<sup>148</sup>

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137. *Id.*

138. *Id.*

139. *Id.* at 798.

140. *Id.*

141. *Id.* at 799.

142. *Id.* at 799-800.

143. *Id.* at 800.

144. *Id.*

145. *Id.*

146. *Id.* at 801-02.

147. *Id.* at 800-01.

148. *Id.* at 801.

As a result of Perfect 10's failure to meet either the material contribution prong or the inducement prong of the Ninth Circuit's contributory copyright infringement test, they failed to state a claim upon which relief may be granted.<sup>149</sup> Consequently, the Ninth Circuit upheld the district court's dismissal of the case.<sup>150</sup>

### C. Dissent

Judge Kozinski filed a lengthy and impassioned dissent to the majority's opinion. He argued that if the majority were to take Perfect 10's allegations at face value, which the court must on a motion to dismiss, the defendants "are easily liable for indirect copyright infringement."<sup>151</sup> Commenting that the majority's opinion "leaves our law in disarray,"<sup>152</sup> Judge Kozinski questioned why the majority "strain[ed] to absolve [the] defendants of liability" in this case.<sup>153</sup>

Judge Kozinski assaulted the majority's reasoning in several ways. First, he reconciled the *Amazon.com* case with the current case.<sup>154</sup> The court in *Amazon.com* noted that Google "could be held contributorily liable if it had knowledge that infringing Perfect 10 images were available using its search engine, could take simple measures to prevent further damage to Perfect 10's copyrighted works, and failed to take such steps."<sup>155</sup> Simply by replacing the words "search engine" with the words "payment systems," this test would describe the defendants.<sup>156</sup>

The majority attempted to distinguish *Amazon.com* by noting the "additional step" required in the causal chain, but Judge Kozinski disagreed.<sup>157</sup> Finding the defendants' activities an essential step in the infringing process, he noted that the "[d]efendants participate[d] in every credit card sale of pirated images; the images are delivered to the buyer only after [the] defendants approve[d] the transaction and process[ed] the payment."<sup>158</sup>

Judge Kozinski also stated that even if the defendants' activities did require an "additional step" to get to contributory infringement, it would be of no consequence in this case.<sup>159</sup> When looking at the material contribution of a

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149. *Id.* at 810.

150. *Id.*

151. *Id.* (Kozinski, J., dissenting).

152. *Id.* at 811.

153. *Id.*

154. *Id.*

155. *Id.* (quoting *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701, 729 (9th Cir. 2007)).

156. *Id.*

157. *Id.*

158. *Id.*

159. *Id.* at 812.

party's activities, "[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."<sup>160</sup> Judge Kozinski argued that the majority acknowledged that the defendants provided substantial assistance to the infringers, but attempted to distinguish their activities by "consign[ing] the means of payment to secondary status."<sup>161</sup>

Finding that "[l]ocation services and payment services are equally central to infringement,"<sup>162</sup> Judge Kozinski questioned why the majority found locating images more central to infringement than paying for them.<sup>163</sup> If you cannot find infringing images, there can be no infringement. If the infringing images cannot be paid for, however, there cannot be infringing activity either.<sup>164</sup> Even if locating images is more central to infringement than payment, this should have no consequence to the outcome of this case.<sup>165</sup> The question should be whether the contribution is a material one, not whether it is "more material than" or "as material as" another type of infringement.<sup>166</sup>

Next, Judge Kozinski attempted to distinguish the practical impacts of locating images compared to payment systems.<sup>167</sup> First, he noted that this question is not even a necessary one at this point in the litigation, stating, "At the pleadings stage, [the court] must accept plaintiff's allegations that credit cards are indispensable to the operation of the Stolen Content Websites, and that these websites would be forced out of business without them."<sup>168</sup> The fact that the majority contradicted one of the plaintiffs' allegations in the pleadings to justify their opinion was, in Judge Kozinski's opinion, "a pretty good hint that they're wrong."<sup>169</sup>

Even assuming that the court did not accept the plaintiff's allegations as true, experience reveals that "there are numerous ways of locating infringing images on the Internet, but there are no adequate substitutes for credit cards when it comes to paying for them."<sup>170</sup> If the court would have honestly weighed the importance of search engines and credit cards to infringing activities online, "the cards would win hands down."<sup>171</sup>

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160. *Id.*

161. *Id.*

162. *Id.*

163. *Id.*

164. *Id.*

165. *Id.* at 812, 812 n.6.

166. *Id.* at 812 n.6.

167. *Id.* at 813.

168. *Id.*

169. *Id.* at 813-14.

170. *Id.* at 814.

171. *Id.*

Further, Judge Kozinski questioned why the majority made the existence of alternative means of payment a defense to contributory infringement.<sup>172</sup> Noting that the majority “makes some very new—and very bad—law here,”<sup>173</sup> he questioned whether there could ever be a case of contributory infringement based on material assistance if hypothetical alternatives to the specific means of assisting infringement could be used to diminish the importance of the actual assistance given.<sup>174</sup>

Finally, Judge Kozinski questioned the majority’s distinction between assisting infringement and making infringement profitable.<sup>175</sup> He found that the majority seemed to think that increasing the profitability of infringement could not materially assist infringement because the actual process of infringement does not include payment.<sup>176</sup> He found this approach misguided for two reasons. First, the Stolen Content Websites infringed on Perfect 10’s right of distribution “by sale.”<sup>177</sup> Because it is not possible to infringe by sale without receiving compensation, payment is unquestionably an essential element of infringement by sale.<sup>178</sup> Second, this reading contradicted previous case law.<sup>179</sup> In *Amazon.com*, the Ninth Circuit Court of Appeals found that helping users locate infringing images materially assisted infringement, even though helping users to locate images is not “reproduction, alteration, display [or] distribution.”<sup>180</sup>

In sum, Judge Kozinski stated:

Defendants here are alleged to provide an essential service to infringers, a service that enables infringement on a massive scale. Defendants know about the infringements; they profit from them; they are intimately and causally involved in a vast number of infringing transactions that could not be consummated if they refused to process the payments; [and] they have ready means to stop the infringements.<sup>181</sup>

In his view, this case should not have even been a close or difficult decision.<sup>182</sup>

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172. *Id.*

173. *Id.*

174. *Id.*

175. *Id.*

176. *Id.*

177. *Id.* (citing 17 U.S.C. § 106(3) (2000)).

178. *Id.*

179. *Id.*

180. *Id.* (alteration in original).

181. *Id.* at 816.

182. *Id.*

#### IV. Analysis

The majority in *Perfect 10 v. Visa* was misguided in their approach to contributory copyright infringement. To quote Judge Kozinski's dissent, the majority "ma[de] some very new—and very bad—law here."<sup>183</sup> The court has created a new, stricter standard for contributory copyright infringement that reduces the protection of copyright holders on the Internet. The Ninth Circuit's ruling in *Perfect 10 v. Visa* is contrary to the plain language and ordinary interpretation of the rules applied, the public policy and principles behind the rules, and the economic realities that copyright owners face on an increasing basis in a digital age.

##### A. Misapplication of the Rules

As Judge Kozinski noted at length in his dissent, the majority has failed to apply previous court precedents that "were developed for a brick-and-mortar world."<sup>184</sup> The court has instead developed its own test for contributory copyright infringement that is unsupported by prior case law. By attempting to shift the argument of materiality from the significance of the assistance given to the proximity of assistance given through a confusing "one step or two steps removed" analysis, the majority has failed to apply Ninth Circuit precedent.<sup>185</sup>

Less than two months before this ruling was issued, the Ninth Circuit held in *Perfect 10 v. Amazon.com* that the test for contributory copyright infringement was whether one intentionally *induced* or *encouraged* direct infringement.<sup>186</sup> Under this interpretation of the United States Supreme Court's *Grokster* opinion, the Ninth Circuit found that "an actor may be contributorily liable [under *Grokster*] for intentionally encouraging direct infringement if the actor *knowingly takes steps* that are *substantially certain* to result in such direct infringement."<sup>187</sup>

While failing to apply this test for contributory infringement, the *Perfect 10 v. Visa* court distinguished their ruling from *Amazon.com* based on the fact that the *Perfect 10 v. Visa* defendants "[did] not provide users the tools to locate infringing material, nor d[id] any infringing material ever reside on or pass

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183. *Id.* at 814.

184. *Id.* at 798 n.9.

185. *Id.* at 812 (Kozinski, J., dissenting).

186. *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701, 725 (9th Cir. 2007) (quoting *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930 (2005)).

187. *Perfect 10 v. Visa*, 494 F.3d at 795 (emphasis added) (quoting *Perfect 10 v. Amazon.com*, 487 F.3d at 727).

through any network or computer Defendants operate.”<sup>188</sup> Neither of these matters directly relate to the basic question of contributory copyright infringement.

The majority in *Perfect 10 v. Visa* should have simply asked whether the defendants knowingly took steps that encouraged direct infringement, and whether these steps were substantially certain to result in direct infringement. Rather than redefining their own standard for contributory infringement, the majority should have approached *Perfect 10 v. Visa* with the same test that the Ninth Circuit Court of Appeals used in *Amazon.com*, based on the United States Supreme Court’s *Grokster* decision.

Using the *Amazon.com* analysis, it seems very likely that Visa’s activities did amount to contributory copyright infringement. Visa admitted to receiving repeated notices from Perfect 10 informing them of the infringing websites and their customers’ activities, but Visa took no action in response to these notices.<sup>189</sup> In spite of this knowledge of infringement, Visa continued to provide the infringing websites with credit card services.<sup>190</sup> Because the Stolen Content Websites infringed on Perfect 10’s right of distribution “by sale,” “[it is] not possible to [infringe] by sale without receiving compensation.”<sup>191</sup> Payment is therefore an essential element of infringement by sale.<sup>192</sup> By providing credit card services to websites who knowingly sell infringing articles, the defendants make it substantially certain that these services will be put to infringing uses, the very definition of contributory copyright infringement.

The majority, however, seems to state that the existence of alternative means of payment is a defense to contributory infringement.<sup>193</sup> Even if this were true,<sup>194</sup> there is little more than a hypothetical alternative to credit cards for online payment. The main payment method for goods and services online is, and has been since the inception of commercial activity online, the credit card.<sup>195</sup> Not only are credit cards central to the ability to purchase goods online, the amount of commerce being conducted online is growing exponentially. Online sales for 2006 rose twenty-nine percent to about \$146.4 billion, while sales forecasts for 2007 were expected to grow by nineteen

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188. *Id.* at 800.

189. *Id.* at 793.

190. *Id.* at 792.

191. *Id.* at 814 (Kozinski, J., dissenting) (citing 17 U.S.C. § 106(3) (2000)).

192. *Id.*

193. *Id.*

194. *See supra* notes 169-71 and accompanying text.

195. Timothy P. Lester, *Globalized Automatic Choice of Forum: Where do Internet Consumers Sue?*, 9 NEW ENG. J. INT’L & COMP. L. 431, 461 (2003).

percent to a whopping \$174.5 billion.<sup>196</sup> The continuing reign of credit cards as the most used form of payment online, along with the increasing size of commercial activity being conducted online, demonstrates that the alternatives the majority mentions are little more than hypothetical in the real world.

Another surprising aspect of this decision is that the Ninth Circuit's dismissal was not based upon a summary judgment motion or a verdict in the district court, but upon a motion to dismiss under Fed. R. Civ. P. 12(b)(6) for failure to state a claim upon which relief can be granted.<sup>197</sup> Under the Ninth Circuit's own precedent, the court should read the complaint liberally, taking "[a]ll allegations of material fact . . . as true and construed in the light most favorable to the nonmoving party."<sup>198</sup> As Judge Kozinski notes in his dissent, "I have never heard of reading a complaint liberally by ignoring allegations that are clearly present."<sup>199</sup> If the majority did apply a deferential standard to the plaintiff's complaint in this motion to dismiss, they made their deference hard to find.

Yet another curious aspect of the *Perfect 10 v. Visa* decision is its reliance on the policy rationale for not imposing contributory copyright liability. The majority opinion relies too heavily on the reasoning behind *Grokster*,<sup>200</sup> without taking account of the vast factual differences between the two situations. In *Grokster*, the United States Supreme Court dealt with a product that, if held liable for contributory copyright infringement, would virtually foreclose an entire technological line of dissemination of ideas and products. The main focus, as in *Sony*, was whether the product was "capable of commercially significant noninfringing uses"<sup>201</sup> and whether they actively promoted their product for infringing uses.<sup>202</sup> The *Sony* Court based their decision on the public's interest in access to the article of commerce in question.<sup>203</sup> This analysis takes into account the risks of denying new technological advancements due to possible infringing uses, where the entire line of innovation might otherwise be foreclosed for fear of liability.

In *Perfect 10 v. Visa*, however, liability would not have foreclosed any technological advancement. Visa's credit card processing system would still have been usable by every business in the world other than by direct infringers.

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196. CNNMONEY.COM, *Online Sales Spike 19 Percent*, May 14, 2007, [http://money.cnn.com/2007/05/14/news/economy/online\\_retailing/index.htm](http://money.cnn.com/2007/05/14/news/economy/online_retailing/index.htm).

197. *Perfect 10 v. Visa*, 494 F.3d at 792-93.

198. *Cousins v. Lockyer*, 568 F.3d 1063, 1067 (9th Cir. 2009).

199. *Perfect 10 v. Visa*, 494 F.3d at 819 (Kozinski, J., dissenting).

200. *Id.* at 801.

201. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984).

202. *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 940-41 (2005).

203. *Sony*, 464 U.S. at 440.

While in *Sony* and *Grokster* the products (the video tape recorder and a peer-to-peer file sharing program, respectively) are distributed to all consumers either in violation of copyright law or not, the case is not the same in *Perfect 10 v. Visa*. Because there is less of a risk of stifling innovative technology in *Perfect 10 v. Visa* than there was in *Sony* and *Grokster*, the court should have taken this into consideration and given added weight to the incentive to stop contributorily infringing activities.

One way the court in *Perfect 10 v. Visa* could have done this is by adopting Judge Posner's balancing approach taken in the *In re Aimster Copyright Litigation* case.<sup>204</sup> In that case, Judge Posner looked beyond mere noninfringing uses, holding that "[e]ven when there are noninfringing uses of [a product or] service . . . to avoid liability as a contributory infringer the provider of the service must show that it would have been *disproportionately costly* for him to eliminate or at least reduce substantially the infringing uses."<sup>205</sup>

This cost-balancing approach makes sense in *Perfect 10 v. Visa*. There is no indication given by Visa or Mastercard that it would have been *disproportionately costly* to eliminate or at least reduce substantially the infringing uses. Once the credit card companies had actual knowledge of the infringing uses of one of their customers, the only real cost to eliminate those uses is their loss of profit from engaging in infringing activity. Under Posner's balancing test, the credit card companies could not show any disproportionate costs for helping to protect the interests of copyright holders on the Internet.

However one approaches the holding in *Perfect 10 v. Visa*, the majority appears to take great pains in attempting to reconcile their decision with prior case law.<sup>206</sup> Because much of the majority's reasoning rests with public policy and economics, it is important to determine whether the decision is grounded, not only in a faithful application of prior case law, but also in the underlying principles to which the majority refers.

#### *B. Public Policy Behind the Rules*

In *Sony*, the United States Supreme Court articulated a simple maxim: "[w]hen technological change has rendered its literal terms ambiguous, the

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204. *In re Aimster Copyright Litig.*, 334 F.3d 643, 645 (7th Cir. 2003).

205. *Id.* at 653 (emphasis added).

206. *Perfect 10, Inc. v. Visa Int'l Serv., Ass'n*, 494 F.3d 788, 797-98 (9th Cir. 2007) (noting in detail how the majority's analysis "is fully consistent with this court's recent decision in *Perfect 10 v. Amazon.com*" and stating in five paragraphs of discussion how the holding "is also fully consistent with and supported by this court's previous holdings in *Fonovisa* and *Napster*.").

Copyright Act must be construed in light of this basic purpose.”<sup>207</sup> As the Court also noted, “[t]he immediate effect of our copyright law is to secure a fair return for an ‘author’s’ creative labor.”<sup>208</sup> Through securing a fair return on the author’s creative labor, the basic purpose of copyright protection is to stimulate creativity for the general public good.<sup>209</sup> The decision of the Ninth Circuit Court of Appeals in *Perfect 10 v. Visa* does not promote the ultimate goals of copyright protection, and thus is contrary to the policy principles underlying copyright protection itself.

If *Perfect 10 v. Visa* foreshadows the direction of copyright law in the future, it is a bleak future indeed. Authors will have little to no recourse available to infringing activities online and less incentive to create new works without a fair return on their labor. The lack of an effective copyright regime makes direct infringers ignorant at best, and disdainful at worst, of copyright law in general.<sup>210</sup> Also, the immense number of direct infringers compared to the relatively small number of copyright holders leads infringers to discount the possibility of being sued, thus taking away another important mechanism—the fear of legal action—from the copyright law regime.<sup>211</sup> These disdainful and fearless infringers will make authors think twice before expending their own talent and energy to create a work that can so easily be infringed by others.

As Justice Stevens noted in *Sony*:

The fortunes of the law of copyright have always been closely connected with freedom of expression, on the one hand, and with technological improvements . . . on the other. Successive ages have drawn different balances among the interest of the writer in the control and exploitation of his intellectual property, the related interest of the publisher, and the competing interest of society in the untrammelled dissemination of ideas.<sup>212</sup>

No doubt this is a difficult balancing process, especially in such a fast-changing technological age. However, when the courts reduce copyright protection to “mere words” with no feasible means of effectuating enforcement, the balance of interest has gone too far in the protection of infringers.

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207. *Sony*, 464 U.S. at 432.

208. *Id.*

209. *Id.*

210. *See Aimster*, 334 F.3d at 645.

211. *Id.*

212. *Sony*, 464 U.S. at 430 n.12 (quoting William C. Warren, *Forward* to BENJAMIN KAPLAN, *AN UNHURRIED VIEW OF COPYRIGHT* vii-viii (1967)).

*C. Economic Principles in Contributory Copyright Infringement*

Not only does the court's decision in *Perfect 10 v. Visa* undermine the public policy behind copyright law, it also fails to make economic sense. By disallowing Perfect 10 to prosecute a claim of contributory copyright infringement against those indirectly assisting in the blatant infringement of their copyrights, the court has given them no recourse outside of a suit against the direct infringers. But is this a real alternative for copyright owners?

History has shown that copyright owners will always bring suit to protect their ownership rights when new technologies and modes of infringement are created.<sup>213</sup> But in light of the increasing speed of technology for infringement and the inability of the law to sufficiently guard against all of these new developments, many infringers are effectively judgment-proof, limiting the ability of copyright owners to pursue direct infringers.<sup>214</sup>

In *Perfect 10 v. Visa*, the direct infringers were "numerous websites based in several countries" outside of the United States.<sup>215</sup> It is often impossible for copyright owners to successfully pursue foreign direct infringers online.<sup>216</sup> Even if possible, the sheer number of small scale direct infringers online would make individual suits against each of them extremely impractical. As Judge Posner surmised, realizing "the impracticability or futility of a copyright owner's suing a multitude of individual infringers ('chasing individual consumers is time consuming and is a teaspoon solution to an ocean problem'), the law allows a copyright holder to sue a contributor to the infringement instead."<sup>217</sup>

By taking away this avenue that the law has traditionally used to help copyright owners protect their interests, the Ninth Circuit has left Perfect 10 with only the option of a suit against the direct infringers. Recovery or deterrence against such direct infringers is often impossible, or at least extremely difficult and costly. The ability to sue indirect infringers, such as

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213. Todd Ryan Hambidge, Note, *Containing Online Copyright Infringement: Use of the Digital Millennium Copyright Act's Foreign Site Provision to Block U.S. Access to Infringing Foreign Websites*, 60 VAND. L. REV. 905, 929 (2007).

214. Glatstein, *supra* note 5, at 1626.

215. *Perfect 10, Inc. v. Visa Int'l Serv., Ass'n*, 494 F.3d 788, 793 (9th Cir. 2007).

216. Glatstein, *supra* note 5, at 1626 ("[N]ew technologies that mask the identity of direct infringers may make recovery and deterrence against direct infringers impossible, or at least extremely difficult and costly. In the arena of digital copyright infringement, many users are judgment-proof, effectively limiting the ability of standard copyright law to deter their behavior." (footnote omitted)).

217. *In re Aimster Copyright Litig.*, 334 F.3d 643, 645 (7th Cir. 2003) (citation omitted) (quoting Randal C. Picker, *Copyright as Entry Policy: The Case of Digital Distribution*, 47 ANTITRUST BULL. 423, 442 (2002)).

Visa and Mastercard, who make online infringement either possible or profitable, “allows copyright holders to stop direct infringement by millions through one suit, rather than through millions of individual suits.”<sup>218</sup> By failing to give copyright holders this option, the Ninth Circuit has indeed “ma[de] some very new—and very bad—law.”<sup>219</sup>

The lack of a real recourse against copyright infringement in the courts could also lead to larger societal and economic problems. Besides merely limiting copyright holders’ ability to find financial success in infringement suits, this lack of legal recourse could cause a loss of investment in innovative ideas and technologies. If investors fear that any innovations in which they invest will be stolen by judgment-proof infringers, many will forgo investment out of fear that they will not be protected from theft. In other words, few companies would be willing to invest money into research and development or the gathering of copyrighted works just to have a competitor contributorily infringe on their new copyrighted materials. This is a serious and potentially far reaching effect of the Ninth Circuit’s decision in *Perfect 10 v. Visa*.

#### V. Conclusion

As is always the case in copyright law, it is difficult to “balance incentives for creativity against social demand for access to artistic expression.”<sup>220</sup> For years, the courts have been forced to change their approaches to this issue as emerging technologies have changed and new methods of infringement have been developed. However, it is in the public interest to ensure that copyrights are protected. Without vigilant copyright protection, creative minds will be disinclined to continue producing works that benefit society as a whole, as the production of these works becomes less profitable.

To some, the tasks of the courts in copyright law and Sisyphus in Greek mythology<sup>221</sup> might seem equally hopeless. No matter how close the courts get, emerging technology continues to outpace the law.<sup>222</sup> Despite this challenge, the courts must continue to balance the interests of authors, publishers, and society at large with each new emerging technology. In order

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218. Hambidge, *supra* note 213, at 929.

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

220. Andres Sawicki, Comment, *Repeat Infringement in the Digital Millennium Copyright Act*, 73 U. CHI. L. REV. 1455, 1455 (2006).

221. Katherine R. Kruse, *Race, Angst, and Capital Punishment: The Burger Court’s Existential Struggle*, 9 SETON HALL CONST. L.J. 67, 116 (1998) (“[In Greek mythology,] Sisyphus was cursed by the gods to roll a heavy rock to the top of a mountain. Every time Sisyphus reached the top of the mountain, the rock would roll back down. For all eternity, Sisyphus was condemned to engage in this ‘futile and hopeless labor.’” (citation omitted)).

222. See Flate, *supra* note 16, at 188.

for the United States to continue promoting “the Progress of Science and useful Arts”<sup>223</sup> in this age of global innovation, the courts must continue to meet this challenge.

*James M. Tilly*

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223. U.S. CONST. art. I, § 8, cl. 8.