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SECONDARY LIABILITY IN A PERFECT 10 WORLD

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SECONDARY LIABILITY IN A PERFECT 10 WORLD

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Andrew P. Bridges is a partner at Winston and Strawn in San Francisco. Among his notable copyright and related matters, he defended Diamond Multimedia Systems, Inc. in the case brought by RIAA to halt introduction of the Rio MP3 music player; and ClearPlay Inc. in a case by major Hollywood studios and directors challenging software that allows owners of motion picture DVDs to skip and mute portions of the DVDs to shield their children from violence and other offensive content during replay. He was original lead counsel defending StreamCast Networks (producer of the Morpheus P2P communication software) in the Grokster case. Mr. Bridges represented Digital Media Association in an amicus brief to the Ninth Circuit in the Napster case and a variety of trade associations in an amicus brief to the district court in *Paramount v. ReplayTV*. Mr. Bridges is lead counsel for Google in the *Perfect 10 v. Google* litigation, for MasterCard in *Perfect 10 v. Visa*, and for Microsoft in *Perfect 10 v. Microsoft*.

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Eric J. Schwartz (moderator) is a partner at Mitchell, Silberberg and Knupp in Washington, D.C., and Adjunct Professor of Copyright Law at Georgetown University Law Center. Eric's practice is a mix of domestic and international copyright law, where he has represented and counseled clients in the areas of entertainment law, publishing, art law, copyright, trademark, including all forms of commercial transactions from the motion picture and television industry to the major music label and publishing world. He has testified before Congress and relevant federal agencies and served as a principal participant in crafting successfully enacted copyright law amendments including: the Berne Convention Implementation Act of 1988, the Visual Artists Rights Act of 1990, Copyright Renewal Act of 1992, and National Film Preservation Acts of 1992 and 1996.



**Secondary Liability in a Perfect 10 World
Case Summaries**

Copyright Society of the USA, New York Chapter

Princeton Club, October 11, 2007

Eric J. Schwartz

Third Party Liability in the Ninth Circuit: Case Outlines

1. Perfect 10, Inc. v. Amazon.com, Inc., 487 F.3d 701 (9th Cir. 2007)

[District Court opinion: CV-04-9484 AHM (SHx) CD Calif. (Feb. 2006)]

π = Perfect 10 (P10)

An adult magazine and subscription website.

Δ s = Google and Amazon.com and A9.com (cases against individual Δ s consolidated)

Search engines, software, website services, advertising, and media companies etc.

Issues: Does Δ Google's search engine infringe π images when it displays them via an "image search" function in the form of "thumbnails" (stored in Google's servers)? Does it infringe them when, through in-line linking, it "displays" π full-size images served by another third-party website?

The district and appeals court opinions consider π P10's direct and third party liability claims (and the petition for preliminary injunctive relief) against Δ Google, and similar claims against Δ s Amazon.com and its subsidiary A9.com (note, all but two pages of the 9th Cir. opinion focus on Δ Google).

Terms (as used in the decisions):

a) In line linking = process of incorporating different content from multiple computers into a single window.

b) Framing = information from one computer appears to frame and annotate the in-line linked content from another computer. In this instance, clicking on thumbnails causes a split screen: the top is information from the Δ Google web page (a thumbnail image and text), the bottom is a full size image from a third party (infringer) which comes via Δ Google instructions in HTML (and thus, appears to be "framed" by top).

c) Cache = temporary storage (Δ Google caches, i.e., stores website content; not images of P10, only HTML).

d) AdSense = owners of webpages register to be partners of Δ Google's AdSense business; HTML on webpages signals Google's server to place ads on webpages relevant to content; an algorithm selects the ads automatically; the revenue is split between the parties and Δ Google.

e) Thumbnails = a lower-resolution (i.e., smaller) version of a full-size image. As the District Court noted "[t]humbnails enable users to quickly process and locate visual information."

District Court

The court preliminarily enjoined Δ Google from creating and publicly displaying thumbnail versions of π images, but it did not enjoin Δ Google from linking to third-party websites that

display infringing full-size images. The district court did not preliminarily enjoin Δ Amazon.com from giving users access to information provided by Δ Google. Both π P10 and Δ Google appealed the district court's order.

The district court concluded that: (1) Δ Google's infringing "thumbnails" likely are direct infringement of π P10's display right (distinguishing *Kelly v. Arriba Soft Corp.*, 336 F.3d 811 (9th Cir. 2003)(i.e., *Kelly II*); (2) π P10 is not likely to prevail on its claim that Δ Google (or Δ s Amazon.com or A9.com) infringed the display or distribution rights regarding the full-size images; and (3) π P10 is unlikely to succeed on vicarious and contributory liability theories against Δ s Google, Amazon.com or A9.com.

On the direct infringement display right questions (of thumbnails and full-size images), the district court employed a "server test." It reasoned that "the most appropriate test is also the most straightforward: the website on which content is stored and by which it is served directly to a user, not the website that in-line links to it, is the website that 'displays' the content." The district court rejected π P10's embraced "incorporation test" which would define "display" as "the mere act of *incorporating* content into a webpage that is then pulled up by the browser..."

Appeals Court

Affirms in part, reverses in part and remands.

1. Direct infringement

π P10 claims two rights were infringed by Δ s: (1) the display right; and (2) the right of distribution (including by making available).

A. Display right

The appeals court agreed with the district court's application of the "server test" and its conclusions – looking at the definitions of "display" "copies" and "fixed" (citing *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993)). The Δ Google's computers store and communicate the thumbnails and thus π P10 is likely to prevail on direct infringement, absent a defense by Δ s. The appeals court, however, concludes that Δ Google does not display a copy of the full-size images because Δ Google's computers do not "store" and "thus cannot communicate a copy." (Similarly, the appeals court found Δ s Amazon.com or A9.com likely do not directly infringe the display right.)

Fair use defense: Although π P10 has succeeded in showing it would prevail in its prima facie case that Δ Google's thumbnails infringe the display right, π P10 is unlikely to prevail against Δ Google's fair use defense. On this point, the appeals court reversed the district court (which held π P10 would prevail on denying Δ Google's fair use defense, distinguishing *Kelly*) and vacates the preliminary injunction regarding Δ Google's use of the thumbnail images. The appeals court relies heavily on the "highly transformative" nature of Δ Google's search engine (and use of thumbnails) and the "public benefit" to find a likelihood of fair use (holding factors #1 for Δ Google, #2 for π P10, and #3 and #4 a tie).

The appeals court held π P10 not only has the burden of showing its likelihood of success on the merits, but that it must show the likelihood of overcoming Δ Google's fair use defense. The appeals court found this latter burden of proof to be a new issue for the court. π P10 has petitioned the court for an en banc ruling on several issues, including this one. The petition for en banc is pending. But, on the burden of proof matter, the appeals court asked both parties for additional briefs, which were filed in September.

B. Distribution right

The appeals court agreed with the district court finding that π P10 is not likely to prevail on a direct infringement claim against Δ Google (and against Δ s Amazon.com or A9.com). The district court reasoned that distribution requires an "actual dissemination" of a copy. The appeals court did not deny that the distribution right encompasses "making available" citing Napster users as infringers when they "make their collections available to other Napster users" and citing *Hotaling* ("the owner of a collection of works who makes them available to the public may be deemed to have distributed copies of the works"). But, the appeals court says π P10 incorrectly relies on *Hotaling* because "the 'deemed distribution' rule" does not apply to Δ Google's activities because "it does not have a collection of stored full-size images" to "make[] available to the public."

2. Secondary liability

After finding that there is "no dispute" that the requisite direct infringement exists for third party websites which reproduce, display, and distribute unauthorized copies of π P10's images, the court considers contributory infringement and vicarious liability.

A. Contributory infringement

The appeals court cites the *Grokster* test: "[o]ne infringes contributorily by intentionally inducing or encouraging direct infringement" further defined as two categories: "Liability...may be predicated on actively encouraging (or inducing) infringement through specific acts (as the Court's opinion develops) or on distributing a product distributees use to infringe copyrights, if the product is not capable of 'substantial' or 'commercially significant' noninfringing uses." (citing J. Ginsburg's concurrence, quoting *Sony*).

On the "design" question, the appeals court says Δ Google "cannot be held liable for contributory infringement *solely* because the design of its search engine facilitates such infringement" nor can it "be held liable solely because it did not develop technology that would enable its search engine to automatically avoid infringing images." The appeals court notes that π P10 was not basing its claim on Δ Google's design and considers the rest of the contributory liability doctrine.

Δ Google's activities "do not meet the 'inducement' test" in *Grokster* because Δ Google "has not promoted the use of its search engine specifically to infringe copyrights." However, the appeals court notes *Grokster* permits the imposition of contributory liability under "common law principles" even in the absence of inducement.

The appeals court considers Δ Google's liability "for intentionally encouraging infringement through specific acts." The appeals court applies the tests in *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F. 2d 1159 (2d Cir. 1971), and the *Napster* test "modeled on" *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*, 907 F. Supp. 1361 (N.D. Cal. 1995).

In sum, the appeals court defines its test as follows: "a computer service operator can be held contributorily liable if it 'has *actual* knowledge that *specific* infringing material is available using its system' [citing *Napster*] ... and can 'take simple measures to prevent further damage' to copyrighted works [citing *Netcom*] ... yet continues to provide access to infringing works."

The appeals court concludes: Δ 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."

The appeals court reverses the district court and remands on this issue (noting that the district court did not resolve factual disputes over the adequacy of π P10's notices to Δ Google nor Δ Google's responses to these notices).

B. Vicarious infringement

The appeals court agreed with the district court that π P10 has failed to show a likelihood of establishing Δ "Google's right and ability to stop or limit the directly infringing conduct of third-party websites" and thus a likelihood of "proving the [control] prong necessary for vicarious liability." Nor has π P10 proven that Δ Google derives a direct financial benefit from the infringing activities of third-party websites.

The appeals court cites the *Grokster* formulation of vicarious liability: that a "defendant exercises the requisite control over the direct infringer and that the defendant derives a direct financial benefit from the direct infringement." Control is defined as "the defendant's 'right and ability to supervise the direct infringer.'" (quoting *Grokster*).

π P10 has not demonstrated, according to the court, "a likelihood of showing that Google has the legal right to stop or limit the direct infringement of third-party websites." The appeals court distinguishes the facts in *Fonovisa* whereby a swap meet operator "had the right to stop the vendors from selling counterfeit recordings on its premises." It notes that Δ Google is not "similarly situated" to Napster wherein "Napster had a closed system" (registration, ability to terminate user accounts, block access to the system etc.) and thereby the "right and ability" to prevent infringing activity. The appeals court concludes "Google cannot terminate those third-party websites or block their ability to 'host and serve infringing full-size images' on the Internet" (citing the district court). π P10 points to the AdSense agreements with third-party (infringing) websites by which Δ Google "reserves 'the right to monitor and terminate partnerships with entities that violate others' copyright[s].'" The appeals court finds this falls short of "control" because an infringing third-party could continue to infringe π P10's images after its participation in the AdSense program ends.

Last, the appeals court, agreed, citing the district court opinion, that “Google lacks the practical ability to police the third-party websites’ infringing conduct.” “Without image-recognition technology, Google lacks the practical ability to police the infringing activities of third-party websites.” The court says this distinguishes Δ Google from the defendants in *Napster* and *Fonovisa*.

3. Digital Millennium Copyright Act

Δ Google claims it qualifies under section 512(d) (i.e., as an information location tool) for limitations on its liability. The appeals court notes that these limitations, if applicable, would apply to direct or secondary infringers. There is a dispute between π P10 and Δ Google as to whether Δ Google qualifies for and meets the specified criteria of section 512 – which was not reached by the district court because of its ruling in favor of Δ Google on contributory and vicarious liability claims. However, the appeals court notes that since it is reversing and remanding on the contributory infringement claims, the district court must (re)consider the section 512 issues.

4. Amazon.com

Amazon.com (and A9.com) had a contractual relationship with Δ Google (which ended in April 2006). Under its agreement Amazon.com users were in-line linked to Google’s search results (i.e., the thumbnail images on Google’s servers and the full-size images were framed on Amazon.com users’ computers. A separate case by π P10 against Δ Amazon.com and A9.com was consolidated with the Google case.

The appeals court, agreeing with the district court, found π P10 was unlikely to prevail in its direct infringement claims (display right and distribution right) against Δ Amazon.com (and A9.com) or on its secondary liability claim for vicarious liability. However, the district court did not consider the contributory infringement test (“actual knowledge that specific infringing material is available using its system” ... “and could have ‘take[n] simple measures to prevent further damage’” while it “continued to provide access to infringing works.” Thus, the appeals court remands this question to the district court to consider Amazon.com’s potential contributory liability (as well as possible limitations – i.e., DMCA – on the scope of relief).

2. Perfect 10, Inc. v. CCBill LLC, 488 F.3d 1102 (9th Cir. 2007)

π = Perfect 10 (P10)

Δ s = CCBill and CWIE

CWIE provides webhosting services and related Internet connectivity services to the owners of various websites. CCBill allows consumers to use credit cards (and checks) to pay for subscriptions or memberships to e-commerce venues. (Hereafter the summary refers to Δ s as “CCBill”).

Issues: π P10 sent Δ CCBill letters and e-mails stating that Δ CCBill was infringing π P10’s copyrighted images. π P10 sued Δ CCBill for direct infringement and secondary liability, on numerous state law claims (publicity, unfair competition, false and misleading advertising), as well as a RICO claim.

District Court

The district court found that Δ CCBill qualified for certain of the DMCA safe harbors, and that Δ CCBill was immune from liability for the state law unfair competition and false advertising claims based on the Communications Decency Act (CDA). π P10 appealed on these findings, and Δ CCBill cross-appealed on the district court’s holding that the CDA does not provide immunity against π P10’s right of publicity claims (and for the denial of costs and attorney’s fees under the Copyright Act).

Appeals Court

The appeals court remands on threshold section 512 questions – including whether Δ CCBill reasonably implemented a section 512(i)(1)(A) “repeat infringers” policy for non-party copyright holders. The court remands on the question of whether Δ CCBill owns an alleged directly infringing website, and if so, on the question of direct infringement by Δ CCBill. The court affirms the district court’s decision regarding CDA immunity for the unfair competition and false advertising claims, but reverses as to the right of publicity claim. The court affirms the district court’s decision to deny Δ CCBill costs and attorney’s fees under the Copyright Act.

1. Section 512 Safe Harbors

In order for Δ CCBill to qualify for any limitation on liability, the appeals court looks at the section 512(i)(1)(A) threshold policy implementation conditions for the termination of repeat infringers.

A. Implementation and Reasonableness

To be eligible for any of the four safe harbors in section 512(a) – (d), a service provider must have “adopted and reasonable implemented” a policy for terminating repeat infringers. The appeals court notes that “reasonably implemented” is not defined in the statute but such a policy

is “implemented” if the service provider “has a working notification system, a procedure for dealing with DMCA-compliant notifications, and if it does not actively prevent copyright owners from collecting information needed to issue such notifications” (citing *Ellison, Corbis Corp.*, and *In re Aimster Copyright Litig.*).

The appeals court finds a “service provider reasonably implements its repeat infringer policy if it terminates users when ‘appropriate’” (citing *Corbis*) and that it “need not affirmatively police its users for evidence of repeat infringement.” The statute does not define “appropriate”. Further section 512(c) liability limitations apply if a service provider “acts ‘expeditiously to remove or disable access to, the material’ when it (1) has actual knowledge, (2) is aware of facts or circumstances from which infringing activity is apparent, or (3) has received notification of claimed infringement meeting the requirements of § 512(c)(3).” There is a dispute between π P10 and Δ CCBill about the timing and sufficiency of notices provided to Δ CCBill. The district court found that π P10 did not provide notice that substantially complied with § 512(c)(3) and the appeals court agrees. At issue, is whether the π P10’s notices – individually and/or taken as a whole – meet all of the statutory requirements (and whether any errors were more than merely “technical errors”). The appeals court says it is not the service provider’s (i.e., Δ CCBill’s) burden to “cobble together adequate notice from separately defective notices” and thus π P10’s notices are inadequate. Thus, “knowledge of infringement may not be imputed” to Δ CCBill.

The district court did not consider the evidence of notices and Δ CCBill’s reaction to them from non-parties (i.e., not from π P10). The appeals court says this evidence is relevant to “reasonableness” of Δ CCBill’s implementation of section 512 and therefore remands for a determination of its repeat infringer policy with respect to copyright holders other than π P10.

π P10 alleges that Δ CCBill was aware of “red flags” that signaled apparent infringement, including its servicing of websites with web names (“illegal.net” and “stolencelebritypics.com”) that signaled by their name, and in text on the websites (“illegal” and “stolen”) material. The appeals court disagrees, saying there is not a “burden [on the service provider] of determining whether photographs are actually illegal.” Further, the appeals court refuses to place a burden on a service provider of determining whether passwords on a website enable infringement, arguing that such websites could be “a hoax, or out of date.” However, the court remands on the question of whether third party-identified repeat infringers raised “red flags” and whether the Δ CCBill responded appropriately – since the district court did not consider these issues.

A service provider that interferes with “standard technical measures” is not entitled to the safe harbors at sections 512(a) – (d). There is a dispute between the parties as to whether Δ CCBill interfered with “standard technical measures.” π P10 alleges that Δ CCBill’s blocking of π P10’s access to Δ CCBill-affiliated websites is such an interference. The court remands on both the legal and factual question.

The appeals court also remands on the question of whether Δ CCBill is a service provider under the more restrictive definition of such providers for section 512(a) (versus subsections (512(b) – (d)). At issue is the credit card information and proof of payment that Δ CCBill sends to and receives from its account holders.

Δ CCBill argued it has immunity under section 512(d) as an “information location tool” because it communicates a hyperlink to a client website after processing consumer credit card and password information. The appeals court, disagreed with Δ CCBill, saying it does not so qualify and is not immune under that section.

Treating Δ CWIE’s claim of section 512(c) immunity, for information residing on systems or networks at the direction of users, the appeals court says the issue is whether Δ CWIE receives a direct financial benefit and has the right and ability to control third party infringing activity. The appeals court says the same test of “direct financial benefit” applies to section 512(c) as is applied for vicarious liability (citing *Ellison*). The appeals court says π P10 provides “almost no evidence” that the infringing activity is a “draw” as required by *Ellison* to find a direct financial benefit, and, (relying on the legislative history of section 512) notes that “receiving a one-time set-up fee and flat, periodic payments for service” is not a sufficient direct financial benefit. If, on remand, the district court finds Δ CWIE meets the section 512(i) threshold, it is entitled to receive the section 512(c) safe harbor.

2. Communications Decency Act

The Communications Decency Act provides broad immunity for causes of action against service providers for information originating with third party users of the service. However, the immunity is limited by language pertaining to neither limit or expand “intellectual property” laws. The appeals court reads this preemption reference to mean federal intellectual property, so not state IP laws, and thus the Δ CCBill is “eligible for CDA immunity for all of the state claims raised by Perfect 10.” (*Nb*: In an amended decision, the court denied a motion for a rehearing *en banc* and held that its state law preemption holding was not in conflict with *Universal Communication Sys., Inc. v. Lycos, Inc.*, 478 F.3d 413 (1st Cir. 2007)).

3. Direct Infringement

π P10 has raised a genuine issue of material fact regarding one website (“horneybees.com”) and its relationship to Δs CCBill and CWIE as well as the direct infringement of π P10’s images on that site. The appeals court remands on this issue since the district court did not address this issue in its order granting summary judgment (and noting that if Δs CCBill and CWIE do operate this website there is no CDA immunity).

4. Costs and Attorney’s Fees

The district court denied fees to defendants who appealed this issue to the appellate court arguing that π P10’s litigation was “frivolous and meritless.” The appeals court, noting its remand on several issues, and citing *Fogerty* and the *Lieb v. Topstone Industries, Inc.*, 788 F.2d 151 (3d Cir. 1986) factors for weighing the defendant/plaintiff right to fees, and the court’s discretion and consideration of those factors in these matters, upholds the district court decision.

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

π = Perfect 10 (P10)

Δ = Visa International Service Association (et.al.)

Credit card companies providing payment services to websites. (Unless noted all Δ s – i.e., the many Δ credit card companies -- are referred to in this outline as Δ Visa.)

Issues: Is Δ Visa, by its processing of credit card payments for infringing third-party websites of π P10's images, secondarily liable?

District Court

The district court dismissed all causes of action under Federal Rule of Civil Procedure 12(b)(6) for π P10's failure to state a claim upon which relief can be granted.

Appeals Court

The appeals court, in a divided opinion, affirms the decision of the district court. J. Kozinski dissents.

1. Secondary liability

The appeals court evaluates π P10's claims "with an awareness that credit cards serve as the primary engine of electronic commerce" and that "Congress has determined it be the 'policy of the United States—(1) to promote the continued development of the Internet...[and] (2) to preserve the vibrant and competitive free market..."

A. Contributory infringement

The appeals court, citing *Napster*, *Fonovisa*, *Grokster* and *Perfect 10 v. Amazon.com*, as "variations on the same basic test, i.e., that one contributorily infringes when he (1) has knowledge of another's infringement and (2) either (a) materially contributes to or (b) induces the infringement." The court concludes that "[t]o find that Defendant's activities fall within the scope of such tests would require a radical and inappropriate expansion of existing principles of secondary liability and would violate the public policy of the United States."

π P10 "has not pled facts sufficient to establish that Defendants induce or materially contribute to the infringing activity" so the appeals court says it "need not address the Defendants' knowledge of the infringing activity."

In a footnote (Fn. 4), the appeals court notes that Δ credit card companies are not "service providers" within the scope of the DMCA and thus are not eligible for the safe harbors.

Δ Visa does not “materially contribute to the infringement” because the credit card companies “have no direct connection to the infringement. There is no evidence offered by π P10 that “any infringing material passes over Defendants’ payment networks or through their payment processing systems, or that the “Defendants’ systems are used to alter or display the infringing images.” The appeals court distinguishes *Fonovisa* (“the infringing material was physically located in and traded at defendant’s market”), *Amazon.com* (the search engines “provided links to specific infringing images”), *Napster* and *Grokster* (the services “allowed users to locate and obtain infringing material”), whereas Δ credit card companies “do not help locate and are not used to distribute the infringing images.” The appeals court defines the issue as “reproduction, alteration, display and distribution, which can occur without payment” because even if images “were not paid for, there would still be infringement.”

The appeals court, noting Kozinski’s dissent on this point, says Δ Visa’s “payment systems” are not the equivalent of *Amazon.com*’s “search engines.” While Δ Visa’s payment systems “do, as alleged, make infringements more profitable, and people are generally more inclined to engage in activity when it is financially profitable” the appeals court says “there is an additional step in the causal chain” for credit card payment services that is absent for the search engines in *Amazon.com*. In sum, Δ Visa is not providing the “site and facilities” that the defendants in *Fonovisa* and *Napster* provided and thus does not make a material contribution.

Regarding inducement, the appeals court says that there is no evidence that Δ Visa took any “affirmative steps” to foster infringement nor is there evidence that the distributors (Δ Visa) “communicated an inducing message to their ... users” citing *Grokster*. The court said “mere knowledge” of potential or actual infringing uses is not sufficient and π P10 has alleged no “‘specific acts’ intended to encourage or induce infringement.” The appeals court says there is no inducement even if true that Δ credit card companies “lend their names and logos to the offending websites and continue to allow their credit cards to be used to purchase infringing images despite actual knowledge of the infringement—and perhaps even bending their association rules [against illegal activity] to do so.”

B. Vicarious infringement

The appeals court notes the “roots” of vicarious infringement in the “agency principles of *respondeat superior* and the two part test: (1) the right and ability to supervise the infringing conduct and (2) a direct financial interest in the infringing activity. The appeals court refers to the *Grokster* (dictum) “alternate formulation of the test: ‘One ... infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it.’”

The appeals court says that even if π P10’s allegations are true that infringements of its works are taking place, Δ Visa is aware of the infringement, and Δ Visa could stop processing credit card payments to the infringing websites, this would not be sufficient to establish vicarious liability because Δ credit card companies do not “have the right and ability to control the infringing activity” citing an analogous situation and reasoning (of “a financial ‘carrot’” versus the “‘stick’ of ‘right and ability to control’”) in *Amazon.com*. The court distinguishes *Napster* (which “‘had the right and ability to police its system’”) because it provided the “tools” and could block access to users. This is distinguishable from Δ Visa which does have (by, e.g., member merchant

contracts) “the ability to exert financial pressure but does not give Defendants the right or ability to control the actual infringing activity...” The standard is to “*supervise and control* the infringement, not just affect it...” and Δ Visa does not have this right or ability, only the ability to stop “profiteering” which is different. The court also notes that Δ Visa (and defendants in *Amazon.com*) cannot, unlike the defendants in *Napster* and *Fonovisa*, remove individual infringers from the place of infringement.

The court mentions the many other parties – hardware and software suppliers, technical support services, and even utility companies that supply electricity – that are essential to websites, including infringing enterprises, who could be vicariously liable under π P10’s claims (if valid).

Last, because π P10 has failed to show Δ Visa’s right and ability to control the alleged infringing conduct, the court need not reach the issue of direct financial interest.

2. Secondary trademark liability

The appeals court notes the “even more difficult” test to show secondary trademark liability than exists for copyright liability. The court finds Δ Visa is neither contributorily liable (citing the *Inwood Labs* test) in the absence of direct control, knowledge, and intentional inducement, nor is it vicariously liable (in the absence of a symbiotic relationship or joint ownership or control).

3. California statutory and common law claims

π P10 asserts unfair competition, false advertising, right of publicity, libel and intentional interference claims under California statutory and common law. The appeals court upholds the district courts dismissal of all of the state law claims.

4. J. Kozinski dissent

With the exception of the (time-barred) state law claims, J. Kozinski dissents to all parts of the majority opinion. J. Kozinski says that the court “should not slam the courthouse door in [π P10’s] face.” The dissent says Δ Visa is “easily liable for indirect copyright infringement” as they

...knowingly provide a financial bridge between buyers and sellers of pirated works, enabling them to consummate infringing transactions, while making a profit on every sale. If such active participation in infringing conduct does not amount to indirect infringement, it’s hard to imagine what would.

The dissent suggests that Δ Visa might also be direct infringers if plaintiff’s allegations are true, but notes, that this issue is not on appeal.

The dissent says if the court were to “[s]ubstitute ‘payment systems’ for ‘search engine’” Δ Visa is, under the court’s reasoning in *Amazon.com*, contributorily liable. He notes that the majority errs in finding “an additional step in the causal chain” in *Amazon.com* than is found for the credit card companies in this case, pointing to the similar roles in the infringement chain for location

tools and credit card payment systems stating that both are an “essential step in the infringement process” (and in any case, denying the importance even if there were an additional step for the credit card companies).

The dissent says the Δ Visa is playing the same role in cyberspace as the swap meet owners play in the hard copy world in *Fonovisa* by assisting in “massive quantities” of infringement. He further suggests that the role of the credit card companies is even more essential to the infringing activities than that played by swap meet owners. The credit card companies are the “financial lifeblood” of infringing websites. J. Kozinski says the test is not the contribution but the “material contribution” which is met in this instance. He also dismisses the majority opinion’s consignment of the “dance hall/absentee landlord cases to oblivion” because they have (according to the majority) “no relevance on the Internet.” He takes exception, noting their relevance in distinguishing – in brick and mortar or cyberspace – between third parties who are centrally versus remotely involved in the infringing activity.

On vicarious liability, the dissent says there is “no dispute” that the Δ credit card companies profit from indirect infringement, and further, that they could exercise a right to stop or limit the infringing activity. He says that the majority opinion’s required “absolute right” to stop the activity as a “predicate for vicarious liability” is the wrong test and has never been the test of vicarious liability. He notes that, as in *Amazon.com*, there is a legal right (as well as a credit card company association duty to investigate and stop illegal activity) to stop the activity, and that “it’s enough if defendants have the ‘practical ability’ to do so.” He says that the Δ credit card companies clearly “have the ‘practical ability’ to force websites that display their logos and use their payments systems to remove unlawful merchandise.”

J. Kozinski says the majority errs in its test of stopping the infringing activity. “That the pirates might find some other way of doing business is of no consequence” citing *Fonovisa* (the infringers could find alternative ways to sell their merchandise besides the swap meet), *Napster* and *Grokster* (there are other means of sharing illegal content), and the dance hall cases.

Finally, the dissent says the majority misreads *Grokster* when it “sweep[s] in too many goods and services that contribute to infringing activity” because this only gives one the “practical ability to stop infringement” but not the control over the infringer’s actions. These “majority worries” would not be realized because the suppliers of goods and services “lack the legal right to stop the infringement” unlike Δ Visa.

The dissent disagrees with the majority opinion on trademark infringement – Δ Visa does contributorily and vicariously infringe – and, on the state law claims, because the “defendants *are* involved” and they “do provide the means to pay for the infringing content and thus make ‘massive quantities’ of infringement possible.”

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