

The Perfect 10 Trilogy
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The record industry's copyright litigation campaign against consumers allegedly engaged in the file sharing of sound recordings has been perhaps the highest visibility effort in the United States by copyright holders to combat infringement on the Internet. But the most ambitious assault, in terms of aggressive legal theories, has been waged by Perfect 10, a publisher of adult magazines and websites. Perfect 10 believes that operators of other websites have, without authorization, copied images from the Perfect 10 website and then displayed the copied images on their websites. However, rather than bring infringement actions against the website operators, Perfect 10 has instead sued a variety of intermediaries, including web hosts, search engines, and credit card companies, for facilitating the infringement. Presumably Perfect 10 concluded that it would be more efficient and effective to pursue the intermediaries rather than the infringing website operators.

This approach has largely failed; in recent months, the U.S. Court of Appeals for the Ninth Circuit has ruled against Perfect 10 in three separate cases. These decisions collectively have limited the exposure of Internet service providers for third parties' infringing activity by clarifying the scope of statutory safe harbors and exceptions. In other words, Perfect 10's strategy of pursuing intermediaries has backfired, and has further immunized intermediaries from liability.

I. *Perfect 10 v. CCBill*

In *Perfect 10 v. CCBill*, 481 F. 3d 751 (9th Cir. 2007), decided on March 29, 2007,

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the Ninth Circuit interpreted both the Digital Millennium Copyright Act (DMCA) and the Communications Decency Act (CDA). These two statutes provide the basic framework in the United States for limitations on an Internet service provider's liability for third party content. The Ninth Circuit's ruling reflects the general trend of courts interpreting these statutes in an expansive manner helpful to Internet companies.

A. The District Court's Decision

CCBill and related companies provide hosting and credit card processing services for independently operated adult websites. For example, if a consumer wants to access a particular site, CCBill obtains the consumer's credit card number and deals with the credit card company on behalf of the site's operator. Perfect 10 alleged that some of the images that appear on sites hosted and serviced by CCBill were copied from its website and magazine. It sued CCBill for copyright infringement and violation of the publicity rights of its models. On summary judgment, the district court found that CCBill qualified for the DMCA's safe harbors, but that the CDA did not provide immunity against the state publicity rights claims.²

B. The Ninth Circuit's Holding.

1. The CDA Safe Harbor.

The court's most far-reaching holding concerns the CDA.³ Section 230(c)(1) states

² The motions for summary judgment did not address the underlying question of CCBill's liability for copyright infringement. Accordingly, neither the district court nor the Ninth Circuit examined this issue.

³ For a more detailed discussion of the CDA and case law decided under it, *see* Jonathan Band and Matthew Schruers, "Safe Harbors Against the Liability Hurricane: The

that a provider of an interactive computer service shall not be treated as the publisher or speaker of information provided by another person. Courts have interpreted this provision broadly to immunize Internet service providers from liability for third party content, with two exceptions set forth in the statute. First, Section 230 does not shelter a service provider from federal criminal (as opposed to federal civil and state civil and criminal) liability. Second, Section 230 does not provide immunity to a service provider with respect to “any law pertaining to intellectual property.”

The question the Ninth Circuit considered is whether a state right of publicity is a form of intellectual property within the meaning of the statute. The court observed that the statute did not define the term “intellectual property.” It noted that while the scope of federal intellectual property is well defined, state intellectual property laws are not uniform and bear many different names. The court reasoned that “[b]ecause material on a website may be viewed across the Internet, and thus in more than one state at a time, permitting the reach of any particular state’s definition of intellectual property to dictate the contours of this federal immunity would be contrary to Congress’s expressed goal of insulating the development of the Internet from various state law regimes.” *Id.* at 768. Accordingly, the court construed intellectual property in the CDA to mean “federal intellectual property.” *Id.*

This means that the CDA provides service providers with immunity from secondary liability for state intellectual property claims such as rights of publicity,

Communications Decency Act and the Digital Millennium Copyright Act," 20 *Cardozo Arts & Entertainment Law Journal* 295 (2002).

misappropriation, and theft of trade secrets. This further underscores the utility of the CDA's safe harbors to Internet companies.

2. The DMCA Safe Harbors.

The Ninth Circuit's DMCA rulings are more complex.⁴ Perfect 10 argued that CCBill did not adopt and reasonably implement a policy for terminating repeat infringers, which is a threshold requirement for receiving the DMCA's protection. *See* 17 U.S.C. § 512(i)(1)(A). The court observed that the DMCA did not specify when termination of a repeat infringer would be appropriate. It concluded that the standards for qualifying for the hosting safe harbor in 17 U.S.C. § 512(c) provided the maximum that could be required of service providers in their repeat infringer policies. Thus, a compliant policy for terminating repeat infringers would require the service provider to terminate the accounts of subscribers if it: 1) had actual knowledge of their infringing activity; 2) was aware of facts and circumstances from which their infringing activity was apparent; or 3) had received notification of claimed infringement that met the Section 512(c)(3) requirements.

This conflation of Section 512(c) and the repeat infringer policy is an innovation. Copyright scholar David Nimmer has argued that the policy should apply only to parties determined by a court to be infringers. The Ninth Circuit here clearly set a less generous standard, particularly since mere allegations of infringement could trigger termination. Moreover, the court found that claims of infringement made by a non-party are relevant

⁴ For a more detailed discussion of the DMCA, *see* Jonathan Band, Taro Isshiki, and Anthony Reese, "The Digital Millennium Copyright Act," *World Intellectual Property Report* (December 1998).

to determining whether the termination policy has been reasonably implemented.

However, the court did not specify how many claims must be made for a person to be considered a repeat infringer. Thus, service providers still have relatively little guidance concerning this important threshold requirement for DMCA protection.

Nonetheless, the court's discussion of the specific elements of Section 512(c) is very helpful for interpreting that provision in the notice and takedown context. First, although Perfect 10 appears to have conceded that each of its notices may have been insufficient individually, it asserted that the various documents it provided CCBill, taken together, provided all the information required by Section 512(c)(3). After noting that takedowns could have "drastic consequences" such as removing speech protected by the First Amendment, the court found that "[p]ermitting a copyright holder to cobble together adequate notice from separately defective notices ... unduly burdens service providers." 481 F.3d at 762.

Second, the court interpreted the "red flag" test very favorably for service providers. Under Section 512(c), a web host must take down content once it is aware of facts and circumstances from which infringing activity is apparent. In the DMCA's legislative history, this was referred to as the "red flag" test. Perfect 10 argued that domain names such as "illegal.net" or "stolencelebritypics.com" constituted red flags that would give the web host awareness of infringing activity. The Ninth Circuit disagreed, stating that such names might constitute an attempt to increase the "salacious appeal" of the sites, rather than an admission that they are infringing. *Id.* at 763.

Similarly, Perfect 10 argued that password hacking websites obviously infringed.

Here, too, the Ninth Circuit disagreed:

We find that the burden of determining whether passwords on a website enabled infringement is not on the service provider. The website could be a hoax, or out of date. The owner of the protected content may have supplied the passwords as a short-term promotion, or as an attempt to collect information from unsuspecting users. The passwords might be provided to help users maintain anonymity without infringing on copyright. There is simply no way for a service provider to conclude that the passwords enabled infringement without trying the passwords, and verifying that they enabled illegal access to copyrighted material. We impose no such investigative duties on service providers. Password-hacking websites are thus not per se ‘red flags’ of infringement.

Id. at 763-64.

The court made another ruling helpful to service providers in the context of Section 512(a), which applies to mere conduits. For some websites, CCBill provides only the credit card services, and not hosting services. CCBill argued that since it provided the connections for the digital transmission of credit card information, it should be able to take advantage of the Section 512(a) mere conduit exception with respect to any secondary liability that might arise by virtue of these transmissions. Perfect 10 responded that Section 512(a) applies only to the transmission of infringing material. Reading the language of Section 512(a), the court found no requirement that the transmissions must be infringing: “It would be perverse to hold a service provider immune for transmitting information that was infringing on its face, but find it contributorily liable for transmitting information that did not infringe.” 481 F.3d at 765. Since “[t]he Internet as we know it simply cannot exist if those intervening computers must block indirectly infringing content ... [s]ervice providers are immune for transmitting all digital online communications, not just those that directly infringe.” *Id.*

The Ninth Circuit did make one ruling problematic to service providers. A web host can receive the Section 512(c) safe harbor only if it “does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity.” 17 U.S.C. 512(c)(1)(B) Observers have long wondered whether this standard was different from the similarly worded judge-made test for vicarious copyright liability, one of the two forms of secondary copyright liability. The Ninth Circuit held that the two standards should be interpreted in a consistent manner. As a practical matter, this means that in the Ninth Circuit, the DMCA does not provide service providers with a safe harbor against vicarious liability. This produces the somewhat anomalous result that the DMCA provides a service provider with more protection if it is a direct infringer than if it is a vicarious infringer.

II. *Perfect 10 v. Amazon.com*

In *Perfect 10 v. Amazon.com*, 487 F.3d 701 (9th Cir. 2007), decided on May 16, 2007, Perfect 10 attempted to impose liability on the search engine Google for its role in distributing allegedly infringing images.⁵ The Ninth Circuit issued a decision siding with Google on most points. A ruling against Google could have had an adverse impact against search engines and the overall operation of the Internet.

A. The District Court’s Decision.

⁵ The case name is styled *Perfect 10 v. Amazon.com* because an appeal in a related case involving Amazon was consolidated with Google’s appeal. Perfect 10 had sued Amazon for providing users with a link to Google search results. The author of this article filed a friend-of-court brief in support of Google in this case.

Perfect 10 claimed that Google directly infringed its copyrights by linking to third party websites that displayed full-sized infringing images. Further, Perfect 10 alleged that Google was secondarily liable for linking to these infringing images. Finally, Perfect 10 alleged that Google directly infringed its copyrights by displaying thumbnails of these infringing images.

Perfect 10 moved for a preliminary injunction. The district court ruled that Google would probably prevail in its argument that it was not directly or secondarily liable for linking to the full sized images. Google was not liable for direct infringement because it was the third party website, not Google, that was displaying the infringing image. With respect to contributory infringement, the district court found that Google did not make a material contribution to the infringement. And with respect to vicarious liability, the court found that Google did not have the right an ability to control the infringing activity.

However, the court ruled that Google was directly liable for displaying the thumbnails, and that Perfect 10 was likely to prevail in its argument that Google's fair use defense should fail. Specifically, the district court distinguished this case from *Kelly v. Arriba Soft*, 336 F.3d 811 (9th Cir. 2003), on the grounds that the thumbnails displaced downloads that Perfect 10 was selling to cellphone users; and that Google derived revenue from the AdSense program, under which it may have placed ads on the infringing websites. Accordingly, the court granted Perfect 10 a preliminary injunction.

B. The Ninth Circuit's Decision.

The Ninth Circuit affirmed some of the district court's rulings while reversing others. As noted above, most of these holdings favored Google.

1. Display

The Ninth Circuit affirmed the district court ruling that Google did not display or distribute the full sized images when it linked to them. Relying on the Copyright Act's definition for "to display the copyrighted work publicly," 17 U.S.C. § 101, Perfect 10 argued that Google's link was a display because the link transmitted the image to the user's computer. The Ninth Circuit, like the district court before it, looked closely at the actual technology involved. It noted that Google did not store a full-sized copy in its server. Instead, it provided HTML instructions that directed the user's browser to the third party site the stored the full-sized image. The Ninth Circuit concluded that "providing [] HTML instructions is not equivalent to showing a copy." 487 F.3d at 717. The court explained, "HTML instructions do not themselves cause infringing images to appear on the user's computer screen. The HTML merely gives the address of the image to the user's browser. The browser then interacts with the computer that stores the infringing image. It is this interaction that causes an infringing image to appear of the user's computer screen." *Id.* The court observed that Google may facilitate the user's access to infringing images, but such facilitation raises secondary liability issues, not direct liability.

This ruling obviously is very helpful to the functioning of the Internet. Linking is a basic Internet technology, and if a link constituted a display, then everyone person who linked engaged in direct infringement.

2. Fair Use

With respect to the thumbnail images that Google did display in its search results, the Ninth Circuit reversed the district court's rejection of Google's fair use defense. The

Ninth Circuit strongly reaffirmed its holding in *Kelly*, and rejected the district court's distinguishing of *Kelly* on the basis of the AdSense program and the cell phone downloads. The Ninth Circuit found that there was no evidence that the Google thumbnails superseded the Fonestarz cell-phone downloads. Further, the court found no evidence that AdSense revenue derived from infringing sites was commercially significant. At the same time, the court held that Google's use of the thumbnails was "highly transformative." *Id.* at 721. In fact, the court went so far as to say that "a search engine may be more transformative than a parody," the quintessential fair use, "because a search engine provides an entirely new use for the original work, while a parody typically has the same entertainment purpose as the original work." *Id.*

Accordingly, the Ninth Circuit "conclude[d] that the significantly transformative nature of Google's search engine, particularly in light of its public benefit, outweigh[ed] Google's superseding and commercial uses of the thumbnails in this case." *Id.* at 723. The Ninth Circuit stated that in reaching this conclusion, it was mindful that the Supreme Court had stressed "the importance of analyzing fair use flexibly in light of new circumstances[,] ... especially during a period of rapid technological change." *Id.*, quoting *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 431-32 (1984), quoting H.R. Rep. No. 94-1476, p. 65-66 (1976), U.S. Code Cong. & Admin. News 1976, p. 5680.

The district court's rejection of Google's fair use defense on account of its AdSense program threatened the advertisement-based business models of search engines. Likewise, the district court's focus on the hypothetical harm caused to emerging adult cell-phone download market endangered the entire image search market, because

any photographer or visual artist could make the same kind of assertion. The Ninth Circuit's reversal of the district court's fair use holding, therefore, is critical to the future of search engines.

The Ninth Circuit made another important fair use holding. The district court's found that the cache copy made by a user's browser whenever he viewed a webpage is a fair use. The issue only arose because to prove secondary liability for Google, Perfect 10 needed to show that there was an underlying direct infringement by a third person.⁶ Perfect 10 argued that there were three possible direct infringement: the third party websites' unauthorized display of Perfect 10's images; users printing out images from these websites; and users making temporary copies of these images in the random access memory (RAM) of their computers while viewing these sites. The Ninth Circuit agreed that the unauthorized display of the images was infringing, but found that there was no evidence that users printed out the images. Further, it agreed with the district court that the RAM copies were a fair use. *Id.* at 726. While observers have long assumed that the RAM copies made by users browsing the Internet was a fair use, this is the first time a circuit court has so held. As with its ruling that a link is not a display, and that a search engine's display of thumbnails is a fair use, the Ninth Circuit here has given the green light to a basic Internet activity.

3. Vicarious Liability

Courts have recognized two forms of secondary copyright liability: Vicarious liability and contributory infringement. Courts have imposed vicarious liability where parties 1) receive a direct financial benefit from the infringement; and 2) they have the

⁶ See discussion below.

right and ability to supervise or control the infringement. With respect to vicarious liability, the Ninth Circuit affirmed the district court holding that Google did not have the right and ability to supervise the infringing activity on the third party websites. The court found that “Google cannot terminate those third-party websites or block their ability to host and serve infringing full-sized images on the Internet.” *Id.* at 731. The court found this to be the case even with respect to websites that were AdSense partners. “Google’s right to terminate an AdSense partnership does not give Google the right to stop direct infringement by third-party websites. An infringing third-party website can continue to reproduce, display, and distribute its infringing copies of Perfect 10 images after its participation in the AdSense program has ended.” *Id.* at 730.

4. Contributory Infringement.

Historically, courts defined contributory infringement as knowingly making a material contribution to an infringement. *See Gershwin Publishing Corp. v. Columbia Artists Management*, 443 F.2d 1159 (2nd Cir. 1971). But in *MGM v. Grokster*, 125 S. Ct. 2764, 2776 (2005), the U.S. Supreme Court stated that “[o]ne infringes contributorily by intentionally inducing or encouraging direct infringement.” *Grokster*, 125 S. Ct. at 2776. This appeared to constitute a new definition for contributory infringement – in essence, the Court replaced knowledge with intent.⁷

In *Amazon*, the Ninth Circuit seemed to agree that the Supreme Court in *Grokster* did change the standards for contributory infringement to require a showing of *intentionally* making a material contribution to infringement, rather than just *knowingly* making a material contribution. The Ninth Circuit stated that “*Grokster* tells us that

⁷ For a more detailed discussion of the *Grokster* decision, *see* Jonathan Band, “Grokster in the International Arena,” *Computer Law Review International* (February 2006).

contribution to infringement must be intentional for liability to arise.” 487 F.3d at 727. The Ninth Circuit then attempted to reconcile the result in its 2001 decision in *A&M Records v. Napster*, 239 F.3d 1004 (9th Cir. 2001), with this new standard. The court recognized that *Napster* did not “expressly require a finding of intent....” 487 F.3d at 728. The Ninth Circuit finessed the absence of an express finding of intent in *Napster* by ruling that intent can be imputed where a computer system operator has actual knowledge that specific infringing material is available using its system, it can take simple measures to prevent further damage to copyrighted works, yet continues to provide access to infringing works. *Id.* Because 1) Napster had actual knowledge that specific infringing material was available using its system; 2) it could have taken simple measures to prevent further damage to copyrighted works; but 3) it instead continued to provide access to infringing works, Napster’s intent to encourage infringement could be imputed.

Here, the Ninth Circuit found that the district court had not resolved factual disputes concerning Google’s actual knowledge of infringement, and whether there are reasonable and feasible means of Google refraining from providing access to infringing images. Accordingly, the Ninth Circuit remanded this claim to the district court for further proceedings to determine the appropriateness of imputing to Google the intent to encourage infringement.

The Ninth Circuit then considered the material contribution prong of the test for contributory infringement. The district court had found that Google's linking to third party sites containing infringing content did not materially contribute to the infringement of the content. Not surprisingly, the Ninth Circuit reversed. It stated: "There is no dispute that Google substantially assists websites to distribute their infringing copies to a

worldwide market and assists a worldwide audience of users to access infringing materials. We cannot discount the effect of such a service of copyright owners, even though Google's assistance is available to all websites, not just infringing ones.” *Id.* at 729.

If the district court on remand finds that Perfect 10 is likely to prove Google’s unlawful intent, the district court will then have to determine whether Perfect 10 is likely to succeed in showing that Google was not entitled to the limitations on remedies provided by the DMCA. (Perfect 10 claimed that Google did not expeditiously remove the links to infringing websites; Google countered that Perfect 10’s takedown notices did not contain the specificity required by the DMCA.)

III. *Perfect 10 v. Visa*

Perfect 10 v. Visa International Service Association, 2007 U.S. App. LEXIS 15824 (9th Cir. 2007), decided on July 3, 2007, is the last installment in the Perfect 10 trilogy. Here the Ninth Circuit rejected what would have represented a significant expansion of secondary liability to actors far removed from the infringing activity. However, unlike the other cases, this case provoked a strong dissent by respected jurist Alex Kozinski. This dissent suggests that the outer edges of secondary liability remain to be defined.

A. The District Court’s Decision.

Perfect 10 sued Visa, MasterCard, and other credit card companies for providing credit card services to companies that operated websites that allegedly infringed Perfect 10’s copyrights. Thus, this case had some factual similarities to *Perfect 10 v. CCBill*, discussed above. Perfect 10 claimed that by providing credit card services, the credit

card companies were secondary liable for copyright and trademark infringement, as well state law claims for false advertising and unfair competition.⁸ The district court granted the credit card companies' motion to dismiss Perfect 10's complaint.

B. The Ninth Circuit's Decision.

The majority found that Visa and the other defendants were not secondarily liable, but, as noted above, Judge Alex Kozinski wrote a stinging defense.⁹

1. Contributory Infringement.

The majority began its discussion of secondary infringement by laying out the following test for contributory infringement: "one contributorily infringes when he 1) has knowledge of another's infringement and 2) either a) materially contributes to or b) induces that infringement." *Visa* at *10.

The central disagreement between the majority and Judge Kozinski with respect to contributory infringement concerned the issue of material contribution. The majority ruled that the credit card companies did not materially contribute to the infringement because "they have no direct connection" to the infringement. The majority reviewed its precedents where it found material contribution, *e.g.*, *Fonovisa v. Cherry Auction*, 76

⁸ This article addresses only the copyright claims involved in the case.

⁹ The same panel of judges – Stephen Reinhardt, Alex Kozinski, and Milan Smith, decided both the *CCBill* and the *Visa* cases. The issues on appeal in *CCBill* concerned the applicability of the DMCA and CDA safe harbors; those were the subjects of the motions for summary judgment filed in the district court. The summary judgment motions did not address the question of *CCBill*'s secondary liability for copyright infringement. In contrast, the motions for dismissal in *Visa* concerned the defendants' secondary liability for copyright infringement, so that was the subject of the Ninth Circuit's decision.

F.3d 259 (9th Cir. 1996), *Napster*, and *Amazon.com*, and in each case noted that the defendant had some nexus to the reproduction, display, or distribution of the infringed works. By contrast, the credit card companies had no involvement in these activities. While “Defendants make it easier for websites to profit from this infringing activity, the issue here is reproduction, alteration, display, and distribution, which can occur without payment.” *Visa* at *14. The majority distinguished the role played by the credit card companies here from that played by Google in *Amazon.com*, where the court found that Google had materially contributed to infringement. The court here observed that Visa is one additional step in the causal chain away from Google: “Google may materially contribute to the infringement by making it fast and easy for third parties to locate and distribute infringing material, whereas Defendants make it easier for infringement to be profitable, which tends to increase financial incentives to infringe, which in turn tends to increase infringement.” *Id.* at *15.

The dissent argued that there was no meaningful distinction between the activities of the search engine in *Amazon.com* and the credit card companies here. The search engine facilitates the distribution of the infringing copies by enabling users to locate them. Similarly, the credit card companies facilitate the distribution of the infringing copies by enabling users to pay for them. Judge Kozinski stressed that without payment, there would be no distribution. He rejected as unrealistic the majority’s notion that distribution could theoretically occur without payment.

After discussing material contribution, the majority briefly turned to the issue of inducement. It reviewed the Supreme Court’s holding in *Grokster*, and concluded that

there were no affirmative acts or clear expression by the credit card companies that showed any specific intent to foster infringement.

Judge Kozinski may have a point concerning material contribution; the distinctions the majority draws between search engines and credit card companies seem forced. The real root of the problem in the majority opinion is its formulation of the test for contributory infringement. As noted above, it stated 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.” *Visa* at *10. Thus, it bifurcated material contribution from inducement, and it relegated the Supreme Court’s holding in *Grokster* to the inducement prong. It completely ignored the fact that the Supreme Court in *Grokster* replaced the knowledge requirement with an intent requirement: “One infringes contributorily by intentionally inducing or encouraging direct infringement....” *Grokster*, 125 S. Ct. at 2776. Rather than just accept this new standard, the *Visa* majority attempted to preserve the older, knowledge based standard. This, in turn, forced the majority to go through factual contortions to distinguish the material contribution of credit card companies from that of search engines.

Interestingly, as noted above, the Ninth Circuit in *Amazon.com* accepted the *Grokster* intent-based standard, and ruled that intent could be imputed from a certain set of facts.¹⁰ In *Amazon.com*, the court held that such intent could be imputed when a computer system operator had actual knowledge that specific infringing material is available using its system, it could take simple measures to prevent further damage to the

¹⁰ Different judges decided each case. The *Amazon.com* panel consisted of Judges Hall, Hawkins, and Ikuta; the *Visa* panel consisted of Judges Reinhardt, Kozinski, and Smith.

copyrighted works, yet it continued to provide access to the infringing works. Had the *Visa* court simply accepted the intent-based standard, it could have determined whether intent should be imputed from the facts alleged by Perfect 10. The court could easily have reasoned that imputation of intent was appropriate in the search engine context, but not in the credit card context. Once a search engine learns that an image on a website is alleged to infringe, it can disable the link to that specific image, without disabling links to other, non-infringing images on the same website. Given the ease of disabling the link, failure to do so upon receiving adequate notice could suggest unlawful intent.

By contrast, if a credit card company learns that one allegedly infringing image is available on a fee-based website, it cannot respond in a manner that targets that one image. It would need to exclude the entire website from its payment system, thus affecting many legitimate activities. The absence of a granular response should defeat any imputation of intent from failure to respond.

2. Vicarious Liability.

With respect to vicarious liability, the majority and the dissent disagreed about the credit card companies' right and ability to supervise the infringing activity. The majority found that the credit card companies had no practical ability to prevent the infringing activity, because the websites could continue to operate even if the companies excluded them from their payment systems. "Defendants can block access to their payment system, but they cannot themselves block access to the Internet, to any particular website, or to search engines enabling location of such websites." *Visa* at *36. The majority acknowledged that the companies could exert financial pressure on the websites, "[b]ut the ability to exert financial pressure does not give Defendants the right or ability to

control the actual infringing activity in this case. Defendants have no absolute right to stop that activity – they cannot stop websites from reproducing, altering, or distributing infringing images.” *Visa* at *39. The majority further noted that many other entities had the ability to exert indirect pressure on website operators, including search engines and utility companies.

Judge Kozinski rejected this argument. He noted that the credit card companies, unlike search engines and utilities, had the contractual right to terminate service to a company engaged in an illegal activity. Moreover, they had the practical ability to affect behavior by exerting financial pressure. Judge Kozinski noted, “[i]f cards don’t process payment, pirates don’t deliver booty. The credit cards, in fact, control distribution of the infringing content.” *Visa* at *80. Judge Kozinski went on to explain: “A threat by credit card companies to withdraw use of their payment systems couldn’t be ignored. After all, how many consumers would be willing to send a check or money order to a far-off jurisdiction in the hope that days or weeks later they will be allowed to download some saucy pictures?” *Visa* at *82.

On this point, Judge Kozinski erred by being careless about the identity of the defendants. In footnote 2 of the dissent, he tried to dismiss differentiation between the defendants, but the identity of the defendants really makes a difference. Visa and MasterCard have no contractual relationship with the individual website operators. Rather, the website operators have accounts and related contracts with banks that participate in the Visa or MasterCard network. Visa and MasterCard just act as clearinghouses between these banks and the banks that issue credit cards to consumers. *Emery v. Visa International Service Association*, 95 Cal. App. 4th 952, 116 Cal. Rptr. 2d

(2002).

This shifts the analysis from Visa and MasterCard to the banks where the website operators have credit card accounts. These banks also were defendants in this case. While these banks had the contractual ability to force the websites to comply with the law, they did not possess the practical ability. If one bank cuts a site off because of allegedly illegal activity, there are hundreds of other banks willing to take the website's business. In other words, these banks have the legal right but not the practical ability, while Visa and MasterCard might have the practical ability but not the legal right. Instead of recognizing these distinctions, Judge Kozinski treated the entire credit card industry as a unitary, monolithic business. The majority did as well.

IV. Summary of the Perfect 10 Trilogy Holdings.

Overall, the Ninth Circuit's Perfect 10 trilogy in 2007 has steered the law in a manor favorable to Internet service providers. In sum, the Ninth Circuit ruled that:

1. The CDA provides a safe harbor against all state intellectual property claims.
2. A compliant policy for terminating repeat infringers would require the service provider to terminate the accounts of subscribers if it: 1) had actual knowledge of their infringing activity; 2) was aware of facts and circumstances from which their infringing activity was apparent; or 3) had received notification of claimed infringement that met the 17 U.S.C. § 512(c)(3) requirements.
3. Separately defective 17 U.S.C. § 512(c)(3) notices may not be cobbled together to constitute compliant notices.

4. Suggestive domain names do not satisfy the “red-flag” test.
5. Password-hacking websites are not *per-se* red flags of infringement.
6. 17 U.S.C. § 512(a) provides protection against secondary liability for the transmission of non-infringing content that may facilitate infringement.
7. A link is not a display or a performance within the meaning of the Copyright Act.
8. In the fair use calculus, the highly transformative nature of search engines outweighs any incidental financial benefit or superseding impact.
9. A defendant must have some nexus to the reproduction, display, or distribution of the infringed work in order to materially contribute to the infringement; enhancing the infringer’s profitability does not provide a sufficient nexus.
10. A defendant does not incur vicarious liability for infringing content on a third party website if the defendant does not have the practical ability to prevent the website from hosting and serving the content; the ability to exercise financial pressure does not constitute such practical ability.

At the same time, the Perfect 10 trilogy contained a few rulings unfavorable to service providers. The *CCBill* court held that the 17 U.S.C. § 512(c)(1)(B) standard for losing DMCA protection should be interpreted in a consistent manner with the similarly worded standard for vicarious copyright liability. This suggests that as a practical matter, the DMCA in the Ninth Circuit does not provide service providers with a safe harbor

against vicarious liability. The *Amazon.com* court held that helping locate a site with infringing content could constitute material contribution. The *Amazon.com* court also ruled that ruling that intent to encourage infringement can be imputed where a computer system operator has actual knowledge that specific infringing material is available using its system, it can take simple measures to prevent further damage to copyrighted works, yet continues to provide access to infringing works. Finally, the *Visa* court persisted in employing the pre-*Grokster* definition of contributory infringement based on knowledge rather than intent.¹¹

¹¹ Notwithstanding its three defeats in the Ninth Circuit, Perfect 10 in August 2007 filed a copyright infringement action against Microsoft's MSN Search Engine for linking to website that contain unauthorized Perfect 10 images. Presumably Perfect 10 is not attempting to relitigate the *Amazon.com* case, but instead is pursuing the one theory the *Amazon.com* court recognized as somewhat viable: that MSN might be contributorily liable for providing links to infringing sites. Thus, it is possible that Perfect 10 is pursuing MSN for contributory, rather than direct, infringement. Of course, the DMCA might limit the remedies available to Perfect 10.