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Bryan V. Swatt

Pamela C. Laucella Ph.D.

Ryan M. Rodenberg J.D.

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PERFECT 10 V. VISA, MASTERCARD, ET AL:
A FULL FRONTAL ASSAULT ON COPYRIGHT ENFORCEMENT IN
DIGITAL MEDIA OR A SLIPPERY SLOPE DIVERTED?

Bryan V. Swatt*
Pamela C. Laucella, Ph.D.†
Ryan M. Rodenberg, J.D.‡

Introduction

“In an effort to minimize additional litigation, we communicated with Visa and MasterCard and suggested ways in which they could cut down on Internet fraud. This could be the end of illegal celebrity sites on the Internet! Stay tuned.”¹

- *Perfect 10* magazine’s Norm Zada, one year before filing a lawsuit against several credit card companies.

Perfect 10 magazine founder and editor Norman Zada, Ph.D. is a walking oxymoron. On one hand, he loves math, physics, and economics, and earned a doctorate from the University of California – Berkeley. On the other hand, he loves women, particularly those who are “natural,” meaning they have not undergone breast augmentation or other cosmetic surgery. Zada chose to pursue the latter as a business venture, leaving the life of a college professor behind. He founded a magazine and website called *Perfect 10*, featuring “tasteful copyrighted images of the world’s most beautiful natural models.”²

After launching the magazine and website in 1998, Dr. Zada had a problem. He found it difficult, if not impossible, to prevent unauthorized third parties from stealing digital copies of his copyrighted photographs featuring nude and semi-nude female models.³ He paid a lot of money to acquire the rights to publish (or re-publish) such digital photographs, only to see the photos later appear on non-*Perfect 10* subscription websites.⁴ Some of the photos were exact

* Bryan V. Swatt is a J.D./MBA candidate at Loyola Law School and Loyola Marymount University (May 2009). He will serve as a Note and Comment Editor on Vol. 42 of the Loyola of Los Angeles Law Review.

† Pamela C. Laucella, Ph.D., is an assistant professor of sport communication at Indiana University. She obtained a Ph.D. in journalism and mass communication from the University of North Carolina-Chapel Hill, and her research investigates socio-cultural-historical and legal aspects of sport.

‡ Ryan M. Rodenberg teaches sports law and business law courses at Indiana University. He would like to thank Michelle A. Humowiecki for her insightful comments in the course of writing this piece. From 2003 to 2007, he worked in Octagon’s legal department. He earned his law degree from the University of Washington in 2000. He can be contacted at rmrodenb[at]indiana.edu.

¹ Norm Zada, *Ask the Editor*, PERFECT 10, Vol. 5, No. 3, at 5.

² *Perfect 10, Inc. v. Visa Intl. Service Assn.*, 494 F.3d 788, 793 (9th Cir. 2007) (quoting App. Opening Br. at 1). (hereinafter “*Visa*”)

³ *Id.*

⁴ *Id.*

replicas. Others were doctored, with the face of a mainstream celebrity superimposed on the nude body of a Perfect 10 model.

In an effort to combat the alleged misappropriation, Dr. Zada initially considered suing every direct infringer for relief. But he soon capitulated. There were hundreds, perhaps thousands, of websites with unlicensed photos of Perfect 10 models.⁵ Many of the websites were registered to individuals or entities overseas.⁶ Ownership information for other websites was not even available.⁷ Dr. Zada concluded that such websites “maintain no physical presence in the United States in order to evade criminal and civil liability for their illegal conduct.”⁸

A straightforward copyright infringement claim against the direct infringers was not an option, so Dr. Zada had to get creative. He had to figure out a circuitous way of protecting his digital photographs. He decided to turn his attention to entities tangentially related to the websites allegedly displaying and selling stolen content (hereinafter “Stolen Content Websites”).⁹ When Dr. Zada’s demand letters proved unfruitful, he proceeded to litigation, where his strategy was two-fold. First, he sued the credit card companies and related businesses that facilitated payments between consumers and the Stolen Content Websites.¹⁰ Second, he sued Internet search engines such as Google¹¹ and Microsoft¹² that posted reduced size “thumbnail” pictures of the Perfect 10-owned photos and provided links to the websites where full-sized pictures could be downloaded (usually for a fee).

The focus of this case comment is on the first prong of Perfect 10’s litigation strategy and the resulting Ninth Circuit Court of Appeals opinion, with a specific analysis of the decision’s

⁵ *Id.*

⁶ *Id.* In an interview, Dr. Zada elaborated: “[T]he problem is that many of the direct infringers are in places like Russia and China, and there’s no way to track them down.” Dawn Kawamoto, *Defending against a Google assault* (sic), <http://news.zdnet.co.uk/internet/0,1000000097,39255863-2,00.htm> (accessed March 12, 2008). In another interview, Dr. Zada opined:

We have sued at least 15 direct infringers. But we have had no success because they are all over the world, and even if we win our lawsuits, it is virtually impossible to stop them from just reopening under new names. ... It is almost impossible to get relief against [foreign] direct infringers.

Steve Seidenberg, *Perfect Solution*, INSIDE COUNSEL, October 1, 2007, <http://www.insidecounsel.com/section/litigation/1414> (accessed March 12, 2008) (alteration in original).

⁷ *Id.*

⁸ *Visa*, 494 F.3d at 810 (Kozinski, J. dissenting) (quoting First Amend. Complaint at 8 ¶ 26).

⁹ *Id.* at 806, 810. “Stolen Content Websites” is the definitional device used by Perfect 10 in its complaint and by Judge Kozinski in his dissent.

¹⁰ In a press release, Dr. Zada’s explained *Perfect 10*’s litigation strategy: “We intend to shut down the vast majority of the thousand of ‘celebrity porn sites’ by stopping the relatively few companies that bill for them and profit from their illegal activities. We pay for our content and can’t fairly compete against entities that steal theirs.” PR Newswire, *Perfect 10 Magazine wins landmark court ruling*, <http://www.prnewswire.co.uk/cgi/news/release?id=84087> (accessed March 12, 2008).

¹¹ *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701, 710 (9th Cir. 2007) (hereinafter “*Google*”). Perfect 10 brought actions against an Internet retailer (Amazon) and an Internet search engine (Google) for copyright infringement. *Id.* Both actions were consolidated into one opinion on appeal. *Id.*

¹² *Perfect 10, Inc. v. Microsoft, Inc.*, Complaint, 2007 U.S. Dist. Ct. Pleadings 268103 (2007) .

potential impact on digital media.¹³ In *Perfect 10, Inc. v. Visa Intl. Serv. Assn., MasterCard Intl., Inc., et al.*, the Ninth Circuit affirmed the U.S. District Court for the Northern District of California's holding that Perfect 10 failed to sufficiently state its claim of secondary liability under federal copyright and trademark law as well as California statutory and common law provisions.¹⁴ Part I of this case comment provides a brief synopsis of the facts and procedural history of the case. Part II summarizes the analytical framework used by the Ninth Circuit in its conclusion that Perfect 10 did not meet the substantive requirements to make a claim of secondary liability under federal copyright law.¹⁵ Part III questions the majority opinion and, like Judge Kozinski in his dissent, argues that Visa, MasterCard, and similarly situated defendants (hereinafter "Visa")¹⁶ meet the applicable legal standards for secondary liability as part of a copyright infringement claim. Part IV discusses how two non-case-specific ideas implicated, but not explicitly stated, in both the majority opinion and dissent may have played a role in the decision-making process. First, this comment provides insight on how the majority opinion may have based its decision on a fear of a slippery slope. Second, this case comment posits that Perfect 10 may not have been the "perfect plaintiff" to bring this case of first impression. Finally, this comment analyzes the impact of the decision vis-à-vis copyright issues in digital and Internet-driven media and concludes that the court should have provided Perfect 10 with the opportunity to prove its case through discovery and trial.

I. Statement of the Case

Perfect 10 publishes a quarterly magazine¹⁷ and operates a subscription-based website, both of which feature copyrighted celebrity photographs.¹⁸ Additionally, Perfect 10 has a federally registered "PERFECT 10" trademark and blanket publicity rights for a number of its photographed celebrities.¹⁹

Perfect 10 alleged that several websites stole its copyrighted images, altered them, and sold them online.²⁰ Perfect 10 brought suit against Visa, which processed payments in

¹³ 2007 was not a litigation-friendly year for Perfect 10. The company was on the losing side of three Ninth Circuit decisions. In addition to the case treated in this case comment and case mentioned above, Perfect 10 lost its case against CCBill. See *Perfect 10, Inc. v. CCBill LLC*, 481 F.3d. 751 (9th Cir. 2007).

¹⁴ *Visa*, 494 F.3d. at 792.

¹⁵ While the court briefly discusses trademark and California statutory law, the analysis is fundamentally similar to that of copyright infringement and will not be examined in this case comment.

¹⁶ The Appellees in this case include credit card companies, several affiliated banks, and data processing service companies. They will be referred to collectively as "Visa" throughout the case comment.

¹⁷ Publication of *Perfect 10* recently ceased. The magazine's Summer 2007 issue was the final issue. In a recent interview, Dr. Zada explained: "We started the magazine...in 1996. It was closed in 2007 due to rampant copyright infringement. The [Perfect 10] Web site is still operating, but I've had to lay off many employees – many of whom are my friends. And so far I've lost \$55 million." Seidenberg, *supra* note 6. Dr. Zada foreshadowed his decision in an earlier interview: "If we do not prevail and are not able to protect our copyrighted material, I will probably stop the magazine and probably continue the website. We will basically give up. I put eight years of my life and millions and millions of dollars into this." Kawamoto, *supra* note 6.

¹⁸ *Visa*, 494 at 793.

¹⁹ *Id.*

²⁰ *Id.* A number of these infringing websites maintain a physical presence outside of the United States in order, presumably, to avoid federal copyright and trademark law. Additionally, sometimes infringers are individual people who, thanks to the privacy afforded by the Internet, are able to remain anonymous and thus avoid prosecution.

connection with the online distribution of stolen and altered content belonging exclusively to Perfect 10.²¹ The credit card companies, which collect fees in exchange for their assistance, provide automatic payment services to merchants authorized to use their cards.²² They also provide information necessary to ultimately settle the transaction on behalf of both the merchant and consumer.²³ According to Perfect 10, it repeatedly sent the names of infringing websites to Visa in hopes that it would cease processing payments on behalf of such websites.²⁴ While Visa admits to receiving some of the notices, and allegedly sent at least one letter to Dr. Zada in response,²⁵ it did not take any action.²⁶ It continued to process payments and provide corresponding assistance to websites, which were identified in Perfect 10's letters as infringers.²⁷

Subsequently, Perfect 10 filed suit in federal district court in 2004.²⁸ The court dismissed Perfect 10's allegations of libel and intentional interference with prejudice but allowed Perfect 10 to amend the remaining claims in the initial complaint.²⁹ According to the U.S. District Court for the Northern District of California, Perfect 10 did not substantively change the arguments in the amended complaint.³⁰ The district court dismissed the remaining claims with prejudice under a Federal Rules of Civil Procedure 12(b)(6) theory of failure to state a claim upon which relief can be granted.³¹ Perfect 10 sought review by the Ninth Circuit Court of Appeals, which handed down this 2-1 decision affirming the dismissal.³²

Garion D. Brown, *Should Individuals be Allowed to Remain Anonymous on the Internet?: Does McIntyre v. Ohio Hold the Clues?*, August 19, 1998, <http://noisebox.dhs.org/remailer/gdbrown.html> (accessed March 12, 2008).

²¹ *Id.*

²² Keith Lamond, *Credit Card Transactions – Real World and Online*, http://www.virtualschool.edu/mon/ElectronicProperty/klamond/credit_card.htm (Deborah Whitman, ed., accessed March 12, 2008). While the process of credit card transactions is somewhat intricate, both banks and the credit card issuer are generally involved. The issuing bank reimburses the merchant and the credit card company is then responsible for collecting the purchase price (plus any fees imposed by the credit card) from the consumer. *Emery v. Visa Intl. Serv. Assn.*, 95 Cal. App. 4th 952, 956 (Cal. App. 3d. Dist. 2002).

²³ *Id.*

²⁴ *Visa*, 494 F.3d at 793.

²⁵ Dr. Zada summarized Visa's response to his demand letter(s) as follows:

Members known by Visa to be processing transactions for such (celebrity) websites will be required to confirm to Visa that any celebrity porn site merchant with whom they have a business relationship does not sell material that would cause the Member to violate Visa regulations prohibiting illegal transactions. Members registering new celebrity porn site merchants will be required to provide Visa with documentation to demonstrate that the content sold at such websites will not cause the Member to violate Visa regulations that prohibit illegal transactions.

Zada, *supra* n. 1.

²⁶ *Id.*

²⁷ *Id.*

²⁸ *Visa*, 494 F.3d at 793.

²⁹ *Id.*

³⁰ *Id.*

³¹ *Id.*

³² *Id.* at 810.

II. Applicable Legal Standards and the Majority Decision

A. Contributory Copyright Infringement

In prior cases, the Ninth Circuit Court of Appeals, as well as the United States Supreme Court, has set out various forms of the same fundamental test for contributory copyright infringement.³³ In order to be liable, one must: (i) have knowledge of a third party's infringement and (ii) induce, cause, or materially contribute to the third party infringing activity.³⁴ Furthermore, the Ninth Circuit ruled that within the context of the Internet, defendants who engage in "conduct that encourages or assists the infringement" are guilty of contributory infringement.³⁵ More recently, the court noted that one may be liable for "intentionally encouraging direct infringement if the actor knowingly takes steps that are substantially certain to result in such direct infringement."³⁶

1. Material Contribution

Applying these standards to the case at hand, the court analyzed the second prong of the basic test, ultimately reaching the erroneous conclusion that Visa did not materially contribute, induce, or cause the third party infringement.³⁷ The court concluded that, while Visa's payment systems make it easier for infringement to be profitable, therefore having the effect of increasing such infringement, the illegal distribution of Perfect 10's content can take place without Visa's assistance.³⁸

In finding a lack of material contribution, the majority distinguished the case at hand with the *Perfect 10, Inc. v. Amazon.com, Inc., Google, Inc., et al* decision (hereinafter "*Google*"),³⁹ claiming that in the prior instance, Google was substantially assisting the process of distributing the infringing material to a worldwide market through its internet search engine function.⁴⁰ In the *Visa* case, the credit card companies do not assist or enable users to find the material and take no part in its distribution.⁴¹ While these companies make infringing more profitable, there is an added step in the causal chain, which, according to the court, is enough to find a lack of material contribution.⁴² The majority further explained the difference in causation by noting that Google "mak[es] it fast and easy for third parties to locate and distribute infringing material, whereas [Visa] make[s] it easier for infringement to be *profitable*, which tends to increase financial incentives to infringe, which in turn tends to increase infringement."⁴³

³³ *Id.* at 795.

³⁴ *Id.*

³⁵ *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1019 (9th Cir. 2001).

³⁶ *Google*, 487 F.3d at 727.

³⁷ *Visa*, 494 F.3d at 796.

³⁸ *Id.* at 798.

³⁹ *Id.* As explained *supra* n. 11, Perfect 10's individual lawsuits against Amazon.com and Google, Inc. were consolidated into one opinion. With much of the court's discussion in that opinion pertaining to Google, the case is referred to as *Google* in this case comment.

⁴⁰ *Id.*

⁴¹ *Id.*

⁴² *Id.*

⁴³ *Id.*

In acknowledging that Visa makes infringing more economically enticing, the court assumed that even without its services, other profit-facilitating solutions exist that would allow large-scale infringement to continue.⁴⁴ The court ultimately justified its ruling by claiming that since the infringement can occur without using Visa's payment systems, Visa's conduct does not amount to a "material contribution."⁴⁵ The majority believed that alternative forms of payment, such as checks or money orders, would replace the credit card if it were removed from the transactional process.⁴⁶

Furthermore, the court does not accept that the instant case is analogous to *Fonovisa v. Cherry Auction, Inc.*, a decision which found a flea market liable for contributory infringement because its facilities provided for the sale of pirated products.⁴⁷ Distinguishing it from the *Visa* case, the court claimed that the swap meet operator in *Fonovisa* added to the infringement by providing a centralized location where infringing material could be exchanged.⁴⁸ Continuing, the court opined that the *Visa* case "bears no relationship" to *Fonovisa* in that it does not "provide users the tools to locate infringing material, nor does any infringing material ever reside on or pass through any network or computer [Visa] operate[s]."⁴⁹

2. Inducement

In dismissing the element of inducement, the court opined that Visa did not take affirmative steps to "foster" infringement. The court posited that in order to find inducement liability, Perfect 10 must prove that Visa "communicated an inducing message to their...users."⁵⁰ However, the majority wrote that since Visa did not specifically promote the items for which they process payments, Perfect 10 cannot meet the test for inducement.⁵¹

Further invalidating the inducement argument, the court applied the standard from *Google*, which held that the search engine was contributorily liable because it had "actual knowledge that specific infringing material is available using its system, and can take simple measures to prevent further damage"⁵² but does not [take such measures]."⁵³ Judge Smith, author of the majority opinion, noted that Visa performs no specific, direct acts such as advertising or solicitation.⁵⁴ Furthermore, he highlighted that infringing material is not available on Visa's systems and it does not facilitate access to or distribute content in any way.⁵⁵ In finding that all of these factors make the case distinguishable from *Google*, Judge Smith concluded that Perfect 10 fails to show that Visa induced infringing activity.

⁴⁴ *Id.* at 798.

⁴⁵ *Id.*

⁴⁶ *Id.*

⁴⁷ *Fonovisa v. Cherry Auction, Inc.*, 76 F.3d 259, 265 (9th Cir. 1996).

⁴⁸ *Visa*, 494 F.3d at 799-800.

⁴⁹ *Id.* at 800.

⁵⁰ *Id.* at 801 (citing *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 937 (2005)).

⁵¹ *Id.*

⁵² *Id.* at 801 (citing *Google*, 487 F.3d at 728).

⁵³ *Id.* at 801-802.

⁵⁴ *Id.* at 802.

⁵⁵ *Id.*

B. Vicarious Copyright Infringement

While similar to contributory infringement, vicarious infringement is distinguishable in that its roots come not from enterprise liability and imputed intent, but from *respondeat superior*.⁵⁶ In order to state a claim under the theory of vicarious copyright infringement by Visa, Perfect 10 must show that Visa has: 1) a right and ability to supervise the infringing activity and 2) a direct financial interest in the infringement.⁵⁷ Additionally, the Supreme Court recently allowed a second test (in dictum) to be used to prove vicarious infringement. According to the Court in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd*, a website can be guilty of vicarious infringement if it “profit[s] from direct infringement while declining to exercise a right to stop or limit it.”⁵⁸

1. Right and ability to supervise infringement; Financial interest

The majority wrote that, while Visa likely could take steps that would indirectly reduce the infringing activity, it is not enough to satisfy the first prong of the test.⁵⁹ Since Visa cannot directly control the illegal acts, its removal from the process does not constitute a “right and ability to control.”⁶⁰ The court also pointed to the fact that Visa is involved only after the actual infringement takes place.⁶¹ Visa has no direct part in the creation, reproduction, alteration, or distribution of the illegal material.⁶² As such, Visa cannot directly stop the infringers from stealing, modifying, and disseminating the infringing images online. Visa’s only effect would be on the ability for these websites to collect revenue,⁶³ a function which Judge Smith heavily underestimates. Since the first prong of the test is not met, the court concluded that it need not address the issue of financial interest.⁶⁴

2. The Grokster Test

In dismissing the recent test set forth by the Supreme Court in *Grokster*, Judge Smith wrote that several companies ranging from hardware and software producers to utility companies all have *some* impact on the infringing process.⁶⁵ While each of these entities play a role in creating the ultimate product that is placed online, the scope of the test is not meant to hold each one liable.⁶⁶ Visa, akin to a software engineer who designs the computer program with which the copyrighted material is manipulated, maintains the right to stop providing services.⁶⁷

⁵⁶ *Id.*, (citing *Fonovisa* 76 F.3d at 261-262).

⁵⁷ *Id.* at 802, (citing *Napster*, 239 F.3d at 1022).

⁵⁸ *Id.*, (citing *Grokster*, 545 U.S. at 930).

⁵⁹ *Id.* at 803.

⁶⁰ *Id.*

⁶¹ *Id.* at 803-804.

⁶² *Id.*

⁶³ *Id.* at 804-805.

⁶⁴ *Id.* The court could not likely find a lack of financial interest on the part of Visa. The overriding reason they are involved in this process at all is a monetary one. *Emery*, 95 Cal. App. 4th at 956.

⁶⁵ *Id.* at 806.

⁶⁶ *Id.*

⁶⁷ *Id.*

According to the court, Visa does not have the direct control to limit the infringing activity, thus falling short of the test for vicarious liability.⁶⁸

III. Analysis

Not only did a majority of the court misinterpret the facts of the case as well as previous decisions, it ignored the social and practical ramifications of dismissing the claim. Perfect 10 repeatedly notified Visa that it was providing crucial transactional support to infringing websites.⁶⁹ In accepting Perfect 10's allegations as true, the court should have found that Visa acted as the "financial bridge"⁷⁰ connecting buyers and sellers of stolen content, while profiting from each exchange. One can hardly imagine an act more fitting of indirect infringement.

A. Contributory Infringement

The court began its analysis by correctly stating the test by which contributory infringement is determined. However, it failed to properly analogize the facts of this case to *Google*. In *Google*, the court remanded, finding that Google likely knew that the infringing material was available via its search engine and failed to take simple steps to prevent further damage to Perfect 10.⁷¹ Here, if the court were to replace Google's search engine with Visa's payment systems, it would lead to a favorable result for Perfect 10. Essentially, if Visa were to make its payment systems unavailable to infringers, it would effectively put them out of business, thus forcing them to stop infringing.

The majority argued that there is an additional layer in the causal chain between Visa and the infringement. However, this position is a flawed because Visa participates in every transaction that takes place.⁷² The infringing material is passed to the consumer only after Visa approves the sale and executes the payment procedure.⁷³ This goes beyond providing an economic benefit. It is a fundamental part of the illegal activity that, if removed, would drastically inhibit infringement by eliminating the infringer's ability to collect payment.

Next, in finding a lack of material contribution, the majority naively claimed that infringement would continue on a large scale irrespective of the credit card process. The primary, if not sole, motivation for online copyright infringement is to make money. Many infringers maintain a physical presence outside of America's borders to avoid the U.S. legal process.⁷⁴ It is only logical to believe that eliminating the only practical form of payment available will have irreparable consequences for infringers. This demonstrates the credit cards' material contribution to infringement.

Moreover, the argument that there are viable options to replace credit cards in the payment process is unfounded. The majority writes that while there are no legitimate

⁶⁸ *Id.*

⁶⁹ *Id.* at 793.

⁷⁰ *Id.* at 810 (Kozinski, J. dissenting).

⁷¹ *Google*, 487 F.3d at 733.

⁷² *Visa*, 494 F.3d at 811 (Kozinski, J. dissenting).

⁷³ *Id.*

⁷⁴ *Id.* at 810 (Kozinski, J. dissenting).

alternatives to a search engine to locate infringing images online, practical substitutes to credit cards exist. There are plenty of methods for content to be found online, including file-sharing, yet there are no adequate replacements for the credit card.⁷⁵ One may argue that checks or money orders could work, but with anonymity, convenience, speed, and reliability at a premium (and, for some customers, a prerequisite), they are impractical and unrealistic alternatives. A credit card allows the user to never leave his living room in order to securely and quickly access infringing material. Personal checks take weeks to clear and leave a paper trail. While money orders are anonymous, they remain inconvenient for consumers. The dissent notes that consumers will likely be unwilling 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[.]”⁷⁶ In sum, credit cards further materially assist online infringement.

The majority in *Visa* also claimed that material contribution is based on “reproduction, alteration, display and distribution, which can occur without payment.”⁷⁷ However, there are problems with this position. First, the infringing websites are in direct violation of 17 U.S.C. §106(3), which protects Perfect 10’s right “to distribute copies...of the copyrighted work to the public by sale.” It would be impossible to distribute “by sale” without some sort of payment. Therefore, Visa’s payment systems become part of the infringement process.⁷⁸ In much the same way, the *Google* court found that Google’s search engine materially contributed to the infringement.⁷⁹ However, a search engine is not involved in the “reproduction, alteration, display, [or] distribution” as the court requires in this case.⁸⁰ Instead, an internet search engine merely provides a link for the user to follow in order to access the infringing website. Applying this analysis allows for the payment process to be analogized to search engines, and the *Google* court found such search engines to be contributorily liable.

The majority also fails to align this case with *Fonovisa* because it argues that the swap meet provided a centralized location for the infringement.⁸¹ However, as Judge Kozinski notes in his dissent, material infringement “does not depend on physical contact with the infringing activity.”⁸² If one drives a perpetrator to the scene of his crime, he has provided material assistance regardless of what happens in the car.⁸³ Material contribution is not based on direct contact with the illegal activity; it is based on the level of assistance provided.⁸⁴ Here, Visa’s payment systems are essential to the existence of the illegal enterprise. Credit card companies facilitate every credit card purchase made from an infringing website. This is not a peripheral assistance that slightly increases sales. It is the facilitating mechanism upon which infringers rely on to stay in business.

⁷⁵ *Id.* at 814 (Kozinski, J. dissenting).

⁷⁶ *Id.* at 818 (Kozinski, J. dissenting).

⁷⁷ *Id.* at 796.

⁷⁸ *Id.* at 814 (Kozinski, J. dissenting).

⁷⁹ *Google*, 487 F.3d. at 729.

⁸⁰ *Visa*, 494 F.3d. at 814 (Kozinski, J. dissenting).

⁸¹ *Id.* at 799.

⁸² *Id.* at 815 (Kozinski, J. dissenting).

⁸³ *Id.* (citing *U.S. v. Lopez*, 482 F.3d 1067, 1076-1079 (9th Cir. 2007)).

⁸⁴ *Id.*

Upon finding that Perfect 10 meets its burden of proof to show material contribution and/or inducement, the court should have turned its focus to whether it had knowledge of the infringing activity.⁸⁵ Visa was clearly aware of the infringement. Perfect 10 identified which websites were infringing in notice and demand letters, which Visa admits to receiving.⁸⁶ Furthermore, without the intimate aid of Visa, transactions involving infringing material would have no means to take place.

B. Vicarious Infringement

In order to be guilty of vicarious infringement, Visa must “profit from direct infringement while declining to exercise a right to stop or limit it.”⁸⁷ It is obvious that Visa monetarily benefits from the infringement because the more credit cards are used, the more interest and fees they can accumulate.⁸⁸ Visa has the right to “require member merchants to cease illegal activity (including, presumably, copyright infringement) as a condition to their continuing right to receive credit card payments from the relevant [Visa] entities.”⁸⁹ In other words, Visa has the right to either demand that the websites stop their illegal infringement or remove them from their payment system.⁹⁰ If the website operators accede to these demands, infringement will be stopped or severely hindered because there is no other viable payment method suitable for online transactions.⁹¹ This course of action is analogous to *Fonovisa*, where it was held that the swap meet operator was vicariously liable because it did not compel the infringers to cease their illegal activity or leave the premises. Visa should have been required to do the same.

Furthermore, the fact that infringement may continue without credit cards should not be a decisive issue before the court.⁹² In *Fonovisa*, where the swap meet was held liable, the illegal businesses could have simply set up shop on a street corner or online.⁹³ Shutting down the swap meet only closed one avenue of distribution for infringement.⁹⁴ Similarly, in *Grokster*, users can find alternative means to exchange infringing material online through methods such as file sharing.⁹⁵ Thus, even if an alternative method of payment exists, it is not dispositive of the fact that no liability exists. Here, the court should have ruled, as it did in prior instances, that removing the challenged service would increase difficulty and ultimately impinge on the ability to infringe.

⁸⁵ *Id.* at 795

⁸⁶ *Id.* at 793.

⁸⁷ *Grokster*, 545 US at 930.

⁸⁸ John Ulzheimer, *Credit Card Companies . . . Friend or Foe*,

http://www.credit.com/credit_information/credit_cards/Credit-Card-Companies-Friend-or-Foe.jsp (accessed March 12, 2008).

⁸⁹ *Visa*, 494 F.3d at 804.

⁹⁰ *Visa, Merchant Responsibility*,

http://usa.visa.com/merchants/new_acceptance/merchant_responsibility.html?it=c/merchants/new_acceptance/accepting_vis.html|Merchant%20Responsibility (accessed March 12, 2008) (“All Visa accepting merchants have a responsibility to adhere to all federal and state laws.”)

⁹¹ *Visa*, 494 F.3d at 817 (Kozinski, J. dissenting).

⁹² *Id.*

⁹³ *Id.*

⁹⁴ *Id.*

⁹⁵ *Id.*

In the world of commercial trade, payment is an integral and necessary part of the transaction.⁹⁶ Distribution of material and payment systems are both crucial parts of any business. Without payment, the infringing material would not be delivered. As the dissenting opinion humorously points out, “distribution and payment are...like love and marriage – you can’t have one without the other.”⁹⁷

IV. Other Factors

A. Slippery Slope

The majority opinion discretely makes use of a slippery slope argument in support of its position. A typical slippery slope argument usually sounds something like this – if you acquiesce to a largely appropriate argument now, there is a greater likelihood that you will accept a largely inappropriate argument later.⁹⁸ More precisely, a slippery slope argument has three parts:

- (i) An initial, seemingly acceptable argument and decision;
- (ii) A “danger case” – a later argument and decision that are clearly unacceptable; and
- (iii) A “process”...by which accepting the initial argument and making the initial decision raise the likelihood of accepting the later argument and making the later decision.⁹⁹

This type of argument is often made in the context of major social issues such as bans on certain kinds of speech.¹⁰⁰ An early example of a court’s use of a slippery slope argument is *State v. Bell*, where the Tennessee Supreme Court refused to accept another state’s recognition of an interracial marriage:

Extend...the rule to the width asked for by the defendant, and we might have in Tennessee the father living with his daughter, the son with the mother, the brother with the sister, in lawful wedlock, because they had formed such relations in a State or country where they were not prohibited. The Turk or Mohammedan, with his numerous wives, may establish his harem at the doors of the capitol, and we are without remedy. Yet none of these are more revolting, more to be avoided, or more unnatural than the case before us.¹⁰¹

The majority sets forth its slippery slope argument through the use of rhetorical questions. In opining that the dissent’s “new world of secondary liability” could result in “a large number of expensive and drawn-out pieces of litigation,” the majority asks:

⁹⁶ *Visa*, 494 F.3d at 818 (Kozinski, J. dissenting).

⁹⁷ *Id.*

⁹⁸ WARD FARNSWORTH, *THE LEGAL ANALYST* §18, 172-181 (2007).

⁹⁹ Mario J. Rizzo and Douglas Glen Whitman, *The Camel’s Nose is in the Tent: Rules, Theories, and Slippery Slopes*, 51 *UCLA L. REV.* 539, 544 (2003).

¹⁰⁰ See, e.g., *Collin v. Smith*, 578 F.2d 1197, 1205-06 (7th Cir. 1978) (any prohibition on Nazis’ right to assemble and march in Skokie, Illinois may lead to other types of speech being forbidden).

¹⁰¹ 66 *Tenn.* 9 (1872).

What would stop a competitor of a web-site from sending bogus notices to a credit card company claiming infringement by its competitor in the hope of putting a competitor out of business, or, at least, requiring it to spend a great deal of money to clear its name?¹⁰²

The majority goes a step further in its slippery slope argument, pondering whether “the credit card companies would soon decline to finance purchases that are more legally risky” if faced with “significant potential secondary liability on a variety of fronts under the dissent’s proposed expansion of existing secondary liability law.”¹⁰³ Extrapolating its slippery slope argument to the end, the majority queries whether “First Amendment rights of consumers [would then] be trampled?”¹⁰⁴

Judge Kozinski’s dissent is not without a rejoinder to the majority’s slippery slope argument. He finds that the “majority’s concern that imposing liability on defendants here would implicate vast numbers of other actors who provide incidental services to infringers...is unfounded.”¹⁰⁵ Judge Kozinski posits that the avalanche of litigation would not follow a ruling for Perfect 10, stating:

Were we to rule for plaintiff, as we should, I have every confidence that future courts would be able to distinguish this case when and if they are confronted with lawsuits against utility companies, software vendors or others who provide incidental services to infringers.¹⁰⁶

In other words, Judge Kozinski does not think an avalanche of litigation would be imminent if the court were to rule in favor of Perfect 10.

The majority has set a precedent that may limit how, and to what extent, copyrighted content is distributed. By permitting Visa to continue to provide transactional support to infringers, the majority may be limiting how owners of copyrighted material deliver their product to the public. In sum, the majority opinion has likely created a virtual chilling effect.

B. Perfect 10 – a “Perfect” Plaintiff?

While courts are not supposed to consider the reputations of the parties involved in a case, it is hard to ignore the fact that Perfect 10 is not an ideal plaintiff. Its magazine and corresponding website disseminate (soft) pornographic materials. Society as a whole does not look favorably upon producers and distributors of pornography. It is impossible, and perhaps presumptuous, to say whether or not Perfect 10’s industry had any impact on this decision, but it probably did not earn them any additional sympathy. Dr. Zada acknowledged this complicating factor: “*Perfect 10* is not the perfect plaintiff in this case. It would have been much better if the motion picture

¹⁰² *Visa*, 494 F.3d at 798 n. 9.

¹⁰³ *Id.*

¹⁰⁴ *Id.*

¹⁰⁵ *Visa*, 494 F.3d at 815 (Kozinski, J. dissenting).

¹⁰⁶ *Id.*

studios had sued instead of *Perfect 10*. Even though we have a very tasteful magazine, we are not viewed as respectfully as, obviously, the motion pictures studios.”¹⁰⁷

Conclusion

“If the ultimate conclusion from all of this is [that] you can’t assert secondary liability against people who are benefiting from intellectual property...then that will be the end of motion pictures, songs, and Perfect 10.”

- Dr. Zada’s prediction on what will happen if he loses his lawsuit against Visa.¹⁰⁸

The majority has set a precedent that will limit how, and to what extent, copyrighted content is distributed. By permitting Visa to continue to provide transactional support to infringers, the majority will constrain how owners of copyrighted material deliver their product to the public. The ruling fails to reinforce law’s crucial role in the digital era and the need to adapt the way “legal meanings are made, disseminated, and construed.”¹⁰⁹ With the digitization of content and distribution technologies, the web has been transformed into an expansive distribution medium.¹¹⁰ According to the Pew Research Center, the Internet is different than other mass communication technologies since it is “rapidly evolving as it disseminates.”¹¹¹ The struggle to enforce copyright laws for owners of content is a major challenge, and copyright infringement on the Internet gained prevalence in the late 1990s.¹¹² As a result, digital rights management and copyright enforcement are vital to protect producers and owners of content.¹¹³ Digital content contains plasticity, intangibility, and compactness, any of which could lead to copyright infringement.¹¹⁴

As evident in *Napster*, *Google*, *Fonovisa*, and *Visa*, many individuals do not care if they infringe content. In the Pew Research Center’s study on “The Future of the Internet II,” 42% of survey respondents were pessimistic about humans’ ability to control future technology.¹¹⁵ This same group believed that “dangers and dependencies” will extend beyond the capacity to manage technology.¹¹⁶ The *Visa* case exemplifies the challenges of copyright enforcement and the impact on infringers (and those that enable them), digitally-driven companies, and the public. Visa’s role in linking buyers and sellers of stolen content cannot be underestimated. By

¹⁰⁷ Kawamoto, *supra* n. 6.

¹⁰⁸ *Id.*

¹⁰⁹ Richard K. Sherwin, Neal Feigenson, and Christina Spiesel, *Law in the Digital Age: How Visual Communication Technologies are Transforming the Practice, Theory, and Teaching of Law*, 12 B.U. J. SCI. & TECH. L. 227 (2006).

¹¹⁰ NICOLA LUCCHI, DIGITAL MEDIA AND INTELLECTUAL PROPERTY: MANAGEMENT OF RIGHTS AND CONSUMER PROTECTION IN A COMPARATIVE ANALYSIS §1, 11 (2006).

¹¹¹ John B. Horrigan, *New Internet Users: What They Do Online, What They Don’t, and Implications for the ‘Net’s Future*, http://www.pewinternet.org/pdfs/New_User_Report.pdf (accessed April 1, 2008).

¹¹² Eric Carnevale, *Questions of Copyright in Google’s Image Search: Developments in Perfect 10 v. Amazon.com, Inc.*, 14 B.U. J. SCI. & TECH. L. 132, 133 (2008).

¹¹³ Heather Forsgren Weaver, *Congress Wades Into Digital Copyrights Fray*, RCR Wireless News (April 3, 2006).

¹¹⁴ Pamela Samuelson and Robert J. Glushko, *Intellectual Property Rights for Digital Library and Hypertext Publishing Systems*, 6 HARV. J. L. TECH 237, 240 (1993).

¹¹⁵ Janna Anderson and Lee Rainie, *The Future of the Internet II*, http://www.pewinternet.org/PPF/r/188/report_display.asp (accessed April 1, 2008).

¹¹⁶ *Id.*

approving sales and executing payments, Visa took part in the infringement and was therefore responsible for contributory and vicarious infringement as discussed earlier. By failing to properly compare the facts of *Visa* to *Google* and *Fonovisa*, the majority was shortsighted in its opinion. The ruling benefited infringers since it failed to protect Perfect 10 and its digital pictures. Rather than increasing the difficulty to infringe, the ruling failed to protect stolen content duplicated for profit. This action reinforced infringers' ability to get away with duplication and modification of copyrighted content. Additionally, it pardoned Visa and dismissed its accountability and contribution to the infringement. This ruling could subsequently lead to increased infringement since infringers will continue to reap financial benefits through Visa and other payment systems.

On the other hand, owners of digital copyrighted material need to secure greater legal protection or their content's distribution will be affected. The implications affect not only the owners of copyrighted material, their profits, and their sustainability, but also the quantity and quality of information for the public. More than 70% of Americans use the Internet for information, entertainment, and commerce.¹¹⁷ Without legal protection and regulation, content and distribution could be restricted as Dr. Zada predicted. Technology offers infinite opportunities for businesses and consumers alike. This ruling, however, fails to recognize the changing nature of technology, digital rights management, and copyright issues in the economic and social arenas.

In sum, the court failed to correctly align the facts with similarly situated cases. The majority takes an outdated look at infringement, failing to comprehend the complexity and practicality associated with ever-changing technology. While the tests for secondary liability for copyright infringement are somewhat open for interpretation, cases such as *Fonovisa*, *Grokster*, and *Google* provide guidance, which the majority failed to interpret and apply properly. In granting Visa's motion to dismiss, the court left Perfect 10 and other similar companies that depend on copyright-protected photographs with an uphill battle in the struggle to preserve their digitally-driven businesses. The court should have denied Visa's motion to dismiss and granted Perfect 10 with the opportunity to prove its case during trial.

¹¹⁷ Pew Research Center, *Internet Adoption*, http://www.pewinternet.org/trends/Internet_Adoption_3.18.08.pdf (accessed April 1, 2008).