

## Current Intelligence

### Copyright

#### ■ US Appeals Court hands 'priceless' decision to credit card companies

*Perfect 10, Inc. v Visa International Service Association et al.*, 494 F.3d 788 (9th Cir. 2007)

A divided panel of the US Court of Appeals for the Ninth Circuit held that a third-party financial services provider that does not materially contribute to or have control over a copyright infringer cannot be held liable for the infringer's wrongful acts. On 9 October 2007, the Ninth Circuit denied Perfect 10's petition for a panel rehearing and petition for rehearing en banc. Both the Recording Industry Association of America and the Motion Picture Association of America had filed amicus briefs in support of Perfect 10's decision. It is likely that Perfect 10 will pursue the case in the US Supreme Court.

#### Legal context and facts

Perfect 10 found infringing copies of its photographs of nude models on numerous third-party websites. Because the direct infringers were based outside the USA, very small, or otherwise difficult to sue, Perfect 10 sued the conduit of their revenue, Visa International and its related banks and service providers (collectively, 'Visa'). Perfect 10 alleged that because Visa profited from the infringement and had some measure of control over the infringing websites' content by virtue of its contractual agreements with the merchants, it should be held contributorily or vicariously liable for the infringement. It also alleged contributory and vicarious trade mark infringement liability on the basis that some of these sites falsely claimed to be Perfect 10 licensees.

On a motion to dismiss for failure to state a claim, the United States District Court for the Northern District of California held that, even assuming that all of Perfect 10's allegations were true, Perfect 10 did not plead allegations sufficient to sustain claims for either copyright or trade mark infringement. On appeal, a three-judge panel of the US Court of Appeals for the Ninth Circuit affirmed (Kozinski dissenting).

#### Analysis

Perfect 10 argued that, because Visa profited from the third-party websites' infringing activity, and had the power to investigate and act upon allegations of illegal activity by its merchants, it also had the duty to stop offering its services to merchants offering infringing

Perfect 10 photographs. After alleging in its complaint that (1) the third-party sites were selling infringing photographs, (2) Visa was aware of the illegal activity, (3) Visa had some measure of control over the merchants, and that (4) Visa profited from its relationship with the merchants and refused to cease doing business with the infringing sites (allegations that must be taken as true for the purpose of a motion to dismiss), Perfect 10 claimed that Visa was liable under theories of contributory or vicarious copyright and trade mark infringement.

To be liable for contributory copyright infringement, a defendant must have knowledge of the infringing activity and materially contribute to the infringement. Here, the majority held that there was no contributory infringement because the provision of financial services in the form offered by Visa was not a material contribution to the infringement. Specifically, the panel held that facilitating payments bears no material connection to the infringement because it has no role in the copying, display, or distribution of the infringing images. In support of its position, the panel noted that, even if Visa did not provide its services, the infringement could continue. Judge Kozinski, the dissenter, attacked this reasoning, arguing that the test is not whether Visa's activities constitute infringement (they do not) but whether they materially support the infringement. He argued that the complaint pleaded facts sufficient to survive a motion to dismiss because, but for Visa's services, the infringing activity would be virtually non-existent, thus meeting the materiality test.

To be liable for vicarious copyright infringement, a defendant must have the right and ability to supervise and control the infringing activity and obtain a direct financial benefit from it. Perfect 10 argued that Visa has contracts with its customers that prohibit the use of its services for illegal activity. It further reasoned that because Visa was on notice of the illegal infringement and had the right to terminate contracts with entities conducting illegal business, it effectively had the sufficient control over the infringing websites to be liable for vicarious infringement. The Ninth Circuit disagreed, holding that Visa did not have the right to supervise and control the infringer's activities because Visa's contractual relationships do not allow it to interfere with its customers' business operations. In particular, the contracts do not give Visa the right to determine what types of uses its customers can make of copyrighted materials. In short, the ability to influence is not the ability to supervise and control.

#### Practical significance

It is unlikely that the Ninth Circuit decision will be the last word on this case. Perfect 10 has the strong support

of the movie and music industries, which also have content to protect. Visa has the backing of other industries that provide industry-neutral services to a variety of businesses. This dispute will therefore likely be brought again, either in another Circuit Court or in the Supreme Court of the United States. Until another Circuit Court considers the issue or the Supreme Court considers this decision (by either denying a writ of certiorari or issuing a decision), questions of vicarious and contributory

copyright infringement liability for third-party service providers remain uncertain.

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