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10 UNITED STATES DISTRICT COURT  
11 NORTHERN DISTRICT OF CALIFORNIA  
12 SAN JOSE DIVISION

13 Winston & Strawn LLP  
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16 PERFECT 10, INC., a California corporation,

17 Plaintiff,

18 vs.

19 VISA INTERNATIONAL SERVICE  
20 ASSOCIATION; FIRST DATA CORP., a  
21 corporation; CARDSERVICE  
22 INTERNATIONAL, INC., a corporation;  
23 MASTERCARD INTERNATIONAL  
24 INCORPORATED, a corporation;  
25 HUMBOLDT BANK, a national banking  
26 association; and DOES 1 through 100,  
27 inclusive,

28 Defendants.

Case No. C 04 0371 JW (PVT)

**REPLY MEMORANDUM IN SUPPORT  
OF DEFENDANTS' MOTION TO DISMISS**

Date: June 28, 2004  
Time: 9:00 a.m.  
Dept: Courtroom 8, 4th Floor  
Judge: Honorable James Ware

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1 **INTRODUCTION**

2 Perfect 10, a publisher of an "adult" magazine and web site, asks the Court to impose a broad  
3 new set of liabilities and duties on Defendants in order to force Defendants to police the Internet on  
4 Perfect 10's behalf. Perfect 10 complains that numerous third-party businesses operate websites that  
5 infringe upon Perfect 10's rights and compete unfairly with Perfect 10. There is no allegation, or  
6 suggestion, that Perfect 10 has ever sought to take action directly against those third-party  
7 businesses. Perfect 10's *modus operandi* is to hold others – in this case the providers of major  
8 payment systems that handle a vast amount of commerce – responsible to look after Perfect 10's  
9 rights and interests, while Perfect 10 neglects to look after itself by challenging the third parties  
10 directly.

11 Instead, Perfect 10 seeks to have the Defendants become prosecutor, judge and jury, to  
12 investigate, adjudicate and enjoin countless businesses for a wide variety of alleged sins, such as  
13 copyright infringement, trademark infringement, misrepresentations, violation of rights of publicity  
14 of unrelated persons, tricking consumers by requiring them to "uncheck" boxes to avoid charges, and  
15 spamming. And while Perfect 10 now attempts to number the allegedly offending third parties in the  
16 hundreds,<sup>1</sup> it sidesteps the fact that its proposed new liabilities and duties, if applied by other  
17 plaintiffs asserting similar grievances, would unquestionably turn Defendants – or any enterprise that  
18 provides mass products or services that are "critical" to a variety of businesses – into guarantors of  
19 those businesses' obedience to the laws and their adherence to principles of fair competition.

20 If the Court were to rule that Defendants must investigate and adjudicate Perfect 10's  
21 business disputes with others, what is next? What would stop Chevron from writing MasterCard a  
22

23 <sup>1</sup> Perfect 10's prominent and repeated reference to the "few hundred" or "small group" of allegedly  
24 infringing adult websites it wants the court to order Defendants to police (*e.g.*, Opposition at 1:7-11)  
25 is just one of many examples of Perfect 10's willingness to play fast and loose with the facts to  
26 support its arguments, falsely minimize the burden it asks the Court to impose on Defendants, and  
27 salvage its case. Perfect 10's Complaint, however, nowhere alleges that the "Stolen Content  
28 Websites" are few. To the contrary, Perfect 10 alleges that Defendants are "providing transaction  
support services for the sale of *millions of stolen photos* and film clips *worth billions of dollars.*" See  
Complaint at ¶ 5 (emphasis added). And in a letter attached to the Complaint, sent to Visa in  
January 2003, Perfect 10's counsel stated: "There are *thousands of infringing celebrity websites* on  
the Internet." Complaint Ex. 5 at 2 (emphasis added).

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1 letter claiming that a “couple hundred” independent gas stations were selling misbranded gasoline?  
2 What if a toxic tort plaintiffs’ counsel wrote to First Data complaining that several hundred dry  
3 cleaners in California were violating environmental laws? What if a letter is sent to the phone  
4 company claiming that many of its customers use its telephone lines to supply information to a  
5 bookmaking business, arrange trysts, leak trade secrets, send spam, or plan securities fraud?

6 There is no basis in law or common sense for this Court to adopt Perfect 10’s radical  
7 proposal. Perfect 10 seeks to impose liability and duties solely because it has given “notice” to  
8 Defendants about the alleged various misdeeds of a myriad of third parties. Even assuming such  
9 notices were effective and useful (which Defendants deny), knowledge by Defendants of allegedly  
10 improper conduct by third parties falls far short of what Perfect 10 must allege in order to survive a  
11 motion to dismiss. Moreover, Perfect 10’s proposal would:

- 12 (1) create boundless liabilities and duties on all providers of mass systems (including the
- 13 electric company, discussed below) that would create an intolerable burden;
- 14 (2) promote an inefficient enforcement regime, allowing complainants to shirk their own
- 15 responsibility to enforce their rights by passing the buck to others who lack the ability to
- 16 administer the claims and disputes;
- 17 (3) create a grave danger of extrajudicial overenforcement of complainants’ rights, and a
- 18 danger of harmful and unjustified interference when complainants lack a basis for
- 19 complaint, because Defendants and others would be expected to halt doing business with
- 20 accused companies out of fear of lawsuits like this one; and
- 21 (4) create risks of liability for companies that, in response to demands of Perfect 10 and
- 22 others, cut off dealings with companies that have been unjustly accused of misconduct.

23 Perfect 10’s Opposition is seriously flawed in many respects. In particular, Perfect 10:

- 24 • concedes that it wishes to impose liability on Defendants merely for “doing business”
- 25 with allegedly infringing third-party website sponsors, even though Perfect 10 does not
- 26 allege (and cannot show) that Defendants have induced, caused, or even “aided and
- 27 abetted” *the allegedly infringing activities* of those third parties;



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- 1 • admits that Defendants do not participate in the alleged misconduct of other businesses or
- 2 assist in the challenged conduct of those businesses;
- 3 • admits that Defendants do not have any direct contractual relationship with any merchant
- 4 engaged in alleged violations;
- 5 • soars into the realm of “hypothesis,” presenting mere suppositions in its opposition
- 6 papers instead of arguing the merits of its claims based upon allegations in the
- 7 Complaint;
- 8 • makes unspecified allegations generally against “Defendants,” with occasional specific
- 9 statements against one or two Defendants, when it is clear that the allegations cannot lie
- 10 against all Defendants;
- 11 • introduces new factual matter that Perfect 10 knows to be false; and
- 12 • takes improper liberties with authorities cited in its brief such as attributing quotations to
- 13 cases that do not contain the quoted language and quoting as authority propositions
- 14 rejected by the court in the decision from which the quotation is drawn.

15 Perfect 10’s flawed opposition cannot withstand Defendants’ motion, and it furnishes no  
 16 reason to believe that Perfect 10 can ever adequately plead any of the causes of action it has asserted.  
 17 This Court should grant the motion and dismiss this action with prejudice.

**ARGUMENT**

**I. PERFECT 10’S PLEADINGS MUST BE TAKEN AS THEY ARE, WITHOUT INDULGING SPECULATION IN THE GUISE OF “HYPOTHESIS,” AND WITHOUT DISTRACTION BY UNPLEADED MATTERS ASSERTED IN ITS OPPOSITION.**

22 As a threshold matter, it is important to note that Perfect 10’s Opposition is based in large  
 23 part *not* on what is contained in its Complaint, or even on facts it represents to the Court *could*  
 24 (consistent with Rule 11) be pled in an amended complaint, but rather on wholesale, counterfactual  
 25 hypothesis, imagining and arguing possible “facts” that are not only absent from the Complaint but  
 26 also, in many cases, directly contradict the truth (alleged or otherwise).

27 In support of this tactic, Perfect 10 improperly cites *Hearn v. R.J. Reynolds Tobacco Co.*, 279  
 28 F.Supp.2d 1096, 1101 (D. Ariz. 2003) for the proposition that a “suit should not be dismissed *if it is*

1 *possible to hypothesize facts*, consistent with the complaint, that would make out a claim.”  
 2 (Emphasis added). The quoted language does not appear in the case, and the case says nothing of  
 3 the sort. The Ninth Circuit has never allowed courts considering a motion to dismiss to indulge in  
 4 “hypothesis” in their assessment of the pleadings. Rather, “[c]onclusory allegations of law and  
 5 unwarranted inferences are not sufficient to defeat a motion to dismiss for failure to state a claim.”  
 6 *Nat’l Ass’n for the Advancement of Psychoanalysis v. California Bd. of Psychology*, 228 F.3d 1043,  
 7 1049 (9th Cir. 2000) (quoting *Halkin v. VeriFone, Inc.*, 11 F.3d 865, 868 (9th Cir. 1993)).

8 “Hypothesized facts” appears to be Perfect 10’s euphemism for falsehoods. For example,  
 9 Perfect 10 attempts to salvage its libel and interference claims – claims that are time-barred on their  
 10 face – by hypothesizing that Perfect 10 did not discover the underlying facts until years later. This  
 11 argument, however, is pure fabrication, unsupported by the Complaint and flatly contrary to a  
 12 voluminous written record. See the discussion of the libel and tortious interference claims below.  
 13 Similarly, Perfect 10’s Opposition argues that merchants in the terminated file cannot accept bank  
 14 cards—a claim directly contrary to the factual averments in the Complaint itself. Perfect 10’s  
 15 Complaint must stand – or in this case fall – solely on the allegations of the Complaint itself, not the  
 16 unsupported and contradicted speculations of counsel. Similarly, Perfect 10’s request for leave to  
 17 amend must be evaluated on the basis of express representations of facts that (1) can be alleged  
 18 consistent with Rule 11 and (2) do not contradict the facts already pled, not hypotheses of what  
 19 *might* be the truth.

20 **II. PERFECT 10 CANNOT IMPOSE NEW LIABILITIES OR DUTIES UPON**  
 21 **DEFENDANTS REQUIRING THEM TO POLICE THE CONDUCT OF ALL**  
 22 **BUSINESSES THAT ACCEPT VISA AND MASTERCARD BANK CARDS.**

23 Perfect 10 attempts, half-heartedly, to argue that the question of “duty” is irrelevant, urging  
 24 that “duty” is not an element of its copyright or trademark claims. But Perfect 10’s effort to impose  
 25 upon Defendants a new, “onerous role of the global policeman,” *see Emery v. Visa Int’l Inc.*, 95 Cal.  
 26 App.4th 952, 966 (Cal. App. 2002), must be rejected. Perfect 10 thus seeks to impose a liability on  
 27 the theory, squarely rejected in *Emery*, that Defendants have a “special relationship” with businesses  
 28 that accept Visa and MasterCard cards for transactions. Courts, including federal courts considering

1 claims of secondary liability under the trademark and copyright statutes, have had no problem  
 2 framing potential liability in terms of “no duty,” notwithstanding Perfect 10’s denial. *See, e.g.,*  
 3 *Lockheed Martin Corp. v. Network Solutions, Inc.*, 1194 F.3d 980, 984 (9th Cir. 1999).<sup>2</sup>

4 In their opening brief, Defendants cited decisions, including *Emery* and *Mid-Cal Nat’l Bank*  
 5 *v. Federal Reserve Bank*, 590 F.2d 761, 763 (9th Cir. 1979), holding that a financial institution does  
 6 not have a special relationship with its depositors and other customers that would create any duty to  
 7 control their conduct for the benefit of unrelated persons such as Perfect 10. *See* Opening Brief at  
 8 10. There are many other such cases, all to the same effect.

9 Perfect 10 has failed to identify any cases to the contrary. Nor does Perfect 10 dispute that  
 10 the *only* recognized “special” relationships that can create a duty to control the conduct of a third-  
 11 party actor are (1) parents, (2) masters, (3) landowners and (4) persons who have assumed physical  
 12 custody over the actor. *Restatement (Second) of Torts*, §§ 316-318. Defendants do not have any  
 13 such relationship with any merchant, nor does Perfect 10 allege that they have.

14 Perfect 10, recognizing the lack of a “special relationship” inherent in the dealings between  
 15 Defendants and merchants, grasps too hard onto the thin reed of one Defendant’s internal  
 16 regulations, namely Visa’s “High-Risk Internet Payment Service Provider Registration Program”  
 17 (Complaint, Ex. 2), and FDC’s alleged policy of imposing extra charges on high-risk web merchants.  
 18 Perfect 10 asks the Court to find a duty flowing from Defendants’ establishment of internal credit  
 19 and other business policies regulations and charges for services. *See* Opposition at 12-14. But  
 20 neither Visa’s High-Risk Program, which is reasonably imposed to protect the association from  
 21 undue financial risk, nor FDC’s alleged act of charging infringing websites more than conventional  
 22 merchants pay for the same services (Complaint at ¶ 18), nor Visa’s and MasterCard’s alleged  
 23 requirements that their members not maintain merchant accounts exceeding acceptable chargeback  
 24 limits (Complaint at ¶ 11), indicate any relationship with any merchant that fits one of the categories  
 25 of duty established by the Restatement of Torts or by any decided case.

26  
 27 <sup>2</sup> *See also Hard Rock Café Licensing Corp. v. Concession Services, Inc.*, 955 F.2d 1143, 1148-49  
 28 (7th Cir. 1992) (while “[t]he common law then, imposes the same duty on landlords and licensors  
 that the Supreme Court has imposed on manufacturers and distributors”).

1 As courts explain repeatedly, it is perfectly natural for banks and other businesses to adopt  
 2 regulations to protect their financial interests or brand image. Doing so does not provide “control”  
 3 sufficient to impose a duty to police others, or to impose liability for the actions of others. As in  
 4 *Emery*, because Defendants have “no regular, direct dealings at all with any of the merchants,” but  
 5 “merely make available a payment system to member financial institutions, which merchants can  
 6 use,” Defendants cannot be considered to have “control” over any merchants so as to create an  
 7 agency relationship imposing policing duties. *Emery*, 95 Cal. App.4th at 960.

8 Perfect 10 complains repeatedly that Defendants failed to strictly adhere to all the policies or  
 9 rules one Defendant had adopted. Perfect 10 continues this litany throughout its Opposition. But the  
 10 fact that a Defendant – or any business – may have an adopted internal policy guideline or rule  
 11 cannot create any higher duty owed to Perfect 10. This is central to the reasoning of *Religious*  
 12 *Technology Center v. Netcom On-Line Commun. Services*, 907 F.Supp. 1361 (N.D. Cal. 1995),  
 13 where this Court explained that the development of corporate “policy and practice of acting . . . *in no*  
 14 *way creates a higher standard of care under the Copyright Act.*” *Id.* at 1375, n.21 (emphasis added).  
 15 *See also Software Design and Application, Ltd. v. Hoefer & Arnett, Inc.*, 49 Cal. App.4th 472, 481-  
 16 482, 56 Cal.Rptr.2d 756, 76 (1996). Moreover, the adoption of a guideline by one Defendant cannot  
 17 impose any duty on another Defendant.

18 Perfect 10 nowhere alleges, and has no basis to claim, that the accused third parties have any  
 19 contractual relationship with Defendants. To the contrary, Perfect 10 alleges in its Complaint that  
 20 “[t]he member banks [not Defendants, Visa MasterCard or First Data] issue MasterCard and Visa  
 21 payments, and *contract with merchants.*” Complaint ¶ 8, emphasis added; *see also id.* at ¶¶ 9-11.<sup>3</sup>  
 22 As Defendants stressed in their opening brief, unrebutted by Perfect 10: “Throughout this process,  
 23 Visa and MasterCard have no direct relationship or contact with any merchants or consumers, all  
 24 such contact being in the hands of member financial institutions.” *See* Opening Brief at 4:13-15.

25  
 26  
 27 <sup>3</sup> Defendant Humboldt Bank of course has contractual relationships with *some* merchants, but there  
 28 is no allegation that it has any relationship *with the alleged infringers*. In fact, it does not.

1 Perfect 10's citations to 2 *Dobbs Law of Torts* ("*Dobbs*"), § 314 at 853 (2001), and  
2 *McGuigan v. Southern Pacific Co.*, 112 Cal. App.2d 704, 718 (1952), to claim that Defendants  
3 "assumed a duty to act" (Opposition at 11-12), do not in any way support Perfect 10's attempt to  
4 impose on Defendants a duty to police the Internet (or commerce generally), investigate claims of  
5 copyright or other intellectual property infringement, or cease processing credit card transactions for  
6 accused merchants. Perfect 10 has *never* alleged that any Defendant undertook any such duty, or  
7 any duty to rescue or otherwise come to Perfect 10's aid. As the Court in *McGuigan* and the cited  
8 chapter in *Dobbs* both explain, it is only through a rescue effort or assumption of an express  
9 undertaking *towards Perfect 10* that any duty arises. *See Dobbs*, §§ 316-319 at 856-861; *McGuigan*,  
10 112 Cal. App.2d at 718. Perfect 10 was not a beneficiary of Visa's or any other Defendant's  
11 operating guidelines or policies, so Defendants owed Perfect 10 no duty to follow any policies for  
12 Perfect 10's benefit. Thus, Perfect 10 may not sue Defendants for any alleged failure to follow the  
13 rules. *See also Nelson v. Anderson*, 72 Cal. App.4th 111, 130, 84 Cal.Rptr.2d 753, 765 (1999) ("One  
14 who is not a party to a contract has no right to enforce it unless he is an intended third-party  
15 beneficiary of the contract."); *EEOC v. Goodyear Aerospace Corp.*, 813 F.2d 1539, 1543 n.2 (9th  
16 Cir. 1987) (same).

17 In *Software Design*, 49 Cal. App.4th at 482-83, as in this case, the plaintiff claimed a right to  
18 recover by virtue of the defendant bank's failure to follow its account opening policies, which were,  
19 like Visa's policies, adopted to safeguard the bank. As in *Software Design*, Perfect 10 "did not  
20 allege, nor can they, that such account opening or screening procedures exist to protect strangers  
21 with whom they do no business. Rather they exist to protect [defendants]." *Id.* at 482.

22 Finally, Perfect 10 makes much of the allegations that Visa, as part of its efforts to protect its  
23 good will, has encouraged or required its member banks to monitor the intake of high risk Internet  
24 merchants, and that Visa and MasterCard require termination of those who threaten their members'  
25 profitability because of excessive "chargebacks" or who engage in clearly unlawful conduct such as  
26 child pornography or bestiality. No Defendant's efforts, however, establish "control" over the  
27 merchants sufficient to impose on Defendants a legal duty to police the merchants. *See Netcom*, 907  
28

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1 F.Supp. at 1375, n.21; *Software Design*, 49 Cal. App.4th at 482. As the court explained in *Emery*,  
2 and as many federal courts also have observed:

3 [T]he law is clear and dispositive. A trademark owner’s grant of permission  
4 to another to use the owner’s mark, combined with efforts to “police” such  
use, do not make the user the agent or intermediary of the owner.

5 95 Cal. App.4th at 961. *See also, Kealoha v. E.I. DuPont De Nemours & Co.*, 82 F.3d 894, 902-903  
6 (9th Cir. 1996); *Cislaw v. Southland Corp.*, 4 Cal. App.4th 1284, 1296.

7 **III. DOING BUSINESS WITH AN ALLEGED THIRD-PARTY INFRINGER, WITHOUT**  
8 **PARTICIPATING IN OR ASSISTING THE *INFRINGING CONDUCT* OF THAT**  
9 **THIRD PARTY, CANNOT CREATE LIABILITY FOR DEFENDANTS ON ANY OF**  
10 **PERFECT 10’S THEORIES.**

11 In their Opening Brief at 13:5-12, Defendants explained the radical new basis for liability  
that Perfect 10 was seeking to impose in this case:

12 Perfect 10 alleges that Defendants provide critical support (by “facilitating”  
13 transactions) for the businesses it challenges, but it does not allege (and cannot allege)  
14 that Defendants substantially participate in the *infringing activity*. This distinction is  
15 critical. Copyright law does not demand a blockade of companies that are alleged to  
16 engage in infringing activity by imposing contributory infringement liability on vendors  
17 that do business with those companies. Copyright law merely forbids the substantial  
participation by others in infringing activity. Because Perfect 10 cannot allege substantial  
participation by any Defendant in any infringing activity of third parties, the copyright  
claim must be dismissed.

18 While Defendants made that point specifically with reference to Perfect 10’s copyright claim,  
19 the same issue pervades the case. Perfect 10 has consistently sought to blur the line between  
20 providing what it calls “critical support” to *a business* and providing assistance to *infringing or other*  
21 *unlawful conduct*. *See* Opening Brief at 6.

22 In their Opening Brief, Defendants demonstrated that Perfect 10’s proposed new rule would  
23 improperly require Defendants to police the entire commercial world. Perfect 10 tries to minimize  
24 the effect of its proposed standard by saying it would apply to only “a few hundred adult website  
25 merchants.” Opposition at 1:7. On the other hand, Perfect 10 seeks to hold Defendants legally  
26 responsible for the following misdeeds of companies with Visa or MasterCard merchant accounts:

- 27 • charging consumer credit cards without authorization;
- 28 • falsely stating that memberships are free;

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- 1 • misstating the number of images they have;
- 2 • requiring consumers to uncheck a small box to avoid charges;
- 3 • promising explicit images and videos of celebrities that do not exist;
- 4 • providing or falsely promising rape, incest and/or bestiality images;
- 5 • spamming;
- 6 • tricking consumers into buying memberships; and
- 7 • appearing to be multiple websites, in order to induce consumers to purchase multiple
- 8 memberships.

9 See Opposition at 5; cf. *id.* at 1, 32, 35 (similar allegations). The new rule Perfect 10 seeks to  
10 establish would indeed require not only Defendants but virtually any type of company to refrain  
11 from commercial transactions with an allegedly misbehaving third party.

12 Perfect 10’s attempt to distinguish between an electric company and Defendants falls on its  
13 face. Perfect 10 argues (Opposition at 20:13-17):

14  
15 First, and most critically, the electric company has no knowledge of how its “currents” are  
16 being used. In contrast, Defendants—even completely independent of Perfect 10’s  
17 notifications—possess, or at least should possess, such knowledge by virtue of their  
18 reviewing websites. This factor, of course, has massive ramifications for Defendants’ *ability*  
19 *to control the infringing conduct* . . . .

20 Perfect 10 bases its allegations of Defendants’ knowledge upon numerous “notices” that Perfect 10  
21 has sent to Defendants. See Complaint at ¶¶ 16, 19, 22, 51, 62, 71, 79; Opposition at 8-9. There is  
22 no reason similar “notice” cannot be given to the electric company, which can indeed stop allegedly  
23 infringing conduct by shutting off electricity to an alleged infringer’s computer system.

24 Perfect 10 further argues (Opposition at 21:1-4):

25 Second, electric companies “contribute” by delivering their service to an actual, bona fide  
26 physical addresses [sic] where an individual or business is located. In contrast, defendants  
27 process transactions for Stolen Content Websites with sham Internet registrations with bogus  
28 addresses and contact information that are virtually impossible to track down.

1 Perfect 10 has not alleged or shown any relationship between Defendants and phony domain name  
 2 registration data. Moreover, there is no reason to doubt that electricity providers enable the  
 3 processing of Internet communications to and from websites with phony registration data.

4 Finally, Perfect 10 argues (Opposition at 21:10-12, emphasis in original):

5 Third, while electric companies provide background services (as do phone and water  
 6 companies) that are necessary for the functioning of any business environment, defendants'  
 7 contribution comes into play *at the actual point of sale and distribution*.

8 To the extent Perfect 10 bases the distinction upon provision of services that are "necessary for the  
 9 functioning of any business environment," Perfect 10 says exactly the same about Defendants: on  
 10 page 1 of its Opposition, Perfect 10 falsely argues "acceptance of MasterCard and Visa is necessary  
 11 to an Internet merchant's commercial viability." *See also* Opposition at 28:17-18. Moreover,  
 12 electricity is indeed required *at the point of sale and distribution* when Internet transactions and  
 13 transmissions are involved.<sup>4</sup> Because Perfect 10 cannot avoid sweeping virtually any mass  
 14 enterprise into the net of its radical new standard, the Court should reject that proposed standard.

15 Perfect 10 tries to salvage its claims by arguing that Defendants must be liable as aiders and  
 16 abettors and be held responsible "for the illegality in which they knowingly participate." *E.g.*,  
 17 Opposition. at 2:23-24, 11:12-13, 17:23. Perfect 10 alleges a mere conclusion that, by not shunning  
 18 businesses after receiving Perfect 10's notices of alleged copyright infringement, Defendants are

19 \_\_\_\_\_  
 20 <sup>4</sup> Perfect 10 argues that Defendants' participation at the "point of sale and distribution" somehow  
 21 ties Defendants' activities to the infringing act. Defendants do not concede that any "distribution" in  
 22 violation of the copyright law has been alleged. The Copyright Act does not contain any *general*  
 23 exclusive distribution right of the copyright holder. Instead, copyright law identifies the exclusive  
 24 "distribution" right of the author only as the right "to distribute copies or phonorecords of the  
 25 copyrighted work to the public by sale or other transfer of ownership, rental, lease, or lending." 17  
 26 U.S.C. §106(3). Granting consumers access to a website does not involve the sale or other transfer  
 27 of ownership, rental, lease, or lending of "copies" by the website operator. Even if consumers were  
 28 to make copies of images available on the website by downloading or printing them, the website  
 operator has not transferred ownership or possession of any copies. Moreover, even if one were to  
 concede that consumers' copying or downloading effects a "distribution," Defendants' payment  
 processing services do not bear a direct relationship to the infringing act" of *distribution* because  
 Defendants' activities relate only to payment for access to the infringing sites and do not directly  
 facilitate the copying or downloading activities of consumers. To the extent that websites may be  
 liable for contributing to infringements of the *reproduction* right by their customers, Perfect 10 does  
 not allege that any of the Defendants is involved in the making of copies by consumers.



1 “aiding and abetting” the businesses’ unlawful conduct. *See, e.g.*, Complaint at ¶¶ 22, 28, and  
2 Opposition at 31.

3 Perfect 10 cannot stretch the doctrine of aider-and-abettor liability so far, and invoking mere  
4 conclusions cannot overcome Defendants’ clear lack of duty. As is clear from *Emery*, none of the  
5 Defendants, nor any other independent provider of lawful services or products, can be liable for  
6 “aiding and abetting” its customers’ unlawful conduct merely because it knows about unlawful  
7 conduct, unless it participates in the unlawful conduct. Perfect 10’s alleged “notices” to Defendants  
8 do not change the result: “Knowledge of, or failure to prevent a crime is not sufficient to establish  
9 ‘aiding and abetting’ liability.” *Emery*, 95 Cal. App.4th at 962-963 (citing *People v. Durham*, 70  
10 Cal.2d 171, 181 (1969); *People v. Brophy*, 49 Cal. App.2d 15, 29-32 (1942) (telephone services  
11 provision contract “legal in itself” not rendered unenforceable even if provider put on notice that  
12 recipient intends to violate law).

13 *Brophy* is particularly instructive. In that case the California Attorney General notified the  
14 telephone company that its customer was using telephone equipment supplied by the company in  
15 illegal bookmaking operations and demanded that the company cease providing services. *Brophy*,  
16 49 Cal. App.2d at 19-20. The court held that the telephone company could not be classified as an  
17 aider or abettor. *Id.* at 33. In fact, the court explained, the company’s termination of services would  
18 put the company at risk for suit by the alleged wrongdoing customer. *Id.* at 30-31. This is exactly  
19 the forbidden predicament Perfect 10 asks the Court to impose on these Defendants.

20 *Emery* relied on *Brophy* and other cases to hold squarely that Visa, like the telephone  
21 company, was “merely the conduit” and that “[t]he availability of its payment system” could not  
22 expose it to liability as an aider and abettor.” *See Emery*, 95 Cal. App.4th at 952. The court  
23 affirmed the trial court’s finding that Visa’s indirect trademark licensing and transaction processing  
24 services ““even coupled with knowledge by Visa that some of the merchants using the mark are  
25 conducting illegal activities, do not equate [to] aiding and assisting.”” *Id.* at 959.

1 **IV. PERFECT 10 HAS NOT ALLEGED A VALID CONTRIBUTORY COPYRIGHT**  
 2 **INFRINGEMENT OR VICARIOUS LIABILITY CLAIM AGAINST DEFENDANTS.**

3 **A. Perfect 10 Cannot Allege A “Material Contribution” To The Alleged Infringing**  
 4 **Activity, Which Is The Foundation Of A Contributory Infringement Claim.**

5 Perfect 10 offers a tortured interpretation of the case law when it argues that Defendants  
 6 “materially contribute” to merchants’ infringement. Contributory liability does not arise here  
 7 because no Defendant “directly contributes to another’s infringement,” *Fonovisa, Inc. v. Cherry*  
 8 *Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996); “engages in personal conduct that encourages or  
 9 assists the infringer,” *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1019 (9th Cir. 2001);  
 10 “materially contributes to the infringing conduct,” *Netcom*, 907 F.Supp. at 1375 (quoting *Gershwin*  
 11 *Publishing Corporation v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971));  
 12 or “act[s] in concert with the direct infringer,” *Livnat v. Lavi*, 46 U.S.P.Q.2d (BNA) 1300, 1303  
 13 (S.D.N.Y. 1998). By ignoring the requirement of *material contribution to the infringing conduct*,  
 14 Perfect 10 advocates a standard that would hold anyone contributorily liable who provides a useful  
 15 service to a known infringer. The cases cited by Perfect 10 make clear that such a far-reaching  
 16 theory of liability is unsupported.

17 Perfect 10 argues that Defendants’ contribution is “substantial” because “permission from  
 18 MasterCard and Visa to accept their cards is tantamount to a pre-condition for running a successful  
 19 online business, and gives such websites a significant competitive advantage.” Opposition at 19:9-  
 20 10. This reasoning is flawed. First, providing “a precondition to” “a significant competitive  
 21 advantage” to the business of an infringer is not sufficient to justify contributory liability. Rather,  
 22 the standard is that the defendant must materially contribute *to the infringing conduct*. Defendants’  
 23 payment systems do not contribute directly to infringing conduct such as copying or distribution.  
 24 Second, Perfect 10’s position is based on the lack of a payment alternative. Even if a Defendant  
 25 were to deny services to infringers, many alternative payment mechanisms would be available, such  
 26  
 27  
 28

1 as checks, money orders, direct debits and other electronic fund transfers from bank accounts, and  
2 Internet payment systems.<sup>5</sup>

3 Perfect 10's proposed rule would lead to absurd results. The electric company, a city  
4 business license official, and a payroll service (to list just a few) all would be liable if informed by  
5 Perfect 10 of an infringement; each service is "tantamount to a pre-condition for running a  
6 successful online business." No precedent supports such a radical expansion of liability.

7 *Aitken, Hazen, Hoffman, Miller, P.C. v. Empire Constr. Co.*, 542 F. Supp. 252, 262 (D. Nebr.  
8 1982), is instructive. In that case, the defendant engineer was not liable for vicarious copyright  
9 infringement even though his approval of an infringing architectural plan was required for  
10 construction of a building. The court observed that the infringement occurred in the copying of the  
11 plan and the engineer's seal was not a necessary predicate to copyright infringement. *See also*  
12 *Demetriades v. Kaufmann*, 690 F. Supp. 289 (S.D.N.Y. 1988) (real estate agent could not be  
13 secondarily liable for copyright infringement even if aware that sale of a parcel depended on  
14 purchaser' agreement to build home based on infringing architectural plans). These cases are all  
15 consistent with other cases that have found liability only where a defendant furnished an  
16 instrumentality of infringement or where a defendant pervasively participated in the infringing  
17 activity. *See, e.g., Napster*, 239 F.3d at 1021 (Napster's online index was an essential tool for illegal  
18 file-sharing); *Fonovisa*, 76 F.3d at 263; *Netcom*, 907 F. Supp. at 1367-68 (Netcom's equipment was  
19 the vehicle for copying copyrighted materials)<sup>6</sup>; *cf. Adobe Systems, Inc. v. Canus*, 173 F. Supp.2d  
20 1044 (C.D. Cal. 2001) (distinguishing landlord that did not pervasively participate in infringements  
21 from landlord and swap meet operator in *Fonovisa*).

22  
23  
24 <sup>5</sup>In any event, the pleadings demonstrate that placement of a merchant in the terminated file does not  
25 bar a merchant from accepting bank cards. Even Perfect 10, which is in the file, continues to accept  
26 payment at its web site by Visa or MasterCard credit cards through use of an "aggregator."

27 <sup>6</sup>Perfect 10 misreads *Netcom* as somehow supporting its claims here (*see* Opposition at 22-23). But  
28 *Netcom* was, unlike any Defendant, actually furnished and controlled the actual instrumentality of  
alleged infringements. 907 F. Supp. at 1367-68. In addition, the Court relied on the fact that  
*Netcom* was alleged to have direct contracts with the alleged infringers. 907 F.Supp. at 1375. These  
two critical factors do not apply to Defendants in this case.

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1 In *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 431 (1984), the Supreme Court  
 2 explained that the “protection given to copyrights is wholly statutory” and explained that “[t]he  
 3 judiciary’s reluctance to expand the protections afforded by the copyright without explicit legislative  
 4 guidance is a recurring theme.” In light of the judicial reluctance to expand copyright, this Court  
 5 should reject Perfect 10’s proposed radical new standard for contributory copyright infringement and  
 6 dismiss the contributory copyright infringement claim.<sup>7</sup>

7 **B. Perfect 10 Cannot Allege Either Element Of Vicarious Liability For Copyright**  
 8 **Infringement.**

9 Perfect 10 argues that Defendants face vicarious liability because they (1) have the right and  
 10 ability to exercise control over the “Stolen Content Websites” and their activities and (2) obtain a  
 11 direct financial benefit from the infringing activities. Opposition at 22. Perfect 10 misdescribes the  
 12 first element: a defendant must have the right and ability to supervise not just any aspect of the  
 13 direct infringer’s business, but *the infringing conduct itself*.

14 **1. Perfect 10 Cannot Allege That Defendants Have The Right and Ability to**  
 15 **Control the Infringing Activity.**

16 Perfect 10 cannot plead facts that would satisfy the “right and ability to supervise and  
 17 control” prong for two distinct reasons. First, as discussed with respect to the copyright claim, none  
 18 of Defendants controls the infringing activities of the third-party web sites.

19 Perfect 10 in its Opposition (at 22-24), completely ignores the cases holding – and thus  
 20 concedes – that even a parent company cannot be liable for infringement by its wholly owned  
 21 subsidiary, unless it is alleged and proven to control the allegedly infringing conduct, and exercises  
 22 “pervasive participation” in the infringer’s business. *See* Opening Brief at 14-15. Perfect 10  
 23 nowhere in its Complaint has alleged – nor can it – such pervasive participation or control over the  
 24

25 <sup>7</sup> As with each of Plaintiff’s purported causes of action, the Court must dismiss this action without  
 26 leave to amend the Complaint because Perfect 10 cannot demonstrate mistake or truthfully explain  
 27 the change in its factual allegations. Dismissal without leave to amend is proper if “it is clear . . .  
 28 that the complaint could not be saved by an amendment.” *Chang v. Chen*, 80 F.3d 1293, 1296 (9th  
 Cir. 1996); *see also Schreiber Dist. v. Serv-Well Furniture Co.*, 806 F. 2d 1393, 1401 (9th Cir. 1986)  
 (leave should be denied if “allegations of other facts consistent with the challenged pleading could  
 not possibly cure the defect”).

1 infringing content. Nor are any Defendants alleged to be anywhere on the “spectrum of control”  
 2 recognized by the court in *Adobe*, ranging from a landlord (or digital equivalent) on one end to an  
 3 employer, on the other. Moreover, Perfect 10 has failed to allege *facts* establishing that each  
 4 “defendant ‘has the right and ability to supervise *the infringing activity.*’” *Napster*, 239 F. 3d at  
 5 1022 (quoting *Fonovisa*, 76 F. 3d at 262) (emphasis added). The Defendants therefore cannot  
 6 possibly be vicariously liable.

7 While Perfect 10 makes much of so called “control” resulting from Visa’s regulations (such  
 8 as Ex. 2 to the Complaint), those regulations are legally irrelevant as: (1) they are directed at  
 9 member banks, and are not with or directed to any merchant; and (2) Visa does not through them  
 10 obtain any control over the content or infringing activity. Visa’s requirement that its member banks  
 11 monitor certain types of merchants for association purposes is keyed to business judgment as to  
 12 which merchants represent potential financial or brand risks to the system as a whole. This is a far  
 13 cry from Visa’s resolving business disputes or cutting off services just because a complaint is  
 14 received from one merchant about another. Whether any merchant is breaching civil obligations to,  
 15 or the rights of, some third party is not germane to the operations of a payment network. Perfect 10  
 16 has failed to plead a sufficient case against Visa based on its alleged “regulations,” and its claims of  
 17 vicarious copyright infringement against the other Defendants have even less weight.<sup>8</sup>

18 **2. Perfect 10 Cannot Allege Defendant’s Obvious and Direct Financial Benefit**  
 19 **From the Alleged Infringing Conduct.**

20 Perfect 10 acknowledges that vicarious copyright liability is appropriate only if Defendants  
 21 “obtain a direct financial benefit *from the infringing activities.*” Opposition at 22:6-7 (emphasis  
 22 added) (citing *Perfect 10, Inc. v. Cybernet Ventures, Inc.*, 213 F.Supp.2d 1145, 1171 (C.D. Cal.  
 23 2002)). As discussed above, the payment processing systems provided by Defendants to the  
 24 allegedly infringing web sites are only incidental to the infringement. Perfect 10 has not pleaded,

25 <sup>8</sup> When a complaint is presented against multiple defendants, as here, separate counts may be  
 26 required in order to indicate clearly to which defendant each claim applies. See James Wm. Moore,  
 27 et al., *Moore’s Federal Practice*, § 10.03[2][b] (3d ed. 2004) (citing *Hare v. Family Publications*  
 28 *Services, Inc.*, 342 F.Supp. 678, 686 (D.Md. 1972)) (other citations omitted); see also *Magluta v.*  
*Samples*, 256 F.3d 1282, 1284-85 (11th Cir. 2001).

1 and cannot, plead direct financial benefit “*from the infringing activities.*” Therefore, its claim for  
2 vicarious copyright infringement should be dismissed.

3 Perfect 10 attempts to analogize Defendants’ activities to those of Cybernet Ventures, also  
4 sued by Perfect 10. In fact, a comparison of Defendants’ activities to those of Cybernet reveals why  
5 Defendants do not meet the “direct financial benefit” prong of the test. In *Cybernet*, the district  
6 court preliminarily determined that Cybernet had vicariously infringed Perfect 10’s copyrights by  
7 providing its “Adult Check” age verification service to web sites that incorporated infringing  
8 content. The court took great pains to make it clear that Cybernet’s likely liability (on a preliminary  
9 injunction motion) flowed from the fact that its business was built to feed solely off the infringers’,  
10 and because Cybernet thus gained a financial benefit directly from the infringement:

11 the Court finds that there is a strong likelihood that Perfect 10 will establish a “symbiotic  
12 relationship” between Cybernet and the infringing websites based on the close  
13 interrelationship between Cybernet and its affiliated websites, a relationship that appears to  
14 outside consumers as if Adult Check constitutes a single brand. It should be noted that *all*  
the money associated with these websites flows directly to Cybernet before some of it is  
returned to the individual site owners as “commissions.”

15 *Cybernet*, 213 F. Supp.2d at 1171 to 1172 (emphasis in original). The court also stressed that  
16 Cybernet provided technical and content advice, attempted to control the quality of the content at  
17 infringing sites, and that Cybernet’s business model was premised on establishing a “cooperative  
18 system” involving Cybernet and the infringers. *Id* at 1170.<sup>9</sup>

19 Perfect 10 cannot, and does not, allege such a “symbiotic relationship” between any of  
20 Defendants and the allegedly infringing web sites leading to a direct financial benefit from the  
21 infringements. The claims for vicarious copyright infringement should be dismissed.

22 **V. PERFECT 10 HAS NOT ALLEGED A VALID CONTRIBUTORY TRADEMARK**  
23 **INFRINGEMENT CLAIM AGAINST DEFENDANTS.**

24 In its Lanham Act trademark infringement claim, Perfect 10 seeks to impose a duty on  
25 Defendants to authenticate the entire Internet by policing all brand usage. But liability for

26 \_\_\_\_\_  
27 <sup>9</sup> Although these last observations are found in the discussion on contributory copyright  
28 infringement, Cybernet’s close relationship with the infringers also informed the court’s assessment  
of vicarious liability and direct financial benefit. *Id* at 1171.

1 contributory trademark infringement attaches in two limited circumstances only: if a defendant (1)  
2 intentionally induces another to infringe a third party's trademarks or (2) knowing of the  
3 infringement, continues to supply to the primary infringer a product used in the infringing conduct.  
4 Perfect 10 has made no argument that the "intentionally induces" prong of the *Inwood* test applies to  
5 Defendants and apparently concedes that point. *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*,  
6 456 U.S. 844 (U.S.N.Y. 1982)

7 As to the second prong, the Ninth Circuit consistently has held that, in the context of  
8 services, contributory trademark liability requires "[d]irect control and monitoring of *the*  
9 *instrumentality used by a third party to infringe* the plaintiff's mark." *Lockheed Martin Corp. v.*  
10 *Network Solutions, Inc.*, 194 F.3d 980, 984 (9th Cir. 1999) (emphasis added). None of Defendants is  
11 liable because none is alleged to have direct control over the instrumentalities used by the alleged  
12 direct infringers of Perfect 10's trademarks..

13 Perfect 10 urges a broader rule than that articulated by any court. Perfect 10 would make  
14 Defendants liable for contributory trademark infringement even if they did nothing more than  
15 "continue[] to work with parties *whom they knew were violating trademark law.*" See Opposition at  
16 26:15-16 (emphasis in original). While knowledge is a necessary element under the second prong of  
17 the *Inwood* test, it is not the only requirement. Neither *Inwood*, *Lockheed*, nor any case cited by  
18 Perfect 10 supports its radical proposal. The relevant consideration in *Inwood* was not that the  
19 defendant pharmaceutical manufacturer supplied just any product to the known infringer. Rather,  
20 the court held that contributory liability would be appropriate only if (1) the defendant continued to  
21 supply *the very product that was being mislabeled by the direct infringer*, while also (2) knowing  
22 that its product was being used in that way. *Inwood*, 456 U.S. at 855. Defendants' liability  
23 depended on "whether, ... in fact, [they] continued to supply cyclandelate [a generic drug] to  
24 pharmacists whom the [defendants] knew were mislabeling generic drugs." *Id.*

25 As noted above, the Ninth Circuit consistently has interpreted the *Inwood* rule, in the context  
26 of services, to require both (1) a defendant's knowledge and (2) its "[d]irect control and monitoring  
27 *of the instrumentality used by a third party to infringe.*" *Lockheed*, 194 F.3d at 984 (emphasis  
28 added). In *Lockheed*, the Ninth Circuit affirmed the district court's judgment that the defendant

1 domain name registrar (NSI) was not contributorily liable for trademark infringement based on  
 2 NSI's registration of infringing internet domain names. The court held that, notwithstanding NSI's  
 3 knowledge of the infringement, NSI did not have the capability to exercise the "direct control and  
 4 monitoring" necessary to a claim of contributory trademark infringement. *Lockheed*, 194 F.3d at  
 5 985. Perfect 10 attempts to distinguish *Lockheed* by claiming that Defendants "have exercised  
 6 control over [allegedly infringing websites], including through the establishment of content-specific  
 7 regulations."<sup>10</sup> Opposition at 27:27-28. As explained above, no such "regulations" can impose a  
 8 greater duty on the Defendant that promulgated them, nor do they establish control over merchants at  
 9 issue who are not bound by them.

10 To the contrary, Defendants "cannot reasonably be expected to monitor the Internet." *See*  
 11 *Lockheed*, 194 F.3d at 985 (quoting the district court's opinion in *Lockheed Martin Corp. v. Network*  
 12 *Solutions, Inc.*, 985 F.Supp. 949, 962 (C.D. Cal. 1997)). As pointed out by Perfect 10, NSI does, in  
 13 fact, monitor certain domain names. Opposition at 28:4-5. This proves Defendants' and not Perfect  
 14 10's point, since NSI's review did not constitute the "direct control and monitoring" necessary for  
 15 contributory trademark infringement. *See Lockheed*, 194 F.3d at 985. Like NSI in *Lockheed*,  
 16 Defendants in this case should not be burdened with policing the entire Internet simply because one  
 17 Defendant may have engaged in focused monitoring to avoid abuse of its system.

18 Finally, Perfect 10 deceptively cites *Fonovisa*, asserting that "*Fonovisa* actually requires that  
 19 in order for a party to be liable for contributory trademark infringement that the party has knowledge  
 20 and *materially contribute* to the infringement." Opposition at 28:10-12 (emphasis added) (citing  
 21 *Fonovisa*, 76 F.3d at 264). Perfect 10's reference to *Fonovisa* comes from the Ninth Circuit's  
 22 discussion of contributory *copyright* infringement, not *trademark* infringement. *See id.* at 264. The  
 23 Ninth Circuit acknowledged in *Fonovisa*, however, that "trademark infringement liability is more  
 24 narrowly circumscribed than copyright infringement." *Id.* There is therefore even less basis for

25 \_\_\_\_\_  
 26 <sup>10</sup> Perfect 10 bases its allegation of "content-specific regulations" only on the email correspondence  
 27 attached as Exhibit 5 to the Complaint. That hardly constitutes "regulations." In any event, Perfect  
 28 10 alleges no so-called "regulations" of other Defendants. Perfect 10's allegations concerning Visa  
 do not implicate other Defendants. While Perfect 10 has not sufficiently pleaded (and cannot do so)  
 the necessary direct control and monitoring of the infringing instrumentality as to Visa, there is even  
 less substance to its cause of action against all other Defendants.



1 claims against Defendants for trademark infringement than for copyright infringement, and the Court  
2 should dismiss the trademark infringement claims.

3 **VI. PERFECT 10'S PUBLICITY CLAIM FAILS BECAUSE IT CANNOT TIE**  
4 **DEFENDANTS TO THE ALLEGED VIOLATIONS OF PUBLICITY RIGHTS.**

5 Perfect 10 concedes that only an "aiding and abetting" theory can justify either its publicity  
6 claim or its unfair competition claim. Perfect 10 rests its entire argument on the publicity claim  
7 upon section 876 of the Restatement (Second) of Torts. Perfect 10 acknowledges that the  
8 Restatement calls for liability

9 if [the aider] (a) does a tortious act in concert with the other or pursuant to a common design  
10 with him, or (b) knows that the other's conduct constitutes a breach of duty and gives  
11 substantial assistance or encouragement to the other to so conduct himself, or (c) gives  
substantial assistance to the other in accomplishing a tortious result and his own conduct,  
separately considered, constitutes a breach of duty to the third person.

12 Opposition at 29:3-7 (quoting Restatement (Second) of Torts at §876).

13 After quoting the Restatement, however, Perfect 10 fails to respect it. Perfect 10 neither  
14 pleaded, nor supported in its Opposition, any facts showing that Defendants (a) act in concert with  
15 the alleged third-party violators of the publicity right, (b) assist or encourage the alleged violators to  
16 engage in the violations of the publicity right, or (c) assist them in accomplishing a violation.

17 Moreover, Perfect 10 has not pleaded any factual basis of a duty on the part of Defendants.

18 In fact, in the only substantive California case discussion it offers, *Perfect 10 cites the case*  
19 *for a proposition opposite to what the case stood for*. At page 29, note 14 (and again at page 31:9-11  
20 regarding its unfair competition claim), Perfect 10 quotes *Howard v. Superior Court*, 2 Cal. App.4th  
21 745, 748-749 (1992), but the quoted language is from an argument of the losing party that the Court  
22 of Appeal rejected in the following paragraph. The Court of Appeal stated:

23 [W]hile aiding and abetting may not require a defendant to agree to join the wrongful  
24 conduct, it necessarily requires a defendant to reach *a conscious decision to participate in*  
25 *tortious activity for the purpose of assisting another in performing a wrongful act*. A  
plaintiff's object in asserting such a theory is to hold those who aid and abet in the wrongful  
act responsible as joint tortfeasors for all damages ensuing from the wrong.

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1 *Howard v. Superior Court*, 2 Cal. App.4th at 749 (emphasis added).<sup>11</sup> Thus Perfect 10's own  
 2 authority shows the inadequacy of Perfect 10's pleadings. Perfect 10 has not alleged, and cannot in  
 3 good faith allege, that Defendants have reached a conscious decision to participate in infringing  
 4 activity for the purpose of assisting the alleged third-party wrongdoers in violating publicity rights.<sup>12</sup>  
 5 There is no basis in fact or law for holding Defendants liable as joint tortfeasors with alleged third-  
 6 party violators of publicity rights. The Court should therefore dismiss the publicity claim.

7 **VII. PERFECT 10 CANNOT ALLEGE VALID UNFAIR COMPETITION CLAIMS.**

8 **A. Defendants Cannot Be Vicariously Liable For Merchants' Alleged Unfair**  
 9 **Business Practices or False Advertising.**

10 Besides holding that Visa and other similarly situated businesses cannot be required to police  
 11 all merchants utilizing their systems, *Emery* squarely holds that Visa and similar entities (the other  
 12 Defendants here), may not be vicariously liable for any unrelated merchants' violations of either  
 13 sections 17200 or 17500 of the California Business and Professions Code. *See Emery*, 95 Cal.  
 14 App.4th at 960. Perfect 10 must acknowledge this binding ruling of state law, but then it tries to say  
 15 that this case is different because here Defendants "aided and abetted" unlawful conduct. Perfect  
 16 10's attempted dodge will not work. Perfect 10 may not ignore the *Emery* court's holding that "[a]  
 17 defendant's liability must be based on his personal 'participation in the unlawful practices' and  
 18 'unbridled control' over the practices." *Id.* (quoting *People v. Toomey*, 157 Cal. App. 3d 1, 15

19  
 20 \_\_\_\_\_  
 21 <sup>11</sup> Similarly, *Neilson v. Union Bank*, 290 F. Supp 2d 1101 (C.D. Cal. 2003), does not help Plaintiff.  
 22 The court there not only quoted, but it emphasized, the key language in *Howard* that Perfect 10  
 23 chose to omit. *Id.* at 1119. Second, the alleged "aider and abetter" in *Neilson* was a bank officer  
 24 who actively participated directly in the fraud perpetrated by the primary defendant by making false  
 25 statements directly to investors. *Id.* at 1131. Perfect 10 has nowhere made a similar allegation – nor  
 26 can it – that any Defendant here similarly directly "participat[ed] in tortious activity for the purpose  
 27 of assisting another in performing a wrongful act." *Id.* at 1119 (quoting *Howard*). Finally, the court  
 28 in *Neilson* recognized that it must follow California state precedent on point, namely *Emery*.

<sup>12</sup> Moreover, Perfect 10 argues that FDC's "assistance" is "particularly significant" because FDC is  
 "one of the only ISOs that will do business with pornographic Internet merchants." Opposition at  
 29:17-18, citing Complaint ¶ 18 (emphasis added). Perfect 10 mischaracterizes its own pleading and  
 exaggerates FDC's influence. The Complaint alleges only that, "[w]hile most member banks and  
 third-party processors refuse to acquire for pornographic websites, FDC specializes in servicing  
 pornographic websites." Complaint ¶ 18 (emphasis added). FDC is alleged to be in the minority,  
 but Perfect 10 has not alleged that FDC is "one of the only ISOs."

1 (1984)) (emphasis added). *Emery* holds, if nothing else, that Defendants' processing of purchase  
 2 transactions – as Visa does now and did then – does not constitute “personal participation” in the  
 3 alleged unlawful practices of unrelated “Stolen Content Websites.” Nor has Perfect 10 alleged facts  
 4 supporting a conclusion that any Defendant has “unbridled control” over any merchant accused of  
 5 wrongdoing. Simply put, Visa is doing nothing now other than what it was when *Emery* was  
 6 decided, and it cannot be subject to liability without ignoring the *Emery* decision. The same applies  
 7 to the similarly situated other Defendants.

8  
 9 **B. These Claims Are Preempted By the Copyright Act and CAN-SPAM Act,  
 Or Are Congruent With and Fail With The Lanham Act Claims.**

10 Perfect 10's unfair competition claims under Sections 17200 and 17500 of the California  
 11 Business & Professions Code rest upon “providing critical support for and profiting from” a virtual  
 12 bouillabaisse of alleged misconduct by third parties. The underlying misconduct includes:

- 13 • offering “a vast library of misappropriated content” which “includes (but is not limited  
 14 to) material that infringes upon the rights of Perfect 10 and third-party publishers, film  
 15 owners, celebrities and models” (Complaint at ¶ 127)
- 16 • deceiving consumers by “misrepresenting the source or sponsorship of material on their  
 17 websites (*Id.*)
- 18 • “palming off the property of Perfect 10 and third parties as their own” (*Id.*)
- 19 • “misrepresenting the nature, characteristics, and identity of material on the Stolen  
 20 Content Websites (*Id.*; see also *id.* at ¶ 138)
- 21 • “misrepresenting the amount and scope of the material on or through the Stolen Content  
 22 Websites” (*Id.* at ¶ 127; see also *id.* at ¶ 138)
- 23 • “falsely claiming that a website is free or tricking consumers into paying for another  
 24 website” (*Id.* at ¶ 127)
- 25 • “selling access to unauthorized passwords . . . leading to massive infringement of Perfect  
 26 10's copyrights and misappropriation of its rights of publicity; websites that promote rape  
 27 and/or incest; websites that appear to offer the illegal downloading of... songs and/or  
 28 movie clips; websites that appear to sell devices to steal cable signals (*Id.* at ¶ 128).

1 Although not pleaded clearly in the Complaint, Perfect 10 appears also to hold Defendants liable  
2 under state law for “spamming” activities of third parties. *See* Complaint at ¶ 6; Opposition at 1:11.

3 The unfair competition claims thus overwhelmingly address matter that is within the scope of  
4 the Copyright Act or the Lanham Act. The only additional ingredients in Perfect 10’s  
5 “bouillabaisse” are spamming and publicity rights.

6 Perfect 10 cannot seriously contest the preemptive effect of the Copyright Act on claims  
7 relating to matters within the scope of that Act such as “misappropriated content” “that infringes  
8 upon the rights of Perfect 10 and third-party publishers [and] film owners.” Nor can Perfect 10  
9 artfully dodge the preemptive effect by a selective, but faulty, set of allegations that appear to  
10 exclude copyright claims from incorporated provisions but incorporate them anyway. *Compare*  
11 Complaint at ¶ 125 (incorporating all previous paragraphs) *with id.* at ¶ 137 (omitting copyright  
12 paragraphs from incorporation, but incorporating ¶ 125 with its inclusion of copyright claims).

13 Moreover, Perfect 10 offers no serious rebuttal to the dispositive application of *Denbicare*  
14 *U.S.A., Inc. v. Toys “R” Us, Inc.*, 84 F.3d 1143, 1152-53 (9th Cir. 1996), which calls for claims  
15 “congruent” with Lanham Act claims to stand or fall with those claims. Perfect 10 offers merely a  
16 self-serving conclusion that various allegations fall outside the scope of the Lanham Act without any  
17 authority or support. In fact, the Lanham Act has a scope far broader than mere trademark  
18 infringement or “false designation of origin.” The Lanham Act also covers misrepresentations  
19 regarding goods and services. *See* 15 U.S.C. § 1125 (a)(1)(B). Indeed, the fact that Perfect 10’s  
20 Sixth Claim for Relief (Complaint at ¶¶ 32-136) combines claims under the Business & Professions  
21 Code and under Lanham Act section 43(a) makes the “congruence” of the state-law claim with the  
22 Lanham Act unmistakable. Therefore the Lanham Act-congruent aspects of the claim must fall with  
23 the Lanham Act claim.

24 Among the allegedly unfair third-party activities for which Perfect 10 seeks to make  
25 Defendants liable, only spamming and publicity may fall outside the scope of the Copyright Act or  
26 Lanham Act. An unfair competition claim based on spamming is barred under section 8(b) of the  
27  
28

1 recently enacted “CAN-SPAM” Act, Pub. L. No. 108-187, 117 Stat. 2699, 2716 (2003) (to be  
2 codified at 15 U.S.C. § 7707(b)).<sup>13</sup>

3 Perfect 10 appears to claim that, (1) since it alleges “something more” than simple copyright  
4 matters, its claims are not preempted by the Copyright Act, and (2) since it alleges “something  
5 more” than false designations and misrepresentations under the Lanham Act, its claims are not  
6 congruent with the Lanham Act. With the elimination of the Copyright-preempted claims, the  
7 Lanham Act-congruent claims, and the CAN-SPAM-preempted claims, the “something more” in  
8 Perfect 10’s unfair competition claim is merely a publicity claim. That claim also fails for reasons  
9 discussed above in connection with the separately pleaded publicity claim.

10 **VIII. PERFECT 10 HAS NOT STATED--AND CANNOT STATE--A CLAIM FOR LIBEL.**

11 Perfect 10’s Opposition fails to salvage its purported libel claim. As set forth in Defendants’  
12 Opening Brief, that claim fails because (1) the claim is time-barred, (2) the statement at issue (the  
13 terminated merchant list) was true, and (3) the statement was privileged.

14 **A. Perfect 10’s Libel Claim Is Time-Barred.**

15 1. ***Perfect 10 Did Not, And Cannot in Good Faith, Allege That It Learned It***  
16 ***Had Been Placed In The Terminated Merchant File Less Than One Year***  
***Before This Case Was Filed.***

17 In ruling on a FRCP 12(b)(6) motion, “a court *may not* look beyond the complaint” and  
18 cannot consider new facts alleged in Perfect 10’s Opposition. *Schneider v. California Dept. of*  
19 *Corrections*, 151 F.3d 1194, 1197 (9th Cir. 1998) (emphasis in original); *see also Harrell v. United*  
20 *States*, 13 F.3d 232, 236 (7th Cir. 1993) (if complaint fails to state a claim, “the plaintiff cannot cure  
21 the deficiency by inserting the missing allegations in a document that is not either a complaint or an  
22 amendment to a complaint”). This case is no exception. Although the Complaint alleges that  
23 Defendants terminated its account and placed it in the terminated merchant file in the Spring of 2001  
24 (*see* Complaint, ¶¶ 28, 143; Opposition at 9), Perfect 10 belatedly argues that it did not discover the  
25 alleged libel until at least May 2003, thus tolling the statute of limitations. *See* Opposition at 36-38.

26 \_\_\_\_\_  
27 <sup>13</sup> The CAN-SPAM Act excludes from preemption state laws regulating deceptive emails. Any  
28 claims for deceptive emails, however, would be congruent with Lanham Act claims and would fall  
with those claims. Thus under both CAN-SPAM preemption and Lanham Act congruence, all of  
Perfect 10’s email-related claims fail.

1 The Complaint does not contain any allegations that would support Perfect 10's new-found  
 2 tolling argument. It is nowhere to be found in the Complaint, and it is a complete fabrication. In  
 3 fact, Perfect 10 was given written notice of its placement in the terminated merchant file in February  
 4 2001, and thereafter engaged in extensive, written communications complaining of that placement.  
 5 As a result, Perfect 10 cannot represent to this Court that it can amend its complaint to allege facts  
 6 that would toll the statute of limitations. For purposes of this motion, it is sufficient to note that  
 7 Perfect 10 has not made such a representation.<sup>14</sup>

8 In addition, the idea that Perfect 10 had no knowledge that it was put in the file for two years  
 9 after its account was terminated directly contradicts its argument that Perfect 10 allegedly suffered  
 10 damages in that time period as a result of being placed in the file. *See* Complaint, ¶¶ 12, 146, 154.  
 11 According to the Complaint, once Perfect 10 was terminated by Defendants and placed in the  
 12 terminated file, Perfect 10 was not able to process Visa cards and was forced to "pay exorbitant  
 13 rates" for other processing services. Complaint, ¶ 12; *see also* Opposition at 42. Once Perfect 10  
 14 was terminated and had to pay "exorbitant rates," how could it possibly not have realized that it was  
 15 in the terminated merchant file?

16 "Where, as here, the complaint indicates on its face that the action is barred by the statute of  
 17 limitations, the plaintiff has the burden of alleging in the complaint a well pleaded exception to the  
 18 running of the statute." *Turner v. Antt*, No. C 98-3367 SI, 1999 WL 179679, \*3 (N.D. Cal., March  
 19 22, 1999). Perfect 10 has failed to do so. The Complaint alleges only that since "in or about Spring  
 20 2001, defendants have kept the name of plaintiff and its president on the Black (also called 'Match')  
 21 list". Complaint, ¶ 143. Perfect 10 does not, and cannot, allege that it was unaware of this fact until  
 22 May 2003. Perfect 10's libel claim is time-barred and must be dismissed.

23 **2. The Alleged Libel Was Not Republished Within The Statutory Period.**

24 Perfect 10 relies on *Shively v. Bozanich*, 31 Cal.4th 1230 (2003), and *Schneider v. United*  
 25 *Airlines, Inc.*, 208 Cal. App. 3d 71 (1989), for the proposition that the allegedly false placement of  
 26

27 <sup>14</sup> Defendants recognize that this is a pleadings motion and that evidence of these letters and emails  
 28 is not before the Court. Nevertheless, under Rule 11, Perfect 10 cannot amend to assert in good faith  
 that it was unaware until May 2003 that it was in the terminated merchant file.

1 Perfect 10 in the terminated merchant file was a libelous statement that was republished every time a  
 2 business accessed the file. *See* Opposition at 36-37. A recent decision by the California Court of  
 3 Appeal negates Perfect 10's argument. In *Traditional Cat Association v. Gilbreath*, No. D041421,  
 4 2004 WL 964751 (Cal. Ct. App., May 6, 2004), the Court held that statements published on an  
 5 Internet website operating on a continuing basis are subject to the single publication rule for  
 6 purposes of accrual of the statute of limitations. *See id.* at \*6-8. Later modifications to the website  
 7 do not constitute a republication of the defamatory communication. *See Firth v. State of New York*,  
 8 98 N.Y.2d 365, 372 (N.Y. 2002). Thus, the limitations period begins when the allegedly libelous  
 9 statements are first released and posted on the website, *not* whenever anyone "hits" or views the site.

10 Unlike the purportedly false credit reports that were disseminated to banks in *Schneider*, the  
 11 terminated merchant file – like information posted on a website – is maintained on an ongoing basis  
 12 with "ongoing availability", and "in a constant state of change, with information posted sequentially  
 13 on a frequent basis" as new terminated merchants are added to the file and old merchants are taken  
 14 out. *See Firth*, 98 N.Y. 2d at 368, 372. In effect, Perfect 10 is arguing that every time a business  
 15 accessed the file and saw the Perfect 10 listing, and every time an unrelated merchant was newly  
 16 listed or de-listed, the allegedly libelous information was republished. According to this argument,  
 17 because businesses constantly access the file during the underwriting process, the limitations period  
 18 would never begin. That is precisely the outcome the court in *Traditional Cat* tried to avoid. "[A]  
 19 multiple publication rule would implicate an even greater potential for endless retriggering of the  
 20 statute of limitations". *Traditional Cat*, 2004 WL 964751, at \*7 (quoting *Firth*, 98 N.Y. 2d at 370).

21 As the Complaint alleges at ¶ 143, Perfect 10 was put in the file "in or about Spring 2001."  
 22 Following the *Traditional Cat* ruling, the allegedly libelous statements were not subsequently  
 23 republished after that date for tolling purposes, and the libel claim thus is time-barred by the one-  
 24 year statute of limitations.

25 **B. The Allegedly Libelous Statements Were True.**

26 Perfect 10 argues that its placement in the terminated merchant file was a "false declaration"  
 27 (Opposition at 38) because, at the time Defendants terminated Perfect 10's account, Perfect 10 was  
 28

1 not suffering from excessive chargebacks. *Id.* at 39. This argument is not supported by the facts  
2 alleged in the Complaint.

3 *First*, placing Perfect 10 in the terminated merchant file was a matter of procedure since, as  
4 Perfect 10 itself admits, its account had in fact been terminated (Complaint, ¶ 28) and the file was  
5 simply a list of “terminated merchants.” Complaint, ¶ 12, *see also* Ex. 2 to Complaint. *Second*,  
6 although Perfect 10 now argues that its “chargeback ratio was well within defendants’ limits”  
7 (Opposition at 39:21), this new fabrication is nowhere to be found in the Complaint because it is  
8 simply not true. The Complaint does *not* allege that Perfect 10 was within allowable chargeback  
9 limits. Rather, it acknowledges that it was not, but purports to blame that failure on “hackers.”  
10 Complaint, ¶ 28. But the reason for those chargebacks is simply irrelevant: the statement implicit in  
11 placement in the terminated merchant file—that Perfect 10’s chargebacks exceeded allowable  
12 limits—is true. The Complaint does not allege otherwise: instead, it only alleges that  
13 “*subsequent*[]” to its termination and “from that point forward,” Perfect 10 came into compliance  
14 with rules regarding chargebacks, conceding that it was not in compliance when it was terminated  
15 and put in the file. Complaint, ¶ 28. Thus, the allegedly libelous statements are in fact true and this  
16 claim must be dismissed.

17 **C. Defendants Did Not Act With Malice And Therefore The Allegedly Libelous**  
18 **Statements Are Privileged.**

19 As set forth in Defendants’ Opening Brief, the allegedly libelous statements were also  
20 privileged as statements made to interested persons without malice. Perfect 10 in response simply  
21 declares that Defendants acted with malice, but it fails to allege facts to support that conclusion. As  
22 discussed in the previous section, when Defendants placed Perfect 10 in the terminated merchant  
23 file, they did so in good faith because Perfect 10’s account had been terminated due to excessive  
24 chargebacks. Complaint, ¶ 28. Defendants also knew that, due to these high chargebacks, Perfect  
25 10 posed a higher than usual risk of loss to a payment card processing service provider. Therefore,  
26 Perfect 10 has not alleged sufficient facts to defeat the privilege.

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1           **D. Perfect 10 Has Not Alleged Libel *Per Se* And Has Failed To Allege Special**  
 2           **Damages.**

3           Perfect 10 cannot allege that its inclusion in the terminated merchant file was libelous “on its  
 4 face”. Without a copy of Visa or MasterCard regulations, a reasonable person could not possibly  
 5 infer that Perfect 10’s inclusion in the file demonstrates that it “is guilty of wrongful conduct and  
 6 imposes an unusually high risk to any financial institution that provides processing services to it,” as  
 7 Perfect 10 argues. Opposition at 41:15-16. This inference is clearly “not [a] matter[] of common  
 8 knowledge rationally attributable to all reasonable persons.” See *Palm Springs Tennis Club v.*  
 9 *Rangel*, 73 Cal. App.4th 1, 5 (1999). Therefore, Perfect 10 must plead special damages with  
 10 particularity, see Cal Civ. Code § 45a, but it has failed to do so.<sup>15</sup>

11           In fact, the case that Perfect 10 relies on for support, *MacLeod v. Tribune Publishing Co.*, 52  
 12 Cal.2d 536 (1959), demonstrates this deficiency. In *MacLeod*, the plaintiff specifically alleged a  
 13 pecuniary loss of at least \$5000, a large percentage of cancelled appointments by established  
 14 patients, and a sharp decline in the number of new patients. *Id.* at 548. In contrast, Perfect 10 has  
 15 only vaguely alleged damages (a “tendency to injure plaintiff,” unidentified and unquantified “lost  
 16 customers and revenues,” and “damages in an amount to be determined at trial”). Complaint,  
 17 ¶¶ 146-47. The Complaint fails to identify any customers lost, the number of customers lost (not  
 18 even whether it is a “large percentage”), whether these lost customers were new or recurring, the  
 19 amount of revenue lost, or the amount of “higher costs” Perfect 10 has incurred due to its inability to  
 20 have its own merchant account. Complaint, ¶ 28. For these reasons, Perfect 10 has not sufficiently  
 21 pleaded special damages and its libel claim must be dismissed.

22 \_\_\_\_\_  
 23 <sup>15</sup> Perfect 10 incorrectly relies on “5 Witkin *California Procedure* (1997) Pleading § 483, pp. 567-  
 24 68”, for the proposition that a “charge imputing credit unworthiness, or that plaintiff is guilty of  
 25 dishonesty or business conduct is libel *per se*.” Opposition at 41:17-18. Assuming that the citation  
 26 is actually meant to be to Witkin’s *Torts* treatise, Perfect 10 mischaracterizes Section 483. Section  
 27 483 simply lists illustrations of libel *per se* in circumstances involving “misconduct or character  
 28 defect.” It does not state that libel *per se* exists whenever a plaintiff is charged with dishonesty or  
 business misconduct, and while there is a reference to an American Law Report for imputing libel  
*per se* for credit unworthiness, that Report applies only to “nontraders,” defined as “any individual  
 who is neither a merchant nor a trader, and who is not engaged in any vocation wherein credit is  
 necessary for the proper and effectual conduct of his business”. 99 A.L.R.2d 700, § 1 (1965). This  
 does not apply to Perfect 10.

1 **IX. PERFECT 10 HAS NOT STATED -- AND CANNOT STATE -- A CLAIM FOR**  
 2 **INTENTIONAL INTERFERENCE WITH PROSPECTIVE BUSINESS**  
 3 **ADVANTAGE.**

4 **A. Perfect 10's Interference Claim Is Time-Barred.**

5 For the same reasons as previously stated in the libel section, Perfect 10's new-found  
 6 argument that it did not discover the interference until May 2003 is unavailing because it did not  
 7 plead belated discovery, and because it was clearly aware of its inclusion in the terminated merchant  
 8 file "in or about Spring 2001." Complaint, ¶ 143. Therefore, this Complaint was not filed within the  
 9 two-year statute of limitations period for claims of intentional interference with prospective  
 10 economic advantage and must be dismissed.

11 **B. Perfect 10 Has Failed To Allege A Probability Of Future Economic Benefit From**  
 12 **Existing Economic Relationships.**

13 Perfect 10 argues that Defendants "interfered with its *prospective* business relationships with  
 14 Association members and ISOs" (Opposition Motion at 42:22 (emphasis added)) without first  
 15 alleging that it had any *existing* economic relationships with those businesses. An existing economic  
 16 relationship is an essential element of an interference claim. *Roth v. Rhodes*, 25 Cal. App.4th 530,  
 17 546 (1994). In fact, Perfect 10 concedes that it has alleged interference with only a "potential  
 18 customer base" by citing two cases – from 1961 and 1962 – that purportedly say a potential  
 19 customer base is sufficient. Opposition at 43.

20 Perfect 10 fails in this attempt. *First*, neither of these cases deals directly with a claim for  
 21 intentional interference with prospective economic advantage: *Uptown Enterprises v. Strand*, 195  
 22 Cal. App. 2d 45 (1961), involves a claim for an injunction in order "to restrain an unlawful  
 23 interference with a lawful business" (*id.* at 50), and *Willis v. Santa Ana Cmty Hospital Ass'n*, 58  
 24 Cal. 2d 806<sup>16</sup> (1962), involves a claim for intentional interference "by unlawful means" with the  
 25 right to pursue a lawful business. *Id.* at 810. *Second*, current, post-1960s case law clearly  
 26 demonstrates that an allegation of "potential" economic relationships is not adequate for an  
 27

28 <sup>16</sup> Perfect 10 has incorrectly cited this case: it is 58 Cal. 2d 806, not 58 Cal. 2d 206.

1 interference claim and, therefore, Perfect 10's claim must be dismissed.<sup>17</sup> See e.g., *Westside Ctr.*  
2 *Ass'n v. Safeway Stores 23, Inc.*, 42 Cal. App.4th 507, 522 (1996); *Blank v. Kirwan*, 39 Cal. 3d 311,  
3 331 (1985); *Roth*, 25 Cal. App.4th at 546.

4 **C. Perfect 10 Has Failed to Allege An Independent Wrongful Act.**

5 As set forth in the libel section, Perfect 10 has failed to allege sufficient facts to show that its  
6 inclusion in the CTMF constituted libel. Therefore, there is no allegation of wrongful activity other  
7 than the fact of the interference itself, as is required by *Della Penna*, 11 Cal.4th at 393. Perfect 10's  
8 claim for intentional interference with prospective economic advantage must be dismissed in its  
9 entirety.

10 **CONCLUSION**

11 For the reasons stated above, the Court should grant Defendants' motion and dismiss this  
12 action in its entirety with prejudice.

13 Dated: June 1, 2004

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14  
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17 Perfect 10's reliance on *Della Penna v. Toyota Motor Sales, U.S.A., Inc.*, 11 Cal.4th 376, 393 (1995), is equally misplaced. Opposition at 42-43. In that case, the plaintiff, a Lexus auto wholesaler, alleged that prior to the distribution of the "offender's list," plaintiff had purchased most Lexus automobiles from the Stevens Creek retail outlet; as a result of the interference, Stevens Creek "ceased" selling models to plaintiff. *Id.* at 380. Thus – unlike Perfect 10 – the *Della Penna* plaintiff alleged *existing* business relationships with retail dealers that were disrupted by the alleged interference.

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Andrew P. Bridges attests that he has obtained the concurrence of each of the signatories indicated above.

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