

Ninth Circuit Addresses Secondary Liability for Copyright Infringement Under the Doctrines of Contributory and Vicarious Infringement

PERFECT 10, INC. V. AMAZON.COM, INC., 487 F.3D 701, 82 USPQ 2D 1609 (9TH CIR. 2007)

THE INCREASING ABILITY OF INTERNET web-page programming and storage capabilities brings another decision from the Ninth Circuit Court of Appeals, as it attempts to sort out the extent to which copyright law clashes with the search engine functions that provide more and better data for users of the Internet.

Here the Court reviews an appeal from a preliminary injunction granted to Perfect 10, a purveyor of copyrighted images of nude models, against Google for its "image search" reports and data display. The Google image search identifies and reports on web page images, providing the search reports as a web page display of several small "thumbnail" images, which are reduced, lower-resolution versions of full-size images which were originally displayed on third-party computers, which thumbnails are copied to, reduced, and stored in Google's servers. When an Internet user is provided with a search report of small "thumbnails," the user can click on a thumbnail image which, according to HTML programming instructions within Google's web pages, directs the user's browser to cause a rectangular area (a "window") to appear on the user's computer screen.

The window display has two areas of information. The browser fills the user's top section of the screen with information from the Google web pages, including the thumbnail image and text about the

website related to the thumbnail image. Using what is sometimes referred to as "in-line linking," the browser HTML programming instructions also give the user's browser the Internet address of the website publisher's computer that stores the full-size version of the thumbnail on the Internet. The user's browser then connects to the website and publishes the image within the bottom display window. The large images are not stored on the user's computer, but are drawn directly from the third-party web page. The Google search engine does not store the image within the lower part of the window and does not communicate the images to the user; Google simply provides HTML programming instructions which direct the user's browser to access a third-party website to display the image there. However, the top part of the window (containing the information from the Google web page) appears to "frame" and comment on the bottom part of the window, so that the user's window appears to the viewer to be filled with a single integrated presentation of the full-size image. Actually, it is an image from a third-party website "framed" by information from Google's website. The term "framing" refers to the process by which information from one computer appears to "frame" and annotate the in-line linked content from another web page.¹

Google receives revenue from its search engine operations through a business program called "AdSense." Owners of web pages wishing to advertise on Google can arrange to place advertising on the top

portion of the search results web pages, which advertising is thought relevant by the advertiser to the web page's content. AdSense participants share the revenue that flows from such advertising with Google. For example, Amazon, also a defendant here, has an agreement with Google allowing Amazon an in-line link to Google's search results. Amazon users will see results provided by Google to Amazon, appear as search results being provided by Amazon through this subcontract arrangement.

Some third-party websites republish infringing copies of Perfect 10's copyrighted images on the Internet without authorization. These sites are available on the Internet, indirectly resulting in the infringement alleged here. Google's search engine may automatically index the web pages containing these infringing images and provide thumbnail versions of these images in response to user search inquiries. When a user then clicks on a thumbnail image in a Google image search display, the user's browser accesses the third-party web page and in-line links to the full-sized infringing image stored on the web page publisher's computer. This image appears in its original context on the lower portion of the window on the user's computer screen, framed by information from Google's web page.

The first issue in this case, before the Court of Appeals in the context of a preliminary injunction motion appeal, is whether Google, or Amazon, are indirect copyright infringers, as a result of such search engine displays of thumbnail copy

of web pages having unauthorized search report images, or their in-line links to unauthorized images on the third-party websites, through the Google frame display. Finally, at issue is the liability of Amazon for its display of search results from its subcontractor display of search results from Google.

Who Has the Burden on Google's Fair Use Defense Under 17 U.S.C. § 107?

At trial, a defendant in a copyright infringement action has the burden of proving fair use. This was noted in the Supreme Court decision, *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 590 (1994). On a preliminary injunction, however, before defendant has had the opportunity to undertake extensive discovery or develop its defenses, a party seeking a preliminary injunction for copyright infringement "bears the burden of showing its likely success in overcoming a fair use defense." Since a preliminary injunction is an extraordinary remedy, and there has been no opportunity for discovery, a plaintiff must show it is likely to succeed in overcoming the defendant's defense of fair use.

Display Right

In order to show direct copyright infringement, a plaintiff must show (1) ownership of the copyright for the allegedly infringing material and (2) violation of at least one of the exclusive rights granted to copyright holders under 17 U.S.C. § 106. Even if a prima facie case is made satisfying these two requirements, a defendant may avoid liability if it can establish that its use of the images is a "fair use" under 17 U.S.C. § 107.

Ownership of copyright is not disputed. The lower court in the Central District of California had held that the infringing thumbnails displayed by Google were likely to be shown to violate Perfect 10's exclusive display rights, but for the full-

size images, that Perfect 10 was not likely to prevail in showing violation of the display or distribution rights. Section 106(5) of the Copyright Act states that a copyright owner has the exclusive right "to display the copyrighted work publicly." "[D]isplay" means to show a copy, and copies are defined as material objects in which works are fixed by methods "now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device."

Applying these definitions, the Ninth Circuit confirmed that a photographic image is a work that is "'fixed' in a tangible medium of expression" and that an image stored on a computer is a copy of the work for purposes of the copyright law. Thus, the Ninth Circuit found that Google's computer storing thumbnail version copies of Perfect 10's copyrighted image and communicating those copies of those thumbnails to Google's users, made out a *prima facie* case that Google's communications of the stored thumbnail images directly infringed Perfect 10 display rights. However, the full-sized images provided by Google through in-line linking through frames that appear on the computer user's screen is not equivalent to showing a copy. Google's programming webpage HTML instructions merely direct a user's browser to a third party website publisher's computer that stores the full-size image copies. While this may result in contributory liability, it is not direct infringement.

The Court noted that there is no effect in a copyright, as distinguished from a trademark, cause of action from evidence that the user may believe that the copies of the full-size of the full-size images are appearing to be provided by Google, or appearing in the Google web page. Likelihood of confusion is protected under the Trademark Act, not under the Copyright Act. The reproduction right or performance right is also not violated by Google's providing HTML code programming which is only setting up the framed

image of the third party user's infringing copy, on a Google-supplied web page.

Distribution Right

Next, the Ninth Circuit affirmed the district court's conclusion that Perfect 10 was not likely to succeed in proving that Google violated Perfect 10's distribution rights with respect to the in-line linking to the full-size images. As noted, unlike the thumbnails, Google did not communicate the full-size images to the user's computer, but only communicated instructions to a user's browser where to find the full-size images on a third-party website publisher's computers. The Court distinguished *Napster* and other cases where the infringer was deemed to be distributing the copies by providing links to them, where the infringers had made available infringing copies.

Fair Use Defenses

The devil in the copyright infringement details is that once copyright infringement is established, a defendant has the opportunity to show that its acts which might otherwise be infringement are a "fair use" and thus not actionable infringement under 17 U.S.C. § 107. The fair use analysis, which is applied on a case-by-case basis, applies four statutory factors, not to be treated in isolation, but to be explored and the results weighed together in light of the purposes of copyright.

Following its previous decision in *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 816 (9th Cir. 2003), the Court held that the copy and display of the thumbnail images was a fair use, primarily based on the transformative nature of a search engine and its benefit to the public. While the Ninth Circuit had found the "purpose of use" factor to weigh in favor of Perfect 10, because Perfect 10 had a small part of its business selling thumbnail images for use on cell phones, the Ninth Circuit found the transformative use and search engine benefits to the public outweigh the signifi-

cance of the plaintiff's potential small loss of business here.

On the second factor, the "nature of the copyrighted work," the Ninth Circuit also found its decision in *Kelly* directly on point. While the photographer's images were "creative in nature" and thus "closer to the core of intended copyright protection" than are more fact-based works in *Kelly*, since the photos had appeared on the Internet before they were used by the search engine, the Court held that the factor weighed only slightly in favor of the photographer's copyright. Interestingly, Google had contended that Perfect 10's photographic images were less creative and less deserving of protection than the images of the American West which were subject of copyright in *Kelly*, because they were photographic pictures of nude women, and Perfect 10 had boasted of its unretouched photos showing the natural beauty of its models. Both the district court and the Ninth Circuit noted that the photographs, notwithstanding the subject matter, "consistently reflected the professional, skillful and sometimes tasteful artistry of the photographer," and there was no basis for concluding that the photos of the American West were more deserving of protection than photos of nude models. The lower court referenced, *sub silentio* perhaps, the prurient nature of the photographs here. The Ninth Circuit was clear that such photographic works were deserving of copyright protection.

On the fourth factor, the "amount and substantiality of the portion of the work used," the Court held that this factor did not weigh heavily in favor of either party. While copying was necessary to allow users to recognize the image for the search reports, if only a smaller portion were copied, it would be difficult for users to identify the images, thus reducing the usefulness of a visual search engine report.

Finally, considering the fourth fair use factor, "the effect of the use upon the potential market for or value of the copyrighted work" (17 U.S.C. § 107(4)),

here the Court concluded that the factor favored neither party. The Court noted that in *Kelly*, as here, the search engine's use of the thumbnail images did not hurt Perfect 10's market for full-size images. The Ninth Circuit was not swayed by Perfect 10's having a market for reduced-size images. It noted that the district court did not make a finding that Google users have downloaded thumbnail images for cell phone use, so the court found the potential harm to Perfect 10's market was hypothetical.

Weighing all of the four fair use factors, as it must, the Court concluded that Google's use of Perfect 10's thumbnail images is a fair use, and vacated the preliminary injunction against use of the thumbnail images. The production of thumbnail images for search engine use provided a substantial benefit to the public, and weighing this significant transformative use against the unproven use of Google's thumbnails for cell phone downloads, and considering the other fair use factors, the Court concluded that Google's use of Perfect 10's thumbnails was a fair use.

Secondary Liability for Copyright Infringement

The inquiry for copyright infringement does not end with direct infringement. Copyright law cases support indirect or secondary liability, under the doctrines of contributory and vicarious infringement. Under the *Grokster* case, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005), and 125 S. Ct. 2764, contributory infringement is established by showing intentionally inducing or encouraging direct infringement. There are two categories of contributory infringement: "Liability under our jurisprudence may be predicated on actively encouraging (or inducing) infringement through specific acts or on distributing a product distributees use to infringe copyrights, if the product is not capable of 'substantial' or 'commercially significant'

noninfringing uses." *Id.* at 942 (Ginsburg, J., concurring).

Looking first at the second category of liability, distributing products used for infringements, Google relied upon the Supreme Court decision in the Sony Betamax case, *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), to argue that it could not be held liable for contributory infringement, because liability does not arise from the mere sale of a product, even with knowledge that consumers would use the product to infringe, if the product is "capable of substantial noninfringing use." Google argued that a search engine was such a product. Without determining whether the principle enunciated in *Sony* is applicable to the operation of Google's search engine, the Ninth Circuit said that Google cannot be held liable for contributory infringement solely because the design of its search engine facilitates such infringement, nor solely because it did not develop technology which would enable its search engine to automatically avoid infringing images.

As to the first category of contributory infringement, that "liability may be imposed for intentionally encouraging infringement through specific acts," the Court remanded this matter for further proceedings.

In a very important opinion, the Court discusses the requirement of intent necessary in order for there to be liability for contributory copyright infringement, and, after analyzing Ninth Circuit cases, concludes that the required intent may be imputed from the acts and knowledge of the defendant. The Court holds that, "a computer-system operator may be held contributorily liable if it 'has actual knowledge that specific infringing material is available using its system,' and can 'take simple measures to prevent further damage' to copyrighted works, yet continues to provide access to infringing works."

Applying this test, the Court said Google could be held contributorily liable

if it had knowledge that infringing Perfect 10 images were available using its search engine, could take simple measures to prevent further damage to Perfect 10's copyrighted works, and failed to take such steps. Because the district court did not resolve the factual disputes over the adequacy of Perfect 10's notices to Google and Google's responses to these notices, and whether there are reasonable and feasible means for Google to block the links to infringing images, the Court remanded the contributory infringement claim for in-line linking to the district court. Thus, contributory copyright infringement liability will now focus on such factual determinations.

Vicarious Copyright Infringement Liability

The district court had concluded that Perfect 10 was not likely to prevail on its theory of vicarious liability. Under *Grokster*, one "infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it." Thus, to succeed in imposing vicarious liability, a plaintiff must establish that defendant exercises the requisite control, and that the defendant derives a financial benefit from the direct infringement. The Court held that under the facts here, Perfect 10 had not established a likelihood of proving that Google derived a direct financial benefit. With respect to the control element, Perfect 10 had not demonstrated a likelihood of showing that Google had the legal right to stop or limit the direct infringement. While Google had contracts with third-party websites, and perhaps the right to monitor its AdSense program, this did not give Google the right to stop direct infringement by third-party websites. Google had no control over the third-party websites to prevent them from reproducing, displaying, or distributing unauthorized copies of Perfect 10's images.

The Court also noted that the lower court had found that Google lacked the

practical ability to police the infringing conduct of the third-party websites. Perfect 10 had argued that upon notice Google could at least manage its own operations to avoid indexing websites with infringing content, and/or linking to third-party infringing sites. The Court noted that this was a claim of contributory infringement, not vicarious liability. "[I]n general, contributory liability is based on the defendant's failure to stop its *own* actions which facilitate third-party infringement, while vicarious liability is based on the defendant's failure to cause a third party to stop its directly infringing activities." Since the Court concluded that Perfect 10 had not shown a likelihood of establishing Google's right and ability to stop or limit the directly infringing conduct of third-party websites, the Ninth Circuit agreed that Perfect 10 had failed to establish a likelihood of proving the control element necessary for vicarious liability. Recently the Ninth Circuit rejected an attempt by Perfect 10 to hold credit card companies Visa and Mastercard responsible for the contributory infringement or vicarious liability for copyright infringement in facilitating payments for infringing photographs after notice of the infringement. *Perfect 10, Inc. v. Visa International Service Association, et al.*, 2007 WL 1892885, 83 USPQ 2d 1144 (9th Cir. 2007).

Amazon.com

Since the other defendant Amazon.com merely in-line linked to the thumbnails on Google's servers, and to the full-size images of third-party websites, the district court concluded that there was no likelihood of success against Amazon.com for direct copyright infringement or vicarious liability. Amazon.com did not have the right and ability to supervise the infringing activities of Google or third parties, and did not have a direct financial interest in such activities, so it was not vicariously liable, and the findings of the district court as to these theories was confirmed.

As to contributory infringement, how-

ever, the Ninth Circuit said that the district court had not considered whether Amazon.com had "actual knowledge that *specific* infringing material is available using its system," and whether it could have taken simple measures to prevent further damage "to copyrighted works, yet continued to provide access." As to these issues, the Court remanded the case for consideration of Amazon.com's contributory infringement liability, as well as limitations on the scope of injunctive relief against Amazon.com, given its attenuated relationship with the infringement.

Conclusion

This is a leading case of search engine liability, as well as a treatise on Ninth Circuit theories on indirect copyright infringement liability, contributory infringement and vicarious liability. It will have large ramifications on Internet law, as cases involving new capabilities and search engine functions evolve. ☺

The contents of this article are the opinions of the author only, are not intended to provide specific legal advice, and should not be relied upon as such.

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Endnotes

1. *CreAgri, Inc. v. USANA Health Sciences, Inc.*, 474 F.3d at 630 (internal citations omitted).
2. For the historian, the first Ninth Circuit case dealing with in-line linking, or framing, affirmed the denial of a preliminary injunction sought for copyright infringement on the ground that its use failed to result in irreparable injury to the "framed" or in-line linked-to party. See *Futuredontics, Inc. v. Applied Anagramics, Inc.* 152 F.3d 925 (9th Cir. 1998, unpublished), affirming *Futuredontics, Inc. v. Applied Anagramics, Inc.*, 1997 U.S. Dist. LEXIS 22249 (C.D. Cal. 1997).