COPYRIGHT CASE LAW UPDATE—2007

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I. *JARVIS V. K2 INC.*, 486 F.3D 526 (9TH CIR. APR. 30, 2007)

A professional photographer sued an advertiser alleging that it infringed his copyrights in certain photographs after the contracts and relationship between the parties had expired. Plaintiff alleged that the defendant had lost 395 of his photographs and had failed to provide credit to plaintiff with respect to over 100 other photographs. Further, plaintiff alleged that defendant continued to use 82 of plaintiff's photographs after the underlying licenses had expired. The District Court awarded damages for each of the lost photographs totaling $199,000 ($500 for each of the 395 lost photographs) and further awarded damages of $11,400 for defendant's failure to properly credit plaintiff based on a rate of either $50, $200, or $300, depending on the medium involved. Finally, the court awarded plaintiff damages for each of defendant's 58 infringements of plaintiff's works in the amount of $40,107, based largely on a fair market value of $461 for each image used online.

On appeal, one of the issues was whether the defendant's post-licensed use of plaintiff's ads in a collage was protected by the collective works privilege of Section 201(c) of the Copyright Act. The Ninth Circuit held that the collage at issue was not a collective work, but rather was a derivative work. Because the advertisements did not simply compile or collect the plaintiff's images, but rather altered them in various ways and fused them with other images, they were derivative of plaintiff's original works and the collective works doctrine did not apply. As a result, the Ninth Circuit remanded to the district court to determine the extent of liability with respect to those works.

The Ninth Circuit next addressed the district court's computation of damages. The court held that the award of actual damages based on a fair market value estimate of $461 for each of the images used online based its value on half the average market value of the images used in print was not erroneous. The Ninth Circuit also upheld the award of $199,000 representing the 396 images that defendant had failed to return. That award was based on a $500 loss estimate for each of the slides and a $1,500 loss estimate for one slide that was the subject of specific correspondence between the parties. Finally, the plaintiff objected to the $11,400 in damages that he was awarded because of the defendant's 105 failures to promptly credit him. The Ninth Circuit disagreed and held that the district court was reasonable in determining the value associated with a failure to credit in this context.

II. *KAHLE V. GONZALES*, 487 F.3D 697 (9TH CIR. MAY 14, 2007), *CERT. DENIED* — S.CT. —, 2008 WL 59319 (U.S. JAN. 7, 2008)

In this case, plaintiffs (represented by Lawrence Lessig and the Center for Internet and Society) who utilized formerly copyrighted works that had fallen into the public domain challenged that the change from an "opt in" to an "opt out" copyright system under the Copyright Term Extension Act violated the First Amendment. Plaintiffs built an "Internet library" that offered free access to digitized audio, books, films, websites, and software. The plaintiffs made available "orphaned works" or material that they alleged have no identifiable owner, have little or no commercial value, but nonetheless remained under copyright protection. The plaintiffs argued that the difficulty and expense of obtaining permission to place those works on the Internet is overwhelming. Prior to 1978, the number of orphaned works was limited by the renewal requirement under the Copyright Act. Thus, copyrighted works retained their protection only so long as their owners “opted in” to extend their rights. However, the Copyright Renewal Act of 1992 changed this system. The Act eliminated the renewal requirements for works created between 1964 and 1977 and thus extended their term. One of the effects of the Act was that works that have little commercial value, instead of falling into the public domain, continued to be protected. The Ninth Circuit, relying on prior United States Supreme Court authority, which was the result of a prior challenge to the same statute, rejected the plaintiffs' argument.[1]

III. *PERFECT 10, INC. V. AMAZON.COM, INC.*, 487 F.3D 701 (9TH CIR. MAY 16, 2007), *AMENDED ON REV'G BY* 508 F.3D 1146 (9TH CIR. DEC. 3, 2007)

Primarily at issue in this case was whether Google was liable for infringing plaintiff's copyrighted photographs by displaying thumbnail images of the photographs and by linking to third-party websites that display infringing, full-size images. In response to a user's request, Google's “Image Search” engine pulls up thumbnail images that are stored on Google's servers. The thumbnail images are reduced to lower-resolution versions of the full-sized images, which are stored on third-party computers. When a user clicks on a thumbnail image, a window opens that displays the thumbnail. The lower part of the window includes an “in-line” link to the third-party website from which the thumbnail image was pulled. An example of a past Google page is reproduced[2] below:

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[1] *Eldred v. Ashcroft*, 537 U.S. 186, *rev. denied* 538 U.S. 916 (2003).

[2] Subject, of course, to the fair use defense.

The plaintiff, Perfect 10, is a publisher that markets copyrighted images of nude models. Some websites illegally republish Perfect 10's images on the Internet. Once that occurs, Google's search engine may automatically index these infringing web pages and provide thumbnail versions of those images in response to user inquiries. As a result, the third-party websites that link to the full-size image would display among the search results. Plaintiff repeatedly notified Google that it believed that Google was infringing its copyright. Google took no action. As a result, plaintiff sued, claiming copyright infringement. The district court issued orders granting, in part, a preliminary injunction against Google, and this appeal ensued.

The Ninth Circuit first addressed whether Google was liable for direct infringement. The court had no problem finding that Google's display of its stored thumbnail images constituted a "display" that was sufficient to create direct infringement under the Copyright Act. However, the court held that, by providing a link to full-sized image on a third-party's users website, Google did not "display" plaintiff's work. The plaintiff argued that Google did display a copy of full-sized images by providing in-line linking in such a way to give the impression that Google itself was showing the image within a single Google web page. The court rejected this argument, holding that the Copyright Act concerns itself with respect to acts of copying and not acts that cause consumer confusion. The court next analyzed whether Google's actions violated plaintiff's right of distribution of its copyrighted works. The court held that, because Google did not transmit the full-sized images to the user's computer (that was done by the third-party linked website), Google did not distribute those images.

The court next analyzed whether the fair use defense applied. First, the court held that the first fair use factor, the purpose and character of the use, supported assertion of the defense. The court reasoned that, because Google's primary business is the operation of a comprehensive search engine that only incidentally indexes infringing websites, this factor supported Google. Google's use of the thumbnail images is highly transformative because a search engine transforms an image into a pointer directing the user to a source of information, as opposed to merely displaying as a source of a display itself. The fact that Google incorporates the entire image into its search engine result did not diminish the transforming nature of the use. With respect to the second fair use factor, the nature of the copyrighted work, the court held that this factor weighed only slightly in favor of the plaintiff because the thumbnail images constituted republication of the plaintiff's images. With respect to the third fair use factor, the substantiality of the portion used, the court relied on its prior precedent[3] and held that use of the entire photographic thumbnail was reasonable in light of the purpose of a search engine. With respect to the fourth fair use factor, the effect of the use on the market, because a secondary market could exist for the reduced-size

[3] *Kelly v. Arriba Soft Corp.*, 336 F.3d 811 (9th Cir. 2003).

images (for cell phone use), Google's use could cause some economic impact. However, the evidence on that question was undeveloped and, therefore, the court held that this factor was insignificant. In conclusion, the court reasoned that Google had put the plaintiff's thumbnail images to a use fundamentally different than the use intended by plaintiff. Further, by doing so, Google had provided a significant benefit to the public. As a result, the court held that the plaintiff would be unlikely to be able to overcome Google's fair use defense and vacated the preliminary injunction granted by the district court.

The court next addressed the issue of secondary liability resulting from Google's use of in-line linking to infringing full-size images maintained on the websites of third parties. The court first addressed whether Google could be found liable under the doctrine of contributory infringement under the recent United States Supreme Court rule announced in *Grokster* that "[o]ne infringes contributorily by intentionally inducing or encouraging direct infringement."[4] The Supreme Court further elaborated that "[l]iability under our jurisprudence may be predicated on actively encouraging (or inducing) infringement through specific acts (as the Court's opinion develop or on distributing a product used to infringe copyrights, if the product is not capable of 'substantial' or 'commercially significant' non-infringing uses."[5] Google argued that it could not be held contributorily liable because its search engine is capable of substantial noninfringing use.

The court then analyzed whether Google could be held liable under the first category of contributory liability identified by the Supreme Court—that is, the liability that may be imposed for intentionally encouraging infringement through specific acts. The Ninth Circuit reasoned that, for purposes of this test, whether conduct is "intentional" should be construed broadly. Thus, "an actor may be contributorily liable for infringement or for intentionally encouraging direct infringement if the actor knowingly takes steps that are substantially certain to result in direct infringement."[6] In the context of the Internet, "if a computer system operator learns of specific infringing material available on his system, and fails to purge such material from the system, the operator knows of and contributes to direct infringement."[7] Applying this test, the court held that Google could be held contributorily liable if it had knowledge that infringing copies of plaintiff's works were available using a search engine and it could take simple measures to prevent further infringement but failed to do so. The court held that the record was incomplete to determine whether Google could reasonably refrain

[4] *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930 (2005).

[5] *Id.* at 942.

[6] *Amazon.com,* 487 F.3d 701 at n.17, (9th Cir. 2007), *citing Grokster,* 545 U.S. at 935–37.

[7] *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1021 (9th Cir. 2001), *aff'd* 284 F.3d 1091 (9th Cir. 2002).

from providing access to infringing images. Therefore, the Ninth Circuit remanded the claim to the district court on this issue.

The Ninth Circuit next addressed the issue of vicarious infringement. Under *Grokster,* one can be liable for vicarious infringement "by profiting from direct infringement while declining to exercise a right to stop or limit it."[8] Thus, plaintiff must establish that the defendant exercises or requires control over the direct infringer and that the defendant derives a direct financial benefit from the infringement. Applying this test, the court held that the plaintiff had not demonstrated that Google has the legal right to stop or limit the direct infringement of third-party websites. The court had no trouble distinguishing *Napster* because, in that case, the defendant had a closed system requiring user registration and could terminate its users' accounts and block their access to its system. By contrast, Google cannot stop any of the third-party websites from infringing the plaintiff's images because that infringement takes place on third-party websites.

IV. *PERFECT 10, INC. V. CCBILL, LLC,* 488 F.3D 1102 (9TH CIR. MAY 31, 2007), *CERT. DENIED* 128 S.CT. 709 (U.S. DEC. 3, 2007)

A publisher of pornographic photographs sued web-hosting and related companies that allowed consumers to use credit cards or checks to pay for materials that allegedly infringed plaintiff's copyrighted works. The primary issue on appeal was whether the Section 512 safe harbors under the Digital Millennium Copyright Act applied. The court held that: (1) because the defendants had a working notification system and a procedure for dealing with notifications of infringement and because the defendants did not actively prevent copyright owners from collecting information needed to issue such notifications, defendants satisfied the first factor that it "implements" a policy under the Act; and (2) the defendants reasonably implemented its repeat infringer policy in part because the plaintiff did not provide adequate notice pursuant to Section 512(c)(3) because, among other things, the plaintiff did not issue its notice under penalty of perjury. Thus, since the plaintiff's notice was not effective, knowledge of infringement could not be imputed to the defendants. Therefore, defendants acted reasonably. The court also went into some detail in addressing other carve-outs from the safe harbor provisions of Section 512, including the "standard technical measures" provision under Section 512(i)(1)(B). The court also analyzed whether, under Section 512(c)(1)(B), the defendants qualified for that safe harbor provision where the service provider does not receive a direct financial benefit from the infringing activity and has the right and the ability to control the infringing activity. The court held that the plaintiff provided almost no evidence that the defendants realized a direct financial benefit as a result of their actions. As a result, the court held that the defendants were entitled to protection under the safe harbor provision of section 512(c).

[8] *Grokster,* 545 U.S. at 930.

The court remanded to the district court to determine whether the defendants reasonably implemented a policy under Section 512(i)(1)(A), based on its treatment of nonparty copyright holders.

The court also addressed whether the preemption provision of the Communications Decency Act under 47 U.S.C. §230, which expressly preempts intellectual property claims, also preempts other state-law claims, such as a right of publicity claims. The court held that the Communications Decency Act did preempt such state-law claims.

V. *PERFECT 10, INC. V. VISA INTERN. SERVICE ASS'N*, 494 F.3D 788 (9TH CIR. JULY 3, 2007)

A publisher of a pornographic magazine sued various credit card companies and related banks, alleging that they were secondarily liable under the Copyright Act (as well as under trademark law and various tort theories) because they continued to process credit card transactions submitted by website operators that sold access to images that infringed the publisher's intellectual property rights. The district court dismissed all claims under FRCP 12(b)(6). On appeal, the primary issue was whether the district court's dismissal could be squared with the recent *Grokster*[9] decision by the United States Supreme Court and the *Amazon.com*[10] decision of the Ninth Circuit. In *Grokster,* the Supreme Court held that a party can be held liable for "intentionally inducing or encouraging direct infringement." While the Ninth Circuit noted that the plain language of the *Grokster* test could be construed quite broadly, the court declined to do so. The court held that, to state a claim of contributory infringement, the plaintiff must allege facts showing that the defendants induced, caused, or materially contributed to the infringing conduct. Plaintiff's claim failed because it did not plead facts sufficient to establish that the credit card companies had materially contributed to the infringement. The services provided by the credit card companies do not help locate and are not used to distribute the infringing images. The court distinguished *Amazon.com,* which included a suit brought by the same plaintiff. In *Amazon.com,* the court held that the defendant (Google) could be held contributorily liable "[i]f it had knowledge that [plaintiff's] infringing images were available using its search engine, could take simple measures to prevent further damage to [plaintiff's] copyrighted works, and failed to take such steps."[11] The Ninth Circuit distinguished *Amazon.com* because, whereas Google's search engine itself assisted in the distribution of the infringing content to Internet users, the credit card companies' payment systems did not. In *Amazon.com,* the infringement made the defendants more profitable. Further, people would become inclined to engage in the infringing activity because of the defendants' involvement. However, the difference is that, whereas in the *Amazon.com* case, Google may have materially contributed to the

[9] *See Grokster,* 545 U.S. 913, 930 (2005).

[10] *See Amazon.com,* 487 F.3d 701 (9th Cir. May 16, 2007).

[11] *Id.* at 729.

infringement by making it fast and easy for third parties to distribute infringing material, the credit card companies simply made it easier for the infringement to be profitable. The court reasoned that, even if the users could not pay for images with credit cards, "infringement could continue on a large scale because other viable funding mechanisms are available. For example, a website might decide to allow users to download some images for free and to make its profits from advertising, or it might develop other payment mechanisms that do not depend on the credit card companies." The court further distinguished the *Amazon.com* case, reasoning that, while the websites in the *Amazon.com* case were the "site" of the infringement, that was not the case with respect to the credit card companies.

The court next addressed whether the plaintiff stated a claim for vicarious copyright infringement. The court reasoned that the credit card companies did not have the right and ability to control the infringers and, therefore, held that vicarious liability did not apply. The court distinguished its prior opinion in *Napster.*[12] In *Napster,* the defendant provided computer users with the tools to enable the easy reproduction and distribution of the infringing material. This was the not case, however, with respect to the credit card companies. While it was true that the credit card companies could block access to their payment systems, they could not themselves block a user's access to either the Internet or plaintiff's website.

The opinion drew a strong 15-page dissent from Judge Kozinski. Judge Kozinski reasoned that plaintiff's complaint for secondary infringement easily should survive on a motion to dismiss because the credit card companies "knowingly provide a financial bridge between buyers and sellers of pirated works, enabling them to consummate infringing transactions, while making a profit on every sale."[13] Judge Kozinski criticized the majority's attempts to distinguish *Amazon.com* because in each case, the defendant materially facilitated the infringement. If, as in *Amazon.com,* helping consumers locate infringing content can constitute contributory infringement, then those who can facilitate infringement by securing the means of payment should also be potentially liable. In Judge Kozinski's words: "but why is *locating* infringing images more central to infringement than *paying* for them?"[14] Similarly, Judge Kozinski criticized the majority's ruling on the issue of vicarious infringement. Because the credit card companies have a right to stop or limit the infringing activity, a right that they refused to exercise, Judge Kozinski would have held that plaintiff's claim of vicarious infringement should have survived the motion to dismiss.

[12] *In re Napster, Inc.,* 479 F.3d 1078 (9th Cir. 2007).

[13] *Id.* at 810–11.

[14] *Id.* at 812.

VI. *JADA TOYS, INC. V MATTEL, INC.*, 496 F.3D 974 (9TH CIR. AUG. 2, 2007)

At issue was whether the defendant infringed the plaintiff's copyright in its HOT WHEELS flame logos. Without much analysis (the primary issues of the case arose out of plaintiff's trademark claims), the Ninth Circuit held that there were fact issues regarding whether the extrinsic test for copying was met that precluded entry of summary judgment in favor of defendant.

VII. *WELLES V. TURNER ENTERTAINMENT CO.*, 503 F.3D 728 (9TH CIR. SEPT. 11, 2007)

The daughter of Orson Welles sought a declaratory judgment that she owned the home video rights to the movie *Citizen Kane.* After the district court granted summary judgment in favor of the defendants, plaintiff appealed on the issue of ownership. The Ninth Circuit first addressed whether the three-year statute of limitations barred plaintiff's claim. The statutory period is measured from when the plaintiff is given "plain and express repudiation" of copyright ownership. Because the defendants could point to no evidence that they plainly and expressly repudiated plaintiff's claim of ownership, the statute did not bar plaintiff's claim. The court went on to find that, through a series of prior agreements, a genuine issue of fact existed regarding the distribution rights to the film. As a result, the case was reversed and remanded on those issues.

VIII. *LEADSINGER, INC. V. BMG MUSIC PUB.*, — F.3D — (9TH CIR. JAN. 2, 2008), 2008 WL 36630

At stake in this case was nothing less than the crooning of amateur lounge lizards everywhere. Specifically, does the display of song lyrics by a karaoke device violate the Copyright Act? The plaintiff, a karaoke device manufacturer, brought a declaratory judgment action against certain music publishers. While the karaoke device manufacturer had licensed the musical compositions contained on the machines, the publishing companies demanded that the plaintiff and other karaoke machine companies pay an additional "lyric reprint" fee and a "synchronization fee" for use of the lyrics. Plaintiff refused to pay and filed for declaratory judgment to determine whether it could display song lyrics in time with song recordings. The district court concluded that plaintiff's licenses did not grant it the right to display visual images and onscreen lyrics in real time with the music displayed on its machines and further held that the fair use defense did not apply. The Ninth Circuit affirmed. The court held that the plaintiff's display of lyrics on its karaoke device met each element of the statutory definition of an audiovisual work under Section 101 of the Copyright Act. The fact that the images at issue were song lyrics, which constituted a literary work, did not preclude the court from concluding that the karaoke device is an audiovisual work. Further, while Section 101 does not require an audiovisual work to have sound, the images of song lyrics are intrinsically linked to the accompanying music. Thus, because the plaintiff's device fell within the definition of an audiovisual work, plaintiff could also be required to secure licenses in addition to any Section 115 compulsory licenses to display images of song lyrics timed in relation with the music. The court further rejected the plaintiff's fair use defense, because: (1) the basic purpose of displaying song lyrics remained commercial in purpose; (2) the nature of the copyrighted work—song lyrics—is a work of creative expression as opposed to the lyrics; and (3) the lyrics were used in their entirety. The court was not deterred by defendant's lack of evidence that plaintiff's use of the lyrics had any negative economic impact on the music publishers.