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INTELLECTUAL PROPERTY

9th Circuit finds 'thumbnail' photos display fair use

While use of photos was fair, issue of contributory liability still remains.

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IN A CASE SIGNIFICANT to copyright owners, computer service providers and Internet users alike—*Perfect 10 Inc. v. Amazon.com Inc.*, 487 F.3d 701 (9th Cir. 2007)—the 9th U.S. Circuit Court of Appeals recently ruled on the widely debated question of whether the display of "thumbnail" versions of copyrighted photographs by Google's image search engine constitutes copyright infringement or "fair use" under the Copyright Act.

Determining that Google had, in fact, directly infringed Perfect 10's rights by displaying the thumbnails, the court nevertheless held that Google's use of the thumbnails was a fair one because of its highly transformative nature—that is, it served a function different from that of the original images and one of great public benefit. The 9th Circuit also found that Google may be contributorily liable for "framing" third-party Web sites containing unauthorized full-size Perfect 10 images. In so doing, the court sent a stern message to service providers that if they know of infringement occurring on their service and fail to take reasonable measures to prevent it, they will be held liable.

Perfect 10 operates a subscription, password-protected Web site featuring copyrighted images of nude models, and it also licenses reduced-size copyrighted images for download and use on cellphones. Many of Perfect 10's copyrighted images appear, without authorization, on various third-party Web sites. Google operates, among other Internet search engines, an image search function that provides results as a Web page of reduced-size, low-resolution images known as "thumbnails," which are stored on Google's servers. When a user clicks on a thumbnail, the user is directed to a new Google-generated screen that "frames" the underlying Web site containing the full-size image within a Web page that includes Google's logo and a link to the underlying Web site. The full-size image within the framed Web page is not stored on Google's servers. Google also had an agreement with Amazon.com that allowed Amazon to frame Google's search results.

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Google's image search results do not include the password-protected copyrighted images stored on Perfect 10's Web site. Rather, the results list Web sites containing unauthorized reproductions of Perfect 10's copyrighted images, and provide thumbnail versions of unauthorized images in response to user search queries. In May 2001, Perfect 10 began notifying Google that it was infringing Perfect 10's copyrights by displaying thumbnail versions of unauthorized images, and by framing the Web sites containing the full-size unauthorized images.

In November 2004, Perfect 10 commenced an action against Google, followed by a similar action against Amazon.com in June 2005. Perfect 10 moved for a preliminary injunction soon after, and the two actions were consolidated. The district court granted in part and denied in part the motion, holding that Google's display of thumbnail images of Perfect 10's copyrighted material likely constituted direct copyright infringement. Applying the so-called "server test," the court reasoned that a computer provider that stores an unauthorized copyrighted image as electronic information and serves that electronic information directly to a user violates the copyright owner's exclusive "display right" under the Copyright Act, while a computer owner that does not store and serve the image does not infringe, even if such owner frames the image. Thus, the court found that Perfect 10 was unlikely to succeed in its claim that Google's framing of images constituted direct infringement.

The district court further found that Google's display of thumbnails was not a "fair use" under the Copyright Act—a finding at odds with the 9th Circuit's prior decision in *Kelly v. Arriba Soft Corp.*, 336 F.3d 811 (9th Cir. 2003), which held that the display of thumbnail images by Arriba's Internet search engine was a fair use because of the transformative nature of a search engine and its benefit to the public. The district court distinguished *Arriba* on the ground that Google users can download Google's thumbnails onto their cellphones, which activity "superseded Perfect 10's right to sell its reduced-size images for use on cellphones." *Perfect 10 v. Google Inc.*, 416 F. Supp. 2d 828, 849 (C.D. Calif. 2006).

In addition, the district court held that because Google's thumbnails led users to third-party Web sites that were members of Google's "AdSense" advertising program, the use of those thumbnails "directly benefit[ted] Google's bottom line," and thus increased the commercial nature of Google's use of Perfect 10's images. Id. at 847. Finally, the district court found that Google was not contributorily or vicariously liable for the frames of underlying infringing images. Perfect 10 and Google cross-appealed.

The 9th Circuit's resolution

At the outset of its decision, the 9th Circuit answered a question of first impression in the circuit: The plaintiff, not the defendant, bears the burden of proof to overcome the fair use defense on a motion for preliminary injunction.

Turning to Perfect 10's claims that Google directly infringed its exclusive rights of display and distribution under the Copyright Act, 17 U.S.C. 106(5), 106(3), by displaying thumbnail versions of Perfect 10's copyrighted images and framing Web sites containing the full-size images, the 9th Circuit—again, for the first time—considered the question of when a computer displays a copyrighted work for purposes of § 106(5). Adopting the district court's "server test," the 9th Circuit concluded that there was no dispute that Google's computers stored thumbnail versions of Perfect 10's copyrighted images

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and communicated copies of those thumbnails to Google's users. Accordingly, the court found that Perfect 10 had made out "a prima facie case" that Google's thumbnail images directly infringe Perfect 10's exclusive display right. 487 F.3d at 717.

As for frames of full-size images on third-party Web sites, the court concluded that Google's computers do not store those images—rather, Google merely provides HTML instructions that direct a user's browser to the third-party Web site that stores the full-size image—and thus Google does not store those images for purposes of "displaying" them within the meaning of the Copyright Act. The court noted that while "framing may cause some computer users to believe they are viewing a single Google Web page, the Copyright Act, unlike the Trademark Act, does not protect a copyright holder against acts that cause consumer confusion." Id.

The court further found that Perfect 10 was unlikely to prevail on its claim that Google directly infringed its exclusive right of distribution. While the court recognized that actual distribution is not necessary in circumstances in which a defendant possesses an infringing copy and makes it available to the public (citing *Hotaling v. Church of Jesus Christ of Latter-Day Saints*, 118 F.3d 199, 203 (4th Cir. 1997), and *A&M Records Inc. v. Napster Inc.*, 239 F.3d 1004, 1011-14 (9th Cir. 2001)), the court ruled that this "deemed distribution" rule did not apply in this case since—unlike Napster users who owned music files and made them available to other Napster users—"Google does not own a collection of Perfect 10's full-size images and does not communicate those images to the computers of people using Google's search engine." 487 F.3d at 719.

Having determined that Google's thumbnail images directly infringed Perfect 10's exclusive display right, the 9th Circuit turned to the critical and hotly debated question of whether Google's use of thumbnails constitutes fair use under 17 U.S.C. 107. The four fair use factors listed at 17 U.S.C. 107 are the purpose and character of the use; the nature of the copyrighted work; the amount and substantiality of the portion used; and the effect of the use on the potential market for the work. Disagreeing with the district court's application of these factors and its distinction of the 9th Circuit's prior finding of fair use in the factually similar *Arriba*, the court concluded that the district court failed to give sufficient weight to the "significantly transformative nature of Google's search engine"—which provided "an entirely new use for the original work" and a "significant benefit to the public" by providing access to information—factors of paramount importance to the court and on which the court's decision hinged in *Arriba*. Id. at 723, 725.

The court also criticized the district court's failure to make findings as to the portion of Google's advertising income attributable to Web sites that hosted unauthorized full-size copies of Perfect 10's copyrighted images, or as to whether Google users have, in fact, downloaded thumbnail images for cellphone use. Thus, "[w]eighing th[e] significant transformative use [of Google's image search engine] against the unproven use of Google's thumbnails for cellphone downloads, and considering the other fair use factors," the 9th Circuit concluded that Perfect 10 was unlikely to overcome Google's fair use defense, and vacated the preliminary injunction. Id. at 725.

The 9th Circuit next considered Perfect 10's argument that Google was contibutorily and vicariously liable for framing full-size images.

In one of its first cases addressing the issue of contributory copyright infringement since the U.S. Supreme Court's opinion in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster Ltd.*, 545 U.S. 913 (2005), the court focused on whether Google—an alleged provider of services capable of noninfringing uses—could be liable under *Grokster* for "intentionally encouraging infringement through specific acts." 487 F.3d at 727. With respect to Grokster's "intent" requirement, the court—heeding the *Grokster* court's advice that contributory liability be analyzed in light of "rules of fault-based liability derived from the common law," 545 U.S. at 934-35—instructed that such intent may be imputed. Thus, the court observed that "an actor may be contributorily liable [under *Grokster*] for intentionally encouraging direct infringement if the actor knowingly takes steps that are substantially certain to result in such direct infringement." 487 F.3d at 727.

Court found search engine to be a 'transformative' use.

The contributory liability test

The 9th Circuit further noted that it had already set forth the test for contributory liability of a provider of Internet services in *Napster*: "[I]f a computer system operator learns of specific infringing material available on his system and fails to purge such materials from the system, the operator knows of and contributes to direct infringement." 239 F.3d at 1021. The court deemed its holding in *Napster* consistent with *Grokster*, since Napster had knowingly failed to prevent infringements and thus its intent to infringe could be imputed under traditional theories of fault-based liability.

Drawing upon these precedents, the court refined the test for contributory liability of computer system operators: "[A] computer system operator can 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." 487 F.3d at 729 (internal citations and quotation marks omitted). In so doing, the court emphasized the need for such a standard in order to prevent service providers from turning a blind eye to infringement and to afford copyright holders a meaningful way to protect their rights, rather than forcing them to sue multiple users of the computer providers' service.

The court remanded the claim for a determination as to whether Google had knowledge that infringing Perfect 10 images were available using its search engine and whether Google could have taken "reasonable and feasible" measures to prevent further damage to those images, but failed to do so.

With respect to vicarious liability, the 9th Circuit adopted the district court's reasoning, finding that Google had no contracts with third-party Web sites that would empower Google to stop or limit them from infringing Perfect 10's images, and thus lacked the requisite control for vicarious liability.

Finally, the 9th Circuit noted that Title II of the Digital Millennium Copyright Act (DMCA) limits the liability of an Internet service provider "for infringement of copyright by reason of the provider referring or linking users to an online location containing infringing material or infringing activity," if the service provider meets certain criteria. 17 U.S.C. 512(d). Observing that these limitations apply to secondary infringers as well as direct infringers, the 9th Circuit instructed the district court to consider whether Google was entitled to the DMCA's limitations on injunctive relief.

Lessons learned, issues raised

The 9th Circuit's decision leaves no doubt that a search engine's display of thumbnails is fair use, absent evidence that the thumbnails harm the copyright owner's market for the images. The decision also makes clear that the 9th Circuit considers the "transformative" nature of the use to be the critical factor for the fair use analysis, and deems the use's public benefit relevant and significant to the balancing of rights between copyright owners and alleged infringers.

But by announcing a contributory infringement standard potentially at odds with the Supreme Court's *Grokster* opinion, as well as other 9th Circuit decisions, the decision also raises important questions about the correct standard for contributory copyright infringement. In its most recent decision involving Perfect 10, the 9th Circuit concluded that these various iterations of the rule are all "non-contradictory variations on the same test" and harmonized the proper standard as follows: "one contributorily infringes when he (1) has knowledge of another's infringement and (2) either (a) materially contributes to or (b) induces that infringement." *Perfect 10 Inc. v. Visa Int'l Serv. Assoc.*, No. 05-15170, 2007 WL 1892885, at *3 (9th Cir. July 3, 2007).

This clarification leaves unanswered the question of whether the 9th Circuit, by purporting to require "actual knowledge" of infringement under the circumstances presented in *Perfect 10 v. Amazon.com*, has abandoned the "knew or should have known" standard of knowledge applied in contributory infringement cases for decades. See *Art Attacks Ink LLC v. MGA Entm't Inc.*, No. 04 CV 1035-B(BLM), 2007 WL 1989631, at *4 n.2 (C.D. Calif. July 2, 2007) (expressing uncertainty as to whether *Perfect 10* "removes the 'should have known' aspect of contributory infringement"). NLJ