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Litigation Alert

Perfect 10's Preliminary Injunction Against Google Exposes New Approaches to Copyright and Fair Use on the Internet

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On February 21, 2006, the Federal District Court in Los Angeles issued a decision with important new analyses affecting use of copyrighted materials on the Internet. In a 48 page opinion, Judge A. Howard Matz granted in part a motion for preliminary injunction sought against Google by adult content provider Perfect 10. See *Perfect 10, Inc. v. Google, Inc.*, CV 04-9484 AHM (SHx) (C.D. Cal. Feb. 21, 2006). The court found that Perfect 10 had proven a likelihood of success on its claims that the search engine's display, in search results, of thumbnail versions of Perfect 10's copyrighted images constituted copyright infringement and was not fair use. However, the court found Perfect 10 not likely to succeed on its claims that Google directly, contributorily, or vicariously infringed by framing and in-line linking to full-size infringing copies of images delivered from other websites on the Internet.

Case Background: Plaintiff Perfect 10 distributes original photographs of "natural" models via their adult website and magazine and as downloadable cell phone wallpaper. Many of these copyrighted images have been copied and placed, without Perfect 10's permission, on other websites. These websites, and their infringing photographs, are cataloged by Google's search engine function. In 2004, Google launched an image searching function. In response to searches for various terms, Google displays results in a grid view of thumbnail images which sometimes includes Perfect 10 photographs. Clicking on the thumbnail image opens a window on the bottom of Google's screen showing a full-size image of the underlying web page where the Perfect 10 image resides, framed within a Google generated web page, through a process called framing or in-line linking. The image, though shown within the Google frame, is actually delivered as the result of an automated link within Google's HTML webpage which calls the image from the underlying web page where it resides, not from Google's server.

After sending a series of infringement notices to Google, Perfect 10 filed suit on November 19, 2004, alleging, among other things, that both Google's display of thumbnail images and its framing of the underlying infringing websites constitute direct, contributory, and vicarious infringement of over 3,000 photographs. Later Perfect 10 also sought to enjoin A9.com, a Google based search engine owned by Amazon.com that returns search results generated by Google in response to user queries.[1] The cases were then consolidated by the Court.

Full-Size Images: In an issue of first impression, the court found that Google's framing of full-size images likely does not constitute "display" of copyrighted work, and thus does not amount to direct infringement, because the search engine did not physically possess or serve the copyrighted content. In doing so, the court firmly rejected the "incorporation test" embraced by Perfect 10, which would have held the provider of a website to have "displayed" the content based on the visual result of in-line linking. In essence, this test would ask whether, when delivered within a frame, the content looks like the framer is hosting or is merely directing the user to a separate location on the web where the image could be found. Under this approach, any website that in-line links or frames third-party content could be held to display the content and thus be liable for direct infringement.

Because this approach would dramatically chill use of the Internet, the court instead adopted Google's "server test." Under this test a framer would only be found to "display" an infringing work if it was actually responsible for transmitting the content from its server. Though the server test might encourage links without fear of reprisal to websites serving infringing content, this was of less concern to the court than the incorporation test that might greatly limit searching and linking on the Internet. Moreover, if the linking website actually knowingly encourages infringement, it could be held secondarily liable, even though not a direct infringer. In short,

[1] The court did not discuss A9.com in this decision. The court promised a subsequent ruling as to whether A9.com should be preliminarily enjoined which will likely have a substantial impact on the myriad sites that contain Google search bars and/or use its search technology.

the court found a likely increase in infringement to be less problematic than corralling the Internet.

Because under the server test Google did not itself display Perfect 10's copyrighted photographs, the court held that it was not likely to be a direct infringer.

Thumbnail Images: However, Google does copy Perfect 10's images as it crawls the web and makes cache copies of those images as thumbnails to ease the process of searching. Under the server test, because Google serves the thumbnails in response to image searches, Google is liable as a direct infringer unless its actions fall within the fair use defense.

Fair Use: Distinguishing this case from the Ninth Circuit's decision in *Kelly v. Arriba Soft*, 336 F.3d 811 (2003), which found thumbnails to be a fair use, the court rejected that defense as to Google's use of thumbnail versions of Perfect 10 photographs. The Copyright Act codifies four factors used to determine whether a use is fair: (1) the purpose and character of the use; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for the value of the copyrighted work. 17 U.S.C. § 107. Although Judge Matz looked at all four factors, he based his decision on the conclusions that Google received a substantial commercial benefit; that its use was both "transformative" and "consumptive"; and that the Google thumbnails negatively affected the market for authorized sales of cell phone downloads of Perfect 10 images.

Analyzing the purpose and character of the use requires evaluation of its commercial nature and the degree of transformation. Judge Matz found that "Google unquestionably derives significant commercial benefit from Google Image Search in the form of increased user traffic—and in turn, increased advertising revenue." Furthermore, through its AdSense and AdWords programs, Google sometimes receives an added benefit when it delivers advertisements to the same website that is accessed by clicking on the linked thumbnail image. As the court put it, "[i]f third party websites that contain infringing copies of P[erfect] 10 photographs are also AdSense partners, Google will serve advertisements on those sites and split the revenue generated from users who click on the Google-served advertisements. . . . Google has a strong incentive to link to as many third-party websites as possible, including those that host AdSense advertisements."

Further, while Google transforms the thumbnails by using them to "simplify and expedite access to information," it also supersedes Perfect 10's place in the new market for cell phone wallpaper of its photographs. Perfect 10, after initiation of this lawsuit, entered into an agreement with Fonestarz Media Ltd. for distribution of reduced sized images for use on cell phones. As Google also enables thumbnails to be downloaded and moved to cell phones, it effectively replaces Perfect 10's sales with free access. The direct competition between Google and Perfect 10 greatly affected Judge Matz's analysis of both the nature of the use and the impact on the copyrighted works' market.

This is a significant departure from the decision in *Arriba Soft* in which the Ninth Circuit found that Arriba Soft's display of thumbnail images of Kelly's photographs was a fair use. Although Arriba Soft received a financial benefit from advertising on its search pages, its use was sufficiently transformative as people did not view the thumbnail image for aesthetic reasons but instead to locate its larger counterpart. And since Kelly could not demonstrate a separate market for low-quality, miniature versions of his work, that factor weighed heavily in the search engine's favor. Unfortunately for Google, its delivery of advertisements to the infringing websites, coupled with the creation of a diminutive-image market, sufficiently distinguished it from *Arriba Soft*.

Secondary Liability: Judge Matz rejected Perfect 10's argument that Google will likely be liable for the direct infringement of Internet users under the doctrines of contributory infringement and vicarious liability.

Contributory infringement occurs when direct infringement is materially contributed to by one with knowledge of the infringing activity. The court found it unnecessary to decide the issue of whether Google had sufficient knowledge, because it held Google did not materially contribute to infringement. Perfect 10's argument relied heavily on *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001). However, Judge Matz found the cases to be very different. Although both websites facilitated searching, Napster provided substantial technical support, software, and facilitated the transfer of illegal files stored on its users' computers. Google merely identifies the location of information.

Vicarious liability results when a party receives a direct financial benefit from the infringement and has the right and ability to control the infringing activity. Perfect 10 also failed to establish likelihood of success on this theory. In a broad construction of what qualifies as a "direct financial benefit," the court held that Google received a direct financial benefit from the potentially increased traffic driven to its AdSense partners' websites by linking to Perfect 10's images. However, Google does not control access to the infringing content:

though Google might remove a *link* to the infringer's site, it cannot remove the infringing image from that site. This distinguishes Google from Napster whose architecture relied on a closed-universe system where removing a link to infringing music also removed the file itself. *Napster*, 239 F.3d at 1023.

Impact: Although the case is only at the preliminary injunction stage and a final decision on the merits is a long way off, this order has substantial implications.

On the whole, the ruling is very positive for the innumerable websites that provide in-line linking or framing. It is the first decision stating that such framing does not constitute direct infringement and, absent egregious facts, should not give rise to secondary liability. The "server test" is very favorable to those who import content from other websites.

But the court's departure from the rule of *Arriba Soft* again demonstrates the vicissitudes of relying on the fair use doctrine—a notoriously unpredictable legal standard. The growing use of small images on cell phones means that those who display thumbnail images might no longer be safe under *Arriba Soft*. Moreover, this court, at least at this preliminary stage, was swayed by the fact that clicking on thumbnails sometimes connects users to websites hosting AdSense—even though all thumbnails, whether or not infringing, have such an effect, and even though AdSense partners are ubiquitous, and their connection to infringing thumbnails presumably coincidental. Especially when the "fairness" of a broad business practice begins to depend on the peculiar characteristics of a single user like Perfect 10, even greater care must be taken in assessing the applicable standards.

Finally, the decision that will come later in the A9.com case (see footnote 1, above) may have further ramifications for any independent website that incorporates a Google search box.

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