

January 2008

## The Ninth Circuit Lands a "Perfect 10" Applying Copyright Law to the Internet

Robert A. McFarlane

Follow this and additional works at: <http://digitalcommons.law.ggu.edu/ggulrev>

 Part of the [Intellectual Property Law Commons](#)

---

### Recommended Citation

Robert A. McFarlane, *The Ninth Circuit Lands a "Perfect 10" Applying Copyright Law to the Internet*, 38 Golden Gate U. L. Rev. (2008).  
<http://digitalcommons.law.ggu.edu/ggulrev/vol38/iss3/3>

This Article is brought to you for free and open access by the Academic Journals at GGU Law Digital Commons. It has been accepted for inclusion in Golden Gate University Law Review by an authorized administrator of GGU Law Digital Commons. For more information, please contact [jfischer@ggu.edu](mailto:jfischer@ggu.edu).

## ARTICLE

# THE NINTH CIRCUIT LANDS A “PERFECT 10” APPLYING COPYRIGHT LAW TO THE INTERNET

ROBERT A. MCFARLANE\*

### INTRODUCTION

The Ninth Circuit Court of Appeals issued three landmark decisions in 2007 that addressed how copyright protections apply to images that can be accessed over the Internet. Internet publisher Perfect 10 initiated these lawsuits based on allegations that its registered copyrights were infringed when unauthorized copies of its photographs appeared on third-party websites where they could be viewed, downloaded, and purchased without payment to Perfect 10.<sup>1</sup>

Due at least in part to the alleged difficulty of bringing infringement suits against the individuals who it believed were directly infringing its copyrights by downloading unauthorized copies,<sup>2</sup> Perfect

---

\* Mr. McFarlane is a litigation partner in the San Francisco office of Townsend and Townsend and Crew LLP who specializes in patent litigation, intellectual property disputes and counseling, and software performance and complex commercial matters. He received his J.D. from the University of California Hastings College of the Law in 1994 and his B.A.S. in Industrial Engineering and Political Science from Stanford University in 1990.

<sup>1</sup> Perfect 10 Inc. v. Amazon.com, Inc., 508 F.3d 1146, 1155-56 (9th Cir. 2007); Perfect 10 v. Visa Int'l Serv Ass'n, 494 F.3d 788 (9th Cir. 2007); Perfect 10 v. CC Bill LLC, 488 F.3d 1102 (9th Cir. 2007).

<sup>2</sup> See, e.g., MGM Studios v. Grokster Ltd., 545 U.S. 913, 929-30 (2005) (“When a widely shared service or product is used to commit infringement, it may be impossible to enforce rights in the protected work effectively against all direct infringers, the only practical alternative being to go against the distributor of the copying device for secondary liability on a theory of contributory or

10 sought to recover damages for direct and indirect copyright infringement from entities responsible for aspects of the Internet that, when linked together across the world wide web, allegedly contributed to or facilitated the infringing transactions.<sup>3</sup> *Perfect 10 v. Amazon.com* reviewed Perfect 10's request for a preliminary injunction based primarily on its claim that co-defendant Google directly and indirectly infringed its copyrights.<sup>4</sup> Specifically, Perfect 10 alleged that Google, among other things, operated a search engine that indexed its copyrighted images, stored low-resolution "thumbnail" versions of the images on its servers, facilitated the display of those images on users' computer screens, and provided programming instructions that informed users' web browser software how to access full size versions of the infringing images through the Internet.<sup>5</sup> *Perfect 10 v. Visa International Service Ass'n*, reviewed Perfect 10's attempt to impose liability for contributory and vicarious copyright infringement against financial institutions that process credit card payments to websites that allegedly profited by selling unauthorized copies of Perfect 10's copyrighted images.<sup>6</sup> Finally, *Perfect 10 v. CC Bill Inc.* reviewed an attempt to impose liability for, among other things, providing web hosting and related Internet connectivity services to the owners of infringing websites, and provided the Ninth Circuit an opportunity to clarify several of the safe harbor and notice provisions contained in the Digital Millennium Copyright Act (DMCA).<sup>7</sup>

Since the United States Constitution enshrined the protection of copyright in this country,<sup>8</sup> courts have been faced with the difficulties of applying copyright law to ever-evolving technologies that did not exist

---

vicarious infringement."'). See also *Perfect 10 v. Visa Int'l Serv Ass'n*, 494 F.3d at 823 ((Kozinski, J., dissenting) Noting that "[it] would certainly be much easier" if Perfect 10 were suing the companies selling unauthorized copies of its images over the internet. "No doubt, they would if they could. But direct infringers are sometimes too ubiquitous, too small or too difficult to find. Here, plaintiff alleges that many direct infringers have no physical presence in the United States. They operate from far-off jurisdictions, where lawsuits are difficult to bring and remedies impossible to enforce because the infringers can easily move their operations to servers in other remote jurisdictions."').

<sup>3</sup> *Perfect 10 Inc. v. Amazon.com, Inc.*, 508 F.3d at 1146; *Perfect 10 v. Visa Int'l Serv Ass'n*, 494 F.3d at 788; *Perfect 10 v. CC Bill LLC*, 488 F.3d at 1102.

<sup>4</sup> The allegations against Amazon.com were based in large measure on Amazon.com's display of search results and "thumbnail" images generated by Google. *Perfect 10 v. Amazon.com, Inc.*, 508 F.3d 1154 (9th Cir. 2007) Perfect 10 initially brought separate cases against Amazon.com and Google. However the cases were consolidated by the district court. See *Perfect 10 v. Amazon.com, Inc.*, 508 F.3d at 1157.

<sup>5</sup> *Id.* at 1155-56.

<sup>6</sup> *Perfect 10 v. Visa Int'l Serv Ass'n*, 494 F.3d at 793.

<sup>7</sup> *Perfect 10 v. CC BILL LLC*, 488 F.3d at 1102.

<sup>8</sup> U.S. CONST. art. I, §8, cl. 8.

when the applicable statutes were enacted. The trilogy of published Ninth Circuit decisions arising from Perfect 10's copyright actions represents an important and potentially far-reaching development in the application of copyright laws to new technologies of the Internet and an analysis of the policy goals underlying copyright law as applied to the internet. This Article briefly summarizes the facts of these three cases, explains the central holdings of each decision, and then concludes with a discussion of the collective impact that the three decisions have on enforcement of copyrights in the Internet context and the policy reasons supporting the court's decisions.

#### I. PERFECT 10'S ATTEMPT TO IMPOSE LIABILITY ON GOOGLE AND AMAZON.COM FOR UNAUTHORIZED DISPLAY AND PUBLICATION OF ITS COPYRIGHTED IMAGES

Perfect 10 marketed and sold copyrighted images of nude models through an eponymous adult magazine and a subscription website.<sup>9</sup> Perfect 10 asserted that it had invested \$36 million to develop its brand, including \$12 million to create the photographic images, and that it generated virtually all of its revenue from sales of its print magazine and the monthly subscription charge that allowed paying customers to access the copyrighted images through a password-protected "members only" portion of its website.<sup>10</sup> Perfect 10 also derived a small portion of its revenue from a licensing agreement that provided for the worldwide sale and distribution of reduced size images for use on cell phones.<sup>11</sup> The underlying basis of Perfect 10's complaints in *Perfect 10 v. Amazon.com*, *Perfect 10 v. Visa Int'l Service Ass'n*, and *Perfect 10 v. CC Bill* centered around the unauthorized duplication, access, and sale of its copyrighted images through websites that provided no payments to Perfect 10.<sup>12</sup>

#### A. GOOGLE'S SEARCH ENGINE AND THE ACCESS OF IMAGES OVER THE INTERNET

The Ninth Circuit's decision provided an informative description of operations that locate, store, access, and display images across the

---

<sup>9</sup> *Perfect 10 v. Google, Inc.*, 416 F.Supp.2d 828, 831-32 (C.D.Cal. 2006), *aff'd in part rev'd in part and remanded*, 508 F.3d 1146 (9th Cir. 2007).

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

<sup>12</sup> *Perfect 10 v. Amazon.com, Inc.*, 508 F.3d at 1157 (9th Cir. 2007); *Perfect 10 v. Visa Int'l Serv Ass'n*, 494 F.3d 788 (9th Cir. 2007); *Perfect 10 v. CC Bill LLC*, 488 F.3d 1102 (9th Cir. 2007).

## 384 GOLDEN GATE UNIVERSITY LAW REVIEW [Vol. 38]

Internet and, therefore, that are critical to its analysis of Google's potential liability for infringing copyrights in such images. The court explained that the "Internet is a world-wide network ... [of computers] all sharing a common communications technology."<sup>13</sup> Information stored on individual computers can be provided to other computers connected to the Internet via web pages, which consist of text interspersed with instructions in Hypertext Markup Language (HTML).<sup>14</sup> Significantly for the court's analysis, images are not stored on web pages. Instead, web pages contain instructions in HTML that provide addresses identifying the network locations where images are stored.<sup>15</sup> Generally, web pages are publicly available through the Internet and can be accessed by computer users through the Internet using a web browser.<sup>16</sup>

Google's search engine is a software program that automatically accesses thousands of websites, which are collections of individual web pages, and indexes them in a database maintained on Google's computers.<sup>17</sup> When locating images, Google's search engine does not recognize images, but identifies text in the Google database responsive to the user's query and provides reduced-size, lower-resolution versions of the images called "thumbnails."<sup>18</sup> Google stores these thumbnails on its servers, but does not store copies of the full-sized images.<sup>19</sup> Instead, Google provides instructions in HTML that allow a user's web browser to locate and download them from other, third-party computers connected through the Internet.<sup>20</sup> Thus, although the thumbnail and full-size image may appear on the user's screen to consist of a single integrated presentation, the two images actually come from two different sources: Google's server in the case of the thumbnail, and a third-party website in the case of the full-sized image.<sup>21</sup> The process of incorporating these images into a single window is called "in-line linking," and the process allowing information from one computer to frame and annotate the in-line linked content from another computer is

---

<sup>13</sup> *Perfect 10 v. Amazon.com, Inc.*, 508 F.3d at 1155.

<sup>14</sup> *Id.*

<sup>15</sup> *Id.*

<sup>16</sup> *Id.* Microsoft's Internet Explorer is an example of a web-browser. *See, e.g.*, MICROSOFT COMPUTER DICTIONARY 243-44, 479 (4th ed. 1999).

<sup>17</sup> *Perfect 10 v. Amazon.com, Inc.*, 508 F.3d at 1155.

<sup>18</sup> *Id.*

<sup>19</sup> *Id.*

<sup>20</sup> *See Id.*

<sup>21</sup> *Id.* at 1155-56.

called “framing.”<sup>22</sup> Google also stores web page text in a “cache,” a form of memory with short access time which stores frequently used instructions or data.<sup>23</sup>

Google also generated revenue through an arrangement with Amazon.com through which Amazon.com in-line linked to Google search results, allowing Amazon.com to provide search results generated by Google on its web pages.<sup>24</sup> Finally, Google generated revenue through a program called “Ad Sense,” wherein website owners could register with Google, place HTML instructions on their web pages, and allow Google’s algorithms to automatically select relevant advertisements to be displayed when the website is accessed.<sup>25</sup> The Ad Sense “partners” and Google would then share revenue generated by the advertisement.<sup>26</sup>

#### B. THE NINTH CIRCUIT LARGELY REJECTED PERFECT 10’S THEORIES THAT GOOGLE DIRECTLY INFRINGED ITS COPYRIGHTS

*Perfect 10 v. Amazon.com* provided a succinct primer in the law of direct and indirect copyright infringement and then applied those principles to the Internet. To present a *prima facie* case of direct copyright infringement, the plaintiff must show that it owns the allegedly infringed material and that the infringer has violated at least one of the exclusive rights granted under 17 U.S.C. §106, namely, the rights to reproduce, distribute, and publicly display the copyrighted work.<sup>27</sup> Since Perfect 10’s ownership of at least some of the images at issue was not disputed, the opinion focused on allegations that Perfect 10’s exclusive rights were being infringed.<sup>28</sup>

The Ninth Circuit applied the basic definitions set forth in the Copyright Act and the novel “server test” originally devised by the district court to determine whether Perfect 10 had established a *prima facie* case that Google directly infringed its copyrights.<sup>29</sup> For purposes of the Copyright Act, to “display” an image means “to show a copy of it, either directly or by means of a film, slide, television image, or any other

---

<sup>22</sup> *Id.*

<sup>23</sup> *Id.* at 1156. Significantly, Google’s cache includes text only; it does *not* include images from third-party web pages. *Id.* (emphasis added).

<sup>24</sup> *Id.*

<sup>25</sup> *Id.*

<sup>26</sup> *Id.*

<sup>27</sup> *Id.* at 1159 (citations omitted).

<sup>28</sup> *Id.*

<sup>29</sup> *Id.* at 1159-62.

device or process,” wherein a “copy” is a “material object [],... in which a work is fixed by any method now known or later developed and from which the work can be perceived, reproduced, or otherwise communicated, ...” and wherein “[a] work is fixed in a tangible medium of expression when its embodiment ... is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period more than transitory duration.”<sup>30</sup> As used in this definition, a photographic image is “fixed” in a tangible medium of expression in the context of computers when it is “embodied (i.e., stored) in a computer’s server (or hard disk, or other storage device),” and the digitally stored image is considered a “copy” as defined under the Copyright Act.<sup>31</sup> Applying these definitions, computer users “display” a “copy” of a photographic image when their computer fills its screen with a copy of the image as it is stored, or “fixed” in the computer’s memory.<sup>32</sup> Thus, the court’s analysis of whether Google directly infringed Perfect 10’s display right turned largely on whether the image displayed on the user’s computer screen was stored on Google’s servers, an analysis christened “the server test.”<sup>33</sup> Applying this criteria, the court found that Perfect 10 had not established a *prima facie* case of direct infringement based on Google’s process of in-line linking full-sized images from third-party websites or its storage of web page text in its cache for the simple reason that the copyrighted image displayed on a user’s computer screen was never stored on Google’s servers. Rather, Google simply provided HTML instructions through which images stored on third-party computers were located and accessed.<sup>34</sup> The court found that providing these instructions was not equivalent to “displaying” a “copy” of the image and, therefore, Google did not directly infringe Perfect 10’s copyrights through these two activities.<sup>35</sup>

Applying the server test, the Ninth Circuit reached the opposite conclusion when Google’s thumbnail images were displayed on a user’s computer and found that Perfect 10 had, in fact, established a *prima facie*

---

<sup>30</sup> *Perfect 10 v. Amazon.com*, 508 F.3d at 1160 (citing 17 U.S.C. §101).

<sup>31</sup> *Id.* (citing *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 517-18 (9th Cir. 1993)).

<sup>32</sup> *Perfect 10 v. Amazon.com*, 508 F.3d at 1160.

<sup>33</sup> *Id.* at 1159, 1161.

<sup>34</sup> *Id.* at 1160-62.

<sup>35</sup> *Id.* at 1161 (also noting that the assistance provided by Google gave rise only to issues of contributory liability). The court found that Perfect 10 would not likely prevail on its theory that Google directly infringed its exclusive right to distribute full-size copies of its copyrighted images for the same reason. Since Google’s search engine provided HTML instructions to the end user’s browser that identified the location of an image, but did not “distribute” a “copy” of the image that was stored on Google’s own servers as required to show infringement of this exclusive right there was no infringement. *Id.* at 1160.

case of direct infringement in this instance because such images were stored on Google's servers.<sup>36</sup> Thus, when the user viewed a copy of the image on his or her computer screen, it represented the display of a copy that was fixed in a tangible medium on Google's servers, and, therefore, represented potential direct infringement.<sup>37</sup>

### C. THE NINTH CIRCUIT APPROVED GOOGLE'S FAIR USE DEFENSE

Having found that Perfect 10 had established a prima facie case of direct infringement based on Google's use of thumbnail images, the court went on to find that Google would likely prevail on its fair use defense, and, consequently, vacated the preliminary injunction issued by the district court that otherwise prohibited Google from creating and publicly displaying thumbnail versions of Perfect 10's images.<sup>38</sup> The fair use defense, which is codified at 17 U.S.C. §107, "permits the use of copyrighted works without the copyright owner's consent under certain situations," including "criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research..."<sup>39</sup> In evaluating a fair use defense the court must weigh four factors:

- 1) the purpose and character of the use, including whether such use is a commercial nature or is for nonprofit educational purposes;
- 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 or value of the copyrighted work.<sup>40</sup>

The fair use defense requires a case-by-case analysis in which the court is to explore each of the factors, weigh them together in light of the purpose of copyright law as set forth in the United States Constitution "to promote the progress of science and the useful arts,"<sup>41</sup> and to serve "the

---

<sup>36</sup> *Id.* at 1160.

<sup>37</sup> *Id.*

<sup>38</sup> *Id.* at 1154, 1168-1169. The court also reversed the district court regarding the burden of proof on this defense. The court held that, since Perfect 10 had shown a likelihood of success on the merits of its direct infringement claim, the burden shifted to Google to establish a likelihood that the affirmative defense would be successful. *Id.* at 1158.

<sup>39</sup> *Id.* at 1163.

<sup>40</sup> 17 U.S.C. §107.

<sup>41</sup> U.S. CONST. art. I, §8, cl. 8.



welfare of the public.”<sup>42</sup> Additionally, as dictated by federal statute, “the fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.”<sup>43</sup>

The Ninth Circuit first considered the “purpose and character” of Google’s use of thumbnail images, concluding that it was “highly transformative,” and concluding that the first factor weighted heavily in Google’s favor.<sup>44</sup> The “central purpose” of the analysis under this factor is to “determine whether and to what extent the new work is ‘transformative.’”<sup>45</sup> A work is transformative when it “does not ‘merely supersede the objects of the original creation,’ but rather ‘adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message.’”<sup>46</sup> Conversely, a new work is likely not transformative and, therefore, not likely a “fair use” if it “supersede[s] the use of the original.”<sup>47</sup>

The court’s conclusion that the thumbnails were highly transformative was based on several factors. First, Google’s thumbnail images served a different function than the originals.<sup>48</sup> “Although an image may have been originally created to serve an entertainment, aesthetic, or informative function, a search engine transforms the image into a pointer directing a user to a source of information.”<sup>49</sup> Moreover, the “search engine provides social benefit by incorporating an original work into a new work, namely, an electronic reference tool,” which places the images “into a different context” so that they are “transformed into a new creation.”<sup>50</sup> Additionally, the court rejected Perfect 10’s argument that Google’s use of thumbnail images was not transformative because such images superseded Perfect 10’s right to sell reduced-size images for use in cell phones and because Google’s use of the images was commercial in nature. Following the Supreme Court’s directive to

---

<sup>42</sup> *Perfect 10 v. Amazon.com*, 508 F.3d at 1163 (citing *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 n.10, (1984) (quoting H.R. REP. NO. 60-2222, at 7 (1909)).

<sup>43</sup> 17 U.S.C. §107.

<sup>44</sup> *Perfect 10 v. Amazon.com*, 508 F.3d at 1164-66.

<sup>45</sup> *Id.* at 1164 (quoting *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, at 579 (1994)).

<sup>46</sup> *Perfect 10 v. Amazon.com*, 508 F.3d at 1164 (quoting *Campbell*, 510 U.S. at 579).

<sup>47</sup> *Perfect 10 v. Amazon.com*, 508 F.3d at 1164 (citing *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 550-51 (1985)).

<sup>48</sup> *Perfect 10 v. Amazon.com*, 508 F.3d at 1165. See also *Kelly v. Arriba Soft Corp.*, 336 F.3d 811 (9th Cir. 2003) (concluding that thumbnail images generated by a search engine are transformative because they served a different function than the originals, namely improving access to information rather than artistic expression (emphasis added)).

<sup>49</sup> *Perfect 10 v. Amazon.com*, 508 F.3d at 1165.

<sup>50</sup> *Id.* (citing *Wall Data Inc. v. L.A. County Sheriff’s Dept.*, 447 F.3d 769, 778 (9th Cir. 2006)).

weigh “the extent to which a use promotes the purposes of copyright and serves the interests of the public,”<sup>51</sup> the Ninth Circuit concluded that the “significantly transformative nature of Google’s search engine” heavily outweighed “any incidental superseding use or minor commercial aspects of Google’s search engine and website,” and that the purpose and character of Google’s use weighed heavily in favor of finding it was a “fair use.”<sup>52</sup>

The Ninth Circuit further found that the district court did not err in ruling that the second factor regarding the nature of the copyrighted work weighed slightly in favor of Perfect 10 and that the third factor regarding the amount and substantiality of the portion used favored neither party.<sup>53</sup> Finally, the court concluded that the fourth factor, the effect of the use on the market, favored neither party.<sup>54</sup> The court reasoned, as it had in *Kelly*, that Google’s use of thumbnails did not hurt Perfect 10’s marketing of full-sized images and, further, that any harm to Perfect 10’s market in reduced-size images for cell phones was hypothetical.<sup>55</sup> The court concluded that

Google has put Perfect 10’s thumbnail images (along with millions of other thumbnail images) to a use fundamentally different than the use intended by Perfect 10. In doing so, Google has provided a significant benefit to the public. Weighing this significant transformative use against the unproven use of Google’s thumbnails for cell phone downloads, and considering the other fair use factors, all in light of the purpose of copyright, we conclude that Google’s use of Perfect 10’s thumbnails is a fair use.<sup>56</sup>

Having so concluded, the Ninth Circuit found that Google would likely succeed in proving its fair use defense and vacated the district

---

<sup>51</sup> *Perfect 10 v. Amazon.com*, 508 F.3d at 1166 (citing *Campbell*, 510 U.S. at 579; *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 556-57 (1985); *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 431-32 (1984)).

<sup>52</sup> *See Perfect 10 v. Amazon.com*, 508 F.3d at 1166-67.

<sup>53</sup> *See Id.* at 1167-68. The court minimized application of the second factor by stating that, although the images were “‘creative in nature’, and thus ‘closer to the core of intended copyright protection,’” they were previously published and not entitled to the enhanced protection available prior to first publication. *Id.* at 1167 (relying on *Kelly v. Arriba Soft Corp.*, 336 F.3d at 821). Additionally, the court relied on the conclusion in *Kelly v. Arriba Soft* that the use of an entire image within a thumbnail was reasonable in light of the purpose to allow users to recognize the image and decide whether to pursue more information about it or the originating website. *Id.* (citing *Kelly*, 336 F.3d at 821).

<sup>54</sup> *Perfect 10 v. Amazon.com*, 508 F.3d at 1168.

<sup>55</sup> *Id.*

<sup>56</sup> *Id.*

## 390 GOLDEN GATE UNIVERSITY LAW REVIEW [Vol. 38]

court's preliminary injunction against Google's use of thumbnail images.<sup>57</sup>

D. THE NINTH CIRCUIT REMANDED FOR FURTHER FACT FINDING  
REGARDING PERFECT 10'S CONTRIBUTORY INFRINGEMENT CLAIM  
BUT REJECTED ITS CLAIM FOR VICARIOUS LIABILITY

Perfect 10's allegations that Google should be held liable under theories of contributory and vicarious infringement provided the Ninth Circuit with the opportunity to address fundamental issues affecting the potential liability for major Internet companies based on the acts of individuals who use their services. The court's analysis is particularly significant because it interprets the Supreme Court's recent decision in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*<sup>58</sup> as it applies to the novel issues before the court.

Under the rule enunciated in *Grokster*, a company may be held liable for contributory copyright infringement if it "intentionally induc[es] or encourage[es] direct infringement," and for vicarious infringement if it "profit[s] from direct infringement while declining to exercise a right to stop or limit it."<sup>59</sup> Since the litigants did not dispute that third-parties directly infringed Perfect 10's copyrights by reproducing, displaying and distributing unauthorized copies of Perfect 10's copyrighted images through the Internet,<sup>60</sup> the court reviewed Google's potential liability for secondary infringement under both contributory and vicarious liability theories.

Under long-standing case law, "one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a 'contributory' infringer."<sup>61</sup> The Ninth Circuit further refined this rule as it applies to

<sup>57</sup> *Id.*

<sup>58</sup> 545 U.S. 913 (2005).

<sup>59</sup> *Id.* at 930 (internal citations omitted). See also *Perfect 10 v. Visa Int'l Serv Assoc.*, 494 F.3d 788, 795 (9th Cir. 2007) ("a defendant is a contributory infringer if it (1) has knowledge of a third party's infringing activity, and (2) induces, causes, or materially contributes to the infringing conduct." (citations omitted)); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1019 (9th Cir. 2001) (finding contributory liability in an internet context where the defendant had engaged "in personal conduct that encourages or assists the infringement").

<sup>60</sup> *Perfect 10 v. Amazon.com*, 508 F.3d at 1170.

<sup>61</sup> *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2nd Cir. 1971). See also *Perfect 10 v. Amazon.com*, 508 F.3d at 1171 (finding that the rule set forth in *Gershwin* is consistent with the Supreme Court's *Grokster* decision). The court explained this rule at some length in *Perfect 10 v. Visa International Serv. Ass'n.*, 494 F.3d at 794-95. Contributory copyright infringement is based on the tort concepts of enterprise liability and imputed intent. *Id.* at 794-95. And, although the test has been formulated in various ways, the basic test is

cyberspace in *A&M Records, Inc. v. Napster, Inc.* by holding that “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.”<sup>62</sup>

Applying the law as stated in *Gershwin, Grokster, and Napster*, the Ninth Circuit found it necessary to remand the issue of Google’s potential contributory infringement for further fact finding by the district court.<sup>63</sup> The parties did not dispute that Google’s search engine substantially assists websites owners in distributing infringing copies of Perfect 10’s copyrighted images or that it assists users in accessing infringing materials.<sup>64</sup> Thus, “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.”<sup>65</sup> The district court did not resolve factual disputes regarding the adequacy of Perfect 10’s notice of infringement to Google, the adequacy of Google’s responses to such notice, or the availability to Google of reasonable and feasible means to halt the direct infringement using its search engine.<sup>66</sup> Consequently, the Ninth Circuit remanded the issue for the district court to decide whether “Perfect 10 would likely succeed in establishing that Google was contributorily liable for in-line linking to full-size infringing images . . .”<sup>67</sup>

The Ninth Circuit did not look favorably on Perfect 10’s claim that Google could be held liable for vicarious copyright infringement. Under *Grokster*, a claim for vicarious infringement can succeed only if the plaintiff demonstrates that “the defendant exercises the requisite control over the direct infringer and that the defendant derives a direct financial benefit from the direct infringement.”<sup>68</sup> A defendant is

---

that one contributorily infringes when he (1) has knowledge of another’s infringement and (2) either (a) materially contributes to or (b) induces that infringement. *Id.* at 795.

<sup>62</sup> *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1021 (9th Cir. 2001).

<sup>63</sup> *Perfect 10 v. Amazon.com, Inc.*, 508 F.3d 1146 at 1172-73.

<sup>64</sup> *Id.* at 1172.

<sup>65</sup> *Id.* at 1172 (emphasis added).

<sup>66</sup> *Id.* at 1173.

<sup>67</sup> *Id.* at 1172-73.

<sup>68</sup> *Id.* (citing *MGM Studios v. Grokster Ltd.*, 545 U.S. 913, 930 (2005)). The court further explained this standard in *Perfect 10 v. Visa International Serv. Ass’n.*, 494 F.3d at 802:

Whereas contributory infringement is based on tort-law principles of enterprise liability and imputed intent, vicarious infringement’s roots lie in the agency principles of *respondeat superior*. To state a claim for vicarious copyright infringement, a plaintiff must allege that the defendant has (1) the right and ability to supervise the infringing conduct and (2) a direct financial interest in the infringing activity. . . . one infringes vicariously by profiting from direct infringement while declining to exercise a right to stop or limit it.

considered to have such control over a direct infringer only when it has “a legal right to stop or limit the directly infringing conduct,” and “the practical ability to do so.”<sup>69</sup> The court found that Perfect 10 failed to demonstrate Google had either. First, Perfect 10 failed to demonstrate a likelihood that Google had the legal right to stop or limit the direct infringement by third-parties.<sup>70</sup> Second, the district court found that Google did not have the practical ability to police potential infringement of third-party websites identified through its search engine.<sup>71</sup> Specifically, Google’s software did not have the “ability to analyze every image in [the I]nternet, compare each image to all the other copyrighted images that exist in the world . . . and determine whether a certain image on the web infringes someone’s copyright.”<sup>72</sup> Thus, the court concluded that Perfect 10 was not likely to establish the “control prong” necessary for imposing vicarious liability.<sup>73</sup>

## II. PERFECT 10’S FAILED ATTEMPT TO “FOLLOW THE MONEY” AND HOLD FINANCIAL INSTITUTIONS LIABLE FOR SECONDARY COPYRIGHT INFRINGEMENT BASED ON PAYMENTS MADE TO ALLEGEDLY INFRINGING WEBSITES

Due to the alleged difficulty of suing the individuals that it believed were directly infringing its copyrights,<sup>74</sup> Perfect 10 sued a host of financial institutions, including Visa and Mastercard, that processed charges incurred by customers who acquired the infringing images from

---

*Id.* (citations and quotations omitted).

<sup>69</sup> *Perfect 10 v. Amazon.com*, at 1173 (*emphasis added*).

<sup>70</sup> *Id.* at 1173-74.

<sup>71</sup> *Id.* at 1174.

<sup>72</sup> *Id.* (citing *Perfect 10 v. Amazon.com, Inc.*, 416 F.Supp.2d at 858).

<sup>73</sup> *Perfect 10 v. Amazon.com*, at 1174. The Ninth Circuit briefly addressed two additional issues in its decision. First, the district court had not reached the issue of whether Perfect 10’s notices of infringement to Google were sufficient under the DMCA, because it determined Perfect 10 was unlikely to demonstrate liability for either contributory or vicarious liability. The remand included an instruction that the court consider whether Google was likely to demonstrate it was entitled to the limitations on injunctive relief provided by the safe harbor provisions in title II of the DMCA. *Id.* at 1175-76.

Finally, the court remanded certain of Perfect 10’s claims against Amazon.com for the court to consider potential contributory liability, as well as possible limitations on the scope of injunctive relief in light of the legal conclusions it reached in analyzing the allegations as to Google. *Id.* at 1175-76. Additionally, the court agreed that Perfect 10 was not likely to prevail on its claims that Amazon.com directly infringed its copyrights for reasons similar to those detailed in its analysis of the claim against Google. *See Id.*

<sup>74</sup> *See supra*, note 2.

third-party websites.<sup>75</sup> The Ninth Circuit believed a finding that “the Defendants’ activities fall within the scope of [indirect copyright infringement] would require a radical and inappropriate expansion of existing principles of secondary liability and would violate the public policy of the United States.”<sup>76</sup> Accordingly, the court affirmed the dismissal with prejudice of Perfect 10’s causes of action for failure to state a claim upon which relief can be granted pursuant to Federal Rule of Civil Procedure 12(b)(6).<sup>77</sup>

#### A. DEFENDANTS WERE NOT LIABLE FOR CONTRIBUTORY INFRINGEMENT

The Ninth Circuit flatly rejected Perfect 10’s claim that the financial institution defendants could be held liable for contributory infringement on the grounds that they allegedly continued to process credit card payments to the infringing websites after being informed of the infringing activity.<sup>78</sup> First, the court found that the financial institutions simply did not materially contribute to the alleged infringement such that liability could be assessed:

The credit card companies cannot be said to materially contribute to the infringement in this case because they have no direct connection to that infringement. Here, the infringement rests on the reproduction, alteration, display, and distribution of Perfect 10’s images over the Internet. Perfect 10 has not alleged that any infringing material passes over Defendants’ payment networks or through their payment processing systems, or that Defendants’ systems are used to alter or display the infringing images.<sup>79</sup>

In reaching its conclusion, the majority distinguished the recent holding of *Perfect 10 v. Amazon.com*. The court started with the conclusion in *Amazon.com* that “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.”<sup>80</sup> The majority found the salient distinction was that “Google’s

---

<sup>75</sup> *Perfect 10 v. Visa Int’l Serv. Ass’n.*, at 794.

<sup>76</sup> *Id.* at 795.

<sup>77</sup> *Id.* at 792.

<sup>78</sup> *Id.* at 796.

<sup>79</sup> *Id.* at 796.

<sup>80</sup> *Perfect 10 v. Visa Int’l Serve Ass’n*, 494 F.3d at 797 (citing *Perfect 10, Inc. v. Amazon.com.*, 487 F.3d 701, 729 (9th Cir. 2007).

## 394 GOLDEN GATE UNIVERSITY LAW REVIEW [Vol. 38]

search engine itself assists in the distribution of infringing content to Internet users, while defendants' payment systems do not."<sup>81</sup> Indeed, the most that could be said of the defendants' payment system was that it made it easier for the infringement to be profitable; the infringement could still occur without using the defendants' systems, and there were other viable funding mechanisms available.<sup>82</sup> Moreover, the court noted that the *Amazon.com* decision reasoned that "Google substantially assists websites to distribute their infringing copies to a worldwide market and assists a worldwide audience of users to access infringing materials."<sup>83</sup> However, in the *Visa* case, the defendants did not provide an analogous service and, moreover, their activity was even further removed from the act of direct infringement than the conduct at issue in *Amazon.com*:

[Defendants] in no way assist or enable Internet users to locate infringing material, and they do not distribute it. They do, as alleged, make infringement more profitable, and people are generally more inclined to engage in an activity when it is financially profitable. However, there is an additional step in the causal chain: Google may materially contribute to infringement by making it fast and easy for third parties to locate and distribute infringing material, whereas Defendants make it easier for infringement to be *profitable*, which tends to increase financial incentives to infringe, which in turn tends to increase infringement.<sup>84</sup>

Consequently, the majority did not believe *Amazon.com* mandated a finding that the credit card companies and others who processed the payments at issue could be held contributorily liable.

The court also distinguished two of its earlier cases finding liability for contributory infringement, *Fonovisa Inc. v. Cherry Auction, Inc.*,<sup>85</sup> and *A&M Records, Inc. v. Napster, Inc.*<sup>86</sup> The *Fonovisa* court found a flea market proprietor was liable for contributory copyright infringement predicated on infringing sales taking place at the swap meet it operated. In this case, the proprietor provided the extensive support that facilitated the infringement, namely the "space, utilities, parking, advertisement, plumbing and customers," which the court designated the

---

<sup>81</sup> *Perfect 10 v. Visa Int'l Serve Ass'n*, 494 F.3d at 797.

<sup>82</sup> *Id.* at 797-98.

<sup>83</sup> *Id.* at 797.

<sup>84</sup> *Id.*

<sup>85</sup> 76 F.3d 259 (9th Cir. 1996).

<sup>86</sup> 239 F.3d 1004 (9th Cir. 2001). Judge Kozinski's dissent asserted these and other distinctions in the majority's analysis were "ephemeral" at best. See *Perfect 10 v. Visa Int'l Serv Ass'n*, 494 F.3d at 825 (Kozinski, J., dissenting).

“site and facilities” for the sale of pirated works.<sup>87</sup> Similarly, the landmark Internet case *Napster* found the designer and distributor of a file sharing program liable for contributory infringement, because its program was expressly engineered to enable easy exchange of pirated music and was widely used for such purposes.<sup>88</sup> The majority in the *Visa* case found that in both of these earlier cases, the defendant “increased the level of infringement by providing a centralized place, whether physical or virtual, where infringing works could be collected, sorted, found, and bought, sold, or exchanged.”<sup>89</sup> In contrast, Visa and the other financial institution defendants “do no such thing;” they did not operate the “site” of the infringement, i.e., the websites where the infringing works were available, nor did they create, operate, advertise, or otherwise promote these websites.<sup>90</sup> Additionally, unlike *Napster*, the defendants do not “provide users the tools to locate infringing material,” or operate any network or computer storing or transmitting the infringing material.<sup>91</sup> Simply put, the defendants “merely provide a method of payment, not a ‘site’ or ‘facility’ of infringement,” and the majority found that operating such a payment system was insufficient basis to impose contributory liability.<sup>92</sup>

#### B. DEFENDANTS WERE NOT LIABLE FOR INDUCING INFRINGEMENT

The court also readily disposed of Perfect 10’s claim for inducement. Following *Grokster*, “one who distributes a device [or offers a service] with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.”<sup>93</sup> “Mere knowledge of infringing potential or actual infringing uses” is insufficient to establish this form of liability, and it is crucial for the plaintiff to establish that the alleged inducer

---

<sup>87</sup> 76 F.3d at 264. Additionally, the Court found in *Fonavisa* that the primary infringers and the swap meet owner were engaged in a mutual enterprise and that “it would be difficult for the infringing activity to take place in the massive quantity alleged without the support services provided by the swap meet.” *Id.* The proprietor’s culpability was also heightened because it failed to provide the country sheriff with information intended to discourage counterfeit sales following a raid at the swap meet in which 38,000 counterfeit recordings were seized. *Id.* at 261, 264.

<sup>88</sup> *A&M Records, Inc.*, 239 F.3d at 1020, n.5, and 1022.

<sup>89</sup> *Perfect 10 v. Visa Int’l Serv Ass’n*, 494 F.3d at 799.

<sup>90</sup> *Id.* at 799-800.

<sup>91</sup> *Id.* at 800.

<sup>92</sup> *See Id.* (“While Perfect 10 has alleged that Defendants make it easier for websites to profit from this infringing activity, the infringement stems from the failure to obtain a license to distribute, not the processing of payments.”).

<sup>93</sup> *Id.* at 800 (quoting *MGM Studios v. Grokster Ltd.*, 545 U.S. 913, 936-37 (2005)).



“communicated an inducing message to their users[, for example] an advertisement or solicitation that broadcasts a message designed to stimulate others to commit violations.”<sup>94</sup>

In sum, where an article is good for nothing else but infringement, there is no legitimate public interest in its unlicensed availability, and there is no injustice in presuming or imputing an intent to infringe. Conversely, the doctrine absolves the equivocal conduct of selling an item with substantial lawful as well as unlawful uses, and limits liability to instances of more acute fault than the mere understanding that some of one’s products will be misused. It leaves breathing room for innovation and vigorous commerce.<sup>95</sup>

The majority had little difficulty finding the defendants were not liable under this standard because Perfect 10 alleged no affirmative steps taken to foster infringement, there were no facts suggesting defendants promoted their payment system as a means to infringe copyright, and defendants marketed credit cards as a means to pay for goods and services, rather than as a means to thwart copyright laws as in the *Napster* case.<sup>96</sup> Finally, the court held that Perfect 10’s allegation that the defendants allowed their names and logos to be displayed on the allegedly infringing sites fell short of a “clear expression” of a specific intent to foster infringement.<sup>97</sup>

### C. DEFENDANTS WERE NOT LIABLE FOR VICARIOUS COPYRIGHT INFRINGEMENT

Finally, the Ninth Circuit majority rejected Perfect 10’s claim based on vicarious copyright infringement. As discussed above, a claim for vicarious infringement must include allegations that the defendant has both a financial interest in the infringing activity *and* the right and ability to supervise the infringing activity.<sup>98</sup> Perfect 10 based its claim on defendants’ rules that required member banks to terminate a merchant’s participation in their payment networks if they engaged in certain illegal activity, and thus, it argued, defendants had it within their power to stop processing payments to infringing sites.<sup>99</sup>

Relying on the analysis of *Perfect 10 v. Amazon.com*, the court

---

<sup>94</sup> *Perfect 10 v. Visa Int’l Serv Ass’n*, 494 F.3d at 800. (quoting *Grokster*, 545 U.S. at 937).

<sup>95</sup> *Perfect 10 v. Visa Int’l Serv Ass’n*, 494 F.3d at 801 (quoting *Grokster*, 545 U.S. 932-33).

<sup>96</sup> *Perfect 10 v. Visa Int’l Serv Ass’n*, 494 F.3d at 800, 801.

<sup>97</sup> *Id.* at 802.

<sup>98</sup> See *supra* notes 57 to 72 and accompanying text, Part II.D.

<sup>99</sup> *Id.* at 802-03.

found that the ability to terminate payments fell short of giving the defendants the requisite right to control the infringing activity.<sup>100</sup> Moreover, even if defendants withdrew their payment mechanism, “an infringing third-party website can continue to reproduce, display, and distribute its infringing copies of the [copyrighted] images...”<sup>101</sup> Consequently, defendants’ rules only gave them the ability to indirectly influence the infringing activity to some degree, and did not provide the direct control required to find vicarious liability. Finally, the majority emphatically concluded that finding vicarious liability on the facts before it represented a “radical step we do not take.”<sup>102</sup>

### III. *CC BILL* AND THE NINTH CIRCUIT’S INTERPRETATION OF THE DMCA SAFE HARBOR AND NOTICE PROVISIONS

Communications technology has long created challenges in determining the appropriate scope of copyright protections. Prior to the rise of the Internet, Congress adopted a “passive carrier” exemption that released parties such as telephone companies from liability for copyright infringement when their “activities with respect to the secondary transmission [of copyrighted works] consisted solely of providing wires, cables, or other communications channels for the use of others.”<sup>103</sup> The advent of the Internet gave rise to even more complex issues regarding the scope of liability for copyright infringement, for example, whether to impose liability on certain parties such as system operators who maintain the network or server that makes it possible for the end-users to access protected works.<sup>104</sup>

As reflected in the legislative history of the DMCA, Congress determined that appropriate limitations on copyright liability were important to the development of a robust Internet:

[W]ithout clarification of their liability, service providers may hesitate to make the necessary investment in the expansion of the speed and capacity of the Internet. In the ordinary course of their operations service providers must engage in all kinds of acts that expose them to potential copyright infringement liability. For example, service providers must make innumerable electronic copies by simply

---

<sup>100</sup> *Id.*

<sup>101</sup> *Id.* at 803.

<sup>102</sup> *Id.*

<sup>103</sup> See 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12B.01[A][1](perm.ed., rev.vol. 2007) (citing 17 U.S.C. §111(a)(3)).

<sup>104</sup> *Id.*

transmitting information over the Internet. Certain electronic copies are made to speed up the delivery of information to users. Other electronic copies are made in order to host World Wide Web sites. Many service providers engage in directing users to sites in response to inquiries by users or they volunteer sites that users may find attractive. Some of these sites might contain infringing material. In short, by limiting the liability of service providers, the DMCA ensures that the efficiency of the Internet will continue to improve and that the variety and quality of services on the Internet will continue to expand.<sup>105</sup>

One of the ways in which the DMCA sought to appropriately limit the potential liability of Internet service providers was through the creation of four “safe harbor” provisions, which protect such entities from liability under certain highly specified conditions.<sup>106</sup> *CC Bill* offered the Ninth Circuit the opportunity to interpret several of the statutory requirements for Internet companies to qualify for these “safe harbor” provisions and to clarify the detailed notice requirements under the statute.<sup>107</sup>

#### A. SERVICES PROVIDED BY CC BILL AND CAVECREEK WHOLESALE INTERNET EXCHANGE

The *CC Bill* case addressed issues related to Perfect 10’s attempt to recover damages related to the alleged infringement of its copyrights from defendants responsible for yet another piece of the Internet. The appellant *CC Bill* provided a service that allowed consumers to pay for memberships and subscriptions to e-commerce venues using either credit cards or checks.<sup>109</sup> Co-appellant Cavecreek Wholesale Internet Exchange (“CWIE”) provided webhosting and Internet connectivity services for a fee to website owners.<sup>110</sup> Perfect 10 asserted that *CC Bill* and CWIE clients were infringing its copyrights, and that it began sending letters

---

<sup>105</sup> *Id.* § 12B.01[C][1] (quoting 108 S.Rep. (DMCA), p. 8).

<sup>106</sup> *Recording Indus. Ass’n of Am., Inc. v. Verizon Internet Servs.*, 351 F.3d 1229, 1234 (D.C. Cir. 2003).

<sup>107</sup> *Perfect 10 v. CC Bill LLC*, 488 F.3d at 1109-1118. The decision also addressed issues arising under the Communications Decency Act as well as the appellants direct infringement through their alleged operation of a website that included altered versions of the copyrighted images. *Id.* at 1118-1120.

<sup>109</sup> *Id.* at 1108.

<sup>110</sup> *Id.* The services CWIE provided are referred to as “ping, power, and pipe” services, i.e., they “ensure that the ‘box’ or server is on, [that] power is provided to the server and connecting the client’s service or website to the internet via a data center connection.” *Id.*

and e-mails to the agent designated to receive notice of infringement for both CC Bill and CWIE more than a year prior to filing suit against them that informed both companies that their clients were infringing Perfect 10's copyrights.<sup>111</sup>

## B. INTERPRETATION OF THE DMCA SAFE HARBOR PROVISIONS

### 1. "Reasonable Implementation" of a Policy to Terminate or Repeat Blatant Infringers

Congress enacted the DMCA in 1998 to "comply with international copyright treaties and to update domestic copyright law for the online world."<sup>112</sup> The DMCA includes certain "safe harbor" provisions that provided "protection from liability for: (1) transitory digital network communications; (2) system caching; (3) information residing on systems or networks at the direction of users; and (4) information location tools."<sup>113</sup> To be eligible for any one of the four safe harbors, an Internet service provider must meet certain threshold conditions enumerated in section 512(i), including that the service provider

has adopted and *reasonably implemented*, and informs subscribers and account holders of the service provider's system or network of, a policy that provides for the termination in appropriate circumstances of subscribers and account holders of the service provider's system or network who are repeat infringers.<sup>114</sup>

The statute failed, however, to define "reasonably implemented."<sup>115</sup>

The Ninth Circuit clarified this provision by holding that "a service provider 'implements' a policy for purposes of this provision if it has a working notification system, a procedure for dealing with DMCA-complaint notifications, and if it does not actively prevent copyright owners from collecting information needed to issue such

---

<sup>111</sup> *Id.*

<sup>112</sup> *Ellison v. Robertson*, 357 F.3d 1072, 1076 (9th Cir. 2004) (citing Digital Millennium Copyright Act, Pub.L. No 105-304, 112 Stat. 2860 (1998); 3 MELVILLE B. NIMMER & DAVID NIMMER, *NIMMER ON COPYRIGHT* § 12A.02[A](perm.ed., rev.vol. 2003); DAVID W. QUINTO, *LAW OF INTERNET DISPUTES* §6.02 (2002)).

<sup>113</sup> *Ellison*, 357 F.3d at 1076-77 (citing 17 U.S.C.A. §§ 512(a)-(d)).

<sup>114</sup> *Perfect 10 v. CC Bill LLC*, 488 F.3d at 1109 (emphasis added, citations omitted).

<sup>115</sup> *Id.*

## 400 GOLDEN GATE UNIVERSITY LAW REVIEW [Vol. 38]

notifications.”<sup>116</sup> The court further noted that “[t]he statute permits service providers to implement a variety of procedures,” and that an implementation will be found “reasonable” if, “under appropriate circumstances,” the service provider terminates users who repeatedly or blatantly infringe copyright.”<sup>117</sup>

The court readily found that CC Bill “implemented” a policy as required by the statute, i.e., operating a working notification system, having a procedure for dealing with DMCA-complaint notifications, and not actively preventing copyright owners from collecting information needed to issue such notifications,<sup>118</sup> by maintaining a log that routinely recorded the email address and/or the name of a webmaster associated with allegedly infringing websites.<sup>119</sup> Since the record below did not specify whether the defendant failed to adequately respond to bona fide notices of infringement, the Ninth Circuit, found it necessary to remand the issue of whether CC Bill “reasonably” implemented its policy by terminating repeat infringers where appropriate under the statute.<sup>120</sup> The court determined that Perfect 10’s alleged notifications of the infringement were inadequate, and therefore did not raise a genuine issue of material fact that defendants failed to reasonably implement their policy.<sup>121</sup> The court found the notices were inadequate because they did not comply with *each* of the six individual requirements of §512(c)(3).<sup>122</sup>

---

<sup>116</sup> *Id.* (citing *Ellison*, 357 F.3d at 1080; *Corbis Corp. v. Amazon.com*, 351 F.Supp.2d 1090, 1102-03 (W.D.Wash. 2004); and *In re Aimster Copyright Litig.*, 252 F.Supp.2d 634, 659 (N.D. Ill. 2002)).

<sup>117</sup> *Perfect 10 v. CC Bill LLC*, 488 F.3d at 1109-1110 (citing 17 U.S.C. §512(i); *Corbis Corp.*, 351 F.Supp.2d at 1102).

<sup>118</sup> *Perfect 10 v. CC Bill LLC*, 488 F.3d at 1109, 1110.

<sup>119</sup> *Perfect 10 v. CC Bill LLC*, 488 F.3d at 1110-11. The court distinguished two cases finding no implementation under this provision. *See Ellison*, 357 F.3d at 1075 (finding that AOL did not reasonably implement its policy against repeat infringers because the email address listed with the U.S. Copyright Office was not updated for more than six months, allowing notices of copyright infringement to “fall into a vacuum and go unheeded.”); *In re Aimster Copyright Litig.*, 252 F.Supp.2d at 659 (finding that Aimster’s system of encrypting user information, which rendered it impossible to ascertain which users were transferring files and infringing copyrights,” eviscerate[ed] any hope” that an effective policy under the DMCA could be carried out).

<sup>120</sup> *Perfect 10 v. CC Bill LLC*, 488 F.3d at 1113, 1115.

<sup>121</sup> *Id.* at 1112-13.

<sup>122</sup> Section 501(c)(3) describes the six requirements as follows:

(A) To be effective under this subsection, a notification of claimed infringement must be a written communication provided to the designated agent of a service provider that includes substantially the following:

- (i) A physical or electronic signature of a person authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.
- (ii) Identification of the copyrighted work claimed to have been infringed, or, if multiple copyrighted works at a single online site are covered by a single notification, a

The statute mandates “substantial” compliance with the notice provisions, which the court interpreted to mean “substantial compliance with *all* of §513(c)(3)’s clauses, not just some of them.”<sup>123</sup> Further, the “DMCA requires that a complainant declare, under penalty of perjury, that he is authorized to represent the copyright holder, and that he has a good-faith belief that the user is infringing.”<sup>124</sup> The court found this requirement to be essential to the statutory scheme:

Accusations of alleged infringement have drastic consequences: A user could have content removed, or may have his access terminated entirely. If the content infringes, justice has been done. But if it does not, speech protected under the *First Amendment* could be removed. We therefore do not require a service provider to start potentially invasive proceedings if the complainant is unwilling to state under penalty of perjury that he is an authorized representative of the copyright owner, and that he has a good-faith belief that the material is unlicensed.<sup>125</sup>

Even though Perfect 10’s notices were inadequate and did not support its claims, the court remanded to determine whether defendants “reasonably” implemented their DMCA policy in light of third-party notices of infringement, and the “red-flag” test of §512(c)(1)(A)(ii) under which a service provider may lose immunity if it “fails to take action with regard to infringing material when it is aware of facts or circumstances from which infringing activity is apparent.”<sup>126</sup> Since application of the safe harbor provisions depended on the reasonable implementation of a policy, and not on the specific response to the

---

representative list of such works at that site.

(iii) Identification of the material that is claimed to be infringing or to be the subject of infringing activity and that is to be removed or access to which is to be disabled, and information reasonably sufficient to permit the service provider to locate the material.

(iv) Information reasonably sufficient to permit the service provider to contact the complaining party, such as an address, telephone number, and, if available, an electronic mail address at which the complaining party may be contacted.

(v) A statement that the complaining party has a good faith belief that use of the material in the manner complained of is not authorized by the copyright owner, its agent, or the law.

(vi) A statement that the information in the notification is accurate, and under penalty of perjury, that the complaining party is authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.

17 U.S.C A. § 512(c)(3) (Westlaw 2008).

<sup>123</sup> *Perfect 10 v. CC Bill LLC*, 488 F.3d at 1112 (emphasis added).

<sup>124</sup> *Id.*

<sup>125</sup> *Id.* (emphasis added).

<sup>126</sup> *Id.* at 1114.

## 402 GOLDEN GATE UNIVERSITY LAW REVIEW [Vol. 38]

purported infringement notices of a single party, the district court was instructed on remand to determine whether third-party notices to defendants made them “aware that [they were] providing services to repeat infringers, and if so, whether they responded appropriately.”<sup>127</sup>

## 2. *Additional Safe Harbor Provisions*

The court also addressed four even more specific issues arising under the safe harbor provisions of the DMCA. First, the court considered the provision providing that service providers are not entitled to protection under the safe harbor provisions of §§512(a)-(d) if they interfere with a statutorily defined range of “standard technical measures” that are used by copyright owners to protect copyrights on line.<sup>128</sup> The “standard technical measures” are defined as those that:

- (A) have been developed pursuant to a broad consensus of copyright owners and service providers in an open, fair, voluntary, multi-industry standards process;
- (B) are available to any person on reasonable and nondiscriminatory terms; and
- (C) do not impose substantial costs on service providers or substantial burdens on their systems or networks.<sup>129</sup>

Perfect 10 alleged that CC Bill “interfered with standard technical measures” by blocking Perfect 10’s access to CC Bill affiliated websites in order to prevent it from discovering whether those websites infringed its copyrights.<sup>130</sup> The record developed in the district court was not adequate to permit the Ninth Circuit to determine whether accessing a website was a “standard technical measure” and, if so, whether CC Bill interfered with that access.<sup>131</sup> Consequently, the issue was remanded to develop the record further on this issue.<sup>132</sup>

Second, the court considered the safe harbor provision of §512(a) pertaining to transitory digital network communications. Section 512(a) provides protection to certain service providers who merely act as conduits for infringing content. Service providers qualify for this safe harbor if they are “an entity offering the transmission, routing, or

---

<sup>127</sup> *Id.* at 1115.

<sup>128</sup> *Id.*

<sup>129</sup> *Perfect 10 v. CC Bill LLC*, 488 F.3d at 1115.

<sup>130</sup> *Id.*

<sup>131</sup> *Id.*

<sup>132</sup> *Id.*

providing of connections for digital online communications, between or among points specified by a user, of material of the user's choosing, without modification to the content of the material as sent or received."<sup>133</sup>

The court noted the importance of this protection to the operation of the Internet, since information is sent from computer to computer to computer, each of which makes a short-lived copy, in response to every individual click on an Internet link.<sup>134</sup> However, the court once again found a remand was necessary. CC Bill clearly transmitted credit information and proof of payment, "both of which are 'digital online communications.'"<sup>135</sup> However, the record did not establish whether such payment information was transmitted without modification or often enough to qualify CC Bill as a transient holder.<sup>136</sup> Consequently, additional fact finding had to be conducted in the court below.

Third, the court examined whether CC Bill qualified for protection under §512(d), which provides that "A service provider shall not be liable...for infringement of copyright by reason of the provider referring or linking users to an online location containing infringing material or infringing activity, by using information location tools, including a directory, index, reference, pointer, or hypertext link."<sup>137</sup>

The court concluded that, although CC Bill displayed a hyperlink that could be viewed as an "information location tool" as part of its transactions, the majority of CC Bill's functions did not fall within this provision.<sup>138</sup> Consequently, this safe harbor did not apply to immunize all of CC Bill's activities.

Fourth, the court considered whether CC Bill qualified for the safe harbor provision under section 512(c) that "limits the liability of qualifying service providers for claims of direct, vicarious, and contributory infringement for storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider."<sup>139</sup> Since Perfect 10's attempted notices of

---

<sup>133</sup> *Id.* 1115-16.

<sup>134</sup> *Id.*

<sup>135</sup> *Perfect 10 v. CC Bill LLC*, 488 F.3d at 1115-16.

<sup>136</sup> *Id.*

<sup>137</sup> *Id.*

<sup>138</sup> *Id.* at 1116-17.

<sup>139</sup> *Id.* at 1117 (citing H.R. REP. NO. 105-551, at 53 (1998)). A service provider qualifies for this provision if it meets the requirements of § 512(i) and:

- (A)(i) does not have actual knowledge that the material or an activity using the material on the system or network is infringing;
- (ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or



infringement to CC Bill were inadequate, the decision turned on whether the defendant received a direct financial benefit from the infringing activity and, also, whether it had the right and ability to control the infringing activity.<sup>140</sup>

The court found that “direct financial benefit” under this provision of the DMCA should be interpreted consistently with the common law standard for vicarious copyright liability.<sup>141</sup> Under this standard, CC Bill received a direct financial benefit from the infringing activity only if the infringing activity represented a “draw for subscribers, not just an added benefit.”<sup>142</sup> Here, Perfect 10 had provided no allegations that the defendant received such benefit, and the court concluded that this safe harbor applied, so long as the court found the threshold conditions of section 512(i) were met.<sup>143</sup>

#### IV. THE PERFECT 10 TRILOGY AND THE ADVANCE OF COPYRIGHT LAW ON THE INTERNET

Taken together, the *Perfect 10* trilogy of cases decided numerous critical issues regarding the potential liability of companies doing business through the Internet for infringement arising from individuals viewing, downloading, and purchasing unauthorized copies of copyrighted images over the Internet.

*Perfect 10 v. Amazon.com* narrowed the theories under which an Internet search engine company could be held liable for direct and indirect copyright infringement through application of the Ninth Circuit’s server test. Applying this test, the court limited liability for direct copyright infringement in two significant ways. First, unauthorized copying of images that are not stored on the search engine company’s own computers, such as those that are reproduced on a user’s computer

---

(iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material;

(B) does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and

(C) upon notification of claimed infringement as described in paragraph (3), responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity.

17 U.S.C.A. 512(c)(1) (Westlaw 2008).

<sup>140</sup> *Perfect 10 v. CC Bill LLC*, 488 F.3d at 1117.

<sup>141</sup> *Id.* (citing the “well established rule of construction that where Congress uses terms that have accumulated settled meaning under common law, a court must infer, unless the statute otherwise dictates, that Congress meant to incorporate the established meaning of these terms.” (citations and quotations omitted)).

<sup>142</sup> *Id.* (citing *Ellison*, 357 F.3d at 1079).

<sup>143</sup> *Perfect 10 v. CC Bill LLC*, 488 F.3d at 1117.

through in-line-linking, does not give rise to liability for direct infringement. Second, liability for storing “thumbnail” images on the search engine company’s servers is limited by the likelihood that a fair use defense will prevail due to the fundamentally transformative nature of those embodiments.

The case also rejected the theory that operation of a search engine gave rise to liability for vicarious infringement because the search engine company did not have the power to “control” the infringement. Finally, the decision limited the search engine company’s liability for contributory infringement to those cases where it had knowledge that the infringing images were available using its search engine, it could take simple measures to prevent further damage to the copyright owner’s copyrighted works, and, nonetheless, failed to take such steps.

*Perfect 10 v. Visa International Serv Assn* clearly teaches that financial institutions whose payment systems are used to process fees paid for pirated copies of copyrighted images are not liable for the direct infringement, thereby declining Perfect 10’s request to make them the *de facto* police force of the Internet charged with preventing on line copyright abuses. Finally, *Perfect 10 v. CC Bill* provides valuable guidance pertaining to the safe harbor and notice provisions of the DMCA. Each of these far-reaching decisions represents important developments in the law governing protection of intellectual property in the evolving landscape of the Internet.

While these decisions addressed novel issues, *Amazon.com* and *Visa*, in particular, can be viewed as extensions of legal principles that have guided copyright law throughout its history and as faithful applications of important policy considerations. Both of these cases balance the copyright protections granted to content creators against the public interest in unfettered access to information and ideas.

The monopoly granted to copyright holders has never been absolute. “From the infancy of copyright protection, some opportunity for fair use of copyrighted materials has been thought necessary to fulfill copyright’s very purpose . . .”<sup>144</sup> Copyright protection was enshrined in the Constitution to advance the arts and sciences, and doctrines such as the fair use defense developed to “permit [and in fact require] courts to avoid rigid application of the copyright statute when, on occasion, it would stifle the very creativity which the law is designed to foster.”<sup>145</sup> Thus, the reasoned limitations on liability set forth in *Amazon.com* and *Visa* are consistent with the long-standing policy of copyright.

---

<sup>144</sup> *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 575 (1994).

<sup>145</sup> *Id.* (quoting *Stewart v. Abend*, 495 U.S. 207, 236 (1990)).

These decisions are also consistent with the public policy goals Congress more recently announced in relation to the Internet.<sup>146</sup> As stated by the majority opinion in *Visa*, federal policy specifically encourages promotion of the Internet and the minimization of governmental intrusion in the medium. Indeed, the court specifically stated that it would review Perfect 10's claim in the context of the "policy of the United States--(1) to promote the continued development of the Internet . . . [and] (2) to preserve the vibrant and competitive free market that presently exists for the Internet . . . , unfettered by Federal or State regulation."<sup>147</sup> The court noted similar policy statements made during passage of the Digital Millennium Copyright Act, one of the stated purposes of which was to "facilitate the robust development and world-wide expansion of electronic commerce, communications, research, development, and education in the digital age."<sup>148</sup> Clearly, the court saw its holding, which encourages access to images over the Internet, as consistent with these directives.<sup>149</sup>

Finally, these cases represent an instructive example of courts grappling to apply intellectual property laws to cases of potential infringement that involve technologies that did not exist when the applicable statutes were enacted and the leading cases were published. The majority in the *Visa* case believed that the issues raised by applying copyright to images on the Internet were fundamentally different from those existing in the pre-digital age, and dismissed certain older cases as outmoded.<sup>150</sup> The *Visa* majority saw these cases as providing little if any guidance applicable to the infringement issues before them:

---

<sup>146</sup> See e.g., *Perfect 10 v. Visa International Service Ass'n*, 494 F.3d at 794 (quoting 47 U.S.C. §§230(b)(1), (2)) and 788, n.2 (quoting S. REP. NO. 105-190, at 1-2 (1998)).

<sup>147</sup> *Perfect 10 v. Visa International Service Ass'n*, 494 F.3d at 794 (quoting 47 U.S.C. §§230(b)(1), (2)).

<sup>148</sup> *Perfect 10 v. Visa International Service Ass'n*, 494 F.3d at 788, n.2 (quoting S. REP. NO. 105-190, at 1-2 (1998)).

<sup>149</sup> *Perfect 10 v. Visa Int'l Serv. Ass'n*, 494 F.3d at 797. While, the court noted this policy interest, it was not strictly necessary to its holding, which was squarely rooted in precedent interpreting the Copyright Act itself.

<sup>150</sup> One line of these older cases held that absentee landlords who lacked knowledge of infringing acts of their tenants and who exercised no control over the leased premises were not liable for infringing acts committed by their tenants on their premises. See, e.g., *Deutsch v. Arnold*, 98 F.3d 686, 688 (2d Cir. 1938). The second line of cases held that "the operator of an entertainment venue was held liable only for infringing performances when the operator (1) could control the premises, and (2) obtained a direct financial benefit from the audience, who paid to enjoy the infringing performance." *Fonovisa*, 76 F.3d at 262 (citing *Buck v. Jewell-LaSalle Realty Co.* 283 U.S. 191 (1931) and *Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.*, 36 F.2d 354 (7th Cir. 1929)).

The[ tests developed in those cases] were developed for a brick-and-mortar world, and, as the *Napster* and *Grokster* courts implicitly recognized by paying little attention to them, they do not lend themselves well to application in an electronic commerce context. In deciding this case, we are well-advised to follow the lead of the Supreme Court's and our own court's cases confronting online commerce.<sup>151</sup>

Judge Kozinski, in his dissent, strongly disagreed with this technological distinction.

It is true that these cases were developed in a brick and mortar world, but the distinction they draw between those who materially assist infringement (and are therefore liable) and those who are more remotely involved (and are therefore not liable) is equally important--perhaps even more important--in cyberspace than in real space. That *Napster* and *Grokster* did not consider these cases is hardly significant. The defendants there were centrally involved in the infringing transactions--indeed, as the majority reminds us, their systems were created *solely* to promote infringement, [citation] --and thus there could be no argument that their involvement in the infringing transactions was too peripheral to give rise to a claim of secondary infringement.<sup>152</sup>

Despite this spirited disagreement, the Ninth Circuit's decisions discussed in the article do not, in the end, turn on the nature of the technology involved. To the contrary, these cases are firmly grounded in fundamental principles of copyright law and apply the controlling rules faithfully to the new technologies raised in these cases. While there may be room for disagreement with its ultimate holdings, the court was not unduly swayed by technology, and, in the end, the decisions are rooted in firmly established principles of direct and indirect copyright infringement that were formulated independent of the Internet and that have been adapted to address the challenges of cyberspace.

---

<sup>151</sup> *Perfect 10 v. Visa International Service Ass'n*, 494 F.3d at 798, n.9.

<sup>152</sup> *Id.* at 816, n. 10 (Kozinski, J., dissenting) (citation omitted).