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When Copyright and Trademark **Infringement** Goes Online

Can search engines and credit card companies be secondarily liable?

BY THEODORE C. MAX
AND GINA REIF ILARDI

TWO RECENT Ninth Circuit decisions regarding Perfect 10, Inc., a Web site that markets copyrighted images of nude models, lay bare the issues facing plaintiffs asserting third-party copyright and trademark claims, and highlight differences between how the Ninth and Second Circuits might decide these claims. The two decisions, rendered within months of one another, address liability against search engines and credit card companies.¹

Google's "Image Search" tool indexes third-party Web sites and the images stored therein. In response to a search, Google provides thumbnails of the full-sized images stored on third-party computers.

When a user clicks on the thumbnail in Google's search results, Google's software instructs the user's computer to open a window where text and graphics are displayed by Google, including the thumbnail image, and provides the user's computer with the Web site address where a full-sized image may be found. Through "in-line linking," the user's computer can download the full-size image from a third-party site so it appears on the user's screen. Google does not store or communicate the full-size images to the user.

In May 2001, Perfect 10 sent notices to Google requesting removal of links to infringing Web sites. In May 2004, Perfect 10 sent notices regarding infringing images provided by Google's Image Search.

Google contended that it removed those infringing images that it could find but that its ability to do so was hampered by deficient requests. Perfect 10 sought a preliminary injunction against Google, arguing that Google violated Perfect 10's copyrights by providing thumbnail images to users, linking to infringing sites where full-sized images can be found, and encouraging and inducing others to infringe Perfect 10's rights.

The Central District of California enjoined Google from displaying thumbnail versions of Perfect 10's images, but did not enjoin Google from linking to third-party Web sites that display infringing versions of Perfect 10's images. Both parties appealed to the Ninth Circuit.²

May 2007: Search Engine Liability

The main body of the May 2007 Ninth Circuit opinion addresses contributory and vicarious copyright infringement.³

In order to establish liability under either theory, the plaintiff must establish direct infringement by a third

party.⁴ It was undisputed that third-party Web sites directly infringed by reproducing and distributing copies of Perfect 10 images.

The Ninth Circuit focused on two types of contributory infringement:

(1) distributing a product that distributees use to infringe copyrights, if the product is not capable of "substantial" or "commercially significant" non-infringing uses; and

(2) actively encouraging or inducing direct infringement by third parties through specific acts.

In analyzing the first theory, the court held that Google was not liable for contributory infringement on the ground that Google's search engine design facilitated infringement or because it did not develop technology that would enable its search engine to automatically block infringing images.⁵

In analyzing the second theory, the Ninth Circuit stated that Google was not liable for inducing infringement because it had not promoted its service as a means of infringing copyrights. The court held that:

[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.⁶

The Ninth Circuit remanded for further proceedings directed at the adequacy of Perfect 10's notices to Google and Google's responses, and found that Google could be contributorily liable if: (a) it had knowledge that infringing images were available using its search engine; and (b) it could have taken simple measures to prevent further damage to Perfect 10's copyrighted works, yet failed to take such steps.⁷

In analyzing vicarious liability for copyright infringement, the Ninth Circuit held: "a plaintiff must establish that the defendant exercises the requisite control over the direct infringer and that the defendant derives a direct financial benefit from the direct infringement."

As to the control element, the court stated that "a defendant exercises control over a direct infringer when he has both a legal right to stop or limit the directly infringing conduct, as well as the practical ability to do so."⁸ Therefore, in order to prevail, Perfect 10 had to demonstrate that Google has the legal right and practical ability to stop or limit the infringing activities of third-party Web sites, and that Google derives a direct financial benefit from such activities.

Perfect 10 alleged that Google has the ability to stop the infringing activities by managing its own operations to avoid indexing Web sites with infringing content. The Ninth Circuit disagreed, stating that Google lacks the practical ability to police third-party sites because its software cannot analyze and compare each and every image on the Internet to determine whether a certain image infringes

Perfect 10's copyright.⁹

July 3: Credit Card Companies

Perfect 10 commenced an action against several credit card companies, including MasterCard and Visa, on Jan. 28, 2004, alleging contributory and vicarious copyright and trademark infringement.¹⁰ The district court dismissed all causes of action for failure to state a claim. Perfect 10 appealed and the Ninth Circuit affirmed the decision with a dissent by Judge Alex Kozinski.

In analyzing contributory copyright infringement, the Ninth Circuit affirmed the holding that credit card companies do not materially contribute to the copyright infringement because the credit card payment processing systems have no direct connection to the underlying infringement.¹¹ The circuit noted that, even though the credit card companies make third-party Web sites more profitable by increasing the level of copyright infringement, defendants do not materially contribute to the infringements because infringements can occur without credit card payment systems.

The court held that this was consistent with *Fonavisa* and *Napster*¹² because unlike the *Fonavisa* flea market or the *Napster* distribution system, the credit card payment systems in Perfect 10 do not make a material contribution to the infringing conduct. The Ninth Circuit also held there was no inducement because credit card companies do not facilitate access to the Web site or the counterfeit goods but merely facilitate payment processing.¹³

In affirming the district court's decision regarding vicarious copyright infringement, the Ninth Circuit held that while the credit card companies can block payment to infringing sites, they cannot block access and cannot control or regulate the reproduction, alteration or distribution of the infringing images on the Internet.

The court concluded that, to establish vicarious liability, the plaintiff must demonstrate that credit card payment systems have the absolute right and ability to supervise and control the infringing activity, not just affect it. Here, because the credit card companies exercised no such degree of control, the court held that it did not need to reach the question of whether an obvious and direct financial interest exists.¹⁴

The Ninth Circuit also analyzed the question of secondary liability for trademark infringement and affirmed the district court holding based upon the same reasoning it applied with respect to copyright infringement. The Ninth Circuit held that Perfect 10 had not pleaded facts showing that defendants "intentionally induced" trademark infringement of Perfect 10's trademark or to show "[d]irect control and monitoring of the instrumentality used by a third party to infringe the plaintiff's mark."¹⁵

The circuit held that the credit card payment network "is not the instrument used to infringe Perfect 10 trademarks; that infringement occurs without any involvement of Defendants and their payment systems." There was no claim stated for

Theodore C. Max is a partner in the entertainment and media and intellectual property practice groups, and **Gina Reif Ilardi** is an associate, in the New York office of Sheppard Mullin Richter & Hampton.

vicarious trademark infringement because “[i]t is the Web sites’ contracts with the consumers that bind the Web sites to provide the infringing images, not the Web sites’ relationship with the Defendants.”¹⁶

Judge Kozinski’s Dissent

In a dissent, Judge Kozinski observed as a precatory matter that the complaint alleged that “Stolen Content Websites” infringe Perfect 10’s copyrights, without maintaining presence in the United States, and sell infringing images to the public using credit card systems as intermediaries. He also noted that the complaint alleged that, notwithstanding notice, defendant credit card systems do not enforce their own rules against the infringing Web sites because they do not want to lose the substantial profits they provide.¹⁷

Judge Kozinski stated that “Accepting the truth of plaintiff’s allegations, as we must on a motion to dismiss, the credit cards are easily liable for indirect copyright infringement: they knowingly provide a financial bridge between buyers and sellers of pirated works, enabling them to consummate infringing transactions, while making a profit on every sale.” He attacked the distinguishing of *Perfect 10 v. Amazon* by “positing an ‘additional step in the casual chain’ between defendants’ activities and the infringing conduct.” He also stated that the credit card sale “is not just an economic incentive for infringement; it’s an essential step in the infringement process ... Location services and payment services are equally central to infringement; the majority’s contrary assertion is supported largely by disparaging use of ‘merely,’ ‘simply’ and ‘only.’”¹⁸

Judge Kozinski also criticized the Ninth Circuit for creating a new contributory infringement standard: “whether infringement could continue on a large scale [without the aid of the defendant] because other viable ... mechanisms are available,” because this new test “conflicts with *Amazon*, *Napster*, *Grokster* and every other material assistance case that [he knows] of.”

The dissent also questioned whether the conclusion that “‘other viable funding mechanisms’ could serve as alternatives to credit cards” was supported by the record, because defendants presented no evidence that infringements would continue without credit cards, and the complaint alleged that the “Stolen Content Websites” could not exist without the knowledge and direct participation of the defendants.¹⁹

The dissent also challenged the majority decision in its holding concerning vicarious and contributory trademark infringement. Judge Kozinski stated that *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*²⁰ and *Lockheed Martin Corp. v. Network Solutions, Inc.*²¹ were not distinguishable because credit cards are directly involved in every infringing transaction and control whether the transaction will go forward. This was more than enough to establish “control and monitoring” under *Lockheed*, especially since the complaint alleged that the “stolen content Websites” could not operate without credit cards.²²

Finally, Judge Kozinski noted that “[t]he majority’s refrain that imposing liability on defendants here would violate ‘the public policy of the United States’ is equally off base,” and emphasized that credit cards already have the tools to end infringing activity by inspecting Web sites and business premises and reviewing financial reports.

In conclusion, the dissent prophesied that this decision will “prove to be no end of trouble” because the majority “strain[ed] to escape the strictures of [Ninth Circuit] case law.”²³

What Result in Second Circuit?

Thus far, there are no cases in the Second Circuit upon identical facts. Nevertheless, the copyright and trademark infringement cases involving vicarious and contributory liability brought in the circuit suggest that *Perfect 10* might

have received different treatment here. Third-party liability has been found against landlords;²⁴ music agents;²⁵ department stores;²⁶ a shipment and payment service;²⁷ and a music search engine.²⁸ These cases indicate that the Second Circuit might find vicarious liability in a *Perfect 10* situation.

In *Polo*, the Southern District of New York held a landlord liable for vicarious trademark infringement because its tenant was selling counterfeits on the premises. Defendant argued that the Lanham Act is directed against “trademark infringers and not their landlords,” but the court disagreed, stating that while there is no explicit language in the Lanham Act, holding a manufacturer/distributor and a flea market operator liable for contributory trademark infringement provided a precedent for the court to do the same in the landlord/tenant context.²⁹

In *Shapiro*, the Second Circuit extended liability to a chain store within which a licensed concessionaire was selling counterfeit records. Plaintiff sued the chain store for vicarious copyright infringement because it “contributed” and “participated” in Jalen’s sale of “bootleg” records sold in defendant’s stores. The Second Circuit held that defendant was liable for the sale of the bootleg records because it retained the ultimate right of supervision over the licensee’s record concession and received a share of the sales.³⁰ The panel focused on the retailer’s ability to supervise the licensee and its financial benefits in connection with bootleg sales.

In *Cartier*, the Southern District extended the doctrine of contributory infringement in the trademark context in a way relevant to the *Perfect 10* analysis.

Plaintiffs sued JAC, a company that facilitated “the marketing of counterfeit goods by arranging for shipment to customers” of counterfeit goods through United Parcel Service.³¹ Plaintiffs contended that because JAC “knowingly handled” the shipment of defendants’ counterfeit merchandise to customers, JAC was contributory liable for infringement. JAC conceded that counterfeit merchandise was shipped through its facilities, but argued that there should be no liability because it had no knowledge of what was inside the sealed packages.

Citing *Polo* and *Inwood*, the court stated that “the cases recognize that a party such as JAC has contributory liability in respect to counterfeiting,” and therefore, there was a “sufficient showing” under the facts to justify a preliminary injunction.³²

In *Arista*, several record companies sued MP3Board, a music search engine which provided links to pirated copies of copyrighted music recordings, alleging contributory and vicarious copyright infringement.³³ If a user requested a song not found on MP3Board, employees searched for and provided links to the requested song on other Web sites. Consequently, the court denied defendant’s summary judgment motion because there was a “material issue of fact regarding whether MP3Board’s active role in facilitating its users’ copying instituted substantial material participation in infringement,” which would render MP3Board liable for vicarious copyright infringement.³⁴

These cases suggest that the Second Circuit might not hesitate to impose third-party liability where a third-party infringer exercises practical rather than absolute control over the actual infringer or has an economic interest in the counterfeit activity. These cases show how Second Circuit courts have sought to extend liability against copyright and trademark infringers that is more consistent with the spirit of Judge Kozinski’s *Perfect 10* dissent than the majority decisions.

As Judge Kozinski noted, copyright and trademark law was designed to be read into unforeseen circumstances. The precedent in the Second Circuit demonstrates a desire to encourage third parties to regulate infringement in their industries. He also observed in his dissent that credit card

companies have the ability to “police” infringers by blocking credit card transactions, and thus, blocking vital funds from reaching infringers. Imposing liability for vicarious or contributory infringement against credit card companies would surely have a greater effect on curbing Internet counterfeiting than any other measures discussed by the Ninth Circuit majority.

In fact, credit card companies already police consumer transactions for fraud or consumer dissatisfaction and devote millions of dollars to consumer antifraud protection. Credit card companies also have cooperated with law enforcement officials to curb online gambling.³⁵ Under such circumstances, it remains to be seen whether their failure to act to protect consumers against counterfeiting will be viewed in the same light as defendants in *Polo*, *Shapiro*, *Cartier* and *Arista*.

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1. *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701 (9th Cir. 2007) (“*Perfect 10 v. Amazon*”), *Perfect 10, Inc. v. Visa Internat’l Serv. Assn.*, 494 F.3d 788 (9th Cir. 2007) (“*Perfect 10 v. Visa*”).

2. *Perfect 10* also sued Amazon.com over an agreement whereby Google provided image search results to Amazon.com users that included Perfect 10 thumbnails. The Ninth Circuit held that Perfect 10 failed to show a likelihood of success to prove liability for infringement.

3. The court held that Perfect 10 had made a prima facie case of direct infringement, but reversed the district court’s holding that Google would not prevail on a fair use defense.

4. *Perfect 10 v. Amazon*, 487 F.3d at 725.

5. *Perfect 10 v. Amazon*, 487 F.3d at 727.

6. *Id.* at 729 (emphasis in original).

7. *Id.* at 730.

8. *Id.* at 730.

9. *Id.* at 730-31.

10. *Perfect 10* also alleged violations of California laws prescribing unfair competition and false advertising, violation of the statutory and common law right of publicity, libel and intentional interference with prospective economic advantage, but these findings will not be discussed here due to space limitations.

11. *Perfect 10 v. Visa*, 484 F.3d at 796.

12. *Fonavisa v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996), *A&M Records, Inc. v. Napster*, 239 F.3d 1004 (9th Cir. 2001).

13. *Perfect 10 v. Visa*, 484 F.3d at 796-802.

14. *Id.* at 801-02, 805-06.

15. *Id.* at 807.

16. *Id.* at 808.

17. *Id.* at 810.

18. *Id.* at 811.

19. *Id.* at 813.

20. 456 U.S. 844 (1982).

21. 194 F.3d 980, 984 (9th Cir. 1999).

22. *Id.* at 822-25. The dissent also challenged the Ninth Circuit’s ruling with respect to state law claims but these findings are not discussed here due to space limitation.

23. *Id.*

24. *Polo Ralph Lauren Corp. v. Chinatown Gift Shop*, 855 F. Supp. 648, 650 (S.D.N.Y. 1994).

25. *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (imposing vicarious and contributory liability in the copyright context against an artist’s agent that sponsored concert associations to provide audiences for artists, knew that the performances included copyrighted works, and was aware that no license had been secured. Although defendant had no power to control either the local association or the performers, defendant was in the position to police the infringing conduct of its artists and it derived substantial financial benefit from the actions of the primary infringers).

26. *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304 (2d Cir. 1963); *Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.*, 36 F.2d 354 (7th Cir. 1929).

27. *Cartier International B.V. v. Liu*, 2003 WL 1900852 (S.D.N.Y. April 17, 2003).

28. *Arista Records, Inc. v. MP3Board, Inc.*, 2002 WL 19997918 (S.D.N.Y. Aug. 29, 2002).

29. *Polo*, 855 F.Supp. at 650, citing *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844 (1982); *Hard Rock Cafe Licensing Corporation v. Concession Services, Inc.*, 955 F.2d 1143 (7th Cir. 1992).

30. *Shapiro*, 316 F.2d at 307-8.

31. *Cartier*, 2003 WL 1900852 at *3.

32. *Id.* at *2-3.

33. *Arista*, 2002 WL 19997918 at *1.

34. *Id.* at *6.

35. In New York, 10 banks signed agreements with the Attorney General to prohibit credit card holders from using credit cards for online gambling transactions. See http://www.oag.state.ny.us/press/2003/feb/feb11b_03.html.