

# Imperfect 10: Digital Advances and Market Impact in Fair Use Analysis

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## INTRODUCTION

Technology allows new markets to emerge, which also expands the scope of *potential* markets.<sup>1</sup> Yet, in one court's analysis, this expansion forecloses opportunities for previously fair uses to survive renewed fourth factor analysis.<sup>2</sup> Will *Perfect 10*<sup>3</sup> choke digital fair use?<sup>4</sup>

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<sup>1</sup> For example, when television first aired baseball, the technological advance also opened the potential broadcasting market for other sports. "The first televised sporting event was a college baseball game between Columbia and Princeton in 1939, covered by one camera providing a point of view along the third base line." See Stanley J. Baran, *Sports and Television*, THE MUSEUM OF BROADCAST COMMUNICATIONS, <http://www.museum.tv/archives/etv/S/htmlS/sportsandte/sportsandte.htm>.

<sup>2</sup> Compare *Kelly v. Arriba Soft Corp.*, 280 F.3d 934 (9th Cir. 2002) with *Perfect 10 v. Google, Inc.*, 416 F. Supp. 2d 828 (C.D. Cal. 2006).

<sup>3</sup> *Perfect 10 v. Google, Inc.*, 416 F. Supp. 2d 828 (C.D. Cal. 2006).

<sup>4</sup> 17 U.S.C. § 107 (2000). Limitations on exclusive rights: Fair use . . . In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include . . . (4) the effect of the use upon the *potential market* for or value of the copyrighted work. 17 U.S.C. § 107 (2000) (emphasis added).

It is a truism that the capacity of the computer doubles every eighteen months.<sup>5</sup> This increasing capacity allows rapid emergence of new commercial applications of digital technology. With each new use, a myriad of subsequent uses suddenly become viable, and the scope of potential markets for digital works increases.<sup>6</sup> This is particularly true because digital media can fluidly move from one technology to another without a decrease in quality. Each realized advancement expands the scope of technologically realistic market possibilities. These theoretical markets may be technologically reachable, yet remain economically unrealistic.<sup>7</sup>

But should the legal scope of these potential markets increase accordingly? Fair use, as articulated in 17 U.S.C. § 107, is the statutory guideline for balancing the constitutionally granted monopoly in creative works with the public good, concerning the First Amendment,<sup>8</sup> education,<sup>9</sup> and the development of technology.<sup>10</sup> Effect on the market is the most heavily weighted of

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<sup>5</sup> “Over the past half century, the power of computers has doubled every year and a half. This explosion of computer power is known as “Moore’s law,” after Gordon Moore, subsequently the chief executive of Intel, who noted its exponential advance in the 1960s. . . . [E]very eighteen months engineers have figured out how to halve the size of the wires and logic gates from which they are constructed. Every time the size of the basic components of a computer goes down by a factor of two, twice as many of them will fit on the same size chip. The resulting computer is twice as powerful as its predecessor of a year and half earlier.” SETH LLOYD, PROGRAMMING THE UNIVERSE 7 (Knopf 2006).

<sup>6</sup> For example, when audio digital technology was first shown viable for use in telephony in 1937, it also heralded potential markets in music recording, answering machines, musical instruments, radio, and even appliance interface. See Steven E. Schoenherr, *The Digital Revolution*, <http://history.acusd.edu/gen/recording/digital.html> (last visited Sept 12, 2006) [hereinafter Schoenherr: *Digital Revolution*].

<sup>7</sup> All of the uses of digital audio technology mentioned *supra* note 6 came to pass, but waited many years between potentiality and commercial realization. For example, digital music recordings in the form of the compact disc were not on the market until 1982, some 45 years after digital audio was first presented in the lab. See Schoenherr: *Digital Revolution*, *supra* note 6. Digital radio was not commercially realized until 1995. See Steven E. Schoenherr, *Digital Audio Radio Service (DARS)*, <http://history.acusd.edu/gen/recording/dars.html> (last visited Sept. 12, 2006) [hereinafter Schoenherr: *Digital Radio*].

<sup>8</sup> See, e.g., *Campbell v. Acuff-Rose Music*, 510 U.S. 569 (1994).

<sup>9</sup> See, e.g., *Marcus v. Rowley*, 695 F.2d 1171 (9th Cir.1983).

<sup>10</sup> See, e.g., *Metro-Goldwyn-Mayer v. Grokster*, 125 S. Ct. 2764 (2005).

the four fair use factors.<sup>11</sup> With the recent decision in *Perfect 10 v. Google, Inc.*,<sup>12</sup> that analysis continues a general trend foreclosing many findings of fair use.<sup>13</sup> Following the reasoning of the decision, if there is any present market for the digital content, regardless of whether the allegedly infringing use has any present or likely negative effect on that market, the often dispositive market factor will weigh against a finding of fair use. The *Perfect 10* court's thin understanding of markets for digital works led to a decision that excessively expands the monopoly granted to creators in their works, and threatens technological innovation if adopted elsewhere.

## I. FAIR USE FOURTH FACTOR

### A. *Folsom v. Marsh*

The market impact of an infringement as the appropriate boundary of fair use originated in the 1841 case *Folsom v. Marsh*.<sup>14</sup> In the case, the scholar, Mr. Sparks, edited a massive work on George Washington.<sup>15</sup> In 1840, Charles Upham assembled a story of Washington's life incorporating much of Sparks' work and Washington's writings.<sup>16</sup> Mr. Sparks claimed that Upham had infringed his work, which had eight years left in copyright.<sup>17</sup> In determining whether the copying was justified, Justice Story pinned his decision on the totality of the market circumstances.<sup>18</sup> Justice Story could not find a fair copying if the

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<sup>11</sup> See *Harper & Row, Publishers Inc. v. Nation Enters.*, 471 U.S. 539, 566 (1985) (noting that the "last factor is undoubtedly the single most important element of fair use").

<sup>12</sup> 2006 U.S. Dist. LEXIS 6664 (C.D. Cal. Feb. 21, 2006).

<sup>13</sup> See, e.g., *Campbell*, 510 U.S. at 593 (potentially diminishing derivative fair uses); *A&M Records Inc. v. Napster Inc.*, 239 F.3d 1004, 1021 (9th Cir. 2001) (sharing of files is not a fair use).

<sup>14</sup> See generally 9 F. Cas. 342, (C.C. Mass. 1841); see also *Suntrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257, 1261 (11th Cir. 2001).

<sup>15</sup> *Folsom*, 9 F. Cas. at 345.

<sup>16</sup> *Id.*

<sup>17</sup> *Id.*

<sup>18</sup> *Id.* at 348.

purpose of the copying was to supersede the use of the original work.<sup>19</sup> He laid out the forerunners of what became the four fair use factors:<sup>20</sup> “If so much is taken, that the value of the original is sensibly diminished . . . that is sufficient . . . to constitute a piracy.”<sup>21</sup> Justice Story’s analysis of the effect of copying on the market for the original work has remained a lynchpin of fair use analysis to this day.<sup>22</sup>

The drawback to such an analysis is that a judge’s legal determination will hinge on his understanding of the market. If a judge could truly understand the market, he would not be a judge, he would be Warren Buffet. Just as judges acknowledge their lack of appropriate expertise in making aesthetic evaluations of a work,<sup>23</sup> judges should be very careful to fully acknowledge their natural shortcomings in evaluating potential technology market effects.<sup>24</sup> However, this judicially evolved look into the insolvable mysteries of the marketplace is now congressionally mandated as a part of fair use analysis.

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

<sup>20</sup> “[L]ook to the nature and objects of the selections made, the quantity and value of the materials used, and the degree in which the use may prejudice the sale, or diminish the profits, or supersede the objects, of the original work.” *Id.*

<sup>21</sup> *Id.* “[W]hether it is an infringement of the copyright or not. . . . It is often affected by other considerations . . . the importance of it to the sale of the original work.” *Id.*

<sup>22</sup> See, e.g., *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 576 (1994). Justice Souter anchored much of his analysis on the effect of the copying work on the market of the original. See *id.* at 590–94. It was not called fair use until *Lawrence v. Dana*, 15 F. Cas. 26 (C.C. Mass. 1869). See WILLIAM PATRY, *THE FAIR USE PRIVILEGE IN COPYRIGHT LAW* 6–17 (1985).

<sup>23</sup> *Bleistein v. Donaldson Lithographing Co.*, 188 U.S. 239, 251 (1903) (Holmes, J.) (noting that “[i]t would be a dangerous undertaking for persons trained only to the law to constitute themselves final judges of the worth of pictorial illustrations, outside of the narrowest and most obvious limits”).

<sup>24</sup> *Metro-Goldwyn-Mayer Studios Inc. v. Grokster Ltd.*, 125 S. Ct. 2764, 2792 (2005) (Breyer, J., concurring). “Judges have no specialized technical ability to answer questions about present or future technological feasibility or commercial viability where technology professionals, engineers, and venture capitalists themselves may radically disagree and where answers may differ depending upon whether one focuses upon the time of product development or the time of distribution.” *Id.*

### B. 1976 Copyright Act

Justice Story's fair use analysis from *Folsom v. Marsh*<sup>25</sup> was codified in the 1976 Copyright Act.<sup>26</sup> Section 107 of the Act declared that the copying of otherwise protected works could be considered a fair use.<sup>27</sup> Congress was aware of the effect of technological change on fair use analysis, and did not intend for the factors to be limited to their 1976 meanings.<sup>28</sup> The Act calls for a court to consider, among other factors, "the effect of the use upon the potential market for or value of the copyrighted work."<sup>29</sup> Although no one factor is determinative,<sup>30</sup> courts weigh the fourth factor more heavily than the others,<sup>31</sup> as "the single most important

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<sup>25</sup> 9 F. Cas. 342, (C.C. Mass. 1841).

<sup>26</sup> 17 U.S.C. § 107 (2000); *see also* *Campbell*, 510 U.S. at 576 (noting that "fair use remained exclusively judge-made doctrine until the passage of the 1976 Copyright Act, in which Justice Story's summary is discernible").

<sup>27</sup> 17 U.S.C. § 107 (2000).

Limitations on exclusive rights: Fair use

Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—

- (1) the purpose and character of the use, including whether such use is of 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.

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.

*Id.*

<sup>28</sup> H.R. REP. NO. 94-1476, at 47 (1976).

<sup>29</sup> 17 U.S.C. § 107 (2000).

<sup>30</sup> *Basic Books, Inc. v. Kinko's Graphics Corp.*, 758 F. Supp. 1522, 1530 (S.D.N.Y. 1991).

<sup>31</sup> *See, e.g., Nat'l Rifle Ass'n of Am. v. Handgun Control Fed'n of Ohio*, 15 F.3d 559, 561 (6th Cir. 1994); *Haberman v. Hustler Magazine, Inc.*, 626 F. Supp. 201, 214 (D. Mass 1986); *Amsinck v. Columbia Pictures Indus., Inc.*, 862 F. Supp. 1044, 1048 (S.D.N.Y. 1994).

element of fair use.”<sup>32</sup> Although the fourth factor is the focus of inquiry, the scope and nature of the markets discussed is elusive.

*C. Harper & Row Publishers v. Nation Enterprises*

In 1977, President Ford contracted to publish his memoirs with Harper & Row, who sublicensed the right to publish pre-publication excerpts to *Time Magazine* regarding the pardon of President Nixon.<sup>33</sup> Prior to *Time*'s publication, unauthorized excerpts on the subject appeared in *The Nation Magazine*.<sup>34</sup> Because the value of the exclusive right to present the excerpt had been destroyed by *The Nation*'s scoop, *Time* backed out of the deal with Harper & Row, who then sued Nation Enterprises for infringement.<sup>35</sup> The Second Circuit balanced the fair use factors, and found that the use was fair as “news reporting.”<sup>36</sup>

The Supreme Court rebalanced the factors and reversed,<sup>37</sup> finding that Nation had gone beyond news reporting and arrogated the “headline value of its infringement,” a market analysis.<sup>38</sup> The Court emphasized the “direct effect” of the infringement on the market for the work in finding the use not fair.<sup>39</sup> The Court focused on protecting a copyright holder's right to realize the market value of the ownership of the intellectual property, rather than emphasizing the public value of disseminating works as had been done in the Second Circuit.<sup>40</sup> The Court limited fair use to copying that does not “materially impair the marketability of the work which is copied.”<sup>41</sup> This question of “materially impair” was

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<sup>32</sup> Harper & Row Publishers v. Nation Enters., 471 U.S. 539, 566 (1985).

<sup>33</sup> *Id.* at 542.

<sup>34</sup> *Id.*

<sup>35</sup> *Id.*

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

<sup>37</sup> *Id.* at 569.

<sup>38</sup> *Id.* at 562. “The Nation’s [unauthorized] use [of the undissemated manuscript] had not merely the incidental effect but the *intended purpose* of supplanting the copyright holder’s commercially valuable right of first publication.” *Id.*

<sup>39</sup> *Id.* at 567.

<sup>40</sup> *Id.*

<sup>41</sup> *Id.* at 566–67 (quoting 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 1.10 [D], at 1-87 (2d Edition 1978)).

easily answered by the facts of the case since the use directly caused a \$12,500 contract to be cancelled.<sup>42</sup>

*D. Campbell v. Acuff-Rose Music, Inc.*

The Court again addressed the fair use factors head-on in *Campbell v. Acuff-Rose Music Inc.*<sup>43</sup> The opinion confirmed that fair use was still a thriving doctrine. The Court considered a rap song by 2 Live Crew that had copied the title and some recognizable musical elements of the Roy Orbison song “Oh, Pretty Woman.”<sup>44</sup> In applying the four factors, and discussing the nature of parody, the court frequently addressed the impact on the market for the work, whether in the form of “market substitution,”<sup>45</sup> “market harm”<sup>46</sup> or “derivative market.”<sup>47</sup> Although there is a possibility that the owner of a song might license a parody, such that an unlicensed parody would displace the licensed parody’s potential market, the likelihood is illogical and affords no protection against an unlicensed parody.<sup>48</sup>

As the *Campbell* decision illustrates, in a market analysis, the court should carefully consider whether the alleged infringing use of protected material will in fact substitute for the market use of the original work. The nature of licensing a parody is only a set of factual circumstances that the court considers. The technical realities implicated by copying and their function as an obstacle to market displacement is a similar set of factual circumstances appropriately considered by the court. These technical realities worthy of consideration pepper the landscape of a hot subject in recent copyright litigation, the Internet index.

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<sup>42</sup> *Id.* at 567.

<sup>43</sup> *Campbell v. Acuff-Rose Music Inc.*, 510 U.S. 569, 576–77 (1994).

<sup>44</sup> *Id.* at 572–73.

<sup>45</sup> *Id.* at 580 n.14.

<sup>46</sup> *Id.* at 590 n.21.

<sup>47</sup> *Id.* at 592.

<sup>48</sup> *Id.* (noting that “the law recognizes no derivative market for critical works, including parody”).

## II. MARKET IMPACT OF INDEX MATERIALS

Digital technology and the Internet have created vast new markets for copyrighted content, both in terms of distribution of works and the repurposing of works. One of the uses of the Internet that has proven profitable is the business of indexing. Because the Internet by nature is vast and unstructured, companies like Yahoo! and Google have provided the service of ordering its content. “It is by now a truism that search engines such as Google Image Search provide great value to the public.”<sup>49</sup>

However, questions have been raised about whether these indices are referring the user to the content, or providing content in and of themselves, on the backs of the original content providers.<sup>50</sup> This is the heart of the fair use question in the case of the Internet index.

### A. *Kelly v. Arriba Soft*

The market for digital material was tested in *Kelly v. Arriba Soft*.<sup>51</sup> Kelly was a photographer who displayed his images on the web, on his website, or licensed them to others.<sup>52</sup> Arriba Soft ran a search engine that returned images rather than text results, in the form of “thumbnails.”<sup>53</sup> Thumbnails are smaller versions of full images, shrunk down to give the viewer a sense of the original images.<sup>54</sup> By clicking on a thumbnail in the Arriba Soft search result, the user then was linked to the full image.<sup>55</sup>

To create the thumbnails and the index, Arriba Soft developed a “web crawler,” a computer program that would search the web for images and index their location.<sup>56</sup> It would also copy the full-

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<sup>49</sup> Perfect 10 v. Google, 416 F. Supp. 2d 828, 848–49 (C.D. Cal. 2006).

<sup>50</sup> *Id.*

<sup>51</sup> 336 F.3d 811 (9th Cir. 2003).

<sup>52</sup> *Id.* at 815.

<sup>53</sup> *Id.*

<sup>54</sup> *Id.*

<sup>55</sup> *Id.* at 815–17.

<sup>56</sup> *Id.* at 815; Wikipedia, Web Crawler, <http://en.wikipedia.org/wiki/Webcrawler> (last visited Sept. 11, 2006). *Kelly* refers to a web crawler as a “crawler.” *Kelly*, 336 F.3d at 815.

sized images, convert them to smaller thumbnails for index display, store the thumbnails on the Arriba Soft servers, and then delete the full-sized copy.<sup>57</sup> When Kelly discovered that his photos of the American West were included in the index, he brought a copyright infringement claim.<sup>58</sup>

The court balanced the fair use factors and found that Arriba Soft's creation and display of Kelly's thumbnails was fair.<sup>59</sup> The court was particularly persuaded by the fact that the thumbnails did not supplant the purpose of the full-sized images, and that there was no market for thumbnail images.<sup>60</sup> The Court found that the thumbnails could not substitute for the full-sized images due to technical limitations.<sup>61</sup> Ease of access to the licensed works for their intended purpose was a touchstone of the court's analysis.<sup>62</sup> The court found it extremely unlikely that the thumbnails would be used for display purposes when the full-sized images are "easily accessible from Kelly's web sites."<sup>63</sup> *Kelly* suggests a rule where relative ease of licensed and unlicensed use will factor into the fair use analysis. This rule, although applicable, went unrecognized in a similar subsequent case.

### B. *Perfect 10 v. Google*

The analysis of *Kelly* was followed in *Perfect 10 v. Google* only four years later, but the result effectively reversed its decision. Perfect 10 is the publisher of an adult magazine and website, featuring photographs of "natural" models who have not had cosmetic surgery such as breast implants.<sup>64</sup> Google runs a website that indexes the web, including sites like *perfect10.com*, to make the Internet more navigable.<sup>65</sup> The Google Image search returns

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<sup>57</sup> *Kelly*, 336 F.3d at 815.

<sup>58</sup> *Id.*

<sup>59</sup> *Id.* at 822.

<sup>60</sup> *See id.* at 821–22.

<sup>61</sup> *Id.* at 821. "[B]ecause the thumbnails lose their clarity when enlarged." *Id.*

<sup>62</sup> *Id.* at 821 n.37.

<sup>63</sup> *Id.*

<sup>64</sup> *Perfect 10 v. Google*, 416 F. Supp. 2d 828, 831–32 (C.D. Cal. 2006).

<sup>65</sup> *Id.* at 832. "It is by now a truism that search engines such as Google Image Search provide great value to the public." *Id.* at 848–49. Especially, "given the exponentially

thumbnail versions of the full size images related to the search terms that can be found on the linked websites.<sup>66</sup> Google does not index sites that signal they do not wish to be indexed.<sup>67</sup> Google indexed some images from *perfect10.com*, and Perfect 10 sued on several copyright and other similar theories.<sup>68</sup>

In its decision on Perfect 10's request for preliminary injunction against Google, the court leaned on the analysis in *Kelly v. Arriba Soft* to find that creating and displaying thumbnails is not fair use.<sup>69</sup> Where in *Kelly*, the court repeatedly found no possible market for thumbnail versions of full images, the *Perfect 10* court acknowledged one that had recently emerged.<sup>70</sup> Perfect 10 made a deal with Fonestarz Media Limited to sell and distribute reduced-size images for cell phone screen display.<sup>71</sup> The court found that in spite of the public benefit, this new market for reduced-size images moves Google's index display of thumbnails out of fair use.<sup>72</sup>

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increasing amounts of data on the web, search engines have become essential sources of vital information for individuals, governments, non-profits, and businesses who seek to locate information." *Id.* at \*849. It is worth noting that Google makes profit from providing this service by selling advertising space that it displays to its users with its innovative use of the search information it gathers. *Id.* at 834. Google's algorithms target consumers more effectively than can be done in any other media. *The Times: You are the target*, THE SEARCH WORKS, Aug. 13, 2006, <http://www.thesearchworks.com/news-read.php?id=460> (last visited Sept. 17, 2006).

<sup>66</sup> *Perfect 10*, 416 F. Supp. 2d at 832–33.

<sup>67</sup> *Id.* at 832. "Websites that do not wish to be indexed, or that wish to have only certain content indexed, can do so by signaling to Google's web crawler those parts that are 'off limits.' Google's web crawler honors those signals." *Id.*

<sup>68</sup> *See id.* at 834.

<sup>69</sup> *Id.* at 848, 851.

<sup>70</sup> *Compare Kelly v. Arriba Soft*, 336 F.3d 811, 821 (9th Cir. 2003) with *Perfect 10*, 416 F. Supp. 2d at 851.

<sup>71</sup> *Perfect 10*, 416 F. Supp. 2d at 849. In his comments following the *Perfect 10* decision, Fred von Lohmann of the Electronic Frontier Foundation noted that he didn't "think the court was adequately sensitive to indications that the [Fonestarz] arrangement was a sham concocted for this litigation." Fred von Lohmann, *Perfect 10 v. Google: More Smooth Than Crunchy*, EFF: DEEP LINKS, Feb. 22, 2006, <http://www.eff.org>. Although his theory may have merit that a factfinder could support, the legal issues presented are better addressed here if the validity of the Fonestarz contract is presumed.

<sup>72</sup> *Perfect 10*, 416 F. Supp. 2d at 851.

The pairing of the cases seems to show the rapid development of new markets for copyrighted works, and that the market for thumbnails had ripened such that their indexing is no longer within the bounds of fair use. Since technology now allows any image to be marketed in thumbnail form for viewing on a cell phone screen,<sup>73</sup> fair use is foreclosed under the *Perfect 10* analysis for thumbnails. The court limited its problem with the thumbnailing to instances where users would put images from Google's search on their phones instead of buying images properly licensed by Perfect 10.

However, the court's examination of the market was surprisingly limited, at least as it was detailed in the opinion. It saw the images on Google as essentially the same as the images sold for cell phone use.<sup>74</sup> Although this is true, it is not the complete story. An examination of how images get onto cell phones is in order to more fully understand the market for thumbnails.

In order for any image to get from a computer to a cell phone, it must be accessed through a particular program. Unlike a floppy disk or a flash drive, cell phones when hooked into a desktop computer cannot simply accept images individually. They must be delivered to the cell phone through a program. These programs reformat the images so they are compatible with the cell phone both in size and format. Such an intermediate program is necessary to move a thumbnail image created by Google to a cell phone.

The markets for the original should factor in the delivery of the content as well as the display of the content. Since the market in *Perfect 10* is the use of the images in cell phones, the court should have further inquired as to the method of moving an image from the Google Image search result to a cell phone before issuing an injunction. Google's creation of the thumbnail is only the simplest

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<sup>73</sup> Ask Dave Taylor!, Can I Customize the Idle Screen on my Nokia Cellphone?, [http://www.askdaveytaylor.com/can\\_i\\_customize\\_the\\_idle\\_screen\\_on\\_my\\_nokia\\_cellphone.html](http://www.askdaveytaylor.com/can_i_customize_the_idle_screen_on_my_nokia_cellphone.html) (last visited Sept. 17, 2006) (noting that "[y]ou can set any image in your phone's Gallery as wallpaper").

<sup>74</sup> *Perfect 10*, 416 F. Supp. 2d at 849.

step in the process of getting an image from a computer to the cell phone.

This process will also likely be facilitated in the future by phone technology itself. Although Fonestarz presently sells thumbnails for cell phone download, future phones will likely be able to convert full-sized images to the appropriate format all by themselves. In addition, if Google were prevented from displaying thumbnails, it could still legally provide links to full-sized images that are easily converted to thumbnail size.<sup>75</sup> This process is simple for a user who would have the expertise of moving a Google Image Search result. If the user does not have the expertise to convert images to thumbnails, he probably will not have the expertise to move unlicensed pictures to his phone in the first place, and will be obliged to use licensed vendors as Perfect 10 would prefer.

Perfect 10 was able to make a deal with Fonestarz because of the *service* involved in delivering the content to phones. This takes additional steps beyond the efforts Google undertakes in bringing the thumbnails to the user's desktop computer.<sup>76</sup> Any user with a bit of technical know-how would be able to convert Perfect 10 images to a cell phone without paying Perfect 10 a dime.<sup>77</sup> It is the ease of delivery that the consumer is paying for—the content is already available without paying. It doesn't make others' infringing behavior acceptable, but it does show that Google's use does not in fact interfere with Perfect 10's ability to license its content to a company that provides the service of moving images to a cell phone. Google does not provide that service, and does not substantially interfere with Perfect 10's market for licensing its content to a company that does.

There is a second issue that goes unexplored in the *Perfect 10* decision. The first thumbnail Google presents is from an image search for the name of Perfect 10 model "Monika Zsibrita,"<sup>78</sup> and

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<sup>75</sup> See Taylor, *supra* note 73.

<sup>76</sup> See *id.*

<sup>77</sup> See *id.*

<sup>78</sup> See Petitioner's Motion For Preliminary Injunction at \*\*23, *Perfect 10*, 416 F. Supp. 2d 828 (No. CV04-9484).

is 106 x 150 pixels.<sup>79</sup> As a matter of reference, the original image this thumbnail condenses is 726 x 1024 pixels.<sup>80</sup> An analog computer display is approximately 640 x 480 pixels, also known as VGA resolution,<sup>81</sup> which is considerably smaller than the full Zsibrita image. The present standard for cell phones that play video is QVGA resolution,<sup>82</sup> which is 320 x 240 pixels. One of the best selling cell phones as of this writing has a much lower screen resolution of 176 x 220 pixels.<sup>83</sup> However, another has 240 x 240 pixels.<sup>84</sup> This upward trend suggests that cell phone resolutions will soon reach the QVGA standard, if not the full VGA standard.<sup>85</sup> In short order, the market for condensed images to be downloaded to cell phones will itself be supplanted by the market for full-sized images. Most importantly, as images on cell phones must conform to the pixel dimensions of that particular phone's screen, the thumbnail images that come from a Google Image Search will likely have to be reformatted before they may be properly displayed on a cell phone.<sup>86</sup>

For users accessing the Google Image Search through their mobile phone, as suggested in the *Perfect 10* ruling,<sup>87</sup> it seems even less likely that the thumbnails will be downloaded for

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<sup>79</sup> See Google Image Search, <http://images.google.com/images?hl=en&lr=&q=%22monika%20zsibrita%22&sa=N&tab=wi> (last visited Sept. 17, 2006). Right-clicking on the second image on the top row and selecting "Properties" displays the dimensions of the thumbnail.

<sup>80</sup> See *id.* The dimensions of the full-sized image are indicated below the thumbnail.

<sup>81</sup> See Wikipedia, Video Graphics Array, [http://en.wikipedia.org/wiki/Video\\_graphics\\_array](http://en.wikipedia.org/wiki/Video_graphics_array) (last visited Sept. 17, 2006).

<sup>82</sup> See Martyn Williams, *Tokyo Edge: Designer Cell Phones Debut*, PC WORLD, May 19, 2004, <http://www.pcworld.com/article/id.116115.html> (last visited Sept. 17, 2006).

<sup>83</sup> See Motorola MP x 220, [http://shopper.cnet.com/Motorola\\_MPx220/4014-6452\\_9-30893927.html?pbrpt=4582&tag=nav.specs](http://shopper.cnet.com/Motorola_MPx220/4014-6452_9-30893927.html?pbrpt=4582&tag=nav.specs).

<sup>84</sup> The Palm® Treo™ 700w screen resolution is 240x240 pixels. See Palm® Treo™ 700w Product Features, <http://www.palm.com/us/products/smartphones/treo700w/specs.html> (last visited Sept. 16, 2006).

<sup>85</sup> Cf. Wikipedia, Mobile Phone Future Prospects, [http://en.wikipedia.org/wiki/Mobile\\_phone](http://en.wikipedia.org/wiki/Mobile_phone) (last visited Sep. 10, 2006).

<sup>86</sup> Cf. Taylor, *supra* note 73 (explaining that one must "resize or crop [an image] to fit the phone screen, and then convert it to a supported image format before transferring it to the phone").

<sup>87</sup> See *Perfect 10 v. Google, Inc.*, 416 F. Supp. 2d 828, 851 (C.D. Cal 2006) (noting that "mobile users of Google Image Search can download the Google thumbnails at no cost").

display. The thumbnail image presented on a mobile phone Google Image Search is necessarily smaller than the screen, to account for the logo, the name of the file, and the navigation links.<sup>88</sup> The thumbnail presented is, like the thumbnails in *Kelly*, too small to achieve its display purpose.<sup>89</sup> The user would likely download the full sized image, and the phone itself would likely format it. Neither of these actions implicates Google's creation of a thumbnail in terms of market displacement.

It simply does not make sense to forbid Google's use of thumbnails, which is considered fair under *Kelly*,<sup>90</sup> in the absence of a ready or even potential market for the licensing of thumbnails for use as thumbnails. That the Google-generated thumbnails of Perfect 10's images have the same pixel dimensions as some cell phones does not mean they have the same position in the marketplace with regard to cell phone use. The public would be better served by a finding that the use is fair. If Google users are in fact using the Image Search to download Perfect 10 thumbnail images on their cell phones, it is likely a marginal problem, and at least deserves further fact-finding before issuing an injunction. Perfect 10 should solve the problem in the marketplace, not the courts. The court's action here disincentivizes further development of delivery systems for cell phone images, and could have the effect of tamping down other unforeseen innovations that might have been made with thumbnail images.

This presents a danger to the future of the Internet. Initially freewheeling and anarchic, the Internet is now subject to growing restrictions. Although many of these moves are important, especially since the World Wide Web has become an actualized system and can handle restrictions without collapsing, those restrictions must not foreclose future growth in the system. A new use of the Internet should be given as much time to grow as if it was a new technology in and of itself. The *Perfect 10* ruling,<sup>91</sup>

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<sup>88</sup> See Google Mobile—Image Search, google.com, [http://www.google.com/mobile/image\\_search.html](http://www.google.com/mobile/image_search.html) (last visited Sep. 10, 2006).

<sup>89</sup> Compare *id.* with *Kelly v. Arriba Soft Corp.*, 280 F.3d 934, 944 (9th Cir. 2002).

<sup>90</sup> See *Kelly*, 280 F.3d at 938.

<sup>91</sup> *Perfect 10*, 416 F. Supp. 2d 828 (appeal pending).

projected outward, will result in terrible inefficiencies that threaten to foreclose the unlicensed use of thumbnails in search engines.<sup>92</sup> Index companies would be forced to negotiate with all sites that have images.<sup>93</sup> Or worse, if there is no practical pricing model, image searches will be eliminated entirely under the weight of the licensing cost. The irony is that if the search engine thumbnails are held to affect the market for cell phone thumbnails, *Perfect 10* would not be able to offer an exclusive deal to Fonestarz and license its images for search thumbnailing, foreclosing an avenue for directing traffic to its own website.<sup>94</sup>

### III. EXPANSION AND CONTRACTION OF FAIR USE THROUGH THE MARKET FACTOR

Expansion of Fair Use threatens to disincentivize creation. “[T]he rule set forth by the court in [*Perfect 10*] will have dramatic implications for all those who search for digital visual information online.”<sup>95</sup> Moreover, the reach of decisions like *Perfect 10* goes beyond image search engines. If the fair use market factor is not only dominant, as demonstrated in *Harper & Row*, but also expansive, as shown in *Perfect 10*, it may entirely swallow up the doctrine in the context of digital works.<sup>96</sup> Expansion of the fourth

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<sup>92</sup> By way of analogy, aspects of the film industry have been undermined by industry practice of approaching fair use conservatively in practice. For a full analysis, see Keith Aoki, James Boyle & Jennifer Jenkins, *TALES FROM THE PUBLIC DOMAIN: BOUND BY LAW?* (Duke Center for the Study of Public Domain 2006), available at <http://www.law.duke.edu/cspd/comics/> (last visited Sep. 10, 2006).

<sup>93</sup> Such a requirement might potentially lead to an ASCAP-style consortium for licensing and collecting fees.

<sup>94</sup> *Cf. Kelly*, 280 F.3d at 944.

<sup>95</sup> Br. for Elec. Frontier Found. as Amicus Curiae Supporting Appellee at 1, *Perfect 10 v. Google Inc.*, 416 F. Supp. 2d 828 (C.D. Cal. 2006) (No. CV04-9484), available at [http://www.eff.org/legal/cases/Perfect10\\_v\\_Google/EFF\\_amicus\\_brief.pdf](http://www.eff.org/legal/cases/Perfect10_v_Google/EFF_amicus_brief.pdf).

<sup>96</sup> *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 566 (1985) (recognizing the fourth fair use factor as the most important); *Perfect 10*, 416 F. Supp. 2d at 851–54 (extending the court’s fair use analysis to secondary liability considerations such as contributory or vicarious infringement).

factor to preclude fair use threatens innovation, both by copyright holders and infringers.<sup>97</sup>

A. *MGM v. Grokster, Breyer Concurrence*

Justice Breyer's market remedy analysis in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Inc.* suggests a more holistic approach than the rather cursory and formulaic approach of *Perfect 10*.<sup>98</sup> Although *Grokster* concerned secondary liability,<sup>99</sup> Justice Breyer's insights into the reality of the digital marketplace are useful in considering the appropriate analysis for the fair use factor. Content providers like MGM and Disney were troubled by the free and unlicensed consumption of their works facilitated by the Internet.<sup>100</sup> *Grokster* and *Streamcast* developed programs that allowed users to find each other and share files over the Internet, including copyrighted songs and movies.<sup>101</sup> The plaintiffs sued, and successfully appealed the defendant's summary judgment award to the Supreme Court on the inducement theory of secondary liability, largely because the defendants had marketed and planned their product for the primary purpose of infringement.<sup>102</sup>

The concurring opinions took opposing positions on how the case would have come out absent the affirmative inducing steps taken by *Grokster* and *Streamcast*.<sup>103</sup> Justice Ginsburg felt that the circumstances would have required a finding of contributory

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<sup>97</sup> See *Perfect 10*, 416 F. Supp. 2d at 851 (acknowledging that the court's ruling "might impede the advance of internet technology").

<sup>98</sup> Compare *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764, 2791–96 (2005) (Breyer, J., concurring) (analyzing the *Sony* standard in light of current and future copyright and technology concerns) with *Perfect 10*, 416 F. Supp. 2d at 845–51 (addressing each fair use factor in order).

<sup>99</sup> See *id.* at 2770.

<sup>100</sup> See *id.* at 2771.

<sup>101</sup> See *id.* at 2770–71.

<sup>102</sup> See *id.* at 2782.

<sup>103</sup> Compare *Grokster*, 125 S. Ct. at 2783 (Ginsburg, J., concurring) (finding liability for distributing a product used to infringe) with *Grokster*, 125 S. Ct. at 2787–88 (Breyer, J., concurring) (applying the *Sony* standard to find substantial and noninfringing uses for the *Grokster* software).

copyright infringement absent inducement.<sup>104</sup> Her inquiry ended with present uses of the software, and did not particularly look to the more widespread effect of her suggested holding.<sup>105</sup>

Alternatively, Justice Breyer offered a look at the totality of market circumstances,<sup>106</sup> applying the standard he articulated in the famous *Betamax* case, *Sony Corp. of America v. Universal City Studios, Inc.*<sup>107</sup> There the Court found no secondary liability for the sale of copying equipment “capable of substantial noninfringing uses.”<sup>108</sup> Whereas Justice Ginsburg limited her inquiry to present uses of the *Grokster* and *Streamcast* technology,<sup>109</sup> Justice Breyer’s inquiry was more temporally broad, recognizing that “capable” implies a look to the future as well as the present.<sup>110</sup>

In addition, Justice Breyer more fully examined the dangers of allowing the behavior by looking at other present market factors.<sup>111</sup> He suggested that there were several other ways the conflict could resolve, other than the potentially chilling finding of liability.<sup>112</sup> As the majority opinion indicates, there is strong secondary liability where there is inducement to infringe.<sup>113</sup> There are traditional infringement suits against those who illegally copy.<sup>114</sup> This applies to *Perfect 10*, where the court held that the Google-generated thumbnails infringe *Perfect 10*’s copyright.<sup>115</sup> In *Grokster*, Justice Breyer acknowledges the deterrent effect of

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<sup>104</sup> See *Grokster*, 125 S. Ct. at 2783 (Ginsburg, J., concurring).

<sup>105</sup> See *id.* at 2786. Justice Ginsburg’s total foray into potential uses was brief: “[f]airly appraised, the evidence was insufficient to demonstrate, beyond genuine debate, a reasonable prospect that substantial or commercially significant noninfringing uses were likely to develop over time.” *Id.*

<sup>106</sup> See *id.* at 2788–91 (Breyer, J., concurring) (discussing future uses, legitimate uses, and new technology issues).

<sup>107</sup> *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 451 (1984).

<sup>108</sup> *Id.* at 442; *Grokster*, 125 S. Ct. at 2787 (Breyer, J., concurring).

<sup>109</sup> See *Grokster*, 125 S. Ct. at 2786 (Ginsburg, J., concurring).

<sup>110</sup> *Id.* at 2789 (Breyer, J., concurring).

<sup>111</sup> *Id.* at 2791.

<sup>112</sup> See *id.* at 2794 (noting that “copyright holders at least potentially have other tools available to reduce piracy”).

<sup>113</sup> See *id.* at 2780.

<sup>114</sup> See *id.* at 2794.

<sup>115</sup> See *Perfect 10 v. Google, Inc.*, 416 F. Supp. 2d 828, 831 (C.D. Cal. 2006).

such suits, and how they serve as a “teaching tool” for clarifying which activities are infringing, to a measurable effect.<sup>116</sup>

Justice Breyer also notes that “copyright holders may develop new technological devices” to protect their copyrights, including digital watermarking, digital fingerprinting, and encryption.<sup>117</sup> He saliently points out the obvious yet largely unexplored: “advances in technology have discouraged unlawful copying by making lawful copying cheaper and easier to achieve.”<sup>118</sup> In spite of courts’ best efforts in cases such as *In re Aimster Copyright Litigation*<sup>119</sup> and *A&M Records, Inc. v. Napster, Inc.*,<sup>120</sup> free and unlicensed music is still readily downloaded.<sup>121</sup> However, the emerging availability of superior services that sells licensed music for as little as \$0.88 per song continues to evolve former infringers into customers.<sup>122</sup> Similarly, in *Perfect 10*, one can reason that the convenience and features of a licensed delivery system might mitigate any negative market impact of Google Image Search thumbnails, making the use fair.

The Ginsberg and Breyer analyses are not quite analogous to the *Perfect 10* case because the threshold for secondary liability differs from the more fluid fair use analysis.<sup>123</sup> Still, the scope of Breyer’s inquiry into market realities in his *Grokster* concurrence seems to carry out the mandate of fair use analysis laid out in *Campbell* more thoroughly than the *Perfect 10* decision revealed.<sup>124</sup> Conversely, Judge Matz spent just one paragraph considering the facts of the thumbnail marketplace, before prohibiting Google Image Search’s use of thumbnails on the basis of “commonsense.”<sup>125</sup> Diligent inquiries beyond first impressions,

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<sup>116</sup> *Grokster*, 125 S. Ct. at 2794–95 (Breyer, J., concurring).

<sup>117</sup> *Id.* at 2795.

<sup>118</sup> *Id.* (parenthetical omitted).

<sup>119</sup> 334 F.3d 643 (7th Cir. 2003).

<sup>120</sup> 239 F.3d 1004 (9th Cir. 2001).

<sup>121</sup> See David Scharfenberg, *In Business: Defying a Music Industry Crackdown*, N.Y. TIMES, Jan. 15, 2006, at 14WC (noting that “millions still download music illegally”).

<sup>122</sup> See *Grokster*, 125 S. Ct. at 2795 (Breyer, J., concurring).

<sup>123</sup> Compare *id.* at 2776 (laying out theories of secondary liability) with *Campbell v. Acuff-Rose Music Inc.*, 510 U.S. 569, 576–77 (1994).

<sup>124</sup> *Campbell*, 510 U.S. at 578 (noting that the factors are to be “explored”).

<sup>125</sup> *Perfect 10 v. Google, Inc.*, 416 F. Supp. 2d 828, 851 (C.D. Cal. 2006).

like Breyer's *Grokster* concurrence,<sup>126</sup> can properly dispel commonsense apprehensions. Justice Breyer's parting shot indicates where he feels such limitations are more appropriately raised. He states "[f]inally, as *Sony* recognized, the legislative option remains available. Courts are less well suited than Congress to the task of accommodating fully the varied permutations of competing interests that are inevitably implicated by such new technology."<sup>127</sup>

Although *Perfect 10* purports to follow *Kelly's* holding,<sup>128</sup> in practice it will provide no comfort under the standard the decision articulates. Any copyright holder may prevent its works from being indexed by making a deal with a company like Fonestarz to swing the fourth fair use factor firmly to its side.<sup>129</sup> The non-legal remedies outlined by Justice Breyer may not prove sufficient in *Perfect 10*, but paralleling his logic, "a strong demonstrated need for modifying . . . [*Kelly*] has not yet been shown."<sup>130</sup> Moreover, effectively reversing *Kelly* adds risks to technological innovation that are not outweighed by the benefits to protecting *Perfect 10's* copyrights,<sup>131</sup> especially considering the widespread copying of *Perfect 10's* images beyond Google's control.

#### IV. CONCLUSION

A principled balance is necessary to achieve the Constitutional goal of the copyright clause: to promote the progress of science and useful arts. A finer line must be drawn between the form works appear in and the reality of their market use. Breyer's analysis in *Grokster* shows a judicial willingness to inquire further

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<sup>126</sup> *Grokster*, 125 S. Ct. at 2787–96 (Breyer, J., concurring).

<sup>127</sup> *Id.* at 2795 (citing *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 431 (1984)).

<sup>128</sup> Compare *Perfect 10*, 416 F. Supp. 2d at 845–49 with *Kelly v. Arriba Soft Corp.*, 280 F.3d 934, 938 (9th Cir. 2002).

<sup>129</sup> Cf. *Perfect 10*, 416 F. Supp. 2d at 849 (because Google's indexed thumbnails matched the size of *Perfect 10's* licensed thumbnails, the court found them to be consumptive and therefore infringing).

<sup>130</sup> *Grokster*, 125 S. Ct. at 2796 (Breyer, J., concurring) (parenthetical omitted).

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

into the reality of the marketplace, and recognize courts' limited ability to divine market harm in the absence of undisputed evidence or exhaustive analysis. Such inquiries should be undertaken before foreclosing the fair use defense on an Internet index. The *Perfect 10* court should have made closer inquiry, and should have denied Perfect 10's motion for preliminary injunction against Google.