

COMMENTARY

A Review of 2004 Case Law: Is the Internet Changing Copyright Law or Is Copyright Law Changing the Internet?

By Peter S. Sloane, Esq.*

During the past year, there has been a marked increase in the number of cases dealing with copyright and Internet law issues. While many of these cases deal with novel issues such as whether copyright protection extends to the unfettered display of the design of "windows" on the Internet, others address issues well settled in the offline world such as the scope of copyright protection accorded to the compilation of facts.

Still other cases deal with copyright infringement by Internet service providers and the distributors of so-called "peer-to-peer" (P2P) networks and the safe harbor afforded by the Digital Millennium Copyright Act. Those latter cases, primarily filed by, and of interest to, companies in the music and motion picture industries currently under assault by widespread Internet piracy of their copyrights, have been segregated and briefly summarized at the end of this article.

Jurisdiction

Of course, the first step in suing a company or individual for copyright infringement taking place on the Internet is to establish the jurisdiction of the court.

In *Arista Records Inc. v. Sakfield Holding Co.*, 314 F. Supp. 2d 27, 71 U.S.P.Q.2d 1035 (D.D.C. Apr. 22, 2004), the Washington, D.C., trial court denied a motion to dismiss for lack of personal jurisdiction filed by defendant Sakfield. Arista brought suit against Sakfield, a Spanish company, for copyright infringement. Arista claimed that Sakfield owned and controlled a Web site located at puretunes.com that allowed persons to download copyrighted works owned by Arista without permission. Sakfield moved to dismiss the complaint on the grounds that it had not transacted any business in the District of Columbia.

The court ordered Sakfield to produce computer servers held by a third-party service provider and payment information kept by a third-party credit-card processing company. Such court-ordered jurisdictional discovery revealed that Sakfield in fact had customers who resided in the district.

Prospective plaintiffs should keep in mind that jurisdictional discovery may provide an opportunity to discover additional facts to support the continued jurisdiction of the court in any copyright infringement actions.

By contrast, however, the trial court granted a motion to dismiss for lack of personal jurisdiction in *Rosenberg v. PK Graphics*, 2004 WL 1057621, 71 U.S.P.Q.2d 1223 (S.D.N.Y. May 6, 2004). Plaintiff Howard Rosenberg, a California resident, brought suit in New York against defendant PK Graphics, a Florida company, based upon a claim that the defendant sold an image copyrighted by the plaintiff to a company in Missouri.

In opposing the motion to dismiss, the plaintiff argued that at one time the defendant stated on its Web site that it had clients as far north as Boston, Chicago and New York and that the defendant maintained a highly interactive Web site.

The trial court found that the defendant's claim to have customers as far north as New York did not establish the New York presence necessary to support personal jurisdiction or even any jurisdictional discovery. While the court acknowledged that some other courts have held that a highly interactive Web site may give rise to personal jurisdiction, unlike in the case before it, the plaintiffs there had first established some further contact with New York.

Indeed, the court found that the defendant's Web site did not even qualify as "highly" interactive because it did not allow visitors to complete a purchase by paying online.

In deciding where to sue an infringer based upon copyright infringement committed over the Internet, the prospective plaintiff should consider where it is located to establish at least one connection for claiming personal jurisdiction in a particular state. Additional connections may be established by using an outside investigator to try to learn whether the defendant has contacts with that state and reviewing the Web site of the defendant to determine whether it has been visited by any in-state residents.

Infringement

Once personal jurisdiction is established, among other things, it is necessary to prove the copyright infringement claim.

In *1-800 Contacts Inc. v. WhenU.com*, 309 F. Supp. 2d 467, 69 U.S.P.Q.2d 1337 (S.D.N.Y. Dec. 22, 2003), the trial court in New York denied a motion for preliminary injunction brought by plaintiff on its copyright infringement claim. Plaintiff 1-800 Contacts sells replacement contact lenses through its Web site at 1800contacts.com. Defendant Vision Direct Inc. sells replacement contact lenses through its competing Web site at visiondirect.com.

Defendant WhenU.com is a software company that developed and distributes the SaveNow program. When an Internet user types in "www.1800contacts.com," the SaveNow software retrieves a pop-up ad for Vision Direct from an Internet server.

In support of its motion for a preliminary injunction, the plaintiff argued that the SaveNow pop-up ads infringed its exclusive right to display its copyrighted work by creating a new and different screen display.

The court rebuffed the argument by stating that "to hold that computer users are limited in their use of plaintiff's Web site to viewing the Web site without any obstructing windows or programs would be to subject countless computer users and software developers to liability for copyright infringement and contributory infringement, since the modern computer environment in which plaintiff's Web site exists allows users to obscure, cover and change the appearance of browser windows containing plaintiff's Web site."

The court also found that the plaintiff failed to establish that its exclusive right to prepare derivative works had been violated. On the other hand, the court awarded the plaintiff a preliminary injunction on its trademark infringement and related claims. So, it is prudent to consider all possible causes of action when suing an infringer for copyright infringement.

Scope of Protection

Indeed, in suing for infringement occurring over the Internet, it is advisable to consider the scope of protection afforded the copyrighted work.

In *Nautical Solutions Marketing Inc. v. Boats.com*, 2004 WL 783121 (M.D. Fla. Apr. 1, 2004), Boats.com owned and operated Yachtworld.com, a Web site where subscribing brokers post listings of yachts for sale. Nautical Solutions

Marketing later started a competing Web site called Yachtbroker.com. NSM used an Internet "spider" software program to extract yacht-listing information from Yachtworld.com.

Without lengthy analysis, the trial court in Florida found that NSM's momentary copying and extraction of facts constituted a fair use. NSM also offered a "valet service" which, with the permission of a yacht broker owning a listing on another Web site, moves, deletes or modifies the yacht broker's listing.

The court further found that NSM's copying of boat pictures and descriptions from Yachtworld.com failed to constitute copyright infringement because individual yacht brokers, not Yachtworld.com, own the copyright to those pictures and descriptions.

The court also found that Boats.com could not claim copyright protection in the headings used in the yacht listings on Yachtworld.com because those headings (e.g., "galleys" and "accommodations") merge with the idea of listing a yacht for sale. Nor could Boats.com claim infringement in the "look and feel" of its Web site because, according to the court, the layout and format of the two Web sites were quite dissimilar, with any similarity resulting from unprotectable elements.

Finally, the court found no infringement in any copyright to the compilation of yacht listings owned by Boats.com because the "virtual identity" standard determines infringement of a compilation copyright. Because the formats on Yachtbroker.com and Yachtworld.com differed, virtual identity did not exist.

Unlike the compilation of facts at issue in the *Boats.com* case, however, traditional literary and musical works are usually entitled to a broad scope of protection from any infringement taking place over the Internet.

Along similar lines, in *MyWebGrocer LLC v. Hometown Info Inc.*, 375 F.3d 190 (2d Cir. July 13, 2004), the U.S. Court of Appeals for the 2d Circuit affirmed the decision denying a preliminary injunction that would have barred Hometown Info Inc. from using grocery product descriptions for online shopping developed and copyrighted by its competitor MyWebGrocer LLC.

Plaintiff MyWebGrocer had earlier contracted with D'Agostino Supermarkets to create and maintain an online grocery store. MyWebGrocer populated the new Web site with approximately 18,000 product descriptions. D'Agostino subsequently declined to renew its agreement with MyWebGrocer. D'Agostino later contracted with Hometown, which activated a new Web site incorporating the product descriptions previously used on the Web site created by MyWebGrocer for D'Agostino.

In denying the preliminary injunction, the Court of Appeals found that it was unclear whether MyWebGrocer was likely to succeed on the merits because a trier of fact might conclude, among other things, that its product descriptions lacked creative elements. The court also found that awarding a preliminary injunction would force non-party D'Agostino to shut down its online grocery store, resulting in the potential permanent loss of customers.

The decision underscores the thin copyright protection afforded to the arrangement and selection of information. Until Congress steps in and protects such information stored in databases, copyright owners will likely continue to experience difficulty in protecting their thin copyright in the selection and arrangement of information from unauthorized copying over the Internet.

Fair Use

Even where it is possible to establish grounds for copyright infringement, the plaintiff must still rebut any fair-use defense raised by the defendant. In *United States v. Slater*, 348 F.3d 666, 69 U.S.P.Q.2d 1081 (7th Cir. Nov. 7, 2003), the defendants unsuccessfully relied upon the fair-use defense as a ground to overturn a criminal conviction on conspiracy to commit copyright infringement.

Defendants John Slater and Christian Morley belonged to an organization called Pirates With Attitude, a group dedicated to making vast amounts of copyrighted software freely available over the Internet.

In relying upon the fair-use exception, Morley argued that PWA's Web site was "noncommercial" because members did not have to pay to download the software and that it was "educational" because defendants learned something from using the software, one of the individuals operating the Web site was a professor and the hardware was located at a university.

Stating that such arguments "barely pass the straight-face test," the U.S. Court of Appeals for the 7th Circuit found the transaction not purely noncommercial because while members did not have to pay money to download the software, they contributed valuable services such as testing the software for defendants. The court found the effort to establish an educational purpose also "strains credulity" as the professor who operated the Web site did so without the knowledge or authorization of his university and he kept the computer hidden in a closet.

In declining to find fair use, the court noted that the government also presented expert testimony on the harmful effect of Internet piracy on the potential market for the copyrighted work.

Some people, like defendant Morley in *Slater*, seem to mistakenly believe that it is fair and legal to distribute copyrighted material over the Internet. The admonition by the court in *Slater*, that "[i]t is preposterous to think that Internet piracy is authorized by the fair-use doctrine," should comfort copyright owners in their efforts to protect their copyrighted works from unauthorized distribution over the Internet.

In comparison, in *NXIVM Corp. v. Ross Institute*, 364 F.3d 471, 70 U.S.P.Q.2d 1538 (2d Cir. Apr. 20, 2004), the defendant successfully relied upon fair use in defending against a motion for a preliminary injunction.

Plaintiff NXIVM Corp. produced business-training seminars and owned related copyrighted course materials. Because the course materials contained a copyright notice on virtually every page, and all seminar participants signed a non-disclosure agreement, the 2d Circuit considered it "unpublished" in the sense that it was not available to the general public.

Defendant Ross Institute ran nonprofit Web sites in connection with its work as a cult de-programmer. Ross commissioned and posted two reports on the Internet that analyzed and critiqued the unpublished course manual of NXIVM.

In analyzing the "purpose and character of the use" under the fair-use defense, the court found that the Web sites' use of quotations from the manual to support their critical analyses of the seminars was transformative. The fact that the defendant also ran for-profit businesses in connection with its criticisms did not necessarily detract from the finding.

Because the scope of fair use is narrower for unpublished works than published works, the "nature of the copyrighted work" inquiry fell in favor of the plaintiff. But the court found that the "amount and substantiality" factor leaned toward the defendant because in order to do the research and analysis necessary to support its critical commentary, it was reasonably necessary for the defendant to quote liberally from the plaintiff's manual.

The court found the fourth "market" factor weighed heavily in favor of the defendant because criticisms of a seminar or organization cannot substitute for the seminar or organization itself or hijack its market.

The lengthy analysis offered by the court in the *NXIVM* case, and the holding in favor of the defendant, demonstrate that the fair-use defense applies equally to infringements committed online and offline.

Compliance

Once a copyright plaintiff obtains a judgment against an infringing defendant, the defendant must then comply with the court order.

In *Shady Records Inc. v. Source Enterprises Inc.*, 2004 WL 1277993, 71 U.S.P.Q.2d 1348 (S.D.N.Y. June 7, 2004), counterclaim dismissed, sanctions denied, 2004 WL 1325795, 71 U.S.P.Q.2d 1355 (S.D.N.Y. June 7, 2004), the trial court in New York entered a temporary restraining order prohibiting defendant Source Enterprises Inc. from reproducing songs copyrighted by plaintiff Shady Records Inc.

Three weeks later, Shady's attorneys visited the Source Web site to check for compliance with the court's order and discovered that the lyrics in dispute were still posted. Instead of removing the lyrics from its computer server, Source had merely removed "links" to the content on its Web site. The fact that there were thousands of links, however, made it difficult to find and remove them all.

According to the court: "More is required from a company that has been enjoined from violating a plaintiff's copyright and ordered to remove infringing material from its electronic publications. It was incumbent on the Source ... not merely to instruct that the material be removed, and to engage in unspecified follow-up just to make sure it was being done, but to ensure that all its employees understood the terms of the order and the importance of complying and that all reasonable steps would be taken to prevent public dissemination of the material in the present and in the future."

Successful copyright plaintiffs may wish to periodically monitor the Web sites of any companies or individuals against whom they have obtained court ordered injunctions to check for continuing compliance.

DMCA, File-Sharing and Other Issues

The following cases deal with the liability of ISPs and distributors of P2P software for copyright infringement, the safe harbor provided by the Digital Millennium Copyright Act, and related topics.

Hendrickson v. Amazon.com Inc., 298 F. Supp. 2d 914, 69 U.S.P.Q.2d 1471 (C.D. Cal. Dec. 8, 2003): The court held that a letter sent to defendant Amazon.com claiming that all "Manson" titled DVDs violate plaintiff's copyright was inadequate under the DMCA to put defendant on notice when the infringing item was not posted for sale until nine months after the date of the notice letter. To avoid such a result, notice letters sent under the DMCA should be specific and timely.

Recording Industry Association of America Inc. v. Verizon Internet Services Inc., 351 F.3d 1229, 69 U.S.P.Q.2d 1075 (D.C. Cir. Dec. 19, 2003), cert. denied, 125 S. Ct. 309 (U.S. Oct. 12, 2004): The appeals court upheld a decision granting the motion to quash a subpoena served by plaintiff RIAA against defendant Verizon to discover names of subscribers who appeared to be trading large numbers of MP3 files of copyrighted music via P2P file-sharing programs such as Kazaa. The subpoena provisions of the DMCA do not apply to an ISP acting merely as a conduit for an individual using a P2P file-sharing program, the court said.

Under the terms of the DMCA, a subpoena may be issued only to an ISP engaged in storing on its servers material that is infringing or the subject of infringing activity, the court said. It may be necessary for Congress to step in and amend the subpoena power provided by the DMCA to apply to even such transitory activity.

Ellison v. Robertson, 357 F.3d 1072, 69 U.S.P.Q.2d 1616 (9th Cir. Feb. 10, 2004): The appeals court found a triable issue of fact as to whether America Online was liable for contributory copyright infringement, and eligible for "safe harbor" under the DMCA, in providing subscribers access to news groups where the defendant posted the plaintiff's copyrighted short stories.

AOL was not liable, though, for vicarious copyright infringement because the plaintiff offered insufficient evidence that AOL received a direct financial benefit from the infringement. Proving a direct financial benefit is difficult where the ISP such as AOL provides a wide variety of services, including some of marginal value, to its customers.

CoStar Group Inc. v. LoopNet Inc., 373 F.3d 544, 71 U.S.P.Q.2d 1096 (4th Cir. June 21, 2004): The appeals court affirmed entry of summary judgment in favor of defendant. Because defendant LoopNet, as an ISP, was simply the owner and manager of a system used by others who were violating CoStar Group's copyrights, and was not an actual duplicator itself, the court found that it was not liable for direct copyright infringement.

The issue of contributory copyright infringement, however, was not before the court. Why CoStar agreed to voluntarily dismiss the claims of contributory infringement, as stated by the court, remains an open question.

Perfect 10 Inc. v. CCBill LLC, 340 F. Supp. 2d 1077, 71 U.S.P.Q.2d 1568 (C.D. Cal. June 22, 2004): The court granted a motion for summary judgment in favor of defendants Internet Billing Co. LLC, Cavecreek Wholesale Internet Exchange and CCBill LLC, companies that variously

provide payment, Web hosting and related Internet connectivity services, on the grounds that they are entitled to protection under the safe-harbor provision of the DMCA.

The court also granted a motion for summary judgment in favor of defendant Internet Key Inc., a company that provides age verification systems for adult-content Web sites, on the grounds that Internet Key is entitled to protection under the safe-harbor provision of the DMCA for any infringements made after Aug. 21, 2002, when it adopted a DMCA-mandated policy that provided for the safe termination of service access for repeat copyright infringers in appropriate circumstances. ISPs should have reasonable and detailed policies, as required by the DMCA, in order to qualify for the safe harbor.

UMG Recordings Inc. v. Bertelsmann AG, 222 F.R.D. 408 (N.D. Cal. July 13, 2004): The court denied a motion to dismiss for failure to state a claim upon which relief may be granted. Napster, an Internet startup that enabled users to download MP3 files without payment, entered bankruptcy after being preliminarily enjoined for contributory and vicarious copyright infringement.

The plaintiffs subsequently sued the defendants, accusing them of assuming control over Napster's operations and directing the infringing activities (as opposed to just funding Napster). Such specific allegations state a viable claim for relief under theories of both contributory and vicarious liability, the court said.

The potential liability of vendors of P2P software should cause those contemplating taking an equity position in the companies, or otherwise assisting the companies in a manner which can be construed as aiding and abetting the companies in their alleged infringement or controlling their activities, to think twice.

Sony Music Entertainment Inc. v. Does 1-40, 326 F. Supp. 2d 556, 71 U.S.P.Q.2d 1661 (S.D.N.Y. July 26, 2004): The court denied a motion to quash a subpoena on a non-party Internet service provider, reasoning that although a person who uses the Internet to download or distribute copyrighted music without permission is engaging in the exercise of speech, albeit to a limited extent only, such a person's identity is not protected from disclosure by the First Amendment. The decision is arguably at odds with the *Verizon* case discussed *supra*.

Perfect 10 Inc. v. Visa International Service Association, 2004 WL 1773349, 71 U.S.P.Q.2d 1914 (N.D. Cal. Aug. 6, 2004): The court granted a motion to dismiss contributory and vicarious copyright infringement claims brought by plaintiff Perfect 10 Inc., an adult-entertainment service company, against Visa, other credit card companies and banks.

The court found no contributory copyright infringement because the defendants provided content-neutral services and there was no factual basis supporting the allegation that defendants materially contributed to the alleged infringing activities in copying and distributing plaintiff's images. Defendants provided only the ability to process credit cards.

The court also found no vicarious copyright infringement because the defendants did not have the right or ability to exercise control over the alleged infringing activity. This decision should make it more difficult for copyright owners to pursue vendors who assist alleged infringers in the operation of their Web sites.

Metro-Goldwyn-Mayer Studios Inc. v. Grokster Ltd., 380 F.3d 1154 (9th Cir. Aug. 19, 2004), cert. granted, 2004 WL 2289054 (U.S. Dec. 10, 2004): The 9th Circuit affirmed a grant of summary judgment in favor of defendants on plaintiffs' claims of contributory copyright infringement and vicarious copyright infringement. There was no evidence of active and substantial contribution to the infringement in the distribution and support of peer-to-peer software where the users can and do choose to employ it for both lawful and unlawful ends. The court likened P2P systems to home video recorders and copy machines.

The court also found no vicarious copyright infringement even though the defendants derive financial benefit from the infringing conduct because they lacked the ability to supervise and control the infringing conduct. The Inducing Infringement of Copyrights Act of 2004, aimed at addressing concerns raised over P2P file-sharing software, is pending in Congress. (**Editor's Note:** Congress adjourned in December without taking any action on the bill.)

Conclusion

We are likely to see even more cases dealing with the application of copyright law to the Internet over the coming year. While many of those cases will no doubt deal with claims of contributory infringement and vicarious liability against ISPs and the distributors of P2P software, others will presumably concern more traditional actors and forms of infringement. Taken together, both bodies of case law are likely to shape our copyright laws for years to come.

* Peter S. Sloane is an attorney with the intellectual property law firm Ostrolenk, Faber, Gerb & Soffen LLP in New York. He can be reached at psloane@ostrolenk.com or (212) 382-0700.