

## RECENT DEVELOPMENTS IN INTERNET-RELATED COPYRIGHT ISSUES

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Two recent appellate decisions shed substantial light on the respective rights of copyright holders and third parties relating to the Internet. The Second Circuit case, *Universal City Studios Inc. v. Corley*,<sup>1</sup> 273 F.3d 429 (2nd Cir. Nov. 28, 2001), is the first appellate case under the Digital Millennium Copyright Act of 1998 (“DMCA”), 17 U.S.C. § 1201. The more recent Ninth Circuit case, *Kelly v. Arriba Soft Corp.*, 280 F.3d 934 (9th Cir. Feb. 6, 2002), also began as a DMCA dispute, but was appealed only on the classic copyright “fair use” doctrine.

In *Corley*, the Second Circuit held that the DMCA was violated when computer “hackers” posted on their website computer code designed to circumvent encryption technology that protects DVDs from unauthorized viewing and copying. The Court ruled that the defendants could neither post the code on their own website nor knowingly link to other websites where the code could be found. In its ruling, the Court rejected the defendants’ argument that their conduct was protected by the First Amendment or permitted by the “fair use” doctrine.

In *Kelly*, the Ninth Circuit held that it was “fair use” for an Internet search engine for visual images to display “thumbnail” images of photographs from third-party websites. As with *Corley*, the Court also addressed the practice of linking, holding that the search engine could not link to and frame third parties’ full-size photographic images and display them on the search engine’s own site – even though it could display the same images in “thumbnail” form.

The cases illustrate the substantial controversy and confusion that continues to pervade the application of copyright law to the Internet, but also provide a glimmer of emerging clarity. We provide some practical observations — after reviewing the recent decisions below.

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### THE CORLEY CASE

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#### *The District Court Enjoins*

In *UCS v. Corley*, eight movie studios sued Eric Corley, his magazine and affiliated website, among other defendants, seeking to enjoin Corley from posting DeCSS – a computer

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<sup>1</sup> Some media reports have referred to this case by the name of the district court case, *Universal City Studios Inc. v. Remierdes*. Mr. Remierdes, however, elected not to appeal the decision and is therefore no longer a party to the case.

program designed to bypass CSS, the encryption technology that prevents the unauthorized use or copying of DVDs – on his website. 273 F.3d 429. Corley’s website explained that DeCSS could be used to copy DVDs that utilize CSS, and also contained links to other websites posting the program. *See id.* The movie studios sued under Section 1201(a)(2) of the DMCA, which was intended to prohibit the manufacture of or trafficking in devices that circumvent access-control technology for copyrighted works. *See id.*<sup>2</sup>

In 2000, the Southern District of New York issued a preliminary and then a permanent injunction preventing the defendants from posting DeCSS on their website.<sup>3</sup> The trial court rejected arguments that any of the DMCA’s exceptions covered the defendants’ conduct,<sup>4</sup> and further held that the defendants could not invoke the “fair use” defense under the Copyright Act, 17 U.S.C. § 107, because it applied only to “infringements” and not to the DMCA’s anti-circumvention provisions. *See* 111 F.Supp. 2d at 322-23.<sup>5</sup>

The district court also enjoined the defendants’ conduct in linking their website to other sites that displayed DeCSS, which the court found would circumvent the injunction and allow the defendants to enable conduct that they were prohibited from undertaking. *See id.* at 341. The court held that such links also violated the anti-trafficking provisions of Section 1202(a)(2),

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- <sup>2</sup> Enacted in 1998, the DMCA protects digital copyrighted material. Section 1201(a) addresses both circumvention activities and technology. Section 1201(a)(1) prohibits the circumvention of a protection system that controls access to a copyrighted work. Section 1201(a)(2) prohibits the making, importing and trafficking of any technology primarily designed to circumvent such controls. Section 1201(b) prohibits the manufacture or distribution of any technology that (a) is primarily designed to circumvent technology that controls access to a copyrighted work; (b) has only limited commercial value or use other than circumvention of such protective measures; or (c) is marketed for circumvention purposes. *See* 17 U.S.C. § 1201.
- <sup>3</sup> *See Universal City Studios v. Remierdes*, 82 F. Supp. 2d 211 (S.D.N.Y. Feb. 2, 2000) (preliminary injunction), 111 F. Supp. 2d 294 (S.D.N.Y. Aug. 17, 2000, as amended Sept. 6, 2000) (permanent injunction).
- <sup>4</sup> The exceptions are found at 17 U.S.C. § 1201(f) (reverse engineering to achieve interoperability), § 1201(g) (encryption research), and § 1201(j) (security testing). Other exceptions include § 1201(d) (limited use for nonprofit libraries and educational institutions) and § 1201(e) (law enforcement and intelligence).
- <sup>5</sup> “Fair use” is a form of affirmative defense to a claim of copyright infringement. The court primarily analyzes the following four factors to determine whether a use, on the whole, is “fair” and therefore not infringing: (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. 17 U.S.C. § 107.

largely because these linked sites had no legitimate purpose or content and existed solely in order to disseminate DeCSS. *See id.*

### *The Second Circuit Affirms*

The Second Circuit affirmed, rejecting the defendants' arguments that (i) they had a First Amendment right to post the DeCSS code; and (ii) the district court's injunction would impede legitimate uses of the encrypted DVD material. *See* 273 F.3d at 429. The Court of Appeals also affirmed the trial court's ruling that the defendants' conduct did not fit any of the DMCA's exceptions. *See id.*

First Amendment. As for defendants' First Amendment argument, the Court held that the posting of the DeCSS software code had both a "speech" and "nonspeech" component. The code itself (and programs derived from it) was deemed protected "speech," because it conveys information. *See id.* at 446. The Court held, however, that the district court enjoined the posting of DeCSS solely because of its functional capability to instruct a computer to decrypt the CSS code, not because of its communication of information. *See id.* It was therefore a content-neutral regulation warranting a lesser standard of First Amendment scrutiny. *See id.* at 447. Under this standard, a challenged statute provision must (i) serve a substantial governmental interest unrelated to the suppression of free expression; and (ii) not burden substantially more speech than is necessary to further the government's interest. *See id.* at 449.

Applying this standard to the relevant provision of the DMCA, the Second Circuit affirmed the lower court's ruling that the provision was constitutional because it furthered the state's substantial interest in preventing unauthorized access to encrypted copyrighted material. *See id.* at 453. In addition, this interest was unrelated to suppressing free expression, since it prohibited the defendants' posting regardless of whether DeCSS contained any information qualifying as "speech." *See id.*<sup>6</sup>

Linking. The Second Circuit then examined the lower court's prohibition against the defendants' posting links to other websites containing DeCSS. It held that linking also has a "speech" and "nonspeech" component, because it both conveys information and has the functional capacity to bring the content of the linked web page to the user's computer screen. 273 F.3d at 456. As with the posted code, the court held that the application of the DMCA to

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<sup>6</sup> The conflict between the First Amendment and the DMCA also made headlines in 2001, when the Electronic Frontier Foundation asked a federal court in New Jersey to declare that the DMCA cannot be invoked to oppress the release of scientific research on the basis of the First Amendment. *See Felten v. Recording Industry Association of America, Inc.*, CV-01-2669 (GEB) (D.N.J. June 6, 2001); *see also Federal Courts Reject Two Challenges to Law for Digital Copyright*, WALL ST. J., Nov. 29, 2001, B15. The case arose after the Recording Industry Association of America threatened to sue a researcher who planned to publish a paper explaining how to defeat control mechanisms that limit access to copyrighted digital music. *See id.* The court dismissed the case after the RIAA declared that it would not file suit. *See id.*

prohibit links to other websites containing DeCSS was a content-neutral regulation. *See id.* The prohibition was motivated by the links' functional capability and served a substantial governmental interest that was unrelated to the suppression of free expression. *See id.*

The Court noted, however, that the application of the DMCA to the defendants' linking to DeCSS sites should be limited, stating: (i) it may chill website operators from linking to legitimate websites, for fear they might contain DeCSS; and (ii) it may curtail access to other legitimate information on websites that do contain DeCSS. *See id.* at 456. To fashion a sufficiently narrow application of the DMCA to linked sites, the Court cited the district court's requirement of clear and convincing evidence "that those responsible for the link (a) know at the relevant time that the offending material is on the linked-to site, (b) know that it is circumvention technology that may not lawfully be offered, and (c) create or maintain the link for the purpose of disseminating that technology." *Id.*

Fair Use. Finally, the Second Circuit rejected as "extravagant" the claim that the DMCA unconstitutionally "eliminates fair use" of copyrighted materials. *See id.* at 458. The Court initially noted that the Supreme Court has never held that "fair use" is constitutionally required, but then declined to analyze the issue further for three reasons: (i) the defendants did not claim that they were making fair use of the DeCSS code, and the district court's injunction did not prohibit such fair use; (ii) there was inadequate evidence to support an assertion that the DMCA prohibited the "fair use" copying of portions of DVDs; and (iii) the fair use defense does not entitle one to use a work "by the optimum method or in the identical format of the original." *Id.* at 458-59.

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#### THE KELLY CASE

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In *Kelly*, the owner of copyrighted photographs sued Arriba Soft (now Ditto) - the operator of a visual "search engine" for photographs that gathers and copies images across the Internet and makes "thumbnail" and full-size copies available on its website - for copyright infringement and DMCA violations.

The District Court Dismisses. The district court granted summary judgment to Arriba Soft on "fair use" grounds. *See* 77 F. Supp. 2d 1116 (C.D. Cal. 1999). Analyzing the four fair use factors set out in 17 U.S.C. § 107, the court held that: (i) Kelly's photographs were an incidental portion of Arriba Soft's (admittedly) commercial use of copyrighted material, and Arriba Soft had made a "transformative" use of the photographs by using them for an Internet image catalogue;<sup>7</sup> (ii) Kelly's works were artistic; (iii) Arriba Soft used both a thumbnail image and a

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<sup>7</sup> A transformative work is a work that adds something new to, or has a different character or purpose from, the original creation. The original work is altered with new expression, meaning or message. The more transformative the new work, the more likely it is "fair use." *See Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 & 590-91 (1994).

full-size image; and (iv) Kelly had shown no evidence that his own website had been harmed by Arriba Soft's displays. *See id.* Weighing the first and fourth factor for Arriba Soft and the second and third factor for Kelly, the court ultimately found the use of the photographs – in thumbnail and full-size form – constituted fair use under 17 U.S.C. § 107. *See id.* at 1120. The court further found that Arriba Soft had not violated Section 1202(b) of the DMCA by displaying the thumbnail images without corresponding copyright notices in the accompanying text. *See id.* at 1122.

The Ninth Circuit Limits. The Ninth Circuit affirmed the lower court's finding of "fair use" with respect to Arriba Soft's use of the "thumbnail" sketches. *See* 280 F.3d at 948. After a similar analysis of the "fair use" factors, it held that these factors did not weigh in Arriba Soft's favor when Arriba Soft reproduced full size versions of Kelly's photographs by linking to Kelly's website and "framing" the photographs within Arriba Soft's own site. *See id.* at 944. The Court held that the linking and framing of full-size images constituted an unauthorized "public display" of Kelly's works under 17 U.S.C. § 106(5) that went beyond "fair use." *See id.* The Ninth Circuit did not reach the DMCA issue.

As did the Second Circuit in *Corley*, the Ninth Circuit took pains to limit the scope of its holding with respect to third-party linking. It cited lower court cases in which defendants were held liable for displaying third-party works on their sites when "defendants took an active role in creating the display of the copyrighted images," distinguishing them from cases in which defendants "only maintained a system that acted as a passive conduit for third parties' copies." *Id.* at 946-47.<sup>8</sup>

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#### PRACTICAL SUGGESTIONS

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The *Corley* and *Kelly* decisions suggest some practical guidance for Internet content providers.

First, the appellate courts are expressing real skepticism towards overaggressive or disingenuous attempts to use the First Amendment as a defense to an asserted intellectual property violation. In *Corley*, the Second Circuit focused on the functionality of the DeCSS code and its ability to violate third-party rights, rather than its classification as "speech." Recently

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<sup>8</sup> The cited cases, *Playboy Enterprises, Inc. v. Webbworld, Inc.*, 991 F. Supp. 543 (N.D. Tex. 1997) and *Playboy Enterprises, Inc. v. Russ Hardenburgh, Inc.*, 982 F. Supp. 503 (N.D. Ohio 1997), were decided prior to the November 1998 enactment of the DMCA, which protects website operators who act simply as a passive conduit for infringing third-party materials. *See* 17 U.S.C. § 512 (a)-(d).

last year, the Fourth Circuit also rejected a First Amendment argument in the trademark infringement context.<sup>9</sup>

Second, the courts are considering the injury to the copyright owner when balancing the “fairness” of a given use. In *Kelly*, the court stated: “By giving users access to Kelly’s full-sized images on its own website, Arriba harms all of Kelly’s markets. Users will no longer have to go to Kelly’s website to see the full-sized images, therefore deterring people from visiting his website.” 280 F.3d at 948. The Ninth Circuit made a similar ruling last April in *A&M Records Inc. v. Napster*, 239 F.3d 1004 (9th Cir. 2001), holding that the uploading and downloading of digital files containing copyrighted music through an Internet service was not “fair use” because of the potential harm to the legitimate market for those works.

Third, the courts are starting to define the boundaries of liability for “linking” to infringing content. Previous case law had held that a party was not liable for passive linking to an infringing third party site.<sup>10</sup> *Corley* and *Kelly* do not hold the opposite, but do assess liability for (i) known linking to sites known to engage in illegal conduct; or (ii) linking plus a more active role by the defendant with respect to the linked content.<sup>11</sup> While almost all content providers link, the risk of liability can be lessened if one (a) links only passively, without any statement as to the linked content, and perhaps (b) even disclaims liability for linked content in one’s “terms and conditions of use” for site users.

Fourth, the federal and state courts may be diverging in their approach to striking the balance between intellectual property rights and free speech. On November 1, 2001, shortly before the *Corley* decision, the California Court of Appeal unanimously overturned a lower court’s injunction that banned individuals from posting DeCSS on websites. See *DVDCCA v. Bunner*, 113 Cal. Rptr. 2d 338 (Cal. Ct. App. 2001). Unlike *Corley*, the claims in *Bunner* were

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<sup>9</sup> See *People for the Ethical Treatment of Animals (“PETA”) v. Doughney*, 263 F.3d 359 (4th Cir. Aug. 23, 2001) (holding that the First Amendment does not convey the right to operate a website under an infringing domain name); but see *Suntrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257 (11th Cir. Oct. 10, 2001) (refusing to enjoin publication of *The Wind Done Gone*, a parody of *Gone With the Wind*; noting conflict between copyright and the First Amendment, but holding that “fair use” doctrine preserves the First Amendment in the copyright context).

<sup>10</sup> See, e.g., *Bernstein v. JC Penney, Inc.*, No. 98-2958 REX, 1998 WL 906644 (C.D. Cal. 1998) (granting motion to dismiss copyright infringement suit; defendant’s website was linked to another website that contained infringing material).

<sup>11</sup> See *Perfect 10, Inc. v. Cybernet Ventures, Inc.* 167 F. Supp. 2d 114, 1121 (C.D. Cal. 2001) (declining to dismiss copyright infringement claim; defendant website operator serviced other websites that copied plaintiff’s materials); *Intellectual Reserve, Inc. v. Utah Lighthouse Ministry, Inc.*, 75 F. Supp. 2d 1290, 1292 (D. Utah 1999) (enjoining defendant from posting addresses to websites that contained infringing material).

brought under the state's trade secret law, rather than the DMCA.<sup>12</sup> The California Court of Appeal's First Amendment analysis differed from the Second Circuit's analysis in *Corley*. The Court held that the preliminary injunction was an unconstitutional prior restraint on "pure speech," finding that DeCSS was sufficiently expressive to qualify as speech despite its functional aspect. *See id.* at 347. The plaintiff has appealed this ruling to the California Supreme Court.<sup>13</sup>

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<sup>12</sup> Trade secrets can include any formula, pattern, device or compilation of information used in a business which provides an advantage over competitors who do not know or use it. *See* Restatement of Torts § 757, cmt. b. The California court noted the differences between trade secrets and copyrights, namely that copyrights have Constitutional protection, a limited term and a "fair use" defense, and therefore merit stronger protection in the First Amendment context. *See Bunner*, 113 Cal. Rptr. 2d at 346.

<sup>13</sup> *See DVD Copy Control Ass'n v. Bunner*, No. S102588, 2002 WL 356487 (Cal. Feb. 20, 2002) (granting petition for review); *see also California Supreme Court Asked to Review Ruling Injunction Violates First Amendment*, BNA ELEC. COM. & L. REP., Dec. 12, 2001, at 1225.