

# MILRC Media Law Resource Center

## MEDIA LAW LETTER

Associate Member Edition

2007:2

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## MLRC London Conference Explores International Media Law Issues *Content, Newsgathering and New Media Issues Discussed*

Over 200 lawyers from around the world convened at Stationers' Hall in London on September 17-18 for MLRC's Conference on International Libel, Privacy, Newsgathering and New Media Law. This was MLRC's largest conference in London to date, with new attendees from Argentina, Hong Kong, Hungary, Malaysia, and the Philippines.

Judge Loukis Loucaides of the European Court of Human Rights opened the event with a speech surveying the Court's expanding privacy law jurisprudence – which is impacting the media law landscape throughout Europe. Judge Loucaides, from Cyprus, has been a member of the Court since 1998. His speech, entitled "Freedom of Expression and the Right to Respect Private Life" – was a pointed reminder of the broad protection the Court is prepared to give to the right to privacy.

While acknowledging that a free press is fundamental to democratic society, Judge Loucaides stated that an "idealistic approach" to freedom of expression had given insufficient protection to privacy. He then outlined recent Court cases that have recognized a protection for privacy under Article 8 of the European Convention on Human Rights, including the Court's landmark decision in *Von Hannover v. Germany* which found that Princess Caroline of Monaco has a right not to be photographed in public by the press unless she is undertaking an official function.

Judge Loucaides concluded by noting that the Court would give wide latitude to the press to report on the private behavior of public officials and political candidates where their conduct impacts the functions of government. But he suggested that publication of "flashy news" – presumably gossip and celebrity



*ECHR Judge Loukis Loucaides.*

news – was not only potentially invasive of the right of privacy, but something which potentially undermines democracy itself.

### ***September 17 Sessions***

Nancy Hamilton, Jackson Walker LLP, and Mark Stephens, Finers Stephens Innocent LLP, then led a session on Libel Law developments in the UK, US and Europe. Among the issues of discussion was reporting allegations of misconduct, including recent libel cases in the UK and the US over reports on suspected connections to terrorism. The session also included a discussion of costs in UK libel litigations, in particular the conditional fee arrangements which allow for substantial "uplifts" in recoverable fees for successful plaintiffs.

David McCraw, The New York Times Company, and Gillian Phillips, Times Newspapers Ltd., led a discussion on Criminal Liability issues for the press. Topics included official secrets legislation and liability for protecting confidential sources.

The day concluded with a session on the Asian Media Law landscape. Justice William Henric Nicholas of the Supreme Court of New South Wales, Australia introduced the session with observations on free expression issues in

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*Asian Media Law Panel. From left to right: Harry Roque, Cecil Abraham, Doreen Weisenhaus, Justice Nicholas.*

(continued from page 3)

the region. Then Peter Bartlett, Minter Ellison and Kurt Wimmer, Gannett Company, Inc., led a panel session featuring Cecil Abraham (Malaysia); Harry Roque (Philippines); and Doreen Weisenhaus (Hong Kong).

### September 18 Sessions

On September 18, David Schulz, Levine Sullivan Koch & Schulz LLP, moderated a discussion with English High Court Judge Michael Tugendhat and Justice Nicholas on UK and Australian libel practices and trends.

Kevin Bays, Davenport Lyons, and Elizabeth McNamara, Davis Wright Tremaine LLP, led a discussion on privacy law developments, including a discussion of the impact of the *Von Hannover* and recent English decisions on publishers. English author and barrister John Mortimer QC spoke at the end of the privacy law session. In a question and answer session led by Mark Stephens, Finers Stephens Innocent LLP, Mortimer discussed his own brushes with privacy issues, as well as the inspirations behind his famous fictional character Horace Rumpole.

Siobhain Butterworth, public editor at *The Guardian* and Dale Cohen, Cox Enterprises, Inc., moderated a panel session on Journalism & The New Media Environment. The panel featured Tim Brooks, Managing Director, The Guardian, Richard Sambrook, BBC Global News, Paisley Dodds, AP London Bureau Chief, and Lloyd Sheperd, former Director Yahoo! News Europe.

Louise Hayman, Independent News & Media, and Clifford Sloan, Washington Post/Newsweek Interactive led a discussion session on New Media & The Law, including discussion of Google litigations throughout the world that are challenging traditional notions of fair use/fair dealing.

The conference concluded with an Oxford-style debate on privacy law. The resolution for debate was: This House believes the press has no right to pry into the private lives of public figures. Michael Beloff QC, Blackstone Chambers, and Matthew Nicklin, 5RB, argued in favor of the resolution. Kelli Sager, Davis Wright Tremaine, and Charles S. Sims, Proskauer Rose LLP, argued against the resolution. Despite a strong show of hands against the resolution, Mr. Justice Tugendhat judiciously called the debate a draw.

Finally, on Wednesday morning September 19 approximately 50 in-house lawyers from the UK, US, Australia and Canada met to discuss their unique practice and management issues.



Counterclockwise from the top: Paisley Dodds, AP London Bureau Chief; Tim Brooks, Managing Director of *The Guardian*; and Richard Sambrook of BBC Global News, participating in a panel discussion on Journalism and the New Media Environment.



Mr. Justice Tugendhat, High Court England & Wales, and Justice Nicholas, Supreme Court New South Wales, Australia



Mark Stephens, Finers Stephens Innocent LLP, interviewing barrister and author John Mortimer.



Kevin Bays, Davenport Lyons, in the Privacy Law session.



Donald Verrilli, Jr., Jenner & Block, discussing *Viacom v. Google* in the New Media & Law session.



Kelli Sager, Davis Wright Tremaine LLP, in the Oxford-style debate on privacy law.

## English Court of Appeal Recognizes Neutral Report Defense in Libel Cases

### Republication of Allegations Protected Under Umbrella of Reynolds Defense

In what may prove to be a landmark decision, the Court of Appeal of England & Wales this month expressly recognized a neutral report defense in libel cases. *Roberts v. Gable*, [2007] EWCA Civ 721 (July 12, 2007).

Building on a number of prior cases that had considered the neutral report principle, the Court expressly held that a neutral report defense exists for the publication of defamatory allegations in circumstances where the public has a right to know that such allegations are being made and the journalist does not adopt or endorse the allegations. In this circumstance, there is no need for the press to take steps to ensure the accuracy of the published information.

#### Background

The claimants in the case, brothers Christopher and Barry Roberts, are active members of the far right British National Party (“BNP”). They sued over an October 2003 article published in Searchlight magazine reporting on an internecine dispute among far right factions. Searchlight is an organization that reports on, and actively opposes, the activities of far-right organizations in Britain.

The article at issue, entitled “BNP London Row Rumbles on” appeared in a section of the magazine called “News from the Sewers.” The article reads as follows:

The two rival camps in the British National Party seem to have set their feud aside during the campaign that won the party a council seat in Gray’s, Essex, last month. Even people who should not be in the party at all, such as the old hard line Nazi and Searchlight informant, Keith Thompson, were out plodding the streets for the BNP.

In May this column reported a BNP rally in London at which John Tyndall, the party’s founder, was the main speaker and several of his supporters were present. It now seems that this was an attempt to bring them together with their rivals, the supporters of Nick Griffin, the party’s present leader.

Since then Tyndall has been expelled from the party and has announced that he is resorting to the courts to challenge the decision.

We described the London rally as the Night of the Short Knives. Soon afterwards the BNP’s March bulletin accused two members of stealing the collection from the meeting. The story that was put around was that Dave Hill and Robert Jeffries, who is better known in the party as Bob James, stole the money from the house of Chris Roberts, the London and Essex organiser. It appears that the police investigated but decided not to act.

Perhaps the police are now more interested in Roberts and his brother Barry. Hill and Jeffries recently issued a long letter attacking Griffin and his supporters, including Chris Roberts. It explains that it was Roberts who stole the money from the rally and that although it went against the grain, Hill and Jeffries

reluctantly threatened to report him to the police. After Roberts angrily returned the money, the letter alleges, he and his brother Barry threatened to “kneecap, torture and kill” Hill, Jeffries, and their respective families.

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## English Court of Appeal Recognizes Neutral Report Defense in Libel Cases

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The letter complains that the Griffin leadership described Roberts as a self-made millionaire who was leaving the city to devote his time and fortune to the BNP, but he turned out to be a disappointment. “It was now quite obvious that a little village somewhere, was missing its idiot!”

The Claimants alleged the article was defamatory in that it accused them of stealing money and threatening their rivals with harm; and that they might be subject to police investigation.

The defendants raised the *Reynolds* qualified privilege defense. Mr. Justice Eady ruled in favor of the defendants. Although the defendants did not attempt to verify the allegations or contact the claimants before publication, the judge ruled that under the circumstances publication was privileged. Mr. Justice Eady found that the case raised matters of “reportage”—i.e., that the subject was of serious public interest and readers would understand that the magazine was not endorsing the allegations, but was simply reporting that such allegations were made.

### *Court of Appeal Decision*

The Court of Appeal affirmed with a lengthy consideration of the qualified privilege defense as applied to reporting of allegations, as well as European and American case law. These authorities supported the proposition that:

the journalist has a good defense to a claim for libel if what he publishes, even without an attempt to verify its truth, amounts to reportage, the best description of which gleaned from these cases is that it is the neutral reporting without adoption or embellishment or subscribing to any belief in its truth of attributed allegations of both sides of a political and possibly some other kind of dispute.

*Roberts v. Gable* at ¶ 53

The court explained that the neutral report defense was not an abandonment of the traditional rule against repetition. In fact, the “repetition rule and reportage are not in conflict with each other” because the neutral report of an allegation is not the same as an allegation asserted to be true.

Doctrinally, the neutral report defense falls under the umbrella of qualified privilege. And all the circumstances of the case and the 10 factors listed in *Reynolds* by Lord Nicholls “adjusted as may be necessary for the special nature of reportage” must be considered.

In particular, the Court emphasized the following:

- The information must be in the public interest. With respect to public interest, the Court quoted from the House of Lords judgment in *Jameel* stating: “The fact that the material was of public interest does not allow the newspaper to drag in damaging allegations which serve no public purpose. They must be part of the story. And the more serious the allegation, the more important it is that it should make a real contribution to the public interest element in the article.” *Jameel v. Dow Jones* ¶ 51.
- It is for the judge to rule on the defense in a way analogous to a ruling on meaning. The test is objective, not subjective. All the circumstances surrounding the gathering in of the information, the manner of its reporting and the purpose to be served will be material.
- This protection will be lost if the journalist adopts the report and makes it his own or if he fails to report the story in a fair, disinterested and neutral way. But even if the report is not neutral, the journalist can still attempt to show that it was a piece of responsible journalism even though he did not check accuracy of his report.
- All the circumstances of the case are brought into play to find the answer but if it is affirmative, then reportage must be allowed to protect the journalist who, not having adopted the allegation, takes no steps to verify his story.
- The relevant factors properly applied will embrace the significance of the protagonists in public life and there is no need for insistence as pre-conditions for reportage on the defendant being a responsible prominent person or the claimant being a public figure as may be required in the U.S.A.
- The urgency is relevant, see factor 5, in the sense that fine editorial judgments taken as the presses are about

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## English Court of Appeal Recognizes Neutral Report Defense in Libel Cases

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to roll may command a more sympathetic review than decisions to publish with the luxury of time to reflect and public interest can wane with the passage of time.

*Roberts v. Gable* at ¶ 61.

### ***Neutral Report Defense Applied***

Applying these considerations, the Court concluded that the defendants were protected by the neutral report defense. 1) The article involved a matter of public interest; 2) it reported that allegations had been made, not that they were true; and 3) de-

fendants did not adopt the allegations or take sides.

With respect to whether an article adopts the allegations, the Court cited both the House of Lords decision in *Jameel* and the European Court of Human Rights decision in *Radio France v. France*, 40 E.H.R.R. 706 (2005), for the proposition that judges must give allowance for editorial judgment.

Gavin Millar QC and Guy Vassall-Adams, Doughty Street Chambers, and solicitors firm Kosky Seal, represented Robert Gable, Steve Silver and Searchlight Magazine Ltd. Hugh Tomlinson QC and solicitors firm Osmond & Osmond represented the claimants.

## Just Published! MLRC's Bulletin 2007:3

### PUBLISHING IN THE GLOBAL ENVIRONMENT: DEVELOPMENTS IN EUROPEAN AND AMERICAN MEDIA LAW

#### THE LAW OF PRIVACY IN ENGLAND AND WALES

By Kevin Bays and Paul Chamberlain

#### POLICING PRIVACY

HOW U.S. LAW NAVIGATES THE BOUNDARY BETWEEN FREE SPEECH AND PRIVATE FACTS

By David A. Schulz and Ashley I. Kissinger

#### PUBLISHING IN IRELAND

By Karyn Harty

#### CAN WE BRIDGE THE TRANS-ATLANTIC COPYRIGHT DIVIDE

FAIR USE AND AUTHORS' RIGHTS IN NEW MEDIA

By Hubert Best

#### ONLINE INTERMEDIARIES AND THIRD PARTY CONTENT UNDER EU AND US LAWS

A BRIEF DISCUSSION OF THE DIFFERENT STANDARDS AND A POSSIBLE STRATEGY FOR RESISTING A FOREIGN JUDGMENT INCONSISTENT WITH US LAW

By Patrick J. Carome, Colin Rushing, and Bart M.J. Szweczyk

#### MOCK TRIAL TALES

A COMPARISON OF MOCK JURY TRIALS IN THE UNITED STATES, CANADA, AND ENGLAND

By Charles L. Babcock, Jason S. Bloom and Thomas B. Kelley

#### JOURNALISTS ON THE FRONT LINE

THE GENEVA CONVENTIONS, THE BUSH ADMINISTRATION AND THE CHALLENGES OF WAR COVERAGE

By Scott Horton and Amin Kassam

#### PRESS FREEDOM IN THE BALANCE:

A COMPARATIVE EXPLANATION AND CRITIQUE OF ECHR'S DEVELOPING CASE LAW ON PRIVACY AND LIBEL

By David S. Korzenik and Mona Houck

The Bulletin is available online at [www.medialaw.org](http://www.medialaw.org)



## Scottish Court Rejects Attempt to Enjoin Broadcast of BBC Documentary *Public Interest Trumps Company's Privacy Rights*

By Rosalind McInnes

In April, the BBC successfully resisted an interim interdict (interlocutory injunction) application by Response Handling Ltd, a call centre company based in Scotland. *Response Handling Ltd. v. BBC* (Scottish Court of Sessions April 2007).

The call centre industry—businesses that provide help desk and other customer support to other companies—is a major employer in Scotland. The case concerned a documentary in the *Frontline Scotland* strand, called “*The Billion Pound Bank Robbery*,” which dealt with financial fraud.

The dispute turned on footage in the call centre shot by an undercover journalist, whose references had not been checked by the company, and showed how readily she was able to abstract customers’ financial data.

RHL argued that corporate bodies had a right to privacy. This was accepted by the court. However, the legal argument turned not upon Article 8 of the European Convention on Human Rights, which is the backbone of most UK privacy applications, but rather on Article 1 of the First Protocol, which protects the right to property. According to the company, information about their methods of training, work environment, employment practices, etc, was all confidential and proprietary.

The BBC countered that the information was not truly confidential at all: anyone would know that a company might require two references for a new employee, run a three-week training and induction program, prohibit the use of mobile phones and so on.

### **Court Ruling**

The Court of Session Judge, Lord Bracadale, accepted the information was confidential, that RHL had a right under Article 1 of the First Protocol to the peaceful enjoyment of their possessions, including “intellectual property such as their work systems, procedures and employment protocols,” the right to preserve their confidential information and to privacy and the right to expect employees to

abide by their contract.

The contract in this case included a standard confidentiality clause, as well as the specific obligation not to talk to the media. However, he said that the kind of material was not highly confidential or sensitive.

The BBC program, on the other hand, was of “considerable public interest,” since most people had bank accounts and credit cards and would, from time to time, be in touch with call centres.

RHL had said, pre-litigation, that if their name was removed from the program, they would take no action to attempt to stop broadcast. In court, they continued to argue that there was “no need” to name them. The judge also suggested that not naming was “a possible pragmatic way of resolving the case.”

Ultimately, however, he said, “The BBC declined to take that course for various reasons. They prefer to rely on the principle of freedom of expression to publish all the details of the story and submit that it is for the pursuers to demonstrate a legal basis why the BBC cannot tell the whole story. . . . In my opinion the BBC are entitled to take this approach. . . .”

Under S12 of the Human Rights Act 1998, a British court should not prevent the broadcast of a program unless the claimant can show that it would be “likely” to succeed after evidence was heard. It was settled by the House of Lords in the case of *Cream Holdings v Banerjee* (2005) 1 AC 253 that “likely” will, in the absence of unusual circumstances, mean “more likely than not.”

Lord Bracadale, in the *RHL* case, held that the call centre company had failed to convince him that it was “likely” so to succeed. He also added that, even if he had been deciding on the normal Scottish interim interdict test, which is simply that “the balance of convenience” determines the winner, he still would have decided in favour of the BBC.

*Rosalind M M McInnes is an in-house lawyer with BBC Scotland.*

## Second Circuit Asks for Guidance on Jurisdiction Issue in *Ehrenfeld v. Bin Mahfouz*

### *Plaintiff Is Seeking Declaration That UK Libel Judgment Is Unenforceable*

Noting the First Amendment interests at stake, and the impact on foreign litigants, the Second Circuit Court of Appeals has asked the New York Court of Appeals for guidance on the scope of the state's long arm statute to determine whether it has personal jurisdiction to hear a case involving the enforceability of a UK libel judgment. *Ehrenfeld v. Bin Mahfouz*, No. 06-2228, 2007 WL 1662062 (2d Cir. June 8, 2007) (Feinberg, Leval, Cabranes, JJ.).

#### **Background**

The plaintiff, Rachel Ehrenfeld, is the author of *Funding Evil: How Terrorism is Financed and How to Stop It*. The book, published only in the U.S., alleges that Khalid Salim a Bin Mahfouz, a Saudi Arabian billionaire, financially supported Al Qaeda in the years preceding the September 11, 2001, terrorist attacks. Bin Mahfouz sued Ehrenfeld in London, obtaining a default judgment and declaration of falsity.

Ehrenfeld brought an action in federal court in New York seeking a declaratory judgment that the UK libel judgment is unenforceable in the U.S. Last year the district court dismissed, holding that it had no personal jurisdiction over Bin Mahfouz. *See* No. 04 9641, 2006 WL 1096816 (S.D.N.Y. Apr 26, 2006).

New York's long-arm statute provides for jurisdiction over out-of-state defendants who transact business within the state where the cause of action arises out of defendant's New York actions. *See* New York C.P.L.R. § 302 (a)(1). Ehrenfeld argued that Bin Mahfouz's activities in New York in connection with his UK libel action satisfied the statute. She alleged that as part of a scheme to infringe her First Amendment rights, Bin Mahfouz and/or his agents sent Ehrenfeld cease and desist letters demanding she correct and/or withdraw her book, as well as numerous e-mails and letters regarding the status of the UK libel case. She argued that these, together with his website announcing the developments in the action against Ehrenfeld,

amounted to transaction of business in New York with a substantial relationship to her cause of action.

The district court disagreed, finding that "Courts in New York have consistently refused to sustain personal jurisdiction ... solely on the basis of a defendant's communication, by telephone or letter, from outside New York into the jurisdiction." *Citing, e.g., Fort Knox Music, Inc. v. Baptiste*, 139 F. Supp. 2d 505, 511 (S.D.N.Y. 2001) (multiple cease-and-desist letters insufficient to support personal jurisdiction under New York law).

The district court also rejected Ehrenfeld's alternative claim that personal jurisdiction could be supported under a separate prong of the New York long-arm statute for a tortious act committed outside of New York with impact in New York. *See* New York C.P.L.R. § 302(a)(3).

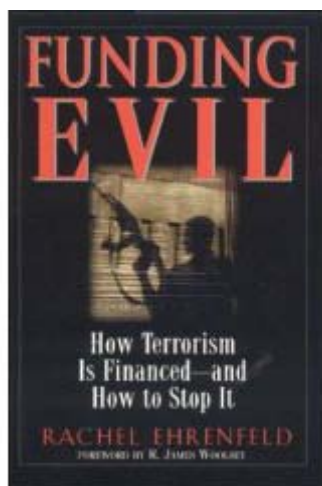
This argument failed, according to the court, because the English libel action did not constitute a "tortious act."

#### **Second Circuit Decision**

The Second Circuit, in a decision written by Judge Feinberg, found that New York courts had not addressed whether this combination of facts amounted to the transaction of business for purposes of exercising personal jurisdiction. The Court noted that a single transaction in New York could suffice for personal jurisdiction if the defendant's activities are purposeful – but added that the resolution of the question raised important questions that should be resolved by New York's highest court.

"The question is important to authors, publishers and those, like Mahfouz, who are the subject of books and articles. ... The issue may implicate the First Amendment rights of many New Yorkers, and thus concerns important public policy of the State. Because the case may lead to personal jurisdiction over many defendants who successfully pursue a

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**Second Circuit Asks for Guidance on  
Jurisdiction Issue in *Ehrenfeld v. Bin Mahfouz***

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suit abroad against a New York citizen, the question before us is also likely to be repeated.”

Finally, the Court did agree with the district court ruling that rejected personal jurisdiction over Bin Mahfouz for committing a tortious act outside of New York with impact in New York. This argument failed, according to the court, because the English libel action did not constitute a “tortious act.”

There is, however, no limiting principle to this argument. Any time a plaintiff considered himself wronged for whatever reason, even if no legally cognizable right of action existed, personal jurisdiction would exist over the defendant in a declaratory judgment suit. ... we have seen no New York case law that ascribes such a broad meaning to “tortious act.”

Rachel Ehrenfeld is represented by Mark Platt of Kornstein Veisz Wexler & Pollard, LLP, of New York. Khalid Salim Bin Mahfouz is represented by Geoffrey Stewart of the New York office of Jones Day, Stephen Brogan of the Washington, D.C. office of Jones Day, and Michael Nussbaum of Bonner, Kierman, Trebach & Crociata of Washington, D.C. Kurt Wimmer



**50-STATE SURVEYS**



**Media  
Libel Law  
2006-07**

REPORTS FROM ALL FIFTY STATES,  
THE FEDERAL COURTS OF APPEALS,  
U.S. TERRITORIES, CANADA, AND ENGLAND.

Edited by the Media Law Resource Center, Inc.

**2007-08 EDITION AVAILABLE SOON!**

**MEDIA LIBEL LAW**

*(published annually in November)*

TOPICS INCLUDE: Defamatory Meaning • Opinion • Truth/Falsity • Fault •  
Republication • Privileges • Damages • Motions to Dismiss • Discovery Issues •  
Trial Issues • Appellate Review • Remedies for Abusive Suits • Retraction •  
Constitutional/Statutory Provisions • Summary Judgment

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please check the MLRC web site at [www.medialaw.org](http://www.medialaw.org)**

## Second Circuit Considers Enforceability of French Copyright Judgment

### *Remands for Further Fact Finding*

The Second Circuit this month reversed and remanded a district court ruling that a French copyright judgment was unenforceable in the United States as repugnant to the First Amendment. *Sarl Louis Feraud Intern. v. Viewfinder, Inc.* No. 05-5927, 2007 WL 1598057 (2d Cir. June 5, 2007) (Pooler, Raggi, Sand, JJ.). The Court held that the district court failed to engage in sufficiently detailed analysis of U.S. fair use law and French intellectual property law to determine whether the judgment impinged on First Amendment rights.

#### **Background**

The plaintiffs, two French clothing design companies, sought to enforce a default judgment issued by a French court against Viewfinder, a self-styled online fashion magazine which posts photographs from designer fashion shows, including photographs from plaintiffs' fashion shows.

In January 2001, the plaintiffs sued Viewfinder in France for unauthorized use of intellectual property and unfair competition. Viewfinder was properly served in the U.S. but did not respond to the complaint. A French court issued a default judgment against Viewfinder, finding that the publication of photographs from plaintiffs' shows violated French intellectual property law and constituted "parasitism" because it had "taken advantage of plaintiff's reputation and commercial efforts creating confusion between the two companies."

In 2004, a French appellate court affirmed a 1,000,000 franc (approximately \$150,000 U.S.) judgment against Viewfinder. In December 2004, plaintiffs brought suit in federal court in New York to collect the judgment under New York's Uniform Foreign Money Judgment Recognition Act.

The district court declined to enforce the judgment, finding that the fashion shows at issue were public events and Viewfinder had a First Amendment right to publish the photographs at issue. See 406 F.Supp.2d 274, 285 (S.D.N.Y.2005) ("First Amendment simply does not permit plaintiffs to stage public events in which the general public has a considerable interest, and then control the way in which information about those events is disseminated in the mass media."). The district court also stated that to the extent plaintiffs' designs were protected by copyright, "the copyright law similarly provides, as a matter of First Amendment necessity, a 'fair use' exception for the publication of newsworthy matters." *Id.* at 284.

#### **Second Circuit Decision**

The Second Circuit, in a decision written by Judge Pooler, began by acknowledging that foreign judgments that impinge on First Amendment rights are "repugnant" to public policy and unenforceable in the United States. Citing, e.g., *Bachchan v. India Abroad Publ'ns Inc.*, 154 Misc.2d 228, 585 N.Y.S.2d 661, 662 (N.Y.Sup.Ct.1992). But held that the district court failed to perform a full analysis for the Court to affirm its decision.

The district court's decision appears to rest on the assumption that if Viewfinder is a news magazine reporting on a public event, then it has an absolute First Amendment defense to any attempt to sanction such conduct. The First Amendment does not provide such categorical protection. Intellectual property laws co-exist with the First Amendment in this country, and the fact that an entity is a news publication engaging in speech activity does not, standing alone, relieve such entities of their obligation to obey intellectual property laws.

Instead, the district court should have first determined the level of First Amendment protection Viewfinder would be entitled to under New York law and policy. Then the district court should have determined whether French intellectual property law provides comparable protections.

The Court admonished the district court for concluding that "Viewfinder's use was necessarily fair use because it was publishing 'newsworthy matters.'" Instead the district court should have considered all the fair use factors because "whether the material is newsworthy is but one factor in the fair use analysis."

Both parties had asked the Court to resolve the fair use issue, but the Court found the record insufficient to make a determination. For example, the record was unclear as to the percentage of plaintiffs' designs that were posted on Viewfinder's site. The Court further observed that if the sole reason that Viewfinder's conduct would be permitted under U.S. copyright law is that plaintiffs' dress designs are not copyrightable in the U.S., this difference in substantive law would not appear to be repugnant.

Viewfinder, Inc., was represented by Steven J. Hyman and Paul H. Levinson of McLaughlin & Stern, L.L.P., in New York. Sarl Louis Feraud International and S.A. Pierre Balmain were represented by James P. Duffy, III of Berg and Duffy, L.L.P., in New York.

## Federal Judge Orders Five Reporters to Identify Confidential Sources, Quashes Subpoenas to News Organizations

By Nathan Siegel

In what might be called the perfect storm of reporter's privilege disputes, U.S. District Court Judge Reginald Walton ordered five journalists to identify their confidential government sources to the plaintiff in *Hatfill v. Gonzales*, 2007 U.S. Dist. LEXIS 58520 (D.D.C., Aug. 13, 2007). At the same time, Judge Walton rebuffed, at least temporarily, the plaintiff's attempt to enforce additional subpoenas for confidential sources issued directly to eight news organizations, rather than individual reporters.

In so doing, Judge Walton's 31-page opinion addressed virtually every major issue that has arisen in reporter's privilege cases in the past few years: the applicability of the privilege in leak cases, whether a privilege exists under federal common law, the propriety of subpoenas issued to corporate news entities, and the significance of confidentiality waivers signed by government employees.

In almost every instance, Walton's opinion reinforced the steady drumbeat of recent bad news coming from federal courts addressing disputes over confidential sources.

### ***Underlying Civil Lawsuit***

The underlying case arose out of the government's criminal investigation into who was responsible for sending the anthrax-laced letters delivered to several media and congressional offices in 2001. Bioterrorism expert Dr. Steven Hatfill, who was identified as a "person of interest" in the investigation, sued the FBI and the Department of Justice. Hatfill alleged that anonymous leaks of investigative information linking him to those crimes violated his rights under the federal Privacy Act.

### ***Six Reporters Sit for Depositions***

During the course of discovery, Hatfill's counsel deposed roughly two-dozen government employees, who in all but a few cases denied being the source of any leaks to the press. With the court's approval, Hatfill also circulated form waiver documents to a large number of government employees. The form waivers, originally used by former Special Counsel Patrick Fitzgerald in the Plame investigation, purported to waive

any confidentiality agreement the employee might have made with any reporter. Some employees executed the forms, though many did not.

In 2006, Hatfill then issued deposition subpoenas to six journalists: Brian Ross of ABC News, Michael Isikoff and Daniel Klaidman of *Newsweek*, Allan Lengel from *The Washington Post*, Toni Locy, formerly with *USA Today*, and Jim Stewart, formerly of CBS News. Each reporter sat for a deposition and each confirmed that they had confidential sources within the FBI and/or the Department of Justice who provided information about Hatfill. However, each refused to identify who those sources were, by name or otherwise.

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***Judge Walton's 31-page opinion addressed virtually every major issue that has arisen in reporter's privilege cases in the past few years.***

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### ***Preliminary Litigation Over Sources***

In a novel maneuver, Hatfill then sought to avoid a protracted battle with the press over confidential sources. Rather than move to compel the journalists to identify their sources, Hatfill and the government defendants first sought guidance from the Court as to whether the reporters' testimony that their sources worked for the defendant agencies was sufficient to make out the essential elements of a Privacy Act claim.

Because the Privacy Act only imposes liability on federal government agencies, rather than individual agency employees, Hatfill argued that it was not necessary to know the specific identities of the reporters' sources, as long as he had evidence they worked for the defendant agencies. The government disagreed.

Earlier this year Judge Walton sided with the government, in what can only be characterized as an advisory opinion. *Hatfill v. Gonzales*, Civil Action No. 03-1793 (D.D.C., March 30, 2007). Walton suggested that Hatfill's case would proceed "at his peril" without evidence about who were the specific individuals who provided information to the press.

Although Judge Walton's opinion on this issue did not receive a lot of attention at the time, his view has serious long-term implications for the press. Its logic suggests that knowledge of the identities of sources in similar Privacy Act cases will almost always be necessary. Judge Walton appeared to

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**Federal Judge Orders Five Reporters to Identify Confidential Sources, Quashes Subpoenas to News Organizations**

(continued from page 13)

answer in the negative the question that was at least arguably left open in last year's *Wen Ho Lee* case, which also arose under the Privacy Act. *Lee v. Department of Justice*, 413 F.3d 53 (D.C. Cir. 2006).

*Lee* specifically noted that the reporters in that case had not confirmed that their sources worked for the same defendant agencies, *id.* at 60, leaving unanswered the question of whether such confirmation might obviate the need for specific identification of individual sources in future Privacy Act cases.

Shortly after Judge Walton's ruling, Hatfill moved to compel the reporters to identify their sources. At the same time, Hatfill issued new subpoenas to eight news organizations pursuant to Rule 30(b)(6) of the Federal Rules of Civil Procedure. The eight organizations included the five corporate employers of the six reporters who had previously testified, as well as three new targets: the Associated Press, *The Baltimore Sun*, and *The New York Times*. Each subpoena sought the designation of a corporate representative to testify to the identities of confidential government sources who provided information to reporters about Hatfill, as well as production of any documents, such as internal e-mails, which contained the names of those sources.

The reporters all opposed the motions to compel, while the news organizations all moved to quash their subpoenas. While the reporters' arguments focused on the merits of their assertions of privilege, the news organizations' arguments focused largely on the propriety of corporate subpoenas as a vehicle for discovering confidential sources, as well as issues related to the timing of their issuance in this case.

Strikingly, in opposing these motions, Hatfill argued explicitly that corporate subpoenas are a necessary tool to learn the identities of confidential sources because corporations will more readily succumb to judicial pressure to reveal sources than will individual reporters. The shadow of the *Miller/Cooper/Time, Inc.* cases clearly loomed large over these proceedings.

**First Amendment Privilege**

Judge Walton's opinion first addressed the merits of the First Amendment privilege invoked by the individual reporters. In logic that again bodes ill for future cases, Walton rejected

arguments raised by the reporters that the Privacy Act does not bar the release of information about suspects in criminal investigations. Instead, Walton embraced a very expansive view of the Act's scope, holding that it potentially extends to virtually any piece of information in a government record that pertains to an individual. 2007 U.S. Dist. LEXIS 58520 at \*11-17.

Walton found that this case is "strikingly similar" to *Lee* and held that *Lee's* conclusion that the reporters' First Amendment privilege was overcome in that case compelled the same result here. *Id.* at \*27. As in *Lee*, Walton held that the identities of alleged government leakers went to the heart of Hatfill's Privacy Act claim, and found that Hatfill's had sufficiently exhausted efforts to find alternative sources of that information. Going one step further, Judge Walton found that Hatfill's efforts to obtain waivers from government employees, whose validity the reporters declined to recognize, was further evidence of Hatfill's efforts to fulfill the privilege's exhaustion requirement. *Id.* at \*30-31.

**Federal Common Law Privilege**

Walton then addressed the issue of whether a distinct reporter's privilege should be recognized pursuant to federal common law, along the lines suggested by Judge David Tatel in his concurring opinion issued in the *Miller/Cooper* case. *In re Grand Jury Subpoena, Judith Miller*, 397 F.3d 964 (D.C. Cir. 2005). According to Judge Tatel, federal common law recognizes a privilege that looks beyond the issues of need and exhaustion to ask whether the news value of the information provided by confidential sources outweighs the asserted interest in learning their identities. *Id.* at 991-1001 (Tatel, J., concurring in the judgment).

Judge Walton recognized that both the existence and scope of such a privilege is an open question in the D.C. Circuit, since in *Miller* the Circuit found it necessary to decide whether the issue, while *Lee* declined to address those questions. 2007 U.S. Dist. LEXIS 58520 at \*32. However, *Hatfill* decisively rejected the existence of any common law privilege, becoming the second district court in Washington, D.C. to do so since *Miller*. See also *Lee v. Dep't of Justice*, 401 F.Supp.2d 123 (D.D.C. 2005).

Walton found that resorting to confidential sources is not nearly as important to journalism as the need for confidence is

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## Federal Judge Orders Five Reporters to Identify Confidential Sources, Quashes Subpoenas to News Organizations

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to facilitate other privileged communications, such as those between patients and psychotherapists. 2007 U.S. Dist. LEXIS 58520 at \*35-36.

Moreover, Walton found that recognizing such a privilege would have a “perverse effect” in Privacy Act cases, effectively facilitating illegal leaks to reporters while leaving their victims without meaningful recourse. *Id.* at \*36. Thus, even if a common law privilege were to be recognized in other contexts, Walton sweepingly held that it could never extend to Privacy Act cases “where a viable claim has been pled.” *Id.* at \*37.

Judge Walton also found Judge Tatel’s proposed balancing test to be “extremely problematic”, requiring courts to make judgments about news value to which they are ill-suited. *Id.* at \*39. Moreover, he suggested that *Lee* had implicitly rejected broader balancing tests that might be applied pursuant to the First Amendment, so it was unlikely that the Circuit would embrace the same test under the different label of federal common law.

Consequently, the Court ordered the reporters to sit for renewed depositions and reveal their confidential FBI and DOJ sources.

### Corporate Subpoenas

With respect to the corporate subpoenas, however, Judge Walton granted the motions to quash. His ruling appeared to distinguish between the subpoenas issued to the five news organizations whose reporters were the subject of the motion to compel, and the remaining three whose reporters were not subpoenaed during the discovery period. For the first group, Judge Walton held that the issuance of the subpoenas was “premature” because at least until the reporters had completed the renewed depositions, Hatfill had not exhausted reasonable alternative means of identifying the sources. *Id.* at \*49.

In effect, Judge Walton treated the reporters as alternative sources of knowledge potentially held by their own news organizations – a novel theory that was not argued by the news organizations.

Judge Walton further hinted that “depending on the outcome of the reporters’ depositions, it may be necessary for the Court to revisit in the future” the issue of subpoenas to their

corporate employers. *Id.* at \*50. The opinion thus appears to leave the door open to the use of Rule 30(b)(6) subpoenas to pressure news organizations to identify sources in civil cases, but only after all reasonable efforts to elicit that information from persons with the most direct knowledge of sources, i.e. individual reporters, have been attempted.

Finally, turning to the subpoenas issued to the AP, *The Baltimore Sun*, and *The New York Times*, Judge Walton ruled that Hatfill had also failed to satisfy the exhaustion requirement since he had made no efforts to subpoena their reporters at all. Here, he cast some broader doubt on the evidentiary utility of corporate subpoenas as a means of identifying confidential sources.

He noted that any evidence about sources provided by corporate designees would likely be “inadmissible hearsay,” since those witnesses could at best just recount conversations between sources and reporters. *Id.* at \*51. Therefore, he found that any discovery would first have to target individual reporters who had personal knowledge of communications with sources.

However, since Hatfill had failed to seek discovery of those reporters during the discovery period, Judge Walton held that if he wanted to proceed now he would have to apply to the Court for permission to do, and show “good cause” for re-opening discovery to depose more reporters. *Id.* at \*53. Were that to happen, however, the Court suggested that it “has concerns about” the propriety of any new discovery that Hatfill might seek at this juncture from AP, *Baltimore Sun* or *New York Times* reporters. *Id.* at \*52.

*Nathan Siegel, Lee Levine, David Schulz, and Chad Bowman of Levine Sullivan Koch & Schulz LLP represented The Associated Press, The Baltimore Sun, CBS Broadcasting Inc., The New York Times and James Stewart. Kevin Baine, Kevin Hardy, and Carl Metz of Williams & Connolly LLP represented ABC, Inc., Newsweek, Inc., The Washington Post, Michael Isikoff, Daniel Klaidman and Allan Lengel. Robert Bernius of Nixon Peabody LLP represented Gannett Co., Inc. and Toni Locy. Thomas Connolly, Mark Grannis, Charles Kimmett and Patrick O’Donnell of Harris Wiltshire & Grannis LLP represented Plaintiff Steven Hatfill. Paul Freeborne, Elizabeth Shapiro and Jeff Smith of the United States Department of Justice represented the Defendants.*

## Federal Shield Law Bill Moves Out of Committee

The House Judiciary Committee voted to pass a federal shield law bill out of committee at a mark-up held on August 1. The “Free Flow of Information Act of 2007” (H.R. 2102) was introduced in early May by Representatives Rick Boucher (D-VA) and Mike Pence (R-IN), among others, and this month’s mark-up is the farthest a shield law bill has ever progressed in Congress.

Rep. Boucher introduced an amendment to the bill at the Committee’s mark-up, and additional changes were made during the mark-up. Committee members raised a number of issues, including the scope of who may claim the privilege, the exception for national security, particularly in leak cases, and application of the privilege in investigations of past crimes. The sponsors pledged to create a working group to address these issues.

A summary of the bill’s provisions follows below:

### ***Summary of Legislation***

- **Scope of Protection**: The bill provides a qualified privilege against disclosure of sources and information. The privilege may be claimed by a “covered person,” defined as one who, “for financial gain or livelihood, is engaged in journalism.”

“Journalism” is defined as the “gathering, preparing, collecting, photographing, recording, writing, editing, reporting, or publishing of news or information that concerns local, national, or international events or other matters of public interest for dissemination to the public.”

The privilege also extends to a covered person’s “supervisor, employer, parent, subsidiary, or affiliate” and to protected information held by third-party communications service providers.

The definition of “covered person” excludes foreign powers or their agents, as well as any organization designated as a foreign terrorist organization by the Secretary of State.

- **Test to Overcome Privilege**: Before compelling disclosure, the party seeking to compel must show by a preponderance of the evidence that:

3. all reasonable alternative sources have been exhausted;
4. the subpoenaed information is “critical;”
5. “the public interest in compelling disclosure outweighs the public interest in gathering or disseminating news;” and
6. in criminal cases, there are reasonable grounds to believe that a crime has occurred.

- **Compelling Confidential Sources**: Where confidential sources are sought, the compelling party must also show that disclosure is necessary to:

1. prevent “an act of terrorism” or other “significant and specified harm to national security;”
2. prevent “imminent death or significant bodily harm;” or
3. identify a person who has disclosed (a) a trade secret actionable under 18 USC 1831 (economic espionage) or 1832 (theft of trade secrets); (b) “individually identifiable health information” actionable under federal law; or (c) nonpublic financial information actionable under federal law.

The exceptions for national security and for death or bodily harm stem from concerns raised by legislators during previous Congressional hearings on a federal shield law. The exceptions listed in (3) -- not typically found in shield laws -- were added at the request of business groups, including the National Association of Manufacturers.

- **Defamation Cases**: Rep. Boucher’s amendment included a provision put forward by Rep. Ric Keller (R-FL) that addressed application of the federal shield law in defamation cases, namely that: “Nothing in this Act shall be construed as applying to civil

*(Continued on page 17)*



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defamation, slander and libel claims or defenses under State law, regardless of whether or not such claims or defenses, respectively, are raised in a State or Federal court.”

The words “slander and libel” were added to Rep. Keller’s provision during the mark-up.

Given the creation of a working group to address issues raised by members of the House Judiciary Committee at the mark-up, the bill is likely to undergo further revision.

## Speakers Bureau on the Reporter’s Privilege

The MLRC Institute is currently building a network of media lawyers, reporters, editors, and others whose work involves the reporter’s privilege to help educate the public about the privilege.

Through this network of speakers nationwide, we are facilitating presentations explaining the privilege and its history, with the heart of the presentation focusing on why this privilege should matter to the public. We have prepared a “turn-key” set of materials for speakers to use, including, a PowerPoint presentation and written handout materials.

We are looking for speakers to join this network and conduct presentations at conferences, libraries, bookstores, colleges, high schools and city clubs and before groups like chambers of commerce, rotary clubs and other civic organizations.

The MLRC Institute, a not-for-profit educational organization focused on the media and the First Amendment, has received a grant from the McCormick Tribune Foundation to develop and administer the speakers bureau on the reporter’s privilege.

We hope to expand this project so that the reporter’s privilege is the first in a number of topics addressed by the speakers bureau.

If you are interested in joining the speakers bureau or in helping to organize a presentation in your area, please contact Maherin Gangat, (212) 337-0200, ext. 214, [mgangat@medialaw.org](mailto:mgangat@medialaw.org).

### The Reporter’s Privilege

#### Protecting the Sources of Our News

This Presentation has been made possible by a grant from  
the McCormick Tribune Foundation

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#### Suggestion for background reading:

**Custodians of Conscience by James S. Ettema and Theodore Glasser.**

**Great source re: nature of investigative journalism and its role in  
society as force for moral and social inquiry.**

**Presentation note: During the weeks leading up to your  
presentation, consider pulling articles from local papers  
quoting anonymous sources -- circle the references to these sources as  
an illustration for the audience of how valuable they are for reporters.**

### A Federal Shield Law?

- Bipartisan proposals for federal shield law in face of increased threats
- -- Need for nationwide uniformity
  - √ Reporters need to know the rules so they can do their jobs
  - √ Would-be whistleblowers and other potential sources need to be able to predict the risks
  - √ Will cut down on costly litigation over subpoenas

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### What Is the “Reporter’s Privilege”?

Various rules protecting journalists from being forced, in legal and governmental proceedings, to reveal confidential and other sources.

- Sometimes also protects unpublished notes and other journalistic materials

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3



## **First Amendment Speakers Bureau**

### **Publishing Online**

The MLRC Institute will soon roll out a second topic for presentation through its First Amendment Speakers Bureau: Publishing Online.

We are looking for volunteers to give talks and help organize presentations.

This topic will address:

- the media's use of the Internet
- news organizations' interaction with their audience online
- the use of content submitted by readers and viewers
- blogs, whether kept by media staff, readers or others
- liability for defamation for statements made online
- copyright and privacy law

Speakers will have access to a turn-key set of presentation materials prepared by the MLRC Institute. As with talks on the reporter's privilege, the first topic taken up by the Speakers Bureau, presentations on publishing online will be done at colleges, high schools, bookstores, and libraries, and before rotary clubs, chambers of commerce and other civic organizations.

The MLRC Institute has received a grant from the McCormick Tribune Foundation to develop and administer the First Amendment Speakers Bureau.

If you are interested in joining the Speakers Bureau or in helping to organize a presentation in your area, please contact:

John Haley  
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## En Banc D.C. Circuit Reverses Earlier Ruling and Restores First Amendment Right to Publish Truthful Information – Even If Source Acted Unlawfully

By Theodore J. Boutros, Jr. and James C. Ho

In a 4-1-4 decision issued on May 1, the United States Court of Appeals for the District of Columbia Circuit, on rehearing en banc, reversed the court's earlier ruling and restored the First Amendment right to publish truthful information of public concern – even if the information was originally obtained by a third party source through unlawful conduct. *Boehner v. McDermott*, No. 04-7203, 2007 WL 1246438, (D.C. Cir. May 1, 2007).

The court maintained the earlier finding of a three-judge panel that Representative James McDermott violated federal law when he disclosed to two reporters a tape recording of an illegally intercepted conversation between other members of Congress. But in doing so, the court also set aside another portion of the panel ruling that had previously been condemned by the dissenting judge as “fraught with danger” to the media.

The decision in is an important development that restores First Amendment protections for journalists nationwide against

potential civil and criminal liability for publishing truthful information received from a source known by



Representative John Boehner

the reporter to have obtained that information unlawfully. The ruling also serves as an important reminder that litigation between non-media interests can have a profound effect on the media.

### Background

In December 1996, Representative John Boehner participated by cellular phone in a conference call with other members of the Republican Party leadership to discuss an on-going ethics investigation of then-House Speaker Newt Gingrich. John and Alice Martin used a police radio scanner to eavesdrop on and record that conversation, in violation of 18 U.S.C. § 2511(1)(a),

which prohibits unauthorized interception of telephone conversations (they later pled guilty and were fined \$500).

The Martins provided the tape to Representative McDermott, who was then the ranking Democratic member of the House Committee on Standards of Official Conduct, commonly known as the House Ethics Committee.

Congressman McDermott subsequently played the tape for Adam Clymer of *The New York Times* and Jeanne Cummings of *The Atlanta Journal-Constitution*, who in turn published news articles



Representative James McDermott

describing the contents of the recording in January 1997.

Although Representative McDermott broke no law in receiving the tape from the Martins, Representative Boehner filed suit on the ground that, by playing the tapes for two reporters, McDermott violated 18 U.S.C. § 2511(1)(c), which prohibits the intentional disclosure of any illegally intercepted conversation by a person who knew or had reason to know that the recording was unlawfully obtained.

In its initial decision, the D.C. Circuit held that Representative McDermott had no First Amendment right to disclose the tape to the public through the media, even though the tape plainly contains information of public concern. *See 191 F.3d 463 (D.C. Cir. 1999)*.

The U.S. Supreme Court subsequently vacated that decision and returned the case for further consideration in light of *Bartnicki v. Vopper*, 532 U.S. 514 (2001).

*Bartnicki* confirmed that the First Amendment generally protects the right to publish information of public concern – including information that is “lawfully obtained” from a source who may have secured that information through unlawful means. Nevertheless, on remand the district court granted summary judgment in favor of Representative Boehner and awarded \$10,000 in statutory damages, \$50,000 in punitive damages, and attorneys’ fees and costs.

On appeal, a panel of the D.C. Circuit affirmed the judgment against Representative McDermott. *See 441 F.3d 1010 (D.C. Cir. 2006)*. In a decision authored by Judge Raymond

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## En Banc D.C. Circuit Reverses Earlier Ruling and Restores First Amendment Right to Publish Truthful Information – Even If Source Acted Unlawfully

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Randolph and joined by Chief Judge Douglas Ginsburg, the panel distinguished *Bartnicki* and held that the First Amendment does not protect individuals who disclose information *knowing* that the information had previously been obtained by the source through unlawful means.

According to the panel, because Representative McDermott knew that the tape had been illegally secured, he did not “lawfully obtain” the recording for purposes of the First Amendment, as required under *Bartnicki*. Such conduct was, in the panel’s words, akin to knowingly “receiving stolen property.”

Judge David Sentelle issued a sharp dissent, arguing that *Bartnicki* applies so long as the “publisher of information has obtained the information in question in a manner *lawful in itself* but from a source who has obtained it unlawfully” (emphasis added). He concluded that, whatever the government’s authority to punish the unlawful conduct of the source, the First Amendment forbids the government from punishing the subsequent publication of that information by an innocent third party.

In addition, Judge Sentelle pointedly observed that the panel’s ruling was “fraught with danger,” for “just as Representative McDermott knew that the information had been unlawfully intercepted, so did the newspapers to whom he passed the information. I see no distinction ... between the constitutionality of regulating communication of the contents of the tape by McDermott or by *The Washington Post* or *The New York Times* or any other media resources.” Indeed, under the panel’s holding, “no one in the United States could communicate on this topic of public interest because of the defect in the chain of title.”

### Decision on Rehearing En Banc

On rehearing en banc, the D.C. Circuit affirmed the judgment against Representative McDermott – but did so on substantially narrower grounds that should have little if any impact on the media. A majority of the court supported Judge Sen-

telle’s view that the First Amendment generally protects “the publication of information originally obtained by unlawful interception but otherwise lawfully received by the communicator.”

A different majority of the court nevertheless concluded that Representative McDermott was not entitled to First Amendment protection. Writing again for the court, Judge Randolph noted that, under *United States v. Aguilar*, 515 U.S. 593 (1995), “Government officials in sensitive confidential positions may have special duties of nondisclosure” – duties which are presumably inapplicable to members of the media – and do not have a First Amendment right to disclose information in violation of such duties.

Judge Randolph further observed that Representative McDermott, as the ranking Democratic member of the House Ethics Committee, had violated his special duty of nondisclosure under Committee Rule 9, which provides that “Committee members and staff shall not disclose any evidence relating to an investigation to any person or organization outside the Committee unless authorized by the Committee.”

Judge Sentelle disagreed, joined by three of his colleagues. He observed that “this case is unrelated to whatever ‘special duty of nondisclosure’ McDermott may have had as a member of Congress,” and that there is no logical basis for incorporating whatever duty may exist under House rules into the First Amendment analysis as applied to the federal wiretapping statute.

The decision of the Court ultimately turned on Judge Tom Griffith, who agreed with Judge Sentelle’s broader First Amendment analysis but voted to join Judge Randolph’s narrower ruling based on *Aguilar*.

The en banc ruling will likely have little directly adverse impact on journalists, who will rarely if ever be subject to the kind of independent, pre-existing duty of nondisclosure that could trigger the exception to *Bartnicki* recognized by Judge Randolph’s opinion. Nonetheless, the ruling could chill speech by whistleblowers and other government and private sources, who may be at risk under the Court’s application of *Aguilar*,

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**En Banc D.C. Circuit Reverses Earlier Ruling and Restores First Amendment Right to Publish Truthful Information – Even If Source Acted Unlawfully**

*(Continued from page 20)*

and discourage them from disclosing information of public concern that they have previously promised to keep secret.

The Court's decision nevertheless upholds a long tradition of newsgathering from sources who may have broken the law in the course of leaking newsworthy information – including the Pentagon Papers case, Watergate, the Monica Lewinsky scandal, and the health hazards of tobacco.

The decision may also have implications for the ongoing prosecution of two former lobbyists of the American Israel Public Affairs Committee, who have been accused of receiving and then discussing with reporters national defense information in alleged violation of the Espionage Act.

*Theodore J. Boutrous is a partner, and James C. Ho, of counsel, with Gibson, Dunn & Crutcher LLP. Mr. Boutrous filed several amicus briefs on behalf of 18 news organizations in *Boehner v. McDermott* during the course of the appellate proceedings. Congressman Boehner was represented by Michael A. Carvin, Jones Day, Washington, D.C. Congressman McDermott was represented by Frank Cicero Jr. and Christopher Landau, Kirkland & Ellis LLP.*



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## Ninth Circuit Reinstates Housing Discrimination Lawsuit Against Roommate Website

### Divided Court Rejects § 230 Defense for User Created Profiles

In an interesting decision, the Ninth Circuit, in a divided opinion, reinstated a housing discrimination lawsuit against a roommate matching website, holding that it was not entitled to immunity under § 230 for user profiles created through online questions and prompts. *Fair Housing Council v. Roommate.com LLC*, No. Civ. 04-56916, 2007 WL 1412650 (9th Cir. May 15, 2007) (Kozinski, Reinhardt, Ikuta, JJ.).

The Ninth Circuit had previously considered the issue of immunity for user-generated profiles in *Carafano v. Metrosplash.com, Inc.*, 339 F.3d 1119 (9th Cir.2003) (Thomas, Paez, Reed, JJ.), where a different panel of the

Court unanimously held that a dating website could not be held treated as the creator of a fabricated user profile. Although the false profile was created by responses to the website's detailed online questions and prompts, the Court held that the website was not the creator of the resulting content. "Matchmaker cannot be considered an 'information content

provider' under the statute," the Court concluded, "because no profile has any content until a user actively creates it." The issue therefore appeared to be settled.

Judge Kozinski, though, disagreed, holding that Roommate.com was not entitled to immunity for its user profiles because it created "new information" by categorizing and presenting user created information. Judge Reinhardt agreed and would have further treated Roommate.com as the creator of all portions of the user-created profiles, including personal essays written by users. Judge Ikuta wrote a separate opinion, curiously labeled as a concurrence, in which she dissented from the Court's holding, stating that *Carafano* was binding precedent.

The defendant will seek rehearing.

### Background

Roommate.com, LLC ("Roommate") operates an online roommate matching website at [www.roommates.com](http://www.roommates.com). The website helps individuals find roommates based on their descriptions of themselves and their roommate preferences. Users respond to a series of online questions by choosing from answers in drop-down and select-a-box menus.

The questionnaire asks users for information about themselves and their roommate preferences based on such characteristics as age, sex and whether children will live in the house-

hold. Users can then provide "Additional Comments" in an open-ended essay prompt.

Users can search for compatible roommates and send "roommail" messages to other members. Roommate also sends email newsletters to members seeking housing, listing compatible members who have places to rent out.

In 2003, the Fair Housing Council of San Fernando Valley and Fair Housing Council of San Diego sued Roommate for

violation of the preferential advertising provision of the Fair Housing Act ("FHA"), which makes it unlawful

To make, print, or publish, or cause to be made, printed, or published any notice, statement, or advertisement, with respect to the sale or rental of a dwelling that indicates any preference, limitation, or discrimination based on race, color, religion, sex, handicap, familial status, or national origin, or an intention to make any preference, limitation, or discrimination.

42 U.S.C. § 3604(c).

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## Ninth Circuit Reinstates Housing Discrimination Lawsuit Against Roommate Website

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Plaintiffs also alleged violation of the parallel California statute, the Fair Housing and Employment Act, Cal. Govt. Code § 12955, and for alleged violation of the state Unruh Civil Rights Act, Cal. Civ. Code § 51, and unfair business practices statute, Cal. Bus. & Prof. Code § 17200, and for negligence.

Plaintiffs claimed that Roommate violated federal and state housing laws by asking users their sex, their sexual preference, and whether they lived or would live with children. Plaintiffs also complained about statements made by users in the “Additional Comments” essay portion of their profiles. For example some of the essays include statements such as: “looking for an ASIAN FEMALE OR EURO GIRL”; “I’m looking for a straight Christian male”; “I am not looking for freaks, geeks, prostitutes (male or female), druggies, pet cobras, drama, black muslims or mortgage brokers”; and “Here is free rent for the right woman ... I would prefer to have a Hispanic female roommate so she can make me fluent in Spanish or an Asian female roommate just because I love Asian females.”

Plaintiffs also complained about user created nicknames such as “ChristianGrl,” “Asianpride,” “Whiteboy80,” “Latina22,” and “Blackboi.”

### District Court Decision

After the parties engaged in discovery they brought cross-motions for summary judgment. Roommate argued that plaintiffs’ claims over the user profiles were barred by the § 230 of the Communications Decency Act, which states: “No provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider.” 47 U.S.C. § 230(c)(1).

Roommate also argued that plaintiffs’ claims were barred by the First Amendment on the grounds that users of the site have a constitutionally protected right of intimate association, and regulation of speech exercising that right runs afoul of the First Amendment by punishing speech based on content and – even if viewed as commercial speech – does not meet the requirements of *Central Hudson*.

The district court granted summary judgment to Roommate on the FHA claims on § 230 grounds without addressing the First Amendment defenses. And the court dismissed the state law claims without prejudice. *See* 2004 WL 3799488, 33 Media L. Rep. 1636 (C.D.Cal. Sep 30, 2004) (Anderson, J.).

The district court first held that the FHA was not among the types of laws specifically exempted from the scope of the CDA. Thus § 230 shielded Roommate from liability to the extent that plaintiffs were seeking to make Roommate liable for the content provided by its users.

The district court then held that the complained of content was created by users, notwithstanding that the user profiles were created in response to Roommate’s online prompts and questions, relying on *Carafano*. There the Court unanimously affirmed dismissal of invasion of privacy, defamation and negligence claims against Matchmaker.com over a fabricated dating profile which was generated by a user’s responses to detailed online questions and prompts.

The Ninth Circuit reasoned that Matchmaker.com could not be liable for the profile “because no profile has any content until a user actively creates it... the fact that Matchmaker classifies user characteristics into discrete categories and collects responses to specific essay questions does not transform Matchmaker into a ‘developer’ of the ‘underlying misinformation.’” *Carafano*, 339 F.3d at 1124.

Confronted with a very similar situation the district court in Roommate not surprisingly held that “*Carafano* compels the conclusion that Roommate cannot be liable for violating the FHA arising out of the nicknames chosen by its users, the free-form comments provided by the users, or the users’ responses to the multiple choice questionnaire.”

### Ninth Circuit Decision

Judge Kozinski first discussed *Carafano*, suggesting it could be limited to unique facts where a “prankster” provided information that was not solicited by the operator of the website. He then went on to surmise in dicta that *Carafano* would not control where defamatory, private or otherwise tortious or unlawful information was provided by users in direct response to questions and prompts from the operator of the website.

Imagine, for example, [www.harrassthem.com](http://www.harrassthem.com) with the

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## Ninth Circuit Reinstates Housing Discrimination Lawsuit Against Roommate Website

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slogan “Don’t Get Mad, Get Even.” A visitor to this website would be encouraged to provide private, sensitive and/or defamatory information about others – all to be posted online for a fee. To post the information, the individual would be invited to answer questions about the target’s name, addresses, phone numbers, social security number, credit cards, bank accounts, mother’s maiden name, sexual orientation, drinking habits and the like. In addition, the website would encourage the poster to provide dirt on the victim, with instructions that the information need not be confirmed, but could be based on rumor, conjecture or fabrication.

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By providing a forum designed to publish sensitive and defamatory information, and suggesting the type of information that might be disclosed to best harass and endanger the targets, this website operator might well be held responsible for creating and developing the tortious information. *Carafano* did not consider whether the CDA protected such websites, and we do not read that opinion as granting CDA immunity to those who actively encourage, solicit and profit from the tortious and unlawful communications of others.

But there was no need to answer these questions about the “outer limits” of § 230 immunity because, Judge Kozinski concluded, Roommate was responsible, in part, for creating new information by channeling and sorting user information.

According to Judge Kozinski, Roommate created new information by: 1) allowing members to search and obtain the profiles of members with compatible preferences; and 2) sending room-seekers email notifications of listings that matched their profiles.

Roommate’s “search mechanism and email notifications mean that it is neither a passive pass-through of information provided by others nor merely a facilitator of expression by individuals.”

Section 230, however, did immunize Roommate from liability

for comments written by users in the “Additional Comments” portion of their profiles – the section of the profile where users are asked to personalize their profile “by writing a paragraph or two describing yourself and what you are looking for in a roommate.”

This open-ended question “does not prompt, encourage or solicit any of the inflammatory information provided by some of its members” and the information provided is not used to “limit or channel access to listings.”

### Concurrence & Dissent

Judge Reinhardt largely agreed with Kozinski, but would have treated Roommate as the creator of the entire user profile, including the “Additional Comments” section which is presented to other users as a whole. “There is no justification,” he wrote, “for slicing and dicing into separate parts the material that Roommate elicits and then channels as an integral part of one package of information to the particular customers to whom it selectively distributes that package.”

Judge Ikuta, a former law clerk to Judge Kozinski, essentially dissented from the holding on § 230 – though she labeled her separate opinion a concurrence. *Carafano* was binding precedent, according to her opinion. And unless a website provides “the essential published content it is not an information content provider.”

*Timothy L. Alger of Quinn Emanuel Urquhart Oliver & Hedges, LLP in Los Angeles represents defendant Roommates.com, LLC in this case. Patrick J. Carome, Samir Jain and C. Colin Rushing, Wilmer Cutler Pickering Hale & Dorr, LLP, Washington, D.C., filed an amicus brief in support of defendant on behalf of Amazon.com, Inc., America Online, Inc., Ebay Inc., Google Inc., Tribune Company, Yahoo! Inc., Netchoice and United States Internet Service Provider Association. Plaintiffs are represented by Gary Rhoades, Rhoades & Al-Mansour, Los Angeles; Michael Evans, Costa Mesa; and Christopher Brancart, Brancart & Brancart, Pescadero, CA.*



## Perfect 10 Scores A Not-So-Perfect Rating By The Ninth Circuit

### *Court Vacates Preliminary Injunction Over Google Thumbnails*

By Kent Raygor

On May 16, 2007, the Ninth Circuit ruled in two very closely-watched cases, *Perfect 10, Inc. v. Google Inc.* and *Perfect 10, Inc. v. Amazon.com, Inc.*, that involved the potential liability of search engine companies for (1) providing copyrighted images to users, and (2) linking to third-party websites where infringing images might be found. See 2007 WL 1428632 (9<sup>th</sup> Cir. 2007) (Ikuta, Hawkins, Holcomb Hall, JJ.).

The Ninth Circuit vacated a preliminary injunction barring Google from displaying thumbnail copies of Perfect 10's nude models in Google search results.

The Ninth Circuit's opinion is very complex, and is very much tied to the particular facts presented by these two cases. In addition, it is an appeal of the granting of a preliminary injunction, and not on the final merits after a trial, so the case will likely continue and be the subject of future decisions and commentary.

Although not a total victory, the search engine industry came out ahead in a decision that helps define the limits of liability of search engines for (1) posting copyrighted images as part of their search services, and (2) linking to third-party websites where one can find the infringing images.

The Court refined the tests for fair use in the search engine context, made it harder for plaintiffs to make a case of direct infringement against search engine companies, and articulated a new test for establishing contributory liability in such cases. If Perfect 10, and copyright owners generally, got anything from this decision, it is likely in the Court's ruling on Perfect 10's contributory and vicarious liability claims.

#### **Background**

Perfect 10 markets copyrighted images of nude models. It sells a magazine containing the images, operates a subscription website where members can view them, and licenses a third party to sell reduced-size images for use on cell phones. In the *Google* case, Perfect 10 argued that Google violates its copyrights by providing thumbnail images to users, linking to infringing sites where full-sized

images can be found, and encouraging and inducing others to infringe Perfect 10's rights. The *Amazon.com* suit arose from an agreement between Amazon.com and Google whereby Google provided image search results to Amazon.com users that included thumbnails of Perfect 10 images.

Google has a search tool called "Google Image Search" that indexes third-party websites and images stored in them. In response to a user's search request, Google provides small, low-resolution thumbnails of full-sized images stored on third-party computers. When a user clicks on the thumbnail image in Google's search results, Google's software instructs the user's computer to open a window where text and graphics from Google, including the thumbnail image, appear, and provides a computer address that tells the user's computer where a full-sized version of the image can be found on a third-party website.

The user's computer can then download that full-size image from that third-party website and it will appear in the bottom section of the window on the user's screen. This is called "in-line linking." Google does not store the full-size images and does not communicate them to the user. Google simply provides the instructions that direct the user's computer to the third-party website where it can get the image.

In the course of its website searching and indexing activities, Google's software stores webpage content in its cache (computer memory). This is done to facilitate Google's search engine's organization and indexing of web pages. The information stored reflects the webpage as it appeared at the time Google indexed the page, but does not store any images from the third-party webpages.

Google also generates revenue through a program called "AdSense." A website owner can register as a Google AdSense partner, which allows Google to place content-relevant advertising on a user's screen when his or her computer accesses particular websites. Perfect 10 argued that if an AdSense partner infringes a Perfect 10 copyright, then Google benefits because it received revenue from the AdSense partner.

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## Perfect 10 Scores A Not-So-Perfect Rating By The Ninth Circuit

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### ***District Court Proceedings***

Perfect 10 sought a preliminary injunction barring Google and Amazon.com from copying, distributing, displaying or otherwise infringing, or contributing to the infringement of, the copyrights in Perfect 10's photographs, and from linking to websites that provide full-size versions of those photographs. The District Court enjoined Google from displaying the thumbnail versions of Perfect 10's images, but did not enjoin Google from linking to third-party websites that displayed full-size versions, nor did it enjoin Amazon.com from giving users access to information provided by Google. Both Perfect 10 and Google appealed.

### ***Ninth Circuit Decision***

The District Court's injunction against Google's use of the thumbnails generated a lot of press and commentary when it was issued, and caused a lot of hand-wringing from search engine companies and ISPs over the chilling effect such an injunction would have on their activities and on innovations by them and others in the cyberspace world. The Ninth Circuit has now given them cause for a sigh of relief, and has vacated that injunction.

The Ninth Circuit's opinion is complex, but also very focused on the particular facts presented by the dispute raised in these two cases. So, it will remain to be seen just how it might be applied for precedential effect in other contexts. But the Court took the opportunity to clarify some of the infringement tests articulated in previous cases; heightened the importance of fair use, the safe harbor provisions of the DIGITAL MILLENNIUM COPYRIGHT ACT ("DMCA"), and other defenses raised in opposition to a preliminary injunction request.

It also made it much more difficult to assert a case of direct infringement against search engine companies; and raised the specter of the potential for increased liability under theories of secondary liability for contributory and vicarious infringement. Overall, this was a moderately good win for the search engine and ISP industries.

### ***Burden On The Party Seeking An Injunction***

At several points in the opinion, the Ninth Circuit pointed out that Perfect 10 had failed to introduce evidence showing that it was likely to prevail on the merits of a particular claim or

element. With that in mind, it articulated exactly what burden a party who is seeking a preliminary injunction must meet.

Google asserted two primary defenses: (1) its use of the images was protected by the doctrine of fair use, as codified in 17 U.S.C. § 107; and (2) any liability it might have was limited by the safe harbor provisions in Section 512 of the DMCA.

The Ninth Circuit noted a conflict of authority as to whether a party that bears the burden of showing a likelihood of success on the merits in order to obtain a preliminary injunction also bears the burden of demonstrating a likelihood of success in overcoming a fair use defense.

The Court held that the party seeking the injunction bears *both* burdens: "In order to demonstrate its likely success on the merits, the moving party must necessarily demonstrate it will overcome defenses raised by the non-moving party." In the copyright context, this means that Perfect 10 had the burden of showing that it would overcome Google's fair use and DMCA defenses, making it more difficult for a plaintiff to obtain a preliminary injunction.

### ***Direct Infringement***

Perfect 10 asserted that Google directly infringed the *display* and *distribution* rights in the photographs (17 U.S.C. §§ 106(3) and (5)). The Ninth Circuit affirmed the District Court's finding that found that Perfect 10 had made a *prima facie* case of direct infringement of the *display* right arising from Google's use of the *thumbnail* images, but reversed the District Court's finding that Google would not prevail on its *fair use defense*. In other words, the Ninth Circuit, while agreeing that a direct infringement finding was likely, held that Google would likely prevail on a fair use defense, thereby shielding it from any liability.

As to Google's links to the *full-size images*, the Ninth Circuit affirmed the District Court's finding that Perfect 10 was *not* likely to prevail in showing direct infringement of either the display or distribution right.

### ***The Display Right***

*The thumbnail images*: The Ninth Circuit stated that the issue of when a computer displays a copyrighted work for purposes of 17 U.S.C. §§ 106(5) was a matter of first impression in the Circuit. It found that "a person displays a photographic image by using a computer to fill a computer screen with a copy of the

## Perfect 10 Scores A Not-So-Perfect Rating By The Ninth Circuit

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photographic image fixed in the computer's memory." There was no dispute that Google's computers stored thumbnail versions of Perfect 10's copyrighted images and communicated those images to Google's users. Therefore, Perfect 10 stated a *prima facie* case of direct infringement of the display right for the thumbnail images.

The full-sized images: The full-sized images were treated very differently. Because Google never stores or displays copies of them, and instead merely links to third-party websites where they can be found, the Court confirmed that Google cannot be guilty of direct infringement of the display right. Merely providing HTML instructions to a user's computer directing that computer to a third-party website that stores the image is not equivalent to showing a copy. Although it might lead to *contributory* infringement liability, as explained in more detail below, it is not enough to constitute *direct* infringement liability.

An open issue: In what could signal a fruitful area for future activity by litigants and the courts, the Ninth Circuit pointedly noted that Google *actively* initiates and controls the storage and communication of the thumbnail images. But it expressly left open the question of whether there would be infringement if someone who merely *passively* owns and manages an Internet bulletin board or similar system is guilty of direct infringement of the display and distribution rights when the users of the bulletin board post infringing works.

### The Distribution Right

The Ninth Circuit then held that Google also does not infringe the distribution right by linking to the full-size images because it never actually disseminates a copy. The Court rejected Perfect 10's argument, based on *Hotaling v. Church of Jesus of Latter-Day Saints*, 118 F.3d 199 (4<sup>th</sup> Cir. 1997), and *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9<sup>th</sup> Cir. 2001), that merely making images "available" violates the distribution right. Unlike the defendant in *Hotaling*, Google does not own a collection of Perfect 10 full-size images, and unlike the defendant in *Napster*, Google does not deliver the Perfect 10 full-size images to the computers of people using Google's search engine; it merely indexes them.

### Google's Fair Use Defense

Returning to the Court's finding that Perfect 10 had stated a *prima facie* case of direct infringement of the display right arising from its use of the thumbnails, the Ninth Circuit then held that Google nevertheless was likely to win on its fair use defense, and thereby shield itself from any liability for direct infringement. It then vacated the District Court's injunction.

Before going through a detailed examination of the four fair use factors set forth in 17 U.S.C. § 107, the Court reiterated at some length the public policy behind the fair use doctrine. It was that public policy that primarily informed its decision on Google's fair use defense.

The Court noted that the primary purpose behind the fair use doctrine is to encourage the development of new ideas that build on earlier ideas. It noted that courts are required to avoid a rigid application of the copyright laws when doing so would stifle the very creativity the law is designed to foster. Rather, the courts must be flexible in applying a fair use analysis, and must do so with the goal of serving the public interest.

In its fair use analysis, the Court heavily relied on its earlier decision in *Kelly v. Arriba Soft Corp.*, 336 F.3d 811 (9<sup>th</sup> Cir. 2003), where it held that an Internet search engine's use of thumbnail images of a photographer's work, provided in response to user search queries, was a fair use, based on the transformative nature of a search engine and its benefit to the public, and the fact that providing the thumbnails did not harm the photographer's market for his images. In going through the four fair use factors, the Court found the situation presented by Google's use of the thumbnail images to be very similar.

#### (1) The purpose and character of the use

The Court stated that the central purpose of this inquiry is to determine whether and to what extent the new work is transformative: "A work is 'transformative' when it does not 'merely supersede the objects of the original creation' but rather 'adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message.'" If the new work supersedes the use of the original, then it is likely not a fair use.

The Court rejected Perfect 10's argument that provid-

## Perfect 10 Scores A Not-So-Perfect Rating By The Ninth Circuit

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ing access to infringing websites cannot be deemed transformative and is inherently not fair use. It found that Google operates a comprehensive search engine that only incidentally indexes infringing websites. That does not amount to an abuse of the good faith and fair dealing underpinnings of the fair use doctrine.

It also found that Google's use of thumbnails is "highly transformative". A search engine transforms an image into a pointer directing a user to a source of information. It provides a social benefit by incorporating an original work into a new work, namely an electronic reference tool. This is true even though Google incorporates an entire Perfect 10 image in the search engine results, because the copy serves a different function than the original work.

The District Court had discounted the transformative nature of Google's use because Google's thumbnails might supersede Perfect 10's ability to sell its reduced-size images for use on cell phones, and because Google's use was commercial in the sense that it might have led users to Google AdSense partners whose

websites contained infringing images. The Ninth Circuit weighed these concerns against Google's transformation of the thumbnails into a comprehensive search engine use and the extent to which Google's search engine promotes the purposes of copyright and serves the public interest.

It found that the two concerns raised by Perfect 10 did not override the highly transformative nature of Google's use: "[W]e conclude that the transformative nature of Google's use is more significant than any incidental superseding use or the minor commercial aspects of Google's search engine and website." The Court found that the District Court erred in determining this factor in favor of Perfect 10.

### *(2) The nature of the copyrighted work.*

The Court recognized that authors have a significant right to determine when and where to first publish their work, but exhaust that right when the work is first published in *any* medium. Here, Perfect 10 had previously made the images available on the Internet to subscribers. It therefore was no longer entitled to enhanced protection available for an unpublished work. As a

result, this factor only weighed slightly in favor of Perfect 10.

### *(3) The amount and substantiality of the portion used.*

Relying on *Arriba*, the Court held that the use of the entire photograph was reasonable in light of the purpose of a search engine. It is necessary to copy the entire image in order to allow users to recognize the image and decide whether to pursue more information about it or the originating website. This factor was neutral and did not favor either party.

### *(4) The effect of the use on the market.*

The Court held that even if the intended use of an image is for commercial gain, a presumption of a likelihood of market

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***The transformative nature of Google's use is more significant than any incidental superseding use or the minor commercial aspects of Google's search engine and website.***

---

harm does not arise when a work is transformative because market substitution is at least less certain and market harm may not be so readily inferred. Without that presumption, Perfect 10 could not prove market harm because it did not introduce any evidence that Google's thumbnails would harm Perfect 10's market for full-size images, nor any evidence that Google users had downloaded thumbnail images for cell phone use. Therefore, the harm to Perfect 10's market was hypothetical. This factor was neutral and did not favor either party.

Weighing all of the factors against the purposes of copyright, the Court found that Google provides a significant benefit to the public, and has put the images to a fundamentally different use than the use intended by Perfect 10. Because Perfect 10 is unlikely to be able to overcome Google's fair use defense, the Court vacated the injunction against Google's use of the thumbnails.

### ***Contributory Or Vicarious Liability***

The Ninth Circuit raised the stakes for potential increased liability for contributory and vicarious infringement. A requirement for liability under either theory is direct infringement by a third party. It was undisputed that third-party websites directly infringed by reproducing, displaying, and distributing unauthorized copies of Perfect 10 images.

The Court, however, rejected Perfect 10's arguments that (1) Google's search engine users directly infringed by storing full-size infringing images on their computers, finding that Per-

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fect 10 failed to provide evidence to support this claim, and (2) users who link to infringing websites automatically make cache copies of full-size images, finding that such local caching was a fair use. The Court then refined the tests for determining whether there could be liability for contributing to or profiting from and failing to stop such direct infringement in the search engine context.

### Contributory Liability

The Court focused on two types of contributory liability described in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005): (1) actively *encouraging* or *inducing* direct infringement by third parties through specific acts; and (2) *distributing a product* that distributees use to infringe copyrights, if the product is *not capable of "substantial" or "commercially significant" non-infringing uses*. The Court first addressed the second type and held that Google could not be held liable for contributory infringement solely because the design of its search engine might facilitate infringement, nor because Google did not develop technology that would enable its search engine to automatically avoid infringing images.

Turning to the first type of contributory liability, the Court stated that Google could not be guilty of *inducing* infringement as it had not promoted its service as a way to infringe copyrights. As to *actively encouraging infringement*, the Court focused on the *intent* requirement.

Intent can be imputed. Under *Grokster*, "an actor may be contributorily liable for intentionally encouraging direct infringement if the actor knowingly takes steps that are substantially certain to result in such direct infringement." The Court carefully examined *Grokster*, *Napster*, and *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*, 907 F. Supp. 12361 (N.D. Cal. 1995), to refine the test in the cyberspace context, and announced the following:

"[A] computer system operator can be held contributorily liable if it 'has *actual* knowledge that *specific* infringing material is available using its system', and can 'take simple measures to prevent further damage' to copyrighted works, yet continues to provide access to infringing works." (Citations omitted.)

The Court found that Google *could* be contributorily liable

if it had knowledge that infringing images were available using its search engine and could have taken simple measures to prevent further damage to Perfect 10's copyrighted works, yet failed to take such steps. It remanded to the District Court for further proceedings directed at the adequacy of Perfect 10's notices to Google and Google's responses, and a determination of whether there were reasonable and feasible means for Google to refrain from providing access to infringing images.

### Vicarious Liability

One infringes vicariously by profiting from direct infringement by third parties while declining to exercise a right to stop or limit it. The Court stated that, to succeed on a claim for vicarious liability, "a plaintiff must establish that the defendant exercises the requisite control over the direct infringer and that the defendant derives a direct financial benefit from the direct infringement."

As to the *control* element, the Court stated that "a defendant exercises control over a direct infringer when he has both a legal right to stop or limit the directly infringing conduct, as well as the practical ability to do so." Therefore, in order to prevail Perfect 10 had to demonstrate that it was likely to establish that Google has the right and ability to stop or limit the infringing activities of third-party websites, and that Google derives a direct financial benefit from such activities. The Court found that Perfect 10 had not met that burden.

### Google's DMCA Defense

The Court noted that the limitations on liability in Title II of the DMCA, 17 U.S.C. § 512, protect direct infringers, *as well as secondary infringers under contributory and vicarious liability theories*. The parties disputed whether Perfect 10's DMCA notices were adequate. The Court remanded back to the District Court to determine whether Perfect 10 could overcome Google's DMCA defense.

### Amazon.com

The Ninth Circuit confirmed that Perfect 10 had failed to show a likelihood of success in establishing any liability on Amazon.com's part for direct or vicarious infringement, for essentially the same reasons Perfect 10 would not likely prevail against Google, with the exception that Amazon.com was fur-

### Perfect 10 Scores A Not-So-Perfect Rating By The Ninth Circuit

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ther removed from any direct infringement liability because it did not index and store the thumbnails, and only linked to Google's database that contained those images.

Like Google, however, Amazon.com *might* be liable for contributory infringement, but the District had failed to consider whether Amazon.com had actual knowledge that specific infringing material is available using its system, whether it could have taken simple measures to prevent further damage to copyrighted works yet continued to provide access to infringing works, and whether Amazon.com could assert a DMCA defense. The Court remanded for further consideration on these points.

Overall score: Perfect 10: 3; Search Engines: 7.

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## Ninth Circuit Clarifies Sweep of Digital Millennium Copyright Act and CDA

By Jay M. Spillane and Raphael Cung

Recently the Ninth Circuit clarified the scope of both the Digital Millennium Copyright Act (“DMCA”), and Section 230 of the Communications Decency Act in *Perfect 10, Inc. v. CCBill, LLC*, 481 F.3d 751 (9th Cir. 2007) (Reinhardt, Kozinski, M. Smith, Jr., JJ.).

Perfect 10, the owner of print and online adult entertainment, sued CCBill, a payment processing company, and CWIE, a web hosting company. It claimed that CCBill and CWIE were secondarily liable for copyright infringement arising from the display of Perfect 10’s copyrighted content on websites maintained by defendants’ clients.

Perfect 10’s claims were largely rejected. Significantly, the Ninth Circuit held:

- For purposes of initial eligibility for the DMCA’s § 512 safe harbor provisions, only DMCA-compliant notifications need be considered in assessing a service provider’s actual knowledge of alleged infringing activity.
- The safe harbor for transitory digital network communications, 17 U.S.C. § 512(a), applied to CCBill’s automated payment processing transactions.
- The exception to CDA immunity for laws “pertaining to intellectual property” was limited to federal intellectual property laws, and thus the trial court erred in failing to apply CDA immunity to Perfect 10’s state law right of publicity claim.

### Background

Perfect 10 is the publisher of *Perfect 10* adult print magazine, and the owner of its associated website, [www.perfect10.com](http://www.perfect10.com). Perfect 10 owns thousands of images of models, many of whom have assigned their rights of publicity to Perfect 10. CCBill provides the technology by which consumers can make on-line credit card payments to purchase subscriptions or memberships to websites. CWIE provides web-hosting and connectivity services to website owners.

Before the litigation, Perfect 10 sent letters and emails to CCBill and CWIE asserting that their clients were infringing Perfect 10’s copyrights, engaging in unfair competition, and violating Perfect 10’s rights of publicity.

Perfect 10 also alleged that CCBill and CWIE were ignoring “red flags” of infringing activity, including websites such as

“illegal.net” and “stolencelebritypics.com,” as well as so-called “password-hacking” websites, which supposedly provide user names and passwords to access secure pages of adult websites.

Perfect 10 filed claims against CCBill, CWIE, and other parties in federal court, asserting claims for copyright and trademark infringement, unfair competition, violation of rights of publicity, and related theories. The district court bifurcated the proceedings, with the first phase devoted to defenses under the DMCA and CDA. CCBill and CWIE moved for summary judgment under those statutes.

Section II of the DMCA is the Online Copyright Infringement Liability Limitation Act (the “OCILLA”). It provides safe harbors against money damages liability for alleged copyright infringement arising from: (a) “transitory digital network communications”; (b) “system caching”; (c) “information residing on system or networks at the direction of users”; and (d) “information location tools.” 17 U.S.C. §§ 512(a)-(d).

CCBill claimed entitlement to the safe harbor of Section 512(a) on the grounds that its alleged liability arose from automated online transitory communications. CCBill asserted that those communications were initiated by third-party consumers and processed payment data and transmitted user name and password information between the consumers and CCBill’s website clients. CCBill also asserted that to the extent its alleged liability was based upon hypertext links sent to consumers confirming their transactions and inviting them to begin viewing the websites to which they had subscribed, it was also protected under Section 512(d).

CWIE, as a website hosting company, claimed entitlement to the safe harbors of Section 512(c).

In response to those assertions, Perfect 10 claimed that Section 512(a) was limited to “backbone” providers who acted as a “conduit” for the transmission of infringing information, a category into which CCBill supposedly did not fit. And while Perfect 10 conceded that CWIE conducted Section 512(c) functions, it claimed CWIE ignored actual and constructive knowledge of infringing activity.

CCBill and CWIE further contended they were immune from Perfect 10’s state law claims under Section 230(c)(1) of the CDA. Perfect 10 countered that its state law claims were “intellectual property” claims, or at least involved intellectual property, and thus were excepted from CDA immunity under Section 230(e)(2).

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### District Court Ruling

The District Court granted summary judgment in favor of CCBill and CWIE on most claims. *Perfect 10, Inc. v. CCBill, LLC*, 340 F. Supp. 2d 1077 (C.D. Cal. 2004), *rev'd in part & aff'd in part*, 481 F.3d 751 (9th Cir. 2007).

First, the District Court held that both CCBill and CWIE met the initial requirements for DMCA eligibility, 17 U.S.C. § 512(i). The Court ruled that Perfect 10's notices of infringement did not meet DMCA requirements and should therefore be ignored for purposes of actual knowledge. It also ruled that notices of alleged infringement from third-parties were irrelevant for Section 512(i) purposes. Additionally, the District Court rejected Perfect 10's arguments that the alleged "red flags" imparted constructive knowledge of infringement to CCBill or CWIE.

The district court then ruled that CCBill "provided connections" between consumers and client websites containing allegedly infringing images through automated transitory online communications, and thus, was eligible for the safe harbor of Section 512(a).

With respect to CWIE, since it had received no DMCA-compliant notifications of infringement, and there were no "red flags" of infringement, the District Court held CWIE was entitled to the safe harbor of Section 512(c).

Finally, the District Court agreed that CCBill and CWIE were being treated as the publisher or speaker of third party information content, and that the immunity granted by the CDA potentially applied to Perfect 10's state law claims.

However, the District Court refused to apply CDA immunity to Perfect 10's right of publicity claim based upon *Comedy III Prods. v. Gary Saderup, Inc.*, 25 Cal.4th 387, 399, 106 Cal. Rptr. 2d 126, 135 (2001), in which the California Supreme Court had stated that "[t]he District Court thus ruled that Perfect 10's state right of publicity claim 'pertained to intellectual property' within the meaning of Section 230(e)(2), and therefore survived summary judgment.

### Ninth Circuit Decision

The Ninth Circuit first considered whether CCBill and CWIE met the threshold eligibility for the safe harbors provided

under the OCCILA provisions of the DMCA. Specifically, the limitations on liability provided under the safe harbors of Section 512(a)-(d) apply "only if the service provider":

"has adopted and *reasonably implemented* ... a policy that provides for the termination in appropriate circumstances of subscribers and account holders of the service provider's system or network who are repeat infringers"; and

"accommodates and does not interfere with standard technical measures" (defined in turn as "technical measures that are used by copyright owners to identify or protect copyrighted works ...").

17 U.S.C. § 512(i)(1)-(2) (emphasis added.)

The DMCA itself does not define what the phrase "reasonably implemented" means. Accordingly, the Ninth Circuit held in *CCBill* that "a service provider 'implements' a policy if it has a working notification system, a procedure for dealing with DMCA-compliant notifications, and if [the service provider] does not actively prevent copyright owners from collecting information needed to issue such notifications." And, "implementation is reasonable if, under 'appropriate circumstances,' the service provider terminates users who repeatedly or blatantly infringe copyright." 481 F.3d at 758-59.<sup>1</sup>

### Implementation

Perfect 10 urged that CCBill and CWIE had failed to implement a DMCA policy by supposedly failing to keep track of repeatedly infringing webmasters. CCBill and CWIE maintained a "DMCA log" that, while not perfect, recorded complaints about allegedly infringing material and the outcome of those complaints. The Ninth Circuit found that CCBill and CWIE reasonably tracked claims of infringement engaged in by their website clients.

### Reasonableness

Perfect 10 also contended that CCBill and CWIE failed to terminate alleged repeat infringers. The Ninth Circuit examined this contention with respect to: (a) Perfect 10's notices of alleged infringements; (b) third-party notices; and (c) apparent infringing activity.



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The Ninth Circuit affirmed the holding below that since Perfect 10's notifications of alleged infringement did not substantially comply with DMCA notification requirements, they could not provide actual knowledge of infringement. In particular, it held that Perfect 10 had failed to substantially comply with all six of the DMCA's requirements for notification of alleged infringements, 17 U.S.C. § 512(c)(3).<sup>2</sup>

While Perfect 10 had complied with some of the six requirements, it had made no attempt to comply with others, including the requirement of declaration under penalty of perjury that the complaining party is authorized to represent the copyright holder and that he has a good faith belief that the claimed use is infringing. Thus, "knowledge of infringement may not be imputed to CCBill or CWIE based on Perfect 10's communications."

The Court did find, however, that the District Court had erred in failing to consider, for purposes of safe harbor eligibility, how CCBill and CWIE had responded to notices of infringement by *third-parties*. The Ninth Circuit reasoned that since a service provider's overall DMCA policy was at issue, not just its practice toward one particular copyright holder, a remand was warranted so the District Court can determine whether those third-party notices provided CCBill and CWIE the requisite knowledge of infringement to take action against alleged repeat infringers.

At the same time, the Court rejected Perfect 10's claim that CCBill and CWIE were "aware of facts or circumstances from which infringing activity is apparent," 17 U.S.C. § 512(c)(1)(A)(ii), or "red flags" of infringement. The Court found that website names such as "illegal.net" and "stolencelebritypics.com" may reflect an attempt to "increase the salacious appeal" of the site rather than an admission of infringing activity.

It also disagreed that so-called "password-hacking" sites, which supposedly provide active user names and passwords for secure websites, reflected "red flags" of infringement. The Court reasoned that the sites could be a hoax, out of date, a promotion, or an attempt to collect information from unsuspecting users. As such, the Court declined to impose "investigative duties" upon CCBill or CWIE in the face of this information.

### Technical Measures

Aside from whether the service provider has reasonably

implemented a policy for terminating repeat infringers, the other threshold requirement is that it has not interfered with "standard technical measures" "used by copyright owners to identify or protect copyrighted works." 17 U.S.C. §§ 512(i)(1)(B), 512(i)(2).

Perfect 10 argued that CCBill did interfere with standard technical measures by allegedly rejecting Perfect 10's credit cards when it sought to purchase access to the websites of CCBill's clients to determine whether they contained its copyrighted images. CCBill contended that those credit cards had been declined because they were used for numerous website subscriptions followed soon thereafter by cancellations, resulting in costly "charge backs."

Based on an insufficient record, the Court remanded to the District Court to determine whether access to a website constitutes a "standard technical measure," and if so, whether CCBill interfered such measures.

### Safe-Harbors

The Ninth Circuit proceeded to analyze whether CCBill and CWIE met the requirements for the safe harbor categories they claimed; namely Section (a) for "transitory digital network communications"; Section (c) for "information residing on systems or networks at direction of users"; and Section (d) for "information location tools." 17 U.S.C. §§ 512(a), (c), (d).

For purposes of Section (a), a qualified service provider must be one that "offer[s] the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user's choosing ..." *Id.* § 512(k)(1).

The Ninth Circuit affirmed the lower court's rejection of Perfect 10's argument that Section 512(a) was limited to "backbone" service providers serving as "conduits" for the transmission of infringing material. The Court held that "[t] here is no requirement in the statute that the communications must themselves be infringing," and that "Section 512(a) provides a broad grant of immunity to service providers whose connection with the material is transient."

However, the Court believed the record did not reflect whether CCBill's payments to its account holders are "digital communications" within the meaning of Section 512(a). Thus, the Ninth Circuit remanded this question to the District Court for further consideration. (On April 12, 2007, CCBill petitioned

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the Ninth Circuit for a rehearing of this ruling, or a rehearing en banc, on grounds that, among other things, whether CCBill's payment to its account holders constituted "digital communications" was not an issue previously raised by the parties at any stage in the litigation.)

With respect to the application of Section 512(d), for "information location tools," the Ninth Circuit held that even assuming the hyperlink CCBill supplied in the confirming email to consumers could be deemed an information location tool, the safe harbor in subsection (d) was available "only for 'infringement of copyright by reason of the provider referring or linking users to an online location containing infringing material or infringing activity.'" (emphasis in original.)

The Court did not read Perfect 10's complaint as seeking to impose liability on CCBill due to the hyperlink. The Court therefore ruled that even if CCBill were entitled to the safe harbor of Section 512(d) for providing a hyperlink, CCBill's other business services would not be covered by that safe harbor.

Finally, the Court held that CWIE qualified for the safe harbor of Section 512(c), applicable to alleged claims of infringement "for storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider." The Court had already found that Perfect 10's notices to CWIE did not provide CWIE with knowledge or awareness within Section 512(c)(1)(A). Thus, the remaining question was whether CWIE "receive[d] financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity."

The Court interpreted "direct financial benefit" to mean whether "the infringing inactivity constitutes a draw for subscribers, not just an added benefit." It concluded Perfect 10 had failed to show that allegedly infringing activity on websites hosted by CWIE was a "draw." The Court also cited legislative history stating that "receiving a one-time set-up fee and flat, periodic payments for service from a person engaging in infringing activities would not constitute receiving a 'financial benefit directly attributable to the infringing activity[.]'" suggesting that because CWIE's service met that description, it cannot be deemed to receive "financial benefit directly attributable" to any copyright infringement by its clients.

The Ninth Circuit concluded that if on remand, the District

Court found that CWIE met the threshold requirements of Section 512(i), CWIE would be entitled to safe harbor protection under section 512(c). 481 F.3d at 767.

### CDA § 230

With respect to the Communications Decency Act, the Court held that the statute "establish[ed] [a] broad 'federal immunity to any cause of action that would make service providers liable for information originating with a third-party user of the service.'" That immunity is limited by only Section 230(e)(2) thereof, which provides that the CDA shall not "limit or expand any law pertaining to intellectual property."

Thus, the Court construed the term "intellectual property" in Section 230(e)(2) to mean only "federal intellectual property." (emphasis added).

### Ramifications

The CCBill opinion affords Internet service providers greater certainty and defenses when faced with claims of secondary liability for the content of third-parties. In the ongoing struggle between content owners and service providers, Perfect 10 had staked out an aggressive position, asserting that generalized contentions of widespread infringement should be sufficient to impose the burden on service providers to police their clients' content. The Ninth Circuit rejected Perfect 10's attempt to pin an "Internet police" badge on CCBill and CWIE.

The CCBill opinion should have wide import in several respects.

First, service providers need not respond to notices of infringement from content owners that do not comply substantially with *all six* of the notification elements set forth in Section 512(c)(3) of the DMCA. Service providers could face liability from their own clients for denying services based upon false or unsubstantiated infringement claims. Thus, content owners must provide the information required by the DMCA, including sufficiently detailed identification of the claimed infringements and an affirmation of good faith belief in the claim under penalty of perjury, before any burden will shift to service providers to seek a response from their clients.

Second, service providers should proactively use Section 512(a), which has been interpreted to afford "broad" safe harbors to service providers whose alleged liability arises from automated and transient transmission, routing, or provision of

## Ninth Circuit Clarifies Sweep of Digital Millennium Copyright Act and CDA

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connections for information. The Ninth Circuit's rejection of the requirement that such information be limited to the infringing works themselves should make the Section 512(a) safe harbor available to a wide variety of service providers.

Third, under the CDA, interactive service providers who receive information content from third-parties should enjoy broad immunity against all manner of alleged state law liability arising from such content. In sum, *CCBill* is an important decision and contributes materially to the evolving law of the Internet.

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<sup>1</sup> In *Corbis Corp. v. Amazon.com, Inc.*, 351 F. Supp. 2d 1090 (W.D. Wash. 2004), another District Court had set forth its own test for "reasonable implementation": "whether the service provider has adopted a procedure for receiving infringement complaints and conveying those complaints to the alleged infringers, and if so, whether the service provider nevertheless "still tolerates flagrant or blatant infringement." 351 F. Supp. 2d at 1102. It does not appear that any other courts have adopted that formulation, although the Ninth Circuit in *CCBill* cited *Corbis* as one of the decisions addressing "reasonable implementation." 481 F.3d at 758.

<sup>2</sup> The six requirements for a valid DMCA notification are as follows: (1) a physical or electronic signature of a person authorized to act on behalf of the copyright owner; (2) identification of the copyrighted works allegedly infringed; (3) identification of the material that is allegedly infringing and is to be removed or disabled, with sufficient information to allow the service provider to locate it; (4) contact information for the complaining party; (5) a statement that the complaining party has a good faith belief that the use of the material in the manner complained of is not authorized by the copyright owner; and (6) a statement under penalty of perjury that the information in the notification is accurate, and that the complaining party is authorized to act on behalf of the copyright owner. 17 U.S.C. § 512(c)(3)(i)-(vi).

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## California Court Rules Against Google in Sponsored Links Lawsuit Finds Trademark “Use” In Keyword Prompted Ads

By Mark Sableman

A significant split has developed in the last few years on an important threshold issue relating to sale of trademarks as keywords to trigger advertisements on search engine results pages—specifically, whether this activity involves “use” of trademarks as required by the Lanham Act. In the latest decision, *Google, Inc. v. American Blind & Wallpaper Factory, Inc.*, No. 5:03-CV-5340, 2007 WL 1159950 (N.D. Cal. April 18, 2007) (Fogel, J.), the court concluded that the threshold requirement of “use” had been met, and thus keyword trademark use was potentially actionable under trademark infringement and dilution theories.

In connection with any claim for trademark infringement or dilution, the Lanham Act requires proof that the trademark in question was used in commerce. This is rarely an issue in traditional trademark cases, but the issue has become important in two different Internet contexts.

### Background

In the situation of background pop-up advertisements, which are prompted by the computer user’s keystrokes, the companies that created pop-up software and installed it on computers claimed that any internal links between trademarks typed by the user, and the pop-up advertisements generated in response, which were not visible to the computer user, did not constitute cognizable trademark “use in commerce.”

In three key decisions, courts agreed, and found that the links between the keystrokes and the pop-ups did not qualify as Lanham Act “use in commerce.” *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400 (2d Cir. 2005); *Wells Fargo & Co. v. WhenU.com, Inc.*, 293 F.Supp.2d 734 (E.D.Mich. 2003); *U-Haul Int’l. Inc. v. WhenU.com, Inc.*, 279 F.Supp.2d 723 (E.D.Va. 2003).

Search engines such as Google then argued that these precedents protected their practices of selling advertisements and sponsored listings on search results pages, keyed to trademarks that were used as search terms. Several courts have accepted this argument. *Rescuecom Corp. v. Google Inc.*, 456 F.Supp.2d 393 (N.D.N.Y. 2006); *Merck & Co. v. Mediplan Health Con-*

*sulting, Inc.*, 425 F.Supp. 2d 402 (S.D.N.Y. 2006).

Several other decisions have gone the other way, finding that search engine use of trademarks as keywords constitute cognizable trademark “use in commerce.” *GEICO v. Google*, 330 F.Supp. 2d 700, 703-04 (E.D.Va. 2004); *Google Inc. v. Am. Blind and Wallpaper Factory, Inc.*, 2005 WL 832396 at \*6 (N.D. Cal. 2005); *800-JR Cigar, Inc. v. Goto.com, Inc.*, 437 F.Supp.2d 273 (D.N.J. 2006); *Buying for the Home, LLC v. Humble Abode, LLC*, 459 F.Supp.2d 310 (D.N.J. 2006).

Because a significant amount of search engine advertising, such as advertising under the Google “AdWords” program, is conducted with advertisements keyed to trademarks used as search terms, the resolution of this issue is very significant for the search engine industry.

If infringement cases against search engines can be cut off because of the threshold lack of “trademark use,” then trademark-keyword-based advertisements are safe. Without this threshold cutoff, all of these cases will hinge on whether there is a likelihood of consumer confusion, a fact-specific

issue that requires full litigation.

### *Google v. American Blind*

In the original 2005 decision in *Google v. American Blind and Wallpaper*, decided at the motion to dismiss stage, that court found trademark use, relying in part on the 2004 decision in *GEICO v. Google*, which in turn relied on the district court decision in *1-800-Contacts, Inc. v. WhenU.com Inc.*, which was later overturned by the Second Circuit.

Google took a second shot at the issue in a summary judgment motion filed in December 2006. Google undoubtedly felt it had a good chance to convince the court to change its position on this issue, based on the pop-up decisions, and the two 2006 decisions from New York finding no cognizable use in the keyword-prompted advertisement context.

However, in its decision, issued April 18, 2007, by Judge Jeremy Fogel, the Court adhered to its prior view that keyword-based advertisements tied to trademarks used as search terms satisfied the Lanham Act’s “use in commerce” requirement.

While acknowledging the intervening decisions that went

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***The Court adhered to its prior view that keyword-based advertisements tied to trademarks used as search terms satisfied the Lanham Act’s “use in commerce” requirement.***

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## California Court Rules Against Google in Sponsored Links Lawsuit

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the other way, and a developing split between district courts in the Second Circuit (finding no trademark use) and several in the Third Circuit (finding trademark use), the Court concluded that its decision had to be based on the sole relevant Ninth Circuit precedent, *Playboy Enterprises, Inc. v. Netscape Communications Corp.*, 354 F.3d 1020 (9<sup>th</sup> Cir. 2004) (discussed in the *MediaLawLetter* Jan. 2004 at 17).

*Playboy v. Netscape* involved banner advertisements generated in response to keyword searches, and chiefly addressed the correctness of the district court's summary judgment in favor of the defendant on a theory that the appeals court dismissed in a footnote as "absurd." (That theory was that the words "playboy" and "playmate" were only used in their dictionary senses, not as trademarks.)

Thus, much of the discussion of keyword-based ads in *Playboy v. Netscape* is arguably dicta, unnecessary to the court's reversal of the district court decision. But because it provides the only insight into the Ninth Circuit's views on keyword-based advertisements, the district court in *Google v. American Blind and Wallpaper* read the tea leaves of that decision carefully.

Specifically, the court noted that while the Ninth Circuit in *Playboy v. Netscape* never addressed the "use in commerce" element, it must have assumed that producing banner advertisements in response to searches using trademarks as keywords satisfied that element. Both the majority and concurring opinions, the court held, made an "implicit finding of trademark use in commerce."

Thus, the district court essentially made that implicit finding

of *Playboy v. Netscape* explicit in the case at hand. While the court's decision also seems to suggest that it agrees with the cases that have explicitly ruled on the issue, its decision rests primarily on this implicit finding.

The court also went on to address the next issue raised by any trademark-keyword-based advertising case – whether there was actual infringement. On this issue as well the court followed the Ninth Circuit's guidance, by applying the traditional multi-factor trademark analysis (which, in the Ninth Circuit, is set forth in *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341 (9th Cir. 1979)). Several of these factors weighed against Google, thus precluding summary judgment in its favor, including the trademark owner's survey showing 29% actual confusion, the close proximity of the trademark owner's goods and the goods advertised, evidence of a low degree of consumer care, and Google's intent to maximize its own profit.

On the trademark owner's federal dilution claim, the court granted Google's motion for summary judgment because of insufficient evidence that the trademarks in issue were famous.

With one other recent case concluding that use of trademarks as keywords to trigger advertisements constitutes actionable "use in commerce" (*J.G. Wentworth, S.S.C. v. Settlement Funding LLC*, 2007 WL 30115 (E.D. Pa. 2007)), this key issue remains unsettled, and will likely continue as a crucial hard-fought issue in similar cases.

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The screenshot shows a Google search interface with the search term "american blinds wallpaper". The results page displays several sponsored links and organic search results. The sponsored links include "American Blinds Wallpaper" from AmericanBlinds.com, "Call Now 1-800-NY-CARPET" for Premier Window Treatment, and "American Blinds Wallpaper" from AmericanWallpaper.com. Organic results include "American Blinds and Wallpaper" from decoratetoday.com and "American Blinds, Wallpaper & More: Wallpaper" from decoratetoday.com.

## Comment: The Net Neutrality Debate

By Marc Lawrence-Apfelbaum

*“When new technology is changing everything, the only certain outlook is for a future entirely different from what anyone could have foreseen.”<sup>1</sup>*

### ***I. Views of Net Neutrality Proponents***

“Net Neutrality” is a catchphrase used by a number of individuals and groups to embody their view of how broadband network providers (such as cable modem and DSL companies) should be regulated. Although it can mean different things to different people, it is centered on a few core beliefs and proposed regulations.

The principal core belief is that the Internet has become the robust force it is today because it has always been operated in a neutral manner whereby no content, websites or applications are given priority over any others. According to this view, this openness and neutrality exist today because of government regulation that required it, and this system of government regulation has only recently been undone through decisions of federal courts and agencies. Also according to this view, if regulations requiring such openness and neutrality are not reinstated and broadband providers are now allowed to give preferences to particular content, other content and sites will be disadvantaged, and the vitality of the Internet will be threatened.

Net Neutrality proponents are particularly concerned that, if broadband providers are allowed to charge websites for preferences in the quality of delivery they can obtain, the Internet will devolve into haves and have-nots, fast lanes and slow lanes, and that only well-financed content providers will be able to survive and prosper. Net Neutrality proponents are also concerned that, without regulation, broadband providers will favor their own services over others and that this will result in foreclosure of non-affiliated services. Net Neutrality proponents say that they are concerned that, if action isn’t taken now, “entrepreneurs in the garage” will be unable to continue to thrive, innovate and create new breakthroughs the way the founders of Google and other startups have done.

Net Neutrality proponents claim that they are only trying to preserve the status quo, and that the regulatory proposals they advocate will serve only to ensure that openness and neutrality that has always characterized the Internet is maintained. In terms of charges to providers of websites, proponents argue

that end users have already paid network providers for their connections, and network providers shouldn’t be permitted to “charge twice” by also imposing fees on web site providers.

In addition to self-proclaimed consumer advocates and a number of academics and regulators, there are also some major corporate backers of Net Neutrality. Most notably, these include Google, Microsoft and Amazon. These corporate backers generally echo the sentiments of other proponents but, in particular, they decry the prospect of any fees imposed on web site providers or potential quality preferences granted by broadband network operators to particular web site providers.

Although Net Neutrality proponents have advanced a number of different regulatory proposals and ones that sometimes are inconsistent with one another, the main regulatory conditions they would impose include prohibiting broadband providers from:

- blocking or interfering with users’ access to any lawful Internet content;
- offering or imposing any quality of service, bandwidth limitations or speed tiers except on terms that are “reasonable and nondiscriminatory” and that are at least equivalent to those provided to its affiliated Internet-based services;
- imposing any charges for any permitted prioritization on anyone other than consumers; and
- preventing end users from attaching any devices to the network unless they would cause physical damage to the network or degrade others’ use of the network.

Most Net Neutrality proposals would also authorize a new or existing agency, like the FCC, to promulgate rules to define more precise contours of these principles and to adjudicate alleged violations. Most proponents argue that this would be regulation with a “light touch,” because they believe the principles above would be very straightforward in application and merely preserve the status quo.

### ***II. Why Government-Imposed Net Neutrality Would be Bad Policy***

The principal argument against Net Neutrality is that all of the core beliefs behind it are unfounded.

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## The Net Neutrality Debate

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### **A. MARKET FORCES, NOT REGULATION, CREATED TODAY'S ROBUST INTERNET**

It is simply untrue that the Internet became the robust force it is today because of government regulations that required broadband providers to operate their networks in an open and nondiscriminatory manner. Rather, consumer broadband service was first broadly deployed commercially by cable operators, who were never subjected to intrusive government regulation in the operation of their broadband services. On the phone side, telecommunications providers had been subject to common carrier regulation, but phone companies refrained from deploying their own lower-cost broadband technology, DSL, apparently because they were concerned that it would cannibalize their sales of higher priced T1 type services. It was only after unregulated cable operators successfully deployed lower priced broadband services that the phone companies began to commercially deploy DSL in response. Following that deployment, the U.S. Supreme Court upheld the FCC's classification of cable broadband services as a minimally regulated "information service,"<sup>2</sup> and the FCC subsequently extended that same regulatory treatment to DSL and other broadband technologies, including Broadband Over Powerline.

So, contrary to the belief of Net Neutrality proponents, consumer broadband service was deployed by the companies that were not subjected to intrusive government regulation, while the heavily-regulated companies stood on the sidelines. Therefore, to the extent the Internet is characterized by openness and neutrality, this is the result of market forces, not regulation, and a fundamental basis of the proponents' call for regulation is unfounded.

### **B. INCREASING BANDWIDTH USAGE MEANS THERE IS NO STATUS QUO TO BE PRESERVED**

Net Neutrality proponents are also incorrect in their assumption that there's a status quo in Internet technologies and business and pricing models that can simply be preserved without further changes. Rather, from its beginnings, the Internet has been marked by breathtaking changes in technology and business models, and has developed in ways no one, including regulators, could have foreseen. Such rapid and unforeseeable development are likely to continue, provided regulators don't attempt to write inflexible laws that will prevent market forces and changing consumer uses from

continuing to develop. Indeed, the transition from dial up to broadband was itself largely unseen and, as explained above, resulted from market forces, not regulation.

One of the most important, and also unforeseen developments, has been the exponential growth in the use of bandwidth since broadband was launched commercially a little more than 10 years ago. In the dial-up era, and when broadband was first launched, the amount of bandwidth needed to view most web sites was very limited. In addition, usage was mainly downstream, not upstream, and use of bandwidth tended to be in bursts, rather than constant, as users spent most of their time looking at particular websites or pages and only used additional bandwidth to periodically change page views. In the years since broadband was launched, bandwidth usage has increased as web site pages have generally become graphically richer. In addition, bandwidth usage has grown further as uses that require more constant bandwidth, like streaming and downloaded video, have increased. In addition, upstream and downstream usage has become more symmetrical, both as more user-generated content is developed (another largely unforeseen development) and as there is increasing usage of peer-to-peer type applications, whereby these applications set up users' computers (often without their knowledge) as "super nodes," which engage largely in machine to machine communications. Bandwidth usage will most likely continue to grow exponentially. Indeed, many analysts believe that much of the video from traditional platforms, including cable and broadcast, will move to the Internet in the coming years.

Neither the Internet itself, nor the facilities of broadband providers, were built with these kinds, or these levels of use, in mind. Without significant upgrades, and significant increases in ongoing operational spending, the existing infrastructure cannot handle such uses. If broadband providers are going to be able to make the necessary investments, and are going to be able to continue to provide high quality services at affordable prices, they will need flexibility to develop new business and pricing models and new technologies. Without such flexibility, some combination of all or some of the following will occur: needed investments won't be made, quality will deteriorate for all users, prices will rise, and innovation will be stifled. Yet Net Neutrality would ensure just such inflexibility because it would severely restrict allowable business and pricing models.

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## The Net Neutrality Debate

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### **C. NET NEUTRALITY WOULD PERMIT ONLY A SINGLE BUSINESS MODEL**

In particular, Net Neutrality proposals, as explained above, would require that all bits be treated the same or, at the very least, not permit any “unreasonable discrimination” between them. In addition, Net Neutrality would not allow any business arrangements whereby anyone other than consumers could help shoulder the costs of needed upgrades and enhancements. As of today, these restrictions would limit consumers’ choices and increase costs for all users. As to the future, there’s no telling what mischief such rules would cause.

For example, another implicit (and sometimes explicit) assumption behind Net Neutrality is that innovation can occur only on the Internet itself, and not on the facilities of so-called “last mile” providers like cable and telephone companies. But that assumption is also plainly wrong; it was the innovation of developing and deploying broadband on those facilities that made possible or facilitated all or most of the other Internet innovations that are occurring today, such as the deployment of graphically rich content and applications. Additional innovation is certainly possible and probable at the broadband-facilities level and some (but far from all) of it can even be glimpsed today. Some examples include speed bursts for applications like online games, where enhanced speed can make play more challenging and enjoyable, providing family-friendly online services that would allow access only to certain websites and content for customers who chose such services, and innovative business arrangements, whereby businesses would pay to subsidize the costs for retail users. Under Net Neutrality, however, the ability to offer such innovations would be severely restricted.

Moreover, it’s particularly ironic that some self-styled consumer advocates see prohibiting any recovery of rising costs from any parties other than consumers as being in consumers’ interests. This is especially so since such practices are permitted even on the common carrier side, where offerings like 800 numbers result in win/win/win outcomes for consumers, telecommunications providers and business users. It is also ironic that many corporate supporters of Net Neutrality would categorically bar any cost subsidization by business users when many such proponents have

themselves built their businesses around a commercial-user subsidy model. In particular, rather than charging fees to consumers for its search services, Google completely subsidizes those costs by charging fees to businesses to prioritize their listings in its search results.

For similar reasons, the concern of Net Neutrality proponents that charges to commercial entities would result in paying twice for the same connectivity is unfounded. Such a concern might be valid if costs and bandwidth usage were constant. But that view is fundamentally flawed where the very problem to be confronted is exponentially rising costs and usage.

### **D. NET NEUTRALITY REGULATION WOULD BE HEAVY, NOT LIGHT**

The view of Net Neutrality proponents that such regulation could be accomplished with a “light touch” is also misguided. First, most of the prohibitions aren’t subject to one clear meaning, especially in the complex context of broadband and the Internet. What is undue discrimination to one person might be entirely reasonable to another. Broadband proponents recognize this inherent amorphousness when they also propose establishing or authorizing a federal agency to promulgate implementing rules to provide greater specificity. The problem is that no agency has expertise to spell out precisely what conduct today will enhance consumer welfare and what conduct will harm it. And since this is an area where consumer uses and preferences will continue to evolve at a breakneck pace and in ways that cannot be foreseen, the impact and costs of premature regulation that locks in one business model will be extremely heavy, not light.

The history of telecommunications and other regulatory attempts in areas marked by rapid change in technology and potential consumer preferences helps to demonstrate this point. In telecommunications regulation, policy makers employed a system for many decades that subsidized local service through high prices for long-distance calls. It was only when entrepreneurs broke through this regulatory system that long distance became affordable for most users. Telecommunications is still burdened today by the badly flawed Universal Service Fund system, which has little actual relation to subsidizing the costs of telecommunications services for poor and rural customers, but

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## The Net Neutrality Debate

*(Continued from page 40)*

which greatly distorts competition on the merits among alternative providers. Cable television provides another compelling example, where the government's initial policy of severely limiting the amount of original programming available on cable to protect broadcasters was only dismantled after the courts struck it down.<sup>3</sup> As a result of this judicial dismantling, the number and sources of programming channels expanded for most Americans from three or four to the almost countless number of programming choices available today.

The debate over so-called Open Access at the beginning of this century provides the most instructive example of all. In that debate, many of the same parties that now claim the Internet as we know it won't survive without Net Neutrality made the same predictions about Open Access. They argued that it was urgent for the government to require that broadband providers offer access to their facilities

to any requesting ISP on common carrier terms. Policy makers and regulators, however, wisely resisted such calls for intervention and, since then, the Internet and broadband have undergone the greatest growth and innovation in their histories.

### E. THE MARKETPLACE IS WORKING

Calls for government intervention should be rejected here too. The marketplace has worked well, bringing about continuing improvements in services, features, speed and pricing. In addition, competition is robust among existing competitors and new entrants are poised for entry, including new wireless and Broadband over Power Line providers. Furthermore, Net Neutrality proponents have failed to point to any actual examples of improper blocking of content or business practices by broadband providers that have improperly diminished consumer welfare. The system is working well without government intervention. Policy makers and regulators would, therefore, best serve the interests of consumers by continuing to resist pleas for intervention unless and until there is clear evidence of problems that the marketplace cannot solve.

*Marc Lawrence-Apfelbaum is Executive Vice President & General Counsel of Time Warner Cable.*

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<sup>1</sup> Russell Baker, *Goodbye to Newspapers?*, The New York Review of Books (August 16, 2007).

<sup>2</sup> *National Cable and Telecommunications Association v. Brand X Internet Services*, 545 U.S. 967 (2005).

<sup>3</sup> *Home Box Office, Inc. v. Federal Communications Commission*, 567 F.2d 9 (D.C. Cir. 1977).

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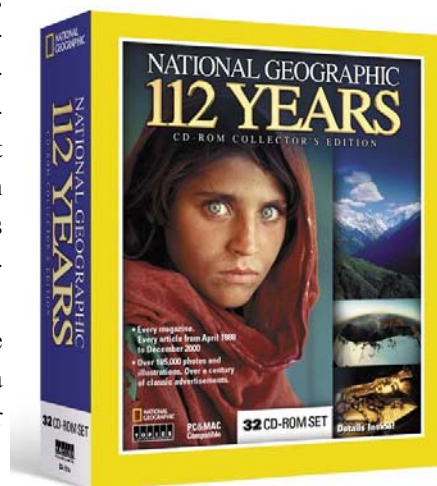
## National Geographic CD-ROM Collection a Permitted Revision

### Eleventh Circuit Reverses Prior Ruling in Light of *Tasini*

The Eleventh Circuit held that a digital compilation of National Geographic magazines on CD-ROM is a permissible revision of a collected work under § 201(c) of the Copyright Act. *Greenberg v. Nat'l Geographic Soc'y*, No. 05-16964, 2007 WL 1693056 (11<sup>th</sup> Cir. June 13, 2007) (Barkett, Kravitch, Trager, JJ.) (“*Greenberg I*”). The decision overrules the Eleventh Circuit’s 2001 decision in the same case which had held that the compilation infringed the copyright of a freelance photographer whose work appeared in the magazine. See *Greenberg v. Nat'l Geographic Soc'y*, 244 F.3d 1267 (11th Cir. 2001) (“*Greenberg I*”).

The Eleventh Circuit reasoned that it was bound to overrule its prior decision in light of the Supreme Court’s decision in *New York Times Co. v. Tasini*, 533 U.S. 483 (2001). In *Tasini*, the Supreme Court held that an electronic database of periodical articles was not a permissible revision under the Copyright Act, distinguishing the database from microfiche and microfilm compilations which present material in its original context.

Writing for a unanimous panel, Judge Trager announced that “*Tasini* creates a new, post-*Greenberg I* framework for analyzing the § 201(c) privilege.”



#### Revisions of Collected Works

Section § 201(c) of the Copyright Act permits the owner of a collective work to produce “revisions” of the work. The Eleventh Circuit reasoned that in evaluating § 201(c) post-*Tasini*, the court should ask “whether the original context of the collective work has been preserved in the revision.” Here, National Geographic created “a digital compilation that contains exact images of past magazine issues.” The CD-ROM preserved that context, and so did not infringe the copyrights of freelance photographers whose photos it reproduced.

In *Greenberg I*, by contrast, the Court had separated the digital compilation into three components: a brief introductory sequence of morphing magazine cover images,

the original magazine reproductions, and the program by which users accessed the material. The Court assumed, without discussion, that § 201(c) protected the extant digital reproductions of the magazine issues, but ruled that the navigation program and the introductory sequence were separately copyrightable elements. Thus, the CD-ROM editions was a new product “in a new medium, for a new market that far transcends any privilege of revision or other mere reproduction envisioned in § 201(c).” *Greenberg I* at 1273.

#### Impact of *Tasini*

In concluding that *Tasini* required *Greenberg I* be overruled, the Court looked to a Second Circuit decision involving a nearly identical copyright infringement claim decided after *Tasini*. In *Faulkner v. National Geographic*, 409 F.3d 26 (2d Cir.), cert. denied, 126 S.Ct. 833 (2005), the Second Circuit held that *Tasini* gave “tacit approval to microfilm and microfiche,” as privileged media under § 201(c), because they preserve the original context, and that this privilege should extend to CD-ROMs as well. *Faulkner* at 35.

Furthermore, the Second Circuit court ruled that “the *Tasini* approach so substantially departs from the *Greenberg* analysis that it ... render[s] application of collateral estoppel inappropriate.” *Id.* at 37.

The Eleventh Circuit then evaluated the relationship between the introductory sequence and the reproductions that make up the bulk of the CD-ROM under *Faulkner*’s post-*Tasini* rationale. Drawing upon the legislative history of the Copyright Act, the Court held that “the addition of new material to a collective work will not, by itself, take the revised collective work outside the privilege.” *Greenberg II*.

*National Geographic* was represented by Kenneth Starr, Kirkland & Ellis, LLP, Washington, DC; Stephen N. Zack, Boies, Schiller & Flexner, LLP, Miami, FL; and Robert G. Sugarman, Weil, Gotshal & Manges, LLP. Plaintiff was represented by Norman Davis, Squire, Sanders, & Dempsey, LLP, Miami, FL.

## Use of Photograph in News Broadcast Held to Be Infringing

### Court Looks to Industry Practices To Find No Fair Use

Last month, a Massachusetts federal district court held that CBS-owned television stations in Boston infringed a photographer's copyright in an arrest photo by using it in news broadcasts. *Fitzgerald v. CBS Broadcasting, Inc.*, Nos. 04cv12138-NG, 06cv11302-NG, 2007 WL 1793551 (D. Mass. June 22, 2007). The court rejected CBS's fair use defense, finding that the use of the photo in the news broadcasts was not transformative and violated general industry practices.

#### Background

In 1995, freelance photographer Christopher Fitzgerald, obtained the only arrest photographs of mobster Stephen Flemmi, a member of Boston's notorious "Winter Hill Gang." The photographs were published by media outlets a number of times, and Fitzgerald collected license fees totaling \$4,350 for their use. He has also threatened and filed copyright infringement suits over unauthorized use of his photographs, securing settlements worth \$58,600.

Fitzgerald had previously sued CBS in 1998 over the use of his photographs in a local news broadcast and as part of a *60 Minutes* segment. The parties settled and CBS without admitting infringement agreed to take precautions against unauthorized use of his photographs by reviewing its archive tapes and destroying all copies of plaintiff's photos.

About six years later, in 2004, CBS-4 in Boston was preparing a news report on the sentencing of John Martorano, another member of the Winter Hill Gang. A reporter and editor found a copy of Fitzgerald's photograph of Flemmi on a "pitch reel" (a tape of material organized by subject matter for later reference). They cropped the photo and included it in their report on Martorano's sentencing. The report was rebroadcast on UPN-38, another CBS-owned station in Boston.

#### Fair Use Rejected

On cross motions for summary judgment on Fitzgerald's copyright complaint, the District Court rejected CBS's fair use defense and held that it had infringed plaintiff's copyright. In examining the four fair use factors, the court focused on whether the use of photograph was transformative and the effect of the use on the market for the photograph.

CBS had argued that its use was transformative because it had cropped the photo to focus on Flemmi and used it in a narrative report on the criminal sentencing of one of Flemmi's former gang associates. The court rejected the claim, stating that if such use was "transformative" then "it is hard to imagine any use of archived imagery in news reporting that would not be fair use." *Id.* at \*7 n.2.

Interestingly, the court also took notice of the regular business practices of photojournalists. If CBS's could make these changes to a photograph and call it "transformative," then the fair use doctrine would be contradicting "the regular and long-running practices and assumptions of photojournalists, media outlets, and intermediary agencies[ ]" which regularly pursue and grant licenses for use of photographs. *Id.*

While noting that a court is not required to follow industry practices, "where the Court is called on to make a pragmatic ruling about where to draw lines so as to best 'promote the progress of science and the useful arts,' it is appropriate to consider how those useful arts actually progress." *Id.*

Similarly, the effect of the use on the market for plaintiff's photo weighed against fair use. "It is hard to imagine that freelance photojournalists would continue to seek out and capture difficult to achieve pictures if they could not expect to collect any licensing fees. ... In short, a finding of fair use would destroy the expected market for Fitzgerald's photographs and fly in the face of the practical experience of the freelance photojournalism industry." *Id.* at \*10.

Plaintiff was also seeking increased statutory damages for willful infringement arguing that CBS was on notice regarding the use of his photographs. The court declined to rule on the issue on summary judgment finding that it involved disputed issues of fact about the reporter's state of mind. "A defendant's good faith belief that its use of copyrighted material is fair use is enough to defeat a finding of willfulness," the court noted. But "the belief in fair use must have existed at the time of the use, not merely at the time of the litigation."

*CBS Broadcasting, Inc.*, was represented by Jonathan M. Albano of Bingham McCutchen, LLP, Boston, Massachusetts. Plaintiff was represented by Andrew D. Epstein of Barker, Epstein & Loscocco, Boston, Massachusetts.

## Book Author Settles Suit with James Joyce Estate

### *Withdraws Declaratory Judgment Motion, Moves For Attorney Fees*

In an important victory for authors and scholars, Carol Loeb Shloss, a Stanford professor and author of the book *Lucia Joyce: To Dance in the Wake*, settled a long-running copyright dispute with the James Joyce Estate. See *Shloss v. Sean Sweeney, in his capacity as trustee of the Estate of James Joyce, et al.*, No. CV 06-3718 (JW) (HRL) (N.D. Cal. Settlement date, March 16, 2007).

Shloss's book was published in 2003. Prior to publication she redacted portions of the book following complaints by the Joyce Estate. The current litigation involved her efforts to post the redacted material online as a supplement to the book. The material is now available at [www.lucia-the-authors-cut.info/](http://www.lucia-the-authors-cut.info/).

Following the settlement agreement, this month Shloss filed a motion for attorneys' fees arguing that she fits the Copyright Act's definition of prevailing party, and that under the circumstances an award of fees would substantially further the policy of the Act.

#### **Background**

Represented by the "Fair Use Project" of Stanford University's Center for Internet & Society, Shloss filed a complaint for declaratory judgment and injunctive relief against the James Joyce Estate in June 2006, and added Stephen Joyce individually in January 2007. But her own interactions with the Estate began well before that filing. Shloss began research for a biography of James Joyce's daughter, Lucia Joyce in 1988. She traveled to several countries and worked with many libraries during that time.

Shloss's book, *Lucia Joyce: To Dance in the Wake*, chronicles Lucia's life, and the creative impact of Lucia's relationship with her father on his literary works. Lucia apparently suffered from mental illness and writings from

her and about her life are rare and are staunchly protected by the Estate.

James Joyce's grandson, Stephen James Joyce, who now largely controls the Estate, was in particular very protective both of James Joyce's works and letters and of the entire family's privacy. Indeed, Shloss included in her complaint a series of examples in which the projects of other Joyce scholars were stymied by the Estate's refusal to grant permission to excerpt texts and letters.

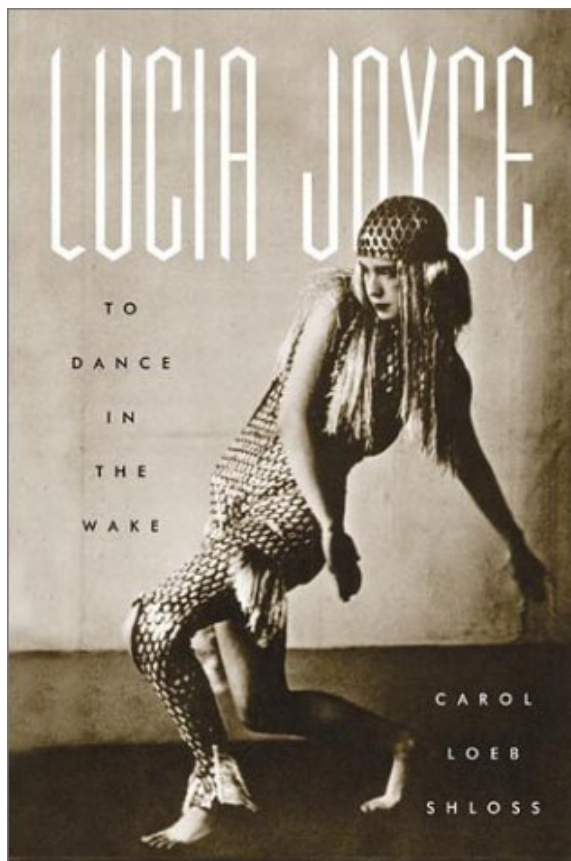
Shloss also alleged that Stephen Joyce had destroyed Lucia's letters, which he had in his possession, and that he had removed papers concerning the family from the archives of the National Library of Ireland, apparently in the hopes of protecting the family's privacy. In its response papers, the Joyce Estate vehemently denied that any family papers had been destroyed or removed.

Shloss alleged that when the Joyce Estate learned of her work, it attempted to interfere with her research. For example, Shloss alleged that "intermediaries" of the Estate told the University of Buffalo library not to allow Shloss to see its collection of Joyce materials. Stephen Joyce also contacted Shloss's publisher Farrar, Straus & Giroux allegedly stating that publication of any Lucia Joyce-related material would be "at your risk and peril" and that the Estate

would "put our money where our mouth is." Ultimately, to avoid the risk of litigation, Shloss was required to cut significant amounts of the Joyce materials from the book.

#### **Motion for Declaratory Judgment**

Shloss was unsatisfied with the publication because the redactions undermined the book's scholarly integrity and



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## Book Author Settles Suit with James Joyce Estate

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excluded evidence she spent years assembling. Indeed, Shloss noted in her complaint that some reviews of her book pointed to a lack of documentation.

Thus, Shloss sought to publish the back-up material by posting it to a website. This “electronic supplement” was to include excerpts from *Finnegans Wake*, Joyce’s published and unpublished letters, and letters to Joyce and about his family. The supplement would also include excerpts from the 1922, first edition of *Ulysses*, which Shloss argued was in the public domain in the United States.

Shloss’s counsel wrote to the Joyce Estate, described the supplement, and noted that it would be available only in the United States and was protected under the fair use doctrine of the U.S. Copyright Act. The Joyce Estate, which continued to claim it owned copyrights in the disputed material, objected. The motion for declaratory relief followed.

In her motion, Shloss asked the court for a judgment that the supplement did not infringe any copyrights held by the Joyce Estate, that the 1922 edition of *Ulysses* is in the public domain and that Shloss’s scholarly use of Joyce materials in the supplement qualified for fair use protection.

Shloss also asked the court to determine that the Estate had engaged in “copyright misuse” so as to prohibit any enforcement of copyright against Shloss. Finally, Shloss asked for a judgment that the estate’s “unclean hands prohibit enforcement of their copyrights against Shloss.”

The Estate opposed the motion, arguing there was no actual controversy because it had not expressly stated it would bring an infringement action. Moreover, the Estate said it would covenant not to sue over the web supplement. But it moved to strike Shloss’s claims of copyright misuse and unclean hands, as well as her assertion that *Ulysses* is in the public domain.

### **The Settlement**

The parties ultimately came to a Settlement Agreement in March that vindicated Shloss’s right to publish her supplement in the United States in electronic and printed form. As to electronic publication, the parties agreed to web publication “accessible only within the United States to computers with a U.S. Internet Protocol (“IP”) address.” This was in accord with Shloss’s request to publish in the United States only, under U.S. fair use law.

The estate and Stephen Joyce, in turn, agreed not to sue

Shloss for copyright infringement resulting from Shloss’s publication, in either electronic or printed form, of the supplement. The Estate also agreed to provide documentary evidence to Shloss to substantiate its claim of a copyright interest in the Lucia Joyce materials.

The parties also agreed that the California federal district court would retain jurisdiction to for purposes of enforcing the agreement.

### **Attorneys’ Fees Motion**

Following the settlement, Shloss’s lawyers this month filed a petition for attorneys’ fees. Acknowledging that the lawsuit did not result in a decision on the merits, it nevertheless “established Shloss’s right to publish material that Joyce and the Estate tried to suppress for years.” The petition argues that Shloss is the prevailing party because she achieved much of the relief sought in a court enforceable agreement.

Moreover, the petition argues that an award of fees would further the policy of the Copyright Act because Shloss vindicated her and other scholars’ right to make fair use of Joyce materials.

Carol Loeb Shloss was represented by Anthony Falzone, Lawrence Lessig, David S. Olson and Mark Lemley of Stanford; and Robert Spoo and Bernie Burk of Rice Nemerovski Canady Falk & Rubin in San Francisco. The Joyce Estate was represented by Maria K. Nelson and Anna E. Raimer of Jones Day, in Los Angeles, California.

**November 9, 2007**

*New York City*

**Defense Counsel Section Breakfast**

## Violence on Television:

# Regulating Programming from Wile E. Coyote to Shakespeare

By Jeriane Timmerman

On Veteran's Day in 2004, ABC aired, unedited, Steven Spielberg's Academy Award winning motion picture *Saving Private Ryan*. Sixty-six ABC affiliates preempted *Ryan* due to fears that the film's strong language (including four letter words) would generate viewer complaints about perceived indecency, a Federal Communications Commission investigation, and perhaps fines for airing indecent programming—and consequently even delays or other difficulties at license renewal time.

Indeed, following the showing of *Ryan*, the American Family Association and others filed complaints at the Commission alleging that the ABC owned and affiliated stations airing the program had broadcast indecent and profane material in violation of federal statute and FCC regulations.

Although the FCC ultimately found *Ryan* not to be indecent and denied the complaints, television broadcasters in the future may have a new worry—restrictions based on violent content.

In 2004, 39 members of the House of Representatives requested the FCC to conduct an inquiry on violent television programming and its impact on children, and to produce a report to Congress on the subject.

On April 25, 2007, the FCC finally released this report, which recommends that Congress take action to regulate violent programming. *Violent Television Programming and its Impact on Children*, Report, FCC 07-50 (rel. April 25, 2007) (*FCC Report*).

This article summarizes the FCC's report and discusses some of the myriad constitutional and practical problems with regulating violent content on television. It also describes the legislation that will shortly be introduced to regulate violent programming on both broadcast and subscription television.

### ***FCC Report and its Unanswered Questions***

In its *Report*, the FCC found strong evidence that exposure to violence in the media can increase aggressive behavior in children, at least in the short term, and recommended that action should be taken to address violent programming. To that

end, the FCC further found that:

- viewer-initiated blocking and program ratings (e.g., the V-Chip) are of limited effectiveness in protecting children from violent content and do not fully serve the government's interests in promoting parental supervision and protecting the well-being of minors;
- further governmental action would serve these interests in protecting children and facilitating parental supervision and would be reasonably likely to be upheld as constitutional;
- Congress could develop an appropriate definition of excessively violent programming;

***The Report fails to offer a definition of "violence" or "excessively violent" programming.***

- Congress could implement a "time channeling" solution and/or mandate some other form of consumer choice in obtaining video programming, such as the provision by cable/satellite operators of video channels provided on family tiers or on a

la carte basis.

A time channeling solution would restrict violent programming to hours when children are less likely to be in the viewing audience. Under the current indecency regime, the restricted programming may be aired only between 10:00 pm and 6:00 am.

The *FCC Report* raises a number of unanswered questions, and even Commissioners Jonathan Adelstein and Robert McDowell expressed dissatisfaction about the adequacy of the *Report's* legal and factual analyses. Most obviously, the *Report* fails to offer a definition of "violence" or "excessively violent" programming, even though Congress in its 2004 letter had asked the FCC to propose a definition.

Instead, the Commission merely says that Congress could develop an appropriate definition. As Commissioner Adelstein noted in his separate statement, the fact that the Commission is "not able to offer a definition" shows that "it does not appear to be as easy to define as some suggest."

Indeed, defined broadly, violence would include everything from Roadrunner cartoons to Shakespeare—not to mention sports and news reports of terrorism and the war in Iraq. Given the FCC's long-standing difficulties in defining indecency, as evidenced by a number of pending legal challenges at the Com-

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## Violence on Television

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mission and in the courts, the agency's or Congress's ability to define violence so as to give fair guidance to programmers and withstand constitutional scrutiny must be questioned.

These definitional and related problems are in fact so severe all previous attempts by states and localities to regulate materials based solely on their violent content have been rejected as unconstitutional.

Attempts to restrict violent videotapes, trading cards, video games, books and magazines have all floundered, regardless of the manner in which the regulated violent content was defined. See, e.g., *Winters v. New York*, 333 U.S. 507 (1948); *Interactive Digital Software Ass'n v. St. Louis County*, 329 F.3d 954 (8th Cir. 2003); *American Amusement Mach. Ass'n v. Kendrick*, 244 F.3d 572 (7th Cir. 2001); *Eclipse Enterprises, Inc. v. Gulotta*, 134 F.3d 63 (2d Cir. 1997); *Video Software Dealers Ass'n v. Webster*, 968 F.2d 684 (8th Cir. 1992).

There is simply no "violence exception" to the First Amendment, and, as noted by Commissioner Adelstein, the *FCC Report* "diminishes the extent" to which courts have overturned efforts to regulate violent content.

Beyond these virtually insuperable definitional problems, the scientific basis for restricting violent media is shaky at best. Even FCC Chairman Kevin Martin in his statement acknowledged that "research on whether watching violent programming actually causes aggressive behavior" (let alone actual violent acts) by "children is inconclusive."

Moreover, certain research specifically relied upon by the FCC in its *Report* has been found by courts in several recent video game cases *not* to constitute substantial evidence of harm to minors. See *Kendrick*, 244 F.3d at 578-79; *Entm't Software Ass'n v. Hatch*, 443 F. Supp. 2d 1065, 1069-70 (D. Minn. 2006); *Entm't Software Ass'n v. Blagojevich*, 404 F. Supp. 2d 1051, 1060-63 (N.D. Ill. 2005) (research of Dr. Craig Anderson). See also *Entm't Software Ass'n v. Granholm*, 426 F. Supp. 2d 646, 653 (E.D. Mich. 2006); *Blagojevich*, 404 F. Supp. 2d 1066-67, 1074 (MRI brain-mapping studies).

Reports by the Federal Trade Commission and the Surgeon General, which the *FCC Report* also relied upon, have further identified the unresolved problem of determining what specific kinds of violent media content are actually harmful to minors.

In fact, there is essentially no available evidence showing which types of violent depictions (if any) may be more harmful than others and which types are not harmful at all. See, e.g.,

Professor Jonathan Freedman, *Television Violence and Aggression: Setting the Record Straight* at 12 (Media Institute 2007); Harry T. Edwards and Mitchell N. Berman, *Regulating Violence on Television*, 89 Nw. U. L. Rev. 1487, 1553 (1995).

For example, some believe that violence in cartoons or in shows such as *The Three Stooges* is harmful because these programs present violence humorously and without obvious consequences, yet others believe that only "realistic" or "graphic" violence should be regulated. The government thus has no real idea whether it should restrict *Saving Private Ryan*, news reports of terrorism and the Iraq war, or Moe, Larry and Curly.

This lack of evidence only exacerbates the definitional problems discussed above, and will almost inevitably lead to a definition of violence that is imprecise and overbroad from both a practical and constitutional viewpoint. And time channeling itself appears a drastically overbroad response, given the clear infringement upon the rights of adults and the approximately two-thirds of American households that do not have any children under 18 years of age.

Even beyond these serious overbreadth problems, the constitutionality of directly regulating the content of television programming is also highly suspect because of the numerous and growing number of less restrictive alternatives.

Technologies such as VCRs, DVRs, PVRs, video on demand and computer downloads already allow viewers to watch programming whenever they want, and to prescreen and record programming for their children. The V-Chip and program ratings system and a variety of cable and satellite television controls today give parents unprecedented control over the programming viewed by their children. See Adam Thierer, *The Right Way to Regulate Violent TV* (Progress and Freedom Foundation, May 10, 2007) (discussing wide range of technologies and non-technical tools and methods for parental control of television programming).

Both Commissioner McDowell and Commissioner Adelstein criticized the *FCC Report* for failing to discuss the full range of tools now available enabling parents to control their children's television viewing.

Especially in light of this plethora of less restrictive alternatives for empowering parents, an effort by the government, for the first time ever, to regulate programming due to its violent content seems both misguided and legally unsustainable. Commissioner Adelstein and Commissioner McDowell both opined

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## Violence on Television

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that the *FCC Report* failed to grapple adequately with the constitutional issues raised by proposing to regulate violent material in broadcast and cable television programming.

The *Report* briefly cites *FCC v. Pacific Foundation*, 438 U.S. 726 (1978), to justify restricting violent content on broadcast television—a narrow 5-4 decision about indecency predating the growth of cable/satellite television and radio and the development of the Internet, as well as all the parental control technologies described above. The *FCC Report* contained no legal analysis whatsoever of the constitutional authority to regulate non-broadcast subscription television services.

### Proposed Legislation

Senator John Rockefeller of West Virginia will in the very near future introduce legislation designed to regulate both broadcast and cable/satellite television programming based on its violent content. Assuming that this legislation will be similar to legislation proposed by Senator Rockefeller in previous years, the new legislation will likely direct the FCC to adopt measures to prevent the airing of “excessively violent” television programming during hours when children are reasonably

likely to comprise a substantial portion of the viewing audience. Only premium and pay-per-view cable/satellite channels will be exempt.

The Senate Commerce Committee is expected to hold a hearing on Senator Rockefeller’s bill in late June. The *FCC Report* will likely give impetus to this legislation.

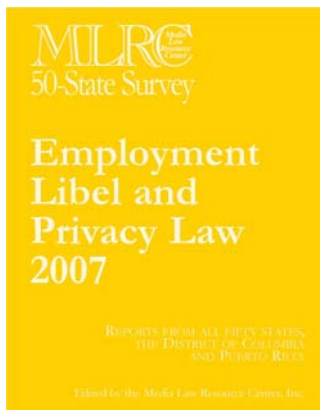
### A Judicial Resolution?

Just how far will these efforts to regulate violent programming on broadcast and cable/satellite television ultimately go? Right now, it’s still unclear. If adopted, restrictions on violent programming would in all likelihood be challenged in court, where they would clearly face an uphill battle. Such a judicial challenge—especially in conjunction with the pending court challenges against several of the FCC’s recent indecency decisions—may lead in the end to a reexamination by the Supreme Court of the level of protection afforded broadcasters under the First Amendment.

*Jerianne Timmerman is Senior Vice President and Deputy General Counsel of the National Association of Broadcasters.*



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## Second Circuit Reverses FCC's "Fleeting Expletives" Policy

By Robert Corn-Revere and Ronald London

The Second Circuit issued a decision, vacating and remanding the Federal Communications Commission's recently adopted policy of enforcing its broadcast indecency policy strictly against fleeting, isolated and unintended expletives. *Fox Television Stations, Inc. v. FCC*, 2007 WL 1599032 (2nd Cir. Jun 4, 2007) (Leval, Pooler, Hall, JJ.). The case involved FCC enforcement actions taken against two broadcasts of the Billboard Music Awards that aired on the Fox television network in 2002 and 2003.

This is the first court decision to invalidate an FCC enforcement action on indecent broadcasts since the 1977 D.C. Circuit decision in *Pacifica Foundation v. FCC*, 556 F.2d 9 (D.C. Cir.1977). That case involved George Carlin's "filthy words" monologue, and it led to the 5-4 Supreme Court decision reversing the D.C. Circuit and narrowly upholding the FCC's constitutional authority to regulate indecent broadcasts. *FCC v. Pacifica Found.*, 438 U.S. 726 (1978).

The Second Circuit opinion in *Fox Television Stations, Inc. v. FCC* was written by Judge Rosemary Pooler and joined by Judge Peter Hall. Judge Pierre Leval dissented. The majority opinion rested on the narrow ground that the decision violated the Administrative Procedure Act because the FCC had failed to explain its change in policy.

However, the holding was applied more broadly to encompass the FCC's general policy of enforcing the law against "fleeting expletives," and was not limited to the two broadcasts at issue. The opinion also included an extended discussion, in dictum, of the First Amendment problems raised by the FCC's approach to enforcement. It remanded the matter to the FCC, but added "we are doubtful that by merely proffering a reasoned analysis for its new approach to indecency and profanity, the Commission can adequately respond to the constitutional and statutory challenges raised by the Networks."

### Background

The decision in *Fox v. FCC* arose from an effort begun by the FCC in 2004 to strengthen enforcement of 14 U.S.C. § 1464, which prohibits the broadcast of "obscene, indecent or profane language." In 2003, the FCC's Enforcement Bureau had dismissed an indecency complaint filed against the *Golden Globe Awards* show, after U-2's lead singer Bono unguardedly exclaimed it was "fucking brilliant" his band won an award. In

March 2004, the Commission reversed the Bureau's decision to dismiss the *Golden Globe Awards* complaint.

In doing so, it reversed a long line of FCC precedent that had held that "fleeting" or "isolated" expletives were not actionable, particularly when uttered in live settings. A broad coalition of broadcasters and other entities filed petitions for reconsideration of the *Golden Globe Awards* decision in April 2004, but the FCC has not acted on them.

In the meantime, the FCC issued an "omnibus" indecency order in February 2006 that addressed several dozen shows against which indecency complaints had been filed over a three-year period. *Complaints Regarding Various Television Broadcasts Between February 2, 2002 and March 8, 2005*, 21 FCC Rcd. 2664 (2006) ("*Omnibus Order*"). The Commission intended the *Omnibus Order* to "provide substantial guidance ... about the types of programming that are impermissible under [the] indecency" rule. It expanded on, and explained the change in policy in *Golden Globe Awards*, proposing fines against six programs on various networks, finding a few dozen more not indecent, and finding four other shows were indecent and profane but not subject to fine because they aired before the 2004 *Golden Globe Awards* decision.

The four programs in this category included the 2002 and 2003 *Billboard Awards* on Fox (on which, respectively, Cher and Nicole Richie uttered unscripted expletives), episodes of *NYPD Blue* on ABC (that included various iterations of "bullshit"), and a December 2004 *Early Show* on CBS (in which the interviewee in a news segment used the term "bullshitter").

The programs in this final category led to the petitions for review in *Fox Television Stations, Inc. v. FCC*. The major broadcast networks and their affiliates filed petitions that were consolidated in the Second Circuit. After a brief mid-appeal remand in which the FCC reversed its decisions regarding the *Early Show* and *NYPD Blue*, the appellate proceeding continued with the Commission's decisions regarding the *Billboard Music Awards* still at issue. Following the remand, the Court imposed an expedited briefing schedule and heard oral argument in late December last year.

### Second Circuit Decision

The Second Circuit did not limit its review to the *Billboard Award* holdings, but rather invalidated the FCC's creation of the new "fleeting expletives" policy. The court rejected "the

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FCC's contention that our review here is narrowly confined to the specific question of whether the two Fox broadcasts of the *Billboard Music Awards* were indecent and/or profane. The Remand Order applies the policy announced in *Golden Globes*. If that policy is invalid, then we cannot sustain the indecency findings against Fox."

The majority opinion found the policy arbitrary and capricious because it represented a significant break with positions the FCC had previously taken, and it failed to adequately explain the radical departure from the previously restrained interpretation of the indecency rule. The court observed that "[f]or decades broadcasters relied on the FCC's restrained approach to indecency regulation and its consistent rejection of arguments that isolated expletives were indecent," and held the FCC must provide a reasoned basis for any change in policy.

It suggested the FCC must show that indecent speech is harmful in some way, noting the FCC's order was "devoid of any evidence that suggests a fleeting expletive is harmful, let alone establishes that this harm is serious enough to warrant government regulation. Such evidence would seem to be particularly relevant today when children likely hear this language far more often from other sources than they did in the 1970s when the Commission first began sanctioning indecent [broadcast] speech."

The court rejected several bases on which the FCC defended its change in policy. First, to the extent the FCC had argued the change was necessary to protect children from suffering the "first blow" of hearing even a single expletive (the "first blow" language comes from the Supreme Court's 1978 *Pacifica* decision), the court held the FCC provided no reasonable explanation for changing its perception that fleeting expletives were not harmful "first blows" for nearly 30 years between *Pacifica* and *Golden Globe Awards*. It also faulted the extent to which the current rule gives the FCC *carte blanche* to excuse "first blows" in, for example, newscasts, or in movies the FCC finds artistically worthy, like *Saving Private Ryan*.

Because the majority decided that the FCC's decision was arbitrary and capricious, it held it was unnecessary to reach the constitutional issues raised by the networks. However, the

court issued nearly nine pages of *dicta* expressing "skepticism" whether "the Commission can provide a reasoned explanation for its 'fleeting expletive' regime that would pass constitutional muster." The court "question[ed] whether the FCC's indecency test can survive First Amendment scrutiny."

Expressing sympathy with "the Networks' contention that the FCC's indecency test is undefined, indiscernible, inconsistent, and consequently, unconstitutionally vague," the majority added: "We can understand why the Networks argue the FCC's 'patently offensive as measured by contemporary community standards' indecency test coupled with its 'artistic necessity' exception fails to provide the clarity required by the Constitution [and] creates an undue chilling effect on free speech."

Citing the Supreme Court decision in *Reno v. ACLU* that invalidated as unconstitutionally vague a test for indecency nearly identical to the FCC's rule for broadcasting, the court said: "we are hard pressed to imagine a regime that is more

vague than one that relies entirely on consideration of the otherwise unspecified 'context' of a broadcast indecency." The majority opinion also stated the FCC's test raises "the separate constitutional question of whether it permits the FCC to sanction speech based on [the agency's] subjective view of the merit of that speech."

It added, "the FCC's current indecency regime" of requiring that "broadcaster[s] ... demonstrate to the satisfaction of the Commission, under an unidentified burden of proof, that the expletives were 'integral' to the work ... gives too much discretion to government officials" under the First Amendment.

Additionally, after noting that "all speech covered by the FCC's indecency policy is fully protected by the First Amendment," the Court stopped short of saying broadcasting should be subject to the same strict First Amendment scrutiny that applies to all other mass media. At the same time, the court observed that it is getting extremely difficult to describe broadcasting as "uniquely pervasive" as a justification for subjecting broadcasters to less First Amendment protection than other media.

The Second Circuit cited the Supreme Court's decision in

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***The FCC's order was "devoid of any evidence that suggests a fleeting expletive is harmful, let alone establishes that this harm is serious enough to warrant government regulation."***

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*United States v. Playboy Entertainment Group, Inc.*, 529 U.S. 803, 822-23 (2000), to suggest strict scrutiny may soon apply to broadcasting, and noted the availability of less restrictive means of avoiding the perceived harm of indecency, e.g., the V-chip. The court concluded that "the FCC is free to regulate indecency, but its regulatory powers are bounded by the Constitution. If the *Playboy* decision is any guide, technological advances may obviate the constitutional legitimacy of the FCC's robust oversight."

The Court also briefly discussed the FCC's reinvigoration of Section 1464's profanity prong as banning "personally reviling epithets naturally tending to provoke violent resentment or denoting language which under contemporary community standards is so grossly offensive ... as to amount to a nuisance."

After noting the wealth of precedent holding that "profanity" involves blasphemy or sacrilege "and nothing more," the Court observed "the FCC's definition of 'profane' ... would substantially overlap with the statutory term 'indecent'" in a manner "so extensive as to render the [latter] term ... superfluous." Consequently, to the extent that "on remand, the FCC may desire to explain its gloss on the definition of 'profane,'" the Court held that whatever deference is owed agency construction of such terms, "the FCC must still demonstrate that its construction is reasonable, particularly in light of Congressional intent, the canons of statutory construction, and the historical view of the plain meaning of this term."

### Dissent

Judge Leval issued a dissenting opinion on grounds he felt the FCC adequately explained its policy change, and the majority simply had a "difference of opinion" on the FCC's direction

in altering course. He characterized the reversal on "fleeting expletives" as a "small change ... by the FCC in its [indecency] standards" that merely "diminished the significance of the fact that the ... expletive was not repeated."

The dissent found the change in position justified by the FCC's "sensible, although not necessarily compelling" explanation that "the 'F-Word' – inherently has a sexual connotation" and "is one of the most vulgar, graphic and explicit descriptions of sexual activity in the English language." This was sufficient, the dissent argued, under the deferential standard of review afforded agencies and their right to effectuate changes in policy. The dissent declined to address the constitutional implications of the FCC's new policy.

### Conclusion

The FCC has several options in the wake of the majority decision. It could conduct proceedings on remand in an attempt to remedy the failure to sufficiently justify its change of position. However, the resulting decision likely would be appealed to the same court that has raised grave doubts that the change in policy could survive First Amendment review. The FCC also could seek rehearing *en banc* by all judges in the Second Circuit rather than just the panel of three who heard the case originally. Finally, the FCC could petition for review by the Supreme Court, which has the discretion to accept or decline to hear the case. The FCC has not yet indicated how it plans to respond to the decision.

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## U.S. Supreme Court Rejects Student's First Amendment Case

### *School Could Discipline Student for "Bong Hits 4 Jesus" Banner*

In a highly publicized student speech case, the U.S. Supreme Court ruled that a former Alaska high school student had no First Amendment right to unfurl a 14-foot banner that read "BONG HITS 4 JESUS" at an off campus Olympic torch parade. *Morse v. Frederick*, 2007 WL 1804317 (U.S. June 25, 2007).

The limited constitutional rights of students while in school, coupled with the government's interest in curbing drug abuse were sufficient to justify the punishment of speech that could reasonably be regarded as promoting illegal drug use.

Writing for a majority, Chief Justice Roberts rejected the Ninth Circuit's application of the "substantial disruption" analysis adopted in *Tinker v. Des Moines Independent Community School District*, 393 U.S. 503 (1969). Instead, the Court drew on *Bethel School District No. 403 v. Fraser*, 478 U.S. 675 (1986), to conclude that the school principal's confiscation of the banner and suspension of the student were reasonable.

#### **Background**

In January, 2004, the Olympic Torch Relay was scheduled to pass through Juneau, Alaska and in front of Juneau-Douglas High School, where Joseph Frederick was a student. Frederick was not in school prior to the beginning of the parade, when his peers were released from classes to watch the festivities. Some students participated in the relay itself, while others fought, threw snowballs and generally acted the fool. Frederick stood on the opposite side of the street from the school, alongside a number of classmates.

As the torch approached, and in an effort to get himself on television, Frederick unfurled his now infamous banner. Frederick's principal, Deborah Morse, crossed the street immediately and demanded that the banner be discarded. When Frederick refused that request, she confiscated the sign and subsequently suspended him. Frederick's suspension was upheld both by the Juneau School District superintendent and the district's Board of Education.

Frederick filed suit under 42 U.S.C. § 1983, claiming his First Amendment rights had been violated both by the school district and by Morse.

The Alaska federal district court granted summary judgment in favor of the school district holding that Morse's interpretation that the banner promoted illegal drug use was reasonable, and that to suppress that message was in step with the school district's recorded policy on illegal drugs.

#### ***Ninth Circuit Decision***

The Ninth Circuit reversed, holding that the case should be analyzed under *Tinker*. As such, the Ninth Circuit held that the high school was only entitled to punish Frederick's speech if it could show "a reasonable concern about the likelihood of substantial disruption to its educational mission." *Frederick v. Morse*, 439 F.3d 1114, 1123 (9th Cir. 2006) (Hall, Kleinfeld, Wardlaw, JJ.).

The panel held that no such concern existed and that, because the law was clearly established in this area, and the principal and school officials were not entitled to qualified immunity. The Ninth Circuit distinguished Frederick's facts from

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those found in *Fraser*, where a student's First Amendment complaint was dismissed on the grounds that the content of his speech to his middle school colleagues was indecently lewd and offensive. Here, however, the Ninth Circuit determined that Frederick's banner was "funny, stupid, or insulting, depending on one's point of view, but it is not 'plainly offensive' in the way sexual innuendo is."

Further, the Court refused to apply the holding from *Hazelwood School District v. Kuhlmeier*, 484 U.S. 260 (1998). Unlike the facts in *Kuhlmeier* that involved a school-sponsored student newspaper, the Court noted that Frederick's banner was neither sponsored, endorsed, nor otherwise intertwined with an official school activity.

Instead, in applying the holding from *Tinker*, the Court relied on the school district's own assertion of why Frederick's banner was removed. Morse testified that the reason for the sign's removal was that it conflicted with the board's mission of discouraging drug use. That reason, the Ninth Circuit said, was not sufficient under *Tinker* because it is not demonstrative of a reasonable concern that the banner would cause a substantial disruption to the school's educational mission.

### Supreme Court Decision

At the outset, the Supreme Court spent some time attempting to discern the meaning of Frederick's banner. While deeming it "cryptic," Chief Justice Roberts recognized that the banner was "no doubt offensive to some, perhaps amusing to others. To still others, it probably means nothing at all." More important, however, was the Supreme Court's decision that the school principal's interpretation of the slogan was a reasonable one – if not *the* reasonable one.

Morse, Frederick's principal, had testified that she instinctively believed those viewing the sign would take it as a promotion of illegal drug use. As a result, the Court framed the question before it as "Whether a principal may, consistent with the First Amendment, restrict student speech at a school event, when that speech is reasonably viewed as promoting illegal drug use." In a 5-4 split, Chief Justice Roberts and Justices Scalia, Thomas, Kennedy and Alito Court answered in the affirmative.

In *Tinker*, the Court had previously held that student speech might only be suppressed where school officials reasonably conclude that the speech would lead to a material and substan-

tial disruption to the smooth running of the school. Here the Court rejected that analysis, citing the example of *Fraser* as an earlier instance where it had declined to follow *Tinker* in a student speech case. In addition, the Court employed *Fraser* to show that "the constitutional rights of students in public school are not automatically coextensive with the rights of adults in other settings."

The Court modified this statement with reference to a number of Fourth Amendment cases that stand for the proposition that students are not bereft of constitutional rights while in school but merely enjoy "the nature of those rights [that are] appropriate for children in school."

It was this combination of case law that led to the Court's ultimate holding: "The 'special characteristics of the school environment' and the governmental interest in stopping student drug abuse – reflected in the policies of Congress and myriad school boards, including JDHS – allow schools to restrict student expression that they reasonably regard as promoting illegal drug use."

Justice Thomas noted in a separate concurrence that he would "dispense with *Tinker* altogether" because "Local school boards, not the courts, should determine what pedagogical interests are legitimate and what rules reasonably relate to those interests."

Justice Alito, joined by Justice Kennedy, joined in the result with a separate concurrence stating that the decision "(a) goes no further than to hold that a public school may restrict speech that a reasonable observer would interpret as advocating illegal drug use and (b) it provides no support for any restriction of speech that can plausibly be interpreted as commenting on any political or social issue, including speech on issues such as 'the wisdom of the war on drugs or of legalizing marijuana for medicinal use.'"

Justice Breyer concurred in the judgment only to the extent that it implied that qualified immunity barred the student's claims. And he dissented from the Court's First Amendment analysis. Justice Stevens, joined by Justices Ginsberg and Souter, dissented, finding that while qualified immunity might apply, there was no First Amendment basis to punish Frederick's speech – which had a "nonsense message" and did not advocate drug use.

Kenneth Starr, Kirland & Ellis LLP, represented the Alaska school officials before the Supreme Court. Frederick was represented by the Douglass Mertz and the Alaska ACLU.

## Supreme Court Loosens Campaign Advertising Restrictions

### *Campaign Finance Law Unconstitutional As Applied to Issue Ads*

By Jerianne Timmerman

The Supreme Court substantially loosened restrictions on the television and radio advertisements that corporations and labor unions can finance prior to an election. *Federal Election Commission v. Wisconsin Right to Life, Inc.*, 127 S. Ct. 2652 (June 25, 2007). In a splintered 5-4 decision, the Court found that Section 203 of the Bipartisan Campaign Reform Act of 2002 (BCRA) prohibiting corporate- and union- financed ads that refer to federal candidates was unconstitutional as applied to the specific ads of Wisconsin Right to Life, Inc. (WRTL) at issue.

By this decision, the Court has significantly loosened BCRA's political advertising limitations that it upheld against a facial First Amendment challenge in 2003. Moreover, it appears that the Court is moving closer to striking down Section 203's advertising restrictions in their entirety. At the very least, this decision is likely to slow further efforts to regulate the financing of political campaigns.

#### **Background**

Section 203 of BCRA prohibits corporations and labor organizations from making "electioneering communications" with the use of general corporate or treasury funds. Electioneering communications are broadcast, cable or satellite communications that (1) refer to a federal candidate; (2) are aired 60 days before a general or 30 days before a primary election; and (3) reach 50,000 or more persons. In 2003, the Supreme Court by a 5-4 vote, with former Justice O'Connor voting in the majority, upheld these restrictions against a facial First Amendment challenge. See *McConnell v. Federal Election Commission*, 540 U.S. 93 (2003).

In July 2004, WRTL began broadcasting advertisements declaring that a group of Senators was filibustering to delay and block federal judicial nominees and telling voters to contact Wisconsin Senators Russell Feingold and Herbert Kohl to urge them to oppose the filibuster. WRTL planned to run the ads throughout August 2004 and finance them with its general treasury funds. However, as of

August 15, 30 days before the Wisconsin primary, the ads would be illegal electioneering communications under Section 203 of BCRA because Senator Feingold was a candidate.

WRTL filed suit against the Federal Election Commission seeking declaratory and injunctive relief and arguing that Section 203's prohibition was unconstitutional as applied to WRTL's three ads in question, as well as similar ads that WRTL might run in the future. Just before the BCRA blackout period began, a three-judge District Court panel denied a preliminary injunction, concluding that *McConnell's* reasoning that Section 203 was not facially overbroad left no room for such an as-applied challenge. As a result, WRTL did not run its ads during the blackout period, and the lower court dismissed the complaint.

The Supreme Court subsequently vacated that decision of the three-judge panel, holding that *McConnell* "did not purport to resolve future as-applied challenges" to Section 203. *Wisconsin Right to Life, Inc. v. Federal Election Commission*, 546 U.S. 410 (2006). On remand, the District Court granted WRTL summary judgment, holding Section 203 unconstitutional as applied to the three ads. It concluded that the ads were genuine issue ads, not express advocacy or its "functional equivalent" under *McConnell*, and found that no compelling interest justified BCRA's regulation of such ads.

#### **The Supreme Court's Decision**

The Supreme Court affirmed the District Court's decision in a fractured 5-4 vote. Chief Justice Roberts and Justice Alito concluded that BCRA Section 203 was unconstitutional as applied to WRTL's ads because these ads were not the "functional equivalent" of express campaign speech.

As an initial matter, Roberts and Alito found that the Federal Election Commission was wrong in arguing that WRTL had the burden of demonstrating that Section 203 was unconstitutional as applied to its ads. Rather, because Section 203 burdened political speech, it was subject to strict scrutiny. Thus, the government must prove that applying BCRA to WRTL's ads furthered a compelling governmental interest and was narrowly tailored to achieve that interest.

The Chief Justice and Justice Alito noted that *McConnell* had already ruled that BCRA survived strict scrutiny to the

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extent it regulated express advocacy of the election or defeat of a federal candidate, or its functional equivalent. However, because WRTL's ads could reasonably be interpreted as something other than an appeal to vote for or against a specific candidate, they were not the functional equivalent of express advocacy, and therefore fell outside *McConnell*'s scope. A court should find that an ad is the "functional equivalent of express advocacy only if the ad is susceptible of no reasonable interpretation other than as an appeal to vote for or against a specific candidate."

Under this test, Roberts and Alito concluded that WRTL's ads were "plainly not the functional equivalent of express advocacy." First, their content was consistent with that of a genuine issue ad—they focused and took a position on a legislative issue and exhorted the public to adopt that position and to contact public officials with respect to the matter. Second, their content lacked indicia of express advocacy; specifically, they did not mention an election, candidacy, political party or challenger, and they took no position on a candidate's character, qualifications, or fitness for office.

The Chief Justice and Justice Alito found that none of the interests identified by the government, including the interest in preventing corruption or the appearance of corruption, were sufficiently compelling to justify burdening WRTL's speech. Thus, Section 203 was held unconstitutional as applied to WRTL's ads.

Chief Justice Roberts and Justice Alito concluded that this case did not present the occasion to revisit *McConnell*'s holding that a corporation's or union's express advocacy of a candidate shortly before an election may be prohibited, along with the functional equivalent of express advocacy. But they stressed that when it came to defining what speech qualified as the functional equivalent of express advocacy subject to such a ban, then the Court should "give the benefit of the doubt to speech, not censorship."

### **Support for Overruling *McConnell* Outright**

Justices Scalia, Kennedy and Thomas concurred in the Court's judgment, but they would have overruled that part of

*McConnell* upholding Section 203. These Justices found that the test set forth for determining whether speech was the functional equivalent of express advocacy (the "susceptible of no other reasonable interpretation" standard) was impermissibly vague, and thus ineffective to vindicate the fundamental First Amendment rights at issue.

Beyond these three, Justice Alito indicated in a separate concurring opinion that he too would be open to reconsidering *McConnell*. Alito wrote that, if it turned out that the applied standard set forth in the principal opinion "impermissibly chills political speech," then the Court will "presumably be asked in a future case to reconsider" *McConnell*.

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***The WRTL decision will at least slow, and may well stop, the movement toward increased regulation of campaign finance.***

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### ***Views of the Dissenting Justices***

In a strongly worded dissent, Justices Souter, Breyer, Ginsburg and Stevens argued that the majority had already effectively overturned the decision in *McConnell* upholding Section

203. They also argued that the decision made it easy for corporations and unions to circumvent the limits placed on their candidate contributions and political spending. These Justices contended that the ban on contributions will mean little because companies and unions can save candidates the expense of advertising directly, simply by running "issue ads" without express advocacy.

### ***Implications for Upcoming Elections***

Many believe that the *WRTL* decision will substantially increase the number of corporate, interest group and union funded campaign ads in the 2008 election season. A number of politically disparate groups, ranging from the AFL-CIO to the Chamber of Commerce, the ACLU to the NRA, supported the loosening of BCRA's restrictions on ads prior to an election.

The upcoming campaign season will also be marked by uncertainty. The precise contours of the "no other reasonable interpretation" standard will need to be worked out. It remains unclear how the Federal Election Commission and the lower courts will interpret this standard. As a practical matter, corporations and unions may try to pattern their ads

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after the WRTL ads to ensure that they qualify as issue ads, rather than run the risk of their ads being banned as the functional equivalent of express advocacy.

### ***Implications for Future of Campaign Finance Regulation***

The *WRTL* decision will at least slow, and may well stop, the movement toward increased regulation of campaign finance that a number of observers expected after the Supreme Court upheld all the major provisions of BCRA in 2003. In fact, some observers have speculated that the Supreme Court may reconsider in the relatively near future its decision upholding the constitutionality of the entire law, including BCRA Title I which placed restrictions on the ability of parties to raise and spend soft money.

At the very least, many believe that the Court will soon agree to hear an appeal asking the Justices to strike down BCRA's remaining restrictions on advertising, including restrictions on express advocacy and its equivalent. Justice Alito's statement in his separate opinion may be viewed as inviting such a challenge.

Clearly, serious questions as to the constitutionality of restrictions on the financing of federal campaigns remain. It would be surprising if the 2008 campaign does not give rise to further challenges to BCRA.

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## **MLRC Annual Dinner**

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