

THE YEAR IN REVIEW:

COURTS EXPAND ISP PROTECTION IN 2001, BUT PITFALLS REMAIN

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The year 2001 saw an expansion in the statutory immunities offered to U.S. Internet service providers ("ISPs") for third-party torts committed on their web sites. Yet, the legal defenses available to ISPs are still not absolute: various exceptions create liability risks for ISPs for third-party trademark (and some copyright) infringements committed on their sites. Further, the expanded protections are purely a domestic story — courts outside the United States continue to sanction ISPs for third-party misconduct.

The ISP cases concern two legal "safe harbors" enacted by Congress: Section 230 of the Communications Decency Act ("CDA") of 1996, 47 U.S.C. § 230, which protects ISPs from liability when they do not participate in the creation of illegal or tortious online content, and Section 512 of the Digital Millennium Copyright Act ("DMCA") of 1998, 17 U.S.C. § 512, which immunizes qualifying service providers when they act merely as passive networks or provide unknowing assistance to copyright infringers.

As the ISP liability cases continue to mount — at least a dozen court decisions were reported in 2001 — ISPs can glean more practical guidance for lowering their risk profile while running their businesses. Practical suggestions follow at the end of this memorandum.

THE LEGAL TRENDS

MORE QUALIFYING ISPS

Based upon the 2001 cases, most companies with some Internet connection have a strong likelihood of being deemed an "interactive computer service" or an Internet "service provider" entitled to the CDA or DMCA "safe harbors."¹ While the term "ISP" connotes an Internet

¹ The CDA protects qualifying providers or users of an "interactive computer service," defined as "any information service, system, or access software provider that provides or enables computer access by multiple users to a computer server." 47 U.S.C. § 230(f)(2). A DMCA "service provider" is either (i) "an entity offering 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, without modification to the content of the material as sent or received" or (ii) "a provider of online services or network access, or the operator of facilities therefor," including ISPs under subsection (i). 17 U.S.C. § 512(k)(1)(A) and (B). Both definitions are referred to herein as "ISPs."

access provider such as America Online, the courts held last year that Kinko's, Amazon.com, eBay, an online real estate service, a public library and a "humantics" advocate all qualified as "ISPs" eligible for the statutory "safe harbors."²

In *PatentWizard v. Kinko's and Kathleen R. v. City of Livermore*, the courts held that ISPs were not liable when third parties used computers on their physical premises — a copy shop and a public library — to access the Internet and then defame a company in a chat room and download adult material (by a minor), respectively. In *Schneider v. Amazon.com*, *Hendrickson v. eBay* and other cases, ISPs were deemed eligible for the legal "safe harbors" when third parties used the defendants' cyberspace premises — their web sites — as venues for alleged misconduct, such as defamation (in a reader book review for Amazon and in a user group posting in *Barrett v. Clark*), auctioning "bootleg" goods (*Hendrickson v. eBay*) and posting infringing real estate or adult photographs (*CoStar and ALS Scan*).

Indeed, given the breadth of the successful 2001 defendants and the CDA and DMCA definitions themselves (*see note 1*), future plaintiffs may not challenge their defendants' ISP status very often. The plaintiffs in *PatentWizard v. Kinko's* and *Hendrickson v. eBay* did not even contest the companies' "ISP" status under either legal "safe harbor,"³ and the only Internet defendant not to merit legal status as a protected ISP in 2001 was the music file-sharing service, Napster.⁴

² See *PatentWizard, Inc. v. Kinko's, Inc.*, 163 F. Supp. 2d 1069, 1071 (D.S.D. 2001) (photocopy shop not contested as ISP under CDA); *Schneider v. Amazon.com, Inc.*, 31 P.3d 37, 40 (Wash. Ct. App. 2001) (online bookseller deemed ISP; noting that CDA policy applied equally to websites such as Amazon.com as to more traditional ISPs); *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1088 (C.D. Cal. 2001) (eBay an ISP under DMCA Section 512(c)); *CoStar Group, Inc. v. LoopNet, Inc.*, 164 F. Supp. 2d 688, 701 (D. Md. 2001) (online real estate listings service qualified as ISP under DMCA); *Kathleen R. v. City of Livermore*, 104 Cal. Rptr. 2d 772, 778 (Cal. Dist. Ct. App. 2001) (public library eligible for CDA defense); *Barrett v. Clark*, No. 833021-5, 2001 WL 881259, at *9 (Cal. Super. Ct. Jul. 25, 2001) (unpublished) (director of "humantics foundation" not liable for reposting alleged defamation on women's health web site); *ALS Scan, Inc. v. RemarQ Cmities, Inc.*, 239 F.3d 619, 623 (4th Cir. 2001) (classifying newsgroup megasite as DMCA service provider and noting: "The Act defines a service provider broadly.").

³ See *PatentWizard*, 163 F. Supp. 2d at 1071 (noting parties' agreement that Kinko's qualified as CDA provider of "interactive computer service"); *Hendrickson*, 165 F. Supp. 2d at 1088 (noting undisputed fact that eBay was a DMCA "service provider"). See also *Stoner v. eBay, Inc.*, 56 U.S.P.Q.2d 1852, 1853 (Cal. Super. Ct. 2000) (noting undisputed fact that eBay was a CDA "interactive computer service provider").

⁴ Napster was arguably the least "innocent" ISP and the least deserving of immunity on the equities. See *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1025 (9th Cir. 2001) (noting that plaintiffs had raised significant questions as to whether Napster was an ISP under 17 U.S.C. § 512(d)) and citing *A&M Records, Inc. v. Napster, Inc.*, 54 U.S.P.Q. 2d 1746, 1751-52 (N.D. Cal. 2000) (finding that Napster

IMMUNITY FROM MORE TORTS

While CDA Section 230 was initially enacted to immunize ISPs from third-party libel claims,⁵ the courts soon expanded its coverage to other state-law claims: distributing false stock information in violation of state negligence and defamation law, invasion of privacy and sale of “bootleg” music.⁶ The 2001 cases added new claims to the list: (i) allowing minors to access Internet erotica; (ii) selling fake autographed sports memorabilia; (iii) offering to sell obscene videos involving minors; (iv) aiding and abetting tortious interference with business relations; and (v) wasting public funds, public nuisance and premises liability.⁷

While the 2001 cases make clear that the CDA “safe harbor” will cover new specific torts, some general principles of tort protection can also be discerned. First, courts are likely to apply the CDA to any state-law cause of action. The *Schneider v. Amazon.com* court noted as much, observing that Section 230 is not limited only to torts but to any inconsistent state or local law cause of action.⁸

Second, the CDA offers no “safe harbor” when intellectual property rights are infringed on an ISP’s site. After noting the statutory provision to this effect,⁹ the court in *Gucci Inc. v. Hall & Assocs.* denied a CDA defense to an ISP when one of its hosted sites infringed the Gucci

was not a protected ISP under DMCA § 512(a), because it did not transmit, route or provide connections for allegedly infringing material “through” its system, or as a passive conduit).

⁵ See *Zeran v. America Online, Inc.*, 129 F.3d 327, 331 (4th Cir. 1997) (noting that Section 230 was a response to the court’s finding of ISP liability for a user’s libel in *Stratton-Oakmont, Inc. v. Prodigy Servs. Co.*, 1995 WL 323710 (N.Y. Sup. Ct. May 25, 1995)), *cert. denied*, 524 U.S. 937 (1998).

⁶ *Ben Ezra, Weinstein & Co., Inc. v. America Online, Inc.*, 206 F.3d 980 (10th Cir.), *cert. denied*, 121 S. Ct. 69 (2000) (posting of incorrect stock information); *Does v. Franco Prods.*, No. 99 C 7885, 2000 WL 816779 (N.D. Ill. 2000) (sale of unauthorized nude locker room photographs); *Stoner*, *supra* note 3 (sale of counterfeit sound recordings in violation of state law).

⁷ See *Kathleen R.*, 104 Cal. Rptr. 2d at 780-81 (claims (i) and (v)); *Gentry v. eBay, Inc.*, No. GIC 746980 (Cal. Super. Ct. Jan. 18, 2001) *available at* <http://legal.web.aol.com/decisions/dldecen/gentryruling011801.pdf> (last visited Jan. 8, 2002) (claim (ii)); *Doe v. America Online, Inc.*, 783 So.2d 1010 (Fla.), *cert. denied*, 122 S. Ct. 208 (2001) (claim (iii)); *PatentWizard*, 163 F. Supp. 2d at 1070 (claim (iv)).

⁸ 31 P.3d 37, 42 (Wash. Ct. App. 2001); 47 U.S.C. § 230(e)(3) (“No cause of action may be brought and no liability may be imposed under any State or local law that is inconsistent with this section.”).

⁹ See 47 U.S.C. § 230(e)(3) (“Nothing in this section shall be construed to limit or expand any law pertaining to intellectual property.”).

trademark, and held that traditional trademark infringement analysis would govern the case.¹⁰ Courts are also expected to analyze ISP liability for a user's patent (and possibly trade secret) infringement in the same manner, as the DMCA covers copyright infringement alone.

Third, if a third-party's misconduct fits within a CDA "safe harbor" for ISPs, a plaintiff may not rob a defendant of its CDA defense through artful pleading. In *Schneider v. Amazon.com*, the plaintiff pleaded a contract claim for a disparaging user book review, based upon Amazon.com's posted guidelines for would-be online reviewers. The court held that, tort or contract, Section 230 protected Amazon.com's "exercise of editorial discretion" in refusing to remove the disputed content.¹¹ Similarly in *Morrison v. America Online, Inc.*, the court rejected the plaintiff's attempt to nullify AOL's CDA immunity in a chat room libel case by claiming to be a third-party beneficiary of AOL's Member Agreement with chat room users.¹²

"NOTICE AND TAKEDOWN" STRICTLY ENFORCED

Section 512(c) of the DMCA, the "notice and takedown" provision, essentially protects ISPs from liability for infringing third-party materials posted on their sites if they are innocent and passive with respect to such conduct, duly notify copyright owners how to lodge infringement complaints and properly respond to any duly lodged complaints.¹³ In 2001, the courts enforced these provisions strictly and denied DMCA protection to ISPs who failed to comply.

In *CoStar Group, Inc. v. LoopNet, Inc.*,¹⁴ the court denied summary judgment to an online real estate listings site when it found that the plaintiff, which allegedly owned photographs infringed on LoopNet's site, had properly notified LoopNet of its grievance, but that material issues were in dispute as to (i) the adequacy and timeliness of LoopNet's "takedown" response;

¹⁰ 135 F. Supp. 2d 409, 412 (S.D.N.Y. 2001). *Accord, Ford Motor Co. v. Greatdomains.com, Inc.*, 60 U.S.P.Q.2d 1446 (E.D. Mich. 2001) (denying Section 230 defense to domain name reseller).

¹¹ 31 P.3d at 42.

¹² 153 F. Supp. 2d 930, 934 (N.D. Ind. 2001); *see also Jane Doe One v. Oliver*, 755 A.2d 1000, 1003-04 (Conn. Super. Ct. 2000) (applying Section 230 to dismiss breach of contract claim against AOL); *Franco Prods.*, 2000 WL 816779, at *1 (dismissing plaintiff's claim to be third-party beneficiary of agreements between videotape producers and distributors and the ISPs).

¹³ The elements of a proper DMCA complaint are, in sum: (1) physical or electronic signature of complainant; (2) identification of the infringed work; (3) identification of the infringing material and reasonable locating information; (4) complainant's contact information; (5) statement of a good-faith belief that infringement has occurred; and (6) sworn statement that (1)-(5) are accurate. 17 U.S.C. § 512(c)(3).

¹⁴ 164 F. Supp. 2d at 704-08.

and (ii) LoopNet's potential liability for contributory infringement before the DMCA's adoption, due to its alleged notice of the users' infringement and its material contribution or inducement of such infringement by failing to halt it.

Meanwhile in *ALS Scan, Inc. v. RemarQ Communities, Inc.*,¹⁵ the Fourth Circuit reversed a grant of summary judgment for a provider that otherwise qualified for the DMCA "safe harbor," noting that the copyright complainant had "substantially complied" with Section 512(c)(3) in its notice of infringement, thus disqualifying the defendant for a "safe harbor" when it failed to respond. The court noted that the DMCA immunizes only "innocent" ISPs, and that the 'safe harbor' disappears "at the moment [the ISP] becomes aware that a third party is using its system to infringe."¹⁶

Yet in *Hendrickson v. eBay*,¹⁷ eBay qualified for the DMCA "safe harbor," even after receiving notice of the sale of infringing DVDs on its site, because, as the court observed, the purported copyright owner's notice failed to comply with the DMCA's provisions. In sum, the plaintiff made it practically impossible for eBay to respond to his complaint because he failed to inform eBay of which specific DVDs on the site allegedly infringed his copyright.¹⁸ Further, eBay had repeatedly asked plaintiff for more information and encouraged plaintiff to submit a Notice of Infringement form, which plaintiff failed to do.¹⁹

LESS FOREIGN PROTECTION

Even if U.S. courts did not protect every ISP in every 2001 case, non-U.S. courts are not currently granting "safe harbors" at all.²⁰ In *Yahoo!, Inc. v. La Ligue Contre Le Racisme et L'Antisémitisme (LICRA)*,²¹ a California court granted Yahoo! a declaratory judgment that a French court order requiring Yahoo! to ban sales of Nazi-related items on its site was

¹⁵ 239 F.3d at 625.

¹⁶ *Id.*

¹⁷ 165 F. Supp. 2d at 1089-90.

¹⁸ *Id.* at 1084.

¹⁹ *Id.* at 1085. Separate from the complainant's notice, the court found that eBay did not have actual or constructive knowledge of the alleged piracy on its site, or the ability to control it, either of which would foreclose a Section 512(c) defense. *Id.* at 1094.

²⁰ The European Directive on Electronic Commerce, to be implemented by EU member states in 2002, should translate into some safe harbors for ISPs, provided they remain "innocent" service providers. See Council Directive 2000/31/EC, arts. 12-15, 200 O.J. (L178) 1, available at http://europa.eu.int/eur-lex/en/lif/dat/2000/en_300L0031.html (last visited Jan. 8, 2002).

²¹ 169 F. Supp. 2d 1181, 1184 (N.D. Cal. 2001).

unenforceable in the United States as inconsistent with the First Amendment. LICRA, a French non-profit organization, had sued Yahoo! in France under a French law banning sales of Nazi-related items. In November 2000, a Paris court had ordered Yahoo! to block French residents from its auction site and to post warnings to French residents, among other actions.²²

While Yahoo! posted the warnings and amended its auction policy,²³ it argued to the California court that it could not feasibly prevent all French residents from accessing its web site. Furthermore, to comply with the French court order, Yahoo! would have to ban all Nazi-related items from its site, including in the United States. The court held that the French order as applied in the United States violated the First Amendment, and that free speech principles outweighed comity, with respect to deferring to the French court's decision.²⁴

Meanwhile, in *Hit-Bit Software GmbH v. AOL Bertelsmann Online GmbH & Co. KG*, a Bavarian appellate court held that AOL's German subsidiary was liable for copyright infringement committed by third parties uploading and downloading protected works during AOL's Music Sound Forum.²⁵ AOL had posted warnings that users must respect third-party copyrights, monitored the forums' content for copyright notices and acted promptly to remove any infringing content. While AOL would almost certainly qualify for the DMCA "safe harbor" on such facts, the German court held that AOL was still liable for such third-party infringement under the negligence standard of German copyright law.²⁶

PRACTICAL SUGGESTIONS

As a whole, the 2001 ISP cases can provide guidance to reduce ISPs' liability risks in 2002 and beyond.

²² *Id.*; *Union des Étudiants Juifs de France v. Yahoo! Inc.*, T.G.I. Paris, Court Order No. 00/05308, Nov. 20, 2000, available at <http://www.cdt.org/speech/international/001120yahoofrance.pdf> (last visited Jan. 8, 2002) (English translation).

²³ 169 F. Supp. 2d at 1185; Victoria Shannon, *Yahoo Bans Nazi Items But Vows to Fight Suit*, Int'l Herald Trib., Jan. 4, 2001, at 1.

²⁴ 169 F. Supp. 2d at 1192-93. Ironically, while the French-based plaintiff LICRA asked the California court not to interfere with the French court's attempt to assume jurisdiction over Yahoo!'s U.S.-based activities, LICRA initially (and unsuccessfully) moved to dismiss Yahoo!'s California suit for lack of personal jurisdiction. See *Yahoo! Inc. v. La Ligue Contre Le Racisme et l'Antisémitisme*, 145 F. Supp. 2d 1168 (N.D. Cal. 2001).

²⁵ Case No. 29 3282/00 (OLG Munich, Mar. 8, 2001), English translation available at http://www.mhv-online.de/olg_ur_e.doc (last visited Jan. 15, 2002), cited in Daniel P. Cooper, *Life for German ISPs after Hit-Bit v. AOL*, The Computer & Internet Lawyer, Nov. 2001, at 14.

²⁶ *Id.*

Stay clearly on the sidelines. To maximize the applicability of a CDA Section 230 defense, ISPs should make clear (in contracts, posted terms and conditions of use, etc.) that the ISP is not the author of any posted third-party content, whether contributed by anonymous users or paid content providers.²⁷ Fortunately, courts have held that ISPs may edit certain third-party content for format or policy reasons, and may even refuse to publish some content at all, without forfeiting a Section 230 defense, provided that ISPs can point to content provider contracts and other such documents showing that they did not *create* the disputed content.²⁸

Post the rules. By now, every major web site contains a link to its “terms and conditions” of use. A clear articulation of the ISP’s policy to respect others’ proprietary rights may help the ISP defend allegations that might defeat a DMCA “safe harbor” defense.²⁹ Further, as the *Morrison v. America Online* case instructs, the “terms and conditions” should make clear that the ISP’s user agreements have no third-party beneficiaries, so as to defeat a claim of such status by future plaintiffs.

Know the underlying laws. As the *Gucci* case points out, traditional infringement law applies if a “safe harbor” does not end the case for the ISP. As such, an ISP in a trademark infringement case should prepare a strong defense on the merits. The *Gucci* court noted that ISP liability, as for more traditional publishers, is governed by 15 U.S.C. § 1114(2), which precludes monetary liability for “innocent” publishers, or those who lack actual knowledge of the infringement or who do not act in reckless disregard thereof.³⁰

Consider complaints carefully. The *CoStar* and *ALS Scan* cases highlight the perils facing an ISP that ignores a complaint of copyright infringement. By contrast, the *Hendrickson v. eBay* case shows the rewards for a proper response. Yet, some ISPs may be too resource-

²⁷ See *Sabbato v. Hardy*, No. 2000CA00136, 2000 WL 33594542 (Ohio Ct. App. Dec. 18, 2000) (denying motion to dismiss under CDA, given plaintiff’s claim that defendant site operator had acted in concert with third parties creating the libel).

²⁸ See *Stoner*, 56 U.S.P.Q.2d at 1853-54 (noting that eBay’s adding logos, category headings and seller ratings did not make eBay itself a content provider with respect to goods sold on its site); *Blumenthal v. Drudge*, 992 F. Supp. 44, 51 (D.D.C. 1998) (granting AOL immunity from liability for contents of Drudge Report, despite AOL/Drudge agreement allowing AOL to remove or modify such contents). See also *Ben Ezra*, 206 F.3d at 985-86 (holding that e-mails sent by ISP to third party to correct inaccurate stock information and deletions from such information did not make ISP a content provider under CDA).

²⁹ See *CoStar*, 164 F. Supp. 2d at 698-99 (denying summary judgment for defendant ISP; material issues of fact remained as to adequacy of defendant’s policies, *inter alia*, to deter third-party infringements).

³⁰ 135 F. Supp. 2d. at 420. See also *Ford v. Greatdomains.com* (*supra*, note 10) (holding that Internet domain name reseller, having been denied CDA “safe harbor,” was not liable under the Anticybersquatting Consumer Protection Act, 15 U.S.C. § 1125(d), for auctioning infringing domain names).

constrained to respond to every infringement notice and must therefore assess the credibility and adequacy of each. While losing the DMCA “safe harbor” does not necessarily mean that an ISP will later lose a contributory infringement claim on the merits, it eliminates the chance for a quick (and therefore inexpensive) adjudication of the dispute. Similarly, while the *Gucci* court noted the stringent standard for a publisher to lose the “innocent infringer” defense on the merits, the ISP’s prompt response to Gucci’s complaint could perhaps have avoided the lawsuit altogether.

Consider artful pleading. If one is the *plaintiff* in an ISP liability case, one may have better luck avoiding a CDA defense by pleading a federal law grievance. The vast majority of CDA cases have addressed state law torts, leaving open the issue of CDA preemption of federal claims.³¹ For example, given the breadth of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), which prohibits palming off, passing off, unfair competition and false advertising, the plaintiff in *Stoner v. eBay* may have defeated eBay’s CDA defense for a third party’s sales of “bootleg” music on its site by pleading a Lanham Act claim rather than a state law violation.³² On the other hand, ISP defendants facing such artful pleading could counter by relying on *Schneider v. Amazon.com* and *Morrison v. America Online* and arguing that the court should focus on the substance of the claim — which may not truly relate to “intellectual property” and thus require a CDA exclusion — and not on how plaintiff pleads it.

ISP, regulate thyself. So long as the legal “safe harbors” do not shelter all ships, ISPs may wish to reduce their litigation risk by self-policing. Yahoo! publicly banned Nazi-related and adult material from its web site,³³ eBay is monitoring its site for infringing or spurious items,³⁴ and AOL has reportedly amassed “an army of volunteers” to patrol message boards for

³¹ See note 8 (noting that CDA preempts inconsistent claims under “any State or local law”). In 2001, a few plaintiffs did allege ISP violations of federal law. See *Kathleen R.*, 104 Cal. Rptr. 2d at 775 (rejecting plaintiff’s claim under 42 U.S.C. § 1983; CDA defense addressed for state-law claims only); *Noah v. AOL Time Warner, Inc.*, No. CA-01-1342-A (E.D. Va., compl. filed Aug. 30, 2001) (alleging violation of the Civil Rights Act of 1964).

³² The *Gucci* court distinguished between the instant claim of trademark infringement (for which the CDA defense was foreclosed) and the state law “piracy” claims brought against eBay (for which the CDA defense was sustained). 135 F. Supp. 2d at 415 n.13 (citing *Stoner* (*supra* note 3) and *Gentry* (*supra* note 7)).

³³ See Press Release, Yahoo! Enhances Commerce Sites for Higher Quality Online Experience (Jan. 2, 2001), available at <http://docs.yahoo.com/docs/pr/release675.html> (last visited Jan. 8, 2002) (“Yahoo! will no longer allow items that are associated with groups which promote or glorify hatred and violence”); John Schwartz, *Yahoo Goes Beyond Initial Plan Against Adult Sites*, N.Y. Times, May 16, 2001, at C6 (Yahoo! eliminating sexually explicit material from its shopping area).

³⁴ See Glenn R. Simpson, *EBay to Police Site for Sales of Pirated Items*, Wall St. J., Feb. 28, 2001, at A3 (eBay monitoring sales on its sites for possible copyright infringement); John Schwartz, *EBay Suspends Coin*

indecent or abusive language.³⁵ Congress expected such self-regulation in its passage of CDA § 230, which sought both to protect ISPs' voluntary content policing and to prevent ISPs from being forced to self-monitor, for fear of monetary liability from third-party conduct.³⁶ For smaller websites, aggressive self-regulation may be the only option, if even meritless litigation is too costly to bear.

If you have additional questions about ISP liability or other ISP-related issues, please contact Robert A. Bourque (212.455.3595; rabourque@stblaw.com), Lori E. Lesser (212.455.3393; llesser@stblaw.com) or Vincent M. de Grandpré (212.455.2487; vdegrandpre@stblaw.com) of the Firm's New York office. Please visit the firm's web site at <http://www.simpsonthacher.com>.

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Seller Over Delivery Concerns, N.Y. Times, Apr. 18, 2001, at C4 (eBay acting to suspend user suspected of fraud).

³⁵ Julia Angwin, *AOL Rejects Plea for Syphilis Alert In Chat Rooms*, Wall St. J., Nov. 15, 2001 at B1.

³⁶ See *Zeran*, 129 F.3d at 331; 47 U.S.C. §§ 230 (c)(1) and (c)(2) (providing safe harbors for (i) distributing information provided by third-party information content providers and (ii) restricting access to offensive third-party content, respectively).