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SUPERIOR COURT OF THE STATE OF CALIFORNIA

IN AND FOR THE COUNTY OF SANTA CLARA

APPLE COMPUTER, INC.,

Plaintiff,

v.

DOE 1, et al.,

Defendants.

Case No. 1-04-CV-032178

REPLY MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT OF NON-PARTY JOURNALISTS' MOTION FOR PROTECTIVE ORDER

Date: March 4, 2005
Time: 10:00 a.m.
Location: Discovery, Dept. 14
Judge: Hon. James Kleinberg

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I. INTRODUCTION

Like the Sword of Damocles, Apple wishes to hold the continuing threat of subpoenas seeking the identity of sources over the heads of non-party journalists Jason O'Grady, Monish Bhatia and Kasper Jade (collectively the "Non-Party Journalists"). California and federal constitutional law, however, prohibit Apple from chilling the Non-Party Journalists' exercise of their free-press rights in this fashion. More importantly, the protection of Non-Party Journalists from the threat of Apple's subpoenas—and the broader message that protection will send to the Internet press—is vital to maintaining the free flow of information upon which the press, and ultimately the public, depends. (*See* O'Grady Supp. Decl. at ¶¶ 2-4; Jade Supp. Decl. at ¶¶ 2-6).

Apple concedes, as it must, that the qualified reporter's privilege under the federal First Amendment (the "Privilege") is not restricted by the Non-Party Journalists' use of the Internet as a medium. As established by unrebutted expert opinion and the declarations of Jason O'Grady and Kasper Jade, the Non-Party Journalists are journalists protected both by the Privilege and by the absolute reporter's shield set forth in the California Constitution (the "Shield"). Apple's own declarations show that it has failed to meet the requirements to defeat the Privilege, which like the Shield protects information held on behalf of the Non-Party Journalists by entities like Nfox.com, Inc. ("Nfox"). Accordingly, a protective order is appropriate to safeguard the important interests of reporters and the public in preserving the confidentiality of journalists' sources.

II. ARGUMENT

A. The Non-Party Journalists Are Protected by the First Amendment Privilege and the California Shield

The undisputed evidence in the record shows that the Non-Party Journalists fall within the class protected both by the Privilege and the Shield. Apple has submitted no contrary evidence, expert or otherwise. Apple instead relies on dicta in *In re Madden*, 151 F.3d 125 (3d Cir. 1998) in a misplaced attempt to limit the *Shoen* test. *See Shoen v. Shoen,* 5 F.3d 1289, 1297 (9th Cir. 1993) ("The test . . . is whether the person seeking to invoke the Privilege had 'the intent to use material—sought, gathered or received—to disseminate information to the public and [whether] such intent existed at the inception of the newsgathering process.'"). Contrary to Apple's argument,

In re Madden adopts the *Shoen* test, but found on the facts before it that Madden, the person claiming the Privilege, was merely a "creative fiction" writer who "was not gathering or investigating 'news,' and … had no intention at the start of his information gathering process to disseminate the information he acquired." *In re Madden*, 151 F.3d at 130. The Non-Party Journalists, by contrast, have been gathering and disseminating news for years.

Apple's proposal to limit the Shield to only those reporters who meet Apple's preferred criteria is equally misguided. (Pl.'s Opp'n Br. at 11:8-14.) The Non-Party Journalists fall well within the Shield's description of an "editor, reporter, or other person connected with … a newspaper, magazines, or other periodical publication." *See* Cal. Const. Art. I, § 2(b). Apple Insider and Power Page both regularly publish news articles, features, editorials and visual content just like newspapers and magazines that are printed on paper or radio and television broadcasts over the air or on cable. Furthermore, the Shield's enumeration of newspapers and magazines is followed by a general category of "other periodical publication[s]," and "where general words follow a specific enumeration of particular classes of persons or things, the general words will be presumed as applicable to persons or things of the same general nature or class as those enumerated." *Playboy Enters., Inc. v. Superior Court*, 154 Cal. App. 3d 14, 21 (1984) (internal citations omitted). As explained by *Rancho Publ'ns. v. Superior Court*, 68 Cal. App. 4th 1538, 1546 (1999), the Non-Party Journalists' benefit from the Shield's protections by simply showing that the information at issue was obtained "for the journalistic purpose of communicating information to the public."

Apple's citation to the Society of Professional Journalists' Code of Ethics is irrelevant. Hearsay about a third party's voluntary code of ethics cannot refute the undisputed expert testimony of Professor Thomas Goldstein and journalist Dan Gillmor that the Non-Party Journalists are journalists, nor does it provide a constitutional basis to chill the free flow of information. Moreover, the "verbatim" copying of primary documents of which Apple complains is, far from an indictment of a journalist's ethics, an indicia of accuracy: "Quotations add authority…and credibility to an author's work" and "allow the reader to form his or her own conclusions…instead of relying entirely upon the author's characterization of her subject." *Masson v. New Yorker*

Magazine, 501 U.S. 496, 511 (1991).

B. The *Mitchell* Factors Mandate Application of the First Amendment Privilege

Apple's discussion of the Privilege is seriously distorted by its mistaken reliance on criminal cases like *Branzburg*, in which the Privilege has far narrower scope. *See Branzburg v. Hayes*, 408 U.S. 665, 709-710 (1972) (J. Powell, concurring); *see also New York Times Co. v. Gonzales,* 2005 WL 427911, *24-33 (S.D.N.Y. Feb. 24, 2005) (extensive discussion of cases interpreting *Branzburg*). Nor does the fact that there is a separate criminal trade secret statute (Penal Code § 499c) transform Apple into the public prosecutor, or transform this civil case into a criminal case. *See People v. Eubanks*, 14 Cal. 4th 580, 590, 596 (1996) (discussing the conflicting interests between the public prosecutor and the victim of a trade secret theft).

"[D]iscovery which seeks disclosure of confidential sources, and information supplied by such sources, is not ordinary discovery. Judicial concern is not limited to cases of harassment, embarrassment, or abusive tactics; even a limited, narrowly drawn request may impinge upon First Amendment considerations." *Mitchell v. Superior Court,* 37 Cal. 3d 268, 279 (1984*). Mitchell* established a five-part test for deciding the Privilege's applicability in civil cases. *See id.* at 279-84. Each factor that is applicable here weights in the Non-Party Journalists' favor.

Apple's notion that the Non-Party Journalists are to be treated as parties for purposes of *Mitchell's* first prong, misstates the test, which asks "whether the reporter *is* a party." *Id.* at 279 (emphasis added). The Non-Party Journalists are not parties. If the Non-Party Journalists were parties, the fifth *Mitchell* factor would require that the plaintiff also establish a *prima facie* showing of the reporter's liability to overcome the Privilege. *Id.* at 283. Apple concedes that it cannot establish a case against the Non-Party Journalists at this time. (Pl.'s Opp'n Br. at 7:5-6). Furthermore, and contrary to Apple's intimations, (Pl.'s Opp'n Br. at 4:14-17; 7:2-5), there is no evidence that the Non-Party Journalists received any slides or other documents marked as confidential or that the journalist's sources were employed by or owed a duty of confidentiality to Apple. Indeed, there may have been dozens of intermediaries between the employees identified by Apple and the Non-Party Journalists. Apple's assumption that any person who came into contact with information about Apple's "Asteroid" product at any time is a potential Doe defendant cannot

overcome the First Amendment's presumption in favor of confidentiality.

The second *Mitchell* factor, whether the information sought "goes to the heart of the plaintiff's claim," favors a protective order, because Apple's proposed discovery seeks information beyond that which would identify the Does and is not limited to trade secret disclosures.[1] *Actual* relevance is required: "even if the information sought "may well contain' evidence relevant to a claim, if the evidence would not, without more, establish the claim, actual relevance does not exist." *Wright v. Fred Hutchinson Cancer Research Ctr.*, 206 F.R.D. 679, 682 (W.D. Wash. 2002); *see also Shoen v. Shoen*, 48 F.3d 412, 416 (9th Cir. 1995) ("The party seeking disclosure must show actual relevance; a showing of potential relevance will not suffice."). Apple offers no evidence, for there is none, that the Non-Party Journalists' source(s) were Apple employees or otherwise owed a duty of confidentiality to Apple. Without more, the discovery Apple seeks would not establish a claim against the original source of the disclosure, alleged to be one of approximately twenty-five employees identified by Apple. (Pl.'s Opp'n Br. at 8:5-10).

Apple has most obviously failed to satisfy the third *Mitchell* factor, which the California Supreme Court has held requires denial of discovery unless Apple "has exhausted all alternative sources of obtaining the information." *Mitchell*, 37 Cal. 3d 268 at 282. The *Mitchell* court, in finding that the plaintiffs had not exhausted all alternative sources of obtaining the needed information, noted that the plaintiffs had failed to depose those persons known to have provided information to the reporter. *See id.* at 282. Ninth Circuit cases under the Privilege further bolster the *Mitchell* court's finding that depositions are necessary. *See Shoen*, 5 F.3d at 1296-98 (holding that failure to take a deposition meant plaintiff "failed to exhaust the most patently available other source"); *In re Stratosphere Corp. Securities Litigation*, 183 F.R.D. 684, 686-87 (D. Nev. 1999) (exhaustion test not met where plaintiffs had not deposed all of the defendants and had not asked any defendant specifically about the article in question); *Wright v. Fred Hutchinson Cancer Research Ctr.*, 206 F.R.D. at 682 (no exhaustion where defendants failed to first depose non-

[1] Apple's position that all information about "Asteroid" was a trade secret at all times is not supportable. (Pl.'s Opp'n Br. at 7:27-28). Apple has failed to "identify the trade secret with reasonable particularity" as required. Cal. Code Civ. Proc. § 2019(d).

journalists about their correspondence with the journalists.)

Despite having identified the fewer than thirty individuals who had original access to the alleged trade secret information about "Asteroid," Apple has yet to conduct any depositions of these employees, or even to seek statements from them signed under penalty of perjury. *See Zerilli v. Smith,* 656 F.2d 705, 714 (D.C. Cir. 1981) (recognizing that "an alternative requiring the taking of as many as 60 depositions might be a reasonable prerequisite to compelled disclosure" from journalists.); *In re Petroleum Products Antitrust Litig*., 680 F.2d 5, 8-9 (2d Cir. 1982) (hundreds of depositions insufficient to show exhaustion). Nor has Apple fully exploited internal computer forensics or attempted to subpoena information from or about the identified employees—e.g., their home computers or other records and correspondence—before seeking discovery from journalists. Apple has similarly failed to exhaust other simple alternatives in conducting its investigation, such as directly contacting or conducting discovery against Bob Borries and Paul Scates, the artists credited with the renderings of "Asteroid" published by the Non-Party Journalists, and whose information Apple seeks. *See* Apple's Supp. To *Ex Parte* Application (filed Dec. 14, 2004), at 3:10-13,4:24-28. Apple is already in possession of Mr. Scates' email address (maintained on Apple's own Mac.com service (*see* Jade Decl., Exh. B)), and Apple has offered no indication it even attempted to contact Mr. Scates or Mr. Borries. In summary, the discovery Apple seeks is not the "'last resort' [which is] permissible only when the party seeking disclosure has no other practical means of obtaining the information." *Mitchell*, 37 Cal. 3d at 282 (citations omitted).

Applying the fourth *Mitchell* factor, the information in the articles is of great interest to the public. The publishers of print magazines dedicated to Apple products, the organizers of Apple-dedicated conferences such as MacWorld, the hundred of thousands of visitors to Power Page and Apple Insider each month, and Apple's own ubiquitous advertising offer ample evidence of the importance of news about Apple and its products.

The alleged trade secret status of the information does not automatically lessen the public's interest therein. Apple proposes a rule that would allow corporate entities to prospectively and unilaterally choose whether the Privilege would apply, if and when newsworthy information they designate as being secret were ever leaked to the press. The First Amendment cannot tolerate such

a rule, nor does the California Supreme Court's decision in *DVD Copy Control Association, Inc. v. Bunner*, 31 Cal. 4th 864 (2003), endorse such a rule. *Bunner* found that the particular trade secret in that case—computer code used by the plaintiff to protect against unauthorized copying of movies on DVD—was not of public concern, because "only computer encryption enthusiasts…within the community of computer scientists and programmers" capable of understanding the "highly technical ideas" embodied in the software's source code would have been interested in it. *Id.* at 884. Here, the information at issue—a description of an upcoming consumer product—is far less obscure and is readily appreciable by millions of current and future Apple consumers.

As all of the Mitchell factors weigh in the Non-Party Journalists' favor, the Privilege applies here.

C. Discovery in Trade Secret Cases is Not Excepted from the First Amendment Privilege

Apple asserts without support that there is a trade secret exception to the Privilege, and that simply because it has filed a trade secret lawsuit without naming any defendant, it can ride roughshod over the First Amendment and subpoena whatever information it likes from journalists. However, the two federal cases Apple cites as authority for this unprecedented argument are inapposite. Neither case found that the Privilege was inapplicable in situations where the journalist or the sources had allegedly engaged in tortuous conduct; rather, it applied the balancing test required by the Privilege and found that the plaintiffs had overcome it. *See Food Lion v. Capital Cities*, 951 F. Supp. 1211, 1214-16 (M.D.N.C. 1996) (applying Privilege's balancing test and finding that discovery sought from *defendants* intended to uncover tortious activity was allowed); *United Liquor Co. v. Gard*, 88 F.R.D. 123, 126 (D. Ariz. 1980) (applying Privilege's balancing test and allowing discovery where the plaintiff had exhausted other sources for the information, and that information went to the heart of plaintiffs claim). Apple, like plaintiffs Food Lion and United Liquor, must satisfy the Privilege's test before seeking discovery from the Non-Party Journalists.

Apple misstates the holding of *Bunner*, *supra,* on the interaction between trade secrets and the First Amendment. The Supreme Court in *Bunner* recognized that trade secret information was

speech for purposes of the First Amendment and that dissemination of trade secrets should be analyzed with the First Amendment in mind. *See Bunner,* 31 Cal. 4th at 876; *see also DVD Copy Control Ass'n Inc. v. Bunner*, 116 Cal. App. 4th 241, 256 (2004) (holding on remand that preliminary injunction "was an unlawful prior restraint upon Bunner's right to free speech.") This motion does not implicate the issue of whether Apple's trade secret was protected speech; this motion involves the separate First Amendment issue of a reporter's right to protect the confidentiality of sources and unpublished information from compelled disclosure.

As the United States Supreme Court has recognized, "The holder of a trade secret…takes a substantial risk that the secret will be passed on to his competitors, by theft or by breach of a confidential relationship, in a manner not easily susceptible of discovery or proof. Where patent law acts as a barrier, trade secret law functions relatively as a sieve." *Kewanee Oil Co. v. Bicron Corp*., 416 U.S. at 489-90 (citation and footnote omitted). The fact that information may have slipped through Apple's sieve does not mean that Apple may rummage through the files of journalists to try to discover how it slipped out. There simply is no exception to the Privilege that makes a reporter's information automatically discoverable in a trade secret case.

D. <u>The Shield Independently Protects The Non-Party Journalists From Discovery</u>

Apple erroneously contends that the Shield cannot be used to preclude discovery until there is a contempt judgment. As the Supreme Court explained in *People v. Sanchez*, a reporter can assert the Shield in the trial court before a finding of contempt, whenever the issue is ripe as a practical matter. *People v. Sanchez*, 12 Cal. 4th 1, 55 (1995). *New York Times v. Superior Court,* 51 Cal. 3d 453 (1990), was, according to *Sanchez*, "based on the reasoning that precontempt relief 'would deprive trial courts of the opportunity to decide in the first instance whether the shield law applies to the facts of a case.'" *Id*. at 54. Here, the Non-Party Journalists are asking this Court to decide in the first instance whether the Shield applies.

In this case, the information protected by the Shield is held on the reporter's behalf by a third party with a legal duty not to disclose it and who nonetheless refuses to abide by that duty of nondisclosure or to assert the Shield on the reporter's behalf. If a party like Apple were allowed to exploit such a faithless agent, it could readily circumvent the Shield and leave the reporter with no

effective means of ever obtaining a ruling on whether the Shield prohibited disclosure.

E. The First Amendment Privilege and Shield Protect Records Held by Third Parties

As Apple reluctantly concedes (Pl.'s Opp'n Br. at n.2), the Privilege extends to entities like Nfox who possess information belonging to a journalist. As a federal court recently explained, a reporter's "First Amendment interest in records held by third parties is well supported." *New York Times,* 2005 WL 427911 at *45 (protecting the confidentiality of telephone records of two reporters held by a third-party telephone company even before subpoenas were issued).

Where source information and unpublished notes are held by a third party on behalf of a journalist, the same policy reasons support the application of the Shield. Based on the Shield's protections, "[a] newsperson not a party to civil litigation is subject to 'virtually absolute immunity' for refusing to testify *or otherwise surrender* unpublished information." *Miller v. Superior Court*, 21 Cal. 4th 883, 899 (1999) (emphasis added); *see also* Cal. Const. Art. I, § 2(b) (shield encompasses not just journalists, but any "other person connected with" the publication, such as its email service provider). Apple may not make an end-run around these protections by subpoenaing third parties any more than it could get around the Shield by subpoenas to a newspaper's office manager. Furthermore, as explained below, the Stored Communications Act ("SCA") prevents disclosure by Nfox, reflecting Congress's judgment that the proper party to a subpoena for email communications is the email account holder, not the service provider.

F. The Stored Communications Act Prohibits Disclosure by Nfox

Contrary to the assertion in Apple's brief, the Stored Communications Act applies to Nfox because NFox provides an electronic communications service ("ECS") to the public. *See* 18 U.S.C. § 2702(a)(1) ("A person or entity providing an electronic communications service to the public shall not knowingly divulge…"); *compare* Pl.'s Opp'n Br. at n.3 *with* Eberhart Decl. at ¶ 7 (admitting that Nfox provides an ECS to PowerPage); *see also* <http://www.nfox.com/faq/index.jsp?k=14> (explaining how the public can access Nfox's email services).

Notwithstanding the 18 U.S.C. § 2707's safe harbor, the SCA simply does not authorize any disclosure by Nfox of stored communications contents to non-governmental entities absent

customer consent. This is evident from the plain text of the statute, which unambiguously prohibits the unilateral divulgence of the contents of stored customer communications by ECS providers to non-governmental entities, subject only to exceptions that do not apply here. *See* 18 U.S.C. § 2702(a)(1); *see also The U.S. Internet Service Provider Association, Electronic Evidence Compliance—A Guide for Internet Service Providers*, 18 BERKELEY TECH. L. J. 945, 965 (2003) (no SCA provision "expressly permits disclosure pursuant to a civil discovery order unless the order is obtained by a government entity…. [T]he federal prohibition against divulging email contents remains stark, and there is no obvious exception for a civil discovery order on behalf of a private party").

The good faith defense cited by Apple is not a license for a provider to respond to a subpoena despite knowing that the statute prohibits disclosure. Karl Kraft and Nfox have been served with a copy of the Non-Party Journalists' motion for a protective order, and are therefore fully aware of the SCA's prohibitions and cannot claim that future disclosures are in good faith. To construe the safe harbor as an independent source of authorization for disclosure would render the SCA's prohibitions meaningless.

G. Protective Relief for the Non-Party Journalists is Ripe for Determination

Apple contends that only the propriety of its subpoena to Nfox is ripe for decision. This argument is meritless. It is Apple who has created a live controversy as to the propriety of all confidential source and unpublished information discovery from any of the Non-Party Journalists by obtaining broad *ex parte* orders authorizing such discovery from Apple Insider and PowerPage without further action by the Court, by obtaining a commission for a subpoena to Nfox, PowerPage's email service provider, and by drafting and attempting to serve a subpoena on Apple Insider and Monish Bhatia.

Any "affected person" is authorized to move for a protective order. Cal. Code Civ. Proc. § 2017(c). All of the Non-Party Journalists are affected by Apple's threats of subpoenas and the *ex parte* discovery orders it has obtained: without a protective order, Apple will continue to chill speech by intimidating the Non-Party Journalists' confidential sources with the prospect of future subpoenas.

Ripeness involves a two-pronged inquiry: (1) whether the dispute is sufficiently concrete; and (2) whether the parties will suffer hardship if judicial consideration is withheld. *Pacific Legal Foundation v. Calif. Coastal Com.,* 33 Cal. 3d 158, 171-73 (1982). Both factors are satisfied here. First, the Non-Party Journalist's motion presents a concrete and definite issue for final adjudication. No further factual development is required to decide the question of whether the Privilege and Shield protect the Non-Party Journalists against the discovery that has been authorized against them. This is a real and substantial controversy "admitting of specific relief through a decree of a conclusive character, as distinguished from an opinion advising what the law would be upon a hypothetical set of facts." *Id.* at 170-71 (citations omitted).

Second, the Non-Party Journalists are facing significant hardship in their newsgathering activities as a result of the continued uncertainty in this controversy. *See* O'Grady Supp. Decl. at ¶¶ 2-4; Jade Supp. Decl. at ¶¶ 2-6; *see also New York Times,* 2005 WL 427911 at n.48 (quoting from six detailed affidavits regarding the chilling effect of threatened subpoenas to journalists). In addition, it would be burdensome in the extreme on the Court and the parties to litigate seriatim each new subpoena that Apple chooses to issue. And because of Apple's penchant for subpoenaing information held on reporters' behalf by third parties, there is a real risk that the Non-Party Journalists could not timely object to disclosure before it occurs. This hardship will not be alleviated until this court has settled the question and conclusively assured the Non-Party Journalists' confidential sources that the Privilege and the Shield protect their identities.

III. CONCLUSION

The Court should grant the Non-Party Journalists' Motion for Protective Order.

DATED: March 2, 2005

Respectfully submitted,

ELECTRONIC FRONTIER FOUNDATION

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