WAR IN CYBERSPACE

How Companies Are Battling it Out in the New Frontier of E-Commerce

by Bradley C. Wright and Joseph M. Potenza

Fed up with your health club? After Bally's Total Fitness refused to cancel a California man's health club contract, he set up an Internet web site that vilified the company and displayed the official "Bally's" trademark logo emblazoned with an epithet. Bally's sued the man for trademark infringement, but lost. A California federal judge dismissed the lawsuit on the grounds that there was no likelihood of confusion between the unauthorized web site and Bally's federally registered trademark.

Hate shopping at Wal-Mart? You might want to check out Walmartsucks.com, a web site dedicated to putting Wal-Mart out of business. It is run by a bearded man identified only as "Rick," a computer user whose picture appears on one of the web site's pages. On his site, you can provide suggestions for a class action lawsuit against Wal-Mart and post gripes against the company.

Playboy Enterprises has fared better. After another company secretly embedded the word "playboy" in a commercial web site so that Internet users would be misdirected to the site whenever they searched for the word "playboy," a Virginia federal judge ruled that the company infringed Playboy's trademark rights and issued an injunction. Playboy has filed similar lawsuits against Netscape and Excite, claiming that they display pornographic advertisements on their web sites if a user searches for the word "playboy."

Have you been tinkering with the idea of trading commodity futures on the Internet? If so, you might want to contact Susan Wagner, who claims to have patented the idea of trading commodity futures over the Internet in 1990. Electronic Trading Systems Corp. of Dallas, which now owns the patent, has sued the mercantile exchanges of Chicago and New York for patent infringement.

These are but a few of the battles being waged in cyberspace, that electronic frontier comprised of thousands of interconnected computers known as the Internet.

Electronic commerce, or "e-commerce" as it is frequently referred to, has spawned an entirely new breed of companies, along with a new breed of people seeking to take advantage of those conducting business on the Internet.

The amount of business conducted over the Internet doubled between 1996 and 1997, amounting to nearly $39 billion. Analysts project that the number will skyrocket to $350 billion by 2001. Some of the biggest growth is occurring in business-to-business transactions as companies streamline their purchasing and contracting operations. With all of this revenue and flourishing business, competition is inevitable. Companies trying to protect their identity and competitive edge are forcing changes in the areas of patent, trademark, and copyright law. Even companies that haven't yet tapped into the Internet will likely be affected by the activities of others trying to make a fast buck off a corporate name or product brand.

Trademarks: An Easy Target

Problems with trademarks in cyberspace were inevitable. A trademark is a word, name, symbol or device, or combination thereof, used to identify a company's products or services and distinguish them from others. While certain limited trademark rights can be established through mere use in commerce, federally registered trademarks provide the broadest form of protection, preventing competitors from using confusingly similar marks nationwide in commerce for related products or services.

One problem that has developed is that so-called "domain names," which are used to identify and find a web site, can be obtained by people who have no trademark rights. Network Solutions Inc., the Virginia company initially tapped by the federal government with the job of assigning domain names (other registrars have recently joined it in this task), would register these names upon request (and a small fee) to the first person requesting a particular name. For example, the first person that applied for a web site having the name "cocacola.com" could have it registered in his name. Internet users searching for the "real" coke would likely end up at the "cocacola.com" web site, even if it had no connection to the company.

Since domain name registration fees are relatively low, some unscrupulous individuals have scooped up names of famous companies and then offered to sell them back to the company for a tidy profit.

In one case, a 24-year old college student in Miami registered hundreds of domain names that closely resembled those of well-established companies including PaineWebber and Morgan Stanley Dean Witter. Rafael Fortuny registered names that would likely result from an easy typing error (e.g., "wwwpainewebber.com" instead of "www.painewebber.com"). While Network Solutions had a policy allowing trademark owners to pull the plug on domain names that exactly match a registered trademark, the policy did not cover look-alike names that were confusingly similar. Those who made typing errors were directed to Mr. Fortuny's site, which in turn linked them to an adult content web site, ClubAnytime.com. A federal judge in Virginia ruled against Fortuny, finding that PaineWebber is a trademark that would be "diluted" by being associated with a pornographic web site. Other individuals have registered domain names for popular companies in the hope that the company most closely associated with the name would pony up for the name.

Some relief from this type of "trafficking" in domain names finally has been granted in the form of the "Cyberpiracy Prevention Act," the President signed into law on November 29, 1999. This act provides relief for owners of famous trademarks whose domain names have been hijacked by cyberpirates. It also establishes a more trademark-friendly dispute resolution system, including a system that provides for arbitration of domain name disputes.

However, the cyberpiracy legislation does not resolve the problem of "gripe sites" or "hate sites," which often are protected by the First Amendment. Some companies have tried to fight back by registering variations on their own corporate or brand names to preempt the abuse. Chase Manhattan Bank, for example, registered "ihatechase.com" and "chasestinks," but apparently wasn't able to register "chasebanksucks.com," which is up and running. And this tactic doesn't prevent others from embedding secret "metatags"

on a web page, which are seen only by the search engines that search for words typed in by a user. This problem has spawned an entirely new industry: companies that watch for Internet postings and web sites that mimic or ridicule those of legitimate companies. Phoenix-based WavePhore monitors up to 400,000 new Internet messages and postings each day for its corporate clients.

One difficulty with trying to shut down web sites that criticize corporations, even those using corporate trademarks and logos, is that courts often view them as mere public commentary, not likely to create actual confusion among consumers. As long as a corporate gadfly does not use a company's trademark to advertise or sell goods or services, the trademark will generally not infringe since it is not being used "in commerce." Even the federal trademark dilution statute, intended to prevent the misuse of famous corporate names (e.g., using "Kodak" to advertise a hot dog stand), requires commercial use of the trademark before infringement can be found.

Patents: Spawning a Whole New Industry

In the mid-1980s, Arthur Hair came up with the idea of selling movies and music through telephone lines and computer networks instead of on records and CDS. He applied for a patent, which finally issued in 1993, and launched a company called Sightsound.com to commercialize the patent. Although record companies rejected Sightsound's proposals to market music over the Internet, a movie distributor recently signed a contract with Sightsound to sell movies over the Internet.

Although transmitting CD-quality music over the Internet might have been a pipe dream in the 1980s, the technology now exists to download CD-quality music in a matter of minutes to computers. This technology has the music industry up in arms, and has spawned a new move toward protecting music using special codes embedded in the recordings to prevent unauthorized copying. Some recording industry associations even have monitoring "robots" that roam the Internet looking for unauthorized recordings.

Another Internet-related patent that issued in 1985 to Charles Freeny supposedly covers the basic idea of selling products over the Internet. Although some companies

have paid money to obtain a license under the patent, many question its validity and scope. At least one federal judge has ruled that the patent applies only to electronic purchases made using kiosk-type terminals in a retail setting, rather than electronic purchases made from residential computers. That has not stopped the company that owns the patent, however, from attempting to license it to scores of Internet-frenzied companies.

While courts historically took a restrictive view of software patents, recent court decisions have reversed that trend. Now virtually any software invention is patentable, and even methods of doing business over the Internet can be patented. The U.S. Patent and Trademark Office is now churning out more than 20,000 software patents a year, stoking the competitive fires of companies that develop such software. Even the European Patent Office, which had previously refused to issue patents on pure computer software, recently issued new rulings permitting software patents.

Given the choice between patents and copyrights, software companies usually opt for patents because of their broader protection. While a copyright only protects the limited "expression" of an idea, a patent protects the idea itself and is harder to avoid. A competitor can "design around" copyrighted software, making it less valuable. Copyright infringement is also harder to prove because it generally requires copying, while patent infringement can be found even if a company innocently designs a device or process that is similar to the patented invention.

Companies are racing to obtain patents on Internet versions of business methods, including methods of online advertising (Open Market Inc.), methods of using electronic money (Citibank), and methods of ordering using a credit card (Amazon.com Inc.). One company even obtained a patent on a method for funding college education by acquiring shares of students' future earnings. Because the Internet combines technology from several different technical disciplines, companies are finding themselves flanked by patents on many different fronts.

A Berkeley, California-based company named CyberGold was issued a patent that covers the process of rewarding Internet users who view advertisements on its web site. According to Nat Goldhaber, CyberGold's president, "Our objective in obtaining this patent was not to stifle the market," but was instead "to foster the practice of providing incentives online." According to CyberGold, the patent covers any program that rewards people for responding to online advertisements in the form of cash, points, frequent-flyer miles, and other forms.

The U.S. Patent and Trademark Office recently issued a patent to Priceline.com for a system that allows consumers to name the price they are willing to pay for an airline ticket or an automobile. These "bids" are submitted to companies using software that matches buyers with sellers. If a match is found, the consumer is obligated to buy the item at the bid price. This system, referred to as a "reverse auction," has been up and running on the company's web site, priceline.com. The company reports that it sold more than 40,000 airline tickets in the first 120 days that it was in operation. Priceline's founder, Jay Walker, has set up a company that churns out new Internet business ideas and patents them.

Some in the patent community have criticized the U.S. Patent Office for failing to adequately examine these patents. While the Patent Office traditionally compares new patent applications to previously issued U.S. patents, many new ideas in the computer and business world show up in newspaper articles or magazines long before patents covering the technology are issued. And given the historical reluctance to grant software patents, it's not surprising that many software inventions were never patented in the first place. Others have faulted the Patent Office for not giving patent examiners enough time to examine the applications. Examiners are allotted a fixed amount of time to examine an application, regardless of the length or complexity of the invention.

As infringement risks grow, insurance companies have begun offering infringement coverage. The Chubb Group of Insurance Companies, for example, now offers software and information technology companies protection against lawsuits

alleging infringement of patents, copyrights, trademarks and trade dress. Another company, Media/Professional Insurance, markets a policy covering those who conduct business on the Internet, but apparently excludes patent infringement coverage.

The Internet is Everywhere

One problem created by the geographically dispersed Internet is figuring out where to sue a defendant for infringement. Because the Internet is a network made up of thousands of computers connected through telephone lines, it is not limited by geographic boundaries. Information can be distributed across state borders and across international boundaries at the speed of light. Companies that sell products directly over the Internet may find themselves hauled into court in a distant state over a patent or trademark dispute. If a company registers the trademark "ALLIGATOR" in Spain for women's purses, does that registration cover uses on the entire Internet, where the word might be visible to millions of web surfers in different countries? If a Tennessee company sells a device on its Internet web site that infringes a patent, where can the Vermont-based patent owner sue for patent infringement? These are some of the problems created by Internet-based commerce.

Courts have generally ruled that companies that operate a "passive" web site in which a consumer can merely obtain general information about the company does not subject the company to patent or trademark infringement in a state where a consumer merely views the company's web site. A company that has an "interactive" web site that permits a consumer to actually purchase a product over the Internet, however, may subject that company to a lawsuit in any state where the web site can be viewed. Even the Pope is not immune from these problems. A Missouri court recently ruled that the Archdiocese of St. Louis could sue an out-of-state company that used the domain names "papalvisit.com" and "papalvisit1999.com" to attract Missouri residents in violation if its trademarks.

Spamming

Another problem faced by some companies is so-called "spamming," where a company is deluged with hundreds of e-mail messages, such as from a disgruntled employee or from a "junk e-mail" company that sends unwanted advertisements to millions of computer users. America Online, for example, blocked unsolicited messages to its subscribers from several bulk e-mail companies. One of the companies, Cyber Promotions, claimed that AOL had interfered with its contacts with its customers. AOL prevailed after a court battle in which the court found that AOL was not a "public forum" in which anyone is entitled to participate.

After being fired from Intel in 1995, one former employee sent more than 30,000 e-mail messages to current Intel employees, clogging Intel's e-mail system. A California judge finally ordered the employee to stop sending the e-mails, finding that the transmissions were "trespassing" on Intel's property.

Future Trends and Legislation

A United Nations panel recently issued a set of proposed rules that would end "cybersquatting," the name given to the act of registering corporate or product names as Internet addresses and then attempting to sell the names back to the corporations for a profit. The U.N. proposals would prohibit the registration of a domain name that is identical to or misleadingly similar to a trademarked or famous name in an attempt to sell the address or disrupt business. The Motion Picture Association of America, which complained that renegade Internet users were registering domain names of upcoming movie titles, along with other companies whose corporate identities had been tarnished, prompted the Clinton administration to ask the United Nations to develop the new guidelines. The guidelines have not yet been implemented.

In Virginia, home to America Online, CompuServe, and several other Internet companies, state legislators recently passed a new law that makes it a crime to send massive amounts of junk e-mail through computer companies located in the state. The so-called "anti-spam" legislation would provide penalties of $10 per e-mail message or

$25,000 per day, whichever is greater. The legislation is intended to crack down on the relatively few number of computer users who clog up computer systems with junk e-mail.

The Digital Millennium Copyright Act, enacted into law in 1998, outlaws trafficking in devices and software that allow pirates to circumvent encryption devices intended to combat copyright piracy. The Act also limits the liability of Internet service providers, such as America Online, when users illegally download copyrighted materials without knowledge by the service provider. Other provisions prohibit the deletion or alteration of special information tags that identify copyrighted materials when they are transmitted over the Internet.

In patent and trademark disputes, courts are gradually coming to grips with the new technology and problems presented by the Internet. Centuries-old principles, such as determining where a defendant can be sued, are being molded and adapted to the realities of the Internet. Patent and trademark attorneys have likewise changed the advice they give to their clients to avoid unintended lawsuits and to maximize the protection of important business methods.

CONCLUSION

Some companies have staked their future on the Internet. Electronic commerce has spawned new industries and introduced efficiencies into existing ones, especially in business-to-business contracting and sales. Companies that regularly transact business on paper through a sales force can now conduct much of their business electronically, eliminating reams of paper and scores of paper-pushers. Along with this increase in efficiency, however, come new attacks on corporate identity and pilfering. Time will tell whether companies can adapt to the changes faster than the interlopers.

Reprinted from USA Today Magazine, *September, 1999.*
Updated March, 2000.