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by
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Introduction

When Jonathan contacted me, asking me to speak, he said, "What would you like to talk about?"

And I said, "Well, maybe I can talk about how the entire practice of law has changed over the last few years, as the Internet and e-commerce has become much more prevalent in my practice in particular and certainly the practice of many other lawyers as well."

As everyone knows from reading the papers, electronic commerce is growing at an incredible pace. A couple of figures: Forrester Research projects that e-commerce will grow from forty-three billion dollars in 1998 to one trillion dollars by 2003. And I suspect that figure is probably an underestimate.

Whatever measurement you use, it is clear that both business-to-consumer electronic commerce, such as Amazon.com and others in the consumer space, as well as business-to-business electronic commerce, between and among large corporations, is growing at an extraordinary rate. One of the results of that is the fact that the issues that we face are becoming more and more complex over time, and we are getting shorter and shorter periods of time in which to resolve those issues.

And so, what I wanted to talk about today is the fact that, in many cases, the decisions that lawyers are making for clients are what I would call "you bet your company" decisions. If you make the wrong decision, or if the company goes in the wrong direction, it may spell disaster.

The time period within which things happen has shortened considerably. We talk about "Internet time" today, which basically means instantaneous, without a lot of delay. And we're practicing law in Internet time today.

A few years ago it would take a company three to five years to go from start-up to IPO. Now, if you don't do an IPO, or get acquired, within twelve to eighteen months, chances are you probably won't be successful. As a result, lawyers are being asked to help make decisions on an accelerated basis. And, as a result, we don't have the luxury of doing a lot of research, holding a lot of meetings with clients, or cogitating over the issues. Clients call us on the phone or send us an e-

mail, and they expect the answer instantaneously. And, as I say, that's a reflection of the way in which these companies are growing and operating as well. They have to make instantaneous decisions in areas in which they really have no experience, because these things have not been done before.

One of things you see today are companies being started on a single idea, or a single premise, and, as a result, the validity of – both in the sense of business as well as law – that single premise becomes critical to the company. If they cannot legally defend the position that their business model is correct or that it doesn't infringe somebody else's rights, they may find themselves out of business.

I
Copyright Law

Now I wanted to touch on a couple of major legal areas where we see this situation coming up. The first, and the one that I probably get involved with more than most, is copyright law. Let me give you two examples of companies that have based their business model on the defensibility of their interpretation of copyright law: one of which has been successful, at least, so far; one of which, has not.

About fifteen months ago, I was contacted by a start-up company that wanted to introduce a "next generation" search engine. We all know about Yahoo! and Lycos, and the other search engines, where you can do a keyword search on text. Those search engines go around to all the major web sites, and index all of the relevant text on those sites. So, if I type in "sports" and "baseball", I'll get a list of sites that talk about the sport of baseball.

Well, as the content on the Internet has gotten richer, there's been a need to be able to search on things other than text. So, this company thought it would be a great idea if they provided a search engine that people could use to search on images – graphics, photographs, any types of image that is stored in either a JPEG or GIF file. So they developed the technology that allowed them to go around to all the sites on the Internet, using what they call a "spider" locate any files on a site that had graphic images, creating a small thumbnail version of each image, and indexing it by keyword.

So, for example, if I wanted to find a picture of the Eiffel Tower with the moon behind it, if I used Yahoo! and typed in

"Eiffel Tower" I'd probably get thousands of web sites that either talked about the Eiffel Tower, or had a picture of the Eiffel Tower, or in some way referenced the Eiffel Tower. But I wouldn't know, until I went to each of those web sites, whether there was a picture on the site, and, if so, whether the picture had a moon in the background. However, by using the small thumbnail copy of images, this company made it possible, when you typed in "Eiffel Tower," to retrieve several pages of small images of what the image of the Eiffel Tower looks like on a variety of web sites. You can quickly scan through the photographs and say, "Oh, there's the one with the moon in the background," click on that little thumbnail image, and be taken to the web site where that picture appears. And then you can look at the web site, and see if it's something that you're interested in.

The company asked us to do an analysis of the defensibility of that technology against a copyright claim that might be brought by a graphics or photograph owner. And we did an analysis and gave them an opinion – of course, long after they had gotten funding and started developing the databases. We told them that we thought the technology was defensible, but that it was not clear-cut because of various unresolved issues.

Unfortunately, at least one copyright owner didn't think that their search engine was a good idea, and sued them for copyright infringement. In early December of 1999, the case was dismissed on a summary judgement motion. The federal court in Orange County, California, ruled that the search engine, and the use of thumbnail images, was a fair use under copyright law because, essentially, it was the only way in which people could search for images on the Internet.

Now, that case is up on appeal, so who knows how it's going to come out? But, basically, they bet their company on the trial court's ruling, and they were successful.

Now, let's talk about a different fact situation, a case that some of you may have read, and that's the *ProCD v. Zeidenberg* case out of the Seventh Circuit in Wisconsin. There again, the defendant, Mr. Zeidenberg, who at that time was a college student, thought he had a great idea for an on-line business. He found a software package that contained several CDs with a database of names, addresses and phone numbers – basically a telephone directory of the entire United

States. And he thought, this is great; I can take that database, put it up on the Internet, write a search program, and I'm in business. I will have my own white pages directory on-line.

He knew that, under the U.S. Supreme Court's holding in *Feist v. Rural Telephone*, telephone directories cannot be copyrighted. And therefore, he thought, "Well, I'll just use the database that has the telephone directories on it. I won't use the search software that ProCD bundled with it, and therefore I'm home free."

Well, ProCD didn't see it that way, and it sued Mr. Zeidenberg, both for copyright infringement and for violating the terms of the pre-printed, shrink-wrap license contained in the box and on the disk, which said, "You can't use this database for commercial purposes." In the lower court, Mr. Zeidenberg was successful in getting the trial judge to hold that, in fact, he did have the right to use the database, and that that shrink-wrap license didn't prevent him from doing so.

But on appeal, the Seventh Circuit held that the shrink-wrap license was controlling, and that even though the database was in the public domain, there was nothing to keep the parties, in this case ProCD and Mr. Zeidenberg, from agreeing to a different arrangement. The court held that Mr. Zeidenberg had agreed, in exchange for getting access to the database, not to use it in a commercial setting.

So, basically, Mr. Zeidenberg was out of business. He chose the wrong horse by relying on the *Feist* case as a basis for starting his business.

Just this week, there was a lawsuit filed in Pittsburgh against a Canadian company called IcraveTV. And what IcraveTV does is take broadcast television signals and post the television programs on-line using streaming media software. IcraveTV has been sued by ten movie companies and three broadcasters for copyright infringement. And, the firm spokesman says, "What we are doing is ethical, is legal, is moral, and the fact that someone claims to the contrary does not change the true nature of it." I assume that he got legal opinion before starting his business.

There again, this is a "you bet your business" issue that is going to be decided by the courts. If IcraveTV cannot broadcast television programs over the Internet, basically,

they're out of business.

II
Patent Law

Another area of interest is patent law. As many of you are aware, the Federal Circuit Court of Appeal, back in 1998 in the *State Street Bank* case, decided that business methods are patentable, whereas previously the opinion had been that a business method by itself could not be protected by patent law.

As a result, there has been a land rush of people filing business-method patents for everything relating to the way they do business on the Internet. One such patent, for example, is the Amazon one-click check-out system, where you just click on one button and it charges your credit card, verifies your address, and tells the warehouse to ship the product. That patent has been litigated already against Barnes and Noble, and the Court enjoined Barnes and Noble from using the one-click check-out system, pending resolution of the litigation.

One of the problems with patents is that an application may be in the Patent Office for several years before it issues. So that, even if you are starting a business, and you say, "Gee, I wonder if there's a patent out there that might prevent me from doing what I want to do," and you do a search of all issued patents, you will not find a patent application that's been sitting in the Patent Examiner's bin for six months or even several years.

So you go out and start a business. You raise money. You start advertising what you're doing, and, sometime later, somebody knocks on your door and says, "You're sued for patent infringement" – on a patent that hadn't been issued at the time that you started your business. There's a big risk in relying on a one-idea business model if, in fact, that idea may be patented by somebody else.

On the flip-side of the coin, many on-line businesses are based on the fact that they do have patented technology, or they do have technology they believe to be patentable. Patents are a very good asset when you're going out and talking to venture capitalists and others to raise money. You can say, "Well, we have this patent and therefore we essentially own this space." Or, "We have a market advantage, or barrier-to-

entry, against competitors." That resonates very nicely with venture capitalists, who say, "Oh, great, if you own the market, obviously we have a better chance of being successful."

The difficulty is, many of the patents that are being issued today may not be valid, because the Patent Office doesn't have a very good way of judging the technology being patented *vis á vis* the prior art. Or, a patent may be valid, but it may be very narrow, so that other companies can invent around it, and therefore you end up with a wonderful patent that doesn't stop your competitors from doing essentially the same thing that you're doing.

One of my clients was sued by a company called CoolSavings.com. You've probably all seen its ads, it's the talking pig that comes around and tells you that you should go to their web site first before you buy anything, because you can get electronic coupons which will save you lots of money. The patent has to do with the electronic couponing concept. And my client does electronic couponing as well, as do many other companies.

And so, Coolsavings.com sued a large number of companies in the industry, essentially as soon as the patent issued, for patent infringement, not having any way of knowing, in my opinion, exactly how any particular company actually did its electronic couponing.

It turned out, some months into the litigation, not just for my client but for many other defendants, that they didn't actually infringe the patent, which was very narrowly drawn. And, in fact, in my opinion, although I'm not a patent expert, the CoolSavings' patented way of doing business was less efficient than other methods of doing electronic couponing which were not patented, and which competitors were using.

As a result, after many months of litigation, CoolSavings settled many of these cases, because they realized they would never be able to enforce the patent against these companies. And, of course, if I was an investor who'd been told that, "Gee, this patent is going to allow CoolSavings to own the electronic couponing industry," I would not be particularly happy to find out that there are now many competitors in the industry as well.

III
Comparison Sites

There are a number of other areas in which this concept of "you bet your company" is relevant. One is a growing area which I would call "comparison sites." These are businesses based upon the idea that they can go around culling information from other web sites, and then present them to a user in an easy-to-understand format.

And there are two areas of particular interest for this type of company. One is price comparisons. If I want to buy a particular book, for example, I can go to Amazon, find out how much they charge for it, I can then go to Barnes and Noble, and numerous other sites. And then I can determine who has the cheapest price, and I can order the book from that particular site. That's very inefficient, takes a long time, and I'm not really happy to do that. Instead I can go to a site like BestBookBuys.com, type in the name of the book and the author, and it will go around and search all the book sites for you. Within a few seconds it'll come back with ten or twelve prices, telling me which site has the cheapest price on that particular book.

Now, books are not the only things that can be "shopped around." There are many other types of goods where price comparison engines go around, cull information from other sites, and present it to the user in a very easy-to-understand manner.

Another area of comparison sites are auction-comparison sites. One is called Bidder's Edge. Another one is called AuctionWatch. But, basically, they do the same thing. If I want to buy a Britannica Beanie Baby, I can just go to their web site, type in "Britannica Beanie Baby," and, within a few seconds, they'll tell me which auction sites have a Britannica Beanie Baby at auction at that particular point in time. Then I can go to that site and bid on the item. It saves me an enormous amount of time.

So, there's clearly a benefit to users, and many of these sites have been able to raise significant amounts of money to build their search engines and go into business. Needless to say, the auction sites that they go to and pull information

from are not as excited about it. Most of these sites make a lot of money from advertising, so they want users to go to the site and see the advertisement. They don't want you to get the information from a comparison site and make a decision whether to go there or not.

So there have been a few lawsuits filed already with regard to this. EBay has sued Bidder's Edge, claiming that this spidering of their site has violated the copyright in the site, and their trademarks. They have also asserted unfair competition claims and trespass to chattels.

Trespass to chattels is an issue that was raised in cases involving spam flooding particular services such as CompuServe and others. Those services were successful in stopping spammers by saying that, "You're slowing down our system," or, "You're crashing our system by sending so much e-mail to our site that it overloads our system." EBay is making the same claim against Bidder's Edge and others, saying that, by coming in and looking for information repeatedly, "You're overloading our system, and slowing it down." PriceMan, which is a price comparison site, has been sued by mySimon, Inc. for essentially the same thing -- that they're taking advantage of all the hard work that mySimon has done in offering all these products, without requiring users to go to the site and see the advertising. Now, obviously, if either of those cases are successful, and they stop the price comparison or auction comparison from taking place, those companies are essentially out of business. I assume that they were looking to their lawyers early on to give them a legal opinion as to whether or not what they wanted to do was legal. And who knows what the lawyer said? But clearly, if they're wrong, they'll be out of business.

IV
Gambling

One more area that I wanted to mention is gambling. There have been numerous sites set up to facilitate gambling: casino-type gambling, sports-book, and lots of other types of gambling. Most of the lawyers who have advised clients on this have said, "Go offshore. Set up your facilities in the Grand Caymans, or Aruba, or somewhere where gambling is legal. Have your servers there, have your business there, and if people from the U.S. want to come to your site through the

Internet, that's OK."

Well, the Attorney General in New York didn't agree with that, and filed a suit against World Interactive Gaming. Last July, a court in New York held that where the gambler is located is actually the location of where the gambling takes place, not where the gambling company is located. And, therefore, a user sitting anywhere in New York State, using their computer to place bets with this company in the Grand Caymans, was actually gambling in New York, and therefore, New York had jurisdiction to criminally prosecute the owners of the gambling facility in the Grand Cayman Islands.

Now an additional factor was that the company was actually was located in New York. The executives were in New York, so it was easy to get jurisdiction over them. But they probably got legal advice at some point saying, "Stick it offshore, and you're home free."

And, obviously, that was not the case. So, gambling is another area where a lot of companies have bet a lot of money that they would be able to safely tap into the U.S. market from offshore, only to find that the courts seemed to be going in the opposite direction.

V
Spamming

Finally, I wanted to mention spamming, because when you mention spamming, you have to mention Sanford Wallace, and his company, CyberPromotions. He was the "king" of spam for a number of years. Spamming is sending huge amounts of unsolicited commercial e-mail to people, and I'm sure if you have an e-mail account you get this sort of thing. "Get rich quick," "Get out of debt," "Rebuild your credit." All sorts of promotions come to your e-mail inbox. Sanford Wallace was one of the early promoters of this concept, and he figured out that he could write software that would go to user groups and other sites where people posted their e-mail addresses, cull all those e-mail addresses, and assemble a huge database of e-mail addresses he could offer to advertisers to send unsolicited commercial e-mail – that is, spam. He had several million e-mail addresses by the time the various lawsuits against him started.

Certainly, he had gotten an opinion from counsel at some point, probably saying something like, "There is no law to

prevent you from doing this. This stuff is all posted on the Internet. You are free to use these e-mail addresses."

But he got sued by AOL. He got sued by CompuServe. He got sued by Prodigy. And, in each case, the court enjoined CyberPromotions from sending e-mail to the people who use those particular services. Between the legal fees, and the fall-off in the number of names he had, and, probably, the bad publicity he was getting as a result, CyberPromotions closed its doors several years ago, and we haven't heard much about Sanford Wallace since then.

VI
Conclusion

As you can see from these examples – and I'm just scratching the surface here – there are so many areas, and so many situations, in which you, as lawyers, are going to be approached by a high-tech company that says, "We've got the greatest idea since sliced bread. What do you think?" And you have to give them an opinion as to whether or not you think that this particular business model is legally defensible. If you're right, they can become incredibly wealthy. If you're wrong, they may be out of business

So, what we're facing today is a situation where almost every decision you make is a "you bet your company decision."

Thank you very much.

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