

# INTELLECTUAL PROPERTY LAW IN CYBERSPACE

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## I. INTRODUCTION.

The purpose of this presentation is to discuss intellectual property protection of material on the internet and recent court decisions regarding copyright, patents, trademarks, domain names, trade secrets and jurisdiction.

The technology of the internet advances the use of computers and the copying of data and programs necessary for their operation to new levels. So far, the courts are responding to the new technology by molding the fact patterns to fit traditional intellectual property standards. The same process occurred during the introduction of computer software as a major commercial product. The courts turned to traditional copyright principles and tests to evaluate the protection of software. Congress and the USPTO intervened in order to establish more modern protection by passing legislation and allowing patents on software.

The balance struck in other intellectual property areas, like software, shows a tendency by the courts and policy makers to favor the commercial and attribution rights of authors, artists, and inventors over the interests of unfettered free speech and public discourse. Certain doctrines protect the use of works for criticism, parody, public comment and education. The internet will present new challenges on how to protect authors, artists and inventors rights without unduly restricting the instantaneous free flow of information which is at the center of the new electronic society called the internet.

I believe the same evolution will happen with the internet as occurred with software. Courts will cautiously apply traditional

copyright and trademark principles. Any creative direction will come from Congress or the administration.

Source:

N. Heide, R. Irving, B. Saintsing, D. Stromberg, and R. Whitehead, "Who Has the Right of Way? Intellectual Property Rights on the Internet," The Barrister at 25 (ABA Young Lawyers Div. Spring 1996).

## II. COPYRIGHT AND THE INTERNET.

The very nature of internet communication requires copying. When you access a web site, the material you view is copied onto your computer. Downloading or printing creates another copy of greater duration. All three activities infringe an author's exclusive statutory rights to control reproduction, distribution and display of the work. Merely placing copyrighted material on the internet without the permission of the author may violate the author's display rights.

Many commentators believed the courts might expand the doctrine of "fair use" to protect robust discussion and exchange on the internet. However, the trend in the courts has been to narrow fair use. Princeton Univ. Press v. Michigan Document Services, Inc., 99 F.3d 1381 (6th Cir. 1996) en banc (Use of portions of copyrighted works in "course packs" for university students is an infringement). Absent congressional or Supreme Court intervention it appears unlikely "fair use" will be much of a shield for internet users.

Criminal liability for intentional infringement remains a possibility. Traditionally, the infringer must intend to make a profit from the infringement for criminal liability to attach. The internet as a forum for instant and extensive communication led to the advent of "information terrorism." Persons with no profit motive, but an economic or political disagreement with the owner, publish the works of others to either destroy their economic value or embarrass the owner. The courts have rejected criminal liability for this conduct, but it appears that Congress may act to provide criminal liability for intentional infringement without economic motive.

One of the most interesting areas of development will be the doctrine of contributory infringement on the internet. An internet user's internet service provider ("ISP") makes the copying, display, and distribution of the copyrighted work possible. (This analysis applies to operators of bulletin boards and listservs as well). Intent is not a necessary element of civil copyright infringement liability. (Although intent must be established for criminal liability, civil exemplary damages, statutory damages, or an award of attorneys fees). Normally, a manufacturer or agent whose activities are necessary to the infringement becomes liable just as the party directing the infringement is liable.

For example, when a retailer copies the essential elements of a garment pattern and then has it manufactured, the manufacturer is liable for contributory infringement. The law expects the manufacturer to assume that the pattern has a creator and an unexpired copyright. The manufacturer bears the risk of believing his customer when the customer represents that the pattern belongs

to the customer. To ameliorate this risk, most commercial parties provide for indemnification and hold harmless clauses running to the manufacturer in the contract. The indemnification can be effective in this setting because it places the risk on the party actually controlling the use of the pattern and the manufacturer can investigate and reasonably determine the customer's ability to pay.

The solution for ISPs will not be this straightforward. The very nature of internet subscribers--a broad range of society from large commercial concerns to small businesses to public interest groups to individuals to unincorporated associations with varied agendas to educational institutions--means that many subscribers' agreement to indemnify and hold harmless would be valueless to the ISP.

Also, the ISP faces essentially absolute liability for its role in providing a place where subscribers could place improperly reproduced works. At least one court has been very concerned about this problem. Congress imbedded in the Copyright Act an exception to contributory infringement liability for publishers and printers of books, magazines, newspapers and advertisements who did not know, and in the exercise of reasonable care should not have known, the material published infringed another's copyright. Congress intended this section to protect the "innocent" instruments of public discourse from liability. One court has analogized the ISP's role, when the ISP maintains no policy or method to review or control the content of subscribers' postings, to that of the publisher and printer and found no contributory liability. This exception generally has been narrowly construed under principles of

statutory construction and I do not believe many other courts will follow this lead.

The contradiction between this one court's holding and other courts' holdings places ISPs in a Hobson's choice situation. If you monitor content and successfully prevent the reproduction, display, or distribution of copyrighted works the subscriber does not have rights to use, then the ISP avoids liability. However, if the ISP is unsuccessful in this attempt, then the ISP will be liable in both jurisdictions which apply the normal test and jurisdictions which have adopted the publishers/printers exception standard, because the ISP now does have methods and policies to control content.

The ISP may also have to implement policies and methods to control content in order to comply with the Communications Decency Act of 1996. While most commentators agree the Act is unconstitutional, (apparently White House and judiciary committee staff attorneys thought so), the American public's perceived preoccupation with the control of materials with sexual content caused politicians to rush the Act through prior to the 1996 elections. (The statute has been held unconstitutional in ACLU v. Reno, 929 F. Supp. 824 (E.D. Pa. 1996)). The same perceptions among large ISPs may cause them to voluntarily censor their users.

These activities cross the line and make the ISP a monitor of content and, therefore, liable for copyright infringement under any test.

Sources:

Sega Enterprises Ltd. v. MAPHIA, 948 F. Supp. 923 (N.D. Cal. 1996) (Operator of bulletin board service who knew of and encouraged members to upload and copy copyrighted computer games not guilty of

direct infringement but was a willful contributory infringer subject to damages and a permanent injunction).

Religious Technology Center v. FACTNET, Inc., 907 F. Supp. 1468 (D. Col. 1995) (Publishing copyrighted works on internet through electronic transmission and duplication supports claim of copyright infringement).

J. Gibeaut, "Zapping Cyber Piracy" The ABA Journal 60 (February 1997).

U.S. v. LaMacchia, 871 F. Supp. 535 (D. Mass. 1995) (LaMacchia, and MIT student with access to the University's computer system persuaded software users worldwide to upload copies of copyrighted software to him which he then made available for free. No criminal liability because he did not profit or intend to profit from the plan).

J. Kuester & D. McClure, "SPA v. ISPs: Contributory Copyright Infringement in Cyberspace" Intellectual Property Today 8 (February 1997). (This article chronicles the latest crusade by the Software Publishers Association, sure to be followed by the Business Software Alliance and similar anti-piracy groups to hold ISPs liable for infringement when a subscriber copies software without paying for it).

D. Loundy, "Netcom v. Church of Scientology: Ruling Employs Black and Whyte test for Copyright Liability," 1 Cyberspace Lawyer at 18 (April 1996).

### **III. TRADEMARKS, DOMAIN NAMES, AND THE INTERNET.**

Traditional trademark principles apply to domain name usage. If you offer goods or services at your web site that could be confused with those of the holder of a registered mark, it is infringement and unfair competition. Anti-dilution statutes, once found only at the state level but now enacted by Congress as a part of the federal Lanham Act, play an even more important role. Under an anti-dilution theory if the domain name is similar to the

registered mark, it does not have to be related to similar goods or services. The mere ability of the user to tarnish the mark will support an injunction or civil liability.

First Amendment concerns have been rejected by the courts as a concern in both trademark infringement and anti-dilution actions. Even the copyright exception of parody has been very limited in application here as a parody which associates a popular mark with illegal drug use, sex, or other "scandalous" activities which would affect the value of the mark supports anti-dilution liability.

Unlike the copyright area, the fit of traditional concepts here does not seem to call out for change because of internet technology. The traditional concepts of unfair competition, trademark infringement and anti-dilution apply with equal force and ease of application in the electronic world. This is also an area where the law likely will remain more fragmentary in its approach.

While the Lanham Act does provide for federal liability for trademark infringement, unfair competition, and dilution each state has parallel laws. Copyright and patent are completely federalized.

Sources:

Gateway 2000, Inc. v. Cyrix Corp., 942 F. Supp. 985 (D.N.J. 1996) (First Amendment concerns insufficient and unlikely to be available as defense in unfair competition suit thus removal to federal court improper).

Playboy Enterprises, Inc. v. Chuckleberry Publishing, Inc., 939 F. Supp. 1032 (S.D.N.Y. 1996) (Although earlier injunction did not contemplate technology of internet, it applied to publication of pictures and logo electronically).

W.S. Petty, "Trademark Dilution in Cyberspace" Intellectual Property Today 15 (February 1997).

M. Scott, "The Battle for Domain Names: Applying Trademark Law in Cyberspace," 1 Cyberspace Lawyer at 6 (April 1996).

D. Kelly and J. Thomas, "Names on the Net: Some Strategies for Protecting What They're Worth to Your Client," The Practical Lawyer, (O. March, 1997, at 13 (ALI/ABA)).

#### IV. THE INTERNET--NEMESIS OF TRADE SECRETS.

A trade secret is a useful compilation of information, technique, process, or method of doing business that is not generally known or easily derived by persons in the same business or profession. The owner must take reasonable steps to protect the trade secret from unauthorized disclosure such as security measures, copy control, distribution control, and agreements for non-disclosure and non-use. Even when a trade secret is misappropriated, if innocent third parties receive the secret without knowledge of its misappropriation, the trade secret status is lost.

The instantaneous transfer of information on the internet is likely to become a great problem for trade secret holders. A disgruntled former employee or contractor can, in a moment, distribute a trade secret to millions. While the individual who misappropriated the trade secret would be liable, the recipients could freely use the trade secret under most states' common laws and the Uniform Trade Secret Act so long as these individuals did not know that the information had been improperly acquired. The trade secret is destroyed and, unless the original misappropriator has assets, the owner of the trade secret will likely go uncompensated.

This area of intellectual property on the internet has received little attention from the courts. At least one federal district court in Virginia dismissed a trade secret claim brought by the Church of Scientology on these grounds in Religious Technology Center v. Lerma. The defendant and others had

disseminated the material on the internet, therefore the material could not possibly meet the statutory definition of a trade secret.

The law of trade secrets as it currently exists faces a serious threat from the technology of the internet. An injunction would be virtually useless unless the owner of the trade secret can show that the misappropriator intends to distribute the information in advance of the act and enjoins the act.

The internet threat to trade secret protection comes at a time when many states are strengthening trade secret protection as an inducement to business investment and relocation. South Carolina enacted the Uniform Trade Secrets Act in 1992. Bills are pending in both houses of the legislature to amend and expand both civil and criminal liability under the Act. These legislative efforts may prove fruitless in the face of the internet.

Sources:

S.C. Code Ann. §§ 39-8-1 to 39-8-11 (Cum. Supp. 1996).

Lowndes Products, Inc. v. Brower, 259 S.C. 322, 191 S.E.2d 761 (1972).

Carolina Chemical Equipment Co., Inc. v. Muckenfuss, \_\_\_ S.C. \_\_\_, 471 S.E.2d 721 (Ct. App. 1996).

Religious Technology Center v. Lerma, 897 F. Supp. 260 (E.D. Va. 1995) (Applying Virginia trade secret law).

**V. PATENTS.**

This is another area the courts have not focused on. A patent gives an inventor an exclusive right to exclude others from using the invention for twenty-one years (seventeen under prior law) in return for its public disclosure. Posting patent information on

the internet is not illegal, indeed it furthers the very idea of patents. However, internet technology may threaten the effectiveness of software patents.

If a fully functional copy of the patented device can be electronically communicated, patent enforcement by the inventor is nearly impossible. Thus, the business of encrypting fail-safe and destruction devices in software such as lock codes and automatic destructs if certain actions are not take by certain times will continue to accelerate in order to protect patent owners.

Unlike copyrighted software, where the author may designate portions of the code as trade secrets and not include it in the deposit with the Copyright Office, the entire software process must be disclosed in patent documents. Courts may also use traditional contract and UCC law principles to try and protect owners against distribution of their works electronically. See ProCD, Inc. v. Zeidenberg, 86 F.3d 1447 (7th Cir. 1996).

## **VI. JURISDICTION.**

Users of the internet should also be aware of another risk in using this extraordinarily far-reaching medium. If your posting, e-mail, or web site can be construed as a purposeful decision to act in a particular jurisdiction, particularly to sell in that jurisdiction or to take an action which causes harm in that jurisdiction, you have probably exposed yourself to the jurisdiction of that state's or foreign nation's courts. Thus, if a posting could be viewed as damaging to the reputation of a California resident, the sender living in Toronto may find himself

required to defend a lawsuit in California. Another example would be the Georgia Institute of Technology finding itself in prosecution for criminal liability, an injunction and damages in French courts because its web site offered classes that could be taken electronically by Frenchmen where all or the majority of the information was in English, a violation of the French cultural protection laws.

The cases seem to set up a sliding scale of when Internet activity can lead to personal jurisdiction. If a site is passive, only giving information, it is unlikely to support personal jurisdiction. If the site is advertising only, but the business has other activities in the jurisdiction, this may give rise to personal jurisdiction. If the site is interactive and takes information from the user, this is more likely to support jurisdiction. If the site actually solicits and completes sales by taking credit card information etc, jurisdiction is very likely. If you can actually complete the sale and download the product, then jurisdiction is almost assured in any place where the customer purchased the product.

Sources:

Compuserve, Inc. v. Patterson, 89 F.3d 1257 (6th Cir. 1996).

Cardservice Intern., Inc. v. McGee, 950 F. Supp. 737 (E.D. Va. 1997).

Panavision Intern., L.P. v. Toepfen, 938 F. Supp. 616 (C.D. Cal. 1996).

Maritz, Inc. v. Cybergold, Inc., 947 F. Supp. 1338 (E.D. Mo. 1996).

But See Bensusan Restaurant Corp. v. King, 937 F. Supp. 295 (S.D.N.Y. 1996).

## VII. TIPS ON RESEARCH AND USES OF THE INTERNET.

A. Information on a website may be inaccurate. You must assess: (1) the organization which runs the site -- is it really the organization it says it is; (2) update and checking mechanisms used on the site; and (3) security measures for the site.

B. Copying material from a website may constitute copyright infringement. A notice is no longer required--although notice and registration are necessary to protect certain legal rights. Registration is also required before filing suit. The fair use defense may not be as easy to come by even for educational purposes in light of Princeton Univ. Press.

C. Use the internet for factual information on deponents, potential clients, asset searches and background facts. You can use it for legal research but remember it is an untamed and unorganized mass of information filled with jokers and more sinister hackers.

D. Discovery. E-mail, listservs, discussion groups, etc. open up a whole new venue of discovery over and above the traditional in-house e-mail system, accounting computer files and word processing. Be sure to craft interrogatories and requests to produce to cover these items. What is said casually in discussion on the internet may differ greatly from the litigation position taken by a party.

## VIII. CONCLUSION.

The nature of internet technology which allows users to easily and instantaneously transmit information to large numbers will pose unique issues in intellectual property law in upcoming years. Those who are interested in encouraging the free exchange of information of public import, education and civic discourse on the internet should watch these legal developments carefully. There is no question that protecting authors, artists, and inventors rights to use, profit from, and receive credit for their works achieves important social goals. However, if the measures and tests adopted to apply intellectual property protection on the internet are not tempered by educational, discourse and First Amendment concerns, the unique character and potential of the internet as a source of public discourse could be consumed by intellectual property protection measures.

I suggest some additional reading. William Gibson, a science fiction novelist, is credited with inventing the term "cyberspace" and first depicting how the internet and virtual reality would become available to the mass of the population. His novels show a future of corporate control of information which causes large business concerns to overpower governments, leads to societal fragmentation, but also creates opportunity for skilled individuals to operate in the shadows of the electronic data flow and use it for many other purposes. It is very interesting reading and a future we would probably try to avoid. His novels include Neuromancer, Virtual Light, Mona Lisa Overdrive, Count Zero, and Idoru.