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On Guard Online

GOT SPAM? — David Kramer, of Wilson Sonsini, who practically invented anti-spam litigation: "There is still extreme scarcity of case law in this area, so you can't consult case books."

New Technology Creates New Liability That Inspires New Litigation — All of Which Require New Ideas

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Dreaming up worst-case scenarios and coming up with ways to get out of them is not an area of expertise many lawyers include in their résumés. Wilson Sonsini Goodrich & Rosati partner David Kramer has made a name for himself doing just that for Internet clients. The 34-year-old attorney has built a thriving practice by spotting potential liabilities before they become lawsuits and advising online companies on ways to avoid them.

"Being paranoid helps a lot," Kramer joked during a recent interview. His job, as he explains it, is to pull apart his clients' business models, their online practices, their technology, their intellectual property holdings, even their data-privacy and e-mail guidelines, and to think about them like a plaintiffs attorney.

"The first question to answer is, 'How can I cause trouble to this company?'" Kramer said. "And then, 'How do I get around all the legal problems with the least risk of liability to my client?'"

It may sound unscientific, a pseudo-discipline, but forecasting liabilities and managing risks for companies operating online has become a lucrative practice for an increasing number of attorneys. Although still a relatively informal practice in many firms, lawyers in the field have attracted not just startup clients but also major corporations with online ventures.

The trend is a response to a surge in online-related litigation, according to Ian C. Ballon, a partner at Manatt Phelps & Phillips in Palo Alto.

Ballon, author of the three-volume treatise, "E-commerce and Internet Law," said that five years ago most Internet-related lawsuits involved copyright and trademark piracy claims related to Web content. Today, the potential liabilities are legion.

"It almost feels as if the only way to avoid being sued these days is not to do business online," Ballon said.

The idea is to not become the next Napster, driven to bankruptcy defending a swarm of copyright infringement suits.

The first step, then, for anyone thinking of launching an online service or selling a product on the Internet, Ballon advises, should be to consult an Internet liability expert.

The potential pitfalls are many, according to Kramer. Legal issues involving new technology and innovative ways of doing business on the Internet have become more complex than in the past. So have the abusive and fraudulent practices, including hacking, that beset Internet companies.

The new crop of copyright and trademark cases, for example, are no longer as straightforward as are cases involving online music piracy, cybersquatting or theft of content from other Web sites, he added.

A lawsuit filed recently against Redwood City's Gator Corp. by at least 14 media companies, including The New York Times Co. and the Washington Post Co., illustrates Kramer's point.

Gator had noticed surveys showing that most Internet users ignore the ubiquitous pop-up ads on Web sites. Gator devised software, which it distributed free, allowing consumers to designate the kind of ads they actually were interested in seeing pop up on their computer screens. Gator planned to collect fees from advertisers who placed ads through its service.

The media companies filed suit in the U.S. District Court for the Eastern District of Virginia for trademark and copyright infringement and unfair competition. *Washington Post v. The Gator Corp.* 02-909. The publishers contend Gator's ads are "designed to divert and lure Internet users from the Web sites they intend to visit to other Web sites owned by Gator Corp.'s advertisers."

The case is tricky because no content was copied or used. Gator simply displays a browser window for its advertisers on top of another publisher's browser window. According to attorneys watching the case, that might not constitute copyright or trademark infringement.

Still, the case demonstrates why counseling Internet liability issues is like practicing in a vacuum.

"There is still extreme scarcity of case law in this area, so you can't consult case books," Kramer said.

Morrison & Foerster partner John Delaney, a full-time Internet liability lawyer in New York, relies on newsletters and news articles to keep on top of legal developments in the United States and elsewhere. The 38-year-old former patent litigator also tries to learn new technologies, whether developed by his clients or by other companies, that might create new legal problems or minimize existing ones.

"I always tell my associates that good liability lawyers not only know the law, but also anticipate where it's going," he said.

Orrick Herrington & Sutcliffe partner Neel Chatterjee advised clients on music piracy issues long before Napster turned music downloading into a consumer hobby — even before there were any laws governing digital piracy.

Chatterjee, who divides his time between litigation and counseling clients on liability issues, remembers being consulted several years ago by an Internet network of music clubs. The network videotapes various bands' performances at member clubs and loans the copies to other members for rebroadcast. Chatterjee immediately came up with at least three possible lawsuits the group could be hit with.

"I asked them if they knew what to do if Madonna was in the audience and wanted to sing onstage with the band, or another famous person started saying crazy stuff while the band was performing," Chatterjee said, to name two examples.

"Of course, they didn't think of that, so we immediately set in place an infrastructure to deal with getting [artists'] performance rights and writing disclaimers," he said.

Being knowledgeable about pending legislation also helps. As the landmark 1998 Digital Millennium Copyright Act was debated, Chatterjee kept abreast of provisions that might be in any way related to his clients' interests.

The law prohibits unauthorized decryption of secured digital products and trafficking in decryption tools. Chatterjee zeroed in on a particular "safe harbor" provision that grants immunity from liability to Internet service providers as long as they do not facilitate infringement or aid in trafficking in piracy tools.

"Most of my clients are Internet-tool providers, and I thought that was the most relevant aspect of the law that I should focus on," the 32-year-old intellectual property litigator said.

His expertise in third-party liability issues came in handy when eBay, an Orrick client, was sued by one of its auction customers in San Francisco Superior Court for allowing the sale of counterfeit CDs. Chatterjee successfully represented eBay by invoking an untested safe harbor provision of the 1996 Communications Decency Act. *Stoner v. eBay Inc.*, No. 305666. In the process, he set a legal precedent that exempted Internet service providers from liability under the CDA. "That was a once-in-a-lifetime case, where you get court resolution of a law important to your client," he said.

Chatterjee has a lot to read up on; an estimated 2,000 bills pending in various state and federal jurisdictions could affect Internet companies. Some of those bills address high-tech liability issues, including data privacy, security and illegal gambling issues.

The paucity of Internet case law and regulations has encouraged liability lawyers to rely on their imaginations.

Kramer's most famous case was an example of creative lawyering. In 1996, he was asked by Wilson Sonsini client Concentric Network, an Internet service provider, to go after a notorious e-mail marketing firm. Back then, spam was still more widely known as a canned meat product than as pesky, unsolicited e-mails sent out by Internet marketers. But Kramer's client felt besieged by the thousands of unsolicited e-mails sent to its customers by Cyberpromotions Inc., an Internet advertising firm in Pennsylvania.

Technically, no law or regulation barred such activity. So Kramer and fellow Wilson Sonsini attorneys dug up an ancient English common law provision against "trespass to chattels." The law prohibits anyone from disrupting other people's use or enjoyment of their personal property but had not been invoked in at least 100 years, according to Kramer.

Nevertheless, his litigation team applied the law to the case by designating network servers as the property of Concentric. In court they argued Cyberpromotions' invasive advertising was disrupting their clients' use of those servers and causing harm.

Kramer's team easily won an injunction prohibiting Cyberpromotions from sending any spam to Concentric's e-mail servers; the judge even ordered Concentric to publicly apologize. At the same time, the lawsuit generated enough publicity to attract a bigger client, Compuserve.

Compuserve was having the same problem with Cyberpromotions and other Internet marketers. This time, Kramer secured a sweeping injunction from an Ohio court on a related theory that junk e-mail can constitute a trespass against the property of an Internet service provider. *Compuserve v. Cyberpromotions*, 962 F. Supp. 1015 (1997).

That precedent spawned copy-cat lawsuits that forced Cyberpromotions to cease operations.

It also inspired other Internet companies to use the case law successfully in later litigation relating to e-mail.

Intel Corp., for instance, stopped an ex-employee from crashing its e-mail servers by sending multiple disparaging e-mails to Intel workers. Sacramento Superior Court Judge John Lewis ruled that the former employee had trespassed Intel's computer system by sending e-mails to 30,000 employees.

The 3rd District Court of Appeal upheld the lower court's ruling in December 2001. The state Supreme Court has agreed to hear the case. *Intel Corporation v. Hamidi*, S103781.

EBay applied the precedent against an auction information aggregator, Bidder's Edge, for listing eBay auction items alongside similar items from other auction sites. EBay claims Bidder's Edge is essentially trespassing by delving deep inside eBay's site to cull information about auction items, in the process helping its users to bypass eBay's banner advertising and clogging the site's servers with multiple search requests. The suit was filed May 24 in San Jose federal court. *EBay Inc. v. Bidder's Edge*, 99-21200 RMW.

As glamorous as all this precedent-setting might sound to lawyers, Internet liability attorneys' main job is to keep their clients out of court. In most cases, they do that by coming up with alternatives to risky business models and practices.

"Normally, clients don't like to hear what they can't do, so you have to have an alternative plan that is legally defensible and still economically viable for them," said Kenneth Wilson, a partner at Perkins Coie in Palo Alto.

Wilson, an intellectual property litigator by background, on occasion has had to behave like a business lawyer, scrutinizing his clients' entire way of doing business and suggesting changes to forestall liability issues. To give solid advice, liability lawyers have to keep up to date about online business practices, he said.

"I know there are still attorneys that scoff at the idea of such a thing as Internet law, but the reality is that online businesses operate differently from brick-and-mortar companies," Morrison & Foerster's Delaney said.

Even so, Internet law has gained legitimacy as traditional brick-and-mortar firms moved in numbers into online retail, largely supplanting start-up companies in the field, Delaney noted.

"Now, only about 20 to 30 percent of my clients are startups," he said.

Internet lawyers face potential legal problems of their own. Forecasting potential liabilities in an area as unsettled as Internet law is as tricky as reading a crystal ball. Sometimes clients have blamed their lawyers for offering the wrong advice.

Perhaps the most famous example is the $175 million legal malpractice suit filed in January by San Diego online music distributor MP3.com against its lawyers at Cooley Godward. The company alleged Cooley lawyers failed to warn that its service might be illegal. MP3.com has paid $130 million to settle more than a dozen lawsuits by record labels that claimed it violated copyright laws by letting customers download protected material from its Web site. *MP3.com Inc. v. Cooley Godward*, No. 266625. A trial date has not been set for this case.

"I think our clients know that we're not Nostradamus," Kramer said.

"I'd say that we give the best advice we can in what clients recognize is an uncertain environment."