

Webcast: Navigating Online Liability Issues

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Presented by ACC's Intellectual Property Law Committee and sponsored by [Kilpatrick Stockton, LLP](#)

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Moderator: Joseph F. Murphy, General Counsel and Patent Attorney, Company info: Shainin, LLC

ASSOCIATION OF CORPORATE COUNSEL

Moderator: Joseph F. Murphy
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11:30 a.m. CT

Operator: Just a reminder, today's conference is being recorded.

Female: Please go ahead, (Joe).

(Joe): Hello. ACC's Intellectual Property Committee and Kilpatrick Stockton welcome you to today's Webcast entitled Navigating Online Liability Issues. This Webcast will present the latest developments in the area of secondary liability for Web site operators. Specifically this presentation will cover topics including service provider immunities under the digital millennium copyright act, contributory liability for service providers, and online auction operators under trademark and unfair competition law. And secondary defamation liability in light of the Communications Decency Act.

You will be listening to a hypothetical dialogue between Kilpatrick Stockton partners Judy Powell and James Trigg and the in house counsel of the fictitious New Corp Corporation. The fictitious in house council will be played by the real world general council for Lipper Inc, (Alexander Montague), our IP Committee Chair.

Here's today's hypothetical. (Alex Montague) is the general counsel of a start up company, New Corp. New Corp provides a variety of online services from its recently launched Web site. The core of New Corp's business consists of providing news and information about tax and accounting information worldwide. (Alex's) company does this by way of a blog and a message board, where registered users discuss the latest developments and news, as well as an instant messaging feature that has New Corp's proprietary brand and application, where users can exchange information in real time.

In addition, New Corp also has it's own proprietary editorials posted on the Web site. New Corp's Web site allows users to create user profiles, and therefore, an online networking service similar to MySpace. Users can upload photos and documents in Word or PDFs, documents such as resumes, firm brochures, on to their profile page. Users can also have a network of friends. Short clip videos can also be uploaded e.g. promotional videos, office tour, et cetera.

New Corp will be offering sponsorships and banner advertisements on its Web site. It will also have an online bookstore where anyone, not just registered users can purchase books and videos, mostly tax and accounting related, and where registered users can also offer their related products for sale.

Now, New Corp's staff will be monitoring the Web site, and they'd like to be able to take down any material that New Corp would consider unsuitable, e.g. pornography, defamatory materials, infringing materials, et cetera.

New Corp would also like to minimize its risk for secondary liability. And with all of this in mind, we're going to now tune in and hear (Alex Montague), the general counsel for New Corp seeking advice on these issues from Kilpatrick Stockton.

(Alex Montague): Thank you very much, (Joe). Yes, indeed, I need a lot of advice here, because obviously my business people have decided that we're going to be launching this Web site soon. It is – all of our revenues are going to be coming from the activities that you described, and I'm responsible for making sure that we're insulated from risk. I need to minimize risk. I don't mean to eliminate it but I'd like to minimize it.

So with that in mind, one of the issues that I've been thinking about a lot is that I don't have that much editorial control over the content of my Web site, given how much leeway we're giving to our users to, you know, get on the Web site and upload documents, photos, and to do blogs. Now we will have a section of the Web site, where there users will have to register, but given the fact that I don't have editorial control, one of my concerns is copyright. Is there anything I can do, and now my question is directed to my colleagues at Kilpatrick Stockton.

Is there anything that I can do to minimize my risk, my company's risk of copyright infringement on this Web site?

James Trigg: (Alex), I can address that question. And I think your identification of potential copyright issues relating to this Web site is astute because the users of this Web site that may be posting that's original to them, and hopefully that will be the case in virtually every instance. But as you say we're relinquishing a certain amount of control here. And it's certainly possible that some of the users of this Web site could copy material from third parties. And the posting of that material on the Web site could, in theory, expose our company to copyright infringement liability.

Fortunately, we can avail ourselves of a provision in the copyright act, known as the Digital Millennium Copyright Act. (Alex), this was passed almost 10 years ago now, back in 1998. And the stated purpose in passing the law was to facilitate the robust development, and worldwide expansion of electronic communication, communications, development and education in the digital age. So in passing this law, the Senate recognized that having Web sites like this where people can go and exchange ideas is a good thing. And we don't want providers of sites like this to be constantly getting hit with copyright infringement litigation, or otherwise it would provide a chilling effect.

In passing this law, Congress attempted to strike a delicate balance. On the one hand, they recognized that copyright owners do have legitimate interests in protecting their content. At the same time, Congress recognized that providers of Web sites such as ours, need to have certain assurances that they're not going to constantly being dragged into fighting copyright infringement litigation. There are a couple of quotes, in the history to the Act, I think, nicely set up the balance.

As we see down at the bottom of the PowerPoint slide, in the history of the Act, the Senate observed that due to the ease with which digital works can be copied and distributed worldwide virtually instantaneously copyright owners will hesitate to make their works readily available on the Internet, without reasonable assurance that they will be protected against massive piracy.

On the flip side, Congress recognized that at the same time, without clarification of their liability service providers, like us in this situation may hesitate to make the necessary investment in the expansion of the speed and capacity of the Internet. As I mentioned this law was passed in 1998 and it's codified at Section 512 of the Copyright Act.

So what does Digital Millennium Copyright Act do? The term of (art) that is used throughout the act is Safe Harbor. And what the act does is it creates certain Safe Harbors for entities that meet the statutory definition of service provider under the Act. These Safe Harbors, as I will describe in more detail, below provides service providers with certain immunities from liability provided that they comply with the requirements under the DMCA. As you can see on the slide, there are four different categories of service providers that are defined under the Act.

Really, three of these categories of service providers referred to entities that are more involved in the technical aspects of the Internet, and I'm referring to bulletin points one, two and four. This refers to entities that are involved in connectivity service, and that are classic Internet service providers, as we think of a company like Comcast, or a company like AT&T.

The third bullet point, the third category of service provider that's presented here on the slide, is really the one that has the widest impact, and that refers to entities that host information at the direction of other users. That's what we're really doing here, (Alex) and that's the service provider definition that I want to address in the most detail, here, for the next few minutes.

Who qualifies for service provider protection under section 512c? Section 512c will protect any provider of online services or network access or the operator of facilities therefore. As you can see, this is a pretty broad definition. And one of the early cases that dealt with construing this language, specifically noted that the point of the Act, was to define the term service provider very broadly.

Now terribly surprisingly, eBay was one of the first defendants in a DMCA case. eBay obviously hosts a lot of auction activity where material that may or may not be legal from a copyright standpoint is auctioned. So one of the first cases that tested the DMCA was (Hendrickson) versus eBay where eBay got dragged into a copyright case having to do with allegedly copyright infringement, an auction that was hosted on the eBay site.

The central distribute of California pretty quickly and summarily concluded that eBay was exactly the type of entity that is deserving of protection under the DMCA. The court said that there's no dispute over whether eBay is an Internet service provider, within the meaning of section 512. eBay clearly meets the DMCA's broad definition of online service provider.

Here, like eBay, even though we're not exactly doing what eBay does, I think that our company is clearly hosting content at the direction of other users. And so, I think, that under this broad definition of service provider, I think we can qualify for DMCA protection.

One thing to keep in mind, (Alex), that I think is a very important point, is that it's not enough just for our company to qualify and meet the definition of service provider in order to insulate ourselves from liability under the DMCA. There are some requirements in the DMCA that we have to satisfy in order to take advantage of the statutory Safe Harbor.

First of all, we cannot have actual knowledge of infringing activity on our site. And in the absence of actual knowledge we can have reason to suspect that there is active infringement going on, on the Web site. If knowledge of infringing activity is brought to our attention, we have to take steps to expeditiously remove any content that we have been led to believe could be infringing a third party rights.

In addition, we cannot financial benefit from infringing activity in situations where we have the right and ability to control that activity. That particular provision ...

(Alex Montague): James, I'm sorry. This is (Alex) here. Sorry to interrupt you for a second. I'd like to just refresh some of the hypothetical in case some people on the call missed that. So I'm going to ask (Joe) to reread the hypothetical so that we can follow the advice that you're giving me. I mean I'm following it right now, but I'd like to make sure that everybody else is as well. So if I can just ask (Joe) to quickly reread the hypothetical it would be very helpful.

James Trigg: Certainly.

(Alex Montague): Thank you.

(Joe): OK. Do we have sound here?

(Alex Montague): Yes, we can hear you.

(Joe): All right. (Alex Montague) is the general counsel of a start up company, New Corp. New Corp provides a variety of online services from its recently launched Web site. The core of its business consists of providing news and information about tax and accounting information worldwide. (Alex's) company does this by way of a blog and a message board, where registered users discuss the latest developments and news, as well as using an instant messaging feature and that has New Corp's proprietary brand and application, where users can exchange information in real time.

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and videos, which are mostly tax and accounting related, and where registered users can also offer their related products for sale.

New Corp's staff will be monitoring the Web site, and they would like to be able to take down any material that New Corp would consider unsuitable, such as pornography, defamatory materials, infringing materials, et cetera.

New Corp would also like to minimize its risk for secondary liability. Relating to these issues (Alex Montague) is now speaking with Kilpatrick Stockton and asking for advice on these areas. And their conversation will now continue.

(Alex Montague): Thank you very much, (Joe). So James, thank you so much so far. So we're clear that we are a company qualified as a service provider within the meaning of the DMCA, right.

James Trigg: That's correct, (Alex), I believe we are.

(Alex Montague): That's right. So now, sorry, about that, but now can you continue with your advice, because I need to know what else we can do qualify for these Safe Harbors that you mentioned.

James Trigg: Yes, absolutely. As I was mentioning when we broke to go back to the hypo, it's not enough just to be a service provider, in order to insulate yourself from liability under the DMCA. The DMCA sets out certain requirements that we have to satisfy in order to be

able to take advantage of this protection. And as I was mentioning, first of all, we cannot be actively aware of infringing activity on our Web site, number one.

Number two, we cannot be receiving a financial benefit from infringement, where we have the right and ability to control the infringing activity. Now that question of right and ability to control is one that actually has been litigated before. In fact, in the eBay case that I mentioned a few minutes ago, the plaintiff argued that eBay was financial benefiting from the auctions that took place on its site. And that because of the fact that eBay did occasionally self police its site for indecent activity and for obviously infringing activity, that eBay did, in fact, the plaintiff argued, have the right and ability to control what its users were doing.

Interestingly, the central district of California, and this actually goes to a question that (Joe) raised in the hypothetical, the central district of California said you have to show something more as a plaintiff than just simply the fact that the defendant was engaging in self policing on its Web site. We are not going to remove a service provider from the protections of the DMCA, simply because it does take voluntary steps to try to monitor infringing activity on the site. And in the eBay cases I mentioned earlier, eBay was found entitled to take advantage of the statutory immunity.

There's one case though, (Alex) that I'm aware of in which the court did find that the defendant was financial benefiting and controlling the activity on its site. This was the case of Perfect 10 versus Cybernet Ventures, another central district of California case. In that case, the defendant Cybernet Ventures was hosting a network of adult Web sites. And it was very, very actively involved in working with its customers to help them edit their Web site. It was giving them advice about the types of content that they should be putting on

their Web sites. And in that case, the court said, OK, you have crossed the line. You were doing too much here. You were too actively involved in actually what the content is that you're hosting.

So there's not a bright line here, but I think the eBay case on the one hand and the Cybernet case on the other hand, gives us some sense of kind of the sliding scale that a court will look at.

Finally, as I had mentioned earlier, in order to benefit from the DMCA, we need to act promptly in order to take down any content that we receive a complaint about.

One other thing, I think, (Alex), that it's important for us to keep in mind, is that there are a few technical requirements that the DMC lays out, that we're going to have to comply with in order to benefit from its provisions. First of all, we're going to need to designate an agent to receive claims of infringement. And we're also, incidentally going to need to register the name of that agent, with the copyright office. The public is going to need to know if they have a complaint about something on the site, they need to know where to take that complaint.

Secondly, we need to maintain a clearly stated policy for termination of accounts and for blocking access to our Web site from repeat infringers, so that's something we're going to need to address.

Then, finally, we're going to need to make sure, that we understand the take down and counter notification provisions in the DMCA and we need to make sure that we comply

with those, in the event that we get a complaint from a claims copyright owner. I talked about expeditiously taking down content that's the subject of a complaint. But we also need to keep in mind that the DMCA requires us to repost any such content in the event that we get an appropriate counter notification from the person who posted the content, stating that they have a good faith belief that the material is not infringing. So those are just some technical requirements that we need to take care of on our end, in order to be able to cloak ourselves in this immunity.

(Alex) as an in house attorney, I would imagine that you have worked before with some of the types of documents that you're going to need in order to comply with some of these EMCA technical requirements.

(Alex Montague): You know, James, yes, I actually have. But, you know, you always, you know, I remember the Napster case, you know, many years ago, that was decided. And I think that one of the things that they found was that they hadn't complied with the technical – the judge in the ninth circuit, they hadn't complied with these technical requirements, and that was one of the additional reasons why they found that Napster wasn't able to avail itself of the Safe Harbor provision. So I always want to be double sure to make sure that I do the right thing, so that I can – at least the things that I can control, for example, making sure that I file the designation of noted of the agent. Now that, I have to file myself with the copyright office, correct?

James Trigg: That's correct.

(Alex Montague): OK. Can I do it online, do you know, or do I have to send it in by mail?

James Trigg: That actually is something, I believe, that can be submitted by PDF. But the copyright office does have – there's a section of the copyright office Web site that does deal with registration of agents, and there are instructions there for how to accomplish it.

(Alex Montague): OK. And I can make anyone that I like, I can make myself the agent, right. Or is there a restriction on who can act as the agent.

James Trigg: No. I believe you can – it does not have to be a lawyer.

(Alex Montague): OK. Now, in terms of the notification and terms of notification provisions, where do you normally post this? I mean I've got my Web site, where would you recommend that I post it?

James Trigg: I suggest that there be either a user agreement that you enter into with the different people that are going to subscribe to your service, in which you have all of these elements clearly delineated. You might also consider having Web site terms and conditions of use, that would be available from a clear link on the home page of the Web site, for example. These are just a couple of options in terms of how you notify the public at large, how you're going to comply with the DMCA.

(Alex Montague): So can I just ask you. Here's what I was planning on doing. Because, as we said in the hypo, the vast majority of the that are going to be using the site, and anyone that's going to be uploading the site is going to have to sign – become a registered user. To become a registered user, what I was planning to do is to have a user agreement. Are you

suggesting that I put the DMCA notification and counter notification clauses into my user agreement?

James Trigg: I think that would be a good idea, (Alex). And I would put it in the user agreement, as well as in the terms and conditions of use on the Web site. I would also consider in the user agreement, having language that clearly states that you have the prerogative as the owner and operator of the Web site to screen content and to engage in self policing. I think that the (Hendrickson) versus eBay case makes clear that that's something that we can do as the operators of this Web site, and that we don't get ourselves into trouble under the DMCA by exercising self policing.

(Alex Montague): OK. That's great. So I'll include those clauses. But I was also planning on having basically, you know, how a lot of Web sites at the bottom of the Web site, they have general disclaimers, and privacy policies and things like that. I was planning on putting a section called copyright DMCA and having that there as well, just sort of sitting on the Web site, if someone wants to come to our Web site, and see what our DMCA policy is, do you think that's a good idea? Or I shouldn't do that?

James Trigg: I think (Alex) that that would be just fine. I don't really think that there's any such thing as providing too much notice to people, in terms of how they can register a DMCA claim, if they think that some of their content is being infringed.

(Alex Montague): OK. So if I have my terms and conditions of use that the users of my Web site have to click through and read and accept in order to become registered users. And if I have, clearly, my notification and counter notification procedures, clearly outlined in those terms

and conditions. And I designate my agent with the copyright office, then I should be OK, right?

James Trigg: I think we will have done all that we can do.

(Alex Montague): OK. Now is there a requirement, do you know, James, that I sort of update that agent? I guess if they leave I have to – if that person isn't with us any more, I have to update that with the copyright office.

James Trigg: That's correct.

(Alex Montague): OK. Great. Fantastic. Now one more thing, my terms and conditions of use are not going to be just related to copyright. I was planning on having other terms and conditions in there, you know, to be able to take down other materials, let's say for example, pornography or other things. So is that OK to have it all there, or do I need to emphasize some of this? How do you recommend that I deal with that?

James Trigg: Well I think, (Alex), that this provides a nice segue into talking a little bit about the Communications Decency Act, and some of the immunities that we can take advantage of under that legislation.

The CDA deals with secondary liability for service providers for non intellectual property type claims. And I will get to your question, about what else you could put in your user agreement, in just a second. But I want to just give you a little bit of information about the CDA because you'll see that it gives us some very broad immunities.

The concern of the CDA, as you can see on the slide that I have here is to provide broad federal immunity for service providers, from liability for information that originates from third parties, which is what we're going to have here when we our subscribers post information on the Web site. A lot of the CDA litigation has focused on defamation, but there are CDA cases that have also dealt with, for example, negligent misrepresentation. For example, let's say somebody posts financial advice that happens to be in violation of federal law. You know, there are some cases that deal with what our liability would be in that type of an instance.

The specific language we need to keep in mind regarding the CDA is the provision in section 230, that says no provider or user of an interactive computer service, shall be treated as the publisher or speaker of any information provided by another information content provider. The CDA goes on to provide that there's no cause of action that may be brought and no liability that may be imposed under any state or local law that is inconsistent with the federal statutes. So basically the CDA preempts state defamation laws, common law negligence and other types of provisions that potential plaintiffs might want to invoke against us if there's, for example, defamatory content posted on the Web site.

One of the issues that has been addressed frequently in CDA litigation is the question of whether the CDA provides immunity for publishers and distributors of online defamatory content that's originated by third parties. The CDA only uses the term publisher, and it does not refer to protections for distributors of allegedly defamatory content. This question has come up because traditional defamation law makes a distinction in the standards of liability for publishers of defamatory content and distributors of defamatory content.

In dealing with this publisher distributor issue in the online context, courts have virtually unanimously concluded that there is no meaningful distinction between publishers and distributors for purposes of determining section 230 liability. An early case dealing with the subject was *Zoran versus America Online*, a fourth circuit case from 1997, in which the court held that Congress intended to protect, both publishers and distributors of allegedly defamatory information.

Now that fairly clear holding in the *Zoran* case has not meant that the issue has not continued to be litigated. And in fact, there was an interesting case that came out of California, late last year called *Barrett versus Rosenthal*. This was a California Supreme Court decision that looked at this issue. The *Barrett* court looked at the question of the fact that a court of appeals in California had held that there was a distinction between distributors and publishers. And the court of appeals in that case imposed liability on a distributor of allegedly defamatory statements about the plaintiff.

That decision was reversed by the California Supreme Court, and I'll give a little bit of explanation about it in the next couple of minutes here. The *Barrett* case is interesting, because it really involves, sort of an outrageous fact pattern. The plaintiffs in the *Barrett* case were two doctors who were known for being critical of practitioners of alternative medicine. The defendants in the case, there were two of them, the first was the author of a number of e-mails that referred to the plaintiff doctors as quacks. And these e-mails contained a variety of very scandalous and inflammatory acquisitions about the doctors and their personal character.

The second defendant in the Barrett case, was Ms. Rosenthal herself. And she was, simply, an individual who sympathized with the author of these e-mails. And she engaged in reposting the author's e-mails on a variety of online bulletin boards and newsgroups. The defendants won the case at the trial court level, basically invoking a Communications Decency Act defense, but as I mentioned, the court of appeals reversed the trial court and said that because the defendants were distributors and not publishers that they were not entitled to take advantage of CDA's immunity.

In its opinion, the California Supreme Court issued a three fold holding. First of all the California Supreme Court said that distributor is a subset of publisher, for purposes of construing the CDA. The CDA's intention was to provide immunity and that there's no meaningful distinction between distributor and publisher for the apps purposes.

Second, the court noted that the CDA explicitly protects users of interactive services. You don't have to be a service provider per se, to take advantage of the CDA. You can simply be somebody who is using the Internet, basically to post content.

Third, the court stated that the CDA doesn't distinguish between active publications of content, and passive publications of content.

Now (Alex), on our Web site, we're going to just be really passive recipients of content that other people choose to post on our service. But in the Barrett case, Ms. Rosenthal was actually actively redistributing these statements that she, very well, had reason to believe were false and defamatory. In a discussion of this issue, the court said that the CDA doesn't draw a line between active redistribution and passive redistribution. And that under the

current wording of the act, the immunity from liability is very broad, and that even an active re-distributor of defamatory content like Ms. Rosenthal can be immune from liability.

Now the court clearly had somewhat of a guilty conscience about the decision it reached and it made the observation that we share the concerns of those who have expressed reservations about the broad interpretation of section 230 immunity. The prospect of blanket immunity for those who intentionally redistribute defamatory statements on the Internet has disturbing implications. However, any further expansion of liability must await congressional action. In other words, the court was recognizing here that Congress has really tilted the balance heavily in favor of Internet service providers, and other users of the Internet in order to avoid creating a chilling effect on speech that might emerge if you had stricter liability for defamation online.

But the court did say that there are some distributing implications of this, particularly when you have a clearly bad defendant like Ms. Rosenthal. But it did say that this is going to be something that Congress has to address.

So that's, in a nut shell, a description of the types of protections that we have available to us under the Communications Decency Act. I think, unlike the DMCA, where there really are some proactive steps we need to take, you can see that the CDA really gives us much broader immunity here.

(Alex Montague): And thank you, that's very comforting to know, because of course our users are going to be using and publishing information on our Web site, and potentially, you know,

evaluating the other uses. So I'm glad to know that we have some measure of protection there. So I have another question to ask at this point.

We've covered my concerns about copyright infringement, and I'm comfortable that if I do all of the right things, I'll have some Safe Harbors under the DMCA. I have some measure of comfort that although I don't have editorial control that, you know, I have protections under the CDA for defamatory content.

But I do, for example, I've heard recently that there's been a case against eBay about trademark infringement. And, you know, I know that one of the things that are very important for us is for people to be able to sell sponsorships on our Web site, and also to market their own products on our Web site. So I'm wondering if you could help me understand if I have any secondary liability for trademark infringement and if there's anything I can do to minimize that.

James Trigg: Sure, (Alex). And that actually falls into the area of my colleague, Judy, who has been very patiently waiting on this call to give her views on that subject. And I'm going to turn the mike over to her to answer that question.

(Alex Montague): Thank you.

Judy Powell: Thank you, James. (Alex), there are actually two aspects of the Web site that we should look at in terms of trademark liability, contributory liability in the trademark context. The first is the fact that your store is going to all others to offer their own products

for sale. The second is that it's going to allow others to advertise for sale. Now let's look at the sale of goods through your store, first, by others.

What if someone started offering counterfeit copies, for example, of Quicken software programs to help people prepare their taxes, and they were advertising, of course, under the Quicken trademark. Could New Corp be liable for contributor trademark infringement in that context? The answer is it might. Unlike, however the copyright defamation matters that we've just looked at, in the trademark context, it isn't statutory law that we're looking at but rather it's case law that sets up the principles on which contributory liability may be found.

Back in 1982, the U.S. Supreme Court determined in the (Inwood) Labs versus (Ive Labs) case, shown on the scene that there could be contributory liability for intentionally inducing another to infringe a trademark, or continuing to supply a product to a third party knowing that the recipient was going to use the product to engage in trademark infringement. That particular case was in the pharmaceutical arena, over the course of the next decade or so, the principles of contributory liability in the trademark typically were applied where a party was supplying a party to someone who they knew or should know was incorporating that part into goods that were going to be counterfeit goods.

It, then, in the 1990s got moved from just that contributory liability for supplying a part, to supplying premises that is another very important factor that would allow someone to sell infringing goods from your premises. So there was landlord liability that started attaching. And it was particularly applied in the flea market context. So, for example, luxury goods owners such as Gucci, and Kate Spade and Louis Vuitton decided that they would impose a

burden on owners or operators of flea markets to police the vendors because the luxury goods makers couldn't keep up with the fly by night vendors that were operating at these flea markets. And so they turned to imposing liability on those who were operating the flea market itself.

In this landlord or flea market context, the cases back in the 1990s found that there could be owner or operator liability arising from your ownership of the premises where the infringing goods were be sold, if there was blatant trademark infringement going on by your vendors. Or if you as the owner or operator, knew or had reason to know of these infringing sales. Now the knew or had reason to know of the infringing sales piece is the item that has continued to give rise to and fuel litigation in the trademark arena and contributory liability arena.

As we have moved from the brick and mortar world, into the virtual marketplace, this principle has started to be applied in the online context. In *Gucci America versus Holland Associates* back in 2001, the court even took under consideration the possibility that an Internet service provider, might be contributory liable, for infringing activities of others. That court never reached the ultimate issue, but it left open the possibility that even an ISP who is much farther removed from the sale than say New Corp would be, might be (contributorily) liable.

Well where are we if we are, as New Corp, operating? Do we have to basically have a strict liability? No. The answer is that there are defenses that New Corp can always keep in mind in terms of potential trademark infringement by others on its site. First of all, in the online context, New Corp is going to have a more limited ability to monitor and communicate with

the persons who are posting content, than a flea market operator who can walk around and see his vendors and talk to them. And also, keep in mind that some uses may be legitimate uses of the trademark, that is a reseller or someone is selling their used goods, they're perfectly entitled to use the trademark to describe the used goods that they're selling.

The courts have gone on to say, essentially that if parties who are accused of contributor infringement, such as, if New Corp got told by a trademark owner, that one of the sellers on its site was selling infringing goods. If it were obliged to take action in response to every demand letter that it got, then trademark owners would effectively have rights in gross to control all uses of its mark. And we all know that that is not the law. So a trademark owner might give notice to New Corp that it thinks that the goods being sold are infringing goods.

And what New Corp then, would do is make a determination on its own but it will not automatically have to take down any goods that are being offered. If it sees that they are very obviously counterfeit then it will want to take them down.

But where are we today, though? Because this issue is in flux, and it's in flux because of the Tiffany versus eBay case that was filed back in 2004, and that is set to go to trial this fall. In Tiffany versus eBay, Tiffany is taking the position that eBay knows or should know that on its site there are rampant counterfeit goods being sold. And eBay should not just take them down when Tiffany when notifies of an infringing offering, but rather eBay should affirmatively go out and monitor. Is that precedent for this in the U.S.? No. There is precedent from a German case, Rolex versus eBay Deutschland. The German court found that the German eBay was not liable in money damages for (contributorily) infringing, but that it had to implement a monitoring system to prevent the listing of "obviously fake"

goods. Well in that case, the goods that were deemed to be “obviously fake” were marked with the Rolex brand, but the description also referred to them as a replica. So that affirmative monitoring obligation, didn’t go anywhere near as far as Tiffany is urging in this case.

So what is Tiffany suggestion? It’s suggesting that, for example, it has its official and genuine Tiffany heart necklace and that eBay is allowing people to offer a so called Tiffany heart necklace that is not necessarily the genuine article. This particular ad, you see the article is located at (Goldie’s Beauty’s Jeweltown USA). This is not likely to be an authorized Tiffany distributor. And it is not someone who is just selling his own necklace.

What is Tiffany claiming constitute the factors where eBay knows or should know that counterfeit goods are being offered? Tiffany says that eBay is exercising willful blindness, because eBay knows that in April of 2003, the FBI arrested a counterfeit ring that was operating on eBay. That eBay knows that in December 2002 seized a massive quantity of counterfeit goods from sellers who were operating on eBay. And that eBay is directly promoting the Tiffany offering on its site through its greetings pages. It also says that eBay bought the key word term from Google, Tiffany and its advertisements, when one keys in Tiffany. The fact of the matter is that eBay has stopped buying Tiffany since this lawsuit was started, but it did, back before the suit began, purchase Tiffany as a key word, from Google.

Tiffany further says that the site is just infested with counterfeits. That there are very limited channels for genuine Tiffany merchandise and eBay knows that. That eBay knows that the price points at which the goods are offered are way too low to be genuine Tiffany goods. And Tiffany claims that eBay has the ability to screen its products.

eBay, quite naturally, has defended on the grounds that it promptly removes any listing that is reported to it as a counterfeit listing. And that it does not have the ability to affirmatively monitor and screen or it would be put out of business. After all, it is selling billions of dollars of goods, and offering millions of items for auction each year. So this case is very much about where the financial burden should be placed, as between the trademark owner, or between the person who is enabling someone to infringe the trademark owner's rights.

The – in the case of New Corp, I would say that if you have a policy to just like the terms and conditions that you were talking about with, James, (Alex), that you tell your registered users that if they are offering goods on your site, they must own all of the intellectual property rights, and that they are representing to you that they own all of the intellectual property rights. And if you have a policy that you will investigate and stop offering goods upon notice, if you determine that they are, in fact, truly counterfeit goods, then I think that New Corp is going to be fine. But what you will want to do is watch the Tiffany, eBay case, and see where the decision comes out because the principles in that are likely to ripple far behind the auction house context.

(Alex Montague): Great. Thank you very much.

Judy Powell: We can move to the second trademark infringement potential, if you like, and that has to do with the online advertising. The online advertising context, again, is a developing area. But let's say that you allow someone to have an add on your site, that says, as this one does, Online Tax Preparation and a link to their site, at 24 hour tax services. I don't think you can see it very well on the page that's linked, but the page that's linked has a statement

that basically the services were better even than H&R Block. Does H&R Block have any claim against New Corp for allowing the ad that links to this site? The answer is no.

Under U.S. law, this is a perfectly legitimate comparative ad use of the H&R Block mark, and H&R Block would not be able to make a claim for trademark infringement, either against the 24 hour tax services people, or certainly not against New Corp. But what if that ad instead, said where it says Online Tax Preparation, if it said Better than H&R Block, well then there could be an issue but probably not nearly so much of an issue as if it said Expertise of H&R Block, which is far more ambiguous.

The analogous area that is – that shows the developing law is pretty much with what's going on with the search engines, in particular with Google. The Geico versus Google case shown on this slide, decided a couple of years ago, essentially said that if the trademark term is in the ad itself, then that is likely to cause confusion, and therefore, one can be liable for trademark infringement and Google as the entity that is posting the ad may be liable for contributory infringement.

That case, of course, was with respect to Google's sale of key words, and New Corp is not selling key words, so it's not nearly so participatory, but the principles are going to be the same. That is, is New Corp supplying something that assists in the infringement, is New Corp supplying the ad and the link to the infringing site. Do you know or have reason to know of the infringement?

The moving from the case that decided that the ad in the – that contained the trademark could give rise to liability the Google versus American blind case is now addressing the add

that does not have a trademark in the ad itself, but rather the advertiser bought the trademark term in order to get its ad pop up. How does that relate to what's going on with New Corp? If New Corp has an ad that doesn't have a trademark in it, I think that New Corp is not going to have a problem so long as it isn't obvious to it that the poster of that ad is intentionally infringing on the trademark owner's rights.

(Alex Montague): Judy, I'm sorry, just so I understand this. When you're saying that if the ad doesn't have a trademark in it, do you mean if the poster of the ad is not using someone else's trademark as a trademark in the ad?

Judy Powell: Right.

(Alex Montague): OK.

Judy Powell: If the poster has his own trademarks, you know, no problem. If the poster is using someone else's trademark in the ad, and if you should know that the poster doesn't have rights to use that trademark, let's say it's Joe Smith, local tax advisors. And he uses Deloitte in large attention getting lettering in his ad, I think that you might be on notice that he is an infringer. Short of that, if there is not a trademark of a third party in that ad, then I think that under the current state of the law, New Corp is going to be OK, because there's no reason for it to know that the linked site is offering infringing goods or is infringing the market, short of receiving some sort of notice. If you receive notice, then you may want to set up and investigative sort of process.

(Alex Montague): But just to clarify this issue, because it is important for us. If someone puts an ad to sell, let's say, a tax software on our Web site, and they say that it's – they identify it under their own trademark but they say this works better than Quicken. And Quicken sends me a notice saying you have to take this down, I don't have to take that down, right.

Judy Powell: You do not. That's comparative advertising. And there's one other piece that you might want to keep in mind, and that is that New Corp unlike the search engines, where the search engine is selling the trademark term, New Corp here is acting as a mere publisher of the advertising. And so, so long as it is innocent, so long as it doesn't have reason to know that the trademark is being wrongfully used by another, it's going to have the defense allowed to it under section 15 USC section 1114 under the Lanham Act where no liability for damages is opposed against an innocent publisher of advertising, only (injunctive relief) is available.

(Alex Montague): Excellent. Thank you. OK. Is there anything else on this issue, Judy?

Judy Powell: Well perhaps we – we probably have a few minutes for questions, and maybe there are few more questions that people want to ask. Or I can – I will tell you that outside the contributory liability front, there was a case decided on this advertising issue just last month, a direct infringement case, where the court held, as a matter of law that there was no likelihood of confusion if the trademark term was not used in the ad itself. That was J.G. Wentworth versus Settlement Funding case out of the eastern district of Pennsylvania at 2007 West Law 30115, it is on appeal now. And it's obviously answering the ultimate question that's going to be addressed in the Google versus American Blind case, the Google

versus American Blind case is currently pending on summary judgment motion filed at the end of December.

(Alex Montague): Great. That's really very helpful. Thank you. We do have some questions and I'm going to see if we can get to as many of them as possible, here today. (Joe), can you please start reading out the questions so we can see if we can get them answered?

(Joe): Certainly, (Alex). One question is, what type of insurance policy offers the broadest coverage against online liability claims?

James Trigg: (Alex), that may be one that falls most within your territory?

(Alex Montague): Well actually I've had occasion to look at this a little bit. And one thing that I have noticed in looking at some policies is that the general umbrella policies, at least the ones that I've taken a look at that we've taken, without an intellectual property rider, do tend to provide protection for defamatory – for defamation, but not for copyright or trademark infringement. And if you do want to get protection for copyright or trademark infringement, whether as a primary infringer, or as a secondary infringer in this case, I think that you need to go to your insurance company and ask for an intellectual property (rider).

Now one thing that we haven't discussed here is patent infringement, which I don't know very much about, but I do know that that's difficult to get insurance for that. But I do know that (riders) for copyright and trademark infringement are available, but you have to ask for them separately.

Judy Powell: I might add that there is a provision under some policies for coverage against a claim that falls under advertising injury. And sometimes you can get trademark infringement claims covered under that.

(Alex Montague): Great. OK. (Joe), next question please.

(Joe): The next question is, if a U.S. based company has a Web site marketed overseas, for example, in Canada or Europe, how does the DMCA or the CDA apply, if at all?

James Trigg: That is a very good question. And I think that that really leads to the need to clarify some of the earlier discussion which is the fact that the DMCA and the CDA are both creations of American law. And they will not have applicability for a situation that arises in Canada or a situation that arises in Mexico, or Singapore or Germany for that matter. And I think Judy's mention of the recent German law – or rather the recent German decision involving eBay, I think is a good example of how different jurisdictions view these immunity situations in very different ways than how American law views them.

Specifically, American law because we have the concept of the First Amendment here, American law tends to be a lot more forgiving towards uses of intellectual property by others. And it tends to be a lot more forgiving with respect to allowing for certain amounts of speech that might be “harmful” in the interest of preserving a greater marketplace of ideas. Those concepts are not as widely recognized in a lot of other countries. And my suggestion would be, with respect to the company, (Alex), that we're working with here, my suggestion would be is that to the extent that we might be directing this service to people in other

jurisdictions, we may want to consult attorneys in those particular jurisdictions for their views on how local laws might effect what we do.

(Alex Montague): Thank you very much. Very helpful. (Joe), next question, please.

(Joe): In the event that a company all ready has a terms of use posted, what's the best way to make changes to incorporate the DMCA provisions and still provide users adequate notice?

(Alex Montague): James, I think that may be between you and me. I – what I am understanding is that a company has a Web site with some terms and conditions all ready there, and presumably the users are going through it. So what would be the best way to amend those to take into consideration the notification and account notification provisions in the DMCA?

James Trigg: I really think that if there is an existing terms of use, I think that it would be good practice to review that with copyright counsel to make sure that the terms of use are adequately addressing some of the prerequisites for DMCA protection. Do we clearly tell the public who should be contacted in the event of a claim? Do we clearly tell the public how to contact the company in the event of a claim? In our user agreement, are we informing users of the Web site that we have discretion to monitor the Web site, and screen for uses that might be either infringing of copyright rights, or that might contain defamatory content.

I think it would be useful to talk to with a copyright lawyer, kind of go through the DMCA checklist, see what's been addressed, see what has not been addressed, and then just simply make amendment to the terms of use to reflect whatever gaps there may be.

(Alex Montague): I mean that is really very good advice. And really for all of you on here, all in house lawyers that is money well spent. Get your terms of use really reviewed by someone who has to doing this by a Judy or a James or someone who has been doing this for a long time, is going to cost a lot less than, you know, finding that you're not DMCA qualified, like Napster had last time and, you know, whole huge copyright damages, statutory damages, attorneys fees.

OK. I think we have time for one more question. (Joe)?

(Joe): One more question would be what are the main two concerns for a membership organization that hosts a passive Web site with information but no Internet commerce and not third party postings?

Judy Powell: If there are no third postings the likelihood is that you're not going to run into the issues that we've been talking about here in term of contributory liability. What you're more likely to be concerned about are your own terms and conditions of use of the site. If it's not an interactive Web site, it's a passive Web site you're basically just going to want to make sure that people cannot scrape the information from your Web site and use it for their own purposes. You're going to want to make sure that you personally are not posting infringing content. You're not putting up other peoples trademarks and referring to other people's products, without authorization.

(Joe): All right, thank you, Judy.

(Alex Montague): Excellent. I think we might have time for one more question, very quickly.

(Joe): Quickly, then, did the Geico v Google case, actually reach the holding that keyword sponsored ads were not infringement?

Judy Powell: No. What the Geico Google case said was that with respect to the ads that at issue in this case, that is the ads that did not contain another's trademark, the plaintiff did not sufficient evidence to provide that there was a likelihood of confusion, and that's why it has set up the American Blinds case now, in which American Blinds is putting forth a great deal more evidence to show that ultimate issue yes, American Blinds is saying there still can be a likelihood of confusion even if the trademark term is not in the ad itself.

(Alex Montague): OK. Thank you very much. OK. I am sorry if we haven't been able to get to all of the questions. I see that there are a few more questions here. But let me invite you to join our committee the ACC committee on intellectual property. We have monthly conference calls where we do discuss all of these issues and a lot more. We talk about annual programs, and we do have Judy and James of Kilpatrick Stockton who are always available to us with great advice, and also with a topical monthly legal quick hit. So you can join our committee and you can avail yourself of all of these things. And I think that if you need to reach myself or – this is (Alex Montague), I'm the chair of the IP committee, or if you need to reach Judy Powell, you can contact (Jacqueline Winly) of the ACC and she will direct you to either myself or to Judy or to (John Murphy) who is our Webcast sub

committee chair is you questions about the Webcast. Thank you very much. Thank you very much to Judy, and James and (Joe) as well.

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