

Ten Things Lawyers Should Know When Advising Web-Based Businesses

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SENSITIZE THE CLIENT TO SENDING APPROPRIATE, UNSOLICITED EMAILS

There is now a federal law regulating email "spam" (entitled "the CAN-SPAM Act"). To boil down some of its requirements to the essentials: a. Unsolicited, primarily commercial emails should include the following: (1) a physical address/email of sender; (2) identification of the email as a solicitation in a conspicuous way but not necessarily in the subject line; and (3) instructions to recipient on how to opt out (electronically) of receiving further such communications.

Follow-on emails to further or complete transactions requested by a client or customer are exempt from (2) and (3) above.

WATCH OUT HOW YOUR CLIENT USES COMPETITORS' TRADEMARKS ON ITS WEBSITE

Bottom line: Use of competitors' trademarks for comparison or for resale activities is likely to be acceptable, but use solely to divert web traffic from a competitors' website to your client's could result in a claim of trademark infringement or unfair competition.

The temptation to use competitors' names in trademarks. The prevalence of search engines, their reliance on keyword meta tags and other terms of websites in creating listings of search results, and the importance of generating traffic, all make it very tempting for a client to include its competitors' names or trademarks on its website in hopes that the client's website is listed in search results using the competitors' name

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or trademark. In other words, the owner or author of a web page may wish, for competitive reasons, to place trademarks belonging to others in meta tags or hidden text of the website in hopes of attracting those who use the competitors' trademarks or names while browsing the world-wide web.

Meta tag or other "hidden" uses should be avoided, because they have been challenged and often found anti-competitive under various legal theories, including the violation of the federal Lanham Act (§43(a)), trademark infringement, or unfair competition.

Cases: *Brookfield Communication, Inc. v. West Coast Entertainment*, 174 F.3d 1036, 1062-63 (9th Circuit 1999) (When a company places a competitor's trademark in the meta tags of its website, it creates unlawful "initial interest confusion."); *SNA, Inc. v. Array*, 51 F. Supp. 2d 554, 562-63 (E.D. P.A. 1999) (placement of competitors common-law trademark in website meta tags amounts to unfair competition under the Lanham Act.)

The unlawful conduct found by the courts in the above cases generally relates to website owners intentionally using the marks of others to lure internet users to their websites, rather than the websites of the actual trademark owners. In other words, the owner of the website using the competitor's mark is benefiting from the good will that the competitor had developed in its mark.

Permissible uses of a competitor's name or trademark on your client's website. It is legally risky for a client to place a competitor's name or trademark on its website for the sole purpose of diverting internet users away from the competitor's website to the client's, especially if the use

of the competitor's mark is "hidden." There are, nonetheless, many uses of competitors' names and trademarks that are fair and more likely to be acceptable. These permissible uses are sometimes characterized as "fair use" of a company's trade name or trademarks, and they resemble typically permitted fair uses in comparative advertising. For example, your client can generally use a competitor's name and trademark truthfully to identify the competitor's goods, such as if it is reselling them, comparing them to its products, or for other comparative purposes. However, the general rules relating to permissible comparative advertising apply in cyberspace as they do in the real world.

"BUT I HAVE THE DOMAIN NAME": TRADEMARKS AND DOMAIN NAMES

The statement above is often heard when a website owner receives a letter from a trademark owner (or another website owner) demanding that the website owner stop using the domain name. This highlights another issue to bring to the attention of clients marketing through websites: just because your client has registered a certain domain name (technically referred to as a "second-level URL"), does not mean the use of such domain name by the client is clear of the trademark rights of others.

To avoid disputes with trademark owners, before adopting a particular domain name for use in connection with commerce on the web, it is generally prudent to do a trademark clearance search for the domain name. This generally involves a search of the records of the federal and state trademark registries.

What if a domain name dispute arises?

As use of the Internet has become more widespread, so have disputes over the reg-

istration and use of web sites and their addresses, i.e., domain names. These disputes often center around the use of the trademarks on the web site and/or in the domain name. The unauthorized use of another's trademark on a web site or in a domain name can cause confusion among Internet users and/or dilute the distinctiveness of a trademark owner's mark, thus injuring the rights of the trademark owner.

The registrant and/or user of a domain name misappropriating another's trademark is often referred to as a cybersquatter. Techniques used by cybersquatters include the attempt to sell the domain name to the rightful trademark owner or its competitor at a premium over the cost of obtaining the domain name, diverting would-be users of the trademark owner's website to a website of the trademark owner's competitor or a website that may harm the user (fraudulent site) or the user's impression of the trademark owner (e.g., a pornographic site), and registering a domain name that consists of a common typographical error of the trademark owner's website (typosquatting), among others.

UDRP Procedure

Trademark owners can enforce their trademark rights against the activities of cybersquatters through use of an administrative procedure and/or a court action. Domain names that improperly incorporate trademarks can be recovered from cybersquatters through an administrative arbitration proceeding under the Uniform Domain Name Dispute Resolution Policy (UDRP) of the Internet Corporation for Assigned Names and Numbers (ICANN).¹ The cybersquatter need not use the disputed domain name for the act of registration to be actionable under the UDRP procedure. This is generally the most cost-effective way to have an unauthorized party cease use of an improperly registered domain name, and to accomplish its transfer to your client (the rightful owner).

Proper grounds for a UDRP claim are (1) the domain name registered (or used) is identical or confusingly similar to a trademark or service mark in which the complainant has rights, (2) the domain name registrant must have no rights or legitimate interests in the domain name, and (3) the domain name must have been registered and/or is being used in bad faith. The bad faith/no legitimate interest requirements

are generally shown by the domain name owner's attempt to sell the domain name to the trademark owner and/or competitors for profit, non-use of a domain name for a significant period of time, or use that is not supported by a motive and that may harm the trademark owner.

In the UDRP procedure, the trademark owner submits an arbitration complaint to which the domain name owner has an opportunity to respond.² The arbitration complaint is heard by a single or three-member arbitration panel. The panel generally issues a decision solely based upon the complaint and response, if any, within about a month of filing the complaint. If a domain name is ordered to be transferred, the transfer is effected within about two weeks of the decision.

Court Action

There are several types of court action to recover or terminate unauthorized use of domain names. These court actions can be used instead of or in concert with a UDRP proceeding, and these may be necessary for a more rapid resolution if there is imminent or immediate harm to address through use of a preliminary injunction motion. These actions include trademark infringement, trademark dilution, or unfair competition under the Lanham Act or state counterparts and the Anti-Cybersquatting Consumer Protection Act (ACPA). Generally, for trademark infringement, trademark dilution or unfair competition actions, there must be improper use of a domain name; however, the ACPA can support a claim without use based on improper registration and corresponding activities.

The ACPA (15 U.S.C. § 1125(d)) provides a legal cause of action in federal court against cybersquatters. The following requirements must be satisfied for an ACPA claim: (1) the domain name must be identical or confusingly similar to the trademark owner's mark and (2) the domain name registrant must have a bad faith intent to profit from the mark. For famous marks, the ACPA allows the trademark owner to allege dilution grounds against the domain name registrant. As with the UDRP proceeding, a primary function of the ACPA is to protect against cybersquatters acting in bad faith to harm and/or extort money from a trademark owner.

The bad faith standard for the ACPA is similar to that used in the UDRP proceed-

ing. The following factors are considered: (1) trademark or other intellectual property rights in the domain name, (2) the extent to which the domain name consists of the legal name of the person (alleged cybersquatter) or a name that is otherwise used to identify that person, (3) the person's prior use, if any, of the domain name in connection with a bona fide offering of any goods or services, (4) the person's bona fide non-commercial use of the mark in a site accessible under the domain name, (5) the person's intent to divert consumers from the mark owner's on-line location to a site accessible under the domain name, (6) the person's offer to transfer, sell, or otherwise assign the domain name to the mark owner or third party for financial gain without having a bona fide use of the domain name, (7) the person's provision of material and misleading false contact information when applying for the registration of the domain name, (i.e., the record of the domain name accessible from the registrar's website is erroneous), (8) the person's registration or acquisition of multiple domain names which a person knows are identical or confusingly similar to the marks of others, and (9) the extent to which the mark incorporated in the person's domain name registration is or is not distinctive and/or famous.

Supplementing the ACPA and UDRP procedures, as mentioned above, are actions under the Lanham Act or state trademark and unfair competition statutes. These proceed like conventional claims under these statutes; the trademark owner must establish that the improper website usage supports a likelihood of confusion, dilution, or unfair competition grounds. These actions can be used when there is improper use of a domain name as an address for an objectionable website. As with the ACPA, these actions can bring immediate relief; however, these are more costly than the UDRP procedure.

Depending on the nature of the domain name and website usage, a trademark owner has different options to cease use of and/or obtain domain names containing its trademark. In any case, a company that values its trademark rights should monitor Internet usage of terms that are identical or confusingly similar to its trademark. In addition, the company should consult with intellectual property counsel to form a strategy for enforcement of its trademark

rights depending on the risk of harm posed from the unauthorized Internet activities of cybersquatters.

A related point: Advise clients to use domain name as a trademark, not as an address. Just because the client obtains and uses a clever domain name, does not necessarily mean the client can get a federal trademark to such clever term. If a client is using the trademark domain name only as a computer address for e-mail, or for users to find the website, then the domain name may just be an internet address, not a trademark. This means that the client may have trouble stopping others from adopting the clever term or variations of the clever term either on the internet or elsewhere.

To avoid this pitfall, it is prudent to advise a client to associate its domain name, or at least the clever part of the domain name, with the goods or services being offering. At a minimum, including the domain name on the homepage of the website in a prominent way, that is, outside the typical address line on the browser, is generally a good trademark use. For further guidance, consult: <http://www.uspto.gov/web/offices/tac/domain/index.html>, "Trademark Registration of Internet Domain Names."

BE WARY OF THE USE OF ON-LINE GIVEAWAYS TO INCREASE TRAFFIC.

Website owners frequently consider providing incentives, rewards, and prizes to those who visit their websites so as to improve "traffic." As an attorney advising a client on such contests, you should be aware that there are possible complications to such giveaways, as they are regulated by both state and federal laws.

For example, all states have determined that any sweepstakes, lottery, or other giveaway is illegal, if it (1) awards a prize, (2) is based on chance, (3) and is entered in return for the entrant paying or making other significant efforts (called "consideration" in the law).

To avoid this risk, online giveaways need to have one of the three elements listed above missing. Since randomness and prizes are often part of contests and giveaways, one approach has been to eliminate the need for users to buy or otherwise spend money for the opportunity to enter the contest. This is the old "no purchase necessary" approach in common commer-

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cial use today. Unfortunately, some states take a very broad view of when a contestant has to "pay for" entering the contest, finding that when a contestant has to expend significant effort to enter the contest, that satisfies this element.

So, for an online contest, not only is it important for there to be a "No Purchase Necessary" option available, but also, to be on the safe side, it is also prudent to give users the option of entering the online contest by sending a post card. This conservative approach addresses those states which may consider access to the internet a sufficient "investment" or consideration to satisfy the third element of the illegal lottery prohibition. A toll-free telephone number for entry is another alternative.

Website owners should be cautious about requiring lengthy questionnaires or other forms to be filled out in order to enter a contest, in case the "work" required to provide this information is considered by states to be sufficient legal consideration to satisfy this element of the illegal lottery. Thus, while asking for geographic information (name, address, phone number) is probably not excessively burdensome, requiring answers to a whole series of questions about purchasing preferences and other demographics, as a condition for entering a contest, may not be advisable. Another alternative is to make sure that the participants are not required to answer all of the questions in order to be eligible to enter the giveaway.

Online contests for minors present a whole series of separate issues. Thus, if possible, it is preferable to limit contests to those over age 18.

Most of the states also require the rules of a contest and other information to be provided to contest entrants. Links or refer-

ences to the official rules of any online contest should not be difficult to find. Preferably, a link to the official rules should be provided near the screen or buttons used to enter the online contest.

CLIENTS SHOULD BE AWARE THAT THEY ARE ON A NATIONAL — EVEN INTERNATIONAL — STAGE NOW.

Along with the unprecedented access a website gives to direct marketers comes the possibility of having your client subject to personal jurisdiction in a faraway state (or even country).

By way of background, most states permit a person or company to be sued by a resident of the state so long as the entity being sued has sufficient contacts with the state. The balance between the state's interest in allowing residents to use its courts for such suits, on the one hand, and the unfairness of subjecting a defendant to a lawsuit in an unlikely or faraway location, on the other hand, has been the subject of countless court decisions.

From a practical standpoint, then, it may be prudent to alert the client that the increased sales and "contacts" derived through interactive marketing on the Internet will be accompanied by increased risk of lawsuits being filed in states, even countries, where the client has not done business before.

Although the particular facts and circumstances must always be considered, in general terms, a passive "brochure" or "billboard" type of website, which is accessible in a particular state, without more contacts, is generally insufficient to establish jurisdiction in such state. On the other end of the spectrum, a highly interactive website, which allows commerce to be transacted through the website, has been

found, along with other contacts with the state, to permit jurisdiction to be exercised.

Rather than engage in the costly debate of whether it is “fair” to be sued in such jurisdiction, a website owner should consider posting terms and conditions to avoid this problem on the website to which online customers can agree in advance of purchases. (See below)

MAKE SURE THE “FINE PRINT” IS NOT TOO FINE.

Even if a client has never asked its customers to sign “terms of sale” conditions in connection with commercial activities, the new world of marketing via the internet presents different sorts of risks which may motivate the client to consider having customers agree to “terms of sale” conditions. For example, it may be possible to reduce the risk of being sued in inconvenient forums by specifying in the “terms of sale” that any disputes shall be brought in the client’s home state.

The prevalence of “terms of use” or “terms of sale” on websites has been increasing, and the enforceability of these terms and conditions has been decided in various lawsuits. From these decisions we can draw some general guidance on how to make such terms more likely to be enforceable:

- provide complete text of terms and conditions;
- include “I accept” button;
- include “I decline” button;
- keep the text of the conditions near to the buttons, preferably on same screen;
- record and store as much information as possible about the source of the contracting party at the time the “I agree” button is clicked.

Of course, the exact circumstances of the client’s website should be reviewed with appropriate counsel in deciding on appropriate terms of use.

WHEN IN DOUBT, CONSIDER ASKING PERMISSION

Many websites contain so-called “hypertext links” to other websites or other content on the internet. These “links” are often grouped in “useful links” or “additional links” sections of websites and are used to enhance the experience or value of the website to the user.

While many website owners will be pleased or even flattered to have your client link to their website, since it increases traffic to their website, this is not always the case. In fact, certain types of linking have been challenged, especially when the link goes “deep” into the other site. Such “deep linking” may be objected to for a number of different reasons. In general terms, the deep linking is, in one sense, making a copy of at least a portion of the other person’s website, potentially in violation of the website’s copyrights. The link to the other website, in another sense, gives the linking website enhanced value and enhanced content by making an unauthorized copy of material not created by the linking website.

Similar concerns apply when the content of another website is “framed” within your client’s website, making users feel they are still on the client’s website while the client borrows the contents of the other website.

In counseling clients engaged in linking or framing, an attorney may wish to recommend that the client seeks permission for the link or framing. Although asking permission to link to, or to “frame”, another’s web content would appear to be a good approach to avoiding objections, seeking permission presents its own dilemma. If the client fails to ask permission, there is a risk of complaint, but the client remains free to assert that the link was a fair use and permission was not necessary. On the other hand, if permission is requested and denied, if the client then links to the page anyway, it is more difficult to argue that the client believed that the use was a fair or non-infringing one, and that permission was unnecessary.

CONSIDER USING A “SAFE HARBOR” TO PROTECT AGAINST CHARGES OF INFRINGEMENT.

The Digital Millennium Copyright Act (DMCA) gives certain limited protection against findings of infringement to websites which include or “host” the content or material from others, including so-called online service providers. Generally, by following certain procedures, owners of such sites can be protected from liability if the third-party content appearing on their website turns out to infringe another’s copyright. In order to avail oneself of this “safe harbor”, the website owner must file a form with the copyright office. See <http://www.loc.gov/copyright/onlinesp>. The

website owner is also required to list, at a permanent location on the website itself, a contact person for purposes of notices under the Digital Millennium Copyright Act.

To take advantage of the “safe harbor,” there are various procedures to follow in the event the website owner receives a notice that its site contains infringing material of others. These procedures generally involve the temporary or permanent “takedown” of the accused material.

CONSIDER PROTECTING VALUABLE ASPECTS OF YOUR WEBSITE

If the client would be commercially impacted, or otherwise put at a disadvantage by a competitors’ imitating aspects of the client’s website, then the client should consider investing in protecting the “intellectual property” contained in the website.

For example, the operations or “methods” of transacting business on a website could be the subject of a patent application. Recent court cases have upheld the fact that so-called “methods of doing business” can be the subject of patents, and commercially oriented websites often fit into this category. However, the website operation and such methods must meet the standards of patentability: novelty and non-obviousness.

Logos and suggestive or fanciful names which are important to the website can be the subject of federal trademark applications, so long as such matter is associated with the sale of goods or services. Such federal trademark registrations give owners certain U.S.-wide advantages in enforcing their trademark rights.

Copyright protects the “expression” of an idea. A minimum amount of originality is generally required. Thus, artwork appearing on the website, original “layout” of elements on the web pages, and even the “structure, sequence, and organization” of the website is potentially protectable by copyright.

It is advisable, though not required, to place appropriate copyright notices on gateway pages or other prominent locations of the website. Registering the copyright to the website with the U.S. Copyright Office is not only required before enforcing the copyright in court, but also entitles the copyright owner to recover damages more easily, including so-called “statutory damages.” Statutory damages become important when it is difficult to prove the actual

amount of monetary damage that has occurred because of the infringement.

If the copyrightable website goes “live,” this may be considered a publication of the copyrighted work. **Note well:** In order for the website owner to keep the possibility of being awarded statutory damages and attorneys’ fees, a copyright application for the website must be filed within three months of the date of such publication.

JUST BECAUSE THERE IS NO COPYRIGHT NOTICE ON IT, DOESN'T MEAN THE CLIENT CAN “BORROW” IT

The creator or owner of photographs, images, and even original web pages themselves, is likely to have a copyright to his or her work – whether or not a copyright notice is present, and with or without registering the copyright. For this reason, any copying of an original web page or website without an express or implied license or other permission from the copyright owner risks a charge of copyright infringement. Conversely, if a client comes to his or her attorney complaining that original website artwork, photos, or web pages are being reproduced elsewhere without authorization, even if there has been no previous registration of the original website content, the attorney should consider filing for registration after-the-fact, and then taking appropriate actions to enforce the client’s copyrights against such misappropriation.

THE DIFFICULTY ADVISING CLIENTS ON “FAIR USE”?

Certain unauthorized uses of another’s copyrighted materials can be justified under the doctrine of “fair use.” 17 U.S.C. § 107. Normally, under the Copyright Act, a copyright owner has the following exclusive rights: to reproduce the work; prepare derivative works based on the work; distribute copies of the work to the public; to perform the work publicly; to display the work; and to perform the work publicly through digital or audio transmissions.

Despite the exclusive rights discussed above, the Act allows for others to engage in “fair use of the copyrighted work . . . for purposes such as

- [1] criticism,
- [2] comment,
- [3] news reporting,
- [4] teaching (including multiple copies for classroom use),

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- [5] scholarship, or
- [6] research”

It is important to note that the six purposes specifically mentioned above are merely illustrative and not meant to be exclusive. On the other hand, merely because a client’s use falls into one of the six categories above does not *automatically* mean that such use is a fair use. In order to determine whether any use is a fair use, the Act lists four factors to consider:

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for non-profit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.

Unfortunately, in view of the above legal standards, there are no black-and-white boundaries as to what is fair use and what is not. The particular situation must be reviewed with intellectual property counsel on a case-by-case basis.

There is a general perception that whether the use is “commercial in nature” is a more important or dispositive factor. This is not the case. The fact that a use is for commercial purposes does not eliminate the possibility that the use is a fair use. Conversely, just because a use may be for educational or not-for-profit purposes does not insulate it from a finding of infringement. In other words, non-profit organizations and charitable causes have no special

immunity from a finding of copyright infringement.

The second factor, the “nature” of the copyrighted work, generally means that the more creative the work is that is being borrowed, the less likely that a subsequent use will be a fair use. Conversely, if the copyrighted work is a fact-based work, such as a news story, then the subsequent use of the work is more likely to be found to be a fair use.

Fair use becomes less and less fair as the amount and significance of the borrowing increases.

Finally, if the fair use has an adverse effect on the market for the original product, then the fourth factor is likely to weigh against a finding of fair use.

Again, it is all of the factors and the particular circumstances that must be reviewed in assessing whether there is “fair use.”

In view of this, in advising clients from a more practical standpoint, it may be easier and financially insignificant for a client or the attorney to simply obtain permission from the copyright owner to borrow materials for use on the client’s website. **IPT**

ENDNOTES

1. In the UDRP proceeding, the trademark owner does not need a federal trademark registration for the trademark sought to be protected. Common law trademark rights will support the claim.
2. It is quite common in UDRP arbitration proceedings that the domain name registrant does not respond to the UDRP complaint.