LEVETT ROCKWOOD
P.C.
Attorneys-at-Law

[This newsletter originally appeared as an article in the July 26, 1999 edition
of the Connecticut Law Tribune under the title: "Protecting Your Web Rights."]

UNTANGLING THE WEB:
Practical Legal Advice for Commercial Web Sites

Edward B. Chansky
Levett, Rockwood & Sanders P.C.

As the Internet becomes used more and more widely in commerce it is generating a broad range of new issues for the business and legal communities. This article discusses practical ways to address some of the intellectual property issues currently affecting development and management of commercial web sites.

Ownership of Copyright

Many web site owners assume that if they pay for a web site to be developed, they will own all rights in the content and software incorporated into the site. Unfortunately, ownership is more complex.

Under the Copyright Act, a company owns the copyright in text, graphics and computer code created by its *salaried employees.* Independent contractors, however, retain ownership of the copyright in any work they create unless there is a written contract to the contrary. Thus, a signed contract clearly transferring ownership is crucial when a company uses outside consultants or developers to create a web site. Without such a contract, the client doesn't own the copyright. (If patents are involved, a contract

is necessary even with salaried employees, because patent rights do not transfer automatically to the employer.)

If the client doesn't own the copyright, what rights does it have? In the absence of a written contract, the client at most has an *implied license* to use materials created by an outside developer. An implied license typically includes the right to use materials solely in the ways contemplated by the parties at the time of the work was created. Such use presumably would include the client's ordinary operation of the web site, in the form created by the developer, as part of the client's own business.

But what about other forms of use, such as changes to the web site, creation of new versions, or licensing to a third party for inclusion on another web site? An implied license generally will not resolve these questions. Nor will it define limits on the developer's subsequent use of the same materials, including reselling them to a competitor of the client. Such uncertainties can create serious problems for a web site owner, especially if it is going to seek to attract investors in its business. For these reasons, reliance on an implied license is not advisable.

Therefore, the first step in commissioning a consultant or developer to create any graphics or functions for a web site, is to have a written contract. From the client's perspective, the ideal contract would specify that all materials and code created by the developer for the client are "works made for hire" and belong exclusively to the client. Such a contract is consistent with the traditional client assumption that, if you pay for something you own it.

Many developers take a contrary view. Such developers want to retain ownership in the materials they create for client web sites – at least the computer code

that makes the site run. (Developers typically do not claim ownership in the text and graphics that appear on a client's site, especially not any items furnished by the client.) In return, they are willing to grant the client a relatively broad license to use the computer code for operation of the client's own web site. The rationale is the developer's desire to recycle software components and functions for later projects. Indeed, much of what goes into the client's own project may itself be recycled from prior projects or adapted from off-the-shelf software. For these reasons, it is understandable for the developer to balk at signing a blanket "work-made-for-hire" agreement.

An effective resolution to this dilemma is to craft a development agreement that accommodates the needs of both parties – *i.e.*, one that gives the client ownership and control for future evolution of its web site but also gives the developer the right to recycle those aspects of its work that constitute its basic "software tools." Defining those "tools" is not always an easy task. A mutually acceptable definition often can be crafted, however, by differentiating between: (a) aspects of the software that are generic or inherent in basic web site functions, including any pre-existing code the developer may use in the project ("tools"); and (b) aspects of the software that are both custom-made for the client and specific in their application to the particular functions of the client's web site (client property). Further provisions might be added to limit the developer's right to resell any custom-made software to direct competitors of the client, or to restrict the client from going into the business of reselling the same code in competition with the developer.

The key concept is to identify the needs of each party — what each party needs to be able to do with the various components of the code and what restrictions need to apply

to the other party's use of those components. Once these needs are identified, it typically becomes possible to write a mutually acceptable contract in which the client "owns" the work created for it, subject to an acknowledgement that the developer remains free to use those aspects of the work that constitute the developer's "tools of the trade."

As a final note on ownership, beware of proposals for joint ownership. Such proposals sometimes are offered as an "easy" alternative to resolving ownership issues. Joint ownership, however, can create unanticipated complications. These include:

- *Loss of Control*. A joint owner generally is free to use the copyrighted property in any way it wishes without the need for license or permission from the other owner(s).
- *Sharing of Profits*. A joint owner generally must share all profits from use of the copyrighted property with the other owner(s).
- *Litigation*. A joint owner may find itself joined involuntarily as a party to litigation instituted by the other copyright owner(s).
- *Other Rights*. Patent law does not generally require sharing of profits, which can lead to uncertainty where a computer program may be covered by both a patent and copyright.

Accordingly, joint ownership should be avoided where possible. If joint ownership becomes unavoidable, then the parties should draft a thorough contract addressing a wide range of issues, including rights of usage, profit sharing, duties of securing and maintaining copyright and patent registrations, and responsibilities regarding litigation.

Linking and Framing.

Hyperlinks are perhaps the defining characteristic of the world wide web. They enable users to move directly from one web site to another, connecting information in the seamless, universal world of cyberspace. Without the ability to link sites, the usefulness of the Internet would greatly diminish.

It came as a surprise to some observers, therefore, when lawsuits began to be filed against web site owners for establishing links to other sites. One of the first such lawsuits was brought in 1996 in Scotland by a newspaper, the *Shetland Times*, against its competitor, the *Shetland News.* The *News* was placing headlines on its web site that connected readers directly to stories on the *Times'* web site. When readers followed these links they were not clearly notified that they were jumping to the competitor's paper. A Scottish court issued an injunction. The case eventually settled with the parties agreeing that the *News* could continue to link to stories from the *Times*, but only on the condition that clear notice be given to identify the *Times* as the source of its own stories.

A similar case was brought by the *Washington Post* and other publishers against Total News, Inc., an Arizona-based company that offered headlines on its site that connected to stories on the web sites of several major media outlets. (*Washington Post Company v. Total News, Inc., S.D.N.Y. 1997).* Total News did not conceal the fact that it was linking to other outlets. On the contrary, it touted the fact that it offered news from well-known sources. But Total News did "frame" the pages from the other sites in such a way that viewers did not see the advertising or promotional material from the original sites. Instead, each publisher's content was "framed" by a border from the Total News site. The frame contained the Total News name and advertising sold by Total News. The

case settled with Total News agreeing to modify its links to retain all graphics and advertisements from the publishers' original pages, and to avoid using Total News' logos or banners to frame material that originated from other sources.

Finally, Ticketmaster, the nation's leading ticket-selling agency for entertainment events, sued Microsoft over links from a Microsoft city guide to a Ticketmaster web page offering ticket ordering information. (*Ticketmaster Corp. v. Microsoft Corp*., C.D. Cal. 1997). The link allowed viewers go directly to the ticket ordering page and bypass advertising that appeared on Ticketmaster's home page. Once again, the case settled without a judicial decision on the right to link. Microsoft simply agreed to link only to Ticketmaster's home page, not to individual pages deep within the Ticketmaster web site.

The above cases are only illustrative of the many disputes that have arisen over linking and framing. Their fact patterns, however, suggest some useful ways to analyze the legal issues raised by these practices.

As a preliminary matter, it appears reasonable to start with a presumption that a person placing material on a publicly available web site is granting an implied license to others to link to that material. The useful nature of the Internet depends upon the ability to link sites. Even if the owner of a site were to post a "no linking" notice, it would be questionable whether the owner could prohibit *all* forms of linking. First Amendment rights of free speech and doctrines of fair use under copyright and trademark law suggest that merely creating a simple text link that does nothing more than connect an interested viewer to a publicly available web site should not be actionable.

On the other hand, many forms of linking may infringe or impair legitimate rights of the owner of the linked web site. For example, in the *Shetland Times* and *Washington*

Post cases the plaintiffs were legitimately concerned about the risk of consumer confusion. In *Ticketmaster,* the practice of deep-linking threatened to impair Ticketmaster's expectation of collecting advertising revenue based upon the number of visitors to its web site. Applying traditional principles of trademark and unfair competition law, the following are some suggested guidelines on linking and framing in the current legal environment:

- *Simple Text Links*. A simple link to a publicly available web site page, not using any copyrighted art work or distinctive logo of the linked site, generally should not cause a problem. Even if the link uses a name that is a trademark, such use would appear to be permissible if it is the only practical way to accurately designate the other web site.
- *Logo Links*. The use of a logo or other symbol of the owner of the linked site raises risks of trademark infringement and unfair competition. The logo might falsely suggest sponsorship, endorsement or affiliation with the other web site. Any such false suggestion could be actionable under the Lanham Act (15 U.S.C. § 1143). Therefore, unless permission is obtained, logos should be avoided. If it is not possible to avoid using the logo, then clear and conspicuous disclaimers should be considered.
- *Framing*. Framing is risky if it deletes or materially diminishes the impact of advertising or other identifying materials from the linked site. Framing of commercial sites generally should be avoided, or a license should be sought from the owner of the linked site.

- *Deep Linking*. If the linked site is a commercial site that sells advertising, deep linking generally should be avoided unless the parties have entered into a linking agreement. Deep linking to non-commercial sites is generally less problematic.

Metatags

Metatags are key words embedded in the text of a web site which are invisible to the viewer but used by search engines as an index to locate sites relevant to query. A web site's metatags typically include the owner's name plus several basic words and phrases that relate to the subject matter of the site.

An interesting recent development is the use by some web sites of *competitors'* trade names and trademarks in metatags. This practice has been widely criticized. For example, in *Brookfield Communications, Inc. v. West Coast Entertainment Corp* (9th Cir. 1999), a federal appeals court in California analogized the use of another company's trademark in a metatag to a situation where two competitors operate retail stores at different exits off the same highway. The court reasoned that, if one competitor puts up a sign for the other's store at the wrong exit, it will draw some customers looking for the other store. Once those customers arrive at the "wrong" store, they may not be confused as to which store they have found, but they nevertheless may decide not to get back on the highway to find the "right" store. They may act this way due to frustration, anger, laziness, lack of time, or other reasons. The result is a diversion of business based upon the initial interest created by the party putting up the misleading sign. Such "initial interest confusion" is an established principle of trademark and unfair competition law, and the Ninth Circuit concluded that this doctrine applies to misleading metatags.

Of course, if there is a legitimate reason to mention a competitor on a web site, it may be fair use to also mention the competitor in a metatag. An example might be if a web site contains truthful comparative advertising. In such a case, the mention of the competitor's name in a metatag could be relevant to a person using a search engine to find information about the competitor's product. The *Brookfield* court acknowledged such situations and suggested that not all use of competitors' trademarks as metatags necessarily constitutes infringement.

e-Commerce Patents

The Federal Circuit's 1998 decision in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.* resolved decades of doubt by holding that computer software and business methods are clearly included within the realm of patentable subject matter. As a result, virtually every new method of electronic commerce might either be patentable or run the risk of infringing someone else's patent. This phenomenon has forced many businesses that never thought about patents to make them a central part of their strategies.

Examples of Internet patents include: PriceLine's method for reverse auctions in which buyers submit bids to locate willing sellers; Cool Savings' method for selecting consumers to receive online coupons based upon information the consumers furnish; CyberGold's method for rewarding consumers for visiting particular web sites; and Open Market, Inc.'s method for secure handling of online credit-card transactions.

Many commentators have voiced concerns that broadly drafted business-method patents either are invalid or may choke innovation and competition on the Internet. Such patents have already engendered a significant amount of litigation. Their ultimate effect

on competition will only become clear as courts decide which patents are actually valid and determine the scope of the claims covered by those patents. This process may take years.

In the meantime, anyone considering developing an innovative form of doing business on the Internet would be well advised to consult with a legal specialist to determine first whether the proposed business method will violate any existing patents, and, second, whether it might itself be patentable. Having a patent can sometimes provide a basis for raising a counterclaim against another patent owner alleging infringement, and may help settle the case without the need for a costly trial.

The Future

This article has touched on only a few of the current intellectual property issues affecting commercial web sites. Other important issues include trademark rights in domain names, potential copyright infringement for downloading and storing information from other sites, data privacy protection, and exposure to multi-state and foreign jurisdiction based upon online business activity. The law in all these areas is still developing. Until it becomes more settled, lawyers and their clients should proceed with caution and keep traditional principles of intellectual property law in mind as they move into the world of commerce on the Internet.

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