Web Linking Agreements: Quasi-Licenses in Interactive Media

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A sound, well-drafted Web linking agreement constitutes the foundation document for nearly all electronic commerce activities. The license provisions in a linking agreement run from the linked site to the linking site and convey the right to utilize copyright protected material and related trademarks owned by the linked site to the linking site and its end users. All commercial links include a license, explicit or implied, to use the copyrights and trademarks of the linked party for either advertising in one form or another, or the outsourcing of services related to the site.

It is advisable to seek and obtain any licenses that may be needed for a link, including from third parties. In one recent case, for example, the owner of a domain name that did not infringe an identical, domestic mark because it was in a foreign top level domain was nonetheless held in contempt simply for including within its own, noninfringing U.S. sites a link to its foreign domain.[2]

1. Types of Links.

Web links tend to fall into the following categories:

1.1. Advertising Links

Advertising links often appear at Web "portals." Portals may consist of search engines such as Altavista, Yahoo! and Lycos, or news or reportage sources such as the WALL STREET JOURNAL (wsj.com), the NEW YORK TIMES (nytimes.com), or CBS (cbs.com), or any other sites that attract viewers with their content. Portals usually do not charge users an access fee (the exception being wsj.com), and therefore earn their revenues through the sale of links to commercial sites offering products or services to their users. Commercial sites may also share customers through links, Amazon.com's "partner" program being a prominent example.[3] Such links essentially are advertising links.

1.2. Framing Links

A variant of the advertising link is "framing," whereby the originating site frames the linked site with its own material and trademarks. This practice may cause conflicts with third parties because it ties the two sites together in the eyes of the viewer. Employing a framing link without the permission of the framed site's owner may thus constitute infringement of its trademarks as well as its copyrights.[4] In a recent, unusual case, a framing link was held to violate the terms of a third party

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[1] Portions of this article are from the upcoming book, *The Law of Interactive Media*, (American Bar Association, 2001).
[2] Jeri-Jo Knitwear Inc. v. Club Italia Inc., S.D.N.Y., No. 98 CV 4270 RO, 4/18/00 (defendant ordered to remove all links to www.energie.it from its own ".com" sites).
[3] *See, e.g.,* http://www.high-tech-law.com/trademark/books.html.
[4] *See* National Football League v. Miller, S.D.N.Y., No. 99 Civ. 11846 (JSM), 3/30/00 (New York jurisdiction found in suit by NFL against the California based site www.nfltoday.com for framing www.nfl.com, and damaging the NFL's trademarks by tying them to banner ads for gambling sites).

license limiting the geographic reach and nature of use of the framing site's licensed trademarks.[5]

1.3. Outsourcing Links.

Commercial sites such as amazon.com and ebay.com may use outsourcing links to integrate certain services into their own sites from third parties. Sites selling products may link to software services like the ubiquitous Web "shopping carts" that record customer orders, and to providers of banking services that collect payments from customers. An entire suite of services may also be provided and hosted by one party for another without any clues that the customer has been forwarded to another site. A different type of Web agreement and license is required for outsourcing links than for advertising links.

Usually, no trademarks of the provider of the services will be displayed in order to make the transactions appear as seamless as possible, but a copyright license within the agreement will probably be appropriate.

2. Trademark and Other Terms of Linking Agreements

A trademark may be licensed, though with some caveats. In the early twentieth century, courts viewed any attempt at licensing a trademark apart from the goods or services that were sold under the mark as deceptive, and therefore the law prohibited any such licensing at all.[6] Courts later recognized that the public's perception of a mark may follow it to its licensee without deception, and therefore began to uphold licenses where the licensor retained quality control.[7] This change was codified into the federal trademark Lanham Act.[8] Conversely, a "naked license" without control

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[5] Hard Rock Café Int'l Inc. v. Morton, S.D.N.Y., No. 97 Civ. 9483 (RPP), 6/1/99) (framing link from the defendant's Web site to retailer that sold CDs worldwide over the Internet violated the terms of a trademark license restricting the defendant's use of the name Hard Rock Hotel to a defined geographic territory when selling merchandise on the ground that the framing hardrockhotel.com site and the framed "Tunes" site were "combined together into a single visual presentation").

[6] *See* MacMahan Pharmaceutical Co. v. Denver Chemical Mfg. Co., 113 F. 468, 474-75 (8th Cir. 1901)(invalidating a trademark that had been assigned apart from its underlying business).

[7] *See* 3 J. Thomas McCarthy, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION. § 18:39 at 18-62 (3d. ed. 1996).

[8] The Lanham Act defines a "trademark" to include:

any word, name, symbol, or device, or any combination thereof -
- (1) used by a person, or
- (2) which a person has a bona fide intention to use in commerce
and applies to register on the principal register established by
this chapter, to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.
The term "service mark" means any word, name, symbol, or device, or any combination thereof –

15 U.S.C. § 1127.

The Lanham Act also states that a trademark may be used by a "related company," 15 U.S.C. § 1055, defined as "any person whose use of a mark is controlled by the owner of the mark with respect to the nature and quality of the goods or services on or in connection with which the mark is used. 15 U.S.C. § 1127.

over trademark quality still may be found deceptive,[9] or to constitute actual abandonment by the owner of the mark.[10]

The legal requirement that the licensor of a trademark must maintain quality control over the use of its mark should translate into like provisions within the linking agreement providing that the linking site display the owner's marks in a proper manner that is consistent with the owner's established use of its mark. Similarly, it is advisable that the licensor site include covenants within the Web linking agreement that tools or services provided in conjunction with the linked trademark shall not be utilized for illegal or immoral purposes, and also obtain an indemnity for any liability that it might incur from such activities.

All commercial links must include a license, whether explicit or implied, to use the copyright protected content and trademarks of the linked party. Even an internal link may run afoul of this requirement. In a recent New York case, for example, the owner of a domain name that did not infringe an identical, domestic trademark was nonetheless held in contempt of an earlier order simply for including within its own, noninfringing U.S. sites a link to its foreign domain.[11] It is thus advisable to be vigilant to the need to seek and obtain any licenses that may be needed for a link.

3. License Agreements Contrasted with Linking Agreements.

Interactive media licenses / linking agreements tend to fall into the categories discussed below:

3.1. End User Licenses = Terms of Service

End user licenses cover articles of software that are protected by copyright and, in the case of non-html software, also trade secret.[12] A free standing software program might be licensed with a shrink-wrap[13] or click-through agreement.

The end user's right to use an Internet or Web site, on the other hand, usually takes the form of a linked page on the site entitled "Terms of Service." Web site terms of service must be displayed prominently in order to be binding.[14] Some form of click-though arrangement is most preferable, since virtually all click-through licenses for

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[9] *See* Societe´ Comptoir de L'Industrie Contenniere Etablissements Boussac v. Alexander's Dep't Stores, Inc., 299 F.2d 33, 35-36 (2d Cir. 1962).
[10] *See* E.I. Du Pont de Nemours & Co v. Celanese Corp. of America, 167 F. 2d 484, 487-88 (C.C.P.A. 1948).
[11] Jeri-Jo Knitwear Inc. supra n. 2.
[12] HTML source code is transparent to any user using the "Source" command under the "View" tool of either Netscape Navigator or Microsoft Explorer, and therefore can never be a protectible trade secret unlike most non-HTML code.
[13] The leading case upholding the enforceability of shrink-wrap agreements remains ProCD Inc. v. Zeidenberg, 86 F2d 1447 (7th Cir. 1996).
[14] In the only published decision so far on Terms of Service of a Web site, the court held in a suit for trespass and copyright violation that the plaintiff's Terms of Service barring "deep linking" to pages other than its home page were nonbinding on the defendant linker because they were not displayed prominently enough. Ticketmaster v. Tickets.com, Inc., C.D. Calif., No. 99-7654 HLH (BQRx), 3/27/00.

software have been upheld when challenged.[15] In the case of subscription news services or databases, the equivalent of an end user license would be the subscription or access agreement.

3.2. Distribution Licenses = Outsourcing Links

Reseller, or value-added reseller ("VAR") licenses, are entered into between the manufacturer of software and some type of distributor, A reseller is a company that simply brings the product unadorned to a retail or catalog customer, while a VAR incorporates the software into another product or bundle of related products.[16] Such agreements include licenses to use the copyrights inherent within the product, and the trademarks associated with it.

On the theory that the reseller will have a better idea of and control over what is going on with a product's end users than the manufacturer, a distribution agreement will often bind the reseller with affirmative covenants to notify the manufacturer of any infringement of the manufacturer's intellectual property of which it becomes aware, and possibly to take action against the infringer.

The interactive media equivalent of such a reseller license is a linking agreement where the VAR buys an outsourcing link over the Internet to third party services that enable the VAR to offer a more complete Internet site.[17]

Affirmative covenants will often not be necessary in an outsourcing linking agreement unless the linker is in a better position to know how the link is being used than its provider. One situation where such a covenant may make sense is a database provider, since the provider may need the cooperation of its distributors to bind the distributors end user customers to refrain from downloading the provider's noncopyright protected data in bulk.

3.3. Licenses Made in Connection with the Sale of a Business = Link Referral Agreements

Although the sale of a business will often involve complete assignments of all of the intellectual property of the business, a seller may sometimes wish to retain limited use of his software either through an assignment and license back to the buyer, or a straight retention of ownership, and license back of more limited rights. The sale of an Internet business, because of the nonshareability of domain names, may more likely involve the full transfer of the entire site to a different domain.

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[15] *See, e.g.,* Lieschke v. RealNetworks Inc., N.D. Ill., 99 C 7380, 2/10/00 (on-line accept-or-reject agreement that must be assented to before installation of a software package held to be enforceable with respect an arbitration clause); Caspi v. The Microsoft Network, L.L.C., NJ super Ct. App. Div., No. A-2182-97&5, 7/2/99 (same holding with respect to a subscriber agreement for the Microsoft Network); *see also* ProCD supra note 4 at 1452, in which the court noted that the buyer of the software had to know about the terms of the agreement "because the software splashed the license on the screen and would not let him proceed without indicating acceptance."

[16] *See., e.g.,* Adobe Systems Inc. v. One Stop Micro Inc., N.D. Cal., Docket No. C 97-20890 JW, 2/2/00 describing such an arrangement.

[17] *See* § 1.3. supra.

If the seller wishes to sell only his site, but retain his old domain, the parties may agree to refer Internet surfers from the seller's domain to that of the buyer. If domain carries intrinsic value (e.g. drugstore.com), the parties may agree to set a time limit to referrals, or the seller may simply agree to offer a link to the buyer's site from a new site at the old location.

3.4. Development Licenses = Development Licenses.

Licenses for the development of software, including Web sites, tend to be provided on either a time-and-materials or a fixed-price basis. Fixed-price service providers generally will rely on the reuse of previously developed, proprietary subroutines in order to come in under the agreed upon budget. Fixed-price development contracts therefore are more likely to involve only a partial assignment of ownership to the customer, with the service provider retaining ownership of its subroutines, and a nonexclusive license thereof back to the customer (often made contingent upon the full payment of the development fee) for the purpose of enabling the customer to operate the portion of its program that it owns in full.

A time and materials contract will more likely grant the customer full ownership of the software both as compensation for having assumed more of the development risk and because the developer will likely own less code to start with. Ownership of non-HTML software nearly always will be an issue for extensive discussion and careful negotiation.

HTML software development agreements, on the other hand, usually will not address the issue of ownership of subroutines. Because of the openness of HTML code, any rival may view the source display of any of the developer's special techniques and methods at any time, and there is no point to protecting it. This openness has been a major factor in the rapid growth of the Internet.

4. Some Common License and Linking Provisions.

Many license provisions are shared among all license and linking agreement types regardless of the nature of the intellectual property being licensed.

4.1. Extent of Use; Right of Sublicense.

End user software licenses are by definition limited to individual use by the user. End user licenses carry no right of sublicense, and often restrict use to the specific "purchaser" – sometimes, absurdly, preventing transfer of ownership of a given single program to another individual, but allowing free use throughout any corporation that may have purchased the license.

Unless a distributor simply passes the vendor's shrink wrap license along to the end user, distributor licenses must always specify a right of sublicense in order to enable the licensee to carry out the purposes of the license.[18] VAR licenses may

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[18] Generally, a license agreement conveys no right of sublicense unless specified. *See* Council of Better Business Bureaus, Inc. v. Better Business Bureau, Inc., 200 U.S.P.Q. 282 (S.D. Fla. 1978).

restrict any sublicensing to within the product or software bundle offered by the VAR.[19]

An equivalent restriction on sublicensing within a linking agreement might occur where the link provider restricts competitors from linking to the linked site (e.g., a Visa provider restricts the linking site from displaying a MasterCard link), or a similar restriction against links by pornographers. Similarly, a restriction against use or any association of outsourcing linked services with illegal or immoral purposes is appropriate in the freewheeling, self-regulated Internet environment.

4.2. Exclusivity; Territory.

It is important to state whether a license conveys either exclusive or nonexclusive rights to the property. Most licenses other than for custom, "time and materials" built software, will be nonexclusive, and in those cases it often makes more sense simply to assign ownership of the software rather than to effect a license.

While most shrink wrap licenses contain no geographic restrictions, Company-wide, or "site" licenses may restrict usage of the software to company sites. Territorial restrictions must be specified up front in any distributorship or value added retailer ("VAR") arrangement. If there are only a limited number of large customers, it may make more sense for several distributors to divide up the customers rather than to restrict their efforts to a particular geographic territory.

Territorial limitations within linking agreements might consist of limiting the use of trademarks and domain names to certain country domains.[20]

4.3. Duration.

All licenses must specify a duration. Software licenses often state they are perpetual because the current 70+ years copyright term can seem an eternity in the context of rapid technological development. In reality, even a "perpetual" license will expire at the end of the copyright term when the product enters the public domain. Trademark licenses, tied as they are to goodwill, and usually made in the context of some form of distributorship, are more likely to be renewable annually, and are often terminable upon short notice from the licensor.

Most linking agreements will contain a limited term, with renewal contingent either upon an end user's payment of a subscription fee or, in the case of an outsourcing agreement, set for a limited time period or only contingent upon the linked site owner's continued satisfaction with revenues from the linking site.

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[19] In an example of the loose language sometimes employed in software licenses, Adobe Software recently had to bring suit for a third party's pirating of software that the defendant had obtained from an Adobe reseller under a license that referred to the licensed software as having been "sold," a common misnomer in the software industry for "licensed." Fortunately for Adobe, the judge applied industry usage and held for the plaintiff. Adobe Systems, *supra* note 11.

[20] *See* Jeri-Jo Knitwear Inc., Note 2 supra.

4.4. Fees.

Licensee fees should be specified in great detail for all licenses, especially in licensing arrangements for other than an end user's one-time, fixed fee.

4.4.1. Access or Development Fees

For VAR licenses, the parties should negotiate whether the licensee will pay a one-time "access" fee to reflect overhead costs including costs of sale. Similarly, in linking agreements, a "development" fee may be paid by the company accessing the linked services as a means to share in the up front costs to get the site up and running as well as sales overhead.

4.4.2. Royalties.

Royalty issues for discussion in both licenses and linking agreements should include the following:

- Whether minimum royalties will be payable over given periods, whether any minima for a given period will be creditable against future royalty payments in periods when the minimum is exceeded. Any minimum royalties payable in linking agreements may reflect hosting as well as other ongoing expenses of the linked site.

- The definition of the base amount from which the royalty is to be drawn. Royalty recipients are usually better off taking a percentage of gross in order to avoid incenting the licensee to inflate overhead costs in order to reduce the royalty.

4.5. Collection and Payment Issues.

4.5.1. Covenants Affected by Timing and Calculation.

The timing and calculations of royalty payments will determine many things about a license or linking agreement, including the nature of the covenants for the intellectual property being used. Many VAR license agreements provide for substantial prepayments of royalties. If so, the licensor may wish to dictate to the reseller certain targets for use, sublicensing and sales that he might be willing to let slike of the arrangement is on a pay-as-you-go basis.

Similarly, if the purchaser of an advertising link is to pay the linking site a flat fee, the linked site may wish to obtain covenants as to size, nature and positioning of the link in order to ensure that the display of its trademarks are eye-catching and placed next to relevant or prominent content. The site that purchases an outsourcing link, unlike the beneficiary of an advertising link, may wish the outsourcing provider *not* to display the trademark of a third party, whereas the linked site may desire the opposite for marketing reasons. Such covenants may not be as necessary if the linked site gets a share of the revenue from the linking site, and thus shares in the incentive to send customers to the linked party's site.

If access to the linked site is purchased on a subscription basis, such as a searchable database, the linked site wish to may require the linking site to screen out users that are unwilling to pay for such access.

4.5.2. Responsibility for Collection and Payment..

In software licensing arrangements providing for a licensee to market sublicenses to end users, i.e., VAR arrangements, it is the VAR/licensee that almost always assumes sole responsibility for collection of revenues from the end user, and payment of royalties to owner/licensor. This is because the VAR/licensee almost always interfaces with and handles payment transactions directly with the end user.

In linking arrangements by contrast, the party that stands in the best position to collect credit card revenues may just as often be the provider of the linked software, since the party in the position of VAR will often tie the owner's software to its own products and services solely through a link to the owner's server, and the software owner therefore may be the party that actually collects the revenue from the end user. The desirability of providing that the linked site collect and pay out the revenues will of course depend upon the degree of seamlessness with which the owner's software is integrated with that of the VAR.

4.5.3. Audit provisions

Audit provisions may be desirable in order to warn licensees to hew to the straight and narrow even though they are rarely exercised upon in practice (usually only when the licensing relationship has already broken down irretrievably or is in the process of being terminated). In linking agreements, audit provisions may prove unnecessary in situations where the software owner maintains the software on its own servers, and linker and linked party each intend to monitor surfers' clicks simultaneously.

In all events, however, the linking site will need an independently verifiable means of tracking the revenues garnered through its links, and perhaps a right to audit the linked site's user records from time to time if not all end users covered by the agreement access the linked site via the linking site.

4.6. Warranties and Indemnities.

Typical software end user licenses usually provide only assurances that the licensor owns the intellectual property free and clear, and indemnification against third parties with any claim to its ownership. Under a development license, i.e., where the licensor has based is development of the licensed software or a computer system on specifications provided by the licensee, the licensor will usually also warrant that the software meets those specifications.

The warranties that are appropriate to give to linking site owners will also vary depending on the nature of the link: Sites displaying advertising links need only obtain warranties and corresponding indemnifications that the trademarks being licensed are fully owned or licensed by the licensor. The warranties in outsourcing link agreements on the other hand will more resemble typical software warranties, where the site providing the linked software and content warrants and indemnifies that the content on its site is properly owned or licensed.