Hypothetical Business/Litigation Problem

The following hypothetical is the unifying assignment for the seminar. Each student will work with one other as a team to prepare a memo (roughly 15 pages, double-spaced) advising the team’s client on one of the sets of issues raised in the questions below. Those memos will be due by the beginning of class on November 17.*

To ensure that the teams are on the right track, each team should submit a detailed outline (about 2-3 pages) of its intended response to the question assigned to it; these outlines will be due at 4:00 p.m. on Wednesday, November 2.** Each team will then meet with the instructors for approximately 30 minutes on either November 3 or November 4 to discuss its proposed analytical and strategic approach to the issues assigned.

Each team will orally present the substance of its memo to the “client” and explain its advice, probably during one of the two final classes on December 1 and December 8. For each presentation, two other students will be designated in advance to serve as senior counsel of the client. These two students will be expected to have read

* Please bring four copies to class on that day and also send via email to Erica George and the four seminar instructors.

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the advice memo and follow up the presentation by asking questions, raising concerns and carefully exploring the advice being given.

**HYPOTHETICAL**

The business, “Newsearch.com,” is a new, enhanced form of Internet search engine that will compete with the major search engines in the market today. Like them, it will search for, store and display all manner of web-based content, including images. It will cache and archive web sites on its servers for indeterminate periods. It may/may not respect the so-called “‘bot protocol”¹ when it “crawls” or “spiders” Internet sites. Also, it may/may not try to defeat password protection or other access controls that have been put in place on sites.²

The Newsearch.com search tool has the capability of blocking both pop-up and pop-under ads on any site that the user reaches by clicking on a link in a Newsearch.com search result. The tool also is capable of blocking embedded (e.g., banner, column and other applet) ads on such sites. Whether either of these ad-blocking features will be enabled by default, or will be set by users (and, if so, how), has not yet been determined.

Like other search engines, Newsearch.com uses a sophisticated, proprietary and highly secret set of complex algorithms to determine the order or priority of search results.

¹ ‘Bot protocols are procedures, like the use of a robots.txt file that you saw in the *Health Advocates v. Harding, Earley, et al.*, case from Week One, employed by a web site with the intention of signaling a search engine not to crawl or archive its content.

² Defeating here may take the form of mechanical efforts to “guess” the password, among others to be determined.
their “page rank” – that it displays in response to any given search term.

Newsearch.com believes that its unique approach to determining page ranks is superior and will provide it with a significant competitive advantage. Thus, Newsearch.com takes careful measures to guard the secrecy of the algorithms and the software that implement those algorithms, and has been considering whether to seek patent or copyright protection for that software.

Also, like other major search engines, Newsearch.com has a “Sponsored Links” section adjacent to its regular search results window. Companies pay Newsearch.com significant amounts of money to have links to their sites appear in this section whenever given search terms, including trademarks, are entered. In fact, some advertisers pay a premium rate to display an advertisement for or link to their site in the Sponsored Links section when a user of Newsearch.com conducts a search using the trademark of one of the advertiser’s competitors.

Newsearch.com also offers, worldwide, an enhancement called “Newsearch.com Platinum” or “NP.” This is a subscription service that allows users to specify articles and other text, audio and video content, including podcasts, on a variety of subjects from a large list of websites and have those materials delivered automatically to the user. Websites on the NP list include most major Internet news sites, such as the New York Times, Washington Post, CNN, CNET, Reuters, and ESPN, as well as many smaller sites. The NP service may retrieve these materials either directly from the creator’s website or from intermediary sites that have arrangements to display the creator’s content (e.g., articles or video from the AP displayed on Yahoo News or embedded in a New York
Times story found on the Times website). Each day’s articles or other materials are stored in a subscriber’s own archive, located on NP’s servers, and are accessible to him/her as well as others designated by him/her. The NP service also has the capability to permit subscribers to choose that the articles, video and other materials, including podcasts, for which they have signed up be sent directly to others they specify. The NP service may/may not seek permission or licenses from the owners of the articles and other content to include that content in the NP service.

In order to sign up for the NP service, users must affirmatively agree to abide by specified terms and conditions of usage. They are then charged a monthly subscription charge on their credit cards. The NP service website and initial subscription screen contain a link to the current NP privacy policy, which provides, in part, that Newsearch.com will not disclose any personal information provided by the subscriber to third parties except that it may disclose such information to corporate affiliates of Newsearch.com.

The NP service gathers registration, usage and other information from its users (such as which websites its users visit, and how often), both in the United States and throughout the world. Newsearch.com wants to use that information, which is commercially valuable, individually and in the aggregate, both for itself and to offer it to the websites from which the articles or other materials are taken or to other third parties (such as advertisers on those websites). The NP service also would like to have the flexibility to change its data gathering, usage and disclosure practices from time to time.
Newsearch.com is incorporated in Massachusetts and maintains its headquarters in Cambridge. Many of its operational facilities, such as server farms, are located in California.

QUESTIONS

For each of the following questions, the team should assume the role specified in the questions and, on behalf of the assigned client, analyze and discuss the various legal, procedural, strategic and practical issues posed.

1) You represent the New York Times, one of the many companies whose web sites are archived by Newsearch.com and whose copyrighted articles and audio and video content (both authored by the Times and by its contributors and news services) are distributed to Newsearch.com users by the NP service. (Newsearch.com has not yet activated the feature that would allow subscribers to designate third parties to receive automatically the specified content.) Neither the Times nor any of its contributors have granted any express licenses or permissions to Newsearch.com. Although the Times never has objected to the “caching” of its content on the servers of any search engine, believing that this helps drive traffic to its site, it does object to archiving and will object to the automatic distribution of the cached content by the NP service to its subscribers, when that feature is activated.

Your client wants to know what possible causes of action, if any, it may have against Newsearch.com. If it were to file suit, what claims should be included in
the complaint? Should it seek to include, as plaintiffs, the third-party owners of copyright (e.g., news services and photographers) in the material published on the Times website? What relief should it seek? Where should the suit be brought? How do you evaluate your client’s chances of prevailing, and what are the substantive and strategic key elements in that analysis? For example, can it draw a distinction between its having tolerated caching but now objecting to affirmative distribution?

2) You represent Newsearch.com. The Newsearch.com “spiders” currently do not recognize and honor robot.txt files or other ‘bot protocols deployed by web sites that direct search engines not to crawl, index and archive their content. In addition, the Newsearch.com technical and legal team is considering whether to respect password protection, or whether, instead, to use computers to try repeatedly to “guess” the password, and, if they succeed, to avoid thereby having to register and be bound by the crawled website’s terms and conditions. Although Newsearch.com has not yet been sued or received any C&D letters, industry “buzz” about its ‘bot protocol policy recently has been quite negative, and management of the company is concerned about potential liability.

What legal risks does Newsearch.com face if it continues its current practice of not complying with ‘bot protocols? If it were to try to avoid password protection, as suggested, would that raise legal “circumvention” or other issues? In either case, what is the likelihood it will be sued? That such a suit will survive
summary judgment? Management also is concerned that, if it changes its policy and begins complying with ‘bot protocols, some failures may occur and “protected” sites nevertheless may be crawled and archived. What legal issues could be raised by such a failure? What steps, other than technological reliability, might Newsearch.com take in advance to reduce those legal risks? What is the likelihood the company would prevail if sued based on those issues?

3) You represent Newsearch.com. Management is trying to decide whether to activate the capability that would permit subscribers, at their option, to direct that the articles and other materials for which they have signed up be sent directly to others they specify. Newsearch.com has not obtained express permissions or licenses from the owners of the articles and other content to include that content in this (or any) portion of the NP service. Newsearch.com’s internal market research indicates that there will be considerable demand for this feature because users recognize that it will allow them to provide valuable content to their friends, family and others without the need for those people to register with the underlying content sites or pay the fees they might otherwise have to pay for the content. Management also is debating how it should advertise and promote this feature if it activates it. Finally, management is assessing whether it should pursue a business model for the forwarding feature that would generate considerable advertising revenue for Newsearch.com from additional ads incorporated into or on top of the forwarded content.
What possible liability would Newsearch.com face based solely on the presence of this design feature, without more? What risks does it face if the default setting is for the feature to be activated? What if the feature is set to be inactive by default, but can be easily activated by a user? What legal issues are raised if the forwarding feature is actively marketed and advertised? By the possible ad-revenue model that is under consideration? What action would you advise to mitigate any legal risks?

Finally, in light of the possibility of suit from content owners, which likely would result in discovery of Newsearch.com’s records, what message, if any, would you convey to the company’s management and employees regarding issues to which they should be sensitive during the planning for and implementation of any activation of the forwarding feature? What warnings might you give them about conducting and maintaining documentation of research, or internal communications regarding possible uses of this functionality?

4) You represent a group of content owners, including Time Warner, the *Washington Post*, and Viacom. The NP service collects and distributes significant numbers of copyrighted articles and audio and video materials produced by your clients. After Newsearch.com decided several months ago to activate the NP forwarding feature described in Question 3, above, and began heavily advertising and promoting it as “a free and easy way to receive the web’s best content,” your
clients asked you to file suit. What are the primary legal theories you would recommend including in the complaint? Who are the defendants?

Now that you have filed the lawsuit you recommended above, you have been asked to develop an overall discovery plan to prepare the litigation for, among other things, a motion for summary judgment. What facts will be most useful? Why? How can you best obtain those facts, and from what sources? For each of the primary claims in your complaint, what is the standard you must meet for summary judgment to be granted? For each of your claims, what is your estimate of the likelihood of a favorable summary judgment ruling? Why?

5) You represent Newsearch.com. The firm learns that Dr. Turncoat, its former software developer who had the lead responsibility for overseeing development of Newsearch.com’s proprietary search algorithms and the implementing software, and who resigned from the company three months ago, was subsequently hired and has been working for one of its key search engine competitors, XYZ, Inc., which is located in California. Your information suggests Dr. Turncoat, a devoted Palm Pilot user, may have been negotiating with XYZ for this position, via email, IM and cell-phone text messaging, while he was still working at Newsearch.com. Like all Newsearch.com employees, Dr. Turncoat, at the beginning of his employment with Newsearch.com, signed a non-compete agreement in which he pledged not to work for a direct competitor on activities that are directly competitive with those of Newsearch.com for a one-year period
after his employment terminated. Newsearch.com also receives information that XYZ is close to implementing a new search functionality for the XYZ search engine that appears to closely resemble the functionality provided by the Newsearch.com search algorithms.

Your client wants to know whether it can stop XYZ from finalizing and implementing the new functionality. If so, how would it obtain relief? What relief would be available to Newsearch.com? What legal theories could be used to secure that relief? Based on your advice regarding the above questions, Newsearch.com files suit against XYZ and Dr. Turncoat. What facts would be most helpful to you in successfully pursuing your case? What discovery tools would be most likely to obtain those facts? How might you best use an expert in developing your case, formulating discovery, and presenting your case at any hearing or trial?

6) You represent some of the world’s largest producers and distributors of online advertising – pop-up, pop-under and embedded. Newsearch.com management has announced a plan to activate the ad-blocking features of the Newsearch.com search engine. Users of Newsearch.com will, by default, have all pop-up and pop-under ads blocked for sites they visit via Newsearch.com result links, whether those ads are served up by or at the direction of the site being visited or by a third-party “adware” application. Your clients want to know whether they should send one or more C&D letters to Newsearch.com threatening (one or
more) lawsuits within 30 days after the ad-blocking feature is activated. What practical considerations should you take into account in advising them? What legal theories would you pursue? What should you say in any letters that you send? The ad-blocking feature may be turned on by default. In some versions, however, only the user can activate it, either for all sites or on a site-by-site basis. Do these facts affect the advice you give your client about the likelihood of succeeding on your legal theories?

Your threatening letters have prompted Newsearch.com to announce it will suspend, for at least a few months, activation of the ad-blocking feature. What options do your clients have now? What, if anything, can you do to seek resolution of the issue sooner?

7) You represent Newsearch.com. U-Move, Inc. is the world’s largest moving and relocation company. U-Move’s primary competitors pay Newsearch.com money to display links to their websites as sponsored links whenever a Newsearch.com user types in a search query containing various moving-related terms, including the trademarked name U-Move. Newsearch.com derives a substantial portion of its revenue from sales of sponsored ads to companies like U-Move’s competitors. U-Move sued your client in federal district court on a variety of trademark and unfair competition-related theories, alleging that its business has dropped significantly since this practice began because its would-be customers, who search for it and its services on Newsearch.com, receive search results featuring
prominent, sponsored ads for and links to its competitive rivals and its would-be customers are thereby drawn to its competitors instead of to the U-Move website.

Today, the district court granted U-Move’s motion for summary judgment against your client, finding that, based on a consumer survey (the reliability of which had been hotly contested) there was a likelihood of confusion as to whether U-Move had any connection with the other advertisers. Based on various federal and state trademark and trade dilution theories, the court enjoined Newsearch.com from using (or allowing users to use) the U-Move trademark as the basis for any search results other than those related to U-Move, Inc. Your client asks you to assess the wisdom of an immediate appeal. On what basis could you appeal? On what issues will you be most likely to succeed? What steps would be required to take an appeal, and what would the timing be for those steps? Meanwhile, what do you do pending the appeal to try to maintain your lucrative sponsored-ad business given the injunction? What standards would apply to such an effort? What is the likelihood of Newsearch.com prevailing on the appeal?

8) You represent Newsearch.com. The company has become aware that significant numbers of its NP service subscribers are redistributing or reposting articles and audio and video content from its service, including, for example, posting articles on their own websites, to their own or others’ blogs or to various newsgroups. The NP service terms of use provide that subscribers are not permitted to reproduce or redistribute the NP content (apart from directing NP to deliver
content chosen by the subscriber directly to third parties, if NP has chosen to enable that functionality). Newsearch.com is concerned about these actions both because they reduce the value of the NP service and because they may further anger the already unhappy owners of the content the NP service distributes. What actions, legal or otherwise, could Newsearch.com take to stop this activity? What, if any, changes in its terms of use might it make? How could it make such changes and cause them to be binding on its subscribers? What legal issues, including enforceability, would be raised by making such changes? What, if any, business and legal actions might Newsearch.com take against its subscribers for their breach of the terms of use? What causes of action would be viable? What strategic and practical-business issues would Newsearch.com face in any such suits?

9) You represent Newsearch.com. Some of the already angry owners of the content that is collected and distributed by the NP service, including the New York Times, Fox News, and ESPN, have had enough and have sued Newsearch.com for copyright infringement and unfair competition based on the service. You have filed a motion to dismiss, which is pending. Based on the opposition to the motion, you are concerned that, while there should be a reasonable chance that the motion may be granted, it nevertheless could take some time for the court to rule on it, putting the legal status of the NP service in limbo. Discovery has not yet begun. Management asks you to advise on whether the company should consider
initiating settlement discussions with the plaintiffs at this point and, if so, what the
initial settlement proposal should consist of. What strategic issues should they
consider before making a proposal? How, if at all, should a settlement offer
address the possibility of licensing (and, if so, what terms should be proposed),
both with regard to the plaintiffs and the other content owners? What response do
you expect to the proposal you develop above? What should be Newsearch.com’s
fallback position? At the same time, you are asked to put together a discovery
plan, should the motion fail and the settlement discussions prove unsuccessful.
What are the primary components of your plan?

10) You are a junior Assistant Attorney General in the Internet Section of the
Consumer Protection Division of the New York State Attorney General’s Office.
Your Attorney General, like many, is currently considering whether to run for
governor in the next election. Your Section has received numerous complaints
over the last nine months from New York subscribers to the NP service that they
are receiving a high-volume of junk mail and spam that they believe is a result of
their NP subscription. Investigation reveals that, approximately one year ago,
Newsearch.com began selling information, including the individual names, email
addresses, and news-preferences of its NP subscribers, to many of the businesses
that own the websites from which the NP service’s articles or other materials are
obtained. It is unclear whether Newsearch.com changed its stated privacy policy
to permit it to disclose such information to third parties. Many of those
businesses then began using that information to send email and snail-mail
advertisements and solicitations to the identified NP subscribers.

The head of the Internet Section asks you to prepare a memorandum for the
Attorney General evaluating what, if any, steps your office could take to address
these citizen complaints. What kind of information would be most useful to you
in bringing any action, and how could you best obtain that information? What
enforcement and legal theories could you utilize? Under what statutes, and with
what powers, could your office bring an action, and where should it be brought?
What other considerations should be addressed? What is your evaluation of the
likelihood of success of each action you recommend, and why?

During your investigation, you learn that Newsearch.com has, in fact, recently
changed its privacy policy, ostensibly as to all its existing and new subscribers, to
provide that it may now disclose subscribers’ personal information (including
both data gathered prior to that change, as well as data collected thereafter) to any
third party. How, if at all, would such a change affect your prior analysis? What
other legal issues would it raise for your office? What information would be most
useful in evaluating this change?

Revised: September 13, 2005