Computers and the Law

Randy Canis

CLASS 12

Software Licensing
Software Licensing

• Discussion of why software is typically licensed instead of sold
• Differences between negotiated v. non-negotiated contracts

Sources of Licensing Law

• Common law contract law is a traditional source for license agreements
UCC Article 2
• Uniform Commercial Code Article 2 - Sales

UCITA
• What is UCITA?
  – Uniform Computer Information Transactions Act
  – Controversial
  – Favors vendors over purchasers
  – Not widely accepted

Basis for Software Licensing
Why license software?
• Licensing software enables a vendor to:
  – Bundle software
  – Price discriminate
  – Control software after resale

Fundamental Issues
• Respective objectives of the parties
• Applicable law to the license

ProCD v. Zeidenberg
• ProCD (P) – compiler of telephone directories
• Zeidenberg (D) – Reseller of information from the compiled telephone directories
ProCD v. Zeidenberg

• What is the information that ProCD provides?
• How do users access the information provided by ProCD?
• How did ProCD price its product?
• How were users informed of ProCD’s license agreement?

ProCD v. Zeidenberg

• What did Zeidenberg do?
  – Ignored the license
  – Resold the information at a discount
• What happened at D.C.?

ProCD v. Zeidenberg

• How was the contract analyzed under the UCC?
  – “What then does the current version of the UCC have to say? We think that the place to start is sec. 2-204(1): ‘A contract for sale of goods may be made in any manner sufficient to show agreement, including conduct by both parties which recognizes the existence of such a contract.’ A vendor, as master of the offer, may invite acceptance by conduct, and may propose limitations on the kind of conduct that constitutes acceptance. A buyer may accept by performing the acts the vendor proposes to treat as acceptance. And that is what happened.”
ProCD v. Zeidenberg

• “Section 2-606, which defines ‘acceptance of goods’, reinforces this understanding. A buyer accepts goods under sec. 2-606(1)(b) when, after an opportunity to inspect, he fails to make an effective rejection under sec. 2-602(1).”

ProCD v. Zeidenberg

• “Shrinkwrap licenses are enforceable unless their terms are objectionable on grounds applicable to contracts in general (for example, if they violate a rule of positive law, or if they are unconscionable). Because no one argues that the terms of the license at issue here are troublesome, we remand with instructions to enter judgment for the plaintiff.”

Agreement Applications
**Enforceability?**

- How enforceable are shrinkwrap agreements?
  - Generally enforceable if terms are reasonable

**Clickwrap v. Shrinkwrap**

- How do clickwrap license agreements differ from shrinkwrap license agreements?
  - Bits over Internet
  - Terms can be disclosed prior to purchase
- Clickwrap agreements are easier to enforce

**Agreement Basics**
Agreement Basics

- Capitalized words should only be words that are defined in the agreement.
- Defined terms are either defined at the first instance in the text of the agreement or in a definition section.

Agreement Basics

- The First Paragraph
  - Sets out the “effective date” of the agreement (i.e., when the term of the agreement begins);
  - Identifies the parties to the agreement;
  - Probably defines the word “Agreement.”

Agreement Basics

- Whereas Clauses
  - The “whereas” is typically set apart in capital letters and/or bold text;
  - Defines the nature of the parties businesses;
  - Defines the background of the parties agreement;
  - Links the nature and background to the culmination of the agreement.
**Agreement Basics**

- After the “whereas” clauses there is a transitioning sentence that starts “now, therefore…”;
- The section containing the definitions (if applicable) is typically first (although at times may be a later section or an exhibit);
- The second section of the agreement usually gets to the meat of the agreement by containing the service(s) to be provided or the good(s) to be delivered;
- The last section of the agreement usually contains a series of general clauses;
- The agreement has signature blocks for the parties that are executing the agreement and states not only the persons signing the agreement but the capacity in which they are signing the agreement.

**Common Provisions and Examples**

- **Parties**
  - Who is entering into the agreement?
  - Is your agreement with a corporate entity, an individual, or both?
Effective Date

• When does the agreement come into effect?
• Past date, date of signing, future date?

Grant

• What rights are being granted under the license agreement?
  – Copyrights, patents, trademarks, trade secrets, right of publicity, data/information
• What areas are covered under the agreement?
• Exclusive v. Non-Exclusive
• Is the license transferable?

Length and Scope of Grant

• Perpetual – rights run continuously so long as the right exists
• Irrevocable – not cancelable by the licensor for any reason
• Royalty Free – licensee does not owe any money to obtain the benefit of the license
• Fully Paid Up – all money due has been paid, and no more money is owed
Delivery, Inspection, and Acceptance

• The agreement should address how and when project deliverables are to be provided to the client, how the deliverables may be inspected, the procedures that are to be followed for the client to accept the deliverables, and what the developer’s obligations will be if a deliverable is rejected.

Agreement Termination

• Limited duration, unlimited duration, or an unspecified duration
  – Term with automatic renewals
• Notice of termination
  – Form and timing for termination
• Cancellation
  – Material breach
• Additional obligations post cancellation or termination

Warranties

• Implied Warranties
  – Merchantability
  – Goods will fit for a particular purpose
• Automatically part of a contract unless disclaimed
Indemnification

- Reimbursement for breach of a warranty
- Ability to pay and/or insurance?

Choice of Law/Forum

- Where will a case be heard (or arbitrated)?
- What law will be applied?

Choice of Law/Forum

- Developer
  - This Agreement shall be governed in all respects by the laws of the State of California without regard to its conflict of laws provisions, and Client and Developer agree that the sole venue and jurisdiction for disputes arising from this Agreement shall be the appropriate state or federal court located in the City of San Jose, and Client and Developer hereby submit to the jurisdiction of such courts.
Choice of Law/Forum

• Client
  – This Agreement shall be governed and interpreted in accordance with the laws of the state of __________ without regard to principles of conflict of laws. The Parties agree to submit to the exclusive jurisdiction over all disputes hereunder or related hereto in the federal and state courts in the State of __________ located in __________ County.

Time is of the Essence

• Seller recognizes that time is of the essence in this Agreement and that the failure to develop, test and deliver the deliverables hereunder in accordance with the Delivery Schedule shall result in expense and irreparable damage to Buyer.

Force Majeure

• Developer
  – Except for the payment of fees by Client, if the performance of any part of this Agreement by either party is prevented, hindered, delayed or otherwise made impracticable by reason of any flood, riot, fire, judicial or governmental action, labor disputes, act of God or any other causes beyond the control of either party, that party shall be excused from such to the extent that it is prevented, hindered or delayed by such causes.
Force Majeure

• Client
  – Neither Party shall be deemed in default of this Agreement to the extent that performance of its obligations or attempts to cure any breach are delayed, restricted or prevented by reason of any act of God, fire, natural disaster, act of government, strikes or labor disputes, inability to provide raw materials, power or supplies, or any other act or condition beyond the reasonable control of the party in question.

Severability

• Developer
  – If any provision of this Agreement is determined to be invalid under any applicable statute or rule of law, it is to that extent to be deemed omitted, and the balance of the Agreement shall remain enforceable.

• Client
  – Should any provision of this Agreement be held to be void, invalid or inoperative, the remaining provisions of this Agreement shall not be affected and shall continue in effect and the invalid provision shall be deemed modified to the least degree necessary to remedy such invalidity.

Waiver

• The failure of either Party to partially or fully exercise any right or the waiver by either party of any breach, shall not prevent a subsequent exercise of such right or be deemed a waiver of any subsequent breach of the same or any other term of this Agreement.
Entire Agreement

• This Agreement, including the Schedules hereto, sets forth the entire agreement between the Parties on this subject and supersedes all prior negotiations, understandings and agreements between the Parties concerning the subject matter. No amendment or modification of this Agreement shall be made except by a writing signed by the Party to be bound thereby or the successor or assign of such Party.

Who owns the software?

• Work made for hire
• Discussed during copyright law
• Advantages of having ownership addressed in the agreements

Software Licensing

• Choice of Law
  – What jurisdiction’s legal rules apply to a transaction?
  – “Jurisdiction with the most significant relationship to the transaction or inquiry in question and to apply the law of that jurisdiction”
Terms of Use

• A web site should contain, in a prominent location, a hyperlink to the Terms and Conditions of Use, to which a user must agree in order to access or use the site. The provisions contained in the Terms and Conditions will vary depending on the type of web site, for example whether the site is “passive” or “active,” whether the site accepts user submissions, and whether the site collects personal information from users.

Terms of Use

• The agreement should give users notice that the web site content is protected by intellectual property law, and should set forth the user’s rights, if any, to copy, store or modify the materials. For example, the agreement may provide that the user can store or copy information for personal use, but not for commercial use or for distribution to third parties. If users are able to submit materials online, a clear and prominent prohibition on violating the intellectual property rights of third parties should be included. The user should acknowledge ownership of, or the right to use, any such materials. In addition, the agreement should prohibit users from publishing materials which are unlawful, including, for instance, materials which are obscene, pornographic, defamatory, harassing, threatening or abusive to others. Typically, web site owners will seek indemnification from liability for intellectual materials submitted online by users.
Terms of Use

- If users are required to provide personal or confidential information, such as name, address, income or credit information, the website operator may want to establish a privacy policy to describe how such information will be used.
- Liability, and allocation of liability, should also be addressed. Typically, website operators will seek to broadly disclaim liability, damages or injuries arising from a party’s use of the website and disclaim the accuracy and completeness of content.
- Finally, if the website operator has registered as an online service provider in accordance with the provisions of the Digital Millennium Copyright Act, the website should contain a notice outlining the “notice and takedown” and “counter notice and put back” provisions.

Review of Several Development Agreements

User-Oriented Web Site Development Agreement

- Now let's look at a user-oriented web site development agreement;
- We will discuss the standard provisions that we would expect to find in many different kinds of agreements;
- We will also discuss the different types of provisions present that we would expect to find in a typical web site development agreement;
- Finally, we will discuss some of the specialty provisions contained within this particular agreement; and
- Thereafter, we will compare a user oriented web site development agreement to a vendor oriented web site development agreement, to compare clauses favorable to one party or the other.
User-Oriented Web Site Development Agreement

• First, let’s look at the definitions:
  – Beta Test
  – Brown Confidential Information
  – Brown Content
  – Brown Marks
  – Deliverables
  – Design Direction
  – Documentation
  – Editing Tools
  – Expenses
  – Final Acceptance
  – HTML
  – Host Server
  – Hosting Service

User-Oriented Website Development Agreement

• Definitions part 2:
  – Launch Date
  – Marketing Plan
  – Optional Services
  – Performance Specifications
  – Production Schedule
  – Proposal
  – Server Specifications
  – Services
  – Site Software
  – Software Deliverables
  – Terms
  – Text-Only Version
  – Updates
  – Web Software

• Advice note – I typically review the definitions before reviewing the agreement, and then when I first encounter the term I take another look at the definition to determine if it is being used properly in the agreement. Make sure that when a term is defined it is being used properly, and if a defined term should be used in the agreement but isn’t being used consider why (oversight, exception, etc.)

User-Oriented Web Site Development Agreement

• What does “including without limitation” mean?
• What are “schedules” to the agreement and why have them?
• Why have subsequent agreements in writing?
• Notice that there is a place for the deliverables in Section 2.
User-Oriented Web Site Development Agreement

• Let’s look at the section on the production schedule:
  – West shall deliver a proposed Production Schedule within ________ business days of the Effective Date hereof. If West fails to timely deliver a Production Schedule, or West delivers a Production Schedule that Brown finds unacceptable, Brown shall have the right to terminate this Agreement pursuant to Section 14.4 hereof.
  – Why not have the Production Schedule prior to the Agreement? What about a 2-part agreement?
  – Does this section give the user too much power to the client in its right to terminate?
• What does “substantially different fully detailed Design Directions…” mean?
• Is the beta testing clause accurate and fair?
• What do you think of the mandatory hosting of the “West Operational Obligations”?

User-Oriented Web Site Development Agreement

• Let’s look at the update section:
  – During the Term, West shall maintain the Site Software, including, without limitation, provision to Brown of the source and object code for all Updates developed during the Term, as well as a description of such Update’s functionality. Brown shall have the right not to utilize any such Update.
  – What if the update is required to make the site work, and Brown refuses to enter the update?

User-Oriented Web Site Development Agreement

• What about acceptance and rejection of the Deliverables? If you were the developer, what would be some of your concerns?
• What about “West is responsible for all cost-overruns and unanticipated excess expenses or costs not due to the sole fault of Brown”? How many developers are going to take the sole risk for overruns?
User-Oriented Web Site Development Agreement

• Let’s look at “Grant of License by Brown”
  – “As between Brown and West, Brown shall own all right, title and interest in and to the Brown Content. Brown hereby grants to West a non-exclusive, non-transferable license to use the Brown Content under the terms and conditions of this Agreement solely in connection with the establishment of the Brown Site. West may make only such copies of the Brown Content as may be necessary to perform its obligations under this Agreement. Except for the limited license set forth in this Section 4.1, Brown expressly reserves all other rights in and to the Brown Content.”
  – Do you have any concerns with this paragraph? How might you modify this paragraph to more accurately fulfill its purpose?

User-Oriented Web Site Development Agreement

• Let’s look at work made for hire:
  – “Except for the West Software, all materials, products, and modifications developed or prepared by West under this Agreement, including without limitation forms, images and text viewable on the Internet, any HTML elements relating thereto, and software, including the Deliverables and any Updates thereto, are the property of Brown and all right, title and interest therein shall vest in Brown and shall be deemed to be a “work made for hire” under United States copyright law and made in the course of this Agreement.”
  – Why is the language of this paragraph not very precise?
  – Why won’t the developer like this paragraph?

User-Oriented Web Site Development Agreement

• Let’s look at West Software
  – The West Software is and shall remain the property of West. West grants to Brown a perpetual, irrevocable, non-exclusive, license for Brown or its agents to use, modify, copy, transfer and maintain the West Software in conjunction with the operation and maintenance of the Brown Site.
  – What are the multitude of concerns that the Developer would have with this provision?
User-Oriented Web Site Development Agreement

• Do you have any concerns with the non-competition clause? How about for starters, when does it end?

• What is the deal with the site advertising paragraph?

• The confidentiality clause – is a “one-way” clause good enough?

• The optional maintenance option - why is it such a great idea for the user to obtain it prior to signing the agreement?

• What do you think of the warranties sections? Are they fair? Do they make sense?

• What is the purpose of indemnification?

• How common and typical are the insurance provisions?

• Does the limitation of liability hold water? If so, why not make it even broader than it reads?

• How would the optional services operate?

• How fair is the change control procedure? Will it create too much of a burden on the developer?

• Let’s look at the term:
  – The term of this Agreement shall commence on the Effective Date and shall continue until the year anniversary of the Final Acceptance, unless this Agreement is earlier terminated.
  – How does the length of the term affect the agreement?
  – What might a reasonable length be?
User-Oriented Web Site Development Agreement

• What are the termination events and why are they important?
• What does the survival provision do?
• What is the effect of a time is of the essence clause?

User-Oriented Web Site Development Agreement

Let’s discuss the general provisions:
– No Joint Venture
– Force Majeure
– Partial Invalidity
– No Waiver
– Assignment
– Notices
– Entire Agreement
– Governing Law
– Headings
– Counterparts

User-Oriented Web Site Development Agreement

• What are your overall thoughts on the agreement?
• Consider what things you might want in the agreement but are not present.
• Consider why you cannot just take and use the “form” agreement.
• Now let’s look at things from the developer’s side.
Developer-Oriented Web Site Development Agreement

- Compare the overall language between the User and Developer oriented agreements. Do you notice that each differs by referencing the dominant party?
- Practice tip—always start with your form agreement and your language. But who has the power may ultimately govern which agreement is used.

Developer-Oriented Web Site Development Agreement

- Let’s look at the “Specifications and Client Content”
  - Developer, in consultation with Client, shall prepare detailed written specifications for the Web Site (the “Specifications”). The Specifications shall consist of, among other things, a design for the Web Site, a flow-chart of the pages for the Web Site, programming and interactive feature requirements, and the placement of any content or other materials which are to be incorporated into the Web Site. The Specifications shall be subject to any restrictions or limitations set forth in Exhibit 1 or Exhibit 2. The Specifications which have been mutually agreed upon by the Parties in writing shall be attached hereto as Exhibit 3. If the Parties are unable to agree in writing to mutually acceptable Specifications, after using good faith efforts, on or before ________ (___) days after the Effective Date, either party may terminate this Agreement by providing written notice to the other party. Such termination shall not relieve Client from the obligation of paying Developer for all fees due and owing Developer as of the date of such termination.
  - Why is the paragraph good, but what are you concerns of accepting this paragraph as is if you are the user?

Developer-Oriented Web Site Development Agreement

- “Any services required to convert or input Client Content not set forth in the Specifications shall be charged as Additional Services.” If you are the user, are you going to pay $100/hour for someone to convert GIFs to JPGs or to encode video?
  - What are “commercially reasonable efforts”?
  - What about the provision for a “change order”? Is it fair to both parties?
  - How dangerous is the section on “Proprietary Rights of Developer”? What would the user own if it signed this agreement as is? What would stop the Developer from turning around and re-selling most of the developed web site to a third party?
Developer-Oriented Web Site Development Agreement

• What concerns as the client would you have with accepting the Developer Notices provision as is?
• How does the grant of licenses completely handicap the client and ensure that it will be taken-advantage of by signing this agreement?

Developer-Oriented Web Site Development Agreement

• What about the provision on “Limitations on Client Content”? Doesn’t this provision provide the Developer an easy way to find the user in material breach?
• Other concerns and questions with the remainder of the agreement?

Web Site Development Agreement

• The moral of the story is that any good web site development agreement should be negotiated so that it make sense and is an even shake.
• How much could it cost to negotiate a wda? It depends on how much you are spending on what’s involved with the agreement itself. A good rule of thumb would be a minimum of 10% of the money paid under the agreement.
Review of Several Online Terms of Use

Facebook
• Last update?
• Style – meant to be user friendly

Facebook
• General Intellectual Property Rights
  – What intellectual property rights are provided by the user to FB?
  – How are those rights terminated?
  – If you provide a suggestion to FB, who owns the associated intellectual property?
Facebook

- Copyrights/Trademarks
  - DMCA procedure/takedown
  - Use of FB’s trademarks and copyrights
- Advertising
  - What can FB do with your image and name?

Facebook

- Other Terms
  - No other agreements
  - Blue pencil
  - Waiver
  - Transfer
  - Assignment

YouTube

- User Permission
  - Can you distribute YouTube content?
  - Can you use content commercially?
  - What kind of commercial users can you make?
YouTube

- Can YouTube automatically update your software?
- Can you use spiders and search engines with YouTube content?
- Can you download and reuse content?

User content
- What about users confidentiality rights?
- What license do you provide and what rights do you grant?
- Can you terminate your license?
- What about 3rd party materials?

How is the removal of infringing content handled?
YouTube

- General clauses
  - Disclaimer
  - Limitation of liability
  - Indemnification
  - Assignment
  - Jurisdiction (w/ passive website clause!)
  - Blue pencil
  - Waiver
  - Time to bring action

YouTube – Pay Content

- What type of license does YouTube provide to you?
- What about public performances?
- To where have you consented to jurisdiction?

Program Completed

All course materials - Copyright 2000-14 Randy L. Canis, Esq.
Blue Pencil

• What is a blue pencil and who can use it in a transaction?

Negotiated Agreements

• Workers who participate in the development, maintenance or hosting of a web site should be under a written agreement that is sufficient to protect the rights of the party who has engaged the workers. The complexity and specificity of the agreement may depend on factors including the workers involved, the work performed and the cost of the work.

Web Site Development Agreement

• A web site development agreement is typically entered into by a first entity that wants to obtain a web site and a second entity that wants to develop the web site for a profit.
• Web site development agreements should contain a set of detailed schedules which describe the specification of the work, the time frame for delivery, and the criteria for acceptance, and should address the following:
**Web Site Development Agreement**

• **Technical Considerations.** A web site must be configured with the most up-to-date technical specifications. Content should be converted into a display-ready format, including HTML, JAVA, Javascript, VRML and Flash. The web site should be cross-platform compatible—meaning it should be compatible with the latest versions of standard Internet browser software, including Microsoft Explorer and Netscape Navigator. The web site may need to be configured to perform at high bandwidth capacities, such as T3 or cable modems.

• **Development Credit.** Often, web site developers want to utilize the web site to promote their business (i.e., through placement of a credit such as “This website developed by [insert name]” at the bottom of one or more, or by using the client’s name in advertisements or promotions). Issues such as the use of the client’s trademarks, trade names and content in conjunction with developer’s portfolio should be addressed.

• **Transitioning Services.** A web site owner should ensure that the web site developer cooperates with the hosting services provider in transitioning the site to the hosting server. The agreement should provide, as a final payment milestone, that the site is operational on the host server for a specified period of time.
Web Site Development Agreement

• **Change Order.** The web site development agreement should address what happens if the client decides that it wants to include features and functionality in the web site which are not contained in the agreed-upon specifications. This frequently occurs during the actual construction of the web site, and without a fair agreed upon procedure a developer can take unfair advantage of the client. The developer may want to limit cost limitations when the change order far exceeds the original scope of work.

Web Site Development Agreement

• **Ownership and Proprietary Rights.** Clients in web site development negotiations typically want to ensure that they own (versus have a license to) the copyrightable expression embodied in the web site. Accordingly, in most cases, there must be a written agreement that contains the appropriate work made for hire and/or assignment language. In addition, the party providing content for the web site (typically the client) must obtain the rights to use each work that will be included in the web site. Rights acquisition and clearance can be a complicated and expensive undertaking.

Web Site Development Agreement

• **Confidentiality.** In the course of designing the web site, the developer may have access to the client’s confidential information. The agreement should carefully define what is confidential, and should require that the developer use reasonable measures to prevent disclosure of it. Such measures may include requiring employees of the developer to sign non-disclosure agreements. In general, the developer should be required to use at least the same measures it would use to protect its own confidential information.