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Software & Internet Licensing

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I. Why Software & Internet Content Is Licensed Rather Than Sold.

Computer software and Internet content are generally distributed pursuant to restrictive license agreements and, for software, only in object code format. A software licensor typically restricts access to the source code for the software and prohibits attempts by a licensee to reverse engineer, decompile or otherwise derive the source code from the object code provided. Object code is a series of instructions, derived from the source code, capable of being understood by a processor rather than a human, whereas the source code consists of the programming statements created by a programmer with a text editor or programming tool. The courts generally recognize that the source code retains its trade secret status, even if the object code is distributed publicly, provided that the licensor takes appropriate measures to control distribution and access to the source code. *Vermont Microsys!temy, Inc. v. Autodevk, Inc.,* 88 F.3d 142 (2d. Cir. 1996) (upholding an award of $7.75 million in reasonable royalties).

Licensing software and Internet content also avoids the "first sale" doctrine (17 U.S.C. § 109), thereby limiting the licensee's ability to sublicense the rights to or resell the software without the licensor's permission. *Adobe 5yviems Inc. v. One&op Micro Inc.,* 84 F. Supp.2d 1086 (ND Cal. 2000). Under the "first sale" doctrine, if the software is sold, rather than licensed, the purchaser has the right to sublicense, resell or dispose of the software as it wishes. Finally, a license avoids the Uniform Commercial Code rules relating to implied warranties, consequential damages and the lengthy statutes of limitations with respect to claims arising under the UCC.

Licensors do have to be concerned with possible preemption if the contract rights they are attempting to assert are equivalent to copyright protection under the federal statute. For example, licensors cannot prevent copying of publicly available factual information contained in databases and which is not protected by copyright law. Given this limited copyright protection for some database works, developers have instead sought to protect databases under trade secret law by limiting access to the database information through requiring specific inquiries by users, or under contract law by limiting use or disclosure. *ProCD v. Zeidenberg,* 88 F.3d. 1447 (7th Cir. 1996).

II. Forms of License.

Because negotiated contracts are not practicable for mass marketed software (for example, Microsoft's Windows software), several types of software licenses are commonly used. However, the law regarding the enforceability of certain license forms is not clear. Three common types of license are browse wrap, click wrap and shrink wrap licenses. A shrink wrap agreement is generally delivered with the software inside the packaging. *See ProC.D v. Zeidenberg,* 86 F.3d 1447 (7th Cir. 1996) (reference on the outside to terms inside and right to return makes an enforceable agreement). A click wrap agreement is in an electronic form, which requires the user to "click" on an icon that displays the license term and requires assent before proceeding to access the

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content of the program. *See Registercom, Inc. v. Verio, Inc.,* 126 F. Supp. 238 (SDNY 2000) (prominent display of license terms on query page sufficient to prove assent to terms for search service). A browse wrap agreement is also in an electronic form but requires no proof of assent before accessing the contents. This browse wrap type agreement is less certain to be enforced. *Specht v. Netscape,* Comm. Courts, 150 F.Supp- 2d. 585, 595-97 (S.D.N.Y. 2001) (no proof user agreed to license where use does not require view of the terms). The terms of the license agreement in each of these three types are not apparent to the user until after the software is purchased. The user's recourse is to return the software if it does not agree to the terms.

A licensor should consider the following in connection with its license agreement:

- Who are the licensor and licensee?
- What is being licensed?
- Is sublicensing or assignment permitted?
- What are the permitted uses of the software?
- Who is responsible for maintenance and support of the software; how will the user be charged?
- Will the user have access to training on use of the software?
- Are modifications and improvements provided at no charge? Does the licensor have any obligation to provide periodic updates to the software?
- Is a source code escrow appropriate?
- What types of information will be exchanged and must be kept confidential?
- What warranties should be given and what circumstances void the warranties?
- Should either party indemnify the other against certain claims relating to use and distribution of the software?
- Would the licensee be in a position to compete against the licensor and would a restriction on competition be enforceable?
- Would the licensor want to restrict the licensee's ability to hire the licensor's employees?

III. Software Escrow

If the licensee is not receiving rights to the source code, the licensee should be concerned about its ability to use the software if the licensor goes out of business or ceases to maintain the software. The licensee's concerns can be alleviated via establishment of a software escrow in which the licensor deposits the source code. The licensee will then have access to the source code under conditions set forth in the software escrow agreement. The source code escrow agreement typically provides that the licensee can have access to the source code if the licensor fails to support the software, terminates its business operations, or declares bankruptcy. The licensee generally is not granted ownership rights to the software but is allowed to continue to use and maintain the software consistent with the rights granted in the license agreement. A source code escrow provision has the added benefit of preventing third parties' access to the source code in the event of bankruptcy of the licensor, thus further protecting the value of the software to the licensee.

IV. Effect of UETA and UCTTA

To accommodate changes in technology and the electronic transfer of software and Internet content, attempts have been made to standardize certain aspects of licensing. For example, the National Conference of Commissioners on Uniform State Laws has proposed a uniform law to apply to "licenses of information and software contracts." Uniform Computer Information Transaction Act (UCITA) § 103(a). UCITA addresses software licenses, support, online access and custornization. UCITA also attempts to address issues relating to the general contract requirements of a writing and of a signature. Under the proposed law, software contracts may be embodied in either a written or an electronic document referred to as a record.

UCITA also recognizes both a standard form and a mass market license. A standard form is an agreement "used without negotiation of or changes in, the substantial majority of the standard terms." Section 102(a)(35). A standard form is enforceable if the user (1) manifests assent after (2) an opportunity for review. Assent can occur electronically by hitting a return key or entering an identification code. *Id.* UCITA contemplates that a contract may be formed by electronic agents (software) even though no individual sent, reviewed or replied to the message. The party using an electronic agent is responsible for performing contracts made by the software.

The Uniform Electronic Transactions Act (UETA) authorizes use of electronic signatures. Arizona law gives digital signatures a presumption of validity and authentication. A click wrap agreement based on clicking "I Accept" falls within the definition of an electronic signature. A.R.S. § 44-703. Under UETA, authentication procedures agreed to by the parties must be "commercially reasonable." The party proposing or requesting use of an authentication procedure that is not commercially reasonable bears the risk of any resulting loss. A receiving party may rely in good faith on the agreed authentication procedure.

V. Terms Imposed by Copyright Laws

The federal copyright law imposes certain terms on parties if the software or Internet content is subject to copyright protection. Under the Copyright Law, any transfer of ownership to a copyrighted work must be in writing. 17 U.S.C. § 20.1(d). Granting an exclusive license is the equivalent of transferring ownership rights under the Copyright Law. The exclusive licensee has all of the rights of the copyright owner except that the exclusive licensee may not transfer those rights without consent of the licensor.

The requirement of a written agreement applies only to an exclusive license. 17 U.S.C. § 101. An oral exclusive license may create an implied nonexclusive

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license. *Gracen v. Bradford Exchange,* 69 F.2d 300, 303 (7th Cir. 1983). A non-exclusive license may also be implied from the party's conduct. An oral contract involving copyright ownership (exclusive rights) is preempted. *Miller v. CP Chemicals, Inc.,* 808 F. Supp. 1238 (D. S.C. 1992); 17 U.S.C. § 3 01 (a).

VI. Database Protection

Historic or scientific facts are not protected by copyright law. However, selection, coordination or arrangement of facts are protected. *Feist Publication v. Rural Telephone Service,* 399 U.S. 340, 111 S.Ct. 1282 (1991). The rights in databases are broader in Europe than in the United States. Europe grants *sui generis* protection for fifteen years after publication. The United States has not yet enacted any legislation to protect databases. Therefore, owners of databases should ensure that rights in their databases are protected by contract.

Electronic databases may not be the equivalent of print publications. *Tasini v. New York Times,* 533 U.S. 483, 121 S.Ct. 2381 (2001) (who owns the content?); *EPM Comm., Inc. v. Notara, Inc.,* 2000 WL 1154315 (S.D. NY Aug. 14, 2000) (electronic database did not infringe print compilation). In printed databases, the owner has selected the information and the arrangement. In electronic databases, the search engine may result in a user-driven selection. This user selection raises uncertainty regarding whether the user can claim to be the author of the compilation.

VII. Conclusion

Software licenses can offer an opportunity for additional protection under the Copyright Act. Carefully consider key terms in drafting licenses. An oral or implied license is not sufficient to establish exclusive rights. In electronic contracts, proof of asset is important for enforcement.

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