

Practitioner's Perspective

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Practitioner's Perspective appears periodically in the monthly Report Letter of the CCH Guide to Computer Law. Various practitioners provide in-depth analyses of significant issues and trends.

Online Licensing

Online licensing is a fact of current life. It presents some unique legal issues, however, and this column discusses a few of them. The seminal questions are what are you licensing, how will you go about it, how will you obtain a contract for the desired license terms, and is there something that particularly needs disclosure?

1. **Online Access.** The first question is what are you licensing? Perhaps you are doing nothing more than giving access to products or information on your own site or you are providing links to sites of others, *i.e.* you are simply an Internet access provider. Or are you allowing users to download information (data or software) from your site such that they may walk away with a copy of the information? If the latter, you've doubled the contracts you need.

Why? Because there are really two needs for contracts in this arena. First, you likely will want a contract governing the terms for accessing your site such as "Terms of Use (*e.g.*, an access license). Second, you will also want a contract governing the *copy* of information that may be downloaded (*e.g.*, an "end user license agreement"). The two licenses are very different: the first governs access and use of the site; the second governs the copy you allowed to be downloaded.

Example: You offer a design site where users may obtain information about new products and also use software tools to design bathrooms and kitchens. You don't have to enter into an access license with your users, but one is certainly advisable in order to make clear what law will apply in the event you get a claim that \$15,000 worth of kitchen cabinets did not fit because the tool malfunctioned or that the "My Kitchen" section of the site somehow "ate" the user's design of the perfect kitchen that took 50 hours to create. If you allow free downloads of the tools, do you care if the user uses your free tool in the user's commercial design business? You might, if you also offer a commercial version and had assumed commercial users would pay you a fee to license the commercial tool. Or you might wish you had limited the range of damages for which you might be liable (*e.g.*, contractual exclusion of consequential damages).

In short, site access contracts are different from licenses for copies of information.¹

2. **License to a Copy.** What if you allow downloads of information that is protected by copyright? Let's assume you charge for the download. If so, what are you selling? Presumably, you don't mean to sell your copyright, *i.e.*, when Disney allows a download of a copy of a movie, it

is not selling you its copyright to the movie. It is retaining that copyright and merely (a) selling you either one copy of the movie, or (b) licensing you one copy. Under the Copyright Act, owners of copies have different rights than licensees of copies,² so you need to decide what you are doing and then do that. Copies of most computer programs are licensed rather than sold;³ there is some variance in other industries (*e.g.*, movies and videos games), but the business models change from time to time. Note also that downloaded information might be covered by patents, so that intellectual property regime also needs to be taken into account when licensing copies. As a matter of fact, it should be taken into account on your website as well, if the site includes patented items or methods.⁴

3. **License of IP or Non-IP.** Not all information is covered by intellectual property (“IP”) laws such as copyright or patent laws. But if the information is covered by IP laws, that makes a big legal difference. Why? Because IP laws are a set of background rules by which users are bound even if they never agree to a contract—these background rules establish property rights that attach automatically to the covered work.⁵

Under the copyright act, for example, the copyright owner has an exclusive set of rights—the user does not have any of those rights unless the IP owner decides to grant some of them to the user—that grant is the license. Thus, only the copyright owner may copy, modify and distribute the IP—if the user does so without license, that constitutes infringement (subject to various qualifications or defenses such as “fair use”). As a matter of federal law, this makes copyrighted works fundamentally different from traditional goods. If I sell you my car and you breach our sales contract, you are merely liable for breach of contract. If I sell or license you a copy of my copyrighted work and you breach the sales contract or license, you will still be liable for breach of contract but might *also* be liable for infringement of my IP rights.

The world is different for information that is not covered by IP laws. What would that kind of information be? Facts are an example: copyright covers *expression* of words (such as a book or this column) but not facts. As a matter of IP law, facts are free for all of us to use subject to copyrights that can cover, for example, compilations and arrangements of data sufficient to obtain a copyright.⁶ Why then, is it the case that if you order a Dunn & Bradstreet or similar report containing facts about a business, you still are not free to tell everyone in the world about those facts? After all, those facts are not covered by copyright law. The answer is contract law: you can’t get that report without signing a contract making you promise to treat it as confidential information. And that is the point: if you are dealing with information that is not protected by IP laws but you want to restrict its use, then a contract is essential.

4. **Non-Contractual Approaches.** Where a background property right exists such as an IP right, merely refusing to relinquish that right is how the rights owner can enforce its rights—he has them and you don’t. On the other hand, getting the user’s promise to undertake particular obligations may require creating a contract. The first concept is the reason that some copyright owners do not bother with contracts and instead provide mere “notices,” *i.e.*, they remind or educate the user that the copyright owner has the rights and the user doesn’t—if the user ignores that, the copyright owner can sue for infringement. The second concept, getting a contract to do (or not do) certain things, requires more than mere notice and therein resides some confusion.⁷

Example: The FreeBSD open source license⁸ provides an illustration. In format and tone, it is a notice as opposed to a contract, *i.e.*, it says, essentially, that “I, the copyright owner, hereby say it’s okay for you, the user, freely to exercise a broad range of my copyright rights as long as you meet X conditions.” There is no attempt to get agreement from the user to X. The approach is a “notice” approach, *i.e.*, the copyright owner puts the user on notice than unless the user does what the notice says, the copyright owner is not waiving his copyright rights and will sue the user for infringement. This notice is educational as opposed to a legal requirement: the copyright owner has the copyrights even if he says nothing about them (*e.g.*, the days when works had to bear a copyright notice are gone⁹). More importantly, is not contract law but waiver law that is relevant, and there is no waiver unless the conditions imposed by the copyright owner are met.

So what about “notices” that attempt to put the user under affirmative obligations or involve items that are typically the province of contract law? In the BSD example, X includes an attempt to disclaim warranties and limit remedies, both of which usually require agreement of the parties under contract laws. If so, then contract rules¹⁰ must be met and a “notice” might not suffice.

5. **Contract Formation.** Formation of an online contract at least involves consideration of these basic questions:¹¹
- May the contract in question be formed electronically under applicable law?
 - If the answer is yes, do special rules for consumer electronic contracts apply (such as special disclosures required in order to substitute certain electronic notices for paper notices)?¹²
 - Does the party being asked to consent to the contract know that you are trying to form a contract and what will count as consent (*e.g.*, if “use of the site” is going to count, does the user clearly know that before relevant use)?¹³
 - If applicable law requires the contract to be “signed,” does your contract formation procedure include obtaining a “signature”?¹⁴

- (e) Will all contract terms be available for review upfront, or will the contract be formed in layers, *i.e.*, some terms won't be seen until after an order is taken, payment is made or a download or other delivery occurs—if so, do your procedures and terms comply with rules applicable to “layered” contracts?¹⁵
- (f) Is the other party given an opportunity to review¹⁶ the contract before manifesting assent to it (regardless of whether the manifestation of assent occurs upfront or after delivery of later terms)? and
- (g) Do the formation procedures comply with or take into account new “e” laws, such as those allowing one party to avoid an electronic contract unless reasonable error correction procedures are provided?¹⁷

6. **Technological Measures.** An article¹⁸ regarding the tax software TurboTax reports that the Internal Revenue Service received 15 million tax returns prepared with desktop versions of TurboTax during the 2001 tax filing season. Meanwhile, Intuit had sold only 5.5 million copies of that version. Not surprisingly, statistics like that can lead to protective steps against piracy, such as insertion of “technological measures” to prevent copying. Intuit did so by utilizing technology tying its program to a single computer, thereby making it very difficult for someone with a pirated version to print or e-file taxes. But this led to a lawsuit claiming that the measures caused “dangerous and destructive” changes to users’ computers and transmitted private information to the licensor, and alleging Intuit failed to disclose material information about its TurboTax product.

This kind of allegation is increasing and can take various forms which usually include a claim that the party inserting the technological measures committed an unfair act or deceptive practice. The *insertion* is not the problem—federal law contemplates technological measures¹⁹ and even requires insertion in some cases.²⁰ The claims center on the failure to make disclosures relevant to a material aspect of the resulting software. Taking a look at the software in that light, and in light of developing laws regarding “spyware,” “adware,” “malware”²¹ and the like is, therefore, advisable. After taking that look, you can decide whether special disclosures are warranted.

Online licensing is as, and more, complex than offline licensing. The above points will be helpful but do not begin to cover all there is to consider. However, they do provide a basic start.

Endnotes

1 For more information about access contracts, see Holly K. Towle and Raymond T. Nimmer, *The Law of Commercial Transactions*, Chapter 8 (A.S. Pratt & Sons, 2003) (“E-Commercial Law”) and Raymond T. Nimmer and Jeff C.

- Dodd, *Modern Licensing Law* 2006 Edition at § 1:16 and § 2:47 (2006 Thomson/West)(“*Modern Licensing Law*”).
- 2 For a discussion of the differences, see *E-Commercial Law* at § 2.14[3] and *Modern Licensing Law* at § 2:30, § 2:36-:38.
- 3 DMCA Section 104 Report U.S. Copyright Office at 77 (August 2001), A Report of the Register of Copyrights Pursuant to §104 of the Digital Millennium Copyright Act (“overwhelming majority of computer programs sold in the United States are sold pursuant to a license”).
- 4 See *e.g.*, *Sovereign Software LLC v. Amazon.com, Inc.*, 383 F.Supp.2d 904, 2005 WL 2008504 (ED TX 2005) (when a patent contains both method and apparatus claims, marking must be done, including on websites).
- 5 For a discussion of the basics of copyright and patent law, see *E-Commercial Law* at Chapter 2; for a discussion of the influence of IP laws on contracts, see *Modern Licensing Law* at § 2:30 -2:35
- 6 See *E-Commercial Law* at Chapter §2.18.
- 7 For a discussion of this issue, see Raymond T. Nimmer, *The Law of Computer Technology* 11:15-18 (1997, 2006 Supp).
- 8 See <http://www.freebsd.org/copyright/freebsd-license.html>.
- 9 See *E-Commercial Law* at Chapter 8.03[3].
- 10 See also *Modern Licensing Law* at § 3:2 et. seq. for a discussion of differences between agreements and contracts.
- 11 For a discussion of the topic, see *E-Commercial Law* at Chapter 5 and *Modern Licensing Law* at §§ 3:35-3:43.
- 12 Disclosures required by the Electronic Signatures in Global and National Commerce Act are an example. See *E-Commercial Law* at Chapter 11.06[2].
- 13 See *e.g.*, *E-Commercial Law* at Chapter 5.03 and *Modern Licensing Law* at § 3:3.
- 14 See *e.g.*, *E-Commercial Law* at Chapter 4.10[3].
- 15 See *Modern Licensing Law* at § 3:41.
- 16 See *E-Commercial Law* at Chapter 5.03[2].
- 17 See *e.g.*, *E-Commercial Law* at Chapter 11.10[3]. For discussion of other contract formation and “e” issues, see Chapters 4, 5 and 11 generally.
- 18 Baertlein, Lisa, “Intuit’s TurboTax at Center of Anti-piracy Flap” (3/13/03).
- 19 See 17 U.S.C. §1201.
- 20 See *e.g.*, Technology, Education, and Copyright Harmonization Act of 2002 (“TEACH Act”), codified 17 U.S.C. § 110 (making non-infringing the transmission of a performance of a nondramatic literary or musical work or certain displays of a work for a live classroom session if several conditions are met, one of which requires the use of technological measures that reasonably prevent retention and unauthorized further dissemination. The educator also must not interfere with technological measures used by copyright owners to prevent same). See also, Children’s Internet Protection Act (2000), which requires schools and libraries receiving federally funded telecommunications, Internet access, or internal connections services to employ technological protections to block or filter content perceived as harmful to minors.
- 21 For a discussion of these kinds of laws, see *E-Commercial Law* at Chapter 2.29.