

Module 13

N480 Technology and the Law

Module 13: Licensing

Goals and Objectives

The goals and objectives of Module 13 are to:

- Discuss the purpose and use of licenses for software, websites and other informatics and new media products.
- Consider various types of licenses for software and websites.
- Discuss the content and specific provisions of various types of license agreements.
- Highlight the important points in **Chapter 16**

[\(https://iu.instructure.com/courses/1874392/files/96596096/download?wrap=1\)](https://iu.instructure.com/courses/1874392/files/96596096/download?wrap=1) 

[\(https://iu.instructure.com/courses/1874392/files/96596096/download?wrap=1\)](https://iu.instructure.com/courses/1874392/files/96596096/download?wrap=1) of *Legal Guide to Web & Software Development*.

Module 13: Summary of Major Points

Please read **Chapter 16** [\(https://iu.instructure.com/courses/1874392/files/96596096/download?wrap=1\)](https://iu.instructure.com/courses/1874392/files/96596096/download?wrap=1)

[\(https://iu.instructure.com/courses/1874392/files/96596096/download?wrap=1\)](https://iu.instructure.com/courses/1874392/files/96596096/download?wrap=1) in *Legal Guide to Web & Software Development*. Please also read a copyright case about **open source software**

[\(https://iu.instructure.com/courses/1874392/files/96596095/download?wrap=1\)](https://iu.instructure.com/courses/1874392/files/96596095/download?wrap=1) 

[\(https://iu.instructure.com/courses/1874392/files/96596095/download?wrap=1\)](https://iu.instructure.com/courses/1874392/files/96596095/download?wrap=1), an **article on third-party code** [\(https://iu.instructure.com/courses/1874392/files/96596142/download?wrap=1\)](https://iu.instructure.com/courses/1874392/files/96596142/download?wrap=1) 

[\(https://iu.instructure.com/courses/1874392/files/96596142/download?wrap=1\)](https://iu.instructure.com/courses/1874392/files/96596142/download?wrap=1), **an article on IRS rulings on independent contractors** 

[\(https://iu.instructure.com/courses/1874392/files/96596135/download?wrap=1\)](https://iu.instructure.com/courses/1874392/files/96596135/download?wrap=1)

[\(https://iu.instructure.com/courses/1874392/files/96596135/download?wrap=1\)](https://iu.instructure.com/courses/1874392/files/96596135/download?wrap=1) (IRS Gets Class Conscious), **an article GNU and Improved** 

[\(https://iu.instructure.com/courses/1874392/files/96596163/download?wrap=1\)](https://iu.instructure.com/courses/1874392/files/96596163/download?wrap=1)

[\(https://iu.instructure.com/courses/1874392/files/96596163/download?wrap=1\)](https://iu.instructure.com/courses/1874392/files/96596163/download?wrap=1) and an article on invalidating a patent (**Tilting the Patent Scale** 

[\(https://iu.instructure.com/courses/1874392/files/96596148/download?wrap=1\)](https://iu.instructure.com/courses/1874392/files/96596148/download?wrap=1)

[\(https://iu.instructure.com/courses/1874392/files/96596148/download?wrap=1\)](https://iu.instructure.com/courses/1874392/files/96596148/download?wrap=1)). Also an article on how courts are applying the “access” and “striking similarity” elements in **copyright infringement cases**. 

(<https://iu.instructure.com/courses/1874392/files/96596146/download?wrap=1>). 

(<https://iu.instructure.com/courses/1874392/files/96596146/download?wrap=1>)

Next Sunday, **by Noon**, please go to the **Discussion Forum - Module 13: Licensing**

(https://iu.instructure.com/courses/1874392/discussion_topics/9043983) and discuss:

- How do you see licensing being part of your new media, informatics or paralegal career?
- If you have purchased software or downloaded it from the Internet, were you aware of the license? Did you read and understand all of the terms?
- Do you think it is better to purchase a copy of software or to license it, given the advantages and limitations of purchasing or licensing?
- What do you think about open source? What issues do you see now and in the future with this kind of software?
- In terms of the GNU and Improved article from *Landslide*, what are some issues to be aware of with the GPLv3 license? Do you think it addresses any gaps that are present with a GPLv2 license?
- Select one of the other articles and describe one point or issue that you will be aware of in the future.
- Any other interesting or surprising issues with Module 12 or the reading assignment.

Please read the following **mini-lecture**.

Two interesting cases were on a flyer from the law firm, Luper Neidenthal & Logan, that highlight some of the issues we have been discussing this semester.

A jury in northeastern Ohio awarded a company \$500,000 plus attorneys' fees when a former employee breached his covenant not to compete, by opening a similar business and taking the company's customers with him. With business so competitive in this market, does your company have non-compete agreements with your key employees?

A court granted a preliminary injunction prohibiting a key executive from the maker of Thomas' English Muffins from taking his knowledge of "nooks and crannies" to a competitor, Hostess, Inc. This case illustrates the importance of understanding your company's intellectual property, and how to protect it in the context of the employment relationship.

Chapter 16 of *Legal Guide to Web & Software Development* begins with a very brief review of copyright, which is the primary legal doctrine by which software and website ownership and rights are defined, transferred and protected. As we learned earlier in the semester, copyright attaches the minute a work of original authorship with a minimum amount of creativity is fixed in a tangible medium. Recall that the copyright owner has rights of reproduction, distribution, preparation of derivative works, public display and public performance.

A license is a grant of permission to do something, rather than a purchase. There are two basic categories of licenses: exclusive licenses, as described on pages 373-374, and nonexclusive

licenses, as described on page 375. The examples of these two types of licenses are very helpful. Note in the box on page 374 that the "licensee" with an exclusive license becomes the owner of the transferred rights. It would be quite appropriate for the company that has been granted an exclusive license to record the license agreement with the U.S. Copyright Office.

Licenses are a type of contract and require the three basic elements of offer, acceptance and consideration, as we have already discussed this semester. It is important to remember that a license may represent a considerable amount of negotiation and counteroffers between the parties before a final agreement is reached. Although all exclusive licenses must be in writing and properly signed in order to be valid, it is also wise to follow the same formalities for nonexclusive licenses. Also, a doctrine called "the statute of frauds" generally requires that contracts for goods worth \$500 or more be in writing in order to be enforceable. Page 376 notes the importance of signatures and that electronic and digital signatures are permitted.

Pages 376-377 describe why licenses are an important way to distribute software, in contrast to books or artwork, which is generally sold. With a license, you acquire permission to use the software rather than owning a copy. The terms of the license then define what is permissible and what is restricted in using the software. The license may actually take away rights that a person who purchased a copy of the software would normally have. Some of the differences may be subtle, but they have their roots in copyright law as well as the belief that licensing rather than selling the software will be more profitable and will preserve market share. It is important to note the definition of what constitutes a "copy" on page 377 and that purchasing a copy of a software program or other creative material does not transfer copyright ownership (see page 378).

Pages 378-380 discuss the rights that you get if you purchase a copy of a computer program:

- unlimited use rights
- right to copy the program into computer RAM
- right to make archival copies
- right to sell or give away your copy of the program
- rights of adaptation, as described on page 379
- reverse engineering

However, there are things that you cannot do with your copy of a computer program:

- no copies other than back-up and RAM copies
- copy can only be used on a single computer at a time
- software cannot be used on computer networks
- software cannot be rented or loaned to others - but note the exceptions to this on pages 381-382
- no derivative works without the copyright owner's permission

Page 382 covers how a license restricts the rights of a user. Remember that by licensing the software, the user does not acquire **ownership**, but instead has permission to use the software under the terms of the license agreement. In this fashion, a license may have many restrictions that

may actually take away rights that someone who purchased a copy of the software would have. These restrictions might:

- limit use of the software to a specific computer by serial number
- limit use of the software to a specific model of computer
- limit use of the software to computers with a particular processing capacity
- limit use of the software to computers at a specific location
- limit use of the software to a specified number of concurrent users
- limit use of the software to a particular application within the licensee's company
- prohibit the use of the software to perform processing for third parties or other divisions of the licensee's company
- prohibit transfer or sublicensing of the license without prior written consent
- prohibit the use of the software on a computer network
- prohibit copying the software for all but adaptation and archival purposes
- prohibit modification of the software
- prohibit reverse engineering, disassembling or decompiling the software

There are several types of software licenses, which are discussed on page 383: single user/CPU licenses, site licenses, enterprise licenses and network/multiuser licenses.

In order to mass market software effectively through licensing, software publishers developed the shrink-wrap license. This type of license is probably very familiar to you, appearing as either part of the packaging or on the computer screen when the software is first installed. By opening the package or installing the software, you have in effect agreed to the terms of the license. But have you? There was great debate about this for many years, as described on pages 384-385. However, the *ProCD v. Zeidenberg* case (see *Legal Aspects of Managing Technology*, pages 506-508) seemed to settle the issue, with the majority of courts applying the same reasoning to enforce click-wrap licenses. However, the software publisher should take the steps listed on page 385 to help ensure that the license is enforceable.

- provide a prominent notice of the license on the packaging
- require the user to scroll through the license terms and indicate "I agree"
- provide the right to return the software for a full refund if the the user does not agree with the terms of the license

Here is another example of why informatics and new media professionals should keep current on proposed legislation and regulations. Several years ago, new legislation was suggested called UCITA (see pages 513-517 in *Legal Aspects of Managing Technology*) that would have given many more rights to software publishers. Legislatures in all states were encouraged to adopt this legislation. Happily, various professional organizations, companies and concerned citizens realized the impact of this legislation and efforts to have it adopted were rebuffed in nearly every state, including Indiana.

The contents of shrink-wrap licenses are described on pages 385-387. A copy is included in your resources for this Module. Such a license may actually take away or restrict the rights that a person who purchased the software would have - it is important to remember that this is a license, almost like a rental or lease of the product, not a sale. Two alternatives are suggested to give the user adequate notice that this is a license. The license specifies that this is a nonexclusive license, subject to various restrictions, and that the software publisher retains ownership. The license permits the user to load and use the software on one computer or perhaps gives the option of installing it on a portable device as well.

The title clause makes it clear that the owner retains all intellectual property rights. There may also be a provision for making back-up or archival copies. The provision "things you may not do" outlines what is not permitted under the terms of the license, such as reverse engineering, decompiling, translating, modifying or adapting it for personal use, as well as renting or leasing the software to the public, selling, sublicensing, lending or giving away the software to another person. There is also a limited warranty provision. If the software does not perform as promised, the remedy is a replacement copy or return with refund. Termination is generally automatic if the license agreement is violated. General provisions in this type of license have been covered in the discussion of other types of contracts.

Click-wrap licenses are discussed on pages 387-388. A copy is included in your resources for this Module. Many of you are already familiar with this type of license from downloading software from the Internet. As noted on page 387, a click-wrap license may be easier to enforce in a court of law because the user must do something affirmative, such as clicking on the "I accept" button, before being permitted to view the website or download the software. If this happens before the user is charged for the software, there is thought to be sufficient "consideration", or value, exchanged for the contract to be valid. Page 387 provides a good discussion of how this is different than a "shrink-wrap" license, where the customer has already paid for the product and is then asked to give up some of his or her ownership rights without new consideration being given. It is much like the reasoning of an employment agreement with a continuing employee - there must be additional consideration provided with the new agreement in order for there to be a valid contract. The case of *Specht v. Netscape Communications Corp.* on pages 508-513 about free software is interesting (see also pages 644-646 in *Legal Aspects of Managing Technology*).

As indicated on page 388, negotiated license agreements are individually agreed upon and signed by the parties after negotiation. They are typical when a software developer works directly with the end user. The rights granted are nonexclusive and the company that owns the license to the software, such as AcmeSoft in the example, is free to make the same sort of licensing agreements with other customers.

Many of the provisions in a negotiated license agreement will already be familiar to you, such as the name and addresses of the software owner and the customer, confidentiality, arbitration, attorney fees and other general provisions. I have provided a copy of such in the resources to this Module.

You will notice that in addition to the definitions, it is suggested that the software you are licensing be identified on a separate schedule. In addition, you have a choice of the rights that will be granted - a single user license, a license for multiple stand-alone computers, a site license or a network license. You can also select either a perpetual term of the license, contingent on the customer's compliance with the terms of the license and payment of the license fee, or for a definite term of years with automatic renewal. Other important provisions in the agreement are the license fee, termination of the license and return or destruction of the software at the end of the license period. Note that the agreement also makes it clear that you retain "title" to the software - in other words, all of your intellectual property rights in the software - and that the licensee is barred from reverse engineering or modification of the software without your permission. Finally, you can provide either a limited warranty for the performance of the software or the software can be provided "as is". Notice that the warranty provision is in capital letters to be sure that the licensee can clearly see it.

Open source licenses are covered on pages 391-405. The number of pages in *Legal Guide to Web & Software Development* devoted to open source indicates its growing significance in software and website development and that it is still so new that there are many unsettled issues related to the rights and responsibilities of using it. The history and philosophy of open source software are provided on pages 391-392, in contrast to the proprietary software model, described in the box on page 392.

Because there is no single open source license, the Open Source Definition was developed to help classify open source licenses. In order to be certified as an open source license, certain specifications must be met and then the license may designate this by using the OSI Certified legend or logo. The requirements of this designation are:

- Free redistribution - freedom to distribute, not free from costs
- Source code access
- Derivative works
- Integrity of the author's source code
- No discrimination of either people or groups
- No discrimination against fields of endeavor
- Distribution of the license
- License must not be restricted to a specific product or products
- License must not restrict other software
- In addition, the box on page 396 provides a provision that open source software is provided "as is".

At the time that *Legal Guide to Web & Software Development* was written, there were over 30 different licenses in use that had been **OSI certified** (<http://www.opensource.org/licenses/>) and that satisfied the Open Source Definition. There are many other licenses that may qualify, but that have not been certified. Although you can create your own open source license, it is likely that there is

already an existing license that may meet your needs. In addition, creating a new non-standard open source license can be risky.

Pages 397-399 suggest dividing open source licenses into four categories.

- Strong copyleft licenses - note the clever and intentional selection of "left" as opposed to "right" - such as the GPL (GNU General Public License). You can read more information about the history and development of this license as well as download a copy of the license at the **Free Software Foundation** (<http://www.fsf.org>) website.
- Weak copyleft licenses, such as the Mozilla Public License (MPL) and the Lesser General Public License (LGPL).
- No-copyleft licenses, such as BSD-style and MIT-style.
- Other licenses, such as the Artistic License and the Academic Free License.

Considerations for using open source software include cost, reliability, independence and freedom, as discussed on pages 399-400. Pages 400-401 give some excellent examples of using, modifying and distributing a modified open source program.

Many developers may be interested in creating open source software to distribute to the public. There may be many reasons for this, as described on page 402. There are various options for choosing an open source license and some factors to consider, such as using one of the established and recognized open source licenses. It is also possible to use a dual licensing scheme, as described on pages 402-403, to protect certain elements of your software or to provide a proprietary license for a modified version of the software for a client. This can be a complicated issue and it may be best to seek advice from an attorney or others who have expertise in dealing with these matters.

Although the philosophy of open source is compelling and it offers exciting opportunities for software development, there are potential legal problems as well. Open source is challenging some traditional notions of intellectual property ownership and, as always, the law follows the technology. It will take some time - and probably some significant court cases and new legislation - to sort out these issues and make it clear what is permissible and what violates someone else's intellectual property rights. One of the main issues with open source is ownership, as described on pages 403-404.

The box on page 404 provides details of litigation brought by the SCO Group against IBM. This case illustrates that open source software can still be the subject of a legal challenge, regardless of the intention of the developers. Another issue related to open source is from existing software patents, as discussed on page 404. Some open source licenses already contain patent retaliation provisions or other patent-related clauses that make it less attractive to pursue litigation. Termination is another issue with open source licenses, since under copyright law these licenses can be terminated after 35 years. Fortunately, the useful life of software products would suggest that they may not be worth much by that time. The terminology of open source software can be confusing, so it is worthwhile to review the definitions provided in the box on page 405.

As stated on page 406, website developers may often need to obtain graphics, applets, text, photos, videos and other creative works to use in the websites they create. Permission to use these materials should be obtained in writing, which can be done easily using a website content license agreement. A copy is included in the resources for this Module. The provisions in this agreement are quite straightforward and include the name of the party who owns the material and the person seeking permission to use the material, language on the grant of rights, any limitations of the license, sublicensing of the content to others, fees, delivery of content, term of the license, warranties about copyright and other rights, miscellaneous provisions such as attorney fees, indemnification and arbitration and signatures. As indicated on pages 406-407, fees for someone else's content might be determined by whether there is advertising on the website, whether the use is for the public or to sell products or services, whether the site sponsor is a non-profit organization and whether the content will also be used in print publications. In addition, many copyright owners may limit the length of time that they are willing to give permission to use their content, possibly only for a year or even less.

Website linking agreements are discussed on pages 408-410. A copy is included in your resources for this Module. Although many sites are pleased to have you link to them, in other cases it may be best to get permission, either through something as informal as an email or a more elaborate agreement as shown on page 409. This is a very simple agreement, with a section for the source and destination sites, a description of how the URLs will appear, whether framing is acceptable, a granting of nonexclusive rights to intellectual property such as the trademark of the destination site, standards for maintaining the source site and the requirement to notify the destination site of any changes to the link or to the source site that would affect the link.

Please let me know if you have questions on Module 13 or the reading assignment.