

Legal Issues in Licensing Electronic Resources:

ALCTS Webinar

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Some Ground Rules!

- **Anything said here is not to be taken as legal advice, if you have a legal issue, please consult appropriate counsel...**
- **In return, it is assumed that all questions posed are hypothetical and reflect only the musings of an informed and curious mind and not the actual problem you might have.**

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Understanding Licenses

- A license is form of legal **permission**; can take the form of a contract.
 - **Mass-market** or consumer licenses are non-negotiated.
 - **Negotiated**: there is opportunity to arrive at terms; negotiate.
- Determining the **legal** and **practical** consequences of a term or provision:
 - What *responsibilities* are *imposed* on the licensee and its customers or patrons?
 - Likewise, what *additional rights* have been gained?
 - Answers these questions may require knowing a bit of **copyright law** and the basic principles of **contract law**.

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Mass-market licenses are *Adhesion contracts*: no negotiations; coined “take-it-or-leave-it” contracts. Examples: Shrink-wrap, click-wrap, scroll-wrap and browse-wrap.

An adhesion contract exists in a “take or leave it” bargaining climate where one party has no opportunity to bargain and no option but to accept the terms, i.e., no other place to obtain the product. See, *I-Systems, Inc. v. Softwares, Inc.*, 2005 WL 1430323, at *2 (D. Minn. 2005) (unpublished) (citations omitted): “Adhesion contracts generally are not bargained for, but are imposed on the public for a necessary service on a ‘take it or leave it’ basis. However, the mere fact that a contract is on a printed form or inserted into a software program, and offered on a ‘take it or leave it’ basis does not necessarily cause it to be an adhesion contract. Similarly, the simple fact that the terms of a contract were not explicitly negotiated does not, alone, make a contract one of adhesion. Instead, there must be a showing that the parties were greatly disparate in bargaining power, that there was no opportunity for negotiation and that the services could not be obtained elsewhere.”

A court concluded that the CSS License Agreement between Realnetworks, Inc. and the DVD Copy Control Association was a contract of adhesion: “Though Real may be a large company, its interaction with DVD CCA was in the capacity of an entity seeking to build a product that implements CSS technology and Real had no choice but to accept the CSS License Agreement in order to make a DVD product that interacts with CSS-protected DVDs... Thus, the courts finds that the Agreement was a contract of adhesion.” *Realnetworks, Inc. v. DVD Copy Control Association*, 641 F. Supp. 2d 913, 947 (N.D. Calif. 2009). “Even though the Agreement between Real and DVD CCA is standardized or adhesive does not in and of itself mean it is unenforceable. Absent clear evidence of other factors, such as undue oppression or unconscionability, which has not been put forth here, the Agreement must be enforced according to its terms.” *Id.* At 947-948.

Licenses and Legal Risk

- Licenses often **shift** the **legal risk** or **legal responsibility** from one party to the other.
 - Risk-shifting strategies are employed by many licensors; shifting risk from the licensor to the licensee.
- Legal risk is shifted often in two ways:
 - Licensor *minimizes* its own *risk*; foregoing responsibilities.
 - Licensor *imposes* additional *obligations* on licensee.

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Licensor *minimizes* its own *risk*. Examples: Disclaim warranties (minimizing the legal promises it makes) and waive damages (limiting the remedies available to the licensee, often to subscription price).

Licensor *imposes* additional *obligations* on licensee. Examples: use (copyright) and other (restrictions). Examples: notification, compliance and monitoring procedures and indemnification.

Other risk minimization strategies: force majeure, change of terms without notice, self-help (suspension), and choice of law / choice of forum, integration provision.

Recitals: Whereas Clauses

- Establishes the *facts* pertaining to the agreement which *both parties agree* as fact and *agree not to dispute* at a later date.
- As admissions of fact ensure that these recitals are *accurate and based on fact* (i.e., not opinion).
- Sets the stage for the agreement: *what* brought the parties to this point, with *whom*, for *what purpose*.
- May be the *most-read* portion of the agreement!

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It is typical for contracts to include a list of recitals, statements prefaced by the word “whereas”: A recital constitutes “[a] preliminary statement in a contract or deed explaining the reasons for entering into it or the background of the transaction, or showing the existence of particular facts... Traditionally, each recital begins with the word whereas.—Also termed whereas clause.” BLACK’S LAW DICTIONARY (9th ed. 2009) (no pagination in Westlaw).

“[I]t is standard contract law that... [recitals] *cannot create any right* beyond those arising from the operative terms of the document.” *Grynberg v. Federal Energy Regulatory Commission*, 71 F.3d 413, 416 (D.C. Cir. 1995).

While not a substantive part of the license terms recitals do have an important purpose. “Recitals to a contract provide explanations of those circumstances surrounding the execution of the contract. Ordinarily, recitals are only preliminary in nature and will not, of themselves, be considered binding obligations on the parties or an effective part of their agreement unless referred to in the operative portion of their agreement.” *First Bank and Trust Co. of Illinois v. Village of Orland Hills*, 787 N.E.2d 300, 308 (Ill. App. 1 Dist., 2003). See also, *All Metals Fabricating, Inc. v. Ramer Concrete, Inc.*, 338 S.W.3d 557, 561 (Tex. App. El Paso, 2009) (citations omitted) (“A recital is a formal statement or setting forth of some matter of fact, in any deed or writing, in order to explain the reasons upon which the transaction is founded. Recitals are generally not part of a contract unless the parties intended them to be, and will not control a contract’s operative clauses unless those clauses are ambiguous. The recitals may be looked to in determining the proper construction of the contract and the parties’ intent”).

Authority to Contract

- Agent must have the *authority to bind* the principal.
 - “[A] principal will be bound by a contract entered into by the principal’s agent on his behalf only if the agent had *authority to bind* him.” *Guideone Insurance Co. v. U.S. Water Systems Inc.*, 950 N.E.2d 1236, 1241 (Ind. App., 2011).
- *Empresas Electronics Walser, Inc. v. U.S.*, 650 F.2d 286 (Ct.Cl. 1980) (unpublished), cert. denied, 449 U.S. 953 (1980) (an agency “can *disavow*” the unauthorized promises of its agents).

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“There is no dispute that defendant's own rules limited the authority of its employee to enter into the subject contract or that, if those rules were properly promulgated and therefore in effect, the resulting lack of authority in the employee with whom plaintiff contracted would render the contract void (*see, Henry Modell & Co. v. City of New York*, 159 A.D.2d 354, 355, 552 N.Y.S.2d 632, *appeal dismissed* 76 N.Y.2d 845, 560 N.Y.S.2d 129, 559 N.E.2d 1288). *Janowsky v. U.S.*, 23 Cl. Ct. 706, 715 (1991) (“a contract is *voidable* at the option of the government when the official who made the agreement lacked actual authority to bind the government.”). Classifying the proof that a third party must show to bind a principal: (1) actual authority, (2) apparent authority, (3) inherent agency power, (4) agent by estoppel, and (5) ratification. Though these concepts overlap and there is uncertainty over the parameters of each doctrine, any of the five doctrines will bind a principal to a contract. An agency by estoppel is created where a principal holds an agent out as possessing authority to act on the principal's behalf, or the principal knowingly permits the agent to act as though the agent had such authority. *McSweeney v. Jackson*, 117 Ohio App.3d 623, 630, 691 N.E.2d 303 (1996). Signature: “attest” is used for a corporate signatory and “witness” for and individual.

“Under *SEAL*” extends statute of limitations for breach: *A.I. Trade Finance, Inc. v. Petra Intern. Banking Corp.*, 62 F.3d 1454, 1467 (D.C. Cir.,1995) (citations omitted). See also, *Ripps v. Powers*, 356 Fed.Appx. 352, 355 (11th Cir. , 2009 (“Ripps claims that the notarized contract is ‘under seal and therefore subject to a ten year statute of limitations, Alabama law is clear that for a contract to be “under seal” it must express that intention in the body of the contract. The written contract in this case states no such intention.”). “It is true that the presence of a corporate seal may not by itself make a document an instrument under seal...That is the case because corporate seals are routinely employed for identification and as a mark of genuineness, a use which does not necessarily evince an intention to create an instrument under seal. Thus, in order for a document to be an instrument under seal for statute of limitations purposes, something more than a corporate seal, such as, for example, a recitation that the document is ‘signed and sealed,’ is required.... There is no requirement that proof of the parties’ intent to create a sealed instrument be proved by extrinsic evidence.... Thus, a proper determination of whether a document is under seal is limited in the first instance to an examination of the face of the document

itself.” *Burgess v. Square 3324 Hampshire Gardens Apartments, Inc.*, 691 A.2d 1153, 1156 (D.C., 1997) (citations omitted). As a result, for contracts intended to be made under seal word “SEAL” should appear.

Covenants versus Conditions

- An independent *promise* is also called a covenant:
 - The failure to perform or otherwise fulfill the promise constitutes a breach, for which a remedy can be sought.
- A condition or some other obligation:
 - The *failure to meet the condition is not enforceable*, i.e., the party cannot be forced to comply, but failure to meet the condition impacts the obligations of the other party.
 - A condition that upon occurrence *gives rise to an obligation* to perform a later act or obligation is known as a **condition precedent**.
 - A condition that upon occurrence *releases a party from performance* is known as a **condition subsequent**.

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Covenant/Promise: “Vendor agrees to provide access to ABC electronic resource upon payment of the annual license fee within 30 days of invoice receipt.”

Condition Precedent: “I’ll sell you the second edition at a 25% discount if it’s still in print” is a condition. The condition (the book being still in print) triggers the promise (to sell it at a 25% discount). If the book is out of print there is no right on the part of the other party to force the vendor to print more copies as this is a condition not an enforceable promise. Whether the book is still in print or not is not an enforceable right or promise but a condition precedent to the selling of the book at a discount.

Condition Subsequent: “If the circulation module operates error-free for a period of 30 days after initial installation or upgrade installation, the commitment to provide installation or upgrade service support is hereby fulfilled.”

A condition that upon occurrence gives rise to an obligation to perform a later act or obligation is known as a condition precedent (sell the book), whereas a condition that upon occurrence releases a party from performance is known as a condition subsequent (discontinue start-up support).

Tosco Corp. v. Hodel, 611 F.Supp. 1130, 1186 (D.C. Colo., 1985) (“The rationale for imposing the burden of proof on the one attacking the validity of the claim for failure to perform assessment work may also be explained in terms of *conditions precedent* and *subsequent*. Briefly, a *condition subsequent* is a provision or condition which cuts off an existing legal right, entitlement or benefit. Upon its occurrence, a *condition subsequent* operates to defeat or annul a right or benefit. On the other hand, a *condition precedent* requires certain performance or condition which must take place before a legal right can vest. The condition must occur or be performed before a right, entitlement or benefit comes into existence and becomes binding.”) (italics in the original). *Jacobson v. Katzer*, 2008 WL 3395772 (Fed. Cir. 2008): “The heart of the argument on appeal concerns whether the terms of the Artistic License are conditions of, or merely covenants to, the copyright license.” Id. at *5. “Thus, if the terms of the Artistic License allegedly violated are *both covenants and conditions*, they may serve to *limit the scope* of the license and are governed by copyright law. If they are merely *covenants*, by contrast, they are governed by

contract law.” Id. at *5.

Party Obligations: Legal Standard

- ***Reasonable efforts***: the party must *act reasonably* under the *situation* and “industry” *practice*.
- ***Best efforts*** represents a higher standard of conduct. If used the term should be defined:
 - “Care and diligence necessary to further the intentions of the parties hereunder.”

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“‘Best efforts’ has been found to require ‘greater care and diligence than ordinary care and diligence.’ It requires more than good faith, which is implied in all contracts and generally requires diligence and an elevated duty of good faith.” HOWARD CLASSEN, A PRACTICAL GUIDE TO SOFTWARE LICENSING FOR LICENSEES AND LICENSORS 128 (3d ed. 2008), quoting *Allen v. Williamsburgh Savings Bank*, 69 N.Y. 314, 322 (1877), and citing *Kroboth v. Brent*, 215 A.D.2d 813, 814 (3d Dept. 1995) and *National Data Payment Systems v. Meridian Bank*, 212 F.3d 849, 854 (3d Cir. 2000).

Best Efforts could be interpreted as an undertaking of a standard of care to the detriment of the actor: “The parties should avoid adopting a ‘best efforts’ standard unless it is clearly defined. By defining best efforts, the parties can ensure certainty in the interpretation of their contract. A potential definition might be: ‘Reasonable diligence necessary to further the intentions of the parties hereunder.’” H. WARD CLASSEN, A PRACTICAL GUIDE TO SOFTWARE LICENSING FOR LICENSEES AND LICENSORS 129 (3d ed. 2008).

Reasonable and Best Efforts: Examples

- Bowker’s Books in Print: “Subscriber will exercise *reasonable efforts* to *inform Authorized Users of the restrictions* on the use of the Products and Content and to *enforce such restrictions*.”
- “If rights in all or any part of the Licensed Material are *assigned* to another publisher, BioOne shall use its *best efforts* to ensure that the *terms and conditions* of this License are *maintained*.”

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Reasonable Efforts to inform Authorized Users: consistent with other mechanism such Acceptable Use or Network Use policies.

Enforcement clause (if applicable) should be tied to same standard: “and to use *reasonable efforts* to enforce such restrictions.”

Downtime: “Efforts” Standards

- “Elsevier *aims to keep* the Site available twenty-four (24) hours a day, seven (7) days a week and to maintain saved information... Elsevier *shall not be liable* for lost information or *non-availability* of the services.”
- Greenwood Press: “Licensor shall use *reasonable efforts* to provide continuous service seven days a week with an average of *98%* up time *per month*.”

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Destruction of Content: Standards

- Nature (corporate): “On termination...the Licensee **agrees to destroy** and use its **best endeavours** [sic] to procure that **all Authorized Users destroy**, all **Licensed Material stored** on its network or in CD-Rom or other hard copy form both on **paper** and in any **digital** information storage **media** or other **physical media storage**...”
- CSA Illumina: “In the event the license granted under this agreement is terminated **you shall disable all Products in your possession**. This includes the **destruction** of any CD-ROMs, FTP databases or any software **as well as any downloaded copies retrieved from the Products**.”

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Consistent with your practices regarding other library, campus or school products and services (“reset your password; your password will expire every 180 days.”

Choice of “**reasonable efforts**” or “**best efforts**” limited to → sending **notice(s)** to Authorized Users?

Change in Content: Notice and Refund?

- Greenwood Press (**no notice!**): “Licensee understands that from time to time the Licensed Materials may be *added to, modified, or deleted...*”
- **Notice; no Refund**: “BioOne reserves the *right* at any time *to withdraw* [content] ... for which it no longer retains the right to publish or... BioOne *shall give notice* to the Licensee of such withdrawal.”
- **No notice; Refund**: “withdrawal represents *more than ten (10%) percent* of the total Springer Content... shall *refund that portion* of the license fee that is *in proportion* to the amount of [] Content withdrawn...”

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Change in Terms

- Cengage Learning: “We may *amend* the Terms at *any time* by *posting* the amended terms to the *site*.”
- “Gartner reserves the right to *change the terms and conditions* applicable to use of the Products. Such changes shall be *effective immediately upon notice*, which shall be placed *on the website*. Use of the Products after notice shall be *deemed to be acceptance* by User of such changes.”

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Under the UCC § 2-207(2): “additional terms are to be construed as proposals for addition to the contract. *Between merchants* such terms *become part of the contract unless*: “(a) the offer expressly limits acceptance to the terms of the offer; (b) they *materially alter it*; or (c) notification of objection...already [] given or is given within a reasonable time after notice of them is received.”

“Although the phrase “material” is subject to interpretation, it has been defined as ‘affect[ing] the purpose of a contract in an important or vital way.’ H. HOWARD CLASSEN, A PRACTICAL GUIDE TO SOFTWARE LICENSING FOR LICENSEES AND LICENSORS 65 (3d ed. 2008), quoting *K&K Management, Inc. v. Lee*, 557 A.2d (Md. 2989) and WILLISTON ON CONTRACTS § 866.

UCC § 2-104(1) (Definitions: “Merchant”; “Between Merchants”; “Financing Agency”): a person that *deals in goods of the kind or otherwise holds itself out by occupation as having knowledge or skill peculiar to the practices or goods involved* in the transaction or to which the knowledge or skill may be attributed by the person’s employment of an agent or broker or other intermediary that holds itself out by occupation as having the knowledge or skill.”

The library is likely a merchant when contracting for information products and service, but likely a consumer when buying cleaning supplies and light bulbs.

“In this type of provision, banks or even universities, for example, well may be ‘merchants.’ But even these sections only apply to a merchant in his mercantile capacity; a lawyer or bank president buying fishing tackle for his own use is not a merchant.” UCC § 2-104 (Definitions: “Merchant”; “Between Merchants”; “Financing Agency”), Official Comment 2.

Change in Terms: Consumer Contracts

- *Douglas v. Talk America, Inc.*, 495 F.3d 10621065 (9th Cir. 2007) (non-negotiated consumer license): “Talk America ***posted the revised contract on its website***” without notice.
- “Even if Douglas had visited the website, he would have had no reason to look at the contract posted there. ***Parties to a contract have no obligation to check the terms on a periodic basis*** to learn whether they have been changed by the other side.” *Id.* at 1066.

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Douglas v. Talk America, Inc., 495 F.3d 10621065 (9th Cir. 2007): “Nor would a party know *when* to check the website for possible changes to the contract terms without being notified that the contract has been changed and how. Douglas would have had to ***check the contract every day*** for possible changes... examination would be ***fairly cumbersome***, as Douglas would have had to compare every word of the posted contract with his existing contract in order to detect whether it had changed.” *Id.*, at n. 1.

Change in Terms: Notice

- Indicate **form of** notice and **when** effective.
- Avoid licenses where use equals assent; use after posting means you agreed to the changes. Receive prompt of new terms and use click-to-agree after reading.
- ARTstor: terms “may be amended from time to time” but changes that “*materially conflict*” [material terms?] with the existing terms) are provided with **30 days notice** of such changes and may be in electronic form such as **email**. If the licensee objects, the licensor will “use all **reasonable efforts to agree** upon *mutually acceptable language*.”

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Use Restrictions

- **First Sale/Exhaustion:** The ability of a rights holder to *control public distributions* of a work protected by copyright *ends* (or is **exhausted**) after the its **first sale** or *first distribution* to the public.
- Example: includes a prohibition “*not to forward, transfer, sell, rent, or otherwise knowingly distribute or provide access* to the contents of ACS [American Chemical Society] Products or any portions thereof, *to any third party.*”

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17 U.S.C. § 109(a): “Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.”

17 U.S.C. § 109(b)(1)(A): “...Nothing in the preceding sentence shall apply to the rental, lease, or lending of a phonorecord for nonprofit purposes by a nonprofit library or nonprofit educational institution...”

17 U.S.C. § 109(b)(2)(A): “Nothing in this subsection shall apply to the lending of a computer program for nonprofit purposes by a nonprofit library, if each copy of a computer program which is lent by such library has affixed to the packaging containing the program a warning of copyright in accordance with requirements that the Register of Copyrights shall prescribe by regulation.”

KCDL Vernor v. Autodesk, Inc., 621 F.3d 1102, 1107 (9th Cir. 2010) (“**first sale doctrine** does *not apply* to a person who *possesses a copy* of the copyrighted work without owning it, such as a **licensee**.” Citing section 17 U.S.C. § 109.).

Kirtsang v. John Wiley & Sons, Inc., 2013 WL 1104736 (6-3 decision): “the change in language [1909 vs. 1976 Copyright Act] makes clear that they [*possessors not owners*] (like **bailees** and other **lessees**) **cannot** take advantage of the “first sale” doctrine.” Id. at p. 8.

More Use Restrictions

- **Preservation** (CSA Illumina): If the “agreement is terminated *you shall...* This includes the destruction of any CD-ROMs, FTP databases or any software *as well as any downloaded copies retrieved from the Products.*”
- **Inter Library Loan** (Nature, Academic): may “*reproduce single copies* of individual articles from the Licensed Material in *hard copy print form* for **distribution** without charge in hard copy form (**but not electronically**) to individual libraries...”

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17 U.S.C. § 108(b): “The rights of reproduction and distribution under this section apply to three copies or phonorecords of an unpublished work duplicated solely for purposes of preservation and security or for deposit for research use in another library or archives of the type described by clause (2) of subsection (a), if—(1) the copy or phonorecord reproduced is currently in the collections of the library or archives; and (2) any such copy or phonorecord that is reproduced in digital format is not otherwise distributed in that format and is not made available to the public in that format outside the premises of the library or archive.”

17 U.S.C. § 108(d): “The rights of reproduction and distribution under this section apply to a copy, made from the collection of a library or archives where the user makes his or her request or from that of another library or archives, of no more than one article or other contribution to a copyrighted collection or periodical issue, or to a copy or phonorecord of a small part of any other copyrighted work, if—(1) the copy or phonorecord becomes the property of the user, and the library or archives has had no notice that the copy or phonorecord would be used for any purpose other than private study, scholarship, or research; and (2) the library or archives displays prominently, at the place where orders are accepted, and includes on its order form, a warning of copyright in accordance with requirements that the Register of Copyrights shall prescribe by regulation.”

More Use Restrictions

- **Public Performance in the Classroom (iTunes):**
“USAGE RULES. You shall be authorized to use iTunes Products only for *personal*, noncommercial *use*.”
- **Datamining / Fair Use (ProQuest):**
“**Downloading** of *all or parts of* a Product in a **systematic or regular manner** or so as to create a *collection of materials comprising all or a material subset* of a Product is strictly **prohibited... Data mining is prohibited.**”

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17 U.S.C. § 110(1): “performance or display of a work by instructors or pupils in the course of face-to-face teaching activities of a nonprofit educational institution, in a classroom or similar place devoted to instruction...”

17 U.S.C. § 110(2): “ the performance of a nondramatic literary or musical work or reasonable and limited portions of any other work, or display of a work in an amount comparable to that which is typically displayed in the course of a live classroom session, by or in the course of a transmission, if—
(A) the performance or display is made by, at the direction of, or under the actual supervision of an instructor as an integral part of a class session offered as a regular part of the systematic mediated instructional activities of a governmental body or an accredited nonprofit educational institution...”

17 U.S.C. § 107: *Authors Guild, Inc. v. HathiTrust*, 755 F.3d 87, 97 (2d Cir. 2014) (Fair Use analysis, First Factor): “**quintessentially transformative**” as the *full-text searching* serves a “new and different function.” *Authors Guild, Inc. v. Google, Inc.*, 804 F.3d 202 (2d Cir., 2015), cert. denied, 136 S.Ct. 1658 (2016). Purpose: “make available significant information *about those books*, permitting a searcher to identify those that contain a *word or term of interest*, as well as those that do *not include reference* to it.” Id. at 217. See also, *A.V. v. iParadigms, Ltd.*, 2008 WL 728389 (E.D. Va. 2008), aff’d in part, rev’d in part, 2009 WL 1015145 (4th Cir. 2009). *Perfect 10 v. Google, Inc.*, 508 F.3d 1146, 1166, (9th Cir. 2007): “We conclude that the *significantly transformative* nature of Google’s *search engine*, particularly in light of its *public benefit*, outweighs Google’s superseding and commercial uses of the thumbnails in this case.”

More Use Restrictions

- **Circumvention / Fair Use** — circumvention to achieve interoperability (Kindle License Agreement and Terms of Use): may “*display such Digital Content* an unlimited number of times, *solely on the Kindle or a Reading Application or as otherwise permitted as part of the Service ...*”

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37 C.F.R. § 201.40(a)(4): “Computer programs that enable smartphones and portable all-purpose mobile computing devices to execute lawfully obtained software applications, where circumvention is accomplished for the sole purpose of enabling interoperability of such applications with computer programs on the smartphone or device, or to permit removal of software from the smartphone or device. For purposes of this exemption, a “portable all-purpose mobile computing device” is a device that is primarily designed to run a wide variety of programs rather than for consumption of a particular type of media content, is equipped with an operating system primarily designed for mobile use, and is intended to be carried or worn by an individual.”

Evolution, Inc. v. SunTrust Bank, 342 F. Supp. 2d 943 (D. Kan. 2004) (de-compilation of software in order to extract out unprotected elements fair use); *Sony Computer Entertainment, Inc. v. Connectix Corp.*, 203 F.3d 596 (9th Cir. 2000), cert. denied 531 U.S. 871 (2000) (copying computer code to extract unprotected elements fair use); *Atari Games Corp. v. Nintendo of America, Inc.*, 975 F.2d 832 (Fed Cir. 1992) (reverse engineering (copying) of computer program as intermediate step to extracting unprotected elements can be a fair use); and *Sega Enterprises Ltd. v. Accolade, Inc.*, 977 F.2d 1510 (9th Cir. 1992) (de-compilation of software program to extract unprotected elements fair use).

Reservation of Rights: Legal Effect

- Example (Alexander Street): “Any *rights not expressly granted* in this license agreement are **reserved** to ASP.”
- No legal effect: “such a *clause adds nothing* to the *substantive prohibitions* in the Agreement.” *Hard Rock Café, International. (USA) Inc. v. Morton*, 1999 WL 717995, *23 (S.D.N.Y., 1999) (unpublished).

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Intent: the licensor has granted specific rights, any other use rights are retained by the licensor and prohibited by the licensee.

Legal Impact: “The reservation clause stands for no more than the truism that Stravinsky retained whatever he had not granted. It contributes nothing to the definition of the boundaries of the license.” *Boosey & Hawkes Music Publishers, Ltd. v. Walt Disney Co.*, 145 F.3d 481, 488 (2d Cir., 1998). See also, *Random House, Inc. v. Rosetta Books LLC*, 150 F.Supp.2d 613, 621 (S.D.N.Y., 2001) (“Similarly, Rosetta’s argument that the contractual clause in which the authors reserve motion picture and broadcasting rights for themselves in certain contracts also means that the authors reserved the ebook rights is without merit. Such reservation clauses, unless they expressly cover the new use in question, contribute nothing to the definition of the boundaries of the license.”).

In other words, a reservation clause cannot take rights away from others by a failure to elucidate those rights. As one commentator explained: “The inclusion of a generic savings clause, such as ‘All rights not specifically granted to Licensee are expressly reserved,’ has no effect on a library’s rights under fair use and Section 108, and hence does not bar lending under ILL arrangements. A publisher’s rights are expressly limited by the exceptions in the law, including Sections 107 and 108, so they have no right to forbid activities that Sections 107 and 108 allow.” Brandon Butler, Appendix A: Legal Licensing Issues (REPORT OF THE TASK FORCE ON INTERNATIONAL INTERLIBRARY LOAN AND DOCUMENT DELIVERY PRACTICES (June, 2011).

However if specific restrictions on section 107, 108 or other rights provisions are stated in the agreement, as prohibited uses for example, then the library will be bound to honor those restrictions. Worse, the library should avoid agreeing to provisions that forbid all uses other than those specifically granted as such clause may indeed impact fair use, section 108 rights such as interlibrary loan and other rights under the copyright law.

Warranty and Disclaiming Warranties

- **No Warranty** (Elsevier)!: “[A]ll content, products and services ... are provided ‘*as is*’ and *without warranties or representations* of any kind... including but not limited to the *warranties* of title and **noninfringement**...”
- **Conditional, “best knowledge” Warranty (may be just as useless!)**: “Springer *warrants* that ...to the Licensee...to the **best of its knowledge, use by Licensee... will not infringe [the] rights of third parties.**”

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Warranties: Absolute and conditional.

Price Automotive Group v. Dannemann, 2002 WL 31260007, *7 (Del. Super. Ct): “courts have interpreted the ‘best knowledge’ warranty as a warranty based on actual knowledge. ‘Best knowledge’ warranties reflect the parties’ mutual understanding that the warrantor will not bear the risk of defects which may exist unknown to the warrantor. In a sense, then, the ‘best knowledge’ language marks a shift in the risk of loss resulting from unknown (as opposed to unknowable) defects from warrantor to warrantee.” Footnote omitted.

“[Merchantability “means that a good sold carries with it an *inherent soundness* which makes that good suitable for the purpose for which it was designed.” *Agri-Business Supply Co. v. Hodge* (1984).

“[F]itness for a particular purpose is a warranty implied by law when a *seller has reason to know* that a buyer wishes goods for a *particular purpose* and is relying on the seller’s skill and judgment to furnish those goods.” *Martinez v. Metabolite, Inc.* (2003).

Licenses that are for the use of content protected by copyright **must** include the warranty of non-infringement otherwise the library / licensee may be subject to liability under principles of secondary infringement.

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Warranty of Non-infringement

- **Absolute Warranty of Non-infringement.**
Greenwood Press: “Licensor represents and **warrants** that it has the ***right and authority to make Licensed Materials available*** pursuant to these terms and conditions and that **providing the Licensed Materials to Licensee does not infringe** upon any copyrights, patent, trade secret, or other proprietary right of any third person.”

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Licenses that are for the use of content protected by copyright **must** include an absolute warranty of non-infringement otherwise the library / licensee may be subject to liability under principles of secondary infringement.

Indemnification

- An **absolute warranty** of non-infringement regarding both the offering of the content and use in accordance with the license terms by the licensee or authorized users is worthless if an **indemnification** is not also included.
- Survival of both *warranty and indemnification* is necessary unless there are plans to cease use of the content after the subscription ends.
 - The statute of limitations for copyright infringement is *three years* for *civil actions* and five years for criminal actions. 17 U.S.C. § 507.

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Indemnification is often conditioned upon prompt **notification** by licensee of any pending litigation, **cooperation** by the licensee in that litigation and **control** of the litigation rests with licensor, including settlement.

Indemnification

- **Unacceptable (wrong party indemnified!):**
“*Subscriber agrees to indemnify* OVID from and defend at its own expense...against any and all claims of third parties...arising out of or related to *Authorized Users use* of the Products or any materials provided hereunder.”
- **Acceptable (Accessible Archive):** “The *Licensor shall indemnify* and hold Licensee and Authorized Users harmless for any *losses, claims, damages, awards, penalties, or injuries* incurred... which arise from any claim by any third party of an alleged *infringement of copyright ...*”

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Survival of warranty and indemnification is necessary unless there are plans to cease use of the content after the subscription ends.

A **warranty** of non-infringement regarding both the offering of the content and use in accordance with the license terms by the licensee or authorized users is worthless if an **indemnification** is not also included.

While the licensor cannot warrant (promise) that content is error free it must warrant that it is not infringing; an indemnification puts teeth into such promise.

Remedy Limits: More Risk Shifting

- **Form of remedy:** “Any dispute or claim arising from or relating to the Agreement or the Service is subject to the **binding arbitration**... **You agree to those terms by entering into the Agreement or using the Service.**”
- **Damage Cap (Dropbox):** “**AGGREGATE LIABILITY FOR ALL CLAIMS RELATING TO THE SERVICES MORE THAN THE GREATER OF \$20 OR THE AMOUNTS PAID BY YOU TO DROPBOX FOR THE PAST THREE MONTHS OF THE SERVICES IN QUESTION...**”

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Damages: are often waived or limited to price of subscription.

Taylor and Francis Group license: “Taylor and Francis group will not in any way be liable...for any damages (whether direct or indirect, or consequential, punitive, special or exemplary, including but not limited to, loss of profits, loss of good will, loss of reputation and for any other type of special indirect, incidental or consequential loss or damage) resulting there from.”

Springer, damages “shall be limited to the aggregate amount of charges and fees paid by Licensee in the twelve (12) month period preceding the event giving rise to such claim.”

Some states do not allow the types of disclaimers in this paragraph, so the disclaimer **may not apply to you.**

Impacting Patron Privacy Rights

- **No Monitoring** (ARTstor): “it is understood that Licensee *shall* have *no obligation to monitor or ensure* that Authorized Users are only *downloading* ARTstor Content using the download function(s).”
- **Monitoring Required** (Nature Academic): “The Licensee *shall* put into place *reasonable procedures to monitor* the *compliance* with the terms and conditions of this Agreement by the Authorized Users.”

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Recommended: Enforce with a consistent approach across other institutional monitoring-enforcement policies, e.g., Acceptable Use Policy.

Align license obligation with principles of secondary liability under the copyright law: “know or reason to know” standard, only at that point is intervention required. A requirement to monitor, i.e., to actively seek out non-compliance, is arguably a higher “should know” standard.

Impacting Patron Privacy Rights

- **No Monitoring** but a “snitch” requirement (**inform licensor**): “Use *reasonable efforts* to ensure that *Authorized Users are made aware* of ... the terms and conditions of this License; and immediately *on becoming aware* of any *unauthorized user or other breach*, **inform** BioOne and take *reasonable steps* ... to ensure that such activity **cease and to prevent** any recurrence.”

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U.S. v. Swartz, Criminal Complaint, at ¶ 23 - ¶ 24, No. 1:11-cr-10260-NMG (Dist. Mass., 7/711) (loss of service at MIT).

Reporting may be a precursor to the licensor suing your customer, student or employee! → **Section 512(h) Subpoena process and powers.**

Impact of “Inaction” after Snitch

- **Right to Suspend (self-help):** “In the event of *violation* of these Terms and Conditions of Use by an Authorized User, (a) JSTOR may **suspend** or **terminate**, or, where practicable, *request* that Institutional *Licensee* **suspend** or **terminate**, such *Authorized User’s access* to the JSTOR Archive.”
 - In response, JSTOR blocked the entire MIT computer network’s access to JSTOR for several days, beginning on or about October 9, 2010.” *U.S. v. Swartz*, Criminal Complaint, at ¶ 23 - ¶ 24, No. 1:11-cr-10260-NMG (Dist. Mass., filed July 7, 2011).

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“Institutional Licensees **shall notify JSTOR** of any such unpermitted uses of which they learn or are notified and **shall cooperate with JSTOR** in **resolving problems** or **unpermitted use**.”

U.S. v. Swartz, Criminal Complaint, at ¶ 23 - ¶ 24, No. 1:11-cr-10260-NMG (Dist. Mass., 7/711) (loss of service at MIT). This is what happened to and its access to the JSTOR database. In response to the activities of one Jason Swartz JSTOR “began blocking a much broader range of IP addresses. As a result, legitimate JSTOR users at MIT were denied access to JSTOR’s archive.” *U.S. v. Swartz*, Criminal Complaint, at ¶ 18b, No. 1:11-cr-10260-NMG (Dist. Mass., filed July 7, 2011). Slowed but not stopped Swartz devised a spoofing program and resumed his downloading in earnest. Within a couple of weeks the “ghost laptop” and “ghost macbook” were “systematically and rapidly access[ed]...The Pace was so fast that it brought down some of JSTOR’s servers. In response, JSTOR blocked the entire MIT computer network’s access to JSTOR for several days, beginning on or about October 9, 2010.” *U.S. v. Swartz*, Criminal Complaint, at ¶ 23 - ¶ 24, No. 1:11-cr-10260-NMG (Dist. Mass., filed July 7, 2011).

Impact of “Inaction”

Material Breach with Cure Right and Termination Right (Greenwood Press): “either party believes that the other *materially has breached* any obligations party shall so *notify the breaching party in writing*. The breaching party shall have **30 days** from the *receipt* of notice *to cure* ... and to *notify the non-breaching party in writing that cure has been effected*. If the breach is *not cured* within the 30 days, the non-breaching party shall have the right to **terminate** the Agreement *without further notice*. ”

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The Restatement focuses upon the loss of a reasonably expected benefit, ability to compensate for the loss of the benefit, forfeiture in the breach is deemed material, the possibility for cure, whether the breaching behavior nonetheless conformed to good faith and fair dealing. The Restatement views the following circumstances important in determining whether a breach of the term is material: extent to which the aggrieved party is deprived of a reasonably expected benefit and can be compensated adequately for that loss, the extent to which the breaching party will suffer loss and the likelihood of cure by that party including reasonable assurances to accomplish the cure, and an evaluation of the extent of good faith (subjective) and fair dealing (objective) of the party in breach. Applying these factors suggest the determination of material breach is a question of fact for the trier of fact (judge or jury), whereas the result of the breach, termination, operates as a matter of law. Restatement (Second) of Contracts § 241 (1981) (Circumstances Significant In Determining Whether A Failure Is Material), *a. Nature of significant circumstances* (“Contrast the situation where the parties have, by their agreement, made an event a condition... This Section therefore states circumstances, not rules, which are to be considered in determining whether a particular failure is material”). *Sahai Pty, Ltd. v. Sassy, Inc.*, Slip Copy, 2010 WL 3781018, *5 (N.D.Ill. 2010) (“Likewise, the materiality of a breach involves questions of fact.”); *Steve Silveus, Inc. v. Goshert*, 873 N.E. 2d 165, 175 (Ill. App. 2007) (“A material breach is one that goes to the heart of the contract, and whether a breach is material is generally a question of fact to be decided by the trier of fact.”); and *Hastings Associates, Inc. v. Local 369 Building Fund, Inc.* 675 N.E.2d 403, 411 (Mass. App. Ct. 1997) (“A material breach of contract by one party excuses the other party from performance as matter of law. Whether there is such a material breach is a question for the jury.”).

The concept behind materiality, i.e., what sorts of breaches are material, in essence ask what terms, conditions, promises, obligations, etc. under the contract are so critical to it that if not met, fulfilled or broken, etc. that one would say the heart of the bargain or its essential purpose or element is destroyed. As stated by one court a “‘material breach’ is a failure to do something that is so fundamental to the contract that the failure to perform that obligation defeats an essential purpose of the contract.” *Horton v. Horton*, 487 S.E.2d 200, 203 (Va. 1997).

Loss of other Rights: Speech

- **DeWitt Clause or “Gag-wrap”** (Nature, Corporate): Licensee may not “*undertake any activity* which may have a *damaging effect* on the Licensor’s ability to *achieve revenue* through selling and marketing the Licensed Material.”
- **Negotiated Terms including Pricing** (Wiley): “For the purposes of this Agreement, *Confidential Information* is defined to include, but is not limited to, the **terms and conditions** of this Agreement that have **been negotiated**, such as **financial terms**...”

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You would not be able to make a product review, or post a comment to a discussion board, listserv or blog of the sort “don’t get this product the content is okay but the customer support really sucks.” Identify the concern of the licensor, offer to give notice and allow the licensor the opportunity to respond.

People v. Network Associates, Inc., 758 N.Y.S.2d 466, 470 (N.Y. Sup. 2003) (use of restrictive clause prohibiting purchasers from disclosing results of benchmark tests or publishing reviews of its products constituted enjoined as a deceptive trade practice under New York law).

Oracle Technology Network Development and Distribution License Terms : “You may not ... disclose results of any program benchmark tests without our prior consent.”

Genelle I. Belmas and Brian N. Larson, *Clicking Away Your Speech Rights: The Enforceability of Gagwrap Licenses*, 12 COMMUNICATIONS LAW AND POLICY 37, 73 (2007): “First Amendment jurisprudence provides considerable support to the concept of a right to hear. Using the First Amendment to attack gagwrap clauses directly would require that state action be found first. Even without state action, however, the First Amendment provides a significant public policy basis upon which gagwrap clauses might be found to be unenforceable. It remains to be seen how this public policy rationale will work with the *Restatement of Contracts* framework when evaluating gagwrap clauses.” See also, Anthony G. Read, *Notes: Dewitt Clauses: Can We Protect Purchasers Without Hurting Microsoft?*, 25 REVIEW OF LITIGATION 387, 420-421 (2006): “Software vendors use DeWitt Clauses to protect themselves against inaccurate benchmarks. Some consumers and writers contend software vendors also use the clauses to protect themselves against accurate benchmarks. There is an excellent possibility...that a court would apply the doctrine of copyright misuse and rule DeWitt Clauses unenforceable. If the clauses are unenforceable, vendors would be open to damage from inaccurate benchmark results. results.... The IBM Clause should be either adopted by all vendors or enacted by statute. It is the most effective and fair method to ensure that the valid interests of all parties are protected.”

The IBM Benchmark Clause, IBM's DB2 Data Warehouse Enterprise Edition V9.1: “You may disclose

the results of any benchmark test of the Program or its subcomponents to any third party provided that You (A) publicly disclose the complete methodology used in the benchmark test (e.g., hardware and software setup, installation procedure and configuration files), (B) perform Your benchmark testing running the Program in its Specified Operating Environment using the latest applicable updates, patches and fixes available for the Program from IBM or third parties that provide IBM products (“Third Parties”), and (C) follow any and all performance tuning and “best practices” guidance available in the Program's documentation and on IBM's support web sites for the Program. If You publish the results of any benchmark tests for the Program... IBM and Third Parties shall have the right to publish the results of benchmark tests with respect to Your products provided IBM or Third Parties complies with the requirements of (A), (B) and (C) above in its testing of Your products.”

Places parameters on the release of Benchmark results but does provide a complete ban. It also anticipates reciprocity; if a competitor publishes benchmarks of IBM software, IBM can publish benchmarks of the competitor's, subject to the terms of the paragraph. Recognition of the challenges of performing accurate benchmarks, but it prefers public disclosure and dialogue rather than reserving for IBM the right to suppress unflattering reviews.

Confidentiality provision allows the Licensor to offer differentiated terms and pricing.

Boilerplate Provisions

- Integration Clause.
- Choice of Forum / Choice of Law.
- Force Majeure.
- Severability.
- Non-waiver.
- Headings of Sections.

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As the intentions of both parties have been expressed in the present agreement nothing else matters. This is often accomplished by a provision that states to the effect: “this agreement is all there is”. In a technical sense the clause indicates that any relevant information from other sources (prior version of the contract for example) has been rolled into the new agreement. This clause is known as a **merger or integration clause** and often includes a phrase to the effect that all prior agreements are superseded by the current version. As the intentions of both parties have been expressed in the present agreement nothing else matters. This concept is known as integration. Restatement (Second) of Contracts § 210(1) (1981) (Completely and Partially Integrated Agreements) (“A completely integrated agreement is an integrated agreement adopted by the parties as a complete and exclusive statement of the terms of the agreement.”).

Absent language in the contract, sorting out jurisdiction issues may also resolve choice of law disputes as well, again assuming the contract is silent on that issue as well. **Forum selection** clauses are “prima facie valid.” *The Bremen v. Zapata Off Shore Co.*, 407 U.S. 1 (1972). See also, *Hughes v. McMenamon*, 204 F.Supp. 2d 178 (D.Mass. 2002) (forum selection clause in AOL click-wrap agreement upheld).

As with choice of forum, many licenses also contain a **choice of law** provision. Likewise the choice of law should have some relation to one or both of parties and to the forum chosen. See, *Vanier v. Ponsoldt*, 833 P.2d 949 (Kan. 1992) (choice-of-forum provision valid if forum selected bears a reasonable relationship to transaction and if contract was not entered into under fraud or duress).

“A **force-majeure** clause is not intended to shield a party from the normal risks associated with an agreement.” *Pillsbury Co., Inc. v. Wells Dairy, Inc.*, 752 N.W.2d 430, 440 (Iowa, 2008). Extraordinary events (so-called “**acts of God**”): **natural disasters** (flood, fire, etc.) vs. **human-made** (labor strikes, riots, etc.). **Relieves** one party from the **consequences** of a **breach**. Reasonable **time period**: 30 days. “Both parties should also insist on having the right of termination if the event of the force majeure continues for

a set period of time.” H. Ward Classen, *A Practical guide to Software Licensing for Licensees and Licensors* 134(3d ed. 2008).

“The rule of **severability** provides that a contract may survive if an illegal clause can be severed from the remainder of the contract without defeating the primary purpose of the bargain.” One question courts ask is whether the offending language in the can be removed but the remaining terms and the contract as a whole remains intact and enforceable. Rather than voiding the entire agreement “the **severability clause** allows terms of the agreement that are unenforceable to be severed such that the balance of the agreement can be fully enforced.” *Dawson v. Goldammer*, 722 N.W.2d 106, 111 (Wis. App., 2006).

In re Idearc Inc., 442 B.R. 513, 519 (N.D. Tex., 2010).

Many licenses include a waiver provision indicating that the failure to pursue a breach under the agreement does not waive (a court could not estop) the aggrieved party from enforcing a similar breach on another occasion. Example (BioOne): “The failure of either party to require performance by the other party of any provision of this Agreement will not affect its full right to require such performance at any subsequent time; nor will the waiver by either party of a breach of any provision of this Agreement be taken or held to be a waiver of the provision itself.” This prevents a court from finding that an implied license was granted to the offending party based on the inaction taken by the other party for prior transgressions (breaching conduct).

The meaning and effect of the license is determined by the substances of its **actual terms** and **not the title or headings**. *Ott v. All-Star Ins. Corp.*, 299 N.W.2d 839, 844 (Wis. 1981): “it is the substantive meaning and operation... **rather than the... heading**... which must determine its legal nature and effect.”) *First Securities Co. v. Storey*, 49 P.2d 862, 863 (Cal .App. 2 Dist., 1935): “The **legal effect** of the **terms** of the signed document is **not** enlarged by the **heading** of the latter.” Option: “Headings. The section headings in this Agreement are not part of this Agreement and are for convenient reference only and shall be given no substantive or interpretive effect.”

Mislabeling or misalignment: *Blankenship v. Northtown Ford, Inc.*, 420 N.E.2d 167 (Ill. App. 1981) (a provision containing a warranty disclaimer in the contract under a misleading or mislabeled section heading held void).

License Dos and Don'ts

- **Do....**
- **Retain** all **use rights** you would have under the copyright law.
- Secure **additional use rights** beyond those in the copyright law.
- **Retain access** to content after cessation of service.
- Copyright protected content: Obtain **warranty** of non-infringement and **indemnification**.
- **Do Not....**
- **Surrender use rights** you would have under the copyright law.
- Compromise **patron privacy**.
- **Indemnify** the Licensor!
- Agree that **use** of service equates to “assent” or
- be unaware of the impact of **disclaimers, waivers** and **indemnifications**.

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THANK YOU!

Questions and Answers
now or later . . .

Tomas A. Lipinski

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