

# **Legal Validity of Software Contracts**

Patrick “P. J.” M<sup>c</sup>Dermott

# Definitions

- Copyright
  - Set of exclusive rights in a work
- Copyright license
  - Set of non-exclusive rights in a work granted by the copyright owner
- Software contract
  - Legal agreement between copyright owner and user of a computer program
  - Places conditions on use of software, disclaims warranties, etc.
  - Also known as "end-user license agreement", "software license agreement", or simply "license"
    - Only a license insofar as it circumvents copyright law

# Historical Background: Copyright Act of 1976

## § 106 · Exclusive rights in copyrighted works

Subject to sections 107 through 118, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

- (1) to reproduce the copyrighted work in copies or phonorecords;
- (2) to prepare derivative works based upon the copyrighted work;
- (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
- (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
- (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly.

# Historical Background: Computer Software Copyright Act of 1980

## § 117 · Limitations on exclusive rights: Computer programs

(a) MAKING OF ADDITIONAL COPY OR ADAPTATION BY OWNER OF COPY.— Notwithstanding the provisions of section 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided:

(1) that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner, or

(2) that such new copy or adaptation is for archival purposes only and that all archival copies are destroyed in the event that continued possession of the computer program should cease to be rightful.

(b) LEASE, SALE, OR OTHER TRANSFER OF ADDITIONAL COPY OR ADAPTATION.— Any exact copies prepared in accordance with the provisions of this

# Historical Background: “Licensed, Not Sold”

## SOFTWARE LICENSE AGREEMENT

IMPORTANT - READ CAREFULLY: USE OF THIS PROGRAM IS SUBJECT TO THE SOFTWARE LICENSE TERMS SET FORTH BELOW. “PROGRAM” INCLUDES THE SOFTWARE INCLUDED WITH THIS AGREEMENT, THE ASSOCIATED MEDIA, ANY PRINTED MATERIALS, AND ANY ON-LINE OR ELECTRONIC DOCUMENTATION, AND ANY AND ALL COPIES AND DERIVATIVE WORKS OF SUCH SOFTWARE AND MATERIALS. BY OPENING THIS PACKAGE, AND/OR USING THE PROGRAM, YOU ACCEPT THE TERMS OF THIS LICENSE WITH ACTIVISION PUBLISHING, INC. (“ACTIVISION”).

LIMITED USE LICENSE. Activision grants you the non-exclusive, non-transferable, limited right and license to use one copy of this Program solely and exclusively for your personal use. All rights not specifically granted under this Agreement are reserved by Activision. **This Program is licensed, not sold.** Your license confers no title or ownership in this Program and should not be construed as a sale of any rights in this Program.

OWNERSHIP. All title, ownership rights and intellectual property rights in and to this Program and any and all copies thereof (including but not limited to any titles, computer code, themes, objects, characters, character names, stories, dialog, catch phrases, locations, concepts, artwork, animation, sounds, musical compositions, audio-visual effects, methods of operation, moral rights, and any related documentation, incorporated into this Program) are owned by Activision or its licensors.

This Program is protected by the copyright laws of the United States, international copyright treaties and conventions and other laws. This Program contains certain licensed materials and Activision’s licensors may protect their rights in the event of any violation of this Agreement.



# Legal Validity in General

- Are software contracts legally valid?
  - “It depends”
- No court has ruled on their legal validity in general
- Rulings are limited to individual provisions and terms

# Issue:

## Acceptance of Terms

- “Shrink wrap” contracts
- “Click wrap” contracts
- Are contracts binding if not agreed to at the time of sale or other transfer?
- Are contracts binding if there's no explicit assent?
- *Step-Saver Data Systems, Inc. v. Wyse Technology*
  - District court:
    - Shrink wrap contract superseded terms negotiated by phone
  - Third Circuit:
    - Shrink wrap contract is non-enforceable because there was no explicit agreement
    - Shrink wrap contract violated original terms

# Issue:

## Acceptance of Terms

- *ProCD, Inc. v. Zeidenberg*
  - User was offered the contract on-screen and accepted it by clicking through
  - User could have rejected the contract and returned the goods
- *Specht v. Netscape*
  - Downloading and installing doesn't demonstrate assent to terms if they're not conspicuous

## SOFTWARE LICENSE AGREEMENT

IMPORTANT - READ CAREFULLY: USE OF THIS PROGRAM IS SUBJECT TO THE SOFTWARE LICENSE TERMS SET FORTH BELOW. "PROGRAM" INCLUDES THE SOFTWARE INCLUDED WITH THIS AGREEMENT, THE ASSOCIATED MEDIA, ANY PRINTED MATERIALS, AND ANY ON-LINE OR ELECTRONIC DOCUMENTATION, AND ANY AND ALL COPIES AND DERIVATIVE WORKS OF SUCH SOFTWARE AND MATERIALS. BY OPENING THIS PACKAGE, AND/OR USING THE PROGRAM, YOU ACCEPT THE TERMS OF THIS LICENSE WITH ACTIVISION PUBLISHING, INC. ("ACTIVISION").



# Issue:

## Ownership of Copies

- Is software a good as defined by Uniform Commercial Code (UCC) Article 2?
- Implications of publisher retaining title to copies:
  - 17 U.S.C. § 117 doesn't apply: users may not run a program without a license
  - 17 U.S.C. § 109 (first sale doctrine) doesn't apply: users may not sell or give away their lawful copies of a program
- Some courts uphold “licensed, not sold” argument, others do not
- Ownership often depends on state laws

# Issue:

## Ownership of Copies

- *United States v. Wise*
  - Right of perpetual possession determines ownership
- *MAI Sys. Corp. v. Peak Computer*
  - Took for granted that “MAI licensed its software”
    - Didn't cite *Wise* or any other precedent
    - Ruled that 17 U.S.C. § 117 didn't apply
- *Triad Sys. Corp. v. Southeastern Express Co.*
  - Upheld *MAI*, ignored *Wise*

# Issue:

## Ownership of Copies

- *SoftMan Products Co. v. Adobe Systems Inc.*
  - “It is well-settled that in determining whether a transaction is a sale, a lease, or a license, courts look to the economic realities of the exchange.”
  - District court ruled that software was sold
    - Fixed fee exchanged for indefinite period of use
    - Purchaser accepted risk commonly associated with a sale
- *Novell v. Network Trade Center*
  - Software is sold according to Uniform Commercial Code Article 2
  - Contract is invalid insofar as it claims that title to the software copy remains with the copyright owner

# Issue:

## Ownership of Copies

- *Wall Data v. Los Angeles County Sheriff's Dept.*
  - License with restrictions is “sufficient to classify the transaction as a grant of license [...] and not a sale”
  - Upheld *MAI*, ignored *Wise*
- *Vernor v. Autodesk, Inc.*
  - District court:
    - Upheld *Wise* as earliest precedent
    - Ruled that software was sold
  - Ninth Circuit:
    - Reconciled *Wise*, *MAI*, *Triad*, and *Wall Data* cases
    - Prescribed three considerations for determining ownership

# Issue:

## Conscionability and Preemption

- Contracts or governing law may be preempted by copyright law
- Lack of consideration
  - Licenses in software contracts merely list rights otherwise provided by 17 U.S.C. § 117
- Procedural unconscionability
  - Adhesion
  - Relatively weak bargaining position of user



# Issue:

## Conscionability and Preemption

- Substantive unconscionability
  - Users must often forfeit otherwise legally-protected rights
    - Reverse engineering for interoperability and fair competition
    - Resale under 17 U.S.C. § 109
    - Publishing of benchmark tests

1. **GRANT OF LICENSE.** Manufacturer grants you the following rights, provided you comply with all of the terms and conditions of this EULA:

- **Installation and Use.** Except as otherwise expressly provided in this EULA, you may install, use, access, display and run only one (1) copy of the SOFTWARE on the COMPUTER. The SOFTWARE may not be used by more than one (1) processor at any one time on the COMPUTER, unless a higher number is indicated on the Certificate of Authenticity. You may permit a maximum of five (5) ("Connection Maximum") computers or other electronic devices (each a "Device") to connect to the COMPUTER to utilize the services of the SOFTWARE solely for File and Print services, Internet Information services, and remote access (including connection sharing and telephony services). The five (5) Connection Maximum includes any indirect connections made through "multiplexing" or other software or hardware which pools or aggregates connections. Except as otherwise permitted below, you may not use the Device to use, access, display or run the SOFTWARE, the SOFTWARE's User Interface or other executable software residing on the COMPUTER.

# Issue:

## Conscionability and Preemption

8. **SCOPE OF LICENSE.** The software is licensed, not sold. This agreement only gives you some rights to use the features included in the software edition you licensed. The manufacturer or installer and Microsoft reserve all other rights. Unless applicable law gives you more rights despite this limitation, you may use the software only as expressly permitted in this agreement. In doing so, you must comply with any technical limitations in the software that only allow you to use it in certain ways. You may not

- work around any technical limitations in the software;
- customize the desktop background;
- reverse engineer, decompile or disassemble the software, except and only to the extent that applicable law expressly permits, despite this limitation;
- use components of the software to run applications not running on the software;
- make more copies of the software than specified in this agreement or allowed by applicable law, despite this limitation;
- publish the software for others to copy;
- rent, lease or lend the software; or
- use the software for commercial purposes.

# Issue:

## Conscionability and Preemption

- Vault Corp. v Quaid Software Ltd.
  - State law permitting a prohibition on decompiling or disassembling a computer program is preempted by federal copyright law
- Bowers v. Baystate Technologies
  - Contract's prohibition on reverse engineering preempted copyright law's allowance therefor

# References

- United States. Library of Congress, Copyright Office. *Copyright Law of the United States and Related Laws Contained in Title 17 of the United States Code*.
- “Copyright Law Revision (House Report No. 94-1476)”. *Wikisource*.
- “Call of Duty®: Modern Warfare® 3 Instruction Booklet”.
- “Microsoft® Windows® XP Home Edition End-User License Agreement”.
- “Microsoft Software License Terms: Windows 7 Starter”.
- “End-user license agreement”. *Wikipedia*.
- “Software license”. *Wikipedia*.
- “Computer Software Copyright Act of 1980”. *IT Law Wiki*.
- “CONTU Commission”. *IT Law Wiki*.
- “Step-Saver Data Systems, Inc. v. Wyse Technology”. *Wikipedia*.
- “Vault Corp. v. Quaid Software Ltd.”. *Wikipedia*.
- 847 F.2d 255.
- “Bowers v. Baystate Technologies”. *Wikipedia*.
- “ProCD v. Zeidenberg”. *Wikipedia*.

# References

- “Shrink wrap contract”. *Wikipedia*.
- “Clickwrap”. *Wikipedia*.
- “Vernor v. Autodesk, Inc.”. *Wikipedia*.
- Hackett, Thomas A. “Where Vernor v. Autodesk Fits Into First Sale Decisions”.
- “First-sale doctrine”. *Wikipedia*.
- “SoftMan Products Co. v. Adobe Systems Inc.”. *Wikipedia*.
- 171 F. Supp.2d 1075.
- “Specht v. Netscape Communications Corp.”. *Wikipedia*.
- Ravicher, Daniel B. “Facilitating Collaborative Software Development: The Enforceability of Mass-Market Public Software Licenses”. *Virginia Journal of Law and Technology*.
- “Unconscionability”. *Wikipedia*.
- 487 F. Supp. 2D 593.
- Beckerman-Rodau, Andrew. “Computer Software: Does Article 2 of the Uniform Commercial Code Apply?”. *Emory Law Journal*.