

## TOPIC 9:

**LICENSING AND UCITA****Topic question**

What are several provisions in a license agreement of concern libraries and how will the Uniform Computer Information Transactions Act (UCITA) impact the current state of licensing information products and services in the library setting?

**Overview**

Libraries obtain much of their digital information through licenses; items are not bought in the traditional sense of a book or video. Library and patron use of information obtained this way is based not in copyright law, but in contract law, as a license is a form of contract.

This topic discusses five provisions of a typical license agreement: definition of users, duration and termination, contents, uses, and jurisdiction. Any library that enters into license agreements must ensure clauses that define patrons as users both on- and off-site. Be aware of automatic renewal clauses and define under what conditions the library can terminate the license. What contents does the vendor provide? And, if for some reason that content is no longer available, is the absence of the content a material breach of the terms, triggering the library's termination right? Does the license allow for use of material in electronic reserve, distance education, or electronic interlibrary loan? Finally, if there is a legal dispute, where is the dispute to be settled—in the home state of the vendor or library?

The past few years a model contracting law has been developing that legalizes, in those states that adopt the model law, many provisions that might be illegal or beyond the scope of current contract law. The model law is known as UCITA, which is the Uniform Computer Transaction Act. Five clauses that might appear in a typical UCITA license are discussed here: incorporation, receipt of changes rules, choice of forum and law, review and comment, and transfer.

Several states have adopted or are considering adopting UCITA, but several other states have passed anti-UCITA legislation, or so-called bomb-shelter legislation, contending that UCITA is against the public policy and best interests of citizens and that any contract attempted to be entered into by citizens of the state is null and void.

***What you need to know***

Familiarity with the following is helpful to fully comprehend the discussion of this topic:

- Basic terms and provision of a license agreement

See "Essential Terms in a License," *The Copyright & New Media Law Newsletter*, Vol. 4, Issue 2, at 3 (2000).

## ***Why watch this topic?***

In essence, the move to licensing instead of copyright models for accessing and using information means that copyright law no longer governs the use and transfer of copyrighted or any other material in the library. Instead, the terms of the license control use. From a public policy perspective, the right of access to information is arbitrated by private actors (the parties to a contract or license) and not by public actors (legislators) or other stakeholders such as the library or education community. In copyright law, various provisions define legally acceptable uses by others. Every time use is made of a copyrighted work that use—a library’s making of a replacement copy under Section 108 (See Topic 2) or a teacher’s right to show a related documentary video in class under Section 110 (See Topic 8)—does not have to be renegotiated or arbitrated. Moving to a contract or license model for information access and use means that each “use” must be negotiated. In essence the result of that negotiation is the license. Many libraries, like other licensees, are often placed in a position of unequal bargaining position against powerful information vendors. The author has termed this unequal bargaining position in information markets “information adhesion.”<sup>286</sup> Of course it is possible for a library or other licensee to obtain more favorable terms under the license agreement, but these must be negotiated. The result is that the library must work harder to obtain these terms, by understanding the meaning behind clauses in the standard license agreement most vendors might like to provide, by negotiating for more favorable terms and by monitoring developments in license law. Licenses have been a part of the library landscape for some time, but recent case law and legislative initiatives press the issue and make imperative that library managers be cognizant of the terms under which their resources are now typically, or in the future may be, governed.

## ***Background: The ProCD vs. Zeidenberg decision***<sup>287</sup>

A recent case from the 7<sup>th</sup> Circuit Court of Appeals implicates the use of information in libraries. In *ProCD vs. Zeidenberg*,<sup>288</sup> the 7<sup>th</sup> Circuit upheld the validity of shrink-wrap and click-on or Web-wrap CD-ROM licenses. A shrink-wrap license is a license in which some or all the terms of the license are not available until after the purchase of the product. It is typically used to govern software, where the software is packaging is encased by plastic shrunk to fit tightly around the container. The terms are contained inside and the consumer cannot read them until he or she purchases the product. The validity of shrink-wrap licenses is questioned because it is thought to violate one of the bedrock principles of contract law: for a contract to be valid, there must be a meeting of the minds. Both parties must know the basic terms to which they are agreeing. Several courts have invalidated shrink-wrap agreements based in part on this concern.<sup>289</sup>

As a result, these cases have little effect on the validity of shrink-wrap in general and impact the law only in the confines of the jurisdictions in which the dispute arose.<sup>290</sup> The trend by copyright owners, however, is to use and generally bind consumers to the terms of the shrink-wrap license. Copyright owners see no harm in this stipulation because the consumer generally has the right to return the product after reading the terms.

A click-wrap or Web-wrap is based on a similar concept as the shrink-wrap, except that the terms are presented on a computer screen after the consumer has accessed the content of a CD-ROM (as was the case in *ProCD vs.*

*Zeidenberg*), the online database, or Web site. Instead of reading the terms on the inside of the package, the consumer or library reads the terms online and then asserts assent or agreement by following the on-screen instruction to "click here to agree." This action is what Zeidenberg did, and the 7<sup>th</sup> Circuit held he was bound by those terms of use. Other courts have agreed that in a Web environment, when the click is required before proceeding to the rest of the Web site material, coupled with language to the effect that "I agree to be bound by the terms..." or "I have read the terms..." the click binds the Web site customer.<sup>291</sup>

A browse-wrap agreement is an onscreen, typically Web-based scenario. The site visitor is not required to click to agree before proceeding and after being shown the terms. He or she is only encouraged to read the terms of use or is presented with a statement that the terms of the agreement will control use. In the latter case, when the only affirmative action taken is the continued use or browsing of the site, courts have invalidated the browse-wrap agreement.<sup>292</sup>

When the submission of a query binds the user to the terms posted elsewhere on the site, however, the clicking of the submit button was sufficient assent to bind the Web site visitor.<sup>293</sup>

The 7<sup>th</sup> Circuit Court confirmed its approval of shrink-wrap licensing models in *Hill vs. Gateway, Inc.*,<sup>294</sup> when the new terms were contained in the shipping box along with the computer the consumer ordered with the proviso that the consumer would be bound by the terms unless he or she returned the computer within 30 days. Another court, however, has invalidated those terms in a similar shipping box and 30-day return dispute.<sup>295</sup>

The most startling statement from the *ProCD vs. Zeidenberg* court concerned its discussion of contract versus copyright. The defendant, Zeidenberg, attempted to use the fair-use concept as a defense in his development of a database of telephone names and addresses extracted from the plaintiff's product. Because he signed a valid license or contract, he was bound by the terms of the contract. The court made clear that contract provisions override copyright.

UCITA also validates shrink-wraps.<sup>296</sup> Moreover, UCITA creates a sort of super license in terms of vendor or licensor rights.

### Main discussion

A complete discussion of licenses is beyond the scope of this Report, but several brief points can be made to remind library managers that their responsibility is to understand the nature of the terms to which they are agreeing. Many areas of importance exist.

Clauses that define the users (such as patrons or faculty) should be scrutinized. If access to the information by remote users is of concern to the library, be wary of language that defines or limits the scope of users to on-site or in-house users only.

Examine the duration and termination provisions of your license. Some licenses are written to renew automatically or contain elaborate notification of intent-not-to-renew provisions. Simplify these provisions, or be cognizant of such requirements.

Also, determine under what conditions each party can terminate the agreement outside its normal expiration mechanism. Often this termination is

ted to some material or significant breach of the license terms. Considering the impact of the *New York Times vs. Tasini*<sup>297</sup> decision and the threat made by many vendors to pull large amounts of historical content written by freelancers from their databases,<sup>298</sup> this question is no longer merely academic. Is the removal of retrospective access to material published before 1995 or 1990 significant to library patrons? This removal might be considered a material change to the contents of the licensed product (the database or CD-ROM) and could trigger a right of termination on the part of the library. A well-drafted clause provides the library with the right to terminate on occurrence of such an event, or at least with the right to renegotiate more favorable terms, because the database then contains far less access to content than it did when the license was originally signed.

A precursor to a termination due to content change is a well-defined contents clause. Issues such as the scope of the content provided in the product and how often it will be updated should be considered. With licenses to online databases of vast and diverse information, such articulation of every source may not be possible, but the question the library needs to ask is whether there is some file or information within a large database or other product that the library must have. Was this information the main reason for licensing the product in the first place? If so, the library may want to negotiate for a clause that expresses the inclusion of that particular information, and then trigger a termination, negotiation, or fee adjustment based on its subsequent unavailability.

The library manager should ensure the terms of the license allow the library to use the contents in a variety of ways. Many licenses come from the vendor with language that prohibits access to off-site users and e-reserve, or electronic interlibrary or intranet use by on-site users. If these subsequent, downstream distributions within the broader community of library or campus users is important, then the library manager must ensure these rights are provided for by the terms of the license agreement.

A common clause found in license agreements is the indication of where legal disputes arising under the license are to be entertained. Most vendors insist that any legal dispute between the vendor and the library is to be handled by a court of the vendor's home jurisdiction. For a vendor such as Blackwell, this country is the United Kingdom. The impact of such a clause should be clear—have a nice flight! Even when both parties are within the United States, consider the impact of having to travel across the country to initiate or defend a legal dispute under the license contract.

Under UCITA, the super license, the choice of forum (the jurisdiction where the legal dispute is to be resolved) clause is also a possibility, but more unusual is the choice of law clause that the UCITA contract contains—the parties can agree that the law of another jurisdiction can govern. UCITA has been passed into law in only two states, Maryland and Virginia. Suppose a vendor had home offices in Florida and the library is in Wisconsin. A choice of forum clause suggested by Florida-based vendor includes that a Florida court settle any legal dispute; this venue would be the case in the typical license today. Under UCITA, however, the Florida vendor could indicate that the choice of law the Florida court must apply is that of Maryland or Virginia.<sup>299</sup> That sort of ruling shows the far reach of UCITA. UCITA does not need to have been passed by a state legislature for it to bind a library in that state. UCITA can be applied to govern a dispute between two parties, neither of whom lives in a state where UCITA has been adopted.

Two other provisions a typical UCITA license includes are a restriction on transfers and a prohibition on review and comment. The vendor most likely

The party must have clear and precise notice of a change in terms (this is express notice). In other words, inaction or no action cannot be the basis of assent to be bound by additional terms.

inserts a clause that prevents any exercise of the first-sale doctrine. The first-sale doctrine, under Section 109, allows libraries to circulate software to patrons or for nonprofit educational institutions to transfer software to another nonprofit educational institution. These rights are eliminated under a model UCITA contract.<sup>300</sup>

Further, depending on the sorts of products governed by a UCITA license, such as books and videos, a library might find itself unable to distribute (circulate) any material obtained under UCITA licenses. Any subsequent transfer would be prohibited without the authorization of the UCITA vendor. A future with shrink-wrapped books, videos, and other items of the library collection is a reality under UCITA.<sup>301</sup>

Another prohibition in a UCITA contract is a clause stating that the licensee may not make a public statement or comment on the product, its content, or operability, without the vendor's permission. Such clauses signal the end of software and other product reviews routinely made and relied on by librarians. These reviews are forbidden or allowed only at the discretion of the vendor. The free speech implications of these clauses are grave but have not yet been tested in court.

Under current contract law of the Uniform Commercial Code, Article 2, any added term is not allowed in consumer transactions unless it is express—it must be clear to both parties. Both parties must have negotiated it and be aware of it. The simplest way to articulate this action is to have the added terms in writing.

This assent mechanism is less clear in a UCITA world. UCITA legislation endorses (thus making its way into the UCITA-based license agreements) a new assent-to-changes clause. Under the UCITA e-mail receipt rule, for example, a vendor can send new terms in an e-mail and then condition acceptance of the terms with language such as "these changes are effective unless you indicate your nonacceptance to the vendor within 15 days of receipt" or words to that effect. So far so good, but now the library manager is on vacation and when he or she returns next month and reads the e-mail, he or she can then have 15 days after receipt to accept or reject the new terms. Not so fast—Section 215(a) of UCITA indicates that "[r]eceipt of an electronic message is effective when received even if no individual is aware of its receipt." Once the message with the new terms is received by the library's e-mail service, it is received for purposes of the tolling 15-day reject or its deemed-accepted notice. The librarian could open an e-mail on return from vacation to find that under UCITA a license with new terms and conditions is now in force. This situation might seem odd, but it is one of the favorable, pro-licensor provisions in UCITA.

Another bizarre practice of some vendors, one that might gain legitimacy under UCITA, is the use of an incorporation clause that states that any product created with the licensed software is now the property of the licensor.<sup>302</sup> Would such clauses be enforced or is this clause simply going too far in support of vendor rights? UCITA does contain provision to strike terms or entire contracts that contain an unconscionable clause (Section 111). However, that same UCITA section instructs a court considering unconscionability of a contract to also weigh the inherent value of enforcing the terms of the contract in the first instance.

As with licenses now, the library need not sign the license until it contains clauses favorable or at least acceptable to its interests, but negotiating every license is expensive. UCITA adds another layer of expense and complexity to that process and is one reason why many even in the business commu-

nity (this is not just a consumer or public access issue) stand to lose under a UCITA regime.<sup>303</sup>

In the past, a state could make two responses once UCITA was introduced—pass it, or oppose and reject its adoption. In recent months, a third approach has arisen. A few states have taken steps not only to refrain from passing UCITA, but, in defiance of the pro-UCITA push, pass specific legislation denouncing UCITA and deny the application of UCITA or any UCITA-like contract provision to citizens within its boundaries.<sup>304</sup>

Anti-UCITA or bomb-shelter legislation is now law in Iowa and West Virginia,<sup>305</sup> and is pending in New York and Ohio.<sup>306</sup> The typical approach taken by these states is to invalidate the choice of law clause. In other words, an Iowa library or vendor seeking to enforce or interpret a license must use Iowa law; they cannot use the UCITA choice of law clause. The proposed Ohio bill would make both UCITA choice of law and choice of forum clauses unenforceable against an Ohio citizen as a matter of public policy. The New York approach goes the furthest and states that the New York legislature “finds and declares” that UCITA is “contrary to the interests of this state’s consumers” and “render[s] voidable as against public policy any contractual provision that would lead to enforcement of UCITA against the residents of this state.” Whether the anti-UCITA movement generates as much press as the UCITA movement did a year or so ago remains to be seen.

### Unresolved points or issues

- The extent to which UCITA will become the widespread accepted model for licenses is unknown.
- Whether the anti-UCITA movement will gain acceptance in on the table.
- Will UCITA-type clauses will be challenged in court—those that conflict with other laws such as copyright or free speech?

### Resources

#### *Helpful URLs*

**[www.utsystem.edu/ogc/intellectualproperty/cprtindx.htm](http://www.utsystem.edu/ogc/intellectualproperty/cprtindx.htm)** Software and Database License Agreement Checklist.

**[www.ala.org/washoff/ucita](http://www.ala.org/washoff/ucita)** American Library Association Washington Office. UCITA: Concerns for Libraries and the Public. Includes topics such as: What is UCITA?; Libraries & UCITA; Advocacy; Resources; Events.

**[www.ucitaonline.com](http://www.ucitaonline.com)** C.A. Kunze. UCITA Online Includes sections: What’s New; UCITA and the official comments; Standby Committee Meeting; State Legislator’s Homepage; What’s Happening to UCITA in the States.

#### *From the library literature*

Gregory, vs. L. (2001). “UCITA: What does it mean for libraries?” *Online*, 25(1), 30-32, 34.

G.S. Machovec. (2000) "The Uniform Computer Information Transactions Act (UCITA) controversy." *Online Libraries and Microcomputers*, 18(5), 1-3.

J.G. Neal. (2000) "The fight against UCITA." *Library Journal*, 125(15), 36-38.

J. Vindvad. (2000) UCITA. *Synopsis*, 31(2), 81-84.

Arlene Bielefield and Lawrence Cheeseman. *Interpreting and Negotiating License Agreements: A Guidebook for the Library, Research and Teaching Professionals* (1999).

### **From the legal literature**

"Uniform Computer Information Transactions Act: A Broad Perspective" (Stephen Y. Chow and Riva F. Kinstlick, eds. 2001) (Practising Law Institute Intellectual Property Course Handbook Series, No. G673) (800-260-4PLI) (a comprehensive and detailed collections of articles and papers).

Cem Kaner. "Why You Should Oppose UCITA," *The Computer Lawyer*, May 2000, at 20. (includes discussion of clauses found in UCITA and licensing contracts).

Thomas J. Murphy. "It's Just Another Little Bit of History Repeating Itself: UCITA in the Evolving Age of Information," 30 *Golden Gate University Law Review* 559 (2000).

Carlyle C. Ring. Symposium on Approaching E-Commerce Through Uniform Legislation: Understanding the Uniform Computer Information Transactions Act and the Uniform Electronic Transactions Act: Uniform Rules for Internet Information Transactions: An Overview of Proposed UCITA, 38 *Duquesne University Law Review* 319 (2000).

Rochelle Copper Dreyfus. Symposium: Software as a Commodity: International Licensing of Intellectual Property: Commentary: UCITA in the International marketplace: Are We About To Export Bad Innovation Policy? 26 *Brooklyn Journal International Law* 49 (2000).

### **END NOTES**

<sup>286</sup> Tomas A. Lipinski, "The Developing Legal Infrastructure and the Globalization of Information: Constructing a Framework for Critical Choices in the New Millennium Internet – Character, Content and Confusion," 6 *Richmond Journal of Law & Technology* 19 (2000).

<sup>287</sup> Compare, for example, Kell Corrigan Mercer, "Casenote: Shrink-Wrap Licenses: Consumer Shrink-Wrap Licenses and Public Domain Materials; Copyright Preemption and Uniform Commercial Code Validity in *ProCD* vs. *Zeidenberg*," 30 *Creighton Law Review* 1287 (1997); Joseph C. Wang, Casenote: *ProCD, Inc. vs. Zeidenberg* and "Article 2b: Finally, the Validation of Shrink-Wrap Licenses," 16 *John Marshall Journal of Computer & Information Law* 439 (1997).

<sup>288</sup> *ProCD vs. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996).

<sup>289</sup> *Step-Saver Data Systems, Inc.*, 939 F.2d 91 (3d Cir. 1991); *Vault Corp. vs. Quaid Software Ltd.*, 655 F. Supp. 2d 756 (E.D. La. 1987).

<sup>290</sup> Christopher Celentino, Robert Pressman and Beth K. Eiseman, "Comment: *Vault Corp. vs. Quaid Software Ltd.*: Invalidating Shrink-Wrap Licenses?," 2 *Journal of Law & Technology* 151 (1987).

<sup>291</sup> *In re RealNetworks Privacy Litigation*, 2000 U.S. Dist. LEXIS 6584 (N.D. Ill. 2000) (click required before proceeding—it is a valid contract); *Hotmail Corp. vs. van Money Pie*, 1998 U.S. Dist LEXIS 10729 (N.D. Cal. 1998) (click required before proceeding is a valid contract).

<sup>292</sup> *Pollstar vs. Gigmania, Ltd.*, 2000 U.S. Dist. LEXIS 21035 (E.D. Cal. 2000) (no affirmative act required, notice only refers in small gray on gray box "use is subject to license agreement" located on another page not sufficient for valid contract); *Specht vs. Netscape, Inc.*, 150 F. Supp. 2d 585 (S.D.N.Y. 2001) (downloading itself is not assent when not required to click/assent to having read terms, use of small box, "please review" insufficient to form valid contract).

<sup>293</sup> *Register.com vs. Verio*, 126 F. Supp. 2d 238 (S.D.N.Y. 2000) (assent via submission of request or query valid without actual click if clear language to the effect that "by submitting this request you agree to be...").