

INTELLECTUAL PROPERTY

Online agreements tend to be enforced

Exceptions to the trend involve hidden terms or terms allowing licensor unilaterally to amend.

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LAWYERS INVOLVED IN the licensing of intellectual property can learn some drafting tips from recent developments in case law. This past year has found courts dealing with issues related to the enforceability of online licenses, who can and must be a party to patent litigation, whether or not the bona fide purchaser rule can be used as a defense against patent infringement and the benefits of patent marking. The following cases offer important lessons.

Litigation over browse-wrap, click-wrap and shrink-wrap licenses has continued, with the trend clearly leaning toward enforceability of such licenses. Shrink-wrap licenses are most typically used with off-the-shelf computer software; the rights owner prints the legal terms and conditions—either inside the box, outside on the CD case, on the screen when the software is loaded or somewhere within the user manual or other software documentation. Acceptance of the terms and conditions is considered to occur by the action of tearing open the cellophane wrap or loading the computer program.

In a browse-wrap license, the terms and conditions appear somewhere on the Web page. A click-wrap license also

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appears on a Web page, but the end user is required to acknowledge acceptance by clicking on an icon or a button that reads, "I agree."

The majority of courts are enforcing these licenses. Recent cases that found in favor of enforceability include *I.Lan Systems Inc. v. NetScout Serv. Level Corp.*, 183 F. Supp. 2d 328 (D. Mass. 2002); *Moore v. Microsoft Corp.*, 293 A.D.2d 587, 741 N.Y.S.2d 91 (N.Y. App. Div. 2d Dep't 2002); *1-A Equip. Co. v. Icode Inc.*, 2003 Mass. App. Div. 30 (2003); *Bowers v. Bay State Technologies*, 65 U.S.P.Q.2d 1746 (Fed. Cir. 2003); *American Airlines v. Fare Chase Inc.*, No. 067-194022-02 (Tarrant Co., Texas, Dist. Ct. March 8, 2003); *Net2phone v. Superior Court of Los Angeles County*, 2003 WL 21310814 (Calif. Ct. App. June 9, 2003); *TicketMaster Corp. v. Tickets.com Inc.*, 2003 WL 21397701 (C.D. Calif. March 7, 2003); *Adobe Sys. v. Stargate Software Inc.*, 216 F. Supp. 2d 1051 (N.D. Calif. 2002); and *CECG Inc. v. Magic Software Enterprises*, 51 Fed. Appx. 359 (3d Cir. 2002).

Cases that went the other way

Two cases that found that such licenses were not enforceable included *Specht v. Netscape Communications Corp.*, 306 F.3d 17 (2d Cir. 2002) and *Comb v. PayPal*, No. c-02-1227 (N.D. Calif. Aug. 30, 2002).

In *Specht*, the terms on the browse-wrap were not prominently placed, and the user was able to download the software without ever even seeing the terms of the license. The 2d U.S. Circuit Court of Appeals determined that a reasonably prudent Internet user would not have known or learned of the existence of the license terms before responding to the defendant's invitation to download the free software and therefore the defendants did not provide reasonable notice of the license terms. The terms and conditions were located on a submerged screen that the user would have needed to scroll through in order to read the full agreement and arbitration clause. As a result, the Internet user's act of downloading the software did not unambiguously manifest acceptance of the arbitration provision in the license.

Comb involved the PayPal program that is ubiquitous to online purchases of products through eBay and other services. The PayPal license or agreement was at least 25 pages long and required the end user to link to another Web page to review the terms and conditions. PayPal has also seen a backlog of more than 100,000 complaints filed with the Better Business Bureau. The terms and conditions of the actual agreement allowed PayPal to amend unilaterally the agreement's terms and conditions and freeze and hold customers' funds during any dispute. The U.S. District Court for the

LICENSING

Terms should be clearly presented and reasonable.

Northern District of California understandably found the agreement unconscionable.

Acknowledgment of acceptance

It is clear from most of the cases that it is best to use "I agree" or a similar convention to allow the end user to click on and indicate acceptance of terms and conditions when the license is made available online.

It is also appropriate to require that the terms are clearly presented and reasonable. If there is no acknowledgment of acceptance then the end user should not be permitted access. For shrink-wrap licenses that do not include an opportunity for the end

user to click on or otherwise demonstrate acceptance, there may still be some question as to whether or not actions such as tearing open the box themselves constitute an enforceable and binding agreement between two parties.

Bowers v. Baystate Technologies, 320 F.3d 1316 (Fed. Cir. 2003), has sent shockwaves through the software industry, where reverse engineering to study competitors' products has long been a common practice for software developers. Harold L. Bowers invented a computer-aided design (CAD) software tool and obtained a patent in 1990. The software was commercialized for use with Cadkey Inc.'s Cadkey program and sold with a shrink-wrap license that prohibited any reverse engineering of the computer programs.

Baystate also developed and marketed software tools for Cadkey Inc. In 1989, Bowers offered to bundle his software with Baystate's Draft-Pak product. Baystate refused to enter into a relationship with Bowers and instead obtained copies of the Bowers software.

Three months later, Baystate introduced its revised Draft-Pak with many features of Bowers' tool kit. Cadkey Inc. repudiated its distribution agreement with Bowers after pressure from Baystate, and Baystate ultimately purchased Cadkey Inc., effectively ending Bowers' ability to market his software.

Adding insult to injury, in 1991 Baystate brought a declaratory judgment action against Bowers, alleging that his patent was invalid and unenforceable.

Court held bona fide purchaser rule does not apply to licensee.

Bowers counter-claimed based on copyright and patent infringement as well as breach of contract based on the shrink-wrap license. The court ruled in favor of Bowers and upheld the reverse engineering prohibition in the shrink-wrap license.

While there is little discussion by the *Bowers* court of the enforceability of the shrink-wrap license, it is clear that there was no negotiation or acceptance by Baystate of the terms and conditions of the software license. Reverse engineering to identify nonprotected elements of computer programs is commonly used to develop interfaces with other computer programs and to some extent is legal under U.S. copyright law. In this case, Baystate apparently looked at Bowers' user interface only as necessary to improve its software product. The Bowers shrink-wrap license prohibited any reverse engineering, even for interoperability purposes.

If the *Bowers* decision is followed, then software vendors can breathe a little easier and be appreciative of the additional enforcement powers granted by shrink-wrap software licenses. However, engineers should be careful when reverse engineering another party's software that itself might be protected by a shrink-wrap license.

Necessary and indispensable

Most patent litigators are aware that a patent owner is a necessary and indispensable party in any patent infringement claim. An exclusive licensee may sue in its own name only if the exclusive licensee has all of the substantial rights in the patent. If it does not, the exclusive licensee can bring an infringement action against a third party only as a co-plaintiff. Nonexclusive licensees and nonowners lack any standing to sue.

As a result, there is frequent litigation over whether or not the license agreement has conferred substantial rights to the licensee sufficient to allow the licensee to bring an infringement action. In *Sprinturf v. Southwest Rec. Indus.*, No. 2:01-CV-07158, 2003 WL 21468534 (E.D. Pa. March 10, 2003), the court found that the patent was never actually licensed or assigned, and the failure to show the existence of a licensing agreement or assignment destroyed any standing to sue.

Other recent cases that considered the issue of indispensable or necessary parties to patent litigation and the right to sue included *Fabpro Oriented Polymers v. McCormick*, 2002 U.S. Dist. Lexis 9224 (W.D. Mich. May 7, 2002); *Biovail Labs. Inc. v. Torpharm Inc.*, 2002 U.S. Dist. Lexis 23125 (N.D. Ill. Nov. 21, 2002); *Waymark Corp. v. Porta Sys. Corp.*, 2003 WL 21544410 (Fed. Cir. July 10, 2003); *Intuitive Surgica Inc. v. Computer Motion Inc.*, 214 Supp. 2d 433 (D. Del. 2002); *Corixa Corp. v. Idec Pharms. Corp.*, 2002 WL 265094 (D. Del. Feb. 25, 2002); and *H.R. Techs. Inc. v. Astechnologies Inc.*, 275 F.3d 1378 (Fed. Cir. 2002).

The lesson is clear: When representing an exclusive licensee in negotiating a license agreement, a lawyer should make sure that the patent owner agrees to join as a party in any litigation or authorizes the exclusive licensee to bring such actions in the licensee's

own name. Furthermore, in the course of any due diligence for the prospective licensee or purchaser, the lawyer should confirm that the owner has the ability and right to convey the license or assignment of rights.

Get what you paid for?

What happens in the case in which a sublicensee acquires a sublicense from a licensee who acquired the original license by fraud? Can the sublicensee retain rights by establishing that the sublicensee was a bona fide purchaser for value?

According to *Rhone-Poulenc Agro v. DeKalb Genetics Corp.*, 284 F.3d 1323 (Fed. Cir. 2002), the bona fide purchaser defense is not available to nonexclusive licensees as the holders of a mere contract right.

In this case, Rhone owned patent rights in a peptide that helped herbicide corn to grow. The peptide was covered by the claims of a patent and was a subject of a patent infringement claim against the licensee. The licensee acquired its patent license by fraud. The corporation that owned the peptide patent asserted that it necessarily followed that the sublicense to the patent was void and that the sublicensee could be sued for patent infringement. The sublicensee argued that since it paid for the right to use the peptide without knowledge of any wrongdoing by the licensee that had granted such right, the sublicensee could not be sued for patent infringement.

The Federal Circuit rejected the sublicensee's argument, finding that the bona fide purchaser rule applies only to purchasers of legal title, not licensees.

The *Rhone* case demonstrates the importance of conducting due diligence when licensing intellectual property to verify that the owner or licensor has the underlying ownership and authority to grant the relevant rights.

Freelancers beware

As a result of *New York Times Co. Inc. v. Tasini*, 533 U.S. 483 (2001), and other such cases, magazine and newspaper publishers have become more active in obtaining the appropriate assignments of copyrights necessary to allow the republication of written materials in electronic and other media. In *Ward v. Nat'l Geographic Soc'y*, 208 F. Supp. 2d 429 (S.D.N.Y. 2002), a freelance photographer/writer sued *National Geographic* for copyright infringement. The publication had sublicensed the right to a third party to produce and distribute CD-ROMs containing archived works of *National Geographic*, including some of the plaintiff's works. The court determined that the publication did not have the right to sublicense the copying and distribution of the freelance writer's work without permission of the author.

In *Marx v. Globe Newspaper Co.*, 15 Mass. L. Rep. 400 (Mass. Super. Ct. 2002), the *Boston Globe* required that all freelance writers sign agreements allowing for republication of their material online or face termination. Six freelancers sued the paper, with five of them refusing to sign the agreements and the sixth alleging that she signed the agreement only under duress and misrepresentation of the meaning of the terms of the license agreement. The court ruled in favor of the publisher, finding that it was not prohibited from terminating a freelancer who was by definition an independent contractor. The sixth plaintiff was unable to demonstrate that her signing of the license agreement was not of her free will and judgment.

Mark that patent

Failure to mark and label products with the requisite patent information

may result in reduced damages. In *K&K JumpStart Chargers Inc. v. Schumacher Corp.*, No. 02-1163 (Fed. Cir. Nov. 25, 2002) (unpublished), the U.S. Court of Appeals for the Federal Circuit affirmed a jury determination of patent infringement but reversed a damage award because the owner of the patent failed to make reasonable efforts to ensure its licensee complied with the marking requirements for patents. Although the license required the licensee to mark the products with the patent information, the licensor made no effort to determine if the licensee was actually marking the products until after the litigation commenced and offered no evidence that the products were marked prior to the litigation.

Publisher had right to ask freelancers to sign licenses.

The damage calculation was reduced based upon the date when products were effectively labeled with appropriate patent information.

Licensing intellectual property requires more than attention to the business deal at hand. Effective licensing must consider the impact of the issues covered in the above cases and an awareness of other issues that are likely to be addressed by future courts. By being mindful of the ever-changing landscape of intellectual property litigation, the licensing attorney can prevent undue risk and liability for his or her clients. **NLJ**

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