Against the Grain

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CD-ROM Licenses: What’s In The Fine Or Nonexistent Print May Surprise You

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Most CD-ROM products are licensed rather than sold to users. Purchasers of information, who are accustomed to buying print materials, frequently do not realize that when they acquire a CD-ROM product through a license, they are not acquiring the same rights that they usually acquire when they purchase a print product. CD-ROM producers usually want to retain more control over the resale, copying and use of the CD-ROM products than the copyright law permits when copies of a work are sold.

IS IT A LICENSE OR A SALE?

In a sale, the seller transfers ownership of an item for a price to the buyer, and the seller retains no rights or interests in the physical item. The seller has no right to limit the manner in which the buyer may use the item after the sale (although other laws such as the copyright law may limit uses). There are no time limits on how long the buyer may keep the item. The buyer has the right to sell or transfer possession of the item to anyone else. And in most cases the buyer does not have to sign a form that includes special terms and conditions of the sale.

When an owner licenses an item to a licensee, the licensee does not acquire ownership of the item. The licensee acquires only such rights in the item as are described in the license, and acquires them only under the terms and conditions set out in the license. If the license doesn’t give the licensee a specific right, then the licensee does not acquire that right. The licensee frequently does not have the right to transfer the license to someone else.

Since the owner retains ownership of the item and some rights in the physical item, a license usually covers a specific period of time. A perpetual license has some of the characteristics of both a sale and a license. A perpetual license places no limit on how long the licensee may keep the item. Depending on the terms of the license, the licensee may or may not have the right to transfer the license to someone else. Almost all perpetual licenses place limits on how the licensee may use the item. Although there have been some cases in which courts have found that the circumstances surrounding a particular perpetual license resemble a sale so closely that the court has been unwilling to enforce the use restrictions in the license, a subscriber to a CD-ROM product cannot safely ignore the use limitations even in a perpetual license.

The presence of the word “license” on any order form or other document accompanying the order or the product indicates that the producer of the CD-ROM product intends to withhold some of the rights granted to a purchaser. Phrases such as “The Software and all copies thereof are the property of [CD-ROM producer]” or “all right, title, and interest in and to the Licensed Program, the Licensed Database, all other related materials are and shall at all times remain the sole and exclusive property of [CD-ROM producer]” also indicate that the CD-ROM producer does not intend to grant a subscriber all of the rights that a buyer would acquire. All but one of the CD-ROM agreements examined in preparation for this article use the word “license” or purport to retain ownership of the disks. Even the license that does not use such terminology contains restrictions on the disposition of old disks that indicate that the CD-ROM producer does not intend to enter into a sale of the disks.

TERM AND TERMINATION OF THE AGREEMENT

When someone buys a copy of a print book or journal, s/he acquires a permanent right, limited only by the copyright laws, to keep and use the printed material. The buyer is not required to pay an annual fee to use the material s/he purchased in earlier years and has no obligation to return the back issues if s/he decides to cancel his/her subscription.

Some CD-ROM agreements cover disks that are not intended to be updated. These agreements usually grant the subscriber a permanent right to use the product unless the subscriber violates any of the terms in the license agreement. Occasionally, such agreements may require the payment of an annual license fee to use the software necessary to search the CD-ROM product. Usually the only way
that these agreements are terminated is if the subscriber breaches the terms of the agreement, and in such cases the subscriber is usually required to return or destroy all copies of the disks and software.

Most CD-ROM products are set up as subscription services with regular updates and annual fees. The vast majority of the subscription type CD-ROM agreements include a paragraph which prohibits any use of the product, including old disks, after the subscription has expired. Most agreements even require the subscriber to return or destroy all copies of the compact disks and the software upon termination of the agreement. The only agreement that the author was able to find that does not include such terms is the Wilsondisc agreement.

**CONTROL OF THE DISKS AND SOFTWARE**

One of the major reasons that CD-ROM producers do not want to distribute CD-ROM products by sale is that they want to control what happens to the disks and the software after the subscriber receives them. The majority of CD-ROM agreements contain provisions requiring the subscriber to return or destroy old copies of the compact disk when updates are received. Only one producer's standard contract allows the subscriber to keep superseded disks. These agreements usually also prohibit the subscriber from making copies of the software except for one copy for backup purposes. Most CD-ROM producers do not want the subscriber to be able to use the older or superseded versions of the product on additional machines without paying for multiple copies.

Another major reason for licensing CD-ROM products rather than selling them is that most CD-ROM producers do not want subscribers to have the right to resell the products to third parties if and when the subscribers decide that they no longer want to keep the product. All of the CD-ROM agreements examined for this article include clauses that prohibit resale or assignment of the license. The first sale doctrine of the copyright law prevents producers from placing resale restrictions on copies of copyrighted works that are distributed by sale. Distribution through licensing allows the producer to place almost any restriction on the product s/he can get the subscriber to agree to.

**BACKUP COPIES AND WARRANTIES**

All of the CD-ROM producers contacted in preparation for this article claim copyright in or ownership of both the software and the databases that make up their products. Most of the producers give a subscriber to their products the right to make one backup copy of the software used to search the CD-ROM product. If the product is not actually sold and the agreement does not specifically mention the backup right, the subscriber does not have the right to make a backup copy because the copyright law only gives backup rights to owners of copies of software. None of the agreements examined gives the subscriber the right to make a backup copy of the database, probably because the equipment needed to make duplicate compact disks is not yet available at mass market prices. Unless the acquisition agreement specifically gives the subscriber the right to make a backup of a CD-ROM product, the subscriber does not have such a right even if s/he has the equipment to make a backup copy.

Warranty provisions concerning the media (the compact disk) vary widely from no warranty at all to a commitment to replace without charge any current disk that is lost, stolen or damaged. The most common policy in the agreements examined warrants the disk for a specified time, such as 60 to 90 days, with no price reduction for replacement after the warranty has expired. If the agreement does not specify the cost of a replacement compact disk, the producer has no obligation to replace the disk for less than the full purchase price.

All of the agreements examined contain a clause severely limiting or disclaiming any warranty for the CD-ROM product, usually including both the software and the database. The reason for these disclaimers is that software and products containing software may be subject to Article 2 of the Uniform Commercial Code which contains provisions on implied warranties that the manufacturer makes unless it disclaims them. Section 2-314 creates an implied warranty that the goods are merchantable which means that they would be acceptable to most people who purchase such goods and are at least of fair or average quality and fit for the ordinary purposes for which they will be used. The producers are concerned that without the disclaimers they might be sued if there is an error in one of their products and a user suffers harm because s/he relied on the erroneous data. Purchasers of print products are not accustomed to seeing such disclaimers because historically purchasers of print materials have not expected print products to be totally error free and thus "trade usage" prevents the sale of a book from creating an implied warranty that everything in the book is correct.

**DOWNLOADING AND OTHER FORMS OF COPYING PARTS OF THE PRODUCT**

Downloading, printing, and converting to another medium (such as converting from CD to floppy disk) are all forms of copying. All of the producers contacted in preparation for this article claim copyright in their databases because they want the protection that the Copyright Act can give them. But most producers are not satisfied with the protection afforded by the Copyright Act alone or they would not use signed agreements full of additional terms. When the producer uses an agreement that does not constitute a sale, s/he eliminates the rights given to owners of copies in the Copyright Act to dispose of the copies they own by resale, lease or lending. Using a form of distribution other than a sale also eliminates the subscriber's right to make backup copies and to modify or change the format of a computer program.

Since most producers do not object to subscribers making backup copies of the software, most producers give this right back to subscribers in the CD-ROM agreement. But most producers do not want subscribers to have the right to convert the database to some other medium. In fact, many of the agreements examined for this article explicitly prohibit the subscriber from converting the database to any other medium. But even if the agreement does not explicitly prohibit converting the whole database or large portions of it to another medium, the mere fact that the product is not sold to the subscriber eliminates any right that the subscriber might have under section 117 of the Copyright Act to modify or convert the database.

The rights given to users of copyrighted works under the fair use and library reproduction sections of the Copyright Act, however, cannot be eliminated solely by converting the form of distribution from a sale to a license or a lease. But a lease is a contract, and if a user...
agrees to contract terms that place more limits on his use of a CD-ROM product than those imposed by the Copyright Act, those contractual limits are enforceable. Most CD-ROM producers want more control over how their products are used than the Copyright Act alone allows, so they write restrictive clauses in their licenses and order forms and require subscribers to sign them in order to get copies of the products.

The most restrictive agreements examined for this article appear to prohibit all copying or printing of any part of the database no matter how small or for what purpose. Some of the agreements examined for this article prohibit any form of copying or downloading other than printing very small portions of the database for internal use by the subscriber. Others allow limited printing and/or downloading for internal purposes only. A few allow whatever the copyright law allows or say nothing about downloading and copying which is the same as allowing whatever the Copyright Act permits. Several allow limited printing and downloading of varying amounts for limited periods of time for internal purposes. The most generous allow substantial copying for specific purposes such as building non-commercial local databases as long as certain conditions are met.

MULTIPLE USER RESTRICTIONS

All of the forms of multiple user access for CD-ROM products require the making of a machine readable copy of at least a substantial part of the product. Since most CD-ROM products are copyrighted and the Copyright Act does not allow user to make copies of substantial portions of a copyrighted work without the permission of the copyright owner, a subscriber to a CD-ROM product cannot legally use the product in a multiple access environment unless the agreement specifically gives him/her that right.

The provisions of CD-ROM agreements concerning use in a LAN fall into four categories. A few producers permit use in a LAN without any additional charge. A substantial number of producers permit use in a LAN upon payment of an additional fee of varying amount. Many agreements outright prohibit any use on a LAN. Finally some agreements do not mention use on a LAN which is equivalent to prohibiting such use.

The same general principles that apply to LAN use also apply to wide area network use and remote access. A subscriber needs specific permission for use in a wide area network or remote access environment. None of the producers contacted in preparation for this article permit remote access without an additional charge and many explicitly prohibit remote access. Prices for remote access almost always have to be individually negotiated.

OTHER USE RESTRICTIONS

A number of CD-ROM producers place additional restrictions on the use of their databases and software. The most common restriction states that the product will be used only for the internal operations of the subscriber and will not be used for commercial purposes. One agreement limits the subscriber’s use to legal or other research and related work. Some of the agreements also prohibit the subscriber from moving the CD-ROM to another site without the permission of the producer.

CONFIDENTIALITY AND OTHER NON USE RESTRICTIONS

Most CD-ROM agreements prohibit the subscriber from reverse engineering, decompiling, disassembling or modifying the software.

These clauses are frequently included in situations where the CD-ROM producer has licensed search software from another producer and the software is protected by trade secret as well as by copyright. In such cases, the CD-ROM producer would probably be violating his license if such terms were not included. Subscribers who have the knowledge and ability to modify software, batch files, and software/hardware interfaces should be aware that steps they take to make use of the product on their equipment more convenient may violate such clauses. Even if the changes are necessary to make the product work at all, they may still violate the clauses prohibiting modification. Subscribers should always get permission from the CD-ROM producer before modifying any CD-ROM product.

Several agreements also require that access be limited to the subscriber’s employees and/or clients and require the subscriber to take reasonable steps to prevent unauthorized access. What steps are reasonable depend a great deal upon who the subscriber’s employees and clients are and upon the circumstances in which the CD-ROM will be used. Subscribers who intend to use a CD-ROM product in a public setting such as a library should always notify the producer of their intended use in their order so that the producer cannot later claim that the subscriber violated a confidentiality clause by making the product available to the public.

NEGOTIATING DIFFERENT TERMS

The terms in the standard CD-ROM agreements are an offer made by the producer. The subscriber is not required to accept those terms if s/he does not agree with them. S/he has the right to make a counteroffer containing the terms under which s/he is willing to acquire the CD-ROM product. Although all terms are theoretically negotiable, the terms that most producers are likely to accommodate changes in are those relating to disposal of superseded disks, replacement of defective disks after expiration of the warranty, permission for specific uses, use in a LAN and remote access. The subscriber should be prepared for a price increase in exchange for changing any of these terms. If the subscriber does not agree to the terms of a license and cannot get the producer to change them, s/he has no choice other than to abide by the terms or not to subscribe to the product.

The following CD-ROM agreements were examined in preparation for this article: H.W. Wilson's Wilsondisc agreement; Martin-dale-Hubbell Law Directory on CD-ROM agreement; West CD-ROM Libraries Subscriber Agreement; R.R. Bowker's Bowker Plus System agreement; SilverPlatter Subscription and License Agreement; CIS Subscription License Agreement; CIS Congressional Masterfile License Agreement; Disclosure Inc.'s Compact Disclosure agreement; Information Access Corporation's Inforac License Agreement; OCLC Cat CD450 License Terms; OCLC Search CD450 License Terms; and PhoneDisc U.S.A. agreement.

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