BEAN KINNEY & KORMAN PC
ATTORNEYS

BUSINESS LAW NEWSLETTER

Volume 14, Issue 6 November 2014

In This Issue

BEAN KINNEY & KORMAN PC
ATTORNEYS

2300 Wilson Blvd., 7th Floor
Arlington, VA 22201
703.525.4000
www.beankinney.com

Business & Finance
Business Organizations & Transactions
Commercial Lending
Credit Enforcement & Collection
Employment
Government Contracting
Intellectual Property
Mergers & Acquisitions
Taxation

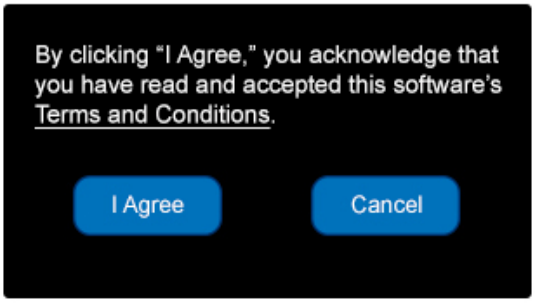
Litigation & Dispute Resolution
Alternative Dispute Resolution
Appellate Practice
Commercial & Civil Litigation

Personal Services
Domestic Relations
Estate Planning & Administration
Negligence/Personal Injury

Real Estate
Commercial Leasing
Construction
Real Estate
Zoning & Land Use

Look Before You Click "Agree": The Importance of Negotiating Your Company's Software License Agreements

By Laura Marston



People sometimes forget that when you click "I Accept" or "I Agree", you are entering into a legally-binding contract with the software company or website owner. And usually, the terms of the contract are extremely one-sided in favor of the Licensor. Particularly when your business purchases software licenses, simply clicking "I Accept" or "I Agree" without fully understanding the legal consequences of the contractual terms can put your company at significant financial risk.

For example, when you download and install iTunes, did you know you are agreeing to protect Apple by paying any damages and legal fees involved if Apple determines you have breached the License Agreement? You may be surprised at how easily you could inadvertently breach the terms of the Agreement if, say, you burn an audio playlist to a disc eight times rather than the permitted seven. If Apple sued you, you are contractually bound to travel to the courts in California to defend yourself (all while paying the associated court costs and legal fees). If, on the other hand, installing iTunes crashed your entire network and cost you thousands or even millions, you contractually agreed that you will not sue Apple and that Apple has no liability to you for any damages. Also, like most other license agreements, Apple's agreement permits Apple to change the terms of the contract whenever and however it wishes, and you are bound to the new terms by continuing to use iTunes.

What's the lesson for companies? To avoid potentially astronomical legal fees and substantial financial liability, **always negotiate your software license agreements** to obtain terms favorable to your company.

There are a number of clauses you almost always want to include in an agreement between your business and a software company/Licensor:

• Indemnification for your company: The contract should clearly define the protections and obligations of each party to the agreement in the event of a dispute. For example, if the software company is sued by a third-party who claims the company stole his code for use in the software, as a user of the software, your company may also be named in the lawsuit. To protect your business in such an instance, include a clause requiring the software company to defend, indemnify, and hold harmless your company against all costs (including attorney's fees) associated with the litigation.

(Continued to next page)

• Limitation of Liability clause: Almost all license agreements limit the liability of the Licensor, generally to the cost of the software. Include a statement in the license agreement that your company's potential financial liability is also so limited.

• Choice of Law provision: Choose the state in which your business is located as the state law and venue for any litigation arising under the license agreement. This will prevent large travel costs and will allow you to work with an attorney with whom you are familiar, rather than having to locate counsel in the state in which the software company is located.

• Establish Ownership of Intellectual Property: If your company is developing software or using it to create, ensure the license agreement clearly spells out the ownership of your company's intellectual property (data rights and copyrights). Most standard agreements provide that the Licensor owns development and software creations. Avoid costly future litigation by establishing who owns what prior to use of the software.

• Warranties and Service Level Agreements: If your business is relying heavily on a specific software program, ask the software company to provide a warranty or service level agreement for the proper functionality of the software. For example, if your business cannot make widgets during any software downtime, request the software company to commit to a maximum amount of downtime each month, and to compensate your business if the downtime exceeds the agreed-upon levels.

The above list of clauses is certainly not exhaustive. Each software license agreement should be tailored to the specific needs of your business while understanding and limiting the business's potential liability to the fullest extent possible.

Even if the software is free, your company's potential legal and financial liability may be unlimited. Always negotiate your license agreements!

Laura Marston is an associate attorney practising in the areas of software licensing, e-Commerce and technology law. She can be reached at 703.525.4000 or lmarston@beankinney.com.

Fraud in Virginia

By James Irving

Fraud cases in Virginia are not only difficult to prove, but can also be challenging to plead. The well-established standard that fraud must be pleaded with particularity diverges from the "notice pleading" test that permits general allegations to suffice in most circumstances.

In County of Grayson, et al. v. Ra-Tech Services, two Virginia counties brought a claim against Ra-Tech and its two principals – John Spane and Dale Sutphin - alleging fraud, fraud in the inducement, constructive fraud and breach of contract arising from an agreement between the parties for the installation and maintenance by Ra-Tech of communications systems to be used by first responders in the two counties.

Ra-Tech, Sutphin and Spane filed a Motion to Dismiss the Amended Complaint, which was granted as to the individual defendants. Plaintiff asked the court to reconsider the dismissal of the fraud in the inducement count against Spane and Sutphin.

On reconsideration, the Court began by reviewing the limited circumstances justifying a second look at the court's order: an intervening change in the law, new evidence not previously available and the catch-all, "clear error" or "manifest injustice."

The counties argued that the only reason the Court found the Complaint deficient against Sutphin and Spane was because the Court ruled that the defendants' conduct did not justify breaching RA-Tech's corporate shield, meaning that the decision had been rendered based on an issue that had not been briefed. However, upon review, the Court affirmed its ruling "that the plaintiffs failed to state a fraudulent inducement claim against the individual defendants."

To sustain a fraudulent inducement claim under Virginia law, a plaintiff must demonstrate that "the defendants made misrepresentations [that] were positive statements of facts; made for the purpose of procuring the contract; that they are untrue; that they are material; and that the party to whom they were made relied upon them and was induced by them to enter the contract."

In addition to the enhanced standard of proof, the Federal Rules of Civil Procedure impose a similarly rigorous pleading standard

for fraud claims. The Virginia rule is substantially the same. In particular, a plaintiff must allege facts regarding "the time, place, and contents of the false representations, as well as the identity of the person making the misrepresentation and what he obtained thereby."

The allegations of the two counties against the individual defendants were that they "intentionally made false written and oral statements to the Plaintiffs… in support of the proposal in order to induce the Plaintiffs into entering the agreement, with the present intention of defrauding the Plaintiffs…." Under traditional notice pleading, allegations of this sort, to be fleshed out in discovery, will be adequate, but they are precisely the sort of "labels and conclusions" and "formulaic recitations of the elements of the cause of action" that are insufficient to sustain a fraud claim.

Fraud allegations impute the stigma of intentional wrong-doing and dishonesty and the civil penalties can be harsh. Because litigants recognize the advantages, they are quick to plead fraud whenever possible. As a result, our system of jurisprudence has developed limiting rules of civil procedure and evidence designed to eliminate frivolous claims. A good rule to remember: if you can't recite the details of a fraud claim, you probably don't have one.

James Irving is a shareholder focusing his practice in business law. He can be reached at jirving@beankinney.com.

Common Myths about Copyrights and the Internet

By Ashley Dobbs

Myth: If it's on the Internet, it's in the public domain.
Mostly False.

"Public domain" refers to works which are NOT protected by copyright law. There are only three ways in which something can be considered "public domain":

1. The work is not subject to copyright protection in the first place. For example, ideas and facts, titles and names, short phrases and slogans, or government works.
2. The work has been assigned to the public domain by its creator. For example, some works may be marked "No Rights Reserved", which would indicate the creator intends for it to be public domain.
3. The work's copyright protection has expired. All works published in the US before 1923 are in the public domain. After 1923, it's a complicated determination, due to changes in copyright law, and you should consult a lawyer before relying on that assumption.

Just because you see a work on the Internet does not necessarily mean that is in the "public domain." The Internet may be free for everyone to use, but people don't lose their copyrights just because their creations are posted on the web. The Internet is no different than a newspaper or TV or billboard: it's simply a medium for displaying creative works such as photos, art or writing. Where or how a creative work is displayed does not impact its protection by copyright law.

If you want to use works that are in fact in the public domain, either look for works marked "No Rights Reserved," look for works that were published in the US prior to 1923 or visit one of several sites which provide public domain items, for example:

- Smithsonian Institution Public Domain Images
- New York Times Public Domain Archives
- Project Gutenberg, a collection of public domain electronic books

Myth: If it doesn't have a name or a © on it, it's in the public domain.
Mostly False.

A work may still be protected by copyright law whether or not there is a name or a © (copyright symbol) on it. A creator obtains their rights in a work by taking their creative idea and expressing it in a tangible form - writing it down, putting it on paper, performing it, taking a picture of it, etc. Unless there is some other concept of law involved, like "work for hire," this creator maintains all their copyrights in the work, even absent a © symbol or their name. And, again, the only way something becomes "public domain" is one of the three ways listed above.

(Continued to next page)

If you see an unmarked image or work on the Internet that you want to use, contact the owner of the website to find out who owns it and to request permission before you use it, or you will risk infringement claims.

Myth: If I credit the source, it's "fair use."
False.

Copyright infringement is different than plagiarism. And "fair use" isn't what it sounds like.

Crediting the source is merely attribution, which will avoid plagiarism. But copyright law requires permission, not attribution.

There is a possibility that a particular use could be considered "fair use," but that is not a clear determination. There are a limited number of uses which are permitted as "fair use," such as for criticism, commentary, news reporting, teaching, scholarship or research. Despite these clear categories, the courts will still consider a series of factors in determining whether something was "fair use," such as whether the use was for commercial or non-commercial use, the amount and substantiality of the portion of the work used as compared to the whole work and more. Simply put, "fair use" is a defense to what would otherwise be considered infringement.

So, if you find a work you want to use, if it's not in the public domain (see above), if you haven't determined that your contemplated use is definitively "fair use" and if you don't have permission, it's infringement, whether or not you credit the source.

***

If you want to learn more about copyright law, fair use and public domain, the U.S. Copyright Office provides many resources on their webpage or give us a call.

Ashley Dobbs is a shareholder of the firm focusing her practice in intellectual property. She can be reached at adobbs@beankinney.com or 703.525.4000.