By MEGAN M. KEARNEY

Faster Than the Speed of Law

Technological Advancements Generate a Host of Novel Legal Concerns

The proverb "time and tide waits for no man" embodies the long-standing wisdom that no one can control the inevitable march of time or the ebb and flow of life. It is equally true that no one can stop the breakneck pace of technological development or predict its direction. Technology affects how we enjoy a Saturday night at home watching movies, how we read books and how businesses stay at the forefront of competition. New technology generates a host of novel legal concerns, including intellectual property issues. Parties often draft licenses to govern the use of intellectual property (i.e. movies, books or software). However, contracts do not always account for new technological developments and the courts, parties and lawyers are often left to debate and interpret how outdated licenses should govern new technological developments.

FROM THE BIG SCREEN TO THE SMALL SCREEN

It is difficult to fathom in the age of LCD and plasma, but it was not until the 1950s that televisions became a popular source of home entertainment. The television was invented in 1923 and commercial television began in the United States in 1941. The invention of television impacted the licensing of films. In 1968, the Second Circuit decided *Bartsch v. Metro-Goldwyn-Mayer, Inc.*, which presented the issue of whether a film studio had the right to broadcast a movie over a new form of technology: the television. The plaintiff argued that MGM had been granted the right to show the film in movie theatres but not on television.

The court held that the contract granted MGM "the motion picture rights throughout the world," which included the right to show it on television, a new technological medium. The court explained that MGM could pursue any uses that were reasonably similar to the technology described in the contract. The court noted that television was not completely unknown at the time of contracting (1930) and reasoned that the onus should be on the licensor (film owner) to contract to retain rights to exploit uses of its intellectual property in new technological mediums.

WHEN IS A BOOK NOT IN "BOOK FORM?"

Intellectual property licensing took an unpredictable turn in the early 2000s with the creation of eBooks. EBooks digitize text into a format that is read by computer software and then viewed with the aid of an electronic device (i.e. the Kindle). In the early 2000s, Rosetta Books contracted with several authors, including Kurt Vonnegut, to publish their works in eBook format. However, these authors had already licensed the right to print, publish and sell their works "in book form" to Random House in contracts dating from 1961 to 1982. The day after Rosetta Books launched its eBook business, Random House sued to enjoin sale of the books in digital format.

In *Random House, Inc. v. Rosetta Books LLC*, the court was presented with the issue of whether Random House had the right to publish the licensed books in eBook format as well as the traditional "book" format. The court, interpreting the language of the original contracts, held that the right to print, publish and sell the works "in book form" did not include the right to publish the books in a new technological medium: the eBook. Contrary to the approach in *Bartsch*, the court favored the interpretation that licensors (authors of the books) should keep rights to new technological uses of their works unless the right is explicitly given to another party.

VIRTUALIZATION – THE NEW FRONTIER

Recently, "virtualization" has become a cutting-edge technological development for businesses that has raised unique issues regarding the licensing of computer software. The term virtualization is commonly used to refer to the creation of multiple virtual servers that operate on one physical computer. Virtualization uses fewer physical resources to do an increased amount of work in a virtual environment, cuts the costs of purchasing expensive hardware for computers, uses less physical storage space and reduces costs to power and cool physical computers.

Since software is a form of intellectual property, businesses purchase licenses to use software on computers. The number of licenses purchased by a company has traditionally been based upon the number of physical computers it owns. With the increasing popularity of virtualization, the traditional model for licensing software is quickly becoming obsolete. For example, how many software licenses must a business with one physical machine but multiple virtual servers purchase to be legally compliant? Software licenses drafted before 2008 typically do not even address the issue of virtualization.

Software companies that have outdated licenses with customers should be wary because it is arguable that their failure to contract for payment of software used in a new technological medium – a virtual environment – is their loss. Businesses

are also left vulnerable by contracts that do not address use of software in virtual environments because they could be liable for paying significant licensing back fees or damages to a software company after creating a virtual system.

Courts have yet to hear a case involving a software licensing dispute between a software provider and a business using software in a virtual environment. A business, finding itself potentially noncompliant with its software license, may prefer to avoid being the "test case" for the courts to decide liability and potentially substantial damages. But, such a case is inevitably coming.

Courts will likely continue to decide intellectual property licensing cases involving new technology according to principles of contract interpretation. This process leads to uncertainty and time-consuming, expensive case-by-case determinations of the impact of technological developments on the parties. One way to keep clients out of these murky and uncertain waters is to be aware of the possibility of new technological developments at the time of contracting and to renegotiate contracts before implementing new technologies.

Although the tide of technology "waits for no man" to be prepared for its ebbs, flows and new developments, practitioners can control its legal impact by drafting contracts that will protect their clients. A common clause that is employed in contracts to anticipate the emergence of new technologies grants intellectual property rights for "means or methods now or hereinafter known." This provision signals to a court that the parties intend the intellectual property rights to be granted to new technological mediums that may be developed in the future. In the context of software licensing, parties should negotiate the licensing of software in light of potential virtualization to avoid the uncertainty of litigation. Technology is often moving faster than the speed of law, but clients cannot afford to wait. Practitioners should create forward-thinking contracts for their clients until the law can catch up with technology. ■

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Readers' Comments

RE: "Editor – in – Chief," Fall 2010, Women on the Board

I reluctantly write to comment on Deborah Weinstein's kind inclusion of me as a former editorial board member, in connection with her interest in accurately reporting on the history of the editorial board membership. I was the first woman member of the editorial board. The Honorable Judge Leon Katz (Ret.), appointed me to the Board in 1979, when our publication was known as *The Shingle*. It was lonesome back then!

Fortunately, now we have a diverse board and good company for all.

Arline Jolles Lotman, JD, MA