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THE INTELLECTUAL PROPERTY STRATEGIST

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When Alice Leaves Software in Wonderland: Review the Terms of Use

By Veronica Mullally Munoz

That least-read contract — the Terms of Use (ToU) — can be an effective (albeit the last) weapon in the arsenal of a company trying to protect unpatented software technology while providing on-line services. In particular, a Software as a Service (SaaS) company may need to rely on its user license agreement or ToU to protect against theft of its technology by competitors posing as customers. Importantly, as discussed below, the ToU can support injunctive relief just as is available for patent infringement. Furthermore, even where individual components of the SaaS product are otherwise publicly available, or known in the art, a ToU contract protecting the proprietary combination of such components in the product as a whole will be enforced. *See, Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 99 S. Ct. 1096 (1978) (enforcing contractual obligations freely undertaken at arm's length to continue to pay royalties on unpatented publicly available product).

Protecting Technology

A company may spend millions of dollars and much time and resources developing valuable software technology that implements a novel method of doing something (*i.e.*, reducing an abstract idea to practice). Under *Alice Corp. v. CLS Bank International*, 573 U.S. 208, 134 S.Ct. 2347 (2014), the Court relying on, [Mayo v. Prometheus](#), 566 U.S. 66, 132 S.Ct. 1289 (2012), found that an abstract idea cannot be patented just because it is implemented on a computer. So, where its software technology may not be patent eligible, the company must resort to other means to protect its investment. One option may be trade secret protection

for the software architecture, but that requires the company to have had enough foresight to implement, and adhere to, the practices required to sufficiently protect its trade secrets before the need for enforcement arises.

In [*Broker Genius, Inc. v. Zalta*](#), 280 F. Supp. 3d 495 (S.D.N.Y. 2017), the court denied a preliminary injunction based on a theft of trade secrets claim, holding that “plaintiff’s widespread and comprehensive disclosures extinguished the trade secret status of the information that Broker Genius claims was misappropriated by defendants.” *Id.* at 524. Nevertheless, despite it having been adjudicated in *Zalta* that it had no trade secrets in its unpatented technology, Broker Genius subsequently secured a preliminary injunction against another ex-customer based on breach of contract – specifically a breach of its ToU. *See, Broker Genius, Inc. v. Volpone et al.*, 313 F. Supp. 3d 484 (S.D.N.Y. 2018). Thereafter, a permanent injunction was entered after a jury returned a verdict for Broker Genius on breach of contract and unfair competition claims. *See, Broker Genius, Inc. v. Seat Scouts, LLC and Drew Gainor*, No. 1:17-CV-08627-SHS-SN (S.D.N.Y. Feb. 7, 2019).

Broker Genius is a SaaS company servicing ticket brokers in the secondary ticket market. It provides an auto pricing product that allows brokers to dynamically reprice the many thousands of tickets in their inventories according to comparable ticket prices in a fluctuating market. Having spent millions of dollars on requirements engineering to develop and optimize its product, Broker Genius needed a way to protect its investment and its technology from misappropriation by would-be competitors posing as customers. Without patents or trade secrets, that much-needed protection came down to the contract users/customers agreed to before getting access to the product – the user license agreement, or ToU. The author of this article represented Broker Genius and learned first-hand the issues involved in enforcing a far from perfect ToU.

The ToU governs the legal relationship between the user/consumer and the business hosting the website. This contract is important to, among other things: limit financial liabilities; disclaim implied warranties; spell out restrictions on use of the software; protect intellectual property and specify governing law and venues. As was the case for Broker Genius, the ToU may be the only weapon against a customer turned software thief and their utility and importance cannot be underestimated.

Drafting the Terms of Use

As with any agreement, it is important to anticipate possible disputes and focused ToU provisions should be drafted with a view toward enforcement. Companies should not rely on boilerplate ToU because they are not “one size fits all.” The focus is different for SaaS sites than for websites selling goods. In addition, the ToU should be drafted using plain language – a jury must be able to easily read and understand the terms – then it will assume the defendant did too. The components of the products that the company wants to protect

should be properly defined and it is also critical to clearly spell out what the customer is permitted to do and what she is prohibited from doing so that a claim for breach of contract can be easily identified and supported.

It is relatively easy for a user with access to a SaaS product to avoid the expense of requirements engineering and develop a copycat product for a few thousand dollars even without access to the computer code. The image below is from the Upworks website where an ex-customer of Broker Genius posted an advertisement to hire a programmer for \$5000 to copy the product it cost Broker Genius millions of dollars to develop.



Fixed Price

Budget: \$5,000

Delivery by

December 18, 2016

\$ Entry Level



Start Date

September 17, 2016

Details

Looking for sometime to build a customer software program to interface with StubHub API and TicketUtils API. We want it to perform exactly like [REDACTED] which you can see in the following videos.

Intro: [https://www.youtube.com/watch?v=\[REDACTED\]](https://www.youtube.com/watch?v=[REDACTED])

Intermediate: [https://www.youtube.com/watch?v=\[REDACTED\]](https://www.youtube.com/watch?v=[REDACTED])

Advanced: [https://www.youtube.com/watch?v=\[REDACTED\]](https://www.youtube.com/watch?v=[REDACTED])

Follow-on projects would enhance the capabilities of this software and extend it to utilize Ticketmaster API, SkyBox API, Vivid Seats API, TicketNetwork API, and more.

This could be a web or desktop software, whichever is easiest.

Project Type: Ongoing project

Operating systems: Mac, Windows

API Integration Required: Other

Project Stage: Design

Ongoing project: Developer

To effectively protect the software product, the user/customer must agree to the ToU before receiving any demonstration, training or access to the product. By agreeing to the ToU the user should affirmatively acknowledge the company's trade secrets, if any. There must be express confidentiality and non-disclosure obligations in the ToU. There must be a survival clause to perpetuate the user's obligations under the ToU after he is no longer a user/customer. A provision anticipating violation of the ToU can be helpful in obtaining injunctive relief. The user should agree that: for violation of the ToU monetary damages may not be a sufficient remedy and that the company may pursue injunctive relief (this is not determinative but can be helpful) and that such violation may cause irreparable harm to the company, including loss of goodwill, customers and sales. Attorney fees and costs provisions should also be included along with the company's preferred governing law and jurisdiction.

As in any breach of contract case, the plaintiff must prove that the defendant agreed to and entered into the contract. The enforceability of the on-line ToU contract depends on: the manner in which the ToU is presented to the user/consumer and how the user/consumer demonstrates agreement to the ToU. In translating the principles of contract formation to the internet, the relevant inquiry is:

1. Whether the Web pages presented to the consumer adequately communicate all the terms and conditions of the agreement, and
2. Whether the circumstances support the assumption that the user/customer receives reasonable notice of those terms.

Whether the user/customer actually reads the contractual terms he just agreed to is of no matter. A party who signs a document without any valid excuse for having failed to read it is conclusively bound by its terms. *See, Patterson v Somerset Investors Corp.*, 96 AD3d 817, 946 NYS2d 217 (2d Dept 2012); *M & T Bank v HR Staffing Solutions, Inc.*, 106 AD3d 1498, 964 NYS2d 847 (4th Dept 2013). A party's failure to read a document that he or she executed does not excuse that party from performing. *See, Tsadilas v Providian Nat. Bank*, 13 AD3d 190, 786 NYS2d 478 (1st Dept 2004); *Sorenson v Bridge Capital Corp.*, 52 AD3d 265, 861 NYS2d 280 (1st Dept 2008).

A user license agreement contained in a computer software program is a binding contract where the terms are prominently displayed on the computer screen and the user accepts the terms by clicking on the "I agree" icon before using the software. *See, Moore v Microsoft Corp.*, 293 AD2d 587, 741 NYS2d 91 (2d Dept 2002); *Jesmer v Retail Magic, Inc.*, 55 AD3d 171, 863 NYS2d 737 (2d Dept 2008). The fact that the terms of a user agreement are only available by hyperlink ("clickwrap") does not mean that the user did not have reasonable notice of the terms. *See, Meyer v. Uber Techs., Inc.*, 868 F.3d 66, 79 (2d Cir. 2017) (citing *Fteja v. Facebook, Inc.*, 841 F. Supp. 2d 829, 838 (S.D.N.Y. 2012)). As long as the hyperlinked text was itself reasonably conspicuous, a reasonably prudent internet user is considered to have had reasonable notice of the terms. *Id.* But hyperlinks to ToU are sometimes not enough and courts have refused to enforce the contract. *See, Specht v. Netscape*, 306 F.3d 17 (2002) (hyperlink to ToU was further down the page coming after the button to click to download the free software); *Nguyen v. Barnes & Noble*, 763 F.3d 1171 (2014) (despite hyperlink to ToU being displayed on every page, nothing directed consumer to read the ToU). A ToU agreement is enforceable only if it provides reasonably conspicuous notice of the existence of contract terms and requires an unambiguous manifestation of assent to those terms. *Meyer*, 868 F.3d at 74.

Courts have consistently found "scrollwrap" agreements (where terms are actually displayed before the user can agree to them) enforceable because they present the consumer with a "realistic opportunity" to review the terms of the contract and they require a physical manifestation of assent. *Applebaum v. Lyft, Inc.*, 263 F. Supp. 3d 454, 465 (S.D.N.Y. 2017). By comparison, courts scrutinize the circumstances surrounding an alleged assent to a clickwrap agreement, which does not require the user to review the terms of the proposed agreement; nevertheless, courts have generally found clickwrap agreements enforceable because "[b]y requiring a physical manifestation of assent, a user is said to be put on inquiry notice of the terms assented to." *Id.* However, it is likely that companies have a stronger argument for enforceability if they present the ToU as scrollwrap instead of clickwrap.

Evidence that a user continued to access a website when the user would not have been able to but for manifesting assent to the provisions of a clickwrap agreement, together with evidence of the user's assent, is sufficient to demonstrate unambiguous manifestation of assent. *See, Broker Genius, Inc. v. Volpone*, 313 F. Supp. 3d 484, 498 (S.D.N.Y. 2018);

Eslworldwide.com, Inc. v. Interland, Inc., No. 06-Cv-2503, 2006 WL 1716881, at 2 (S.D.N.Y. June 21, 2006); *Kutluca et al. v. PQ N.Y. Inc.*, 266 F. Supp. 3d 691, 702 (S.D.N.Y. July 10, 2017) (“[W]hether or not [the users] remember [assenting to the clickwrap agreement], the evidence demonstrates that [the users] could not have proceeded to use the [software] ... unless they accepted the [agreement], which renders [their] failing memories irrelevant.”). Thus, it is good practice to maintain a record of the date and time the users/customers agreed to the terms of use because it can provide invaluable evidence of assent should a dispute arise.

The *Broker Genius* case highlights the value of having effective ToU as an important means of protecting unpatented software technology. It is particularly significant that the ToU can support injunctive relief just as is available for patent infringement. Companies should be cognizant of the utility of the ToU as a means to protect intellectual property in software and ensure that their ToU are well drafted. Critically, companies should remember that the time to think about implementing comprehensive and effective ToU is before the company needs to enforce them.

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