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ProCD, Inc. v. Zeidenberg: An Emerging Trend In Shrinkwrap Licensing?

Shrinkwrap licenses are a relatively new form of licensing arrangement used to impose limitations and conditions on the buyer's use of a product. Despite evident popularity in some quarters to use such licenses, particularly in or on computer software packaging, courts have historically invalidated such arrangements because they are alleged to violate various provisions in the Uniform Commercial Code and federal copyright law. *ProCD, Inc. v. Zeidenberg*,¹ which reversed the District Court's decision,² is the first significant judicial departure from the generally negative treatment accorded shrinkwrap licenses. Thus, this decision deserves considerable attention because of its possible ramifications on licensing in the computer software industry and other fields.³

This Comment argues that *ProCD* reflects an incipient movement in the field of licensing law towards the recognition and enforceability of licenses which do not wholly consist of explicit and bargained for terms. As such, this decision is representative, along with recent proposals to modify the Uniform Commercial Code, of a development in the law which supports the growing commercial necessity of using and enforcing shrinkwrap licenses in mass-market transactions.⁴

An examination of case law leading up to the Seventh Circuit's *ProCD* decision, as well as legal commentary on these decisions, reveals parallel developments and an important point of convergence. The parallel involves two ostensibly separate fields of law, copyright and contract. The cases examined below reveal a preoccupation with

1. 86 F.3d 1447, 39 U.S.P.Q.2d (BNA) 1163 (7th Cir. 1996), *rev'g* 908 F. Supp. 640, 38 U.S.P.Q.2d (BNA) 1513 (W.D. Wis. 1996).

2. 908 F. Supp. 640, 38 U.S.P.Q.2d (BNA) 1513 (W.D. Wis. 1996), *rev'd*, 86 F.3d 1447, 39 U.S.P.Q.2d (BNA) 1163 (7th Cir. 1996).

3. Some have suggested that one ramification of *ProCD* might be a reversal of an emerging trend towards software patents to the detriment of traditional copyright protection for software, because shrinkwrap licenses allow software developers to circumvent the copyright regime altogether. Mark A. Lemley & David W. O'Brien, *Encouraging Software Reuse*, 49 STAN. L. REV. 255, 299-300 (1997).

4. This necessity is born in part by the proliferation of "pirated" software; one recent study suggests that one unauthorized software copy exists in the United States for every legal copy, which translates into a loss to the software industry of between \$1.5 to \$2 billion a year. David A. Einhorn, *Box-Top Licenses and the Battle-of-the-Forms*, 5 SOFTWARE L.J. 401, 402 (1992).

ascertaining the scope of contract law and its intersection with licensing by analyzing and applying Article 2 of the U.C.C.⁵ The parallel feature, copyright, presents the second strand to shrinkwrap license analysis. This second strand centers on ascertaining what parties to a shrinkwrap license are permitted to do under the copyright law.

The thesis of this Comment is that these parallel strands converge, that this convergence will characterize the future and dispositive discussion of shrinkwrap licensing, and that this convergence is a positive step in this area of law. Further, this Comment proposes that the current debate about shrinkwrap licenses should be seen as a discourse between two competing positions. The first position holds that it should be impermissible to allow private parties to contract via shrinkwrap licenses because doing so acts to waive, and nullify, important policies embodied in federal copyright law. The second position holds that it is appropriate for private parties to enter such licensing contracts because doing so does not act to the detriment of copyright policies, and is also positively favored under the policies associated with contract law. Thus, a resolution of the shrinkwrap license debate necessarily requires resolving the tension between these two positions.

This Comment traces the nature, policy, judicial history and the most recent perspectives relevant to shrinkwrap licensing. Part I presents an overview of shrinkwrap licenses, including policy pros and cons. Part II traces the most significant precedent prior to the *ProCD* decisions. The *ProCD* decisions are the focus of Part III. Part IV examines several recent decisions which interpret the Seventh Circuit's *ProCD* opinion, and Part V presents a number of concluding remarks. An appendix containing several especially relevant legal provisions is also provided.

I. OVERVIEW

The expression "shrinkwrap license" comes from the practice, especially prevalent in the computer software industry, of including a paper copy of license terms within the exterior plastic covering the purchased software.⁶ Other forms of this type of license include those printed on the exterior of boxes, placed somewhere within the box, and those con-

5. This preoccupation may well be extinguished by the potential introduction of a U.C.C. provision that formally deals with licensing such as Article 2-2203 or Article 2B-308.

6. Mark Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 S. CAL. L. REV. 1239, 1241 (1995).

tained in the owner's manual accompanying the software.⁷ A more recent variation involves the appearance of terms on the computer screen triggered by the buyer's initial operation of the purchased software.⁸ The intent of the shrinkwrap "licensor" is to create a "reverse unilateral contract." A reverse unilateral contract can be described as an "offer of a performance for a promise, rather than an offer of a promise for a performance."⁹ The "binding" contract comes into effect when the buyer opens the plastic wrap and then uses the software.¹⁰ The ultimate purpose of the shrinkwrap license is to allow a software publisher to retain title to the software, thereby allowing the publisher to delimit the customer's use of the software.¹¹ For this reason, software vendors seek to avoid classification of shrinkwrap licenses as sales. According to U.C.C. § 2-106, a sale is "the passing of title from the seller to the buyer for a price."¹²

The very nature of mass marketing software precludes software publishers from negotiating with individual customers making it necessary to use shrinkwrap licenses as a form of "adhesion contract."¹³ Further, this species of adhesion contract is justified as a business practice insofar as these licenses are typical of many mass marketing contracts. One example is obtaining a credit card in which the terms are not all subject to negotiation.¹⁴ Adhesion contracts are not prima facie invalid and may even be valid if they are accepted by conduct and not signed.¹⁵ The touchstone requirement for such contracts in the shrinkwrap license setting is neither a signature nor explicit assent, but rather, fair-

7. *Id.*

8. *ProCD v. Zeidenberg*, 908 F. Supp. 640, 644-45, 38 U.S.P.Q.2d (BNA) 1513, 1515-16 (W.D. Wis. 1996), *rev'd*, 86 F.3d 1447, 39 U.S.P.Q.2d (BNA) 1163 (7th Cir. 1996); *see also* Stephen J. Davidson & Michael J. Wurzer, *Shrink-wrap Licenses: The Continuing Controversy*, 453 P.L.I. 673, 691 (1996) (the "web-wrap" license, a form of interactive order form containing the license agreement, is increasingly used on the Internet and requires that a user electronically acknowledges the terms of the license before payment and delivery).

9. Einhorn, *supra* note 4, at 404-05.

10. Lemley, *supra* note 6, at 1241-42.

11. Michael G. Ryan, *Offers Users Can't Refuse: Shrink-Wrap License Agreements as Enforceable Adhesion Contracts*, 10 CARDOZO L. REV. 2105, 2109 (1989).

12. Einhorn, *supra* note 4, at 407; *see also* U.C.C. § 2-106.

13. Ryan, *supra* note 11, at 2108.

14. Robert W. Gomulkiewicz & Mary L. Williamson, *A Brief Defense of Mass Market Software License Agreements*, 22 RUTGERS COMPUTER & TECH. L.J. 335, 343 (1996).

15. Paul T. Sheils & Robert Petchina, *What's All the Fuss About Feist? The Sky is Not Falling on the Intellectual Property Rights of Online Database Proprietors*, 17 U. DAYTON L. REV. 563, 574-75 (1992).

ness and commercial necessity.¹⁶

Structurally, a typical shrinkwrap license possesses an "agreement" clause which states that the purchaser agrees to the terms of the agreement by opening the packaging.¹⁷ An example of an agreement clause would be: "You agree to the terms of this Agreement by the act of opening the sealed package ... Do not open the sealed package without reading, understanding and agreeing to the terms and conditions of this Agreement. You may return the software for a full refund before opening the sealed package."¹⁸

The standard shrinkwrap license also includes a "title retention" clause which states that title to the software code is retained by the software developer and that the purchaser is receiving a nonexclusive right, or license, to use the program subject to various restrictions expressed in clauses appended to the remainder of the agreement.¹⁹

Various provisions are commonly encountered in shrinkwrap licenses. Perhaps the most common traditional provision is an "anti-rental" clause. These clauses represent attempts to prevent a renter of computer software from duplicating rented software at home.²⁰ This type of clause is particularly applicable to computer software because of the ease with which duplication or reproduction can be accomplished.²¹ Thus, software producers incorporated shrinkwrap license clauses prohibiting software rental, because the option of suing individual infringers or renters under a theory of contributory infringement is logistically impractical.²² This form of shrinkwrap licensing has arguably fallen into disuse with the modification of § 109(b) of the Copyright Act to include an anti-rental provision.²³

16. Ryan, *supra* note 11, at 2125.

17. Gary W. Hamilton & Jeffrey C. Hood, *The Shrink-Wrap License — Is it Really Necessary?*, 10 COMPUTER LAW. 16, 16 (1993).

18. R.H. Stern, *Shrink-Wrap Licenses of Mass Marketed Software: Enforceable Contracts or Whistling in the Dark?*, 11 RUTGERS COMPUTER & TECH. L.J. 53 (1985).

19. Hamilton & Hood, *supra* note 17, at 17.

20. *Id.*

21. *Id.*

22. *Id.*

23. *Id.* at 18. As modified, § 109(b) states:

(U)nless authorized by the owners of copyright...(no) person in possession of a particular copy of a computer program...may, for the purposes of...commercial advantage, dispose of, or authorize the disposal of, the possession of that...computer program...by rental, lease, or lending, or by any other act or practice in the nature of rental, lease, or lending.

17 U.S.C. § 109(b)(1)(A) (1994).

Another provision often encountered in a shrinkwrap license is an "anti-modification" clause which attempts to restrict the purchaser from modifying, improving or adapting the software.²⁴ This clause addresses a concern held by software developers that a copier could copy the program and then, after making minor modifications, sell it for profit.²⁵ However, the existing copyright law prohibits such copying as an instance of the commercial creation of a derivative work which is outside the bounds of individual fair use under § 117 of the Copyright Act.²⁶

"Reverse engineering" clauses often appear in shrinkwrap licenses and are intended to prevent competitors from disassembling a program's object code to obtain its source code.²⁷ One rationale for such clauses is that they aid the developer of source code in retaining trade secret status for the code. However, some argue that enforcing licenses incorporating such clauses is inappropriate because public policy favors decompilation in order to promote technological progress, and a grant of greater protection via enforcement of the license extends an impermissible patent like monopoly on the source code.²⁸

Another clause prevalent in shrinkwrap licenses is one limiting any warranties.²⁹ The following warranty clause is from *Vault Corp. v. Quaid Software Ltd.*. For example:

THE LICENSED SOFTWARE IS PROVIDED "AS-IS". VAULT DISCLAIMS ALL WARRANTIES AND REPRESENTATIONS OF ANY KIND WITH REGARD TO THE LICENSED SOFTWARE, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. UNDER NO CIRCUMSTANCES WILL VAULT BE LIABLE FOR ANY CONSEQUENTIAL, INCIDENTAL, SPECIAL OR EXEMPLARY DAMAGES EVEN IF VAULT IS APPRISED OF THE LIKELIHOOD OF SUCH DAMAGES OCCURRING. SOME STATES DO NOT ALLOW THE LIMITATION OR EXCLUSION OF LIABILITY FOR INCIDENTAL OR

24. Hamilton & Hood, *supra* note 17, at 18.

25. *Id.* at 19.

26. *Id.* at 20; see also Page M. Kaufman, *The Enforceability of State "Shrink-wrap" License Statutes in Light of Vault Corp. v. Quaid Software, Ltd.*, 74 CORNELL L. REV. 222, 241 (1988) (license provisions which prohibit a licensee from preparing derivative works are equivalent to the exclusive right to prepare derivative works conferred to the copyright owner under § 106(2) of the Copyright Act; therefore, an infringer who creates a derivative work from copyrighted software cannot give rise to both state and federal causes of actions).

27. Hamilton & Hood, *supra* note 17, at 20.

28. *Id.* at 20-21.

29. Lemley, *supra* note 6, at 1242, 1245-1246.

CONSEQUENTIAL DAMAGES, SO THE ABOVE LIMITATION OR EXCLUSION MAY NOT APPLY TO YOU.³⁰

Warranty disclaimers are used to notify consumers of the vendor's position and to protect the vendor from any liability in the event the vendor's product damages data or otherwise impairs a purchaser's equipment.³¹

Limitations on user rights form a significant portion of shrinkwrap license clauses. Limitation clauses represent an attempt to limit a consumer's rights to use the software in a manner otherwise permissible.³² Various limitations on user rights include restrictions on transferring, sublicensing, renting, leasing, conveying, copying, modifying, translating, converting to another programming language, decompiling, and disassembling.³³ These limitations conflict with various aspects of copyright law including the "first sale" and "fair use" doctrines, as well as rights to "reverse engineer" computer programs.³⁴

One reason for upholding shrinkwrap licenses is that they promote efficiency in software transactions because individually negotiated contracts are not possible in the mass market setting.³⁵ In other words, "standardization of agreements serves many of the same functions as standardization of goods and services; both are essential to a system of mass production and distribution. Scarce and costly time and skill can be devoted to a class of transactions rather than to details of individual transactions."³⁶

30. *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 257 n.2, 7 U.S.P.Q.2d (BNA) 1283, 1283-84 n.2 (5th Cir. 1988).

31. Lemley, *supra* note 6, at 1245.

32. *Id.* at 1245-46.

33. *Id.* at 1246; *see, e.g., Vault*, 847 F.2d at 257 n.2, 7 U.S.P.Q.2d (BNA) at 1283-84 n.2 (example of a user rights restriction clause).

34. Lemley, *supra* note 6, at 1246-47.

35. Golmulkiewicz & Williamson, *supra* note 14, at 341.

36. RESTATEMENT (SECOND) OF CONTRACTS § 211 cmt. a (1981). *But cf.* Mark A. Lemley, *Shrinkwraps in Cyberspace*, 35 JURIMETRICS J. 311, 315, 319-22 (1995) (The uniformity or standardization of practice presented by shrinkwrap licenses is inappropriate in the setting of the Internet. Proponents of shrinkwrap licenses argue that they are a more efficient means of regulating Internet transactional behavior than more traditional tort or criminal legal methods; however, these licenses are undesirable in this context insofar as they would impose a "moral" code on the Internet which, if adopted by some parties, would impair reciprocal access to goods and services and would impose a "law" of the Internet allowing no room for bargaining. Furthermore, shrinkwrap licenses in the Internet setting would impose regulations never subject to legislative debate which inherently benefit licensors to the detriment of consumers). Lemley's position is interesting but by no means certain. Foremost, it advances a central premise that the "virtual" world and its legal constraints, especially with respect to chilling behavior, is in some manner distinct from the analogous "physical" world and its gov-

The primary downside to mass marketing standard form agreements is the potential that the seller may include hidden terms to the detriment of a purchaser.³⁷ However, this concern is addressed by at least two counter arguments. First, producers of software are unlikely to include unfair terms because courts possess a variety of measures to combat them. A second, and arguably more convincing argument, is that in a competitive marketplace consumers are unlikely to purchase software binding them to unconscionable terms.³⁸ In addition, several factors relating to the nature of the marketplace mitigate the likelihood of unfair terms: competition between sellers over license terms, the interest of sellers in maintaining their reputation and avoiding obtaining a "bad name" for themselves, and the potential for antitrust actions against conspiring sellers.³⁹

Shrinkwrap licenses also provide the unsophisticated buyer with valuable information as to one's rights under the existing law, the copyright law.⁴⁰ To cite one example, it is fairly implausible to suppose that the typical software purchaser is apprised of many of the provisions of the Copyright Act including first sale and fair use.⁴¹ Shrinkwrap licenses provide a forum for explicitly stating rights that a software purchaser might otherwise not be aware. For example, the purchaser of a copy might be left unapprised of potential rights unless the purchaser was aware of the doctrinal notion of an "implied license" to such use.⁴²

Shrinkwrap licenses also can be used to create a "rich variety of rights" as they provide specificity and variability in the rights conferred to the user by expanding on the rights granted under the intellectual property laws, by explaining the applications to which the underlying subject matter can be put, and by providing rights tailored to less sophisticated purchasers who are not interested in the consequences of rights restrictions, *e.g.*, rights to "reverse engineer."⁴³ Examples of expanded rights include shrinkwrap licenses which grant permission to

erning legal paradigms. If, however, these two "worlds" are not effectively dissimilar in either their business and legal dimensions, for example, over their intersection with copyright law, then there seems no compelling rationale for departing from the general observation enunciated in the Restatement.

37. Brandon L. Grusd, *Contracting Beyond Copyright: ProCD, Inc. v. Zeidenberg*, 10 HARV. J.L. & TECH. 353, 362 (1997).

38. *Id.* at 362.

39. *Id.* at 362 & n.68.

40. Golmulkiewicz & Williamson, *supra* note 14, at 346-349.

41. *Id.* at 347-348; *see also* 17 U.S.C. § 117 (1994).

42. Golmulkiewicz & Williamson, *supra* note 14, at 350.

43. *Id.* at 352-57.

make and use a second copy of a licensed program, to copy and distribute fonts, and to copy and make derivative works using clip art.⁴⁴

However, the practice of placing limits on the number of copies that a purchaser can make through licensing can be criticized as granting rights equivalent to those granted in the Copyright Act when the practice is grounded in a state law provision.⁴⁵ Under § 117 of the Copyright Act, the owner of a copy of copyrighted software is allowed to make one copy for archival purposes as well as to make copies or adaptations in order to use the software. Insofar as the license agreement purports to extend or otherwise delimit the number of copies that a licensee of the software can make, such provisions are criticized as preempted by or in direct conflict with the grant conveyed under federal copyright law.⁴⁶

A number of proposed amendments to the U.C.C., including § 2-2203, would validate most shrinkwrap licenses if adopted. Proposed § 2-2203(a) provides that:

Subject to [the section on disclaimer of warranties in consumer licenses], a party adopts the terms of a standard form license if, prior to or within a reasonable time after beginning to use the intangibles pursuant to an agreement, the party

(1) signs or otherwise by its behavior manifests assent to a standard form license; and

(2) had an opportunity to review the terms of the license before manifesting assent, whether or not it actually reviewed the terms.⁴⁷

Section 2-2203(e) defines "manifest assent" as:

A party manifests assent to the license if, having had an opportunity to review the terms of the license, it engages in conduct that the license provides will constitute acceptance of the terms of the license and it had an opportunity decline to engage in this conduct after having had an opportunity to review the terms of the license.⁴⁸

44. *Id.* at 354.

45. Kaufmann, *supra* note 26, at 241. Various such state law provisions existed at one time or another including those of Louisiana, the Louisiana Software License Enforcement Act (LSLEA), La. Rev. Stat. Ann. §§ 51:1961-1966 (West 1997), which is reproduced in Appendix II herein, and the Illinois Software License Enforcement Act, Ill. Rev. Stat. ch. 29, para. 801-08, (1987) (repealed 1988).

46. Kaufmann, *supra* note 26, at 241.

47. U.C.C. §2-2203(a) (Sept. 10, 1994, Draft). Section 2-2203 is reproduced in Appendix I herein its entirety.

48. U.C.C. Draft § 2-2203(e).

“Review” of license terms is defined as follows:

(d) A party has an opportunity to review the terms of a license if:

(1) the license is made available to the party (i) prior to its acquisition of a copy of the intangibles and in a manner designed to call the license terms to the attention of the party assenting to the form, or (ii) provided to the party in a manner so that the terms of the license will be conspicuous in the normal course of its initial use or preparation to use the intangibles; and

(2) in a mass market license, the party assenting to the form is authorized to obtain a refund of all license fees paid by returning the copy of the intangibles or discontinuing use following its opportunity to review the terms of the license.⁴⁹

The underlying theory in the draft section is explained in Reporter’s Note 3:

The basic issues in standard form contracts lies with what presumption one makes about a contract. One model holds that contract terms consist only of those terms that the parties actually agree to in fact. This would invalidate many provisions of standard contracts because in many transactions neither party reviews or bargains about every term of the agreement. This model hinges on *actual* agreement. Its chief flaw is that it anticipates or requires conduct that is not common in commercial or consumer practice. In fact, many commercial transactions are conducted with written agreements that are not fully negotiated or read. The alternative of enforceability is followed in most cases. It assumes that assent to the contract implies assent to all terms. In many court opinions, this is explained in terms of a duty to read and understand the contract or in terms of an objective assessment of contract terms. The contract contains the terms to which you objectively, not subjectively, assented. The *Restatement* uses this latter model with restrictions designed to avoid unfair surprise.⁵⁰

The operative theory in proposed § 2-2203 is based, not in actual consent to contractual terms, but in an implied assent that reflects the realities of the business world where most consumers do not read or negotiate contractual terms.

A recent critique of this provision, and of shrinkwrap licenses generally, focuses in part on the policies behind the laws of contract and intellectual property. This Comment argues that shrinkwrap license

49. *Id.* § 2-2203(d).

50. *Id.* § 2-2203 Reporter Note 3.

analysis is properly directed towards the policy balance between "the freedom of contract" and the goals of intellectual property law.⁵¹ One illustration of this balance can be found in federal copyright law: 17 U.S.C. § 117 establishes a limited fair use over computer programs, however, this policy, to promote the progress of the Arts, is potentially upset by allowing any licensor to freely contract limitations on the use of computer software.⁵² A blanket extension of shrinkwrap licensing is criticized as deforming the beneficial policies under copyright law in favor of the vendor's freedom of contract.⁵³ A related problem stems from the interaction of state and federal copyright law. When policy incorporated in federal copyright law conflicts with state contract law, there is the strong possibility that the state law might be federally preempted.⁵⁴

Notwithstanding this critique, revision of the Uniform Commercial Code continued and generated Article 2B, an entirely new section devoted exclusively to licenses. The provision corresponding to § 2-2203 in the Article 2B draft, § 2B-308, currently reads as follows:

(a) Except as otherwise provided in subsection (b) and in section 2B-309 [Conflicting Standard Terms], a party adopts the terms of a mass market license if, before or within a reasonable time after beginning to use the information pursuant to an agreement, the party signs or otherwise by its behavior manifests assent to a mass market license.

(b) Terms adopted under subsection (a) include all of the terms of the term [sic] without regard to the knowledge or understanding of individual terms by the party assenting to the form. However, except as otherwise provided in subsection (c), a term does not become part of the contract if:

(1) the term creates an obligation or imposes a limitation that is not consistent with customary industry practices and that a reasonable licensor should know would cause most licensees in transactions of similar type to refuse the contract if the term were brought to the attention of the licensee; or

(2) the term creates an obligation or imposes a limitation which conflicts with the negotiated terms of the prior agreement of the parties relating to the transaction and the party assenting to the form does not manifest assent to that term.

51. Lemley, *supra* note 6, at 1264.

52. *Id.* at 1266; *see also* 17 U.S.C. § 117 (1994).

53. Lemley, *supra* note 6, at 1278.

54. *Id.* at 1269.

(c) A term excluded under subsection (b) becomes part of the contract if:

(1) the term creates rights for or restrictions on the licensee which give the licensee no fewer rights than would be given to a purchaser at a first sale under federal intellectual property law; or

(2) the licensee manifests assent to the term.

(d) A term of a mass market license that does not comply with a provision of this article which expressly requires conspicuous language or assent to a particular term does not become part of the contract.⁵⁵

An examination of the Reporter's notes to this section reveals concerns familiar from § 2-2203, including a desire to avoid a requirement of actual agreement. Such a requirement "anticipates or requires conduct that is not common in commercial or consumer practice"; rather, it assumes assent and enforceability on the basis of implied assent to all terms.⁵⁶ One concern expressed in the Reporter's notes is that of unfair surprise. Thus, § 2B-308 assumes "that the transactions may involve consumers and other parties not highly skilled in contract interpretation. This section, accordingly, adopts specific protections for the licensee against surprising terms."⁵⁷

Some theorize that very few terms in shrinkwrap licenses would be left unenforced if § 2B-308 is adopted because "shrink-wrap licenses have become quite standardized, and, therefore, fall within 'customary industry practice.'"⁵⁸ Furthermore, because consumers generally do not object to such licensing arrangements, it is unlikely that "any material terms will be deemed to be so objectionable to the reasonable licensee that they would refuse to purchase the software."⁵⁹ Thus, the imminent introduction of a provision resembling either § 2-2203 or § 2B-308 should lead to the judicial validation of most shrinkwrap licenses.

The debates over the relative merits of shrinkwrap licensing and the development of legislative proposals are not the only indicators of an incipient movement towards enforceability of these licenses. The outlines of an analogous movement are now becoming discernible in judicial precedent after widespread initial hostility. As the following analysis indicates, the initial judicial response towards shrinkwrap licenses

55. U.C.C. § 2B-308 (Feb. 2, 1996, Draft).

56. U.C.C. Draft § 2B-308 Reporter Note 2.

57. U.C.C. Draft § 2B-308 Reporter Note 4.

58. Davidson & Wurzer, *supra* note 8, at 691.

59. *Id.*

was largely negative and was concerned with two particular areas of the law: Copyright and the Uniform Commercial Code.

II. EARLY SHRINKWRAP DECISIONS

A. Judicial Analysis Under Copyright Law

A shrinkwrap license analysis centered on copyright law occurs in *Vault Corp. v. Quaid Software Ltd.*⁶⁰ In *Vault*, the plaintiff produced computer diskettes which prevented unauthorized duplication of the programs on them by software computer companies, the plaintiff's customers.⁶¹ The defendant's product was a diskette which allowed duplication of the plaintiff's customer's programs by deactivating the plaintiff's program.⁶² The plaintiff's packaging contained a license agreement including the following language:

This copy [is] licensed to you ... for your own internal use. Title to the Licensed Software and all copyrights and proprietary rights in the Licensed Software shall remain with VAULT. You may not transfer, sublicense, rent, lease, convey, copy, modify, translate, convert to another programming language, decompile or disassemble the Licensed Software for any purpose without VAULT's prior written consent.⁶³

The plaintiff brought three copyright claims: the defendant's copying to defeat the plaintiff's program, contributory infringement of the plaintiff's and plaintiff's customer's copyrighted material, and violation of the derivative works provisions of the Copyright Act.⁶⁴ The plaintiff also asserted a violation of the Louisiana Software License Enforcement Act ("LSLEA").⁶⁵

The court rejected the plaintiff's copyright claims as follows: first, the defendant's copy was created as an essential step in the utilization of the plaintiff's program; second, the defendant's program was capable

60. 847 F.2d 255, 7 U.S.P.Q.2d (BNA) 1283 (5th Cir. 1988). See generally, Kaufman, *supra* note 27, at 238-241; see also Christopher Celentino et al., *Vault Corp. v. Quaid Software Ltd.: Invalidating Shrink-Wrap Licenses?* 2 J.L. & TECH. 151 (1987) (general discussion of *Vault*); Deborah Kemp, *Limitations Upon the Software Producer's Rights: Vault Corp. v. Quaid Software Ltd.*, 16 RUTGERS COMPUTER & TECH. L.J. 85 (1990) (general discussion of *Vault*).

61. *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 256, 7 U.S.P.Q.2d (BNA) 1283 (5th Cir. 1988).

62. *Id.* at 257, 7 U.S.P.Q.2d (BNA) at 1284.

63. *Id.* at 257 n.2, 7 U.S.P.Q.2d (BNA) at 1283-84 n.2.

64. *Id.* at 258, 7 U.S.P.Q.2d (BNA) at 1284.

65. *Id.*

of substantial noninfringing uses; and, third, the defendant's copying was not significant nor was its program a substantially similar copy of the plaintiff's program.⁶⁶

The court then addressed the plaintiff's license claim under the Louisiana statute. The Louisiana statute included prohibitions on any copying for any purpose and modifying or adapting programs in any way.⁶⁷ The court found that the statute conflicted with federal copyright law in four ways. First, the LSLEA authorized a total ban on copying whereas, the federal law allowed archival copying and copying to use the programs.⁶⁸ Second, the LSLEA authorized a perpetual ban on copying while, federal law allows copying after life plus fifty years.⁶⁹ Third, the LSLEA placed no restriction on protectable programs, but the federal law states that only "original works of authorship" can be protected.⁷⁰ Finally, the court noted that, insofar as the LSLEA permitted software producers to prohibit adaptation of licensed computer programs by decompilation or disassembly, it conflicted with the rights of program owners under 17 U.S.C. § 117.⁷¹ Therefore, the LSLEA was preempted by federal law.⁷²

66. *Id.* at 261-62, 268, 7 U.S.P.Q.2d (BNA) at 1287-88, 1293. In *Celentino's Invalidating Shrink-Wrap Licenses*, the *Vault* court's finding over contributory infringement is criticized as not being in accord with the reasoning in *Sony Corp. of America v. Universal City Studios*, 464 U.S. 417, 220 U.S.P.Q. (BNA) 665 (1984) (no liability for contributory infringement when a significant noninfringing commercial use exists). *Celentino*, *supra* note 60, at 155. This argument rests on the contention that the purpose of the defendant's program was in effect a commercially significant *infringing* use, and when viewed under the analysis proposed in the *Sony* dissent, which balances the benefits of legitimate use against the harm from infringing usage, contributory infringement should necessarily follow. *Id.* at 155-56; *see also Sony*, 474 U.S. at 479, 220 U.S.P.Q. (BNA) at 694. The *Sony* dissent's analysis is said to be particularly apropos here because the *Sony* majority did not consider a situation as in *Vault* where the defendant's technology contributes to another party's making additional copies from the initial copy. *Celentino*, *supra* note 60, at 157. Thus, the authors of *Invalidating Shrink-Wrap Licenses* argue that § 117 of the Copyright Act should be viewed through a balancing lens over its archival copying provision. *Id.* at 158.

67. *Vault*, 847 F.2d at 268-69, 7 U.S.P.Q.2d (BNA) at 1293-94; *see* La. Rev. Stat. Ann. § 51:1961 (West 1997).

68. *Id.* at 269-70, 7 U.S.P.Q.2d (BNA) at 1294; *see* 17 U.S.C. § 117 (1994).

69. *Vault*, 847 F.2d at 269-70, 7 U.S.P.Q.2d (BNA) at 1294; *see* 17 U.S.C. § 302(a) (1994).

70. *Vault*, 847 F.2d at 269-70, 7 U.S.P.Q.2d (BNA) at 1294; *see* 17 U.S.C. § 102 (1994).

71. *Vault*, 847 F.2d at 270, 7 U.S.P.Q.2d (BNA) at 1295; *see* 17 U.S.C. § 117 (1994).

72. *Vault*, 847 F.2d at 270, 7 U.S.P.Q.2d (BNA) at 1295. *Vault's* conclusions regarding preemption are criticized by the authors of *Invalidating Shrink-Wrap Licenses* for failing to determine whether § 301 of the Copyright Act preempts private contract actions. *Celentino*, *supra* note 60, at 161-62. Support for the proposition that preemption is inappropriate over such private contractual actions is located in the legislative history behind the Copyright Act: "nothing in the bill [for the Copyright Act] derogates from the rights of parties to contract

B. Judicial Analysis Under the Uniform Commercial Code

Two cases are especially significant to Uniform Commercial Code analysis. In *Step-Saver Data Systems v. Wyse Technologies*, the plaintiff, Step-Saver, brought suit against Wyse and co-defendant, The Software Link ("TSL"), over allegedly defective computer equipment and software.⁷³ On appeal, Step-Saver maintained several arguments including one to the effect that TSL's license was not intended to be a complete and final agreement.⁷⁴

TSL's license consisted of five terms: (1) there was no software purchase, but rather a non-transferable license; (2) a disclaimer of all express and implied warranties except for the product being free of defects; (3) the only remedy was to return the software for replacement - no liability for damages; (4) an integration clause stating that the license was the complete and final agreement; and (5) that opening the package constituted acceptance, and if the purchaser didn't agree with the license's terms, then the software must be returned unopened.⁷⁵

Step-Saver advanced three arguments. First, the contract was formed when TSL agreed to ship the software at the agreed price. Second, the license was a material alteration not part of the contract under § 2-207 of the U.C.C. Third, the parole evidence rule would not apply because the parties did not intend the license to be a final and complete agreement.⁷⁶ In opposition, TSL rebutted: (1) that the contract was not

with each other and to sue for breaches of contract." *Id.* at 162; see H.R. Rep. No. 1476, at 132 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5748. These authors also assert that a primary purpose of the LSLEA is to preserve trade secrets and that such secrets are preserved in the form of a shrinkwrap license which acts to eliminate a reverse engineering defense that might otherwise be available to the copier. Celentino, *supra* note 60, at 163. Thus, a state law trade secret claim covering computer software is arguably not preempted by § 301 because it requires an extra element, breach of a confidential relationship or misappropriation, not equivalent to the grant of protection conferred by the copyright law. *Id.* at 163-64. A similar "extra-element" analysis appears in the *ProCD* decisions and interpreting decisions. See *infra*, notes 102-03, 111-15, 133-36 and 140-43.

73. *Step-Saver Data Sys. v. Wyse Techs.*, 939 F.2d 91, 94 (3d Cir. 1991). See generally, Current Developments, *Under UCC § 2-207, Terms of Shrink-Wrap License Not Binding on Purchaser*, 8 COMPUTER LAW. 42 (1991) (summary discussion of *Step-Saver*). If Article 2B-308 of the U.C.C. is adopted, it will explicitly reverse *Step-Saver*. U.C.C. Draft § 2B-308 Reporter Note 10.

74. *Step-Saver*, 939 F.2d at 95.

75. *Id.* at 96-97; see also David L. Hayes, *Shrinkwrap License Agreements: New Light on a Vexing Problem*, 15 HASTINGS COMM. & ENT. L.J. 653, 666-67 (1993) (a shrinkwrap license clause that allows a refund after return of an opened shrinkwrap license package may be sufficient to establish a conditional acceptance when coupled with vendor instruction of sales personnel, various forms of direct marketing and an explicit statement that the license contains this condition).

76. *Step-Saver*, 939 F.2d at 97. An alternative theory supporting the plaintiff's side in

formed until the packaging was opened and that a contract without reference to specific terms would fail for indefiniteness; (2) the license was a conditional acceptance and counter-offer under U.C.C. § 2-207(1); and (3) the plaintiff consented to the license's terms by continuing to order and use the goods.⁷⁷

According to the *Step-Saver* court, performance demonstrates the existence of a contract. The dispute, then, was over the nature of the terms.⁷⁸ U.C.C. § 2-207 defines these terms and in the absence of evidence demonstrating an express intent to adopt a writing as a final expression of, or modification to, an earlier agreement. Hence the license was not part of the contract, but only a written confirmation containing additional terms.⁷⁹

The court responded to TSL's contentions as follows: the contract was sufficiently definite without the license's terms; TSL did not express unwillingness to proceed without the license nor did it forego sale without consent to the terms; the exchange of forms would only tell Step-Saver that TSL desired the terms, and an unwillingness to negotiate precise terms indicates that they were not part of the contract.⁸⁰ After finding that the license was not part of a complete and final expression of the contract, the court remanded the case for further consideration of express and implied warranty claims against TSL.⁸¹

In 1993, one of the *Step-Saver* defendants was again embroiled in a shrinkwrap license controversy. In *Arizona Retail Systems v. Software Link*, the plaintiff, Arizona Retail Systems ("ARS"), ordered a computer program, from the defendant, The Software Link ("TSL") that was packaged with a shrinkwrap license.⁸² After the original purchase,

Step-Saver holds that the shrinkwrap license was also invalid under U.C.C. § 2-606(1)(b), which provides that there is no acceptance of the goods when the buyer has had no reasonable opportunity to inspect them; thus, the plaintiff could not inspect the goods without opening the packaging and "accepting" the terms of the shrinkwrap license. David A. Einhorn, *Box-Top Licenses and the Battle-of-the-Forms*, 5 SOFTWARE L.J. 401, 410-11 (1992). However, this theory apparently runs counter to the Seventh Circuit's observations relating to the practicality, efficiency and necessity of these licenses. See *infra* notes 107-09 and accompanying text.

77. *Step-Saver*, 939 F.2d at 100.

78. *Id.* at 98. One commentator argues that U.C.C. § 2-206(b) supports a finding that contract formation occurred at the moment when TSL promised over the telephone to deliver the goods. Einhorn, *supra* note 76, at 409. See U.C.C. § 2-206(b).

79. *Step-Saver*, 939 F.2d at 98, 105-06.

80. *Id.* at 100-04.

81. *Id.* at 105-106.

82. *Arizona Retail Sys. v. Software Link*, 831 F. Supp. 759, 761 (D. Ariz. 1993); see also Current Developments, *Shrink-wrap Agreement Held Nonbinding*, 11 COMPUTER LAW. 32 (1994) (summary discussion of *Arizona*).

ARS ordered subsequent programs and used those programs in software supplied to clients; ARS alleged that it did not believe that the license was valid and that the programs supplied by TSL were defective.⁸³

The *Arizona* court immediately analyzed the license under the Uniform Commercial Code and found that the initial contract should be evaluated separately from the subsequent contracts.⁸⁴ An analysis of the facts and circumstances surrounding the initial contract revealed that the license agreement was in effect.⁸⁵ This finding followed from the fact that ARS had purchased an evaluation copy of the program along with a "live" copy. The evaluation copy bore the license agreement and ARS's agent had accepted the live copy, the version actually incorporated onto their system, only after accepting the terms appended to the evaluation copy.⁸⁶ Thus, the court reasoned, when ARS opened the live copy, it had notice of the license's provisions.⁸⁷

The subsequent copies purchased by ARS presented another situation altogether. TSL advanced three arguments for incorporating the license into the subsequent contracts. First, under U.C.C. § 2-209, the license was a proposed modification of the parties agreement. Second, the agreement was a conditional acceptance to the contract. Third, the terms of the license were not material and should be automatically included in the agreement.⁸⁸

The *Arizona* court rejected all three of these arguments. First, the court noted that § 2-209 requires assent and stated that ARS had not expressly assented to the license.⁸⁹ Second, there was no conditional acceptance, because once TSL had shipped the goods, a contract was in effect before ARS received the license.⁹⁰ At best, the license constituted a proposal to modify the terms of the contract, and ARS did not

83. *Arizona Retail Sys.*, 831 F. Supp. at 761.

84. *Id.* at 762-63.

85. *Id.* at 763-64.

86. *Id.*

87. *Id.*

88. *Id.* at 764-66.

89. *Arizona Retail Sys.*, 831 F. Supp. at 766. One discussion of *Arizona* and *Step-Saver* suggests that under § 1-205(3) of the U.C.C., which allows interpretation or supplementation of an agreement with evidence of a course of dealing or usage in trade, certain prohibitions, as those against disassembly, are so well known throughout an industry that they should be incorporated into the agreement. Ronald L. Johnston & Allen R. Grogan, *Trade Secret Protection for Mass Distributed Software*, 11 *COMPUTER LAW*. 1, 9-10 (1994).

90. *Id.* at 764-765; see U.C.C. § 2-209.

act on this "proposal."⁹¹ Finally, the court rejected the argument relating to the materiality of the terms on the same basis as *Step-Saver*.⁹²

In summary, the early judicial history of the shrinkwrap license reveals a general reluctance to uphold such licenses with the sole exception of the initial transaction encountered in *Arizona*. Thus, shrinkwrap license enforcement could be characterized as being fairly moribund; however, the *ProCD* decisions were about to radically transform the enforcement standing of these licenses.

III. *PROCD, INC. v. ZEIDENBERG*

A. *The District Court and ProCD*

The two *ProCD* decisions present the first significant departure from the earlier and generally hostile judicial trend towards shrinkwrap licenses elaborated above. The stage was set in *ProCD, Inc. v. Zeidenberg*, where the rationales against giving effect to shrinkwrap licenses were strictly followed.⁹³ The Defendant, Zeidenberg, purchased a computerized CD-ROM national telephone directory from Pro CD and made this database available to users of the Internet. Because the Defendant was offering access to the database for free, the Pro CD thought that its product was being undermined.⁹⁴

The Pro CD packaged the database software with a shrinkwrap license stating the following:

Please read this license carefully before using the software or accessing the listings contained on the discs. By using the discs and the listings licensed to you, you agree to be bound by the terms of this License. If you do not agree to the terms of this License, promptly return all copies of the software, listings that may have been exported, the discs and the User Guide to the place where you obtained it.⁹⁵

Similar language was incorporated in the actual computer program, displayed on the screen, and required that the user "acknowledge" it before proceeding.⁹⁶

The Plaintiff argued several theories at trial including: copyright in-

91. *Arizona Retail Sys.*, 831 F. Supp. at 765.

92. *Id.* at 766.

93. 908 F. Supp. 640, 38 U.S.P.Q.2d 1513 (BNA) (W.D. Wis. 1996).

94. *ProCD, Inc. v. Zeidenberg*, 908 F. Supp. 640, 644-646, 38 U.S.P.Q.2d (BNA) 1515-16 (W.D. Wis. 1996), *rev'd*, 86 F.3d 1447, 39 U.S.P.Q.2d (BNA) 1163 (7th Cir. 1996).

95. *Id.* at 644, 38 U.S.P.Q.2d (BNA) at 1515.

96. *Id.* at 644-45, 38 U.S.P.Q.2d (BNA) at 1515-16.

fringement, breach of the express terms of the license agreement, and state law violations under contract law, misappropriation, and the Wisconsin Computer Crimes Act.⁹⁷ The District Court, however, rejected the copyright infringement claim noting the critical difference between software allowing a user to access and retrieve data and data itself. Specifically, data on the CD-ROM discs, sold by the Plaintiff, was not in itself protectable.⁹⁸ Further, the court reasoned that while copyright protection extends to the software, the Defendant did not infringe this copyright because it fell under the fair use exception of § 117 of the Copyright Act of 1976:

[I]t is not an infringement for the owner of a copy of a computer program to make ... another copy or adaptation of that computer program provided:

(1) that such new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner.⁹⁹

The court found that the exception was warranted here because, in order to use the program, the Defendant could make copies of it for personal use.¹⁰⁰

Not surprisingly, the District Court found that the salient analysis of the license agreement turned on whether it was a license or a sale of goods under Article 2 of the U.C.C.¹⁰¹ The court reasoned that a software transaction should be classified as a sale of goods because there are no periodic payments involved, the putative "licensor" does not retain title as part of any security interest and no expiration date exists for the "licensed" right.¹⁰² The court next analyzed this arrangement under U.C.C. §§ 2-206, 2-207 and 2-209.

Under each of these arguments, the Plaintiff failed to enforce the provisions under the license. Under § 2-206, the court deemed that the Defendant's purchase of the product was reasonable acceptance and could not be legitimately understood as requiring any further action,

97. *Id.* at 644, 38 U.S.P.Q.2d (BNA) at 1515. Note: the Wisconsin Computer Crimes Act, Wis. Stat. § 943.70 (1995-1996), is reproduced in this Appendix.

98. *ProCD*, 908 F. Supp. at 647, 38 U.S.P.Q.2d (BNA) at 1517-18; *see* Feist Publications, Inc. v. Rural Tele. Serv. Co. Inc., 499 U.S. 340, 18 U.S.P.Q.2d (BNA) 1275 (1991) (collection of facts presented in an unoriginal or commonplace form of compilation is not protectable).

99. *ProCD*, 908 F. Supp. at 648, 38 U.S.P.Q.2d (BNA) at 1518 (quoting 17 U.S.C. § 117 (1994)).

100. *Id.* at 649, 38 U.S.P.Q.2d (BNA) at 1519.

101. *Id.* at 650-51, 38 U.S.P.Q.2d (BNA) at 1521.

102. *Id.* at 651, 38 U.S.P.Q.2d (BNA) at 1521.

such as that specified in the license, to bring the license into binding effect.¹⁰³ The court suggested two theories, under the remaining two U.C.C. provisions, §§ 2-207 and 2-209, for holding the license valid. First, the license terms could be incorporated into a sales offer by its presence on the packaging. Second, the language of the license could be interpreted as a proposed modification of the sales contract or a written confirmation of a previously established contract.¹⁰⁴ The court rejected the application of both sections however, because the Defendant did not express assent to the terms of the license or have an opportunity to bargain or object to them before the purchase.¹⁰⁵

The final issue before the District Court was whether the Plaintiff's state law claims under contract, misappropriation, and the Wisconsin Computer Crimes Act were preempted by federal copyright law.¹⁰⁶ The court found that all of these claims were preempted under 17 U.S.C. § 301 of the Copyright Act, because they were within the subject matter of copyright, under 17 U.S.C. §§ 102 and 103 and were equivalent to rights specified under 17 U.S.C. § 106.¹⁰⁷

B. The Appeal

ProCD chose to appeal the decision of the district court and obtained a reversal. The Seventh Circuit Court of Appeals followed the District Court in that it analyzed the license under the provisions of both the copyright law and the U.C.C., however, the Seventh Circuit drew quite different conclusions.¹⁰⁸

103. *Id.* at 652, 38 U.S.P.Q.2d (BNA) at 1522; *see* U.C.C. § 2-206.

104. *ProCD*, 908 F. Supp. at 653, 38 U.S.P.Q.2d (BNA) at 1523; *see* U.C.C. §§ 2-207 to 2-209.

105. *ProCD*, 908 F. Supp. at 655, 38 U.S.P.Q.2d (BNA) at 1524-25.

106. *Id.* at 656, 38 U.S.P.Q.2d (BNA) at 1525.

107. *Id.* at 656-662, 38 U.S.P.Q.2d (BNA) at 1525-1530; *see* 17 U.S.C. §§ 102, 103, 106, 301 (1994). Much of the courts analysis of preemption was based on the "extra-element" test; this test is described as follows: "if under state law the act of reproduction, performance, distribution or display, ... will *in itself* infringe the state-created right, then such a right is preempted. But if qualitatively other elements are required, instead of, or in addition to, the acts of reproduction, performance, distribution or display, in order to constitute a state-created cause of action, then the right does not lie 'within the general scope of copyright,' and there is no preemption." DAVID NIMMER & MELVILLE B. NIMMER, *NIMMER ON COPYRIGHT*, § 1.01[B] at 15-16 (1996).

108. *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1450, 39 U.S.P.Q.2d (BNA) 1163 (7th Cir. 1996); *see also* Jeff A. McDaniel, *Recent Copyright Case Law Developments*, 5 TEX. INTELL. PROP. L. J. 293, 311-315 (1997) (summary discussion of *ProCD, Inc. v. Zeidenberg*); David S. Kerpel, *ProCD, Inc. v. Matthew Zeidenberg & Silken Mountain Web Services, Inc.*, 7 DEPAUL J. ART & ENT. L. 167 (1996) (summary discussion of *ProCD, Inc. v. Zeidenberg*).

The Defendant argued that the terms of the license, insofar as they appeared within the package and only after operating the program, were "hidden" and could not constitute part of the contract.¹⁰⁹ The Seventh Circuit's opinion noted that the Defendant's position would have the court restrict the scope of the contract's language to that language on the outside of the package. Further, the court noted that it was usually impossible to place all terms of a contract on the outside of a package. External notice with interior terms, when coupled with the right to return for a refund if unacceptable, may be a valuable means of doing business.¹¹⁰ A similar practice can be found in the insurance business where an exchange of money precedes the communication of detailed terms. This practice improves effectiveness and reduces transaction costs.¹¹¹ The software industry follows an analogous practice when it ships software by mail order and by wire, *i.e.*, the Internet.¹¹²

The Seventh Circuit's analysis of the license under the U.C.C. examined wholly different provisions within the Code. The court stated that a proper analysis begins with § 2-204(1); ProCD had proposed a contract to Zeidenberg that was accepted when it had used the software and read the license displayed on the screen.¹¹³ Also, U.C.C. § 2-606(1)(b), defines "acceptance of goods" as occurring after failure to make an effective rejection under § 2-602(1).¹¹⁴

The court's analysis under copyright law also disfavored the Defendant. The Seventh Circuit noted that one function of § 301(a) of the Copyright Act is to prevent states from giving protection to works of authorship that Congress has decided should be in the public domain. The court distinguished rights created by a contract stating that they are not equivalent to the exclusive rights within the general scope of copy-

109. *ProCD*, 86 F.3d at 1450, 39 U.S.P.Q.2d (BNA) at 1163.

110. *Id.* at 1451, 39 U.S.P.Q.2d (BNA) at 1163.

111. *Id.*

112. *ProCD*, 86 F.3d at 1451-52, 39 U.S.P.Q.2d (BNA) at 1164; *see also* D.C. Toedt, III, *Counterpoint: Shrinkwrap License Enforceability Issues*, 13 *COMPUTER LAW* 7, 8-10 (1996) (federal policy favors an expansive view of the public's right to utilize intellectual property for a variety of purposes including strictly competitive ones. Although party's may contractually waive their federal rights to copy unprotected subject matter, an expansive federal policy disfavors allowing a waiver of intellectual property rights via shrinkwrap licensing unless a "reasonable purchaser" would not miss a vendor's printed notification on the exterior of the packaging). *But cf.* proposed U.C.C. Article 2B-308(b)(1) (focus is on customary industry practices and what a reasonable licensor would expect a licensee to refuse if the term was brought to the attention of the licensee).

113. *ProCD*, 86 F.3d at 1452, 39 U.S.P.Q.2d (BNA) at 1164-65; *see* U.C.C. § 2-204(1).

114. *ProCD*, 86 F.3d at 1452, 39 U.S.P.Q.2d (BNA) at 1165; *see* U.C.C. §§ 2-602(1), -606(1)(b).

right.¹¹⁵ A copyright is a right against the world, whereas contract rights generally affect only the parties to the agreement.¹¹⁶ In other words, just because the underlying subject matter of a contract is in the public domain due to its copyright status, the related sales contract is not invalidated. Furthermore, no information was removed from the public domain by enforcement of the license.¹¹⁷

115. *ProCD*, 86 F.3d at 1453-54, 39 U.S.P.Q.2d (BNA) at 1165-66; see 17 U.S.C. § 301(a) (1994). A recent discussion of the Seventh Circuit's copyright analysis focuses on the requirements of § 301 and deems its preemption analysis deficient. Brandon L. Grusd, *Contracting Beyond Copyright: ProCD, Inc. v. Zeidenberg*, 10 HARV. J.L. & TECH. 353, 364 (1997). This critique argues that preemption under § 301 must satisfy two conditions: first, the state law right at issue must fall within the statutory subject matter of the Copyright Act under §§ 102-03; second, the right must be equivalent to any of the exclusive rights listed in § 106. *Id.* at 357. Applying this analysis, the second condition is deemed to be problematic because the extra element analysis will always place contract claims outside the scope of the exclusive rights provided for in the federal copyright regime allowing state law contract claims to invariably survive preemption analysis. *Id.* at 364-65. Instead, Grusd proposes examining the act giving rise to the breach of contract and then asking whether it involves a claim covering any of the exclusive rights presented in § 106 such as reproduction, distribution, and creation of derivative works. *Id.* at 365. See 17 U.S.C. § 106 (1994). In *ProCD* at the District Court level, the contract at issue was "nothing more than an effort to prevent defendants from copying and distributing [the plaintiff's] data." *ProCD*, 908 F. Supp. at 657, 38 U.S.P.Q.2d (BNA) at 1526-27. Thus, under this analysis, the *ProCD* contract squarely falls within the scope of the exclusive rights in § 106. This argument, however, is problematic: Grusd states correctly that copyright law is concerned with underlying information and not with contracts involving the transfer or protection of the underlying information in a service. Grusd, at 366. Nonetheless, this scenario seems identical to the one in *ProCD*: the act complained of relates to third party access to the underlying information, not to the underlying information itself. *ProCD*, 908 F. Supp. at 644-45, 38 U.S.P.Q.2d (BNA) at 1515-16. Ultimately, the question raised by this discussion appears to be what precisely are the contours between federal copyright law and state contract law. At least one court holds that "not every 'extra element' of a state claim will establish a qualitative variance between the rights protected by federal copyright law and those protected by state law." *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1164, 32 U.S.P.Q.2d (BNA) 1385, 1397 (1st Cir. 1994). *But cf.* H.R. Rep. No. 1476, at 132 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5748 ("nothing in the bill [for the Copyright Act] derogates from the rights of parties to contract with each other and to sue for breaches of contract").

116. *ProCD*, 86 F.3d at 1454, 39 U.S.P.Q.2d (BNA) at 1166.

117. *Id.* at 1454-55, 39 U.S.P.Q.2d (BNA) at 1166-67. The Seventh Circuit's views regarding the intersection between copyright and contract law were recently assailed as indicative of a dangerous inroad of "neoclassical" copyright theory. Neil W. Netanel, *Copyright and a Democratic Civil Society*, 106 YALE L.J. 283, 382-384 (1996). Professor Netanel argues that the second *ProCD* decision effectively displaces copyright legislation with bilateral contractual arrangements. *Id.* at 382. The postulated effect of such displacement is to deform the balance that copyright law strikes between incentive and access to the detriment of "the fundamental democratic interest in maintaining a vibrant public domain." *Id.* at 382-384. A proper balance would be struck by a "democratic paradigm" which directly prevents expansion of copyright control via standardized contractual restrictions on works made available to the public. *Id.* at 385.

Finally, the Seventh Circuit noted that courts usually read preemption clauses as leaving private contracts unaffected. Rules that respect private choice are not preempted by such clauses.¹¹⁸ Section 301 of the Copyright Act does not interfere with private transactions in intellectual property, nor does it prevent states from respecting such transactions.¹¹⁹

IV. RECENT INTERPRETATIONS

The above discussion demonstrates that, despite the evident popularity of shrinkwrap licensing within the computer software industry, the general judicial trend is to invalidate such licenses under either a U.C.C. analysis or federal copyright analysis. Nonetheless, the appellate court's *ProCD* decision indicates that shrinkwrap licensing can be judicially validated.

Due to the recency of *ProCD*, few cases refer to it, however, several subsequent decisions follow its analysis, albeit, not in the context of shrinkwrap licensing. Despite this difference, these decisions illustrate a potential future trend validating the enforceability of shrinkwrap licenses.

A. *The Seventh Circuit: Hill v. Gateway 2000*

The Seventh Circuit applied much the same analysis of *ProCD* to a factually similar case in *Hill v. Gateway 2000*.¹²⁰ In *Hill*, the Plaintiffs purchased a computer over the phone and were shipped a boxed computer containing a list of terms including an arbitration clause and a provision stating that the included terms governed unless the customer returned the computer within 30 days.¹²¹ The Plaintiffs kept the computer for more than 30 days before complaining about defects. Plaintiffs also claimed that they were unaware of the arbitration clause because they had not read it.¹²² The Defendant, Gateway, appealed the District Court's decision finding no evidence that a binding arbitration agreement and no adequate notice of the arbitration clause.¹²³

The court found that the contract was in effect and cited the proposition that, "[a] contract need not be read to be effective; people who

118. *ProCD*, 86 F.3d at 1454-55, 39 U.S.P.Q.2d (BNA) at 1166-67.

119. *Id.* at 1455, 39 U.S.P.Q.2d (BNA) at 1167; *see* 17 U.S.C. § 301 (1994).

120. 105 F.3d 1147 (7th Cir. 1997).

121. *Hill v. Gateway 2000*, 105 F.3d 1147, 1148 (7th Cir. 1997).

122. *Id.*

123. *Id.*

accept take the risk that the unread terms may in retrospect prove unwelcome."¹²⁴ The court questioned, "Are these terms effective as the parties' contract, or is the contract term-free because the order-taker did not read any terms over the phone and elicit the customer's assent?"¹²⁵ The District Court's decision was vacated and, on remand, an instruction was entered requiring that the arbitration clause be to given effect.¹²⁶

Much of the *Hill* analysis involved applying the *ratio decendi* of *ProCD*. The court noted that both Illinois and South Dakota, the two states whose law might be relevant to the analysis, had adopted the Uniform Commercial Code and that neither state had any peculiarities within its law preventing application of the U.C.C.¹²⁷ Furthermore, the court refused to limit his *ProCD* opinion to software noting: "*ProCD* is about the law of contract, not the law of software." Then the court referred to the realities of the business world as supporting Gateway's practice.¹²⁸ The Hills argued that *ProCD* should be limited to "executory contracts," in particular licenses, however, the court refused this argument stating that: "*ProCD* did not depend on the fact that the seller characterized the transaction as a license rather than as a contract" and that "we treated it [the *ProCD* license] as a contract for the sale of goods and reserved the question whether for other purposes a 'license' characterization might be preferable."¹²⁹

The Hills also argued that *ProCD* was inapplicable because it applied only to situations occurring between merchants within the meaning of the U.C.C. For example, "Section 2-207(2) of the UCC ... states that 'additional terms [following acceptance of an offer] are to be construed as proposals for addition to a contract. Between merchants such terms become part of the contract unless...'"¹³⁰ This point raises an interesting question insofar as one difference between the parties in the pre-*ProCD* decisions and the *ProCD* parties is that the earlier decisions involved commercial parties and not, as in *ProCD*, a commercial party and a private individual. Did the second *ProCD* decision depend on the characterization of Zeidenberg as a "merchant" or as a

124. *Id.* (citing *Carr v. CIGNA Sec. Inc.*, 95 F.3d 544, 547 (7th Cir. 1996)).

125. *Id.*

126. *Id.* at 1151.

127. *Hill*, 105 F.3d at 1149.

128. *Id.*

129. *Id.*; see *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 39 U.S.P.Q.2d (BNA) 1163 (7th Cir. 1996), *rev'g* 908 F. Supp. 640, 38 U.S.P.Q.2d (BNA) 1513 (W.D. Wis. 1996).

130. *Hill*, 105 F.3d at 1150 (emphasis added); see U.C.C. § 2-207.

“consumer”? The court responded in the negative and reasoned that where, as in *ProCD*, only one form is involved, U.C.C. § 2-207 is irrelevant. The real issue is then when and how the contract was formed, and “whether a vendor may propose that a contract of sale be formed ... after the customer has had a chance to inspect both the item and the terms.”¹³¹ The answer to this question, according to the court, is “yes” for both merchants and consumers.¹³²

The remainder of *Hill* dealt principally with the Hills argument that the box in *ProCD* displayed a notice of terms, whereas their box did not. In response, the court cited the existence of various mechanisms by which the Hills could have obtained notice of the enclosed terms without purchasing the computer including: consultation with public sources, such as vendor web sites and computer magazines, and information from the seller as mandated under the Magnuson-Moss Warranty Act which requires disclosure of warranties on request.¹³³

B. The Second Circuit:

The *ProCD* decision is discussed in two decisions from the Second Circuit.¹³⁴ These decisions reveal a theme distinct from the considerations advanced in *Hill*, notably the intersection of intellectual property law, particularly copyright law and contract law.

1. *Archelectronics, Inc. v. Control Systems, Inc.*¹³⁵

In *Archelectronics*, the plaintiff, Archelectronics, sued former joint venturers and related corporations for trade secret misappropriation, breach of contract, tortious interference with contract rights, and copyright infringement.¹³⁶ Archelectronics developed prototypes of a new computer software product designed to retrofit and enhance computer design software by reproducing on screen the operational equivalent of a “digitizer” which eliminates the need for a separate external digit-

131. *Hill*, 105 F.3d at 1150.

132. *Id.*

133. *Id.*; see 15 U.S.C. § 2302(b)(1)(A) (1994).

134. *Archelectronics, Inc. v. Control Sys., Inc.*, 935 F. Supp. 425, 428 (S.D.N.Y. 1996); *National Basketball Ass'n v. Motorola, Inc.*, 105 F.3d 84, 41 U.S.P.Q.2d (BNA) 1587 (2d Cir. 1997).

135. 935 F. Supp. 425 (S.D.N.Y. 1996).

136. *Archelectronics*, 935 F. Supp. at 428; see also Current Development, *Trade Secrets in Code Are Not Lost by Distribution*, *District Court Rules*, 13 COMPUTER LAW. 27 (1996) (summary of *Archelectronics*).

izer.¹³⁷

Representatives of the various parties signed a "Software Development and License Agreement" providing that Architectronics would license the source code to the defendants to permit development of a derivative work.¹³⁸ The controversy between the parties ensued after one of the defendants released a product that the plaintiff believed was drawn directly from Architectronics' software; the plaintiff alleged that the defendants breached the exclusive licensing provision by selling this product.¹³⁹

The *Architectronics* court discussed the two *ProCD* decisions when it analyzed the defendants' contention that Architectronics' breach of contract claims were preempted under the Copyright Act because they duplicated claims for copyright infringement.¹⁴⁰ The court noted, however, that "protection from breach of contract ... is not equivalent to copyright protection because a contract claim requires an 'extra element,' that renders the claim qualitatively different from a claim for copyright infringement: a promise by the defendant."¹⁴¹ The court then approvingly noted the following passage from the Seventh Circuit's opinion:

Rights "equivalent to any of the exclusive rights within the general scope of copyright" are rights established by law—rights that restrict the options of persons who are strangers to the author. Copyright law forbids duplication, public performance, and so on, unless the person wishing to copy or perform the work gets permission; silence means a ban on copying. A copyright is a right against the world. Contracts, by contrast, generally affect only their parties; strangers may do as they please, so contracts do not create "exclusive rights."¹⁴²

The *Architectronics* court then notes that, despite a few aberrations, "the consensus among courts and commentators appears to be that

137. *Architectronics*, 935 F. Supp. at 428.

138. *Id.* at 429.

139. *Id.* at 430.

140. *Id.* at 438-39; see 17 U.S.C. § 301 (1994).

141. *Architectronics*, 935 F. Supp. at 438. Cf. Maureen A. O'Rourke, *Drawing the Boundary Between Copyright and Contract: Copyright Preemption of Software License Terms*, 45 DUKE L.J. 479, 523, 529 (1995) (breach of negotiated contract actions should survive preemption under the Copyright Act because of an "extra element," a breach of promise; however, a shrinkwrap license may still be enforceable by courts or legislatures if the disclosure of information is mandated and the disclosure is evaluated for unconscionability).

142. *Architectronics*, 935 F. Supp. at 439, (quoting *ProCD v. Zeidenberg*, 86 F.3d 1447, 1454, 39 U.S.P.Q.2d (BNA) 1163, 1166 (1996)).

breach of contract claims are qualitatively different from claims for copyright infringement and therefore are not preempted."¹⁴³ The court concluded by holding that the defendant's motion for summary judgment on breach of contract could not be sustained merely on preemption grounds.¹⁴⁴

2. *The National Basketball Ass'n v. Motorola, Inc.*

*National Basketball Ass'n v. Motorola*¹⁴⁵ involved a dispute over a "paging device" manufactured by Motorola which supplied current information about basketball games organized under the auspices of the plaintiff, the National Basketball Association.¹⁴⁶ The issue was defined as whether "a state law 'hot-news' misappropriation claim ... survives preemption by the federal Copyright Act and whether the NBA's claim fits within the surviving [misappropriation] claims."¹⁴⁷

The Second Circuit Court of Appeals addressed the "general scope" of § 301 of the Copyright Act and found that this section "preempts only those state law rights that 'may be abridged by an act which, in and of itself, would infringe one of the exclusive rights' provided by federal copyright law."¹⁴⁸ The court then went on to note the exception presented in the *Architectonics* decision, namely that state legal rights, commercial misappropriation in the instance of *Motorola*, would survive preemption analysis if the "extra element" test was satisfied.¹⁴⁹ The *Motorola* court cited the following definition of this test: "But if an 'extra element' is 'required instead of or in addition to the acts of reproduction, performance, distribution or display, in order to constitute a state-created cause of action, then the right does not lie

143. *Architectonics*, 935 F. Supp. at 441.

144. *Id.*

145. 105 F.3d 841, 41 U.S.P.Q.2d (BNA) 1585 (2d Cir. 1997).

146. *Motorola*, 105 F.3d at 843, 41 U.S.P.Q.2d (BNA) at 1587 (2d Cir. 1997); see also Current Developments, *Second Circuit Reverses NBA v. Motorola, Rules Scores Unprotected*, 14 COMPUTER LAW. 21 (1997) (summary discussion of *Motorola*).

147. *Motorola*, 105 F.3d at 843, 41 U.S.P.Q.2d (BNA) at 1587.

148. *Id.* at 850, 41 U.S.P.Q.2d (BNA) at 1593; see 17 U.S.C. § 301 (1994).

149. *Motorola*, 105 F.3d at 850, 41 U.S.P.Q.2d (BNA) at 1593. The extra elements needed to survive preemption analysis in *Motorola* included: "(1)...plaintiff generates or gathers information at a cost; (2) the information is time-sensitive; (3) a defendant's use of the information constitutes a free ride on the plaintiff's efforts; (4) the defendant is in direct competition with a product or service offered by the plaintiffs; and (5) the ability of other parties to free-ride on the efforts of the plaintiff or others would so reduce the incentive to produce the product or service that its existence or quality would be substantially threatened." *Second Circuit Reverses*, *supra* note 146, at 21.

'within the general scope of copyright,' and there is no preemption."¹⁵⁰

The Second Circuit then cited the Seventh Circuit's *ProCD* decision as an instance of the extra element test. Specifically, the *Motorola* court reasoned that the *ProCD* defendant was bound by the shrink-wrap licenses "as a matter of contract law and that the private contract rights were not preempted because they were not equivalent to the exclusive rights granted by copyright law."¹⁵¹ Thus, *ProCD*'s state law contract right claims were not preempted because the general scope requirement was not met.¹⁵² This reasoning is reminiscent of the Seventh Circuit's contention in *ProCD* that copyrights create rights against the world, whereas, contracts generally create rights only affecting the parties immediately appurtenant to the contract.¹⁵³ In other words, the underlying subject matter of a contract may well be in the public domain when evaluated for its copyright status; nonetheless, the scope of rights created under contract law is confined to individual-individual situations and is distinguishable from the scope of rights under copyright law which covers individual-societal settings.¹⁵⁴ Thus, when the nature of the rights created under the two fields of law, copyright and contract, are capable of a clear demarcation, then there is no compelling rationale to hold that preemption analysis is appropriate. This conclusion is buttressed when there is no evidence of conflict between the scope of coverage as there was in the *ProCD* decision where no information was removed from the public domain by enforcement of the license.¹⁵⁵

Ultimately, the Second Circuit dismissed the National Basketball Association's claim for misappropriation.¹⁵⁶

V. CONCLUSION

A number of conclusions can be drawn from the foregoing discussion. First, as demonstrated by the Seventh Circuit's *ProCD* decision, shrinkwrap licenses can be judicially validated as a species of contract law. Second, this decision indicates a number of practical consequences that should follow from a judicial application of its analysis: the nature

150. *Motorola*, 105 F.3d at 850, 41 U.S.P.Q.2d (BNA) at 1593; see also *Computer Assoc. Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693, 716, 23 U.S.P.Q.2d (BNA) 23 U.S.P.Q.2d (BNA) 1241 (2d Cir. 1992).

151. *Motorola*, 105 F.3d at 850, 41 U.S.P.Q.2d (BNA) at 1593.

152. *Id.* at 850, 41 U.S.P.Q.2d (BNA) at 1593.

153. See *ProCD*, 86 F.3d 1447, 1454, 39 U.S.P.Q.2d (BNA) 1163, 1166 (7th Cir. 1996).

154. See *id.* at 1454-55, 39 U.S.P.Q.2d (BNA) at 1166-67.

155. See *id.*

156. *Motorola*, 105 F.3d at 855, 41 U.S.P.Q.2d (BNA) at 1598.

of the parties, *i.e.*, commercial versus noncommercial, is probably irrelevant; the agreement will probably be evaluated as a contract irrespective of characterization of the agreement as contract or license, and, a claim of federal copyright preemption against a shrinkwrap license, construed under contract law, and governed by state law will probably be to no avail.

These conclusions possess only a tentative character for there are several aspects of shrinkwrap licensing that are left unresolved by the *ProCD* decisions. One is left with the impression, after examining the lineage of cases culminating with *ProCD*, that there is no consistent point of view as to what the dispositive U.C.C. "analysis" is of shrinkwrap licenses. This inconsistency should be addressed by the introduction and adoption of new U.C.C. provisions directly tailored to shrinkwrap licenses, such as § 2-2203 or § 2B-308 which provide specific guidelines for evaluating these licenses.

ProCD demonstrates that the battleground in the future debate over shrinkwrap licenses will probably be centered on the intersection between copyright and contract law. The U.C.C. portion of this discussion is in itself subsumed under a "contract" rubric as part of a greater interplay with the field known as "copyright." The precise contour of this interaction is, as of now, resolved only to the satisfaction of some. Perhaps the best resolution of this debate is to approach it not from a standpoint that privileges the public policy balance under copyright law but from a perspective which equally appraises copyright and contract policy. It seems self-evident that a "democratic paradigm" must take both policies as occupying a prominent place in a "vibrant public domain" for it would be absurd to claim that the ability of private individuals to enter contracts in a free and open marketplace is not at the essence of such a paradigm.¹⁵⁷ Further, there is no evidence that shrinkwrap licenses are antithetical to the policies of contract law; rather, the Seventh Circuit's remarks properly indicate that they promote this policy without demonstrable harm to either contracting party.¹⁵⁸

157. See *supra* note 113 and accompanying text.

158. See *supra* notes 105-08, 113-114 and accompanying text. On a concluding note, it is not plausible to present article I, § 8, cl. 8, of the Constitution as a grant of rights which must be asserted in imperative fashion by all parties who can be classified as possessing such rights to assert; such rights assertion characterizes that Professor Netanel's argument: "... attempts to circumvent copyright limitations while disseminating expressive works to the public would run afoul of the fundamental public policy underlying the Copyright Act and the Copyright Clause of the Constitution, even if knowingly and willingly agreed to by users." Neil W. Netanel, *Copyright and a Democratic Civil Society*, 106 YALE L.J. 283, 385 (1996) (emphasis

Before the shrinkwrap license is condemned there must be some evidence that these licenses have a pernicious effect on the policies advanced under either copyright or contract law. This author finds that no negative effect is in evidence on either of these two fronts. Therefore, preemption concerns seem misplaced in the current shrinkwrap debate.

The *ProCD* decision, insofar as it indicates an emerging trend to enforce shrinkwrap licenses, should not be viewed as an unwelcome intruder into the domain of intellectual property, but as a beneficial intermediary positively merging the objectives of both copyright and contract law.

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added). Instead, this author proposes that shrinkwrap licensing calls for an individual's "waiver" of constitutional rights which so long as it is freely done and otherwise meets requirements to prevent unconscionability is equally compatible with a "democratic paradigm." *See supra*, note 108 and accompanying text.

APPENDIX I

UNIFORM COMMERCIAL CODE

REVISED ARTICLE 2, SALES,
CHAPTER 3, LICENSES
(Sept. 10, 1994, Draft)

SECTION 2-2203. STANDARD FORM LICENSES.

(a) Subject to the section on disclaimer of warranties in consumer licenses], a party adopts the terms of a standard form license if, prior to or within a reasonable time after beginning to use the intangibles pursuant to an agreement, the party

(1) signs or otherwise by its behavior manifests assent to a standard form license; and

(2) had an opportunity to review the terms of the license before manifesting assent, whether or not it actually reviewed the terms.

(b) Terms adopted under subsection (a) include all of the terms of the license without regard to the knowledge or understanding of individual terms by the party assenting to the form. However, except as otherwise provided in subsection (c), a term does not become part of the license if:

(1) the term creates an obligation or imposes a limitation which conflicts with the negotiated terms of the prior agreement of the parties relating to the intangibles and the party assenting to the form does not expressly consent to that term;

(2) in a mass market license the term creates an obligation or imposes a limitation that the licensor has reason to know would cause most licensees engaged in transactions of similar type to refuse the license if the term were brought to the attention of the licensee and the term was not brought to the licensee's attention; or

(3) in a contract other than a mass market license the term creates an obligation or imposes a limitation that the party who prepared the form knows would cause the other party to refuse the license if the term were brought to the attention of that party and the term was not brought to that party's attention.

(c) Subject to subsection (b)(1), a term becomes part of the contract if the term:

(1) transfers rights or creates restrictions on the behavior of the licensee which give the licensee no fewer rights than would be given to a purchaser at a first sale under federal intellectual property law; or

(2) limits the licensee's remedy for breach of the license to replacement of the licensed materials or refund of license fees unless the damage from breach of warranty involves personal injury.

(d) A party has an opportunity to review the terms of a license if:

(1) the license is made available to the party (i) prior to its acquisition of a copy of the intangibles and in a manner designed to call the license terms to the attention of the party assenting to the form, or (ii) provided to the party in a manner so that the terms of the license will be conspicuous in the normal course of its initial use or preparation to use the intangibles; and

(2) in a mass market license, the party assenting to the form is authorized to obtain a refund of all license fees paid by returning the copy of the intangibles or discontinuing use following its opportunity to review the terms of the license.

(e) A party manifests assent to the license if, having had an opportunity to review the terms of the license, it engages in conduct that the license provides will constitute acceptance of the terms of the license and it had an opportunity decline to engage in this conduct after having had an opportunity to review the terms of the license.

(f) A licensee expressly consents to a term of a license by its behavior if the term is conspicuous and, given the opportunity not to do so, the licensee engages in conduct that signifies acceptance of that term.

(g) Whether a term is conspicuous is a question of law.

APPENDIX II

THE LOUISIANA SOFTWARE LICENSE
ENFORCEMENT ACT

LOUISIANA REVISED STATUTES

TITLE 51. TRADE AND COMMERCE

CHAPTER 29. SOFTWARE LICENSE ENFORCEMENT ACT

La. Rev. Stat. Ann. §§ 51:1961-1966 (West 1997)

§ 1961. Title

This Chapter shall be known as the Software License Enforcement Act.

§ 1962. Definitions

For purposes of this Chapter the following terms shall have the meanings set forth herein:

(1) "Computer software" means a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result, in any form in which such statements or instructions may be fixed, by any method now known or hereafter developed, regardless of whether such statements or instructions are capable of being perceived by or communicated to humans, together with any associated documentation and materials.

(2) "License agreement" means any written document on which the word "license", either alone or in combination with other words, appears prominently at or near the top of such document in such a position of prominence so as to be readily noticeable to a person of average literacy viewing such document.

(3) "Reverse engineering, decompiling or disassembling" means any process by which computer software is converted from one form to another form which is more readily understandable to human beings, including without limitation any decoding or decrypting of any computer program which has been encoded or encrypted in any manner.

§ 1963. Requirements for enforceability

Any person who acquires computer software or a copy thereof shall be conclusively deemed to have accepted and agreed to all the terms of the license agreement for such software or copy thereof, including any

applicable provisions contained in R.S. 51:1964, if:

(1) A written legend or notice is affixed to or packaged with the software or copy thereof in such a manner that the legend or notice is clearly and conspicuously visible upon cursory examination of the software and related packaging; and

(2) The legend or notice is prominently displayed in all capital letters and in language which is readily understandable to a person of average literacy; and

(3) The legend or notice states clearly that:

(a) Any use of the software or copy thereof will constitute acceptance of the terms of the accompanying license agreements; or,

(b) Any opening of a sealed package, envelope, or container in which the software or copy thereof is contained will constitute acceptance of the terms of the accompanying license agreement; and

(4) The legend or notice states clearly that anyone who receives the software or a copy thereof and does not accept and agree to the terms of the accompanying license agreement may, within a reasonable time, return the unused, unopened software or copy thereof to the party from whom it was acquired, or to some other identified party, for a full refund of any consideration paid; and

(5) The person acquiring the software or copy thereof takes such action as is stated in the legend or notice to constitute acceptance of and agreement to the terms of the accompanying license agreement.

§ 1964. Terms deemed accepted

Terms of which shall be deemed to have been accepted under R.S. 51:1963, if included in an accompanying license agreement which conforms to the provisions of R.S. 51:1965, may include any or all of the following:

(1) Provisions for the retention by the licensor of title to the copy of the computer software.

(2) If title to the copy of computer software has been retained by the licensor, provisions for the prohibition of any copying of the copy of computer software for any purpose and/or limitations on the purposes for which copies of the computer software can be made and/or limitations on the number of copies of the computer software which can be made.

(3) If title to the copy of computer software has been retained by the licensor, provisions for the prohibition or limitation of rights to modify and/or adapt the copy of the computer software in any way, including without limitation prohibitions on translating, reverse engi-

neering, decompiling, disassembling, and/or creating derivative works based on the computer software.

(4) If title to the copy of computer software has been retained by the licensor, provisions for prohibitions on further transfer, assignment, rental, sale, or other disposition of that copy or any other copies made from that copy of the computer software, provided that terms which prohibit the transfer of a copy of computer software in connection with the sale or transfer by operation of law of all or substantially all of the operating assets of a licensee's business shall to that extent only not be deemed to have been accepted under R.S. 51:1963.

(5) Provisions for the automatic termination without notice of the license agreement if any provisions of the license agreement are breached by the licensee.

§ 1965. Display of terms of license agreement

In order to be deemed accepted pursuant to R.S. 51:1963, the terms of the accompanying license agreement must be clearly and conspicuously stated in the license agreement in language readily understandable to the person of average literacy, and the license agreement must be attached to or packaged with the copy of the computer software in such a manner that the terms are susceptible to being readily examined before the act which is deemed to constitute acceptance occurs.

§ 1966. Enforceability

The provisions of this Chapter are not intended to limit in any manner the effectiveness or enforceability of any of the provisions of such a license agreement under any other provisions of the laws of this state, nor is this Chapter intended to limit in any manner the laws of this state or any other laws.

APPENDIX III

THE WISCONSIN COMPUTER CRIMES ACT

WISCONSIN STATUTES

CRIMINAL CODE

CHAPTER 943. CRIMES AGAINST PROPERTY

MISAPPROPRIATION.

Wis. Stat. § 943.70 (1995-1996)

943.70 Computer crimes.

(1) Definitions. In this section:

(a) "Computer" means an electronic device that performs logical, arithmetic and memory functions by manipulating electronic or magnetic impulses, and includes all input, output, processing, storage, computer software and communication facilities that are connected or related to a computer in a computer system or computer network.

(b) "Computer network" means the interconnection of communication lines with a computer through remote terminals or a complex consisting of 2 or more interconnected computers.

(c) "Computer program" means an ordered set of instructions or statements that, when executed by a computer, causes the computer to process data.

(d) "Computer software" means a set of computer programs, procedures or associated documentation used in the operation of a computer system.

(dm) "Computer supplies" means punchcards, paper tape, magnetic tape, disk packs, diskettes and computer output, including paper and microform.

(e) "Computer system" means a set of related computer equipment, hardware or software.

(f) "Data" means a representation of information, knowledge, facts, concepts or instructions that has been prepared or is being prepared in a formalized manner and has been processed, is being processed or is intended to be processed in a computer system or computer network. Data may be in any form including computer printouts, magnetic storage media, punched cards and as stored in the memory of the computer. Data are property.

(g) "Financial instrument" includes any check, draft, warrant, money order, note, certificate of deposit, letter of credit, bill of exchange, credit or credit card, transaction authorization mechanism, marketable security and any computer representation of them.

(h) "Property" means anything of value, including but not limited to financial instruments, information, electronically produced data, computer software and computer programs.

(i) "Supporting documentation" means all documentation used in the computer system in the construction, clarification, implementation, use or modification of the software or data.

(2) Offenses against computer data and programs. (a) Whoever willfully, knowingly and without authorization does any of the following may be penalized as provided in par. (b) :

1. Modifies data, computer programs or supporting documentation.
2. Destroys data, computer programs or supporting documentation.
3. Accesses data, computer programs or supporting documentation.
4. Takes possession of data, computer programs or supporting documentation.
5. Copies data, computer programs or supporting documentation.
6. Discloses restricted access codes or other restricted access information to unauthorized persons.

(b) Whoever violates this subsection is guilty of:

1. A Class A misdemeanor unless subd. 2., 3. or 4. applies.
2. A Class E felony if the offense is committed to defraud or to obtain property.
3. A Class D felony if the damage is greater than \$ 2,500 or if it causes an interruption or impairment of governmental operations or public communication, of transportation or of a supply of water, gas or other public service.
4. A Class C felony if the offense creates a substantial and unreasonable risk of death or great bodily harm to another.

(3) Offenses against computers, computer equipment or supplies.

(a) Whoever willfully, knowingly and without authorization does any of the following may be penalized as provided in par. (b) :

1. Modifies computer equipment or supplies that are used or intended to be used in a computer, computer system or computer network.

2. Destroys, uses, takes or damages a computer, computer system, computer network or equipment or supplies used or intended to be used in a computer, computer system or computer network.

(b) Whoever violates this subsection is guilty of:

1. A Class A misdemeanor unless subd. 2., 3. or 4. applies.
2. A Class E felony if the offense is committed to defraud or obtain property.
3. A Class D felony if the damage to the computer, computer system, computer network, equipment or supplies is greater than \$ 2,500.
4. A Class C felony if the offense creates a substantial and unreasonable risk of death or great bodily harm to another.

(4) Computer use restriction. In addition to the other penalties provided for violation of this section, a judge may place restrictions on the offender's use of computers. The duration of any such restrictions may not exceed the maximum period for which the offender could have been imprisoned; except if the offense is punishable by forfeiture, the duration of the restrictions may not exceed 90 days.

(5) Injunctive relief. Any aggrieved party may sue for injunctive relief under ch. 813 to compel compliance with this section. In addition, owners, lessors, users or manufacturers of computers, or associations or organizations representing any of those persons, may sue for injunctive relief to prevent or stop the disclosure of information which may enable another person to gain unauthorized access to data, computer programs or supporting documentation.

