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TAKE IT OR LEAVE IT: *MONSANTO V. MCFARLING, BOWERS V. BAYSTATE TECHNOLOGIES*, AND THE FEDERAL CIRCUIT'S FORMALISTIC APPROACH TO CONTRACTS OF ADHESION

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INTRODUCTION

Adhesion contracts¹ in their various forms are extremely common, comprising the vast majority of all contracts made.² Contracts of adhesion, including form contracts³ and shrinkwrap license agreements,⁴ are an important part of the modern consumer economy. By greatly reducing transaction costs, these contracts help to lubricate the gears of the market, at least when standardized products are offered for sale, as is the case with

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1. A precise definition of "adhesion contract" or "contract of adhesion"—terms used interchangeably—is nearly impossible, since courts do not agree to a large degree on what such a contract entails. However, the term here is used to refer to a contract for sale of a good or service that is offered on a "take it or leave it" basis, where the purchaser either buys the product and accepts the offered terms of sale (which may or may not be written down) or refuses the terms of sale and thereby forgoes the sale altogether. It should be noted that the term "contract of adhesion" tends to have a somewhat negative connotation, suggesting that the contract might be unconscionable. However, most courts take pains to state that adhesion contracts are not necessarily unconscionable and that unconscionable contracts are not necessarily adhesive—it could hardly be otherwise, given the large degree to which contracts of adhesion dominate the modern consumer economy. See *infra* note 2.

2. W. David Slawson, *Standard Form Contracts and Democratic Control of Lawmaking Power*, 84 HARV. L. REV. 529, 529 (1971). Slawson notes that "[p]arking lot and theater tickets, package receipts, department store charge slips, and gas station credit card purchase slips are all standard form contracts," as are many contracts pertaining to "insurance, leases, deeds, mortgages, automobile purchases, and all of the various forms of consumer credit." *Id.* He believes that adhesion contracts "probably account for more than ninety-nine percent of all the contracts now made." *Id.*

3. For a very complete discussion of the use of form contracts to replace market transactions in the modern business environment, see Todd D. Rakoff, *Contracts of Adhesion: An Essay in Reconstruction*, 96 HARV. L. REV. 1174, 1220–25 (1983).

4. A discussion of shrinkwrap license agreements can be found in Mark A. Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 S. CAL. L. REV. 1239 (1995). As he notes, they are typically found in the context of software purchases, where the consumer accepts the terms of the agreement simply by opening the package in which the software is shipped and marketed. *Id.* at 1241–42.

most goods and services sold today.⁵ They also allow the party who drafts the contract to “rationally calculate the costs and risks of performance.”⁶ Thanks to these benefits, many consumers “have difficulty remembering the last time they contracted other than by standard form.”⁷ Most routine transactions are accomplished through contracts of adhesion, and standard forms are even used for transactions consumers engage in less frequently, such as those involving or for the sale of cars, insurance, and even real property.⁸

All this benefit comes at a cost, though. While both parties experience the benefit of lowered transaction costs inherent in the use of form contracts and other contracts of adhesion,⁹ the benefit of the increased ability to “calculate the costs and risks of performance”¹⁰ is only felt by the party who drafts the contract. The party who adheres to the contract—who must take the offered terms or forgo the transaction¹¹—gives up much, possibly all, of the bargaining power she is assumed to have under the traditional model of contract formation.¹² Many people adhere to such contracts without reading or understanding the terms to which they consent, even when they take the time to shop around for a good bargain.¹³ Thus, although contracts of adhesion are generally considered enforceable, courts have begun to treat them differently from traditional contracts, at least under some circumstances.¹⁴

5. 1 ARTHUR LINTON CORBIN & JOSEPH M. PERILLO, CORBIN ON CONTRACTS § 1.4 (rev. ed. 1993).

6. *Id.*

7. Slawson, *supra* note 2, at 529.

8. *Id.*

9. Form contracts lower transaction costs by forcing a “take it or leave it” model on consumers, freeing buyers and sellers from haggling over the terms and conditions of each individual purchase. Lower transaction costs are presumably passed on to adherents to form contracts in the form of lower prices, benefiting the adherents. In addition, sellers can include terms that allow them to produce or sell their goods more cheaply, or both, passing on the savings to buyers, as recognized by the Supreme Court in *Carnival Cruise Lines, Inc. v. Shute*, 499 U.S. 585, 594 (1991) (noting that a forum selection clause included in a standard-form cruise passenger ticket benefited passengers “in the form of reduced fares reflecting the savings that the cruise line enjoys by limiting the fora in which it may be sued”).

10. CORBIN & PERILLO, *supra* note 5, § 1.4.

11. Rakoff, *supra* note 3, at 1225.

12. See Slawson, *supra* note 2, at 529 (“The contracting still imagined by courts and law teachers as typical, in which both parties participate in choosing the language of their entire agreement, is no longer of much more than historical importance.”).

13. Rakoff, *supra* note 3, at 1226 (“The ideal adherent who would read, understand, and compare several forms is unheard of in the legal literature and, I warrant, in life as well.”).

14. *Id.* at 1174–75 (“Some judges . . . have broadly declared that contracts of adhesion are special.” (citing *Chandler v. Aero Mayflower Transit Co.*, 374 F.2d 129, 135 n.11 (4th Cir. 1967); *C & J Fertilizer, Inc. v. Allied Mut. Ins. Co.*, 227 N.W.2d 169, 173–74 (Iowa 1975) (en banc); *Estrin Constr. Co. v. Aetna Casualty & Sur. Co.*, 612 S.W.2d 413, 422–26 (Mo. Ct. App. 1981); *College Mobile*

Despite their relative abundance, contracts of adhesion have rarely been at issue in cases before the Federal Circuit, probably due to the specialized nature of the Federal Circuit's subject-matter jurisdiction, which largely deals with patent law and other federal claims. However, two cases dealing with contracts of adhesion were decided by the Federal Circuit in late 2002 and early 2003. The two cases were *Monsanto Co. v. McFarling*¹⁵ and *Bowers v. Baystate Technologies, Inc.*¹⁶ In both cases, the court enforced the contracts at issue, even though both contracts were at odds with important public policies and both contracts were clearly adhesive.¹⁷ These decisions and their rationales suggest that the Federal Circuit strongly favors enforcing contracts, possibly to the exclusion of other considerations.

This sort of bright-line rule is a symptom of overly formalistic analysis.¹⁸ Of course, criticism of the Federal Circuit for being overly formalistic is far from novel.¹⁹ Nonetheless, this Note will examine the overly formalistic ways in which the Federal Circuit decides cases dealing with contracts of adhesion—a new subject to which the Federal Circuit has applied its overly formalistic approach, leading to greater predictability but reducing the ability of the court to take into account many relevant factors²⁰—and will recommend a factor-based test to be used instead. Part I will examine the principles courts generally employ for deciding when contracts of adhesion should be enforced. Part II will review the background of the two recent Federal Circuit cases, *Bowers* and *Monsanto*. Part III will look to the

Home Park & Sales, Inc. v. Hoffmann, 241 N.W.2d 174, 176–78 (Wis. 1976)). See also *infra* notes 21–33 and accompanying text for a discussion of some cases where courts have treated contracts of adhesion differently from other types of contracts.

15. 302 F.3d 1291 (Fed. Cir. 2002), *cert. denied*, 537 U.S. 1232, 123 S. Ct. 1357 (2003).

16. 320 F.3d 1317 (Fed. Cir. 2003), *cert. denied*, 539 U.S. 928, 123 S. Ct. 2588 (2003).

17. *Monsanto* dealt with the adherent's agreeing to be sued in a court that could not, in the absence of the contract, exercise personal jurisdiction over him. The contract in *Bowers* was a shrinkwrap license agreement under which the adherent agreed not to engage in reverse engineering of software, behavior allowed in the fair use provision of the copyright statute, 17 U.S.C. § 107 (2000). See *infra* notes 35–85 and 102–04, and accompanying text.

18. The term “formalistic” refers to the preference for bright-line, somewhat simplistic rules.

19. See, e.g., Timothy R. Holbrook, *The Supreme Court's Complicity in Federal Circuit Formalism*, 20 SANTA CLARA COMPUTER & HIGH TECH. L.J. 1 (2003); John R. Thomas, *Formalism at the Federal Circuit*, 52 AM. U. L. REV. 771 (2003). Professor Thomas suggests that “[w]here the Federal Circuit once resolved issues based upon ‘all the facts and circumstances,’ it now more often applies a discrete list of factors.” Thomas, *supra*, at 773 (citing *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55 (1998)).

20. As many critics have noted, the use of such formal rules for judicial decision making increases the level of certainty in a given holding, but this often comes at the cost of reduced fairness. See, e.g., Holbrook, *supra* note 19, at 1. As Professor Holbrook notes, Donald Chisum went so far as to label the tension between certainty and fairness a “conundrum.” *Id.* (citing Donald S. Chisum, *The Scope of Protection for Patents After the Supreme Court's Warner-Jenkinson Decision: The Fair Protection–Certainty Conundrum*, 14 SANTA CLARA COMPUTER & HIGH TECH. L.J. 1 (1998)).

public policies courts seek to enforce when deciding issues of intellectual property law. Part IV will develop a list of factors for courts to consider when dealing with intellectual property cases in which contracts of adhesion are at issue. Part V will apply these factors to *Bowers* and *Monsanto* in order to demonstrate the differences between the Federal Circuit's overly formalistic approach and the recommended factor-based approach that resolves the fairness concerns inherent in the Federal Circuit's current approach. Finally, Part VI will discuss some of the ramifications of adopting the recommended factor-based approach to deciding whether to enforce questionable provisions of contracts of adhesion.

I. PRINCIPLES CURRENTLY EMPLOYED TO DECIDE VALIDITY OF CONTRACTS OF ADHESION

Generally, standardized form contracts are considered valid without some showing of substantive (and substantial) unfairness to the adhering party.²¹ However, courts have recognized that, at least under some circumstances, contracts of adhesion warrant closer judicial scrutiny than contracts more closely conforming to the traditional model of mutual assent and bargaining over terms.

For example, the Iowa Supreme Court held in 1975 that, for cases dealing with form insurance policies, legal rules designed to deal with more traditional contracts could not simply be applied without any further analysis because the rules broke down in the context of "ready-made applications and . . . ready-made policies carefully concocted to conserve the interests of the company."²²

Similarly, the Supreme Court of New Jersey noted in an insurance case that "[c]ourts . . . have grown increasingly sensitive to imposition, conscious or otherwise, on members of the public by persons with whom they deal, who [by various means] have acquired such expertise or monopolistic or practical control in the business transaction involved as to give them an undue advantage."²³

21. Rakoff, *supra* note 3, at 1190 ("[A] signed document is, as an initial matter, a binding contract, and . . . cause must be shown in order to support nonenforcement of a term."); see also *Monsanto Co. v. McFarling*, 302 F.3d 1291, 1301 (Fed. Cir. 2002) (Clevenger, J., dissenting) ("[T]he commercial terms of adhesion contracts are generally enforceable absent a showing of substantive unconscionability."), *cert. denied*, 537 U.S. 1232, 123 S. Ct. 1357 (2003).

22. *C & J Fertilizer, Inc. v. Allied Mut. Ins. Co.*, 227 N.W.2d 169, 173-74 (Iowa 1975) (en banc) (citation omitted).

23. *Ellsworth Dobbs, Inc. v. Johnson*, 236 A.2d 843, 856 (N.J. 1967).

The Supreme Court of Indiana has held that the old rule that “an agreement or contract, signed by the parties, is *conclusively presumed* to represent . . . a meeting of the minds” no longer applies to preprinted form contracts.²⁴ The party who drafted the form has the burden “to show that the other party had knowledge of any unusual . . . terms contained therein.”²⁵

What all these cases have in common is an interest in fairness over the application of mechanical rules. Whether the courts look with a more questioning eye on standardized forms, more closely scrutinize contracts drafted by those with a greater business advantage, or shift the burden of proving contract validity to the party drafting the contract, they all are attempting to take into account “the equities of the case.”²⁶

The United States Supreme Court, too, has engaged in deeper analysis of form contracts than might have been the case had the Court been dealing with a freely-negotiated instrument. In *Carnival Cruise Lines, Inc. v. Shute*,²⁷ the Court considered a forum selection clause in a standard form contract, which in this case took the form of a cruise passenger ticket.²⁸ In upholding the clause, the Court disagreed with a lower court finding that nonnegotiated forum selection clauses in form contracts could never be valid.²⁹ However, the mere presence of an agreed-upon contract, given that the contract was a standard form, was not sufficient in itself to find the clause enforceable.³⁰ The Supreme Court engaged in a factor-based analysis to decide whether the forum selection clause was enforceable; among the factors arguing in favor of enforcing the form contract were (1) a legitimate interest on the part of the cruise line “in limiting the fora” in which it could be sued, (2) an interest on the part of both parties to the agreement in reducing the cost of litigation by “dispelling any confusion about where” suit may be brought, and (3) the fact that lower litigation costs were passed on to passengers in the form of lower ticket prices.³¹ As with the state cases above, the Supreme Court seems to be interested in balancing the equities, rather than in mechanically applying rules of contract law in cases in which form contracts are at issue. Here, the contract terms were reasonable and

24. *Weaver v. Am. Oil Co.*, 276 N.E.2d 144, 147 (Ind. 1971) (emphasis in original).

25. *Id.*

26. *Id.* at 148.

27. 499 U.S. 585 (1991).

28. *Id.* at 593–94.

29. *Id.* at 593.

30. *Id.* (“[A] reasonable forum clause in a form contract of this kind well may be permissible for several reasons.”)

31. *Id.* at 593–94.

resulted in some benefit to both parties, and so the contract was enforced. However, the enforcement of the contract was less important than the fact that the Court, like other courts considering form contracts, actually applied some degree of analysis to the enforcement issue, something the Federal Circuit has declined to do.

As a final note on judicial treatment of form contracts, the doctrine of *contra proferentum* must be taken into account. This doctrine is applied by courts as a rule of construction when contracts are drafted by one party; the principle requires any ambiguous terms to be construed against the interests of the party who drafted the contract.³² Since this principle applies when the party who drafts the contract “ha[s] complete control over the language of its terms [and] offers the reciprocal license on a ‘take it or leave it’ basis,”³³ it applies to situations where contracts of adhesion are at issue, because the terms of a contract of adhesion are always drafted by one party. While *contra proferentum* is less concerned with fundamental fairness and equity balancing than with implementing a lowest-cost avoider system, it is still relevant to courts’ consideration of standard form contracts.

II. *MONSANTO* AND *BOWERS*: THE FEDERAL CIRCUIT CONSIDERS CONTRACTS OF ADHESION

Prior to August 2002, the Federal Circuit had never decided whether to enforce a formal, written contract alleged to be adhesive.³⁴ However, within a span of less than six months, the court decided two cases dealing with contracts of adhesion, holding in both instances that the contracts were enforceable. In August 2002, the court decided *Monsanto Co. v. McFarling*, a patent law case, while *Bowers v. Baystate Technologies, Inc.*, a case implicating both patent law and copyright law, was decided following a panel rehearing in January 2003.

32. See, e.g., *Intel Corp. v. VIA Techs. Inc.*, 319 F.3d 1357, 1363 (Fed. Cir. 2003).

33. *Id.*

34. Other than *Monsanto* and *Bowers*, the only other case in which the Federal Circuit has ever used the phrase “contract of adhesion” was *Vitacco v. Toastmaster, Inc.*, Nos. 93-1273, 93-1274, 1994 U.S. App. LEXIS 2049 (Jan. 31, 1994), an unpublished decision in which the court upheld a district court’s order of summary judgment against a plaintiff who had alleged *inter alia* that a contract at issue was adhesive. The term in this instance was meant to suggest that the contract was both oppressive and offered in a “take it or leave it” spirit. *Id.* at *8. Presumably, given the ubiquitous nature of formal and informal form contracts in the modern consumer economy, the court has considered an adhesive but informal contract at some point since its formation in 1982.

A. Monsanto Co. v. McFarling

Monsanto Co. developed genetically engineered soybean seeds that were resistant to particular herbicides.³⁵ Use of these soybean seeds reduces the labor cost for farmers who need to apply herbicides to their fields, since the herbicide can be applied broadly, “killing the weeds but not harming the resistant [soybeans].”³⁶ The soybeans, sold under the Roundup Ready[®] brand, are covered by United States patents, and they are therefore only available from Monsanto.³⁷ Farmers find these seeds more competitive than ordinary, nongenetically modified seed, to the extent that nearly two-thirds of soybeans planted in the United States today are Roundup Ready[®] seeds.³⁸

Farmers purchase Roundup Ready[®] soybean seeds through “various companies [authorized by Monsanto] to manufacture the patented seeds.”³⁹ Monsanto requires the purchasing farmer to pay it a license fee and requires the farmer to sign a “Technology Agreement,” a preprinted form containing the terms of the sale.⁴⁰

Among the terms in the Technology Agreement is a forum selection clause giving exclusive jurisdiction to the United States District Court for the Eastern District of Missouri, Eastern Division, for any dispute arising under the agreement.⁴¹ Should the farmer violate the terms of the agreement, Monsanto would bring suit in Missouri, Monsanto’s home forum,⁴² against him. This is what happened in *Monsanto Co. v. McFarling*.

Monsanto filed suit against Homan McFarling, a Mississippi farmer, for a violation of the term of the Technology Agreement prohibiting the saving of any soybeans from one year’s harvest to plant as seed the next year.⁴³ The suit was brought in the Eastern District of Missouri, Eastern Division, consistent with the forum selection clause discussed above.⁴⁴ The district court granted a preliminary injunction against McFarling prohibiting him from replanting the seeds he saved from crops grown from Mon-

35. *Monsanto Co. v. McFarling*, 302 F.3d 1291, 1293 (Fed. Cir. 2002), *cert. denied*, 537 U.S. 1232, 123 S. Ct. 1357 (2003).

36. *Id.*

37. *Id.*; see U. S. Patent No. 5,633,435 (issued May 27, 1997); U. S. Patent No. 5,352,605 (issued Oct. 4, 1994).

38. *Monsanto*, 302 F.3d at 1301.

39. *Id.* at 1293.

40. *Id.*

41. *Id.* at 1294.

42. *Id.* at 1295.

43. *Id.* at 1293.

44. *Id.* at 1294.

santo's patented soybean seed.⁴⁵ McFarling appealed the grant of the preliminary injunction, challenging the personal jurisdiction of the district court in Missouri.⁴⁶

The Federal Circuit majority upheld the grant of the injunction, ruling that the forum selection clause in the contract controlled whether the district court had personal jurisdiction.⁴⁷ The majority's approach can be best classified as formalist, as they focused on the fact that McFarling signed the agreement in question,⁴⁸ rather than on any balance of the equities or other relevant factors. They held that McFarling's argument that his "voluntary failure to read what he signed" afforded him no protection from being bound by the terms of the agreement.⁴⁹ The majority engaged in no scrutiny of the forum selection clause and simply enforced it as one of many terms of the contract in question.⁵⁰ This lack of meaningful analysis came despite the court's acknowledgement of the Supreme Court's holding in *Carnival Cruise Lines* that "forum-selection clauses contained in form passage contracts are subject to judicial scrutiny for fundamental fairness."⁵¹

In contrast to the majority, which made no attempt to evaluate whether the forum selection clause in the Technology Agreement was reasonable or appropriate, the dissent argued that "the conclusion that a defendant has surrendered his right to due process of law is not one that a court should reach casually."⁵² The dissent advocated much more significant analysis than that engaged in by the majority, adopting considerable portions of the standard laid out in *Carnival Cruise Lines*.⁵³ This analysis is especially warranted when, as here, certain factors come into play: (1) the contractual provision in question deals with the foregoing of a right so fundamental as the right to be tried in a court with proper personal jurisdiction,⁵⁴ (2) the contract in which the right is allegedly waived is a contract of adhesion,⁵⁵

45. *Id.* at 1293.

46. *Id.* at 1294.

47. *Id.* at 1296.

48. *Id.* at 1295.

49. *Id.*

50. *Id.*

51. *Id.* (quoting *Carnival Cruise Lines, Inc. v. Shute*, 499 U.S. 585, 595 (1991)).

52. *Id.* at 1300 (Clevenger, J., dissenting).

53. *Id.* at 1306.

54. *Id.* at 1300.

55. *Id.* at 1301-02.

and (3) the party drafting the contract and the party bringing suit are the same party.⁵⁶

B. *Bowers v. Baystate Technologies, Inc.*

Factually, *Bowers v. Baystate* is a more complex case than *Monsanto Co. v. McFarling*. The case involves claims for breach of contract, patent infringement, and copyright infringement.⁵⁷ All three claims stem from Harold Bowers's development of a product originally known as Cadjet and eventually sold as part of a product called the Designer's Toolkit.⁵⁸

Bowers developed a template to assist operators of computer-aided design ("CAD") programs.⁵⁹ Typically, when CAD users want to give a command to their software, they must select it out of nested menus,⁶⁰ which is somewhat inefficient.⁶¹ Bowers improved the situation by developing a template to lay on top of a digitizing tablet, allowing "the many CAD commands [to be presented] in a . . . logical order."⁶² The template was protected by a patent⁶³ and was commercialized as Cadjet.⁶⁴

Later, an engineer named George W. Ford, III, developed software that improved Bowers's invention by allowing operators to easily add symbols specifying various parameters "for features of the computer-generated design."⁶⁵ This software was protected by a registered copyright.⁶⁶ Since Ford's and Bowers's products were so closely related, they were eventually sold together as the Designer's Toolkit.⁶⁷ This product was sold under a shrinkwrap license agreement prohibiting reverse engineering of the software.⁶⁸

56. *Id.* at 1306–07. The dissent refers to this situation as one in which the forum selection clause is wielded offensively. *Id.* at 1302.

57. *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317, 1320 (Fed. Cir. 2003), *cert. denied*, 539 U.S. 928, 123 S. Ct. 2588 (2003).

58. *Id.* at 1321–22.

59. *Id.* at 1320.

60. Although the *Bowers* court does not explain the term "nested menus," the phrase is generally understood to mean a system where the user is presented with a number of choices (menus), each of which presents the user with another list of choices (a menu nested within the first menu selection), and so on, until the user has, in this case, selected the CAD command he needs.

61. *Bowers*, 320 F.3d at 1321.

62. *Id.*

63. U. S. Patent No. 4,933,514 (issued June 12, 1990).

64. *Bowers*, 320 F.3d at 1321.

65. *Id.*

66. *Id.* at 1322.

67. *Id.*

68. *Id.* "Reverse engineering" refers to "the process by which a completed process is systematically broken down into its component parts to discover the properties of the product with the goal of

Eventually, Baystate Technologies, a competitor of Bowers, purchased a copy of the Designer's Toolkit,⁶⁹ reverse engineered it,⁷⁰ and incorporated its features into their own competing product, Draft-Pak.⁷¹ Baystate sued Bowers for declaratory judgment of patent invalidity, and Bowers counterclaimed for copyright infringement, patent infringement, and breach of contract.⁷² The district court jury found for Bowers, awarding damages on all three of his claims, and against Baystate on its claim.⁷³ The district court judge modified the jury's verdict, finding the copyright and breach of contract damages duplicative and as a result omitting the copyright damages.⁷⁴

The issue on appeal was whether Bowers's breach of contract claim was preempted⁷⁵ by federal copyright law.⁷⁶ Because the copyright infringement claim and the breach of contract claim were based on the same alleged actions, the contract claim might be preempted by the copyright statute.⁷⁷ This would leave only the copyright claim. Further, Baystate argued it should win on the copyright claim because its alleged actions constituted reverse engineering, which is allowed under the fair use section of the Copyright Act.⁷⁸ Bowers argued that the breach of contract claim

gaining the expertise to reproduce the product." *Revere Transducers, Inc. v. Deere & Co.*, 595 N.W.2d 751, 775 n.8 (Iowa 1999). In computer software, this process involves examining the machine-readable programs to discern the general ideas embodied in them. *See Bowers*, 320 F.3d at 1326 ("[R]everse engineering . . . means ordinarily to study or analyze (a device, as a microchip for computers) in order to learn details of design, construction, and operation, perhaps to produce a copy or an improved version." (internal quotation marks and citations omitted)).

69. *Bowers*, 320 F.3d at 1322.

70. *Id.* at 1326-27.

71. *Id.* at 1322.

72. *Id.*

73. *Id.* at 1320.

74. *Id.*

75. As with many federal statutes, copyright law is intended to provide the sole available remedy for any violation equivalent to copyright infringement. To this end, the copyright statute provides that "all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright . . . are governed exclusively by this title." 17 U.S.C. § 301(a) (2000). Thus, when state law provides a right equivalent to that granted by the copyright statute, the state law claim is preempted by federal copyright law. *See, e.g., Computer Assocs. Int'l v. Altai, Inc.*, 982 F.2d 693, 716 (2d Cir. 1992) (holding that federal copyright law preempts state causes of action, but that "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 'within the general scope of copyright,' and there is no preemption." (citation omitted)).

76. *Bowers*, 320 F.3d at 1323.

77. *See* 17 U.S.C. § 301(a).

78. 17 U.S.C. § 107 (2000). This section of the Copyright Act "permits an individual in rightful possession of a copy of a work to undertake necessary efforts to understand the work's ideas, processes, and methods of operation." *Atari Games Corp. v. Nintendo of Am., Inc.*, 975 F.2d 832, 842 (Fed. Cir. 1992). The Federal Circuit held that reverse engineering of software fell within the provisions of 17 U.S.C. § 107 in this case. *Id.* at 843.

was not preempted and, more important to the issue at hand, that Baystate had waived its fair use defense by agreeing to the terms of the contract.⁷⁹

The majority in the Federal Circuit held that Bowers's breach of contract claim was not preempted by federal copyright law.⁸⁰ Specifically, the court held that "private parties are free to contractually forego the limited ability to reverse engineer a software product under the exemptions of the Copyright Act."⁸¹ This conclusion was largely a result of the majority favoring "freedom of contract."⁸² The court reasoned that other courts had "found that the mutual assent and consideration required by a contract claim render that claim qualitatively different from copyright infringement."⁸³ Despite this reliance on the element of mutual assent to differentiate contract claims from copyright claims, the majority did not discuss whether contracts of adhesion, such as the shrinkwrap license agreement at issue, should be enforced as readily as freely and mutually negotiated contracts. By simply assuming the contract was valid, the Federal Circuit had no choice but to hold that Baystate had waived its copyright fair use defense and had breached the contract.

Instrumental to Judge Dyk's argument in his partial dissent in this case was that the contract at issue was adhesive.⁸⁴ He went so far as to suggest that any contract of adhesion purporting to prohibit the adherent from engaging in conduct permitted under the fair use exception, an extremely important portion of the copyright statute, should be preempted by copyright law.⁸⁵

III. PUBLIC POLICIES SOUGHT TO BE ENFORCED IN INTELLECTUAL PROPERTY CASES

In deciding whether to enforce a contract in any intellectual property context, courts must not lose sight of the policy objectives sought to be advanced by the intellectual property statutory scheme in question. These policies can help inform the court as it applies any test of contract validity.

79. *Bowers*, 320 F.3d at 1323.

80. *Id.* at 1325-26.

81. *Id.*

82. *Id.* at 1323.

83. *Id.* at 1325 (citing *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1454 (7th Cir. 1996)).

84. *Id.* at 1337-38 (Dyk, J., concurring in part and dissenting in part).

85. *Id.* at 1337.

A. Patent Law

The United States patent system is designed to balance “the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the ‘Progress of Science and useful Arts.’”⁸⁶ To this end, the patent system seeks to encourage new inventions that substantially advance the state of the art by granting to inventors “for limited Times . . . the exclusive Right to their . . . Discoveries.”⁸⁷ The monopoly thus granted is thought to encourage large advances in technology by providing inventors an incentive to invest time and resources in developing those “things which are worth to the public the embarrassment of an exclusive patent.”⁸⁸ This is balanced by the requirement that an invention be truly new; patents may not be issued “whose effects are to remove existent knowledge from the public domain, or to restrict free access to materials already available.”⁸⁹

Besides encouraging significant inventions that greatly advance the state of the art, patent law is also designed to encourage “refinement through imitation.”⁹⁰ Because constant innovation requires innovators to make small improvements to existing technology, innovators must have access to knowledge about the state of the art and must be made aware of the boundaries of technology owned by patent holders. These needs are the source of the patent law requirement that applicants include in their application an enabling disclosure of their invention,⁹¹ as well as of the requirement that patents include a list of claims delineating the subject matter regarded as the inventor’s invention.⁹² Strict enforcement of the disclosure and claiming requirements allows later innovators to design around the patent and thereby refine the technology.

Thus, there are three policies sought to be advanced in patent law. First, the store of knowledge available to the public is not to be diminished

86. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989) (quoting U.S. CONST. art. I, § 8, cl. 8).

87. U.S. CONST. art. I, § 8, cl. 8.

88. *Bonito Boats*, 489 U.S. at 148 (quoting 13 THE WRITINGS OF THOMAS JEFFERSON 335 (Memorial ed. 1903)).

89. *Graham v. John Deere Co. of Kan. City*, 383 U.S. 1, 6 (1966).

90. *Bonito Boats*, 489 U.S. at 146.

91. 35 U.S.C. § 112 (2000). In this context, “enabling disclosure” means that the inventor must describe “the manner and process of making and using [the invention], in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use [it].” *Id.* The concept also includes the requirement that the inventor disclose “the best mode contemplated . . . of carrying out his invention.” *Id.*

92. *Id.*

(and, indeed, should be enhanced). Second, the system is meant to encourage significant inventions that greatly advance the state of the art. Third, the system encourages innovations that are based upon and that design around prior pioneering inventions.

B. Copyright Law

The constitutional basis for copyright law lies in the same clause as that providing the basis for patent law.⁹³ Thus, it is unsurprising that the policies sought to be advanced by copyright law are similar to those sought to be advanced by patent law. The focus for authors is on the copyright incentive: “secur[ing] a fair return for [their] creative labor.”⁹⁴ However, “the ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good.”⁹⁵ The incentive provided to authors to create works in the interest of “the general public good”⁹⁶ is analogous to the incentive provided in patent law to inventors to invent new and useful devices in the interest of promoting “the Progress of . . . useful Arts.”⁹⁷

As with patent law, though, initial creativity is not the sole aim of the copyright system. Copyright law also seeks to foster “secondary creativity,” or creativity based on existing works of authorship.⁹⁸ This is similar to the goal in patent law of encouraging design-around behavior, or innovation based on existing patents.⁹⁹ Secondary creativity is protected in copyright law at least in part by the doctrine of fair use, which helps ensure that the copyright monopoly protects only the expression of an idea, not the underlying idea itself.¹⁰⁰ It does so by allowing practices like reverse engineering of software, permitting owners of copies of the software to examine the product, determine the unprotectable ideas behind it, and “design around” the software to create their own expressions combining those ideas.¹⁰¹

93. U.S. CONST. art. I, § 8, cl. 8. In copyright law, the clause’s references to authors and their writings are the operative terms, as opposed to the references to inventors and their discoveries, which apply to patent law.

94. *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975).

95. *Id.*

96. *Id.*

97. U.S. CONST. art. I, § 8, cl. 8.

98. Pierre N. Leval, Commentary, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1109–10 (1990).

99. See *supra* notes 90–92 and accompanying text.

100. Leval, *supra* note 98, at 1109–10. See also 17 U.S.C. § 107, which provides for fair use, defining it as use “for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research.” 17 U.S.C. § 107 (2000).

101. See *supra* note 78 and accompanying text.

There are thus two major policies sought to be advanced by copyright law. First, the copyright statutory scheme provides an incentive to authors to create new works, expressing ideas in creative new ways. Second, copyright law encourages secondary creativity, allowing authors to build on the prior creativity of others.

IV. FACTORS TO CONSIDER IN DECIDING WHETHER TO ENFORCE CONTRACTS OF ADHESION

It is clear from the dissents in both *Bowers* and *Monsanto* that there is room for disagreement with the Federal Circuit's decisions. It is not immediately clear to an impartial observer whether the majority or the dissent in either case ultimately came to the correct decision. What does seem clear is that the majority in both cases failed to give proper consideration to any of the factors previously considered by other courts or suggested by commentators for deciding whether an adhesive contract should be enforced. In *Monsanto*, the majority's analysis was limited to the question of whether the defendant signed the agreement in question.¹⁰² Implicit in this analysis was the assumption that any contract agreed to is enforceable, regardless of its other characteristics. The majority's analysis in *Bowers* was similar. There, the questions asked included whether it was permissible under copyright law for a party to waive its fair use protection¹⁰³ and whether the terms of the contract at issue did in fact waive that protection.¹⁰⁴ The majority reasoned that, as long as copyright law permitted the contractual provision at issue, the term was enforceable; they never asked whether the adhesive nature of the contract affected its enforceability.

The reasoning followed by the Federal Circuit in these two cases suggests an increasing formalism with respect to contract claims.¹⁰⁵ If these cases are followed in the future, the judicial inquiry will be limited to asking whether a contract existed and perhaps, though not necessarily, what the terms of the contract were. The fact that a contract may conflict with other important public policies, such as personal jurisdiction rules or the copyright fair use exception, means nothing in this inquiry. The fact that a

102. *Monsanto Co. v. McFarling*, 302 F.3d 1291, 1295–96 (Fed. Cir. 2002), *cert. denied*, 537 U.S. 1232, 123 S. Ct. 1357 (2003).

103. *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317, 1324–25 (Fed. Cir. 2003), *cert. denied*, 539 U.S. 928, 123 S. Ct. 2588 (2003).

104. *Id.* at 1326.

105. This result may not be surprising in light of the Federal Circuit's move away from standards "based upon 'all the facts and circumstances'" and toward "simple rules." Thomas, *supra* note 19, at 773.

particular contract exhibits problems with mutual assent, as is the case for adhesive contracts, is similarly unimportant. The Federal Circuit should depart from this course and should adopt a test that properly balances all relevant factors and seeks conclusions that are fair as well as predictable.

The proper test to be used is one in which the mere presence of something called a contract by one party is not by itself determinative. The test should take into account the policies and approaches discussed above.

A. *Factors from Case Law*

As was discussed above, many courts deal with standard form contracts by examining the situation for fundamental fairness and by attempting to balance the equities of the case.¹⁰⁶ Some courts simply examine contracts much more closely when dealing with standardized forms.¹⁰⁷ Others look more carefully at contracts drafted by those with a great deal of bargaining power.¹⁰⁸ Still others, when analyzing a form contract, shift the burden of proof of contract validity, requiring the drafting party to prove validity, rather than requiring the adherent to prove invalidity.¹⁰⁹ These approaches are all concerned with equity, refusing to enforce a contract, even when mechanical application of contract law rules would demand enforcement, when doing so would be fundamentally unfair to the adhering party.

In addition to these approaches taken by state courts, the United States Supreme Court offered some guidance in *Carnival Cruise Lines* for dealing with contracts of adhesion, particularly when those contracts include forum selection clauses.¹¹⁰ Clauses that seem inequitable to the adhering party may be considered valid when (1) the drafting party has a legitimate interest in the clause being applied, and (2) both parties benefit to some extent from the application of the clause, either through lower litigation expenses or through lower prices, or both.¹¹¹

Finally, at least with respect to ambiguous contract terms, many courts, including the Federal Circuit, have applied the doctrine of *contra*

106. See *supra* notes 21–33 and accompanying text.

107. *C&J Fertilizer, Inc. v. Allied Mut. Ins. Co.*, 227 N.W.2d 169, 174 (Iowa 1975) (en banc).

108. *Ellsworth Dobbs Inc. v. Johnson*, 236 A.2d 843, 856 (N.J. 1967).

109. *Weaver v. Am. Oil Co.*, 276 N.E.2d 144, 147 (Ind. 1971).

110. See *supra* notes 27–31 and accompanying text.

111. *Carnival Cruise Lines, Inc. v. Shute*, 499 U.S. 585, 593–94 (1991).

proferentum to form contracts drafted by one party and offered on a “take it or leave it” basis.¹¹²

Thus, case law provides courts considering contracts of adhesion with several factors to consider in deciding whether to enforce a term. First, courts should examine whether enforcing the term furthers a legitimate interest of the party drafting the contract. Second, it should be determined whether enforcing the term at issue provides some benefit to both parties to the transaction. Third, many courts have adopted a broad attitude that form contracts are not presumptively valid and that enforcing terms of these agreements depends on a showing that doing so is equitable. Finally, when a form contract contains an ambiguous term, the term should be construed against the interests of the party drafting the contract.

B. *Factors from Policy*

In analyzing contracts of adhesion in intellectual property cases, courts should not lose sight of how the particular transaction in question and the terms of the contract at issue advance or retard appropriate innovation and creation policies. The particular policies important in a given case depend on whether the case sounds in patent law or copyright law.

Of the three policies sought to be advanced in patent law, only the policy of encouraging large and novel advances in the state of the art is always important in the context of contract enforcement. The policy of ensuring that knowledge is not removed from the public domain is rarely implicated in contract cases. Likewise, the policy of encouraging small improvements based on existing patents is generally not affected by courts’ decisions as to whether to enforce contracts of adhesion.¹¹³

With respect to relevant patent policy, the patent statutory system seeks to encourage large advances in the state of the art by providing inventors with an incentive to invent, in the form of a right to exclude others from nearly any use of their invention. This policy is advanced by strict enforcement of contractual terms when they are drafted by the patentee, since any limit on the ability of a patentee to make commercial use of his invention lessens the value of his exclusive rights and reduces the invention

112. *Intel Corp. v. VIA Techs., Inc.*, 319 F.3d 1357, 1363 (Fed. Cir. 2003).

113. It is possible to imagine a case in which this last policy might be implicated. In a case similar to *Bowers*, where the product was protected by a patent rather than a copyright and where an adhesive licensing agreement required the licensee not to engage in any design-around behavior or required the licensee to assign to the patentee all products developed as a result of designing around the product at issue, courts would need to take into account the patent law policy of encouraging design-around behavior when deciding whether to enforce the license agreement.

incentive. This factor can therefore militate either in favor of or against enforcement, depending on which party—the patentee or his licensee—drafted the contract in question.

If the contract at issue deals with matters of copyright law rather than patent law, a similar analysis is possible. As with patent law, copyright law seeks to encourage both primary creativity and secondary creativity. Primary creativity is more strongly encouraged when copyright holders are allowed to dictate their own licensing terms, since this increases the value of the exclusive rights the author is granted in exchange for making his work public. Thus, copyright policy can argue for strict enforcement of contract terms when they are drafted by the copyright holder.

However, there is one major difference between copyright law and patent law. Whereas patents protect ideas, copyrights protect only expressions of ideas, not ideas themselves.¹¹⁴ As explained above, the doctrine of fair use is an important part of the statutory scheme that preserves this dichotomy and encourages secondary creativity.¹¹⁵ Thus, when a copyright holder drafts its contract terms in such a way as to undermine the principles of fair use, copyright policy strongly militates against enforcing the terms of the contract at issue.

C. *Other Factors*

The drafters of the Restatement (Second) of Contracts recognized that standardized form contracts presented problems not present when parties freely bargain over the terms of their agreement.¹¹⁶ This led to the adoption of a statement that “[w]here the [drafting] party has reason to believe that the party manifesting [assent to a standard form contract] would not do so if he knew that the writing contained a particular term, the term is not part of the agreement.”¹¹⁷ As explained in comment f to section 211, this statement means that terms to which the adherent would not reasonably agree are stricken from the agreement, regardless of whether the adherent actually agreed to the terms.¹¹⁸ This suggests that courts should use a reasonable adherent standard; when a term is unreasonable in light of the nature of the agreement, it should not be enforced.

114. Leval, *supra* note 98, at 1109–10.

115. *Id.*

116. RESTATEMENT (SECOND) OF CONTRACTS § 211 cmt. c (1981).

117. *Id.* § 211(3).

118. *Id.* § 211 cmt. f.

In addition to this factor from the Restatement, two other factors likely should be considered when courts decide whether the terms of a contract of adhesion will be enforced against the adherent. First, courts should consider the type of goods or services for which the parties are contracting. Terms should be enforced more readily when the goods or services are luxury items than when they are relative necessities, since a seller has an easier time imposing adverse terms upon a buyer who must make the purchase than she does imposing the same terms upon a buyer who can opt to walk away.¹¹⁹ Thus, when adherents purchase cruise tickets, a luxury item,¹²⁰ the terms of the purchase contract need not be scrutinized terribly closely. However, when a farmer buys genetically modified soybeans necessary to compete in the soybean market,¹²¹ the contract at least merits a critical judicial inspection.

One final factor to be considered is the availability of other sources for the goods or services in question. When the party drafting the contract is the only source for the product, he is likely to be able to impose terms more readily on adherents than would be the case were he only one of many sources.¹²² Thus, to use the same example as above, the soybean contract, where the product is sold by a party who has a monopoly as a result of his patent,¹²³ merits stricter analysis than the cruise ticket, where many sellers compete for the business of cruise passengers.¹²⁴

V. APPLYING THE FACTORS TO *MONSANTO* AND *BOWERS*

Having identified the factors that courts should consider when deciding whether to enforce contracts of adhesion in intellectual property cases, the next step is to apply those factors to the two cases considered in this Note, *Monsanto Co. v. McFarling* and *Bowers v. Baystate Technologies*. It will be demonstrated that the Federal Circuit's analysis in both cases was not only overly simplistic and formalist but also reached the incorrect result each time. In both cases, the court should have declined to enforce the con-

119. *Monsanto Co. v. McFarling*, 302 F.3d 1291, 1300 (Fed. Cir. 2002) (Clevenger, J., dissenting) ("Courts are more likely to label a contract adhesive when . . . the purchaser has no other practical source to turn for necessary goods, for th[is] factor[] tend[s] to erode the premise that the rights given up by the lesser party were surrendered freely and fairly."), *cert. denied*, 537 U.S. 1232, 123 S. Ct. 1357 (2003).

120. *Carnival Cruise Lines, Inc. v. Shute*, 499 U.S. 585, 587 (1991).

121. *Monsanto*, 302 F.3d at 1301 (Clevenger, J., dissenting).

122. *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1453 (7th Cir. 1996) ("Competition among vendors . . . is how consumers are protected in a market economy.")

123. *Monsanto*, 302 F.3d at 1293.

124. *Carnival Cruise Lines*, 499 U.S. at 593.

tract terms at issue. Although the court reached the wrong result both times, it is important to note that reaching the incorrect result is less important in this context than the court's complete lack of any meaningful analysis.

As discussed above,¹²⁵ there are several factors to be considered when determining whether a questionable provision contained in a form contract should be enforced. First, the nature of the goods or services contracted for must be considered, as must the available sources of those goods or services. Second, courts should consider the reasonableness of the terms of the contract in light of the goods or services in question. Third, the court should ask whether enforcing the terms of the form contract furthers a legitimate interest of the party drafting the contract and whether doing so provides some benefit to both parties to the transaction, including the adherent. Fourth, when a form contract contains an ambiguous term, the term should be construed against the interests of the party drafting the contract. Finally, in the intellectual property context, relevant policies sought to be advanced by intellectual property laws should be taken into account. In general, courts should not simply presume that form contracts are valid and should engage in this factor-based analysis in order to ensure that enforcing the questionable terms of the contract of adhesion in question is equitable.

A. *Monsanto Co. v. McFarling*

In *Monsanto*, the goods in question were soybean seeds genetically modified to be resistant to glyphosphate-based herbicides.¹²⁶ Mr. McFarling, as a soybean farmer, presumably required some soybean seeds in order to conduct his business, although it is something of an open question whether he required glyphosphate-resistant soybeans. There was testimony at the district court stage of the litigation that tended to show that farmers who planted the genetically modified soybeans were more competitive than those who did not.¹²⁷ Sixty-six percent of American soybeans currently planted carry the genetic modifications developed and patented by Monsanto,¹²⁸ and the particular part of Mississippi where Mr. McFarling farmed required the use of glyphosphate herbicides, which are much more cost-effective when used with glyphosphate-resistant crops.¹²⁹ Taken together, this all shows that the soybeans for which the parties contracted were a

125. See *supra* notes 106–24 and accompanying text.

126. *Monsanto*, 302 F.3d at 1293.

127. *Id.* at 1301 (Clevenger, J., dissenting).

128. *Id.*

129. *Id.*

necessary good. This factor argues against enforcing the form contract against the adherent, since the seller of a necessary good is more likely to be able to impose unfavorable terms on the buyer than is the seller of a luxury item.

In addition, the genetically modified soybeans at issue are only available from Monsanto. The company developed the glyphosphate-resistant plants and holds two United States patents on the technology.¹³⁰ As such, Monsanto has a monopoly (albeit "an entirely lawful one"¹³¹) on the goods at issue in this case. While it is reasonable to allow a patentee to impose conditions on the sale of its patented goods, the patentee is more likely to be able to impose adverse conditions on the purchaser, so those conditions should be subject to greater scrutiny for fairness. Since Monsanto is in such a position, terms in a form contract that it drafts should be subject to a high degree of scrutiny. Were this factor the only one in play, it would not be enough to prevent enforcement of the contract terms at issue. It should, however, subject the contract to more analysis. The presence of Monsanto's monopoly in genetically modified soybeans, together with other factors that argue against enforcing the contract's terms, should make courts more hesitant to enforce contracts like this one. Thus, this factor does not support enforcing the contract's forum selection clause.

The next factor asks courts to inquire into the reasonableness of the terms of the form contract at issue. Here, the contract required the adherent to submit to the personal jurisdiction of the United States District Court for the Eastern District of Missouri, Eastern Division.¹³² As pointed out by Judge Clevenger in dissent, when forum selection clauses are wielded offensively,¹³³ they are inherently less reasonable than when they are wielded defensively.¹³⁴ Here, Monsanto used the forum selection clause offensively.¹³⁵ As Judge Clevenger pointed out in dissent, patentees, as with all civil plaintiffs, have generally been expected to bear the cost of initiating litigation in the accused infringer's home forum.¹³⁶ Given the relative posi-

130. *Id.* at 1293.

131. *Id.* at 1301 (Clevenger, J., dissenting).

132. *Id.* at 1294.

133. Offensive forum selection clauses are those that are used by the contract drafter when he is a plaintiff to force the contract adherent, as a defendant, into a particular forum. *See id.* at 1304.

134. Defensive forum selection clauses are those that are used by the contract drafter to defend himself against being brought into foreign fora when suit is brought against him by the contract adherent. *Id.*

135. *Id.*

136. *Id.* ("[H]eretofore the burden of initiating infringement litigation where the infringer resides has been accepted as another cost attendant to enjoyment of the patent right.").

tions of the parties in this case, the offensive forum selection clause is at least somewhat unreasonable, and this factor argues against enforcing the form contract (or at least the forum selection clause).

Another factor to consider in *Monsanto* is whether the terms of the form contract at issue provide benefits to both parties and serve a legitimate interest of the drafting party. Of particular interest here is the forum selection clause. The Supreme Court discussed possible legitimate interests for including forum selection clauses in form contracts in *Carnival Cruise Lines v. Shute*; these include (1) a legitimate interest on the part of the cruise line “in limiting the fora” in which it could be sued, (2) an interest on the part of both parties to the agreement in reducing the cost of litigation by “dispelling any confusion about where” suit may be brought, and (3) the fact that lower litigation costs were passed on to passengers in the form of lower ticket prices.¹³⁷ However, as discussed by Judge Clevenger in his dissent, none of the rationales for forum selection clauses discussed in that case applied to the *Monsanto* case.¹³⁸ First, the offensive use of the forum selection clause, discussed above, suggests that Monsanto does not have the legitimate interest “in not being carried off to the myriad home fora of its [customers]” that allowed the forum selection clause to stand in *Carnival Cruise Lines*.¹³⁹ Monsanto would only make use of its forum selection clause as a plaintiff, not a defendant.¹⁴⁰

Nor does this forum selection clause provide the “salutary effect[s]” discussed by the Supreme Court in *Carnival Cruise Lines*.¹⁴¹ As the Court pointed out, clauses providing for trial of issues in a particular forum may decrease the cost of litigation by resolving *ex ante* matters of forum selection and choice of law.¹⁴² This lower litigation cost is passed on to the customers of the party drafting the contract. As Judge Clevenger noted, though, there is little reason to expect patentees to pass on the lower costs of doing business to their customers.¹⁴³ The holder of a patent has a monopoly in the patented goods, and he therefore is most likely to “set [his] prices based on consumer demand and not on the cost of production.”¹⁴⁴ Therefore, the element of the legitimate interest/benefits factor that de-

137. See *supra* notes 30–31.

138. *Monsanto*, 302 F.3d at 1305–06 (Clevenger, J., dissenting).

139. *Id.* at 1305.

140. *Id.*

141. *Carnival Cruise Lines, Inc. v. Shute*, 499 U.S. 585, 593–94 (1991).

142. *Id.*

143. *Monsanto*, 302 F.3d at 1306 (Clevenger, J., dissenting).

144. *Id.*

mands that both parties benefit at least to some extent from the terms of the form contract at issue is missing in *Monsanto*. This factor weighs against enforcing the forum selection clause in the contract.

The next factor incorporates the principle of *contra proferentum*, whereby any ambiguous terms of the form contract are construed against the interests of the party who drafted the contract. As discussed above, this puts the burden of avoiding ambiguity on the person who is most able to do so by properly drafting the contract in the first place. In *Monsanto*, though, there is no suggestion that any of the contractual terms at issue are ambiguous. Thus, this factor does not weigh strongly in favor of either party.

The final factor to be applied in determining whether a form contract should be enforced is drawn from relevant intellectual property policy. In *Monsanto*, the policy to be considered is that sought to be advanced by the patent system. As discussed above, the patent system seeks to encourage innovation by offering inventors an incentive to take large steps forward in the state of the art; this incentive is strongest when patentees are allowed to license their technology on the terms that benefit them most. Therefore, this factor always militates in favor of enforcing a form contract that is drafted by a patentee to license his invention. In *Monsanto*, this factor weighs in favor of enforcing the contract of adhesion.

Thus, the policy factor is in favor of enforcing the contract in *Monsanto*. Although the intellectual property policy factor is probably the most important of the factors discussed,¹⁴⁵ it should not be the only consideration in a court's analysis. Enforcement of contracts, particularly those drafted by one party and offered to the other on a "take it or leave it" basis, especially when those contracts include questionable terms, should only take place after a careful analysis like the one undertaken here. The ambiguous terms factor is neither in favor of nor against enforcing the contract. All the other factors—the nature of goods factor, the available sources of goods factor, the reasonableness of terms factor, and the legitimate interests/benefits factor—argue against enforcing the form contract. Here, although the most important factor, that of intellectual property policy, does suggest that the forum selection clause should have been enforced, no other factor supports that conclusion. Through failing to engage in any analysis, the Federal Circuit came to the wrong result in *Monsanto*

145. This is especially true given the Congressional purpose in creating the Federal Circuit: to establish "a forum for appeals from throughout the country in areas of the law where Congress determines that there is special need for national uniformity." S. REP. NO. 97-275, at 4 (1981), *reprinted in* 1982 U.S.C.C.A.N. 11, 14.

with respect to the contract enforcement issue. Again, while the incorrect result shows a shortcoming of the Federal Circuit's extremely limited analysis, the result itself is less important than the fact that the Federal Circuit reached that result through a faulty—or even nonexistent—analysis.

B. Bowers v. Baystate Technologies, Inc.

In *Bowers*, the goods contracted for were computer software, specifically software designed to help draftspersons create drawings that comply with industry standards.¹⁴⁶ Baystate Technologies competed with Bowers and manufactured its own similar software, Draft-Pak.¹⁴⁷ Acquiring Bowers's software was not necessary in order for Baystate to do business. Although doing so saved Baystate the trouble of independently developing software from scratch, it did incur the cost of what was undoubtedly a significant reverse engineering effort. This situation is different from that in *Monsanto*, where the seeds at issue were almost an absolute necessity for McFarling's business. This factor is an important consideration because it gets at the relative bargaining power of the parties to the contract under consideration. Since the goods were not terribly necessary to Baystate's business, Bowers did not wield as much bargaining power as he otherwise might have. This conclusion is buttressed by the fact that the adherent, Baystate Technologies, was a corporation presumably experienced in commercial negotiations. Had avoiding adverse contract terms been important to Baystate, it could have forgone the purchase altogether or purchased the software after negotiating more favorable terms with Bowers. Since Baystate chose not to do so, the nature of the goods factor weighs in Bowers's favor and militates for enforcing the shrinkwrap license agreement.

It is unclear from the facts presented in *Bowers* whether there were other sources from which Baystate Technologies could have acquired software to reverse engineer in order to develop its product. No other similar products are mentioned in the Federal Circuit's opinion, and it is impossible to know whether any substitute products were available. As with the previous factor, this factor is important in order to determine whether the contract drafter wielded an undue amount of bargaining power over the adherent—an adherent who must purchase the goods in question, if at all, from the contract drafter has little choice but to accept the offered terms. Here, there is simply not enough information to determine whether other

146. *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317, 1321–22 (Fed. Cir. 2003), *cert. denied*, 539 U.S. 928, 123 S. Ct. 2588 (2003).

147. *Id.* at 1322.

sources of software were available to Baystate Technologies. Thus, the other available sources factor must be considered neutral.

Next, the court should have examined the reasonableness of the contract term at issue. In *Bowers*, the challenged contractual term was one that prohibited copying the software for purposes of reverse engineering.¹⁴⁸ As discussed above, the Federal Circuit has held that reverse engineering falls within the scope of copyright fair use.¹⁴⁹ As such, the reasonableness of the term implicates the issue of promotion of relevant intellectual property public policy, which is discussed as its own factor below. This limits how useful the reasonableness inquiry can be when considered by itself. Still, without bringing up the potential prohibition copyright law places on such a contract term, a term prohibiting copying of a product that can be easily copied, particularly when that copying is done for the purpose of competing with the original author, seems reasonable. This factor therefore weighs in favor of enforcing the contract.

In part, the reason that enforcing a term like the one at issue here seems reasonable is that doing so furthers a legitimate interest of the person who drafted the contract, *Bowers*. Although relevant copyright policy may not protect it,¹⁵⁰ *Bowers* certainly has a reasonable interest in ensuring his competitors are not allowed to free ride on the effort he put into developing his product. It is questionable, though, whether enforcing the term prohibiting reverse engineering provides any benefit to Baystate Technologies. In the discussion of forum selection clauses above, potential benefits to contract adherents of enforcing the clauses included lower product prices and lower litigation expenses.¹⁵¹ No such effect is apparent here, however. The prohibition on reverse engineering does not make any issue during litigation more certain. Rather, the contract term at issue is just like any other term—it is an issue to be litigated and therefore increases the duration and expense of a lawsuit. Because there are no lower litigation expenses for *Bowers*, the contract drafter, there is no cost savings for him to pass on to his customers. Enforcing the term prohibiting reverse engineering may slightly reduce demand for *Bowers*'s product (by discouraging those few customers who only want to reverse engineer the product from buying it).

148. *Id.* at 1326.

149. *See Atari Games Corp. v. Nintendo of Am., Inc.*, 975 F.2d 832, 843 (Fed. Cir. 1992).

150. *See infra* notes 153–54 and accompanying text.

151. *See supra* notes 30–31 and accompanying text.

This lowered consumer demand may lead to slightly lower prices,¹⁵² but the value of the product to customers is also reduced. Since there is no benefit to contract adherents to be gained by enforcing the anti-reverse engineering term, the adherent benefit factor weighs against enforcing the term in this case.

The next factor to be considered regards the application of *contra proferentum*—any ambiguous contract terms should have been construed against the interests of Bowers, the party who drafted the contract, placing the burden of avoiding ambiguity on the person who is most able to do so by properly drafting the contract in the first place. As in *Monsanto*, though, there is no suggestion here that any of the contractual terms at issue are ambiguous. Thus, this factor does not weigh strongly in favor of either party.

Finally, the court in *Bowers* should have considered how the anti-reverse engineering contract term advanced or retarded relevant intellectual property policy. Here, the relevant policies are those of copyright law. As in patent law, primary creativity is more strongly encouraged when copyright holders are allowed to dictate their own licensing terms, since this increases the value of the author's exclusive rights. This suggests that copyright policy argues for strict enforcement of contract terms, especially when they are drafted by the copyright holder. However, whereas patents are sometimes thought of as protecting ideas, copyrights are clearly intended to protect only expressions of ideas, not the underlying ideas themselves. As explained above, the doctrine of fair use is an important part of the statutory scheme that preserves this dichotomy and encourages secondary creativity. Thus, when a copyright holder contracts in such a way as to undermine the principles of fair use, copyright policy strongly militates against enforcing the contract. This is exactly what Bowers's shrinkwrap license agreement tried to do. The terms of the license agreement prohibited reverse engineering,¹⁵³ which several circuit courts of appeals have held to fall within the scope of copyright fair use.¹⁵⁴ Clearly, the copyright policy factor argues strongly against enforcing this term under the circumstances in this case.

152. Even this effect is questionable, since, with fewer copies of the software sold, each must bear a greater portion of a constant development cost, which would lead to higher prices. The point is that any benefit to an adherent from a clause like this one, to the extent that any benefit even exists, is small.

153. *Bowers*, 320 F.3d at 1326.

154. *Id.* at 1336 (Dyk, J., concurring in part and dissenting in part) (citing *Bateman v. Mnemonics, Inc.*, 79 F.3d 1532, 1539 n.18 (11th Cir. 1996); *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1527–28 (9th Cir. 1992); *Atari Games Corp.*, 975 F.2d at 843).

Applying all of the factors to *Bowers*, the nature of the goods factor argues for enforcing the contract, the other available sources factor is neutral, the reasonableness factor generally supports enforcement, the legitimate interest of Bowers argues for enforcing the license agreement, the lack of any benefit to Baystate Technologies militates against enforcement, the principle of *contra proferentum* argues neither way, and copyright policy weighs strongly against enforcing the agreement. There are three factors in support of enforcing the anti-reverse engineering provision, and there are two factors against such enforcement.

This case presents almost a mirror image of *Monsanto*, since the intellectual property policy factor stands nearly alone against several other factors. However, as discussed above, the intellectual property policy factor is always the most important of the factors, particularly given the Federal Circuit's mandate to provide some uniformity in intellectual property law. Thus, this factor should receive more weight than the others. In addition, the factors arguing in support of enforcement here are relatively weak in light of the strong statutory statement in favor of preserving the right to reverse engineer software. The contract term prohibiting reverse engineering is reasonable and preserves a legitimate interest of the contract drafter only when we consider it in the absence of the fair use provisions of the Copyright Act. While the term is objectively reasonable and preserves an interest that any contract drafter in Bowers's situation would seek to preserve, Congress has determined that the interest at issue is not legitimate and that a term preserving it cannot be reasonable. This effectively eliminates two of the three factors that argue for enforcement of the questionable provision in *Bowers*. Thus, the factors, when properly weighed, suggest that the anti-reverse engineering provision of the contract should not have been enforced. As in *Monsanto*, the Federal Circuit reached the wrong conclusion. Again, the fact that the court came up with the wrong answer is less important than the court's failure to engage in any meaningful analysis.

VI. RAMIFICATIONS OF ADOPTING THE FACTOR-BASED APPROACH

The Federal Circuit's approach to resolving cases has been labeled formalist by many commentators.¹⁵⁵ In large part, these commentators have criticized the formalist approach for relying too heavily on simple, bright-line rules, placing predictability and certainty of decisions above any other

155. See, e.g., Holbrook, *supra* note 19, at 1; Thomas, *supra* note 19, at 774.

consideration, including fundamental fairness.¹⁵⁶ The approach of the Federal Circuit to contracts of adhesion, while of more recent vintage than many of the tendencies commentators have criticized, is no less formalistic. As such, it suffers from many of the same drawbacks as those tendencies.

There is always a tension between predictability of judicial decision making and the degree to which judges may consider factors that influence the fairness of a case's outcome.¹⁵⁷ Partly as a result of its mandate to bring greater uniformity to patent law, the Federal Circuit has always favored certainty and predictability when it has been forced to choose between those aims and other important goals.¹⁵⁸

The approach to contracts exhibited in *Monsanto* and *Bowers* is wholly consistent with a jurisprudence that elevates bright-line rules to the status of supreme and inviolable principles of law. Form contracts and other contracts of adhesion are often enforceable. However, the Federal Circuit does not even bother to question whether a given agreement should be enforced—the statement that contracts are usually enforceable is enough to convince the court that contracts are always enforceable, as long as they meet certain formal requirements. In cases like *Monsanto* and *Bowers*, this approach leads to incorrect results: as contracts of adhesion the agreements at issue are worthy of more in-depth analysis and the agreements are either markedly unfair (in the case of *Monsanto*) or in tension with important policy (as in *Bowers*).

As has been stated, the incorrect results in these two cases are not terribly important in and of themselves. They do serve, though, to establish one danger of the Federal Circuit's cavalier and overly formalistic approach to issues such as contract enforcement. Adopting the factor-based approach articulated in this Note would allow the Federal Circuit to take an approach that preserves fundamental fairness by taking into account factors relevant to the contract at issue. It is conceivable that such an approach would lead to a small decrease in the predictability and certainty that are ensured by taking a very formalistic approach to judicial analysis. However, this decrease in predictability should be acceptable given the considerable increase in the likelihood of fair decisions that would result from adopting the recommended approach.

Even a slight drop in the predictability of contract enforcement in cases that might go to the Federal Circuit could be compensated for by

156. See, e.g., Chisum, *supra* note 20, at 1.

157. *Id.*

158. Holbrook, *supra* note 19, at 1.

those who draft contracts by which intellectual property is licensed. It is true that the Federal Circuit currently takes an approach under which nearly all contracts are enforced and that, under the proposed approach, contracts like those in *Monsanto* and *Bowers* would not be enforced. However, intellectual property owners could ensure that their entire agreement is enforced by making sure that the agreement does not contain terms that violate relevant intellectual property policy or that are otherwise questionable in light of facts showing that the contract drafter has much greater bargaining power than the adherent. When form contracts are used that violate either of these precepts, the contract drafter risks having the court refuse to enforce the questionable provisions.

CONCLUSION

Many commentators have criticized the Federal Circuit's approach to resolving cases, particularly its reliance on bright-line rules, as overly formalistic. This approach extends to the court's treatment of contracts of adhesion, which ignores any factor other than the presence of a document the court can label a contract. This approach has already led the court to decide incorrectly in two cases, which graphically demonstrates the weakness of this form of analysis. The Federal Circuit should adopt the test described above, deciding whether to enforce contracts of adhesion based on factors including the type of goods or services being contracted for, the availability of alternative sources for the goods or services, the reasonableness of the contract terms, the legitimate interests of and benefits to the contracting parties, and particularly the degree to which enforcement of the contract advances relevant public policy. Doing so will ensure that the Federal Circuit properly balances predictability and fundamental fairness when evaluating contracts of adhesion.