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A Modern Template for Discussion*

Ray Nimmer

There has been radical change in the source of value and focus in our economy as we have made a transition to an information and services economy. As with any fundamental economic change, the transition to an information economy benefits some, while it weakens the economic position of others. It predictably produced conflict. Some of this results from the defensive actions of previously entrenched interests and academic viewpoints. But some involves honest debate about how law should interact with the new economy. That issue will be with us for many years. The reality is that intangible assets are at the center of the economy and licensing transactions related to these assets are an integral part of modern commercial law and practice. But they entail different policy and transactional characteristics than transactions in goods or real estate.

What we will need in business practice and in law is a template about how to handle the new assets and intangible products commercially. That template must deal with licensing as a form of commercial practice. This article provides the outlines of that template. It also overviews the present state of the law on license transactions, including the influence on that law resulting from the debates about and enactment of UCITA. The article focuses on licensing of computer information.¹ A license is a contract; it allocates rights in intangibles such as software, databases, and other forms of information. While a vast common law exists with respect to licensing, that common law is unorganized and inconsistent. One effort to draw together common law, commercial practice, and the unique nature of licensing into a uniform contract law code exists in the Uniform Computer Information Transactions Act (UCITA), a contract law statute modeled in

* This is an edited version of the transcript from the first panel at the DEPAUL BUSINESS AND COMMERCIAL LAW JOURNAL SYMPOSIUM, *Emerging Trends in Commercial Law: Surviving Tomorrow's Challenges*, held on April 15, 2004.

1. The term "computer information" comes from the Uniform Computer Information Transactions Act (UCITA). Section 102(a)(10) defines computer information in relevant part as: "information in electronic form which is obtained from or through the use of a computer or which is in a form capable of being processed by a computer." UCITA § 102(a)(10) (2000 Official Text).

part after U.C.C. Article 2.² UCITA has been enacted in two states, but it has become mired in the conflict between proponents of the new economy and its new transactional arrangements on the one hand, and advocates of retaining previously vested positions or of reducing the protection for information assets on the other. The template set out in UCITA, however, will continue to be influential over the next decades; it has already being used by courts, commentators and by legislatures even outside of the states in which it has been enacted. It is a relevant reference point for anyone working in this field.

This article examines licensing in modern commerce. In Part 1, I discuss the context and the function of licensing agreements, touching also on some the legal issues these present that distinguish a license-based economy from one based on sales or lease of tangibles. There are fundamental differences between contracts that concern goods or other tangibles and contracts whose subject matter is informational assets such as software. Intangibles contracts are often licenses. Licensing invites and enables greater flexibility in allocating rights than a sale of goods, and also is inherently a transaction in which the transferor grants contractual rights or permissions, but retains predominant ownership and control of the information itself. The concept of split rights, which is also present in leasing of goods, is brought into play in a much more vivid manner in licensing information. That fact leads to very different commercial considerations for the parties to a license, as well as for the persons who do business with those parties.

Part 2 shifts to a discussion of several specific issues of law associated with licensing. We look at these in part through the prism of UCITA provisions and as a reflection of the current status of UCITA. What emerges is a picture of a uniform law that has already done much to coalesce the discussion about the role of contracts dealing with digital information and that will continue to do so. The types of issues that are controversial or complex in reference to licensing computer information are different from those associated with transactions in ordinary goods. Included, for example, are questions about the transferability of rights under the license contract, the absence of bona fide purchaser protections, the enforceability of electronic limitations on the use of the licensed subject matter, and the ability of a license to prevent reverse engineering of licensed subject matter. In addition, computer information transactions have presented unique issues about contract formation. Part 2 thus provides portions of an

2. Especially for transactions involving computer programs, of slightly more than 100 sections in UCITA, over 70% are directly traceable to Article 2 doctrines.

emerging law, related to but separate from UCITA, that governs license transactions and that pertains to persons who deal with licensors and licensee of information.

PART I.
CONTEXT, FUNCTION AND THRESHOLD ISSUES

The computer and digital information industries are a vibrant, competitive and growing sector of the economy.³ Indeed, we live in a world in which availability of information, digital functionality, and innovation has reached astounding heights and vibrant diversity. This world is supported, at least in part, by an expanding use of licensing as a form of commercial transaction. Predictably, licensing, which is today already grown to comprise a significant portion of mass-market and pure commercial commerce, will continue to grow in importance in commerce and commercial practice.

Yet, amid the burgeoning diversity of available information and computer-driven innovation, there are some who argue that the intellectual property rights and the transactional frameworks that support the information industries should be narrowly constrained by mandatory, limiting rules in order to prevent the threat of increasing control and narrowing distribution or creation of information assets.⁴ These political activists, described by some as “rights-restrictors”,⁵ are not the subject of this paper, but the anti-rights and anti-corporate perspective they bring to public policy is an important part of the story of current licensing law and of UCITA. Stated simply, they represent one side of an acrimonious argument that emerges in any context where an opportunity appears for the restrictive perspective to limit property rights and transactional development of the information-based industries in favor of an undefined populist model of shared and freely distributed information.⁶

3. See American Electronics Association and Nasdaq, *Cybernation, The Importance of the high-Technology Industry to the American Economy* (1998); Department of Commerce, U.S. Industry and Trade Outlook 24-28 (1998). See also Organization for Economic Cooperation and Development, *The Economic and Social Impact of Electronic Commerce: Preliminary Findings and Research Agenda* 27 (1999).

4. See, e.g., Julie E. Cohen, *Copyright and the Jurisprudence of Self-Help*, 13 Berkeley Techno. L.J. 1089 (1998); Mark Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 Cal. L. Rev. 111 (1998). Compare David Friedman, *In Defense of Private Ordering: Comments on Julie Cohen's "Copyright and the Jurisprudence of Self-Help,"* 13 Berkeley Techno. L.J. 1151 (1998).

5. See, e.g., Paul M. Schwartz & W.M. Treanor, Eldred and Lochner: Copyright Term Extension and Intellectual Property as Constitutional Property, 112 Yale LJ 2331 (2003).

6. Interestingly, however, one element of the “free information” portion of this debate, the so-called open source or free software movement, in fact relies on strong rights asserted through

Despite those who argue for rights-restriction, the past several decades have witnessed an expansion in protected rights in intangible assets. That expansion has not been random nor was it unpredictable. It reflects two parallel considerations. The first is that new information technologies and communications systems have altered the nature of value in the economy; law responds to that change. Second, these same technologies have altered the balance present in property-rights laws for information assets in ways that threaten the incentive to innovate, such as by increasing the threat of widespread and perfect reproduction and dissemination of copyrighted works.⁷ Law in such cases responds to the new reality by adjusting the balance to preserve incentives to create intellectual works.⁸

Yet, our focus is on transactions, not property rights. While property rights play some role in shaping transactions, as in any other commercial context, the central issue that determines when or whether a transaction in an informational asset occurs and under what terms is *value* - does the transferor offer sufficient value to justify a transferee's willingness to promise in return? Is the transferee willing to give value sufficient to induce the transferor to transfer its value? Contracts are exchanges. Interceding between property rights and other informational assets in the market are a variety of market factors and individual judgments about value and about the relevance of the asset being offered. One important function of licensing is that it represents a contractual framework that enables parties to tailor assets to the market that may exist for them

aggressive license provisions in order to establish and maintain what this movement regards as appropriate "openness" in its particular types of software. See, e.g., GNU, General Public License, *Preamble* (2001) ("To protect your rights, we need to make restrictions that forbid anyone to deny you these rights or to ask you to surrender the rights. These restrictions translate to certain responsibilities for you if you distribute copies of the software, or if you modify it. . . . We protect your rights with two steps: (1) copyright the software, and (2) offer you this license which gives you legal permission to copy, distribute and/or modify the software. Also, for each author's protection and ours, we want to make certain that everyone understands that there is no warranty for this free software. If the software is modified by someone else and passed on, we want its recipients to know that what they have is not the original, so that any problems introduced by others will not reflect on the original authors' reputations.").

7. See *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001), related history 284 F.3d 1091 (9th Cir. 2002) (operator of high volume digital file trading system liable for contributory and vicarious copyright infringement).

8. See *In re Aimster Copyright Litigation*, 334 F.3d 643 (7th Cir. 2003) (peer-to-peer system provider liable for indirect infringement; court sets out a cost-benefit balancing approach to determine duty to act and risk of contributory liability); *U.S. v. Slater*, 2003 WL 22519692, — F.3d — (7th Cir. 2003) ("It is preposterous to think that Internet piracy is authorized by virtue of the fair use doctrine.").

WHAT IS A LICENSE?

A license is a contract whose subject matter is information and rights in information. The agreement contains agreed permissions or restrictions that pertain to the licensee's use information, as well as express or implicit promises by the licensee to not exceed contractual limits. License agreements, of course, also often cover issues beyond the right to use information, such as quality, availability, choice of law, and the like. Unlike many transactions in goods, however, the core of a software or other license does not center on qualitative warranties or remedy limitations, although these may have significance. It focuses instead on delineating the *scope* of permitted use of the licensed subject matter. Indeed, terms relating to *scope* are central to the entire license transaction and define what "product" is being provided to the licensee.

There is a fundamental dissonance in views of what is or should be the fundamental nature of a commercial license of computer information or other types of information. UCITA defines a "license" as a:

contract that authorizes access to, or use, distribution, performance, modification, or reproduction of, information or informational rights, but expressly limits the access or uses authorized or expressly grants fewer than all rights in the information, whether or not the transferee has title to a licensed copy. The term includes an access contract⁹

UCITA goes on to define assumed consequences (default rules) in a license of computer information and drawn from reported licensing cases, modern practices, and policy judgments associated with existing commercial and intellectual property law.

Does a license give an affirmative right to use information and assurances of its quality? The UCITA approach would often answer this question in the affirmative.¹⁰ In contrast, the view grounded in intellectual property law treats a license as entailing few affirmative commitments and NO assurance that the licensee can actually use the subject matter without infringing another's rights. The following judicial comment reflects this view:

[A] patent license . . . is in essence nothing more than a promise by the licensor not to sue the licensee. . . . Even if couched in terms of "[L]icensee is given the right to make, use, or sell X," the agreement cannot convey that absolute right because not even the patentee of

9. UCITA § 102(a)(41) (2000 Official Text).

10. See UCITA § 403; 404 (2000 Official Text).

X is given that right. His right is merely one to exclude others from making, using or selling X.¹¹

A similar concept applies to copyright licenses.¹²

Two conflicting conceptions about the nature of a license thus exist.¹³ In one, there is no affirmative assurance to the licensee that it can use the licensed subject matter. The license is a mere, non-transferable covenant not to sue.¹⁴ In the other, a licensee is presumed to have a *right* to use the information unless that right or the presumption is excluded by the agreement. These differing perspectives not only shape the development of law in this field, but they also have an impact on commercial practice. In formulating a license transaction or in dealing with licensed subject matter as an asset, the parties need to be clear whether they are dealing from the same basic understanding of what is a license or, at least, that they recognize the different views that might govern even though both are using the same word.

Similarly, there are conflicting perspectives on whether any implied assurances of quality (warranty) exist in a license. Not surprisingly, the traditional common law approach did not develop implied assurances about the quality of the licensed subject matter. A doctrine of *caveat licensee* prevails for patent, copyright, trademark, and trade secret licenses. This reflects the reality that commercial licensing practice often does not in fact assume that qualitative assurances are given. It also reflects a policy to avoid chilling distribution of informational assets by creating risks of liability.¹⁵ In contrast, images drawn

11. *Spindelfabrik Suessen-Schurr v. Schubert & Salzer*, 829 F.2d 1075, 1081 (Fed.Cir.1987), cert. denied, 484 U.S. 1063 (1988).

12. *Cohen v. Paramount Pictures Corp.*, 845 F.2d 851 (9th Cir 1988).

13. See Lorin Brennan, *Why Article 2 Cannot Apply to Software Transactions*, PLI Patents, Copyrights, Trademarks, & Literary Property Course Handbook Series (Feb.- Mar.2001) (trend in case law away from application of UCC to software and toward application of intellectual property principles).

14. In re CFLC, Inc., 89 F.3d 673, 679, 39 U.S.P.Q.2d 1518, 1523 (9th Cir.1996). See In re Catapult Entertainment, Inc., 165 F.3d 747 (9th Cir. 1999), cert. dismissed, 528 U.S. 924 (1999) (Chapter 11 debtor in possession could not assume patent licenses over licensor's objection); PPG Indus., Inc. v. Guardian Indus. Corp., 597 F.2d 1090 (6th Cir.), cert. denied, 444 U.S. 930 (1979); Unarco Indus., Inc. v. Kelley Co., 465 F.2d 1303, 1306 (7th Cir. 1972), cert. denied, 410 U.S. 929 (1973); Gilson v. Republic of Ireland, 787 F.2d 655, 658 (D.C. Cir. 1986), cert. dismissed, 335 U.S. 855 (1948), cert. denied, 335 U.S. 892 (1948) ("It is well settled that a nonexclusive licensee of a patent has only a personal and not a property interest in the patent and that this personal right cannot be assigned unless the patent owner authorizes the assignment or the license itself permits assignment."); *Stenograph Corp. v. Fulkerson*, 972 F.2d 726, 729 n.2 (7th Cir. 1992) ("Patent licenses are not assignable in the absence of express language."). Compare *Institut Pasteur v. Cambridge Biotech Corp.*, 41 U.S.P.Q.2d 1503, 104 F.3d 489 (1st Cir. 1997) (limited right to assume contract in Chapter 11 bankruptcy).

15. Warranty law differentiates between the paper or plastic and the information on it. The paper or plastic may be subject to goods-based warranties, but the information is not. In this

from a commercial goods context and incorporated into UCITA as to computer programs assume the existence of disclaimable implied warranties of merchantability (ordinary quality for the type of product involved).¹⁶

LICENSES AND RIGHTS TO USE

The main focus of a license centers on use of, or access to information, along with a licensee's promise not to exceed agreed limitations.¹⁷ Although this is no longer true in many digital industries, traditional licensing law dealt primarily with transactions that license rights in intellectual property. Copyright and patent law, and to a lesser extent trademark and trade secret law, conceive of property rights in terms of preconditions which, if met with respect to particular subject matter, yield defined *property* rights with respect to that subject matter. In copyright and patent law, these rights are described by statute.

- *Copyright*: Property rights automatically attach to works of authorship, and give the owner the exclusive right to make copies of the work, distribute copies, make derivative works from it, publicly perform the work, publicly display the work, and publicly perform the work by means of a digital audio transmission.¹⁸
- *Patent*: Property rights attach to specific claims that pass standards of inventiveness and utility and result in the issuance of a patent by federal authorities, and they include the right to *prevent* others from making, using, selling or offering to sell the patented invention.¹⁹

One can license any of the rights, while retaining the others. Similarly, one can subdivide the rights or condition the license on performance of stated activities. These contractual choices are enforceable distribu-

country, we treat information as a creature of the First Amendment. See, e.g., *Winter v. G.P. Putnam's Sons*, 938 F.2d 1033 (9th Cir. 1991); *Cardozo v. True*, 342 So.2d 1053 (Fla. Dist.Ct.App.1977). On the applicability of the First Amendment to software, see, e.g., *Junger v. Daley*, 209 F.3d 481 (6th Cir. 2000) (First Amendment limits permitted regulation of distribution of computer source code); See also *Universal Studios v. Corley*, 273 F3d 429 (2d Cir. 2001) (DMCA injunction valid; comments that remedies after Internet distribution would be futile); *DVD Copy Control Ass'n, v. Bunner*, 75 P3d 1 (Cal. 2003).

16. See UCC §§ 2-314; 2A-212 (1998 Official Text). UCITA § 403 (2000 Official Text). The UCITA section further indicates, however, that no implied "warranty is created under this section with respect to informational content." This section was not changed or renumbered in the 2002 Amendments. See UCITA § 403 (2002 Official Text).

17. See Raymond T. Nimmer & Jeff Dodd, *The Commercial Law of Licensing* ch. 1 (Thomson-West, 2004).

18. 17 U.S.C. §§ 102, 106. The last three of the listed rights are limited to particular types of works, but that limitation has no relevance to this discussion. See generally Raymond T. Nimmer, *Information Law* ch. 4 (1996).

19. 35 U.S.C. §§ 101 et. seq. See generally Chisum on Patents.

tion of the rights unless barred by competition law or other fundamental limiting policy.

A contract that grants one right (or a part of it) does not imply that any other right has been granted. Indeed, many courts hold that a license conveys only what was expressly granted or can reasonably be inferred from that express grant.²⁰ There is no assumption that a transferor grants all rights except those it expressly withholds. In effect, the transactions are presumed to be limited conveyances, rather than comprehensive transfers.

In commercial practice, there is wide diversity in how rights are contractually arranged. The transactions are unlike transactions in goods where agreements deal with particular items and entail exclusive use, possession or ownership of that *particular item*. Information transactions deal with assets that can be transferred and simultaneously retained by the transferor. The subject matter is not tangible and limited, but intangible and available for recurrent transfers. In principle, an owner of a copyright or a patent can make an unlimited number of licenses of *that* work while retaining the information and otherwise exclusive rights in it. The owner of a tangible product, on the other hand, cannot both sell and retain ownership of it. Goods transactions are bounded by the physical object, while transactions in information are not.

This same difference affects issues when a third party deals with the asset (e.g., purchasing it, financing based on it). Where the asset is intangible, whether licensed or obtained in another type of transaction, there is a likelihood of a split of rights being present. The third party cannot reasonably rely on the other's possession of a copy of, or knowledge about, the information as any indicia of ownership, a right to transfer or, even, a right to use the information. Indeed, unless the party developed the information itself, the opposite assumption may often be more appropriate.

A distinction exists between exclusive and non-exclusive licenses. The difference involves the terms of the contract and depends on whether the licensor contractually commits not to grant further licenses of the same subject matter within the same scope as that given to the licensee. If the licensor promises not to do so, the license is exclusive.²¹ In contrast, a non-exclusive license does not give the licensee rights against anyone else, but merely a permission to use within the stated scope of the transaction.

20. See, e.g., *SOS, Inc. v. Payday, Inc.*, 886 F.2d 1081 (9th Cir. 1989). See also *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).

21. See UCITA § 307 (2000 Official Text).

Sales of copies of software or of other information are more like *non-exclusive* licenses than like exclusive licenses. The buyer of a copy does NOT receive a commitment from the seller to refrain from selling other copies to anyone else. More important, even if the buyer acquires ownership of a copy in an unrestricted sale, under copyright, patent or trademark law, it obtains only limited rights to use the information and that copy; the copyright or other rights owner retains control of most uses of the information that relate to intellectual property rights.²² A buyer of a book, for example, does not have the right to make and distribute multiple copies of the novel.

In practice, selling copies of information works is merely one of many transactional models that can be used. It entails a particular allocation of contractual and underlying property rights. In intellectual property law, these latter elements are defined in terms of “first sale” (copyright and trademark law) or “exhaustion” (patent law) and involve giving the buyer some ability to use its copy in ways that might otherwise infringe the rights-owner’s position.²³ For example, an owner of a copy of a copyrighted work can resell that copy (distribute it) without the copyright owner’s position even though, ordinarily, the copyright owner has the exclusive right to distribute the work in copies.²⁴

No law requires that copyright owners sell copies, but how one distinguishes between a sale and a license in a modern world has been litigated.²⁵ When a provider delivers a copy of information to a transferee under terms that are substantially more restrictive than what a buyer (owner) of a copy would receive, the better and clearly dominant view is that the transferee does *not* become an owner of that copy.²⁶ UCITA summarizes the issue in simple terms: whether or not ownership of a copy is transferred depends on the agreement.²⁷ This

22. See, e.g., 17 USC §§ 109, 117.

23. See, e.g., 17 USC §§ 109, 117; *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992).

24. 17 USC § 109.

25. See discussion in Raymond T. Nimmer, *The Law of Computer Technology* §§ 1:96 - 1:100 (Thomson-West, 1996, 2004). See also *Red Baron-Franklin Park, Inc. v. Taito Corp.*, 883 F.2d 275 (4th Cir. 1989) (does not give defense to exclusive right to publicly perform video game); *Columbia Pictures Industries, Inc. v. Redd Horne, Inc.*, 749 F.2d 154, 224 U.S.P.Q. (BNA) 641 (3d Cir. 1984).

26. See, e.g., *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354 (Fed. Cir. 1999); *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 26 U.S.P.Q.2d (BNA) 1458 (9th Cir. 1993), cert. dismissed, 510 U.S. 1033, 114 S. Ct. 671, 126 L. Ed. 2d 640 (1994). *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1087, 12 U.S.P.Q.2d (BNA) 1241 (9th Cir. 1989); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992) (By authorizing only a restricted transfer, the patent owner and transferee are not governed by first sale concepts).

27. UCITA § 501 (2000 Official Text).

is, after all, a contractual environment; a party has the right to decide whether to sell copies or not, while the other party has a right to accept or reject the transaction being offered.

In commercial contexts, sale of a copy may or may not match what the parties or the market in general desires. An authorized sale of a copy primarily gives the owner (buyer) the right to redistribute *that copy* to another person.²⁸ An unrestricted sale of a copy also gives the buyer access to the information and the ability to use it in ways that do not involve copying or otherwise infringing the copyright (or other intellectual property right). If the copy sold is a copy of a “computer program”, there are limited additional rights to make a back up copy, to copy the work into a computer, and to make modifications essential to the copy owner’s use.²⁹ An authorized “sale” of a copy does NOT:

- Transfer the copyright or patent.
- Give the buyer a right to make and distribute multiple copies.
- Give the buyer the right to modify the work (except for limited purposes involving a computer program).
- Give the buyer a right to publicly perform or display the work.
- Give the buyer the right to reconstruct/ make the patented item.

In contrast, a license by its nature allows parties to expand, subdivide or exclude various rights in a tailored manner not achievable by an unrestricted sale of a copy. One explanation for the increased use of licensing in current commerce is that this tailoring fits the needs of the modern market. It does, however, create an amazing array of alternatives.

Licensing better allows the parties to convey and to purchase only those rights that they desire without paying for more than they would like. An early case enforcing a digital information license dealt with a license for “consumer use” only.³⁰ The licensor there made the identical digital product available under a different license allowing for unrestricted use (including commercial), but at a much higher price. In holding that the contract was enforceable, the court commented that the licensing approach allowed the parties to price discriminate in an efficient and affirmative manner. The consumer was not required to pay for unwanted commercial use rights. In another case, a software publisher distributed its software under a license for “educational use

28. 17 USC § 109.

29. 17 USC § 117.

30. ProCD Inc. v. Zeidenberg, 86 F.3d 1447 (7th Cir. 1996). See also Storm Impact, Inc. v. Software of the Month Club, 1998 WL 456572 (ND Ill. 1998) (noncommercial copying permitted).

only” at a much lower price than it distributed the software under licenses that did not restrict the type of use allowed.³¹

Notably, within the limits of what rights it gives, an unrestricted sale of a copy encompasses both consumer and commercial use rights, and both educational and commercial uses. If a license is not used and we assume that the publisher of the information will desire the same overall income, the income will be averaged out over all copies sold since each sale allows for all uses. As a result, consumers pay more while commercial users pay less than under a licensing regime. A license establishes a basis to differentiate prices based on type of intended use in a manner that clearly benefits consumers. Of course, the publisher could offer two different tangible products. It could strip out “commercial” features and offer the stripped down version to consumers at a low price, and a full version at a higher price. That would create a market differentiated by the actual functionality of the tangible copy, creating inefficiencies associated with managing product production and distribution. It would also yield a result that is what most consumers do not want.³²

There are many situations in which the license expands the rights received by a licensee beyond those made available by a sale. For example, modern clip-art products typically grant a license for public display of the images, a right not obtained by a first sale. Similarly, in one case³³ the court enforced a shrinkwrap license of a document creation and viewing software where the license allowed making and distributing an unlimited number of copies of the viewer program. In *Storm Impact, Inc. v. Software of the Month Club*³⁴ the online license for shareware allowed unlimited, non-commercial copying and distribution. *Microsoft Corp. v. DAK Indus.*³⁵ illustrates a very common commercial use of licensing. In that case, Microsoft and DAK were involved in an OEM distribution agreement. Rather than deliver

31. *Adobe Systems Inc. v. One Stop Micro, Inc.*, 84 F. Supp2d 1086 (ND Cal. 2000) (distribution agreement was a license, rather than a sale conveying ownership). See also *Adobe Sys., Inc. v. Stargate Software, Inc.*, 2002 WL 192008 (ND Cal. 2002). Compare *Softman Products Co., LLC v. Adobe Systems, Inc.*, 171 F. Supp. 2d 1075 (C.D. Cal. 2001).

32. July 2000 PC Magazine at 201 (“PC Magazine readers don’t like watered-down software. In our survey, respondents tend to prefer more advanced tools to simpler and less feature-rich alternatives.”).

33. *Green Book Int’l Corp. v. Inunity Corp.*, 2 F. Supp. 112 (D. Mass. 1998).

34. *Storm Impact, Inc. v. Software of the Month Club*, 1998 WL 456572 (ND Ill. 1998) (non-commercial copying permitted); *Test Equipment, Inc. v. Greenleaf Software, Inc.*, 10 F.Supp.2d 583 (W.D. Va. 1998) (mass market license allowed unlimited copying, but prohibited commercial distribution).

35. *Microsoft Corp. v. DAK Indus.*, 66 F.3d 1091 (9th Cir. 1995) (discussing and applying the Microsoft master copy distribution license in a bankruptcy proceeding).

thousands of copies of its software to DAK to be included in DAK computers, Microsoft delivered a single, master copy, granting DAK a license to make up to a designated number of copies and distribute them as part of its computer systems. The transaction, based on a license, clearly involved numerous efficiencies for both parties. In the particular case, the court held that a minimum royalty payment required under the contract was in the form of a prepaid purchase of the right to make the number of copies covered by the royalty payment.

DIVERSITY AND MANAGEMENT OF RIGHTS

The diverse contractual rights or permissions that can be implemented by license agreements requires a different way of looking at licensed assets than would ordinarily be the case with reference to goods or real estate interests. Among the various effects, two have the greatest significance in our context.

The first is that a person can obtain, or hold, entirely different rights under entirely different limitations in assets that appear identical in terms of physical manifestation. Possession of a copy by Party A tells little or nothing about what rights Party A may have in reference to the copy or to the information it contains. This is because of the significance of differing rights allocations and contractual limits established with respect to the information.

Due to the variations that exist in practice, there is no simple equation that allows one to presume a certain characteristic package of rights from the presence of a copy of software or other digital information in the possession of a person. Indeed, both the Copyright Act and UCITA expressly underscore the *independence* of possession or transfer of a copy on the one hand, and transfer or control of informational property or contractual rights or limitations on the other. UCITA states: "Transfer of a copy does not transfer ownership of informational rights."³⁶ The Copyright Act states the same principle for purposes of property law:

Ownership of a *copyright*, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied. Transfer of ownership of any *material object*, including the copy . . . in which the work is first fixed, does not of itself convey and rights in the copyrighted work embodied in the object; nor, in the absence of an agreement, does transfer of ownership of a copyright or of any exclusive rights under a copyright convey property rights in any material object.³⁷

36. UCITA § 501(b) (2000 Official Text).

37. 17 USC § 202.

In this environment, when making a transaction, both the rights and the objects involved should be specifically addressed, but in any event, in dealing with informational assets, understanding the contractual terms under which the individual came to be in possession of a copy or knowledge of information may be a critical part of the due diligence involved in understanding the asset itself.

The second point is related to the first: in dealing with informational assets that involve intellectual property rights, there is an almost inevitable upstream tracing and rights issue except for those assets that are developed by the person or that are freely made available to the public with no restrictions. An example common in the software industry illustrates the issue:

Example. Publisher A licenses Distributor to distribute copies of A's copyrighted software, but only to persons who agree to an end user license with Publisher A. The end user license allows a transferee that takes in an authorized transaction and agrees to the license to make and use copies on up to three personal machines so long as the copies are not used simultaneously by different people.

Modern case law routinely enforces shrinkwrap or click wrap licenses like the end user license in this example, so I will put the contract formation issue aside for the moment.³⁸ If we look at the transactions here, we see a copyright owner that has the exclusive right to make and distribute copies of its software, but who granted permission to Distributor to do so under specified conditions. If Distributor complies with the conditions, it makes an authorized distribution. If not, it breaches the contract and infringes the copyright. The end user's circumstances are directly affected by the nature of the distribution. An unauthorized transfer gives no rights against the copyright (or patent) owner.³⁹ Even in an authorized distribution, the end user's right to copy the software into its machine depends on its license with the

38. See discussion at notes —, *infra*. See also *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996) (contract enforceable; limits use of database to consumer purposes only); *Hill vs. Gateway 2000 Inc.*, 105 F.3d 1147 (7th Cir. 1997) (contract requiring arbitration enforceable based on use of computer without objecting to contract terms); *M.A. Mortenson Co., Inc. v. Timberline Software Corp.*, 970 P.2d 803 (Wash. 2000); *Greenfield v. Twin Vision Graphics, inc.*, 268 F.Supp.2d 358 (D NJ 2003) (license for use of a photograph contained on invoice is enforceable; court rejects *Wyse* analysis); *O'Quin v. Verizon Wireless*, 256 F.Supp.2d 512 (MD La. 2003) (Terms contained in telephone equipment box enforceable); *1-A Equipment Co. v. Icode, Inc.*, 2003 Mass.App.Div. 30, 2003 WL 549913 (Mass. App. 2003) (licensee of software was bound by end user agreement, which buyer accepted when installing the software); *Adobe v. Stargate Software, Inc.*, 2002 WL 1926008 (ND Cal. 2002); *Adobe Sys. Inc. v. One Stop Micro, Inc.*, 84 F. Supp. 2d 1086 (ND Cal. 2000) (licensee not an owner of the copy).

39. See *Accusoft Corp. v. Mattel, Inc.*, 117 F.Supp.2d 99 (D. Mass. 2000) (no rights obtained by merged entity where transfer of license not authorized).

Publisher - nothing else in the distribution chain allows it to copy the work.

In distribution chains such as this, the upstream parties do not relinquish all rights in even the copies that move into commerce. Indeed, as we have seen, the upstream parties do not relinquish all rights even if the copies are simply sold. As UCITA confirms: "Transfer of a copy does not transfer ownership of informational rights."⁴⁰ Furthermore, concepts of bona fide purchase typically do not apply to intellectual property claims since, unlike a bona fide purchaser of ordinary goods, even a person who acquires an informational asset contained on a tangible copy can be under no illusion that it is acquiring all rights in the information.⁴¹

The presence of retained rights upstream leads to a final point in this general discussion. This concerns the relationship between intellectual property (or other property rights in information) and contract law as enforcement tools in the event of breach.

As we have seen, a license can be formed with respect to information regardless of whether the information is subject to any intellectual property right. The key to forming a contract lies in the exchange of value (consideration) and consideration can come from promises or performance unrelated to property. Thus, my promise to give you factual information that is not subject to any property right creates a contract when you promise in return to pay for my action and/or to limit your use of the data in particular ways. Courts routinely enforce such contracts.⁴² The consideration you receive is my promise to provide the data from me, something that I otherwise have no obligation to do, while the consideration I receive lies in your promise to pay and to limit your use of the data, things that, but for the contract, you would not be required to do. Why would any person contractually agree to limit its use and pay for information that could be obtained for free from other sources? The answer depends on various factors (e.g., ease of access, lack of time, reliability of the database, etc.). As the Seventh Circuit Court of Appeals commented when presented with the question of whether a license could be enforced for information that was neither patented nor copyrightable: "a contract is a contract, our

40. UCITA § 501(b) (2000 Official Text).

41. See *Microsoft Corp. v. Harmony Computers & Electronics, Inc.*, 846 F. Supp. 208 (E.D.N.Y. 1994); *Microsoft Corp. v. Grey Computer*, 910 F. Supp. 1077 (D. Md. 1995). For a parallel result in reference to patent licenses, see *Rhone Poulenc Agro, S.A. v. DeKalb Genetics Corp.*, 284 F.3d 1323 (Fed. Cir. 2002).

42. See *ProCD Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996); *Register.com v. Verio, Inc.*, 2004 WL 103400, — F3d — (2nd Cir. 2004); *Lowry's Reports, Inc. v. Legg Mason, Inc.*, 271 F.Supp2d 737 (D Md. 2003) (contract claim re unprotected data enforced; no preemption).

system of law assumes that contracts should be enforced in the absence of fraud, duress, criminality, unconscionability or similar problems.”⁴³

This being said, a contract that deals with information not protected by intellectual property law involves a materially different type of relationship than one in which patent, copyright, or other intellectual property rights are involved. The reason is that a breach of a license by exceeding the scope of the agreement or using the information after the license is cancelled can involve liability for *both* breach of contract and infringement of the intellectual property right, while breach of a contract where not property right is involved yields only a claim for breach of contract.⁴⁴ The two legal regimes involve different remedial provisions based on different concepts and, depending on the circumstances, either one might be the most advantageous for the aggrieved party.⁴⁵

To see the point, consider Figure 1, which summarizes exclusive rights held by a copyright owner:

FIGURE 1

Reproduce the work in copies	→ No License	→ Infringe
Distribute copies of the work	→ License	→
Make derivative works	→ No License	→ Infringe
Publicly display the work	→ No license	→ Infringe
Publicly perform the work	→ No license	→ Infringe

Figure 1 shows the result of a license to distribute copies of the work. Now assume that, instead, a license grants Party B the right to use the copyrighted work by making copies in Party B's network for use by employees. The contract is that Party A (licensor) promises to not sue B for the designated type of use, while Party B promises to not use the software outside this scope and to pay whatever fees are required. If B breaches by failing to pay, it is liable for damages in contract, but is not infringing unless the breach results in the license being cancelled. As long as the license continues to exist, it prevents infringement suit

43. ProCD Inc. v. Zeidenberg, 86 F.3d 1447 (7th Cir. 1996).

44. See Graham v. James, 144 F.3d 229, 236 (2d Cir. 1998); MAI Systems Corp. v. Peak Computer, Inc., 991 F.2d 511 (9th Cir. 1993); Bowers v. Baystate Technologies, Inc., 320 F.3d 1317 (Fed. Cir. 2003). This dual cause of action, of course, is limited by the basic principle that double recovery is not allowed for the same wrong, but this will often not prevent recovery for both breach of contract and infringement of a property right. See Kepner-Tregoe, Inc. v. Vroom, 186 F.3d 283 (2d Cir. 1999); Paramount Pictures Corp. v. Metro Program Network, Inc., 962 F.2d 775 (8th Cir. 1992). See Universal Gym Equipment, Inc. v. Erwa Exercise Equipment Ltd., 827 F.2d 1542 (Fed. Cir. 1987) (patent and contract remedies are distinct).

45. See, e.g., Sun Microsystems, Inc. v. Microsoft Corp., 188 F.3d 1115 (9th Cir. 1999) (distinguishing between a covenant breach and a breach of scope provisions).

for actions taken within the scope of the license. On the other hand, if Party B makes copies that it distributes to another company, it has both breached the license contract and infringed the copyright. The license in each case is a promise to not sue for conduct within its scope, but does not otherwise protect infringing behavior. This rule applies whether one adopts a restrictive view of licensing or a broader commercial view.

This indicates the importance of scope provisions of a license: those provisions set out the product being conveyed, but they also tend to shape the availability of remedies. A corollary of the fact that acts outside the scope of a license infringe and breach the license is that the licensor can sue for either or both. It can, for example, leave the license intact and sue for infringement if the conduct involved exceeds the scope of the license grant.

The background rights are not always associated only with copyright law. As we focus on other types of rights-creating laws, the interaction between contract and property rights becomes more complex. For example, retaining the property right in a trade secret given to another person requires a continuation of confidentiality restrictions that bind the other person.⁴⁶ In a license, this often requires contractual nondisclosure and related terms. If these are not expressly or implicitly present in the contract, the pre-existing property right might be waived.

On the other hand, the background rights need not come from intellectual property law. In *Register.com v. Verio, Inc.*,⁴⁷ for example, a variety of property rights associated with unauthorized access to an online site were violated. The case involved a company that accessed an online database under circumstances in which the court held that access and downloading of data was assent to an online contract. The contract (license) terms limited use of the data. When the licensee accessed the site knowing it would use the data for other purposes, the court held that there was a breach of contract, but also violations of trespass law, and, according to the lower court, criminal unauthorized access to a computer and violation of federal communications law.

46. See, e.g., Raymond T. Nimmer, *The Law of Computer Technology* §§ 3:21 - 3:31 (Thomson-West, 1996, 2004); Raymond T. Nimmer, *Information Law* §§ 5:41 - 5:48 (1997, 2004).

47. *Register.com v. Verio, Inc.*, 2004 WL 103400, — F3d — (2nd Cir. 2004).

PART 2:
UCITA, COMMON LAW AND EMERGING ISSUES

Current Law: UCITA and Common Law

At this point, we shift our focus from a general consideration of the unique issues presented by license transactions and toward a more direct consideration of aspects of licensing law today. With respect to licenses of computer information (e.g., software, online, digital products), this inevitably requires that we pay attention to the current status of UCITA and issues that the promulgation of UCITA highlighted.

In most states, today, the contract law that pertains to licensing transactions consists of a complex mix of state common law, UCC Article 2 in some cases, federal common law, and in some cases the terms of federal intellectual property law statutes.⁴⁸ As we have seen, the common law traditions applicable to licensing often differ radically from common law traditions applicable to other types of contract. Llewellyn once said: "One system of precedent' we may have, but it works in forty different ways."⁴⁹ The common law pertaining to licensing is one of those forty or more different working models of common law. It is a model that relatively few commercial law practitioners or scholars are familiar with.

The Uniform Computer Information Transactions Act (UCITA) was promulgated 1999 by NCCUSL in an effort to bring some structure and clarity to this complex network of laws.⁵⁰ It is a proposed state-law codification of contract law related to computer information transactions.⁵¹ Writing about UCITA, a report published by the AEI-

48. See Raymond T. Nimmer, *Through the Looking Glass: What Courts and UCITA have to say About the Scope of Contract Law in the Information Age*, 38 *Duquesne L. Rev.* - (2000); Holly K. Towle, *The Politics of Licensing Law*, 36 *Hous. L. Rev.* 121 (1999); Raymond T. Nimmer, *Images and Contract Law - What Law Applies to Transactions in Information*, 36 *Houston L. Rev.* 1 (1999);

49. Karl Llewellyn, *On Philosophy in American Law*, 82 *U. PA. L. REV.* 205, 205 n. 178 (1934). See generally Raymond T. Nimmer, *Licensing in the Contemporary Information Economy*, 8 *Washington Univ. Jnl of Law & Policy.* 99 (2002).

50. National Conference of Commissioners on Uniform State Laws, the primary drafting body for the UCC and other similar uniform law proposals.

51. Note here that, even though copyright and patent law are federal property rights laws, cases related to each field confirm that contract law issues are matters of state law unless the property rights statute specifically preempts. See, e.g., *Graham v. James*, 46 *U.S.P.Q.* 2d 1760, 1766 (2d Cir. 1998) (construction of license terms was matter of state law); *Data Gen. Corp. v. Grumman Sys. Corp.*, 36 *F3d* 1147 (1st Cir. 1994); *Jacob Maxwell, Inc. v. Veeck*, 110 *F.3d* 749, 752-53 (11th Cir. 1997); *Bloom v. Hearst Entertainment, Inc.*, 33 *F.3d* 518 (5th Cir. 1994) (book publishing contract; court applied New York common law rules of contract interpretation, noting that the burden was on the authors to reserve video rights to their book, if that was their intent); *Diggan v. Cycle Sat, Inc.*, 46 *U.S.P.Q.* 2d 1372, 1373-74 (Iowa 1998) (state law controls whether

Brookings Joint Center for Regulatory Studies described the purpose of UCITA in the following terms:

The likely benefits [of adopting UCITA] include lower transaction costs and improved contract interpretation. . . . By contrast, the potential burdens associated with adopting UCITA appear to be minimal. . . . Thus, while there is no practical way to quantify the potential benefits and costs of UCITA, we conclude that economic well-being would almost surely be enhanced by its adoption . . . The argument for adoption is also buttressed by the lack of compelling alternatives. If states do nothing, both producers and consumers will be forced to cope with the uncertainties associated with ongoing inconsistencies in state-level commercial contract law. If the states develop their own regulations for computer information contracts, the lack of uniformity will create burdens. Moreover, there is no good reason to expect their design to be superior to UCITA.⁵²

Promulgation of UCITA in 1999 culminated several years of intense debate. During this debate and thereafter, UCITA was strongly supported by a large number of organizations, companies, bar groups, and individuals and was opposed by a well-funded group of insurance and other companies, organizations and individuals.

UCITA was conceived of, and largely emerged as a contract law grounded in the grand tradition of United States contract law: promoting and facilitating freedom of contract and the enforcement of voluntary choices made in the marketplace. Much of the debate, however, had little to do with how UCITA approached this goal. The primary themes of opposition, instead, center on several parallel arguments that ultimately contest the idea of market-driven choice in this part of the economy.⁵³ These themes are important for us here because they define influences that are likely to produce future controversy as licensing law evolves, although the most likely result is that restrictive arguments will continue to be rejected in the face of a vibrant part of the economy. In summary, the parallel themes were:

compensation is owed for uses under implied license); *Devlin v. Ingram*, 928 F.2d 1084 (11th Cir. 1991); *McCoy v. Mitsubishi Cutlery, Inc.*, 67 F.3d 917, 920 (Fed.Cir.1995) (“Whether express or implied, a license is a contract ‘governed by ordinary principles of state contract law.’”).

52. Robert W. Hahn and Anne Layne-Farrar, *An Economic Assessment of UCITA 2* (AEI-Brookings, 2001). Another independent study by a research professional at the Progress & Freedom Foundation, concluded: “On balance, widespread adoption of UCITA would benefit consumers, producers and the digital economy generally. It would enhance overall welfare by reducing information and transactions costs in the exchange of informational goods and services, as compared with the current legal regime.” Kent Lassman, *Contracts and Electronic Commerce: The Uniform Computer Information Transactions Act (UCITA)*, Progress on Point (Periodic papers published by the Progress & Freedom Foundation) p.10 (Release 10.1, January 2003).

53. Holly K. Towle, *The Politics of Licensing Law*, 36 *Hous. L. Rev.* 121 (1999).

- *Restricting rights:* Essentially, the argument is that contracts should be restrained in order to prevent excessive commercialization of intellectual property. Ultimately, this links directly to the position of persons favoring restrictions of intellectual property rights in all venues and, indeed, many who stated such restrictive positions were the same people and organizations that make parallel arguments in other venues unrelated to contract law.⁵⁴ The position taken in UCITA is largely defined by a belief that contract law should support commerce, that the feared abuses were unproven, and that cases of abuse can be handled under antitrust, intellectual property misuse, and traditional doctrines of unconscionability and the like.⁵⁵
- *Standard forms and consumer protection:* Information commerce often relies on standard form contracts, as do other all areas of commerce, and also uses automated means of assent.⁵⁶ Some persons argue that standard forms should be constrained or eliminated because they are not true contracts.⁵⁷ A parallel issue concerns the tension about increasing the modern level of consumer protection. These arguments were applied to UCITA, singling out the information industry. The reality, however, is that most standard form agreements (even if described as adhesion contracts) are fully enforced today⁵⁸ and that consumer protec-

54. SEE, E.G., Jessica Litman, *The Tales that Article 2B Tells*, 13 *Berkeley Technology Law Journal* 931, 941 (1998); Mark Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 *Cal. L. Rev.* 111 (1998); Julie E. Cohen, *Copyright and the Jurisprudence of Self-Help*, 13 *Berkeley Techno. L.J.* 1089 (1998). Compare David Friedman, *In Defense of Private Ordering: Comments on Julie Cohen's "Copyright and the Jurisprudence of Self-Help,"* 13 *Berkeley Techno. L.J.* 1151 (1998). One of the organizations that opposed UCITA was the Electronic Frontier Foundation (EFF). In another context, one writer commented about EFF that, "[EFF] sees no grays at all. In any collision between IP and some other value, the other value wins." James V. Delong, 'Defending Intellectual Property,' in *Copy Fights* 17, 19 (Adam Thierer & Clyde Wayne Crews, 2002). See generally Paul M. Schwartz & W.M. Treanor, *Eldred and Lochner: Copyright Term Extension and Intellectual Property as Constitutional Property*, 112 *Yale LJ* 2331 (2003).

55. UCITA, however, is a product of a political process and there are provisions that bow to this rights-restrictor viewpoint, especially in some of the 2002 Amendments that, perhaps for this reason, have never been adopted in any state. See, e.g., UCITA § 118 (2002 Official Text) (limited ban on enforcement of some "no reverse engineering" clauses in a license).

56. See discussion at notes —, *infra*. See also Raymond T. Nimmer, *The Law of Computer Technology* ch. 7 (1997, 2004); Holly K. Towle, *The Politics of Licensing Law*, 36 *Hous. L. Rev.* 121 (1999); Gomulkiewicz and Williamson, *A Brief Defense of Mass Market Software License Agreements*, 22 *Rutgers Computer & Tech. L.J.* 335 (1996).

57. See, e.g., Todd D. Rakoff, "Contracts of Adhesion: An Essay in Reconstruction," 96 *Harv. L. Rev.* 1173 (1983); W. David Slawson, *Standard Form Contracts and Democratic Control of Lawmaking Power*, 84 *HARV. L. REV.* 529 (1971); Michael I. Meyerson, *The Reunification of Contract Law: The Objective Theory of Consumer Form Contracts*, 47 *U. MIAMI L. REV.* 1263, 1269-75 (1996).

58. See e.g., Robert A. Hillman & Jeffrey J. Rachlinski, *Standard-Form Contracting in the Electronic Age*, 77 *N.Y.U. L.Rev.* 429 (2002); Restatement (Second) of Contracts § 211. See also *Klos v. Polske Linie Lotnicze*, 133 F.3d 164 (2d Cir. 1998) ("The concept of adhesion contracts introduces the serpent of uncertainty into the Eden of contract enforcement. . . . It may not be

tion laws have generally been in federal or non-uniform state law. The drafters of UCITA refused to single out the information industry for restrictive rules not applied elsewhere. As in Article 2, UCITA takes the position that standard forms can form contracts and that detailed consumer rules are best left to independent state or federal action. Abuses can be monitored by unconscionability doctrine. UCITA, however, also lays out procedural protections requiring disclosure for contract formation in the mass-market and elsewhere.⁵⁹

- *Place holders*: Some companies and organizations, especially in the insurance industry and the library community, take positions that in effect seek to reverse the clock and to retain the leverage and business patterns that existed before computer information and licensing became a major part of the economy. UCITA takes the position that markets will define and shape leverage and business practice. This is not the business of contract law.

Despite opposition, UCITA was enacted by over-whelming votes in two states (Virginia, Maryland) shortly after it was promulgated. These are the only two states whose legislatures have closely examined UCITA.⁶⁰ Thereafter, however, the opposition produced deadlock, resulting in no further enactments over the past several years. At the instigation of lobbyists, several states enacted statutes that purport to preclude choice of law that includes UCITA even though the legislatures in those states never reviewed the terms of UCITA. In 2002, UCITA was amended in several specifics (the “2002 Amendments”) to respond to some of the opposition. A number of

invoked to trump the clear language of the agreement unless there is a disturbing showing of unfairness, undue oppression, or unconscionability.”); *Fireman’s Fund Insurance v. M.V. DSR Atlantic*, 131 F.3d 1336 (9th Cir. 1998) (issue of adhesion contract not relevant where no ambiguities in the contract); *Dillard v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 961 F.2d 1148 (5th Cir.1992) (adhesion contracts requiring arbitration of securities disputes are not unconscionable as a matter of law); *Riggs National Bank v. District of Columbia*, 581 A.2d 1229, 1251 (D.C. App. 1990) (“a contract may be one of adhesion, and is therefore subject to judicial scrutiny for unconscionability. To establish unconscionability, however, the District must prove not only that one of the parties lacked a meaningful choice but also that the terms of the contract are unreasonably favorable to the other party”); *American Bankers Mortgage Corp. v Federal Home Loan Mortgage Corp.*, 75 F.3d 1401 (9th Cir. 1996) (although contract may have been contract of adhesion, it was fully enforceable in the absence of showing of unconscionability).

59. See UCITA §§ 112, 208, 209 (2000 Official Text). See e.g., Robert A. Hillman & Jeffrey J. Rachlinski, *Standard-Form Contracting in the Electronic Age*, 77 N.Y.U. L.Rev. 429 (2002) (“UCITA maintains the contextual, balanced approach to standard terms that can be found in the paper world.”). One interesting feature of the debate was that large insurance companies that routinely used extensive and complex standard forms for their own contracts, we at the forefront in arguing that standard forms should be curtailed or rendered unenforceable in the information industries.

60. These states enacted the 2000 Official Text of UCITA. The 2000 Official Text can be found at www.law.uh.edu/ucc2b/. The 2002 Official Text, which reflects some substantive and numerous organizational revisions but has not been enacted, is available at www.nccusl.org. As of January 1, 2005, further materials on UCITA will be available at www.licensing-contracts.org.

former opponents withdrew opposition as a result, but others did not. In 2003, NCCUSL removed UCITA from its priority enactment list, placing it in the same position as most other uniform acts, available and recommended for adoption by any state desiring to do so.

Viewed formally in terms of adoptions and opposition, the status of UCITA is analogous to that of UCC Article 2 after it was promulgated in the 1950's, except that UCITA achieved enactment in important states *faster* than Article 2. When Article 2 (on sales of goods) was initially promulgated, it suffered over a decade of non-enactment and generated passionate opposition.⁶¹ That continued even *after* Article 2 had weathered a long hiatus and was revised.⁶²

Opposition and delay in implementing new ideas in a multistate political process is not surprising or even new. For example, the recently completed project to revise Article 2 was completed after a gestation period more than six years *longer* than for UCITA and equally controversial. The controversy led earlier to discharging the original drafting committee and resignation by the original reporters. The proposal remains opposed by virtually all industry and consumer groups and has not been enacted in any state.⁶³

How is it that some controversial ideas, like Article 2 in the 1950's, transform into accepted rules of law such that a proposal to change them forty years later is passionately resisted? There is no single answer, but the range of answers include that over time what appear to

61. Noting the controversy: Carrington, *The Uniform Commercial Code—Sales, Bulk Sales and Documents of Title*, 15 Wyo. L.J. 1, 7 (1961); Hawkland, *In re Articles 1, 2 and 6*, 28 Temple L.Q. 512, 513 (1955); Kripke, *The Principles Underlying the Drafting of the Uniform Commercial Code*, 1962 U. Ill. L.F. 321, 324. Critical or at least questioning: Beutel, *The Proposed Uniform (?) Commercial Code Should Not Be Adopted in Ohio*, 14 OHIO ST. L.J. 3, 6-7 (1953) (conspiracy between professors and successful lawyers); Buerger, *The Sales Article of the Proposed Uniform Commercial Code*, 23 N.Y.S.B. Bull. 116, 120 (1951); Douglass, *Discussion on Sales as Proposed in the Uniform Commercial Code*, 21 Okla. B.A.J. 808, 810 (1950); Goodwin, *How the Adoption of the Uniform Commercial Code Would Affect the Law of Sales in Oregon*, 30 Ore. L. Rev. 212, 213-14 (1951); Ireton, *The Commercial Code*, 22 Miss. L.J. 273, 280 (1950); King, *Suggested Changes in the Uniform Commercial Code—Sales*, 33 Ore. L. Rev. 113, 115-16 (1954); Levy, *A Study of the Uniform Commercial Code—Sales*, 58 Com. L.J. 329, 331 (1953).

62. See David W. Carroll, *Harpooning Whales, of Which Karl N. Llewellyn is the Hero of the piece; of Searching for More Expansion Joints in Karl's Crumbling Cathedral*, 12 Boston College Indus. & Comm. L. Rev. 139 (1970) ("Although it has been effective . . . for only a few years, [it] is being attacked with increasing frequency. Charges are made of bias against consumers and of favoritism toward merchants, and angry rhetoric often erupts in classrooms from new law students, highly sensitive to the injustice and business bias they perceive . . ."). See also Zipporah B. Wiseman, *The Limits of Vision: Karl Llewellyn and the Merchant Rules*, 100 Harv. L. Rev. 465 (1987).

63. See e.g., letters and other materials submitted to the American Law Institute in connection with its consideration at its May 12-14, 2003 meeting of the final draft. See "Motions and Comments Submitted in Advance" at <http://www.ali.org>.

be startling ideas become commonplace practice and as judicial rulings adopt them, directly or indirectly. What once seemed new becomes somewhat old and comfortable.

So, if one measures the status of UCITA today in this context, what are the results with respect to the ideas it outlines? They include the following:

- Reports of “think tank” studies after promulgation of UCITA conclude that enactment of UCITA would benefit commerce in information.⁶⁴
- Studies by contract law scholars conclude UCITA rules are consistent with modern contract doctrine.⁶⁵
- Several casebooks on commercial law integrate coverage of UCITA with that of Article 2 and Article 2A.⁶⁶
- Some casebooks on contract law include coverage of UCITA.
- A treatise on electronic commerce extensively refers to UCITA.⁶⁷
- Leading multi-volume treatises on commercial law cover UCITA.⁶⁸

Perhaps as important, however, are the evolving patterns in case law and discussion of contract doctrine. Predictably, although UCITA has been law in Maryland and Virginia for four years, there has been no great upheaval in case law or commercial practice. Indeed, neither state has produced a single reported decision on UCITA since its enactment. The mark of good contract law is that it produces little litigation. While the courts of these states have not yet been asked to examine UCITA, other courts in other jurisdictions referred to UCITA as a source of analysis.⁶⁹ In other cases terminology coined or used in UCITA appears in cases even if mention is not made of UCITA.⁷⁰

64. See, e.g., Robert Hahn and Anne Layne-Farrar, “An Economic Assessment of UCITA,” (AEI-Brookings 11/9/01) (“ [We] conclude that economic well-being would almost surely be enhanced by its adoption since the costs are likely to be small.”).

65. See e.g., Robert A. Hillman & Jeffrey J. Rachlinski, *Standard-Form Contracting in the Electronic Age*, 77 N.Y.U. L.Rev. 429, 491 (2002) (“UCITA maintains the contextual, balanced approach to standard terms that can be found in the paper world.”).

66. See Richard Speidel & Linda Rusch, *Commercial Transactions: Sales, Leases and Licenses* (West 2001); John Murray & Harry Flechtner, *Sales, Leases and electronic Commerce* (West 2003).

67. See, e.g., Raymond T. Nimmer & Holly K. Towle, *The Law of Commercial Electronic Transactions* (Thomson/A.S. Pratt, 2003).

68. See Lawrence, Anderson on the Uniform Commercial Code (2002, 2003).

69. See e.g., *Specht v. Netscape Communications Corporation*, 306 F.3d 17 (2nd Cir. 2002); *Rhone Poulenc Agro, S.A. v. DeKalb Genetics Corp.*, 284 F.3d 1323 (Fed. Cir. 2002); *AGT Intern., Inc. v. Level 3 Communications, LLC*, 2002 WL 31409879 (S.D. Ohio 2002).

70. Examples would be the increasing references by courts to “opportunity to review” and “manifestation of assent.” Although the latter phrase is from the Restatement, until UCITA was drafted, the phrase seemed little to appear in case law. Now it is ubiquitous, as is UCITA’s articulation of the requirements for a manifestation of assent. For example, UCITA requires

Evolution of Modern Law: Sales of Goods, Licenses of information

One test of the status of a proposed law concerns how well its ideas and themes mesh with emerging commercial practice and judicial doctrine. In the next few sections, we examine that issue with respect to some of the core concepts in UCITA. In addition to shedding light on the status of UCITA, this discussion provides an opportunity to see where modern law and practice on these issues stand today. In effect, the next few sections delineate the emerging legal template for licensing on at least some significant issues.

The first question concerns what contract law applies.

Outside of UCITA states, transactions that involve licenses of informational assets are governed by a complex mix of contract laws. Historically, however, a number of courts applied Article 2 rules about the *sale of goods* to transactions involving the *license of digital software*, either directly or indirectly using a “predominant purpose test” where the transaction also involves expensive computer hardware.⁷¹ There are many reasons why this pattern developed, including the simple fact that Article 2 sets out a body of codified law that is easier to find and analyze than are the often messy and inconsistent themes of common law.⁷²

A premise of UCITA is that the law of sales does not suit the practice of licensing and that goods are much different than intangibles and rights to use them. Indeed, as explained elsewhere, Llewellyn originally conceived of and argued for Article 2 as a body of law tailored to suit sales of goods.⁷³ The important commercial field of computer information licensing should not be force fit into the body of law for the unrelated subject of the sale of goods. That view is implemented in UCITA in its scope provisions that exclude most such sub-

that an act manifesting assent be taken when the person is acting with knowledge of the contract sought to be formed. The failure to satisfy that requirement has caused modern online contracts to fail. See e.g., *Specht*, supra.; *Novak v. Overture Services Inc.*, 309 F.Supp.2d 446 (ED NY 2004); *Rosenfeld v. Zerneck*, 776 NYS2d 458, 2004 WL 963734 (NYSup. 2004).

71. See discussion in Raymond T. Nimmer, *The Law of Computer Technology* §§ 6:2 - 6:9 (West, 1997, 2004).

72. Interestingly, however, in a different context, courts are beginning to understand the degree to which Article 2 as applied among the various states is non-uniform. Thus, for example, the Texas Supreme Court has refused certification of a national class action based on alleged breach of warranty, citing the diversity of rules that exist nationally on various questions associated with warranty liability. See *Compaq Computer Corp. v. LaPray*, 2004 WL 1048336 (Tex. 2004).

73. See generally Holly K. Towle, *The Politics of Licensing Law*, 36 Hous. L. Rev. 121 (1999).

ject matter from Article 2, except for software embedded in and part of ordinary goods other than computers.⁷⁴

How has that idea fared outside of enactment of UCITA? It is increasingly being adopted.

Most of the decisions applying Article 2 to software occurred before it became clear that software is separately important subject matter with attributes far different from ordinary goods. Although some courts continue to ignore this, others understand it and are signaling the need for a different direction. For example, in a case involving contract formation issues with respect to software downloaded from an online site, the Court of Appeals for the Second Circuit commented:

Downloadable software, however, is scarcely a “tangible” good, and, in part because software may be obtained, copied, or transferred effortlessly at the stroke of a computer key, licensing of such Internet products has assumed a vast importance in recent years. Recognizing that ‘a body of law based on images of the sale of manufactured goods ill fits licenses and other transactions in computer information,’ the National Conference of Commissioners on Uniform State Laws has promulgated [UCITA], a code resembling UCC Article 2 in many respects but drafted to reflect emergent practices in the sale and licensing of computer information.⁷⁵

The court did not have to decide what law applied because it concluded that, on the issue it addressed, Article 2, common law, and UCITA produced identical analyses. Another court has commented that until an alternative is enacted nationally, software transactions occur in a “legislative void” of inappropriate law.⁷⁶

Virtually all of the cases applying Article 2 involve issues about warranty, cure, or the like and are based primarily on the fact that common law does not provide clear guidance on these questions,

74. UCITA § 103 (2000 Official Text); Raymond T. Nimmer, *Images and Contract Law - What Law Applies to Transactions in Information*, 36 *Houston L. Rev.* 1 (1999).

75. See e.g., *Specht v. Netscape Communications Corp.*, 306 F.3d 17, Note 13 (2d Cir. 2002) (“Downloadable software, however, is scarcely a “tangible” good, and, in part because software may be obtained, copied, or transferred effortlessly at the stroke of a computer key, licensing of such Internet products has assumed a vast importance in recent years. Recognizing that ‘a body of law based on images of the sale of manufactured goods ill fits licenses and other transactions in computer information,’ the National Conference of Commissioners on Uniform State Laws has promulgated the Uniform Computer Information Transactions Act (“UCITA”), a code resembling UCC Article 2 in many respects but drafted to reflect emergent practices in the sale and licensing of computer information”).

76. See *I.Lan Systems, Inc. v. Netscout Service Level Corp.*, 183 F.Supp.2d 328 (D. Mass. 2002). See also Lorin Brennan, *Why Article 2 Cannot Apply to Software Transactions*, *PLI Patents, Copyrights, Trademarks, & Literary Property Course Handbook Series* (Feb.- Mar.2001) (trend in case law away from application of UCC to software and toward application of intellectual property principles).

while Article 2 provides relatively familiar (after fifty years of application) rules. Cases involving ownership of a copy,⁷⁷ reverse engineering,⁷⁸ transferability,⁷⁹ use of electronic control devices,⁸⁰ scope of a license,⁸¹ and the like routinely ignore Article 2 rules. But these are often the most significant attributes of a licensing transaction. Similarly, cases involving questions about the informational content also routinely decline to apply Article 2 to issues related to that content.⁸²

Although some would prefer to resist them, the ideas that digital information is not equivalent to goods and that licenses are not equivalent to sales are quite obvious ideas today, but they were controversial when UCITA began its lengthy drafting process. Even more important than the case law in reflecting this are developments that build on UCITA in legislation. Article 9 of the UCC is the primary example.⁸³ It was promulgated in the late 1990's and contains definitions of goods and software that draw on UCITA, although they slightly modify the UCITA concepts to fit the commercial context of asset-based financing. It treats software as a different type of asset than goods. Article 9 has been adopted in all fifty states and, thus, represents a modern legislative statement of policy in those states that software generally must be treated as separate from goods as an asset. That legislative policy has already begun to influence court decisions on the question of whether Article 2 should apply to this entirely different subject matter.⁸⁴ It should not.

77. See, e.g., *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354 (Fed. Cir. 1999).

78. See *Bowers v. Baystate Technologies, Inc.*, 320 F.3d 1317 (Fed. Cir. 2003).

79. See, e.g., *In re CFLC, Inc.*, 89 F.3d 673, 679, 39 U.S.P.Q.2d 1518, 1523 (9th Cir.1996). See *In re Catapult Entertainment, Inc.*, 165 F.3d 747 (9th Cir. 1999), *cert. dismissed*, 528 U.S. 924 (1999) (Chapter 11 debtor in possession could not assume patent licenses over licensor's objection). Compare *See Institut Pasteur v. Cambridge Biotech Corp.*, 41 U.S.P.Q.2d 1503, 104 F.3d 489 (1st Cir. 1997) (limited right to assume in a Chapter 11 bankruptcy proceeding where debtor remains essentially the same entity).

80. See *American Computer Trust Leasing v. Jack Farrell*, 763 F.Supp. 1473 (D Minn. 1991).

81. See, e.g., *SOS, Inc. v. Payday, Inc.*, 886 F.2d 1081, 1087 (9th Cir. 1989) ("The literal language of the parties' contract provides that S.O.S. retains "all rights of ownership." This language plainly encompasses not only copyright ownership, but also ownership of any copies of the software."); *Sun Microsystems, Inc. v. Microsoft Corp.*, 188 F.3d 1115 (9th Cir. 1999) (distinguishing between a covenant breach and a breach of scope provisions).

82. See, e.g., *Winter v. G.P. Putnam's Sons*, 938 F.2d 1033 (9th Cir. 1991) (no product liability for a book); *Cardozo v. True*, 342 So.2d 1053 (Fla. Dist.Ct.App.1977).

83. The overall impact of Article 9 on financing intellectual property, software and related information assets is discussed elsewhere. See Raymond T. Nimmer, *Information Law* ch. 13 (Thomson-West 1997, 2004); Raymond T. Nimmer, *Revised Article 9 and Intellectual Property Asset Financing*, 53 *Maine L. Rev.* 287 (2001) (reprinted in *Intellectual Property Law Review*, 2003).

84. See *Page v. Hotchkiss*, 2003 WL 22962151 (Conn. Super. 2003) ("In addition to the software spectrum of cases, the court finds support for its findings from other chapters of the

Under Article 9, software and computer programs are not goods, but are intangibles (“general intangibles”)⁸⁵ even if the program is on a diskette or similar medium. The Article 9 concept derives from UCITA. The only exception occurs when the program is embedded in and customarily treated as part of ordinary goods.⁸⁶ This also reflects a concept suggested, albeit in different terms, in UCITA.

Four years after UCITA was promulgated, proposed revisions of Article 2 were finally promulgated. The revisions state that “goods” do not include “information.” The Official Comments to the proposed revisions of Article 2 explain that Article 2 would not apply to digital copies, even though they are on a diskette. The information, not the plastic, counts.

While the proposed revisions of Article 2 do not define “information”, the UCITA definition is relevant because it was the last definition of that term adopted by NCCUSL. It states:

“Information” means data, text, images, sounds, mask works, or *computer programs*, including collections and compilations of them.⁸⁷

Similarly, the Uniform Electronic Transactions Act (UETA), which has been adopted in over forty states, follows UCITA and provides: “‘Information’ means data, text, images, sounds, codes, *computer programs, software*, databases, or the like.”⁸⁸ In the federal Electronic Signatures in Global and National Commerce Act (E-Sign),⁸⁹ information expressly includes computer programs: “The term ‘information’ means data, text, images, sounds, codes, computer programs, software, databases, or the like.”⁹⁰ Dealing with the term “information” in the federal Communications Decency Act, a court of appeals has held that “information” includes a computer program.⁹¹

Here we can see the inevitable transition taking place and the clear recognition of important differences in policy and in fact between ordinary goods and computer information assets, including software. Few today truly believe that the plastic matters more than the pro-

General Statutes. First, . . . Article Nine of the UCC, defines “Goods” . . . Applying the article nine definition to the present case would again yield a finding that what Hotchkiss provided was not goods since what was provided was a modified computer program embedded in a convenient medium for Page to access. The real object of Page’s purchase was the intellectual property which had been loaded and stored on a transferable medium.”).

85. UCC 9-102(a)(42), (75), (44) (2000 Official Text).

86. UCC § 9-102(a)(44) (2000 Official Text).

87. UCITA § 102(a)(35) (2000 Official Text).

88. UETA § 2(10) (1998 Official Text).

89. 15 USC §7001 et seq.

90. 15 USC § 7006(7).

91. See *Green vs. American Online*, 318 F.3d 465, 470 (2003).

gram in the license of a computer program. As recognized in all fifty states adopting Article 9, computer programs and other information assets are intangible, not goods, and are properly treated as such. As recognized in over forty states and federal law, computer programs are defined as a type of "information."

Licenses and Contract Formation

As we have seen, one issue concerns whether licensing is a valid form of transaction in the mass-market. The argument against such transactions largely stems from a rights-restrictor perspective and argues, ultimately, that all digital products transferred in the mass market involve sales of copies that are subject to so-called first sale rules.

UCITA adopts the ordinary principle that the difference between a simple license and a simple sale of a copy lies in the agreement.⁹² Since the development of UCITA began, appellate courts and most lower courts have routinely and consistently accepted that licensing is an acceptable form of transaction.⁹³ It is broadly and consistently accepted today that a transferor can contractually condition and limit the rights transferred in a transaction involving digital and other forms of information assets.⁹⁴ It is not correct to say that UCITA caused

92. UCITA § 502(a) (2000 Official Text).

93. See, e.g., *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354 (Fed. Cir. 1999); *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993) ("Since MAI licensed its software, the Peak customers do not qualify as "owners" of the software and are not eligible for protection under § 117."); *SOS, Inc. v. Payday, Inc.*, 886 F.2d 1081, 1087 (9th Cir. 1989) ("The literal language of the parties' contract provides that S.O.S. retains "all rights of ownership." This language plainly encompasses not only copyright ownership, but also ownership of any copies of the software."); *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996) (contract enforceable; limits use of database to consumer purposes only); *Hill vs. Gateway 2000 Inc.*, 105 F.3d 1147 (7th Cir. 1997) (contract requiring arbitration enforceable based on use of computer without objecting to contract terms); *M.A. Mortenson Co., Inc. v. Timberline Software Corp.*, 970 P.2d 803 (Wash. 2000) (license enforced when it followed purchase order; "Reasonable minds could not differ concerning a corporation's understanding that use of software is governed by licenses containing multiple terms.").

94. See, e.g., *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354 (Fed. Cir. 1999); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992); *Monsanto Co. v. McFarling*, 302 F.3d 1291 (Fed. Cir. 2002); *Arizona Cartridge Remanufacturers Ass'n, Inc. v. Lexmark International, Inc.*, 290 F.Supp.2d 1034 (ND Cal. 2003) (No violation of state or other law by imposing single use restriction; this transaction did not exhaust rights because it was conditional); Compare the misguided analysis of the District Court in *Softman Products Co., LLC v. Adobe Systems, Inc.*, 171 F. Supp. 2d 1075, 45 U.C.C. Rep. Serv. 2d 945 (C.D. Cal. 2001). The terms must, of course, be contractual or, at least, a part of the contractual relationship. See *Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), cert. denied, 536 U.S. 950 (2002); *LG Electronics, Inc. v. Asustek Computer, Inc.*, 248 F.Supp.2d 912 (ND Cal. 2003) (Patent exhaust; first sale not barred by disclaim any authority re use of items sold; not a contract condition).

these appellate decisions, but it is fair to observe that the decisions and UCITA are fully consistent.

This leads to the question of how one creates an enforceable contract. The digital information industries have introduced new methods of contracting in the general marketplace and these have been adopted in other industries. The core innovation involves bringing the contract formation to the end user (licensee's) attention in an automated manner or through including proposed contract terms in the package containing the informational or other subject matter. Assent in such cases occurs through conduct or through indicating assent in an automated, on-screen environment. In some cases, assent is required before anything is delivered or sent to the licensee, but in other cases, there is preliminary agreement and then the contract terms are presented in full later. This entails "layered contracting" in which parties define the full terms of their contract over time and in layers, rather than at one precise point in time.⁹⁵ Often, the contract involves a three-party transaction, like that described earlier, where the terms of the license are part of an agreement between the end user and the remote copyright owner, rather than between the end user and the entity with whom it directly contracts.

This is not a context in which to fully explore the nuances of such contracting. UCITA, however, provides simply that a person is bound by terms of a contract if it agrees to them, including by manifesting assent through voluntary words or conduct that he knows the other person will treat as agreement.⁹⁶ If the assent does not occur until after an initial agreement, the assent is not enforceable unless the person 1) had reason to know that terms would be presented later and 2) had a right to say no and unwind the transaction with a refund of any payment. The key terms in this framework are "manifestation of assent",⁹⁷ which can be by conduct or otherwise but must be such as would give reason to believe that the other party will infer assent from the conduct, words or other action, and "opportunity to review", which requires that the terms be presented in a way that would call them to the attention of a reasonable person and that the assenting

95. See discussion in UCITA § 202, comment 4 (2000 Official Text). See also UCITA § 202, comment 2 (2002 Official Text).

96. UCITA § 208 (2000 Official Text) (carried forward without change or renumbering into 2002 Official Text).

97. UCITA § 112 (2000 Official Text) (carried forward without change or renumbering into 2002 Official Text).

party have a chance to review the terms of the contract before assenting to it.⁹⁸

The approach in UCITA is consistent with the *Restatement (Second) of Contracts*, with the principles of original Article 2, which expressly allow for flexibility in how and when contracts are formed, and with modern commercial practice. The language and approach of UCITA is well within the range of approaches that modern courts bring to this question and, in fact, since promulgation of UCITA, the key terms used in its framework appear in reported cases with increasing frequency. Several years after UCITA was promulgated, Robert Hillman, a leading contract law scholar, and his coauthor commented: "UCITA maintains the contextual, balanced approach to standard terms that can be found in [cases in] the paper world."⁹⁹ The Court of Appeals for the Second Circuit agreed with this view three years after UCITA's promulgation, describing UCITA's approach as consistent with common law and Article 2, and using it in part to examine what type of notice is required to form contracts online.¹⁰⁰ Interestingly, the court's decision in this case was that no contract was formed because the manner of presentation did not give the prospective licensee notice that terms would be presented or that its conduct (downloading the software) would constitute assent to terms. That result is consistent with what would have been the result under UCITA in that case.

The contract formation principles set out in UCITA and in practice have been vigorously challenged from both the perspective of persons who desire to minimize the effectiveness of standard form contracts, and from the perspective of persons interested in restricting the scope of rights in reference to intellectual property assets. Despite this, the pattern is, today, quite clear. If contract terms are presented in a manner that would call attention to a reasonable person of their existence, gives an opportunity to review, and generates a manifestation of assent, these contracts are enforceable. Courts today consistently enforce shrinkwrap and clickwrap licenses.¹⁰¹ They do so under stan-

98. UCITA § 112 (2000 Official Text), renumbered without substantive change in Section 113 of the 2002 Official Text.

99. Robert A. Hillman & Jeffrey J. Rachlinski, *Standard-Form Contracting in the Electronic Age*, 77 N.Y.U. L.Rev. 429, 491 (2002).

100. *Specht v. Netscape Communications Corporation*, 306 F.3d 17 (2nd Cir. 2002).

101. See, e.g., *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996) (contract enforceable; limits use of database to consumer purposes only); *Hill vs. Gateway 2000 Inc.*, 105 F.3d 1147 (7th Cir. 1997) (contract requiring arbitration enforceable based on use of computer without objecting to contract terms); *M.A. Mortenson Co., Inc. v. Timberline Software Corp.*, 970 P.2d 803 (Wash. 2000) (license enforced when it followed purchase order; "Reasonable minds could not differ concerning a corporation's understanding that use of software is governed by licenses containing multiple terms."); *Management Computer Controls, Inc. v. Charles Perry Const., Inc.*,

dards that parallel those outlined in UCITA and often using language that reflects UCITA provisions. Indeed, one recent court, in reviewing a claim that an online license contract was unenforceable, commented that it found essentially no authority at all for the proposition that such licenses are not enforceable when properly presented.¹⁰² The contract in this case was held to be effective to limit the licensee's use of data to non-commercial purposes.¹⁰³

Assent can occur by conduct, which may, or may not involve clicking on an explicit assent button on a screen. The key standard, as recognized in UCITA and the cases is that the person undertaking the conduct have fair reason to know that the activity will indicate its assent to contract terms to the other party. Thus, in *Register.com v. Verio, Inc.*,¹⁰⁴ the Court of Appeals for the Second Circuit visited the issue of contract formation online and held that downloading, without more, constituted assent where there were clear indications on the site that this would be true. The court commented:

We recognize that contract offers on the Internet often require the offeree to click on an "I agree" icon. And no doubt, in many circumstances, such a statement of agreement by the offeree is essential to the formation of a contract. But not in all circumstances. While new commerce on the Internet has exposed courts to many new situations, it has not fundamentally changed the principles of contract. It is standard contract doctrine that when a benefit is offered subject to stated conditions, and the offeree makes a decision to take the benefit with knowledge of the terms of the offer, the taking constitutes an acceptance of the terms, which accordingly become binding on the offeree. . . . [The visitor to an apple stand] who sees apples offered for 50 cents apiece and takes an apple, owes 50

743 So.2d 627 (Fla. App. 1999) (forum selection clause in shrink wrap license enforced); *Rinaldi v. Iomega Corp.*, 1999 WL 1442014 (Del. Super. 1999) (conspicuousness of disclaimer not affected by fact it was delivered in shrink wrap format); *Lieschke v. Realnetworks, Inc.*, 2000 WL 198424 (ND Ill. 2000) (The court did not dwell on enforceability, but assumed it. The license was displayed as a precondition to installing the software by the user who downloaded the software.).

102. *Siedle v. National Ass'n of Securities Dealers, Inc.*, 248 F.Supp.2d 1140 (MD Fla. 2003) ("There are any number of cases from other state and federal courts expressly and implicitly approving the validity of click agreements. . . . In addition, although there may be no Florida case law directly on point, the Plaintiffs were unable to cite the law to any case law, Florida or otherwise, holding a click agreement unenforceable or invalid."); *Ticketmaster v. Tickets.com*, 2003 WL 21406289, Lexsee 2003 US Dist Lexis 6483 (2003) (enforced without click assent).

103. *Siedle v. National Ass'n of Securities Dealers, Inc.*, 248 F.Supp.2d 1140 (MD Fla. 2003) (online contract can properly restrict use of data to non-commercial purposes); *Costar Group, Inc. v. Loopnet, inc.*, 164 F.Supp.2d 688 (D Md 2001) (License agreement allowing brokers to use service's photographs of properties for normal brokerage operations while prohibiting distributing database information via Internet, did not grant brokers license to post copyrighted photographs on rival Internet service's web site.).

104. *Register.com v. Verio, Inc.*, 2004 WL 103400, — F3d — (2nd Cir. 2004).

cents, regardless whether he did or did not say, "I agree." The choice offered in such circumstances is to take the apple on the known terms of the offer or not to take the apple. As we see it, the defendant in *Ticketmaster* and Verio in this case had a similar choice. Each was offered access to information subject to terms of which they were well aware. Their choice was either to accept the offer of contract, taking the information subject to the terms of the offer, or, if the terms were not acceptable, to decline to take the benefits.¹⁰⁵

One could argue that such automated contracting and the practice of layered contracting should be made illegal in order to further agendas associated with restricting commercial exploitation of information assets or placing other restrictions on commerce, but the cases do not support that outcome, nor does commercial practice. Instead, courts uniformly find licenses to be enforceable under standards quite similar to those codified in UCITA. The point is not simply that the result is correct, but that the approach of UCITA flows smoothly along with the existing and developing sense of appropriate law and practice, a point that becomes apparent when one steps away from the contentious world of legislative debate.

Other Selected Issues

This is not to say that UCITA is, or will become, part of the mainstream or increasingly accepted law on all points. That may or may not occur. Indeed, there are several issues where patterns are not yet clear and on which UCITA takes a position that may or may not become the norm. Let's take a brief look at several of these that have commercial importance.

Transferability of a License

One context in which law applicable to licensing differs from law applicable to other contracts concerns the transferability of a licensee's interest in a non-exclusive license. The source of the differences lie not only in the conditional nature of the license relationship, but also in the character of the subject matter of a license and the presence of federal policy overlays on contract law.

At general common law, if the contract is silent on transferability, the contract can be assigned unless assignment delegates performance that the other party has an interest in receiving from, or rendering to, the particular original party. Assignability thus depends in part on the

105. Id at *9. See also *Ticketmaster v. Tickets.com*, 2003 WL 21406289, Lexsee 2003 US Dist Lexis 6483 (2003) (click agreement is not required).

law of nondelegable duties or personal services contracts.¹⁰⁶ A contract can be assigned unless the assignment significantly impairs the other party's interest in receiving performance from, or rendering it to, the particular original party.¹⁰⁷ Contract duties ordinarily cannot be transferred without consent if the "contract shows that authority has been conferred upon another because of personal confidence or trust" and the performance of that contract hinges on the personal skill and judgment of the licensee.¹⁰⁸ Under these rules, many licenses are non-transferable.¹⁰⁹

When the contract is a non-exclusive license of an intellectual property right, however, a different pattern of law exists. Stated simply, the rule is that, as a matter of federal common law, non-exclusive licensees cannot transfer their rights under a license without the consent of the licensor.¹¹⁰ The theory for this rule originated with the proposition that a nonexclusive license is merely a promise to not sue the other party (the licensee). That promise is personal in nature and cannot be transferred without consent. Speaking with reference to a patent license, however, the Ninth Circuit provided an additional explanation:¹¹¹

The fundamental policy of the patent system is to encourage the creation and disclosure of new, useful, and non-obvious advances in technology and design by granting the inventor the reward of the

106. See *In re Pioneer Ford Sales*, 729 F.2d 27, 469-470 (1984). See also *In re Rooster, inc.*, 100 B.R. 228 (Bankr. E.D. Pa. 1989) (Pennsylvania law).

107. See RESTATEMENT (SECOND) OF CONTRACTS §§ 317, 318.

108. See *In re Pioneer Ford Sales*, 729 F.2d 27, 469-470 (1984). See also *In re Rooster*, 100 BR 228 (Bankr. E.D. Pa. 1989) (Pennsylvania law).

109. See *Sally Beauty Co., Inc. v. Nexxus Prod. Co., Inc.*, 801 F.2d 1001 (7th Cir. 1986) (UCC 2-210 bars assignment of duties in exclusive distributorship).

110. See *In re CFLC, Inc.*, 89 F.3d 673, 679, 39 U.S.P.Q.2d 1518, 1523 (9th Cir.1996); *Hilgraeve Corp. v. Symantec Corp.*, 265 F.3d 1336 (Fed. Cir. 2001) ("licenses are considered as nothing more than a promise by the licensor not to sue the licensee. The covenant not to sue in paragraph 2.2 does not grant a *transferable* license to the patent."); *Unarco Indus., Inc. v. Kelley Co., Inc.*, 465 F.2d 1303, 1306, 175 U.S.P.Q. 199, 201 (7th Cir.1972) ("question of assignability of a patent license is a specific policy of federal patent law dealing with federal patent law"), *cert. denied*, 410 U.S. 929, 93 S.Ct. 1365, 35 L.Ed.2d 590 (1973); *Harris v. Emus Records Corp.*, 734 F.2d 1329 (9th Cir. 1984) (copyright); *In re Alltech Plastics, Inc.*, 71 BR 686 (Bankr. W.D. Tenn. 1987); *In re Catapult Entertainment, Inc.*, 165 F.3d 747 (9th Cir. 1999), *cert. dismissed*, 528 U.S. 924 (1999) (Chapter 11 debtor in possession could not assume patent licenses over licensor's objection); *PPG Indus., Inc. v. Guardian Indus. Corp.*, 597 F.2d 1090 (6th Cir.), *cert. denied*, 444 U.S. 930 (1979); *Gilson v. Republic of Ireland*, 787 F.2d 655, 658 (D.C. Cir. 1986), *cert. dismissed*, 335 U.S. 855 (1948), *cert. denied*, 335 U.S. 892 (1948) ("It is well settled that a nonexclusive licensee of a patent has only a personal and not a property interest in the patent and that this personal right cannot be assigned unless the patent owner authorizes the assignment or the license itself permits assignment."); *Stenograph Corp. v. Fulkerson*, 972 F.2d 726, 729 n.2 (7th Cir. 1992) ("Patent licenses are not assignable in the absence of express language.").

111. *In re CFLC, Inc.*, 89 F.3d 673, 679, 39 U.S.P.Q.2d 1518, 1523 (9th Cir.1996).

exclusive right to practice the invention for a period of years. Allowing . . . states to allow free assignability of nonexclusive patent licenses would undermine the reward that encourages invention because a party seeking to use the patented invention could either seek a license from the patent holder or seek an assignment of an existing patent license from a licensee. In essence, every licensee would become a potential competitor with the licensor-patent holder in the market for licenses under the patents.¹¹²

In effect, presumptively restricting transferability reflects the unique character of intellectual property: it is an asset that does not lose value or condition from mere use. Because of this, allowing the licensee to transfer rights under a license would allow the licensee to compete with its licensor on exactly the same work or product that the licensor offers. The policy against transferability may not apply if no transfer occurs, but merely a change in ownership of the licensee company.¹¹³

The impact of the federal policy may be affected in some cases by federal intellectual property law rules that the sale of a product or a copy that conveys ownership of the copy gives the transferee the ability (under property law) to re-transfer that copy even though the right to distribute copies is ordinarily an exclusive right to the copyright owner.¹¹⁴ These rules, however, only apply if the licensee “owns” the copy or machine. Ownership of the copy depends on the terms of the agreement.¹¹⁵ If the license places restrictions on the licensee’s use of the copy or product that are not consistent with ownership, then the licensee does not qualify as an owner and the competing federal rules associated with doctrines of first sale and patent exhaustion do not apply.

UCITA embodies the common law rule allowing transferability, but uses language from Article 2.¹¹⁶ Unless prohibited by other law or by the terms of the contract itself, under UCITA contractual rights may be transferred:

unless the transfer . . . would materially change the duty of the other party, materially increase the burden or risk imposed on the other party, or materially impair the other party’s property or its likelihood or expectation of obtaining return performance.¹¹⁷

112. 89 F3d at 679.

113. *See* Institut Pasteur v. Cambridge Biotech Corp., 41 U.S.P.Q.2d 1503, 104 F.3d 489 (1st Cir. 1997).

114. *See* 17 USC § 117.

115. *See, e.g.,* DSC Communications Corp. v. Pulse Communications, Inc., 170 F.3d 1354 (Fed. Cir. 1999), *cert. denied*, 528 U.S. 923 (1999); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992); *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993).

116. UCC § 2-210.

117. UCITA § 503(a).

The standard of “material” change is not limited by common law ideas that refer to personal services contracts. UCITA, however, also expressly acknowledges the over-riding federal rule and the policies that underlie it, as well as the fact that, even without the over-riding federal rule, many non-exclusive licenses are non-transferable even at common law. The material change standard bars non-consensual transfer where the transfer might expose confidential or other sensitive information to a third party without the other party’s consent.

Article 9 and UCITA both provide that the right to receive payment can be assigned; this rule applies to royalty payments from licenses and other types of contractual payments.¹¹⁸ Article 9 also purports to allow the creation and perfection of a security interest in a licensee’s interest in a license, regardless of whether the licensee’s interest could be transferred under other law.¹¹⁹ Article 9 does not, however, permit foreclosure or other transfer of the interest in the face of a contract clause precluding transfer or a law that makes the licensee’s interest non-transferable. The lien is a passive lien – enforceable only against the proceeds of sale of the contract rights with permission of the licensor. In both respects, Article 9 pursues the goal of increasing the assets available for purposes of secured financing. Of course, however, Article 9 is state law and therefore falls in the event preemptive federal law rules apply.¹²⁰

A contract term precluding transfer of a parties’ contractual interest is enforceable. That result is especially clear in reference to non-exclusive licenses of patents or copyrights in which an underlying assumption is that assignment cannot occur without consent of the licensor.¹²¹ The *Restatement* describes the general principle of enforceability as being grounded in the idea that each party is free, if it chooses, to designate with whom it is willing to deal. Although the *Restatement* suggests that non-transferability clauses should be narrowly, rather than expansively interpreted, it also confirms that for contractual rights or duties, there is no general prohibition against re-

118. UCC § 9- 406(d) (assignability of licensor’s right to payment).

119. UCC § 9- 408 (security interest in licensee rights).

120. One court has held that assignments of royalties under a copyright do not assign the copyright and, thus, come under state law, rather than federal law relating to assignment of rights in a copyright. See *Broadcast Music, Inc. v. Hirsch*, 104 F.3d 1163, 41 U.S.P.Q.2d 1373 (9th Cir 1997) (assignment of royalties need not be recorded under Copyright Act provisions).

121. See *Verson Corp. v. Verson Intern. Group PLC*, 899 F.Supp. 358 (ND Ill.) (restriction does not violate antitrust for to do so would place all licenses under a cloud in light of the federal policy against transferability).

straints on alienation.¹²² UCITA adopts the same common law principle.¹²³

If the license precludes transfer completely or without the licensor's express consent, an attempt to transfer the license should be viewed as ineffective, rather than merely as a breach of contract. That result is supported by the underlying doctrine that non-exclusive licenses are non-transferable and by an equally strong common law premise that parties can control the transferability of contracts. Treating the transfer as ineffective with reference to the licensor is also consistent with the general concept that no bona fide purchaser concept exists in reference to intellectual property rights.¹²⁴

Acts of the unauthorized transferee that use the licensed software are unlicensed and may constitute infringement. That result does not depend on issues about good faith or the like, but as with any infringement claim, liability arises simply because the uses are not authorized and fall within the scope of the non-transferred intellectual property rights.¹²⁵ As a result, a break in the chain of authorization that occurs upstream may nevertheless affect the later licensee.¹²⁶

In transactions in goods, a buyer in good faith takes free of preexisting ownership claims even if the sale to it was not authorized. This occurs primarily in situations in which the owner of the goods (or other rights-holder in them) entrusts the goods to another in a setting that creates the appearance of authority to transfer ownership.¹²⁷ No similar concept exists in intellectual property law. Instead, a transferee receives no rights unless the transfer was authorized by the licensor or by the applicable property rights statute. A recent expression of this was in *Rhone-Poulenc Agro, SA v. DeKalb Genetics*

122. Restatement (Second) of Contracts § 322 (1971).

123. UCITA § 503 (2000 Official Text).

124. *AccuSoft Corp. v. Mattel, Inc.*, 117 F.Supp.2d 99 (D. Mass. 2000).

125. *See, e.g., Microsoft Corp. v. Compusource Distributors, Inc.*, 115 F.Supp.2d 800 (E.D. Mich. 2000) (Reseller violated Copyright Act by sale of counterfeit products. "Although Compusource has been registered in Microsoft's System Builder Program since April 8, 1997, Compusource did not obtain the software and hardware at issue here from a Microsoft "Delivery Service Partner." [The software was] obtained between March 1997 and March 1999 was obtained from unauthorized (non-DSP) distributors.").

126. *See Rhone Poulenc Agro, S.A. v. DeKalb Genetics Corp.*, 284 F.3d 1323 (Fed. Cir. 2002), *cert. denied*, 123 S. Ct. 2668 (2003) (no concept of a good faith purchaser of a license); *Microsoft Corp. v. Grey Computer*, 910 F. Supp. 1077 (D. Md. 1995); *Microsoft Corp. v. Harmony Computers & Elecs., Inc.*, 846 F. Supp. 208 (E.D.N.Y. 1994).

127. The good faith purchase concept, however, does not apply when the possessory interest was transferred in the form of a lease. There, the buyer of the goods takes only the leasehold interest held by its seller. UCC § 2A-305(2).

Corp.,¹²⁸ where the Court of Appeals for the Federal Circuit referencing the UCITA discussion of this issue, denied bona fide purchaser status to a sub-licensee. The court cited UCITA comments.¹²⁹ Indeed, the defendant here failed to cite any cases in which the bona fide purchaser rule was applied to the holder of a mere contract right.¹³⁰

Rhone-Poulenc dealt with a patent license, but the policies apply equally to copyright and trademark licenses. The case did not, however, deal with a situation in which a first sale may have occurred to the party who made the later transfer. A first sale creates a limited form of bona fide purchase in that the buyer is not subject to some of the rights-owner's rights with respect to the copy it buys. On the other hand, the buyer obtains first sale rights only if the seller was authorized to sell. This was underscored in *Microsoft Corp. v. Harmony Computers & Electronics, Inc.*,¹³¹ where a district court granted a preliminary injunction against a retailer that was selling Microsoft products but could not demonstrate that it had obtained those products from a third party authorized to sell the products to it. The infringement consisted of a distribution of the work in copies and, absent an authorized distribution to the retailer, the mere fact that it allegedly acted in the good faith belief that it had obtained the copies through a first sale from an authorized party was not relevant. The alleged first-sale buyer has the burden to prove a chain of title that justifies the first-sale claim.

"No Reverse Engineering" Clauses

One recurring issue in software and related licensing involves the extent to which a license agreement can bar the licensee from "reverse engineering" the licensed subject matter. Reverse engineering con-

128. *Rhone Poulenc Agro, S.A. v. DeKalb Genetics Corp.*, 284 F.3d 1323 (Fed. Cir. 2002), *cert. denied*, 123 S. Ct. 2668 (2003). The court distinguished its earlier holding in *Heidelberg Harris v. Loebach*, 145 F.3d 1454 (Fed. Cir. 1998), *rehearing denied* (1998), a case involving reliance on recorded ownership of a patent in the Patent Office, which record latter was rescinded by another court.

129. UCITA § 506, comment 3 (2001 Official Text).

130. On the other hand, the defendant Monsanto cited "statements from various treatises on patent licensing for the proposition that a sublicense continues, even when the principal license is terminated. But the statements address the situation where the original licensee is terminated as a matter of contract law, e.g., for breach of contract. These treatises do not address the operation of the bona fide purchaser rule with respect to sublicenses and do not state or suggest that a sublicense continues even when the principal license is rescinded because it has been obtained by fraud." 284 F3d at 1332.

131. *Microsoft Corp. v. Harmony Computers & Elecs., Inc.*, 846 F. Supp. 208 (E.D.N.Y. 1994). *See also Microsoft Corp. v. Grey Computer*, 910 F. Supp. 1077 (D. Md. 1995).

sists of disassembling and otherwise closely examining a product in order to discover information about the technology it entails.¹³² Typically, reverse engineering occurs in cases where the transferee has bought the product and owns it. As a practice, it is especially significant in reference to technology protected solely by trade secret law, where it is treated as a proper means of discovering the secret information. In such cases, the Supreme Court has suggested, the ability to reverse engineer a product is an important part of the overall tradeoff of rights established by federal intellectual property law.¹³³

When the technology involved is copyrighted, however, the ability to reverse engineering without violating property rights is less clear because the process of reverse engineering may require making copies of the work in order to inspect the copyrighted code. Cases arising where the reverse engineer owns the product and makes intermediate copies needed to reverse engineer it have held that such copies are fair use if used solely for this purpose.¹³⁴ The status as fair use is less clear, where the person is not an owner, but merely a licensee or lessee because, in such cases, both contractual terms and ownership rights in another party bear against being able to take a product apart and inspect it.¹³⁵

Our concern has to do with contract terms, not fair use. On this issue, there has been an ongoing dispute internationally about whether policies that support reverse engineering should over-ride contract enforcement. The policies that support reverse engineering involve a desire to free up otherwise unprotected technology from secrecy protections in cases where a product revealing the technology is placed into an open market without restrictions. Also, reverse engineering can be seen as an important aspect of the ability of competing software and other products to maintain interoperable systems.

Even though it eventually became part of the UCITA debates, the debate reverse engineering, copyright and the enforceability of license provisions began in the late 1970's in Europe. There, competing coalitions of large companies fought over the terms of the then-proposed EU Software Directive. For our purposes, the primary dispute focused on protecting the ability of licensees and other lawful users of a

132. See generally Raymond T. Nimmer, *The Law of Computer Technology* §§ 3:22-3:27; 1:73 (Thomson-West, 1996, 2004).

133. See *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 US 191 (1989).

134. See, e.g., *Sony Computer Entertainment, Inc. v. Connectix Corp.*, 203 F3d 596 (9th Cir. 2000).

135. See, e.g., *Triad Sys. Corp. v. Southeastern Express Co.*, 64 F3d 1330 (9th Cir. 1995) (finding fair use regarding owned product, but not with reference to licensed product). Compare *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354 (Fed. Cir. 1999).

program to examine its technology in cases where the examination was necessary to attain information in order to establish interoperability of systems, and where the information is not otherwise available. The EU Directive eventually granted copyright protection to software, but provided a narrow exception for reverse engineering necessary to discover otherwise unavailable information required to establish interoperability with the licensed software.¹³⁶ The particular provisions state:

Art. 6:

- (1) The authorization of the rightholder shall not be required where reproduction of the code and translation of its form . . . are *indispensable* to obtain the information necessary to achieve the interoperability of an independently created computer program with other programs, provided that the following conditions are met:
 - (a) these acts are performed by the licensee or by another person having a right to use a copy of a program, or on their behalf by a person authorized to do so;
 - (b) the information necessary to achieve interoperability has *not previously* been readily available to the persons referred to in subparagraph (a); and
 - (c) these acts are confined to the parts of the original program which are necessary to achieve interoperability.
- (2) The provisions of paragraph 1 shall not permit the information obtained through its application:
 - (a) to be used for goals other than to achieve the interoperability of the independently created computer program;
 - (b) to be given to others, except when necessary for the interoperability of the independently created computer program; or
 - (c) to be used for the development, production or marketing of a computer program substantially similar in its expression, or for any other act which infringes copyright.¹³⁷

Article 9 of the Directive goes on to invalidate license agreements to the extent that they are inconsistent (“contrary”) with this narrow exception.¹³⁸

The conditions of indispensability and of the information not previously being “readily available” are significant limitations on the scope of the exemption stated in this language. Given the narrow scope of the exemption, the intrusion on contract rights is very narrow. The United States has no law invalidating license clauses even under these

136. Directive on Legal Protection of Computer Programs (Software Directive), OJ L. 122/42 (May 17, 1991).

137. Software Directive art. 5, 6.

138. Software Directive art. 9(1).

limited conditions. When the Digital Millennium Copyright Act (DMCA) anti-circumvention provisions were negotiated in Congress, reverse engineering exemptions from DMCA liability were enacted after a battle between the same groups that had previously fought in Europe (with some membership changes).¹³⁹ The DMCA exemption, however, does not abrogate contract terms.

Although UCITA did not contemplate dealing with the issue, the conflicting parties forced consideration of the issue. The 2000 Official text of UCITA that was enacted in Virginia and Maryland takes the position that I believe is most appropriate for U.S. law. It provides that a court may invalidate a contract term if it finds that the term violates a fundamental public policy that clearly outweighs the interest in enforcing contract terms.¹⁴⁰ This language derives from language in the *Restatement (Second) of Contracts*. The Official Comments extensively discuss the public interest in allowing reverse engineering in some cases, but do not mandate this result. They state in relevant part:

A term or contract that results from an agreement between commercial parties should be presumed to be valid and a heavy burden of proof should be imposed on the party seeking to escape the terms of the agreement On the other hand, terms in a mass-market license that prohibit persons from observing the visible operations or visible characteristics of software and using the observations to develop non-infringing commercial products, that prohibit quotation of limited material for purposes of education or criticism, or that preclude a non-profit library licensee from making an archival (back-up) copy would ordinarily be invalid in the absence of a showing of significant commercial need. Under the general principle in subsection (b), courts also may look to federal copyright and patent laws for guidance on what types of limitations on the rights of owners of information ordinarily seem appropriate, recognizing, however, that private parties ordinarily have sound commercial reasons for contracting for limitations on use and that enforcing private ordering arrangements in itself reflects a fundamental public policy enacted throughout the Uniform Commercial Code and common law. . . . [Many] areas of public information policy are in flux and subject to extensive debate. In several instances these debates are conducted within the domain of copyright or patent laws, such as whether copying a copyrighted work for purposes of reverse engineering is an infringement. This Act does not address these issues of national policy, but how they are resolved may be instructive to courts in applying this subsection. A recent national statement of policy on the relationship between reverse engineering, security

139. See 17 USC § 1201.

140. UCITA § 103 (b) (2000 Official Text).

testing, and copyright in digital information can be found at 17 U.S.C. § 1201 (1999). . . . It recognizes a policy to not prohibit some reverse engineering where it is needed to obtain interoperability of computer programs. . . .¹⁴¹

In effect, UCITA established a balancing test in which, when the balance clearly turns against enforcement of contract terms, a court is entitled to invalidate a “no reverse engineering” clause.

This provision did not satisfy proponents of reverse engineering who preferred the European solution; it certainly did not satisfy some proponents of open source software who argued that all contract terms limiting reverse engineering in all contexts should be invalid. After several years of ongoing debate, the 2002 Amendments adopted a rule that precludes clauses from barring reverse engineering in limited cases where the program is broadly distributed, the reverse engineering would be fair use, and the reverse engineering is necessary to obtain information for interoperability and no other purpose. The model comes the EU Directive. In the United States, however, it has not been enacted in any state and was deleted when Virginia adopted other portions of the 2002 amendments. In my estimation, it is a political compromise that failed and should not be adopted as state law.

Where does this leave United States law? The first case directly to address the enforceability of “no reverse engineering” clauses in the absence of claims of copyright misuse, is the decision of the Court of Appeals for the Federal Circuit in *Bowers v. Baystate Technologies*.¹⁴² The court held that a “no reverse engineering” clause in a shrinkwrap license was neither preempted nor limited by copyright law or policy. The contract terms are enforceable independent of intellectual property policy or fair use considerations because they reflect a different basis for the rights created - a contractual basis.

Electronic Restrictions

Digital technology enables control of the use of a digital product through direct limitations contained in a distributed copy or through remote access by the licensor to the product itself. The systems have significance with reference to intellectual property infringement issues, but they also have potential importance with reference to licensing law.

141. UCITA § 105, comment 3 (2000 Official Text).

142. *Bowers v. Baystate Technologies*, 320 F3d 1317 (Fed. Cir. 2003). See also *Edelman v. N2H2*, 263 F. Supp.2d 137 (D 2003) (In challenge to DMCA, no cognizable right under law to reverse engineer software).

When development of UCITA initially began, there was virtually no law dealing with electronic measures of this type. UCITA adopted a two-part classification to address some of the contract law issues involved. The classification distinguishes between technology measures that limit use of a computer information product consistent with the terms of the agreement (described as “automatic restraints”)¹⁴³, and measures that enable the licensor to disable performance of the computer information product (devices for “electronic self-help”).¹⁴⁴ Of these, the self-help rules were most controversial, and remain so today.

“Automatic restraints” are code or other devices that restrict the number of uses, number of users, or the like. The simple premise adopted by UCITA is that such devices are not a breach of contract if they operate in a manner consistent with the terms of the agreement, e.g., the licensed scope.¹⁴⁵ In effect, when used in this manner, the “restraint” prevents breach and ensures that performance remains within the parameters of the license. Indeed, in such cases, they are a highly efficient means of monitoring contract compliance without judicial intervention.

After this concept was set out in UCITA, Congress enacted Section 1201 of the DMCA providing sanctions against circumvention of devices that control access to copyrighted works and against trafficking in such circumvention devices.¹⁴⁶ These DMCA provisions have been controversial, being attacked from a rights-restrictor perspective as a restriction on copyright fair use and on the free speech interests of the person that is prevented from circumventing the technology.¹⁴⁷ Of course, the systems are intended to protect the speech interests of the copyright owner by enabling distribution in a form that avoids or at least reduces the immediate, widespread copying of the work and distribution over the Internet. Courts have upheld the DMCA against

143. UCITA § 605(a) (2000 Official Text) (““automatic restraint” means a program, code, device, or similar electronic or physical limitation the intended purpose of which is to restrict use of information.”).

144. UCITA § 816 (2000 Official Text).

145. For a non-technological application of this, see *Golden Voice Technology Training, LLC v Rockwell Electronic Commerce Corp.*, 267 F.Supp.2d 1178 (MD Fla. 2003) (Software agreement limited the number of prerecorded messages that could be accessed, but the licensee’s use exceeded that limitation. The court interpreted the term “access” in light of its plain meaning and held that this violated the license and the underlying patent).

146. 17 USC § 1201.

147. See discussion in Adam Thierer and Clyde Wayne Crews, Jr., *Copy Fights* (Cato Institute, 2002);

First Amendment and related challenges.¹⁴⁸ The purpose behind the provisions was described by one court as enforcing the right of the property owner to place a fence around its property and as a means of implementing effective protection for copyrighted works in a digital environment where rapid, perfect copying threatens to eliminate the in fact the adequacy of protections ordinary under traditional copyright law.¹⁴⁹

This is not a context to engage the debate in reference to DMCA circumvention rules since they focus on property protections, not contract. However, there is a relationship that needs to be pointed out. While DMCA does not refer to contract enforcement, cases that deal with the enforcement of DMCA restrictions against purchasers of works or products containing a DMCA restrictive device, routinely refer to the terms of the contract to determine what are the rights to enforce or to by-pass the restrictive device.¹⁵⁰ This is a result of the type of devices involved. If a copyright owner makes an unrestricted sale of a copy, it could include a device that restricts modification or further copying of the work, but could it include a device that terminates access after five uses? The answer to the latter point is that this would be outside its contractual rights (under UCITA or under general contract law) and might even be treated as a deceptive practice.¹⁵¹ For purposes of DMCA analysis, one might say that the nature of the transaction (a sale) authorized unlimited access to the copy and that, therefore, the circumvention was not without the authorization of the rights owner.¹⁵²

148. See *Universal Studios v. Corley*, 60 USPQ2d 1953 (2d Cir. 2001) (DMCA injunction against online distribution of circumvention code affirmed); *United States v. Elcom Ltd.*, 203 F.Supp.2d 1111 (ND Cal. 2002) (DMCA does not violate First Amendment; software is speech); *Edelman v. N2H2*, 263 F. Supp.2d 137 (D 2003) (In challenge to DMCA, no cognizable right under law to reverse engineer software). On a related issue, see *DVD Copy Control Ass'n, v. Bunner*, 75 P3d 1 (Cal.) 2003). See generally, Raymond T. Nimmer, *DMCA and the First Amendment, in Copyright and Free Speech* (Jonathon Griffiths & Uma Suthersanen eds., forthcoming).

149. *Universal City Studios, Inc. v. Corley*, 273 F.3d 429, 443, 444 (2d Cir. 2001).

150. See, e.g., *Lexmark International, Inc. v. Static Control Components, Inc.*, 253 F.Supp.2d 943 (ED Ky 2003) (DMCA violation; plaintiff explicitly restricted the use of third-party toner cartridge refills for customers opting to buy toner cartridges at a discount under a shrinkwrap agreement).

151. See *Keel v. BMG Entertainment*, 2003 Copr.L.Dec. P 28,711, 2003 WL 22808378 (Cal. App. 2003) (No first Amendment barrier to claim that failure to disclose copy limits on disks was deceptive practice; 1st Amend does not protect deception).

152. See, e.g., *Chamberlain v. Skylink Technologies, Inc.* 2003 WL 22038638 (ND Ill, 2003) (One ground for denial was that there was no circumvention of a technological measure without the authority of the copyright owner because plaintiff had tacitly granted permission).

Placed in a contractual environment and restricted to the parties to the contract and the rights owner, DMCA merely implements in property-rights law a practice that has always existed in information industries - the use of technology to augment contract restrictions. The DMCA rules in that setting recognize what UCITA also acknowledges - in a digital environment, technology does have a role in cabin-ing in performance to match contractual terms.

In contrast to the rules on contractually based automatic restraints, the self-help rules in UCITA and elsewhere have been highly controversial. The difference here is that electronic self-help capacity allows the licensor to shut down use of a computer information product because it believes that a breach of the license justifying this step has occurred. From the perspective of some, electronic self-help is a potentially valuable and efficient remedy, especially for small companies licensing to large companies whose economic leverage may drag out any judicial enforcement proceedings. On the other side, self-help may create undue leverage for the licensor and risk of harm from shutting down a system abruptly and without warning. UCITA was initially criticized for not banning the remedy from the perspective of these persons, mostly large corporations.

This is a substantive debate that is not likely to fade away, but is also not likely to result in many actual uses of the remedy. The promulgated draft of UCITA enacted in Virginia and Maryland contains extensive procedural and substantive limitations that make electronic self-help illegal unless expressly agreed to in the contract and preceded by lengthy notice. Under these rules, there have been no reported instances of attempted electronic self-help in either of the two UCITA states.

UCITA is the only statute that limits electronic self-help. Revisions of Article 9, which occurred parallel to UCITA, declined to address the issue, but do allow secured creditors to repossess equipment by disabling it in place, without notice to the debtor so long as there is no breach of the peace.¹⁵³ This seemingly allows electronic self-help. Similarly, both current Article 2A (on leases) and proposed revisions of Article 2A allow self-help repossession in the event of breach by the lessee so long as no breach of the peace occurs.¹⁵⁴

Subsequently, seeking political progress, the 2002 Amendments provided for a flat ban on electronic self-help.

153. UCC § 9-609(a) (2000 Official Text).

154. UCC § 2A-525 (1998 Official Text).

The case law is limited. One case, for example, allowed electronic self-help where the licensee was aware that the licensor had access to its systems, even though there was no express agreement to this remedy.¹⁵⁵ A later case disallowed self-help in the absence of contractual permission, but this case was decided before enactment of the DMCA.¹⁵⁶

Whether the solutions that UCITA suggests on this issue become the framework for law remains to be seen. In the interim, the current situation is that licensees are exposed to risk of self-help without any of the protective rights contained in UCITA, unless they negotiate for those rights in their license.

Choice of Law

Choice of law issues involve two distinct questions. The first concerns what state's law applies in the absence of a contractual choice of law. The second involves under what circumstances courts will enforce a contractual choice of law.

The first of these questions is simply beyond our capacity to address here in any meaningful manner. Choice of law rules in this country are chaotic, conflicting and oriented to a litigation, rather than transactional setting.¹⁵⁷ UCITA proposes to stabilize this, especially in an online environment, by providing that 1) in an access contract, the choice of law is the location of the licensor (a rule that parallels the provisions of an EU Directive and allows online providers to focus on compliance with a single state's law), and 2) in other cases involving consumers who are to receive tangible copies of computer information products, the choice of law is the state where delivery is to occur.¹⁵⁸

Courts routinely enforce contractual choices of law.¹⁵⁹ Indeed, the *Restatement (Second) of Conflicts of Law* provides that a choice of law provision in a contract is enforceable unless the choice would alter a mandatory rule of the state whose law otherwise applies, and violate a fundamental public policy of that state.¹⁶⁰ Most current, versions of the UCC enforce a choice of law of a state with a reasonable relation-

155. See *American Computer Trust Leasing v. Jack Farrell*, 763 F.Supp. 1473 (D Minn. 1991).

156. See *North Texas Preventive Imaging v. Eisenberg*, 1996 WL 1359212 (CD Cal. 1996).

157. See William Richman & William Reynolds, *Understanding Conflict of Laws* 241 (2d ed. 1992).

158. UCITA § 109 (2002 Official Text) (carried forward with no substantive change from Section 109 of the 2000 Official Text).

159. See discussion in Raymond T. Nimmer & Holly K. Towle, *The Law of Commercial Electronic Transactions* ¶ 8.12 (A.S. Pratt 2003, 2004); Raymond T. Nimmer, *The Law of Computer Technology* §§ 7:85 - 7:88 (West, 1997, 2004).

160. *Restatement (Second) of Conflict of Laws* § 188.

ship to the transaction. UCITA adopts a rule that enforces the contract choice unless it violates a fundamental public policy, is unconscionable, or would alter a mandatory consumer protection rule.¹⁶¹

Subsequent to promulgation of UCITA, revisions of Article 1 of the UCC adopted the UCITA approach by eliminating the reasonable relationship test and codifying the fundamental public policy rule. On the other hand, the revisions include a complex rule that, in effect, applies the consumer law of the consumer's domicile regardless of its mandatory or non-mandatory nature, and changes the applicable law whenever the consumer moves to a new location.¹⁶² That rule has been rejected in most of the few enactments of revised Article 1. It ignores the guidance contained in the Restatement and in UCITA, and ignores commercial reality.

Online Access Contracts

With the advent of the Internet, massive amounts of information are provided through online access systems, many of which use a framework under which contractual permission, described as an "access contract," is required to enter and use the information resources.¹⁶³

The common distinguishing feature of an access relationship is that a central element of the relationship consists of the grant by one party of access to or use of electronic resources, systems, or locations that would otherwise not be available because they are controlled or owned by the access provider. UCITA defines an access contract in the following terms: "'Access contract' means a contract to obtain by electronic means access to, or information from, an information processing system of another person, or the equivalent of such access."¹⁶⁴ Federal law captures a similar concept in defining an "interactive service provider" for purposes of the Communications Decency Act:

[A]ny information service, system, or access software provider that provides or enables computer access by multiple users to a computer server, including specifically a service or system that provides

161. UCITA § 109 (2002 Official Text) (carried forward with no substantive change from Section 109 of the 2000 Official Text).

162. UCC § 1-301 (2001 Official Text).

163. The term, "access contract," comes from UCITA and is defined in the following manner: "'Access contract' means a contract to obtain by electronic means access to, or information from, an information processing system of another person, or the equivalent of such access." UCITA § 102(a)(1) (2000 Official Text).

164. UCITA § 102(a)(1) (1999 Official Text).

access to the Internet and such systems operated or services offered by libraries or educational institutions.¹⁶⁵

These definitions differ, but both focus on “access” as a variable. Given that focus, access relationships include the contracts of Internet service providers, web site operators, online database providers and other similar access providers, such as online auction systems. The key is that a right of access to the provider’s system is a central part of the agreement.

From their emergence, access contracts have been recognized as a new way of distributing information which presents market and other issues unique to their own circumstance. Thus, the United States Office of Technology Assessment commented:¹⁶⁶

[E]lectronic dissemination - unlike printing - does not involve the publication of copies. As a consequence, copyright ownership is transformed from the right to reproduce a copyrighted work in copies for sale to the right to control access to the copyrighted work for any reason. [When] copyright is applied to works that are electronically disseminated, the balance between the rights held by the proprietor and those retained by the public is changed.¹⁶⁷

In these contracts, access, instead of or in addition to intellectual property rights, forms the base for the contract (that is, what the licensor offers and what the licensee decides to acquire). Analogies to print publications and sales of printed copies provide little insight for this context or for what, if any, legal restraints might be placed on providers of information in this format. This is a new method of distribution with its own market characteristics.

Some access relationships are *pure* access contracts, whereas others involve a more expansive service, information, or product involvement by the provider. Regardless of that variation, the fact that access to a controlled environment (web site, database, etc.) constitutes part of the relationship reshapes the basis on which contracts and rights or restrictions can be formed. The scope of copyright protection on the Internet has been often debated, along with questions about the scope of fair use in digital information products, but when the digital information is presented online, copyright is only one of the bases on which the information provider might assert rights. As described in a report by the Copyright Office: “By contrast, fair use and other copyright exceptions are not defenses to gaining unauthorized *access* to a copy-

165. Communications Decency Act, 47 USC § 230(f)(2).

166. Office of Technology Assessment, *Intellectual Property Rights in an Age of Electronics and Information* (Washington: GPO 1986).

167. OTA, *Intellectual Property Rights in an Age of Electronics and Information* 204-205 (Washington: GPO 1986).

righted work: *Quoting a manuscript may be a fair use; breaking into a desk drawer and stealing it is not.*"¹⁶⁸

The general obligations of an access provider differ depending on what it makes available to its users. The point is simple. The access relationship is a separable element of the contractual or other relationship of the parties; in many cases, the provider's obligations are limited to providing access, while other parties have responsibility for meeting further expectations that might result from, or be enabled by the access. Where more is involved (e.g., access granted to a site at which items or information is sold) the access arrangements are separate, or at least separable, matters governed by their own standards as to performance, jurisdiction, or the like unless the access agreement expressly incorporates these separable arrangements.¹⁶⁹

Even as to the access relationship, the provider's obligations vary. There is little case law on the basic relationship, but it is clear that, even when one assumes that an access arrangement exists for a period of time, the provider's obligations should be treated under standards akin to a services contract that does not implicitly require perfect performance. UCITA captures this in the following terms, which apply unless the parties otherwise contract:

- (a) [ACCESS OVER TIME.] If an access contract provides for access over a period of time, the following rules apply:
 - (4) [AVAILABILITY OF ACCESS.] Access must be available:
 - (A) at times and in a manner conforming to the express terms of the agreement; and
 - (B) to the extent not expressly stated in the agreement, at times and in a manner reasonable for the particular type of contract in light of the ordinary standards of the business, trade, or industry.
- (b) [EFFECT OF UNAVAILABILITY OF ACCESS.] In an access contract that gives the licensee a right of access at times substantially of its own choosing during agreed periods, an occasional failure to have access available during those times is not a breach of contract if it is:

168. DMCA Section 104 Report, at 12 (August 29, 2001) (copy available 2001 <http://www.loc.gov/copyright/reports/sec-104-report-vol-1.pdf>) (emphasis added).

169. See, e.g., *Evans v. Matlock*, 2002 WL 31863294 (Tenn. Ct. App. 2003) (eBay user agreement requiring arbitration of disputes applied only to disputes between eBay and users of the services and did not apply to dispute between two users); *Bobholz v. Banaszak*, 655 NW 2d 547 (Wis. App. 2002) (express warranty issues regarding Internet sale); *Metcalf v. Lawson*, 148 NH 35, 802 A2d 1221 (NH 2002) (sale to New Hampshire resident over eBay did not allow for jurisdiction in New Hampshire); *Winfield Collection, Ltd. v. McCauley*, 105 F. Supp. 2d 746 (ED Mich. 2000) (two sales made to Michigan residents through eBay were insufficient to find that the defendant purposefully availed herself of the privileges and protections of the State of Michigan).

- (1) consistent with ordinary standards of the business, trade, or industry for the particular type of contract; or
- (2) caused by:
 - (A) scheduled downtime;
 - (B) reasonable needs for maintenance;
 - (C) reasonable periods of failure of equipment, computer programs, or communications; or
 - (D) events reasonably beyond the licensor's control, and the licensor exercises such commercially reasonable efforts as the circumstances require.¹⁷⁰

To obtain a greater commitment the user of the service must obtain express obligations for availability.

What state contract law applies to an access contract?

UCITA specifically applies to "access contracts."¹⁷¹ In other jurisdictions, common law should govern, but some cases have held that outsourcing contracts were governed by Article 2 when the provider also developed software for the particular outsourcing contract.¹⁷² Clearly, however, Article 2 should be irrelevant because it applies only to transactions in goods and not to a contract regarding use of or access to an online site or service. One is a goods contract and the other is a contract for information, access, and/or services, and there are policy reasons not to lump one with the other. By way of illustration, in *Kaplan v. Cablevision of Pa., Inc.*,¹⁷³ the court faced the argument that a cable television provider was subject to implied obligations of merchantability with respect to its service. The court ultimately rejected that claim, emphasizing the services and intangible focus of the relationship. It commented:

Although the audio and video signals which the Cable Companies transmit move through the cable wires. . . . The signals . . . are not fairly identified as movables before the contract is performed. The Cable Companies do not sell a tangible . . . instead they supply a continuous stream of audio and video signals. . . . The merely act as a common carrier . . .¹⁷⁴

170. UCITA § 611 (1999 Official Text).

171. UCITA § 102(a)(1) (1999 Official Text).

172. See *Colonial Life Ins. Co. of Am. v. Electronic Data Systems, Inc.*, 817 F. Supp. 235 (DNH 1993); *Hospital Computer Sys., Inc. v. Staten Island Hospital*, 788 F. Supp. 1351 (1992). These cases did not involve online access contracts, however.

173. *Kaplan v. Cablevision of Pa., Inc.*, 448 Pa. Super. 306, 671 A2d 716 (Pa. Super. 1996). See also *William B. Tanner Co., Inc. v. WIOO, Inc.*, 528 F.2d 262 (3d Cir. 1975) (license for vocal and instrumental recordings to be used on the air not a "transaction in goods" within Article 2.); *Snyder v. ISC Alloys, Ltd.*, 772 F. Supp. 244 (W.D. Pa. 1991); *Rosenstein v. Standard and Poor's Corp.*, 636 N.E.2d 665 (Ill. App. Ct. 1993) (data license not goods).

174. *Kaplan v. Cablevision of Pa., Inc.*, 671 A2d 716, 724 (Pa. Super. 1996). See also, *Pearl Investments, LLC v. Standard I/O, Inc.*, 257 F. Supp. 2d 326 (D. Me. 2003). In *Pearl*, the court was asked to determine whether a software developer made implied UCC warranties for the

Courts need to tread carefully in this area because of the tendency by some to fail to distinguish between goods and information¹⁷⁵ and the historical tendency to use a predominant-purpose test, at least when dealing with Article 2 goods and common law services. A predominant-purpose test does not work for access contracts. Under that approach, there is danger that Article 2 will not apply to the sale of a good when it ought to apply, and danger that Article 2 will be applied to other subject matter when it should not be.¹⁷⁶

The only test that will recognize the nuances involved when an access contract involves a sale of goods is a gravamen of the action test, that is, an “each to its own” test. UCITA, the only statute that has considered these issues, requires expressly that, but courts should reach the same result under a reasoned analysis of the circumstances. The gravamen test and UCITA recognize that the reality and beauty of the information age is that many disciplines are converging and law cannot work well in that kind of environment unless nuances are observed.

The point is that only a gravamen of the action approach will address the convergence issues that are inherent in an access contract involving access, information, goods, and services. Use of a predominant-purpose approach will simply recreate what both UCITA and UCC Article 2 originally sought to avoid, a single intellectual bin for all cases and patterns no matter their nuances.

contracted software. The court determined that no such warranties existed because the predominant thrust of the transactions was for services, not goods:

[T]he Law Court has not had occasion to consider whether a contract for the provision of software primarily constitutes a good or a service. [Plaintiff software licensee] asserts that the weight of authority favors treatment of software programs as goods for purposes of the UCC. . . . However, I agree with the Defendants. . . that the cases on which [plaintiff] relies are distinguishable. . . . [I]n the instant case, [the parties] agreed that Standard would create ATS software from scratch (concept to realization) for which it would be paid on a time and materials basis.

I find cases more closely on point than *Dharma*, *Unisys* and *RRX* holding that, for purposes of applicability of the UCC, development of a software system from scratch primarily constitutes a service.

Id. at 353.

175. See, e.g., *Specht v. Netscape Communications Corp.*, 306 F3d 17 (2d Cir. 2002) (citations omitted) (court noted that some courts have applied UCC Article 2 to software on a diskette; the discussion, however, signals the court’s likely disagreement with such application: the court characterized some of the courts applying Article 2 as doing so with “misgivings” and also noted the “trend away from application of UCC provisions to software sales and licensing and toward application of intellectual property principles”).

176. See discussion in Raymond T. Nimmer & Holly K. Towle, *The Law of Commercial Electronic Transactions* ¶ 8.01 (A.S. Pratt 2003, 2004).

SUMMARY

This article has attempted to provide the outlines of a template for understanding licensing as a commercial transaction and the present state of the law that relates to such transactions, including the influence on that law that is being felt through the debates, enactment and discussion of UCITA. I have not attempted to be comprehensive. That task must be left for another venue and a much lengthier consideration of the legal issues involved.¹⁷⁷ Rather, I have attempted to highlight some of the major points of contention and, more importantly, the various ways in which license agreements present unique issues for persons involved in creating, litigating, or dealing with license relationships as third parties. The differences between licensing of information and sales or leases of ordinary, tangible goods are immense as well as subtle. They demand continuing attention to this type of transaction as an ordinary part of commercial law and practice.

Stimulated in part by the development of UCITA and in part by the simple reality that appears to all of us on a daily basis, courts and legislatures have begun to recognize the differences between transactions in goods and transactions in information, including especially, licenses of information assets, including software. That recognition is present in UCITA, Article 9, revisions of Article 2, the enactment of federal electronic signature law, and the promulgation of the UETA, as well as in other legislation. While some courts continue to cling to the use of goods law for limited issues associated with software transactions, cases broadly and properly look elsewhere for guidance on most issues related to licensing, and one of the sources they refer to is UCITA. As the recognition of the differences between licensing and goods law continues, UCITA will continue to play a role in shaping how the law develops in this context. The future of UCITA in terms of immediate enactments is not clear. It is clear, however, that the terms of UCITA and the rationale that supports them will continue to play an increasingly important role into the future. Much like original Article 2 in the 1950's, the history of UCITA will not be finally written for a number of years.

But even aside from UCITA, there are clear functional and legal differences in the rights and obligations associated with an information license that distinguish it from other types of transactions. It is to understanding and applying those differences that the attention of

177. See, e.g., Raymond T. Nimmer & Holly K. Towle, *The Law of Commercial Electronic Transactions* (A.S. Pratt 2003, 2004).

courts and practitioners in commercial should and increasingly does turn. Hopefully, this paper will help in some modest way in assisting that focus.

