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UNIFORM COMMERCIAL CODE ARTICLE 2B & THE STATE CONTRACT LAW-FEDERAL INTELLECTUAL PROPERTY LAW INTERFACE: CAN STATE STATUTES EVEN BEGIN TO ADDRESS COPYRIGHT PREEMPTION OF SHRINK-WRAP LICENSES? 1

INTRODUCTION

The information industry generates over 90 billion dollars a year selling software and data, 2 and this information is increasingly being distributed in digital form. 3 The ease with which digital products can be copied 4 coupled with advances in technology, particularly the Internet, undermine the information industry's control over subsequent distribution and use of their products. 5 Intellectual property laws provide one way for companies to prevent undesirable uses of their products. Companies, however, increasingly rely on contract law, specifically shrink-wrap licenses, to force customers to adhere to restrictions on uses of software and data. 6

1 Many thanks to Professor Julian McDonnell and Professor Paul Heald for their guidance on this project.
3 Maureen A. O'Rourke, Copyright Preemption After the ProCD Case: A Market-Based Approach, 12 BERKELEY TECH. L.J. 53, 53 (1997). The scope of this article is limited to shrink-wrap licenses used in the mass-market context to license the use of software and data in digital form, regardless of how the information is distributed, for example, by traditional retail sale or via the Internet. The terms "information" and "software," as used in this article, mean software and data in digital form.
4 See generally Maureen A. O'Rourke, Drawing the Boundary Between Copyright and Contract: Copyright Preemption of Software License Terms, 45 DUKE L.J. 479, 483 (1995) (explaining the difference between "hard and soft copy worlds").
5 Tom Quinlan, Software Buyers Wary of New Consumer Code, SAN JOSE MERCURY NEWS, Apr. 20, 1997, at D1 (quoting Kaye Caldwell, President, Silicon Valley Software Industry Coalition, as saying, "you can't copy a pair of pants and bring it back to the store. There has to be recognition that software is different from other products."). But see Niva Elkin-Koren, Copyright Policy and the Limits of Freedom of Contract, 12 BERKELEY TECH. L.J. 93, 94 (1997) (arguing that advances in technology and dissemination of information "on-line" enable software producers to increase control of digital products through technological fencing).
Shrink-wrap licenses are non-negotiated, standard form contracts that are attached to software products either inside the plastic wrapping (hence, "shrink-wrap" license), inside the box, or on-line as a prerequisite to loading the software. These agreements are imposed on almost all purchasers of software and have become ubiquitous as software has become an increasingly mass-market product.

Although most consumers probably do not notice shrink-wrap licenses, much less read the terms to which they are agreeing, the enforceability of such licenses greatly concerns the information industry, law makers, and academics because of the pervasive use of these contracts in the information industry and the general uncertainty as to their legal efficacy. Courts considering the validity of shrink-wrap licenses have analyzed two legal issues: Whether shrink-wrap licenses and their terms are valid as a matter of contract law, and whether shrink-wrap licenses and terms that modify intellectual property rights are preempted by federal copyright law.

The American Law Institute is currently drafting a new Uniform Commercial Code provision to resolve these issues. U.C.C. Article 2B expressly validates non-negotiated, standard form, are attempting en masse to 'opt out' of intellectual property law by drafting license provisions that compel their customers to adhere to more restrictive provisions than copyright (and even patent) law would require. See generally, id. at 1241-48 (outlining the history of shrink-wrap licenses in the information industry).

Lemley, supra note 6, at 1241; see generally Comments of the Information Industry Association on Article 2B and Prof. Charles McManis' Proposed Amendment to section 2B-308 (July 18, 1997) (on file with author) (stating that the use of mass-market licenses is the current industry practice).

O'Rourke, supra note 4, at n.59 (noting Professor Merges' findings that prepackaged software accounts for about seventy percent of industry revenues).


See supra notes 1-7 (evidencing concern over the enforceability of shrink-wrap licenses).

Compare, e.g., Lemley, supra note 6, at 1259 (noting with approval that shrink-wrap licenses are generally held unenforceable by courts) with O'Rourke, supra note 3, at 63-77 (evaluating the competing views of shrink-wrap license enforceability and arguing that a recent case enforcing such a license was correctly decided, contrary to academic thought and the views of other courts).

Lemley, supra note 6, at 1248-59.

shrink-wrap licenses under state contract law. In addition to resolving the contract formation issue, the drafters of Article 2B are struggling with how to address the enforceability of license terms that modify intellectual property rights under the Copyright Act of 1976. The issue of how to address the possible preemption of mass-market license terms by the Copyright Act has divided the drafters.

Initially the A.L.I. drafters adopted language that would make some restrictive license terms unenforceable in light of users’ rights granted under the Copyright Act of 1976. Specifically, the A.L.I. adopted the McManis Proposal, a provision targeting license terms that expand copyright protection and restrict users’ rights under the Copyright Act. The McManis Proposal responds to criticism that mass-market licenses function as private legislation modifying the copyright bargain struck by federal law. The National Conference of Commissioners on Uniform State Laws (NCCUSL), however, decided not to accept the McManis Proposal and has asked the A.L.I. to reconsider it. Instead, NCCUSL advocates Article 2B taking a neutral position regarding federal preemption.

The schism between the A.L.I. and NCCUSL illustrates the lack of consensus on this issue. Some critics argue that the license terms at issue are preempted by the Copyright Act and advocate state laws that deem such terms unenforceable. Other commentators argue the necessity of using licenses in the digital information context and contend that these license terms are not

16 See infra Part I.C (discussing the McManis Proposal).
17 Lemley, supra note 6, at 1240.
19 Id.
21 Lemley, supra note 6, at 1240.
22 O'Rourke, supra note 3, at 53.
preempted by the Copyright Act.23 This Note examines the complexity of the contract-copyright nexus in the information context and discusses the wisdom of using state statutory law to address the likelihood that the federal copyright regime preempts certain license terms.24

The justification for state statutory action in this area is twofold. First, state action resolves any uncertainty as to enforceability. Second, state action preserves the rights granted to users by the Copyright Act. I will argue that these two reasons do not support state action regarding the preemption issue and that the position of neutrality adopted by NCCUSL is the correct one. The complexity of federal preemption law25 means a blanket proscription by state statute may be overly broad and would unnecessarily interfere with accepted commercial practice.26 Moreover, the issue of preemption is ultimately a federal one. In order to avoid a patchwork of license preemption determinations by state courts and legislatures, the issue should be addressed on the national level.

In Part I, I discuss the history and terms of the McManis Proposal. Part II describes the provisions of the Copyright Act referenced by the McManis Proposal and briefly explains how each is applicable in the information licensing context. In Part III, I will analyze the purposes, terms, and effect of typical mass-market licenses. Part IV reviews current preemption law in the intellectual property context. Part V analyzes how the McManis Proposal attempts to address the preemption issues and how it impacts the use and enforceability of mass-market license terms.

23 Id. at 56.
24 Section 308 of Article 2B generally validates mass-market licenses as a matter of contract law, however, issues regarding contract formation and conscionability are outside the scope of this article. See generally Lemley, supra note 6, at 1248-55 (addressing contract law problems with enforcing shrink-wrap licenses); Stephen Y. Chow, Contracting in Cyberspace: The Triumph of Forms?, 41 BOSTON B.J., May/June 1997, at 16 (analyzing contract law problems arising from on-line commerce and mass-market software). Instead, I focus on whether state statutory contract law should address the enforceability of particular license terms which may be preempted by federal law.
25 Lemley, supra note 6, at 1270 (explaining the difficulty of applying federal preemption rules in the intellectual property context).
26 In many cases interference with commercial practice is necessary to advance important social policies. The U.C.C., however, is fundamentally a commercial tool whose "goals are to facilitate, not disrupt, and to support, not redirect, commercial practice." Nimmer, supra note 14, at 2.
I. THE MCMANIS PROPOSAL

A. U.C.C. ARTICLE 2B

The American Law Institute (A.L.I.) is currently drafting a new Uniform Commercial Code (U.C.C.) provision titled "Licenses." Article 2B is intended to govern transactions involving "licenses of information and software contracts." When a transaction involves both information and goods, Article 2B "applies to the information and to copies of the information, its packaging, and documentation." The statute does not create new contract law applicable to intellectual property and information, but rather it codifies established commercial practice in that industry. Furthermore, the guiding principles of the drafters include paralleling intellectual property laws when possible and remaining neutral with respect to complex federal preemption issues.

The paradigmatic transaction under Article 2B is a license to use information. The information products whose licenses are governed by Article 2B are likely to include both copyrightable subject matter and information that is not protectable under the Copyright Act because it is in the public domain or lacks the requisite originality. Although Article 2B applies to licensing transactions and leaves sale of goods transactions to U.C.C. Article 2, an exception is carved out for the sale of computer software. All transactions involving computer software are covered by Article 2B regardless of whether the transaction involves a license or a sale.

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28 U.C.C. § 2B-103(a) (defining article 2B's scope).
29 U.C.C. § 2B-103(c).
30 Nimmer, supra note 14, at 3.
Article 2B is intended to govern licensing transactions in a broad range of commercial contexts including non-negotiated, retail purchases. Section 308, entitled “Mass-market Licenses,” addresses issues regarding the licenses typically used in such retail transactions. Article 2B defines mass-market license to mean a license used in a “transaction in a retail market involving information directed to the general public as a whole under substantially the same terms for the same information, and involving an end-user licensee that acquired the information under terms and in a quantity consistent with an ordinary transaction in the general retail distribution.” This definition includes transactions involving individual consumers and some small businesses.

In the past, courts have been unclear as to whether mass-market licenses met the contract formation requirements of state contract law, and whether the adhesion character of the contract prevented the incorporation of all terms. The main purposes of section 308 are to recognize that the use of mass-market licenses is standard commercial practice and to codify the general enforceability of those licenses and their terms. The drafters provide this explanation of Article 2B’s focus on mass-market licenses:

The basic principle lies in the fact that in commercial agreements, standard form use is widely and broadly acceptable. It provides a number of economies in transaction costs and, quite simply, provides a strongly supported commercial practice. Article 2B adopts the position that standard forms used to document an agreement are enforceable so long as

35 U.C.C. § 2B-308.
37 U.C.C. § 2B, Part 1 (Proposed Draft Jan. 20, 1997) (introductory paragraph titled “Context”). The preface to Article 2B states that “[t]his Article creates the idea of a ‘mass-market’ contract that achieves a shift away from traditional patterns in the U.C.C. which focus on ‘consumers.’ The term moves to a retail marketplace definition in which consumers and some businesses are treated under the same protective law.” Id.
the party being charged with the terms of the form manifested its assent to the form. 38

The drafters recognized, however, that state contract laws, that is, the U.C.C., that approve the use of mass-market licenses and terms generally, are not impervious to preemption by federal law on specific matters. Two related but separate concerns reinforce the need to recognize and to deal with the possibility of preemption: First, the desire to codify commercial practice and to ensure the general enforceability of mass-market licenses under state contract law; and second, concerns that some restrictive license terms may deny licensees their rights under the Copyright Act. 39 While Article 2B section 308 addresses the validity of mass-market licenses generally, the McManis Proposal attempts to address the latter concern.

C. THE MCMANIS PROPOSAL

During the Article 2B drafting meeting at the A.L.I. Annual Meeting in May of 1997, 40 Charles McManis, a Professor at the Washington University School of Law, proposed an amendment to Article 2B section 308 on mass-market licenses. 41 The committee voted to adopt his proposal by a narrow margin. 42 The McManis Proposal provides that a mass-market license term that is inconsistent with certain provisions of the Copyright Act cannot become part of the contract. 43 The proposal addresses the complex

43 McManis Proposal, supra note 41.
relationship between private rights created by contract law, that is, licenses, and the property rights conferred by federal copyright law. Where contract and copyright rights conflict, the proposal attempts to dodge the preemption bullet\textsuperscript{44} by ensuring private contract rights created under the U.C.C. do not contravene the federal scheme of property rights under the Copyright Act of 1976.\textsuperscript{45}

Specifically, McManis proposed amending section 308 to prohibit enforcement of mass-market license terms which are “inconsistent” with Copyright Act provisions that confer rights on users of information.\textsuperscript{46} McManis’ purpose in amending section 308 was to “create greater certainty as to the enforceability of mass-market licenses by avoiding ... the possibility of conflict with, and consequent preemption by, federal copyright and/or federal patent law.”\textsuperscript{47}

The drafting committee recognized that any state statute governing information and software transactions would necessarily have to confront “Federal Intellectual Property Interface” issues.\textsuperscript{48} When confronted with such an interface, the policy guiding the Article 2B drafters is to either design the U.C.C. rules to parallel and be consistent with preemptive federal law,\textsuperscript{49} or to adopt a position of neutrality.\textsuperscript{50}

The text of the amendment proposed by Professor McManis and adopted by the A.L.I. is as follows: “A [mass-market license] term that is inconsistent with 17 U.S.C. § 102(b) or with the limitations on exclusive rights contained in 17 U.S.C. sections 107-112 and 117

\textsuperscript{44} McManis Proposal, \textit{supra} note 41. The supporting comments to the motion state that subsection (h) is intended “to create greater certainty as to the enforceability of mass-market licenses by avoiding, or at least reducing, the possibility of ... preemption by ... federal intellectual property law.” \textit{Id.}


\textsuperscript{46} McManis Proposal, \textit{supra} note 41.

\textsuperscript{47} \textit{Id.} (supporting comments to motion).

\textsuperscript{48} Nimmer, \textit{supra} note 15 (recognizing “there are many cases where preemptive federal rules apply”); see also U.C.C. § 2B-104 (Proposed Draft Jan. 20, 1997) (comments) (noting that the article is subject to preemptive federal law).

\textsuperscript{49} Nimmer, \textit{supra} note 15, at 7 (adopting parallel position on issue of transferability of copyright subject matter).

\textsuperscript{50} \textit{Id.} (adopting neutral position with respect to “uncertain, complex, or currently controversial issues,” for example, the fair use of information products).
cannot become part of a contract under this section. The proposal's text, though not self-explanatory, is clarified by McManis in his commentaries. The license terms which McManis perceives to be inconsistent with the Copyright Act fit in two general categories: (1) license terms that prohibit reverse engineering to access noncopyrightable ideas, procedures, processes, systems, methods of operation, concepts, principles, discovery, or data; and (2) license terms that prohibit non-infringing uses of copyrightable subject matter, including section 107 fair uses, uses allowed under the "safe haven" provisions of sections 108-112, and uses permitted under section 117.

Critics of the McManis Proposal find its language susceptible to interpretations that are even more restrictive than the meaning intended by its proponent. Responding to A.L.I.'s adoption of the provision, the information industry strongly contested the provision holding terms inconsistent with section 102(b) unenforceable.

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51 McManis Proposal, supra note 41 (adopted as section 2B-308(h)). The motion originally posed an alternative amendment to the one adopted. The alternative amendment provided: (h) A term that prohibits:

(1) any act of reverse engineering (including decompilation or disassembly) of computer programs for the purpose of a) achieving the interoperability of an independently created computer program with other computer programs, or b) gaining access to any uncopyrightable and unpatented idea, procedure, process, system, method of operation, concept, principle, discovery, or data; or

(2) the fair use, as defined by 17 U.S.C. section 107, of the results of any act of reverse engineering specified in subsection (h)(1); cannot be enforced to prohibit any act of reverse engineering specified in subsection (h)(1) which a) is performed by a licensee or by another person having a right to use a copy of a computer program, or on their behalf by a person authorized to do so; and b) is indispensable for one of the purposes specified in subsection (h)(1).

McManis Proposal, supra note 41.

52 See, e.g., Sega Enters. Ltd. v. Accolade, Inc., 977 F.2d 1510, 1520-28, 24 U.S.P.Q.2d (BNA) 1561, 1566 (9th Cir. 1992) (holding that under section 107 of the Copyright Act a party in rightful possession of a copyrightable computer program may undertake necessary efforts, including disassembly or decompilation, to gain an understanding of the unprotected functional elements of the program).

53 McManis Proposal, supra note 41, at n.1 (supporting comments).

They interpreted that clause to mean mass-market licenses could not be used to protect information that was not copyrightable subject matter. This posed a potential problem for companies that sell uncopyrightable data. In response to this complaint, McManis asserted that information outside the scope of copyright subject matter, and thus federal copyright protection, can be neither legislated by Congress, nor can Congress preempt the states from legislating in that area. Therefore, a license term prohibiting copying of noncopyrightable data would not be prohibited by the McManis Proposal, contrary to the information industry interpretation of the proposed statute. This dispute over the scope of preemption under section 102(b) illustrates the fundamental problem with using a state statute to regulate complex preemption issues generally.

The underlying justification for not enforcing certain license terms is to prevent later preemption under the Copyright Act or the Supremacy Clause. As McManis himself admits, however, the existing federal appellate case law is unsettled on this issue. A central difficulty with a statutory provision rejecting license terms inconsistent with rights granted by the Copyright Act is that the scope of those rights is unclear. In fact, courts have had

56 Comments of the Information Industry Association on Article 2B and Prof. Charles McManis' Proposed Amendment to section 2B-308 (July 18, 1997) (on file with author); Letter from James R. Maxeiner, Vice President & Associate General Counsel, Dun & Bradstreet, to C. Ronald Ellington, NCCUSL Commissioner (July 18, 1997) (on file with author); Letter from Michael L. Meyer, Schift Hardin & Waite, to C. Ronald Ellington, NCCUSL Commissioner (July 18, 1997) (on file with author).

57 Memorandum from Charles R. McManis, to Commissioner Carlyle Ring, Chairman, NCCUSL Article 2B Drafting Committee 2 (August 19, 1997) (on file with author).


59 U.S. CONST. art. VI.

60 McManis Proposal, supra note 41, at n.1 (supporting comments). The current case law is discussed infra Part IV.A.

61 For example, only a few courts have applied the fair use doctrine to computer programs, and those cases are disputes involving reverse engineering. Bradley W. Grout, Note, Wobbling on the Shoulders of Giants: The Supreme Court's Failure in Lotus v. Borland,
difficulty applying the Copyright Act to software generally. The uncertainty as to how users' rights are defined in the digital information context means the drafters of Article 2B can only guess which license terms are preempted because they unduly restrict those rights. Although McManis sees the "unsettled" state of law in this area as a reason to tackle copyright issues in the U.C.C., a statutory provision tying mass-market license enforceability to federal laws, which are themselves unsettled in the information context, may do little to "create greater certainty" about the validity of these licenses.

The next section briefly explains the Copyright Act provisions referenced by the McManis Proposal and how they apply in the information mass-market license context.

II. COPYRIGHT LAW

The McManis Proposal deems unenforceable contract terms inconsistent with sections 102(b), 107-112, and 117 of the Copyright Act of 1976. These provisions can be divided into two categories: (1) those addressing the scope of copyrightable subject matter; and (2) those creating users' rights.

A. COPYRIGHTABLE SUBJECT MATTER: 17 U.S.C. § 102

The first prong of the McManis Proposal provides that a mass-market license term "inconsistent with 17 U.S.C. section 102(b) . . .


63 McManis Proposal, supra note 41 (supporting comments).

64 17 U.S.C. §§ 102(b), 107-12, 117 (1994).
cannot become part of a contract under this section.\textsuperscript{65} Section 102(a) of the Copyright Act defines copyrightable subject matter under the Act.\textsuperscript{66} Under this definition, computer software and electronic databases, the primary targets of the mass-market licenses governed by section 308,\textsuperscript{67} are "literary works" and therefore protected as copyrightable subject matter.\textsuperscript{68} The Act limits copyright protection, however, to an author's original expression as fixed in a tangible medium.\textsuperscript{69} Furthermore, the Act excludes from its protective ambit the ideas contained in the protected expression.\textsuperscript{70}

Section 102(b) excludes "any idea, procedure, process, system, method of operation, concept, principle, or discovery" from copyright protection.\textsuperscript{71} The language of the Act recognizes that noncopyrightable material may exist within a protected original work of

\textsuperscript{65} U.C.C. § 2B-308(h) (Proposed Draft Jan. 20, 1997); supra note 51 and accompanying text.

\textsuperscript{66} The statute provides:

Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. Works of authorship include the following categories:

1. literary works;
2. musical works, including any accompanying words;
3. dramatic works, including any accompanying music;
4. pantomimes and choreographic works;
5. pictorial, graphic, and sculptural works;
6. motion pictures and other audiovisual works;
7. sound recordings; and
8. architectural works.


\textsuperscript{67} U.C.C. § 2B-308.

\textsuperscript{68} Lotus Dev. Corp. v. Borland Int'l., 49 F.3d 807, 817, 34 U.S.P.Q.2d (BNA) 1014, 1023 (1st Cir. 1995) aff'd by equally divided Court, 516 U.S. 233 (1996) (explaining that "computer programs, unlike VCRs, are copyrightable as 'literary works' [under] 17 U.S.C. § 102(a)"); Charles R. McManis, Intellectual Property Protection and Reverse Engineering of Computer Programs in the United States and the European Community, 8 HIGH TECH. L.J. 25, 33-34 (1993) (noting that computer generated screen displays are protected under 102(a)(5) as pictorial or graphic works). This article is limited to a discussion of information products that are literary works. The same analysis, however, may also apply to mass-market licenses of other types of copyrightable subject matter.

\textsuperscript{69} 17 U.S.C. § 102(a) (1994).

\textsuperscript{70} Id. § 102(b).

\textsuperscript{71} Id.
authorship and expressly does not extend protection to noncopyrightable material "regardless of the form in which it is described, explained, illustrated or embodied in such a work." 72 Section 102(b) is generally recognized as a codification of the idea-expression dichotomy, 73 which was first enunciated in Baker v. Selden. 74 Although courts have had difficulty applying the idea-expression dichotomy to computer programs, 75 it has functioned as a very real limitation on the ability of software producers to win copyright infringement cases. 76 The Act's originality requirement 77 also limits the ability of software producers to protect certain parts of computer programs 78 and some databases. 79

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72 Id.
73 Computer Assocs. Int'l v. Altai, Inc. 982 F.2d 693, 704, 23 U.S.P.Q.2d (BNA) 1241, 1251 (2d Cir. 1992) (recognizing that "computer programs hover even more closely to the elusive boundary line [between idea and expression] described in § 102(b) [sic]"; Whelan Assocs., Inc. v. Jaslow Dental Lab., Inc., 797 F.2d 1222, 230 U.S.P.Q. (BNA) 481 (3d Cir. 1986); see also McManis, supra note 68, at 40-41 (explaining the section 102(b) idea-expression dichotomy, its corollary, the merger doctrine, and the analogous fact-expression dichotomy).
74 101 U.S. 99 (1879).
75 ROBERT P. Merges et al., INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE 889 (1997) (noting that every court to confront the issue since 1992 has chosen the Altai test).
76 See, e.g., Lotus Dev. Corp. v. Borland Int'l, Inc., 49 F.3d 807, 34 U.S.P.Q.2d (BNA) 1014 (1st Cir 1995); Computer Assoc. Int'l v. Altai, Inc. 982 F.2d 693, 23 U.S.P.Q.2d (BNA) 1241 (2d Cir. 1992); Merges et al., supra note 75, at 888 (1997) (noting that the Altai test itself "has been bitterly attacked by lawyers and scholars representing large computer companies").
78 Some parts of computer programs fall into the scenes a faire category of unprotectable information because they are so commonly used in all programs. Grout, supra note 61, at 114-16. Other parts of a program may not be copyrightable because of the idea-expression dichotomy and the merger doctrine. McManis, supra note 68, at 40-41.
79 After Feist Publications, Inc. v. Rural Telephone Service Co., compilations must be original in selection and arrangement in order to receive protection under the Copyright Act. 499 U.S. 340, 18 U.S.P.Q.2d (BNA) 1275 (1991). The Court held that the alphabetical telephone directory at issue did not have the statutorily and constitutionally required originality for federal copyright protection. Thus, both courts that examined the recent ProCD case presumed that the copied database, which was a compilation of phone numbers, was not protected by the Copyright Act. Compare ProCD, Inc. v. Zeidenberg, 908 F. Supp. 640, 38 U.S.P.Q.2d (BNA) 1513 (W.D. Wis. 1996) (ProCD I) with ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 39 U.S.P.Q.2d (BNA) 1161 (7th Cir. 1996) (ProCD II) (notwithstanding agreement about lack of copyright protection, conflicting views on the enforceability of shrink-wrap licenses exist).
Computer companies, losing infringement cases because the information they seek to protect is not copyrightable subject matter, are relying on contract causes of action to protect their products. Mass-market license terms that prohibit all copying grant copyright-like protection to elements of software and databases that are not protected under the federal copyright regime. Furthermore, license terms that prohibit reverse engineering prevent a user from even accessing the noncopyrightable portions of an otherwise copyrightable program. Thus, under the first prong of the McManis proposal, there are potentially two types of license terms inconsistent with section 102(b) of the Copyright Act: (1) license terms that prohibit copying of uncopyrightable subject matter and thus grant copyright-like protection to uncopyrightable subject matter; and (2) license terms that prevent reverse engineering, that is, copying copyrightable information for the limited purpose of gaining access to uncopyrightable information.

The second prong of the McManis Proposal addresses license terms that are inconsistent with the Copyright Act’s limitations on the copyright owner’s rights because such terms grant expanded protection to copyrightable information at the expense of users’ rights. The next section analyzes this prong.


The second prong of the McManis Proposal provides that a mass-market license term “inconsistent . . . with the limitations on exclusive rights contained in 17 U.S.C. sections 107-112 and 117
cannot become part of a contract under this section." The seven Copyright Act provisions cited in this prong limit the exclusive rights granted to copyright owners by section 106. At the same time, these provisions grant certain rights to users of copyrighted works. A brief explanation of the key provisions and their application in the digital information context follows.

1. 17 U.S.C. § 107: The Fair Use Provision. The fair use privilege is one of the most contested rights in the information

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86 McManis Proposal, supra note 41.
87 The statute provides:
Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
1. to reproduce the copyrighted work in copies or phonorecords;
2. to prepare derivative works based upon the copyrighted work;
3. to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
4. in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
5. in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and
6. in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

89 The main purpose of the McManis Proposal is to preserve "fair uses" of copyrightable information under the Copyright Act. McManis Proposal, supra note 41. Therefore, this section focuses on fair uses granted under the Act. Application of 17 U.S.C. §§ 110-112 in the digital information context and, in particular, in the mass-market license context is unclear, but it appears there may be some rights conferred to users of multimedia software. There has been no commentary or case law on the application of these provisions to the narrow circumstances concerning this article, and therefore, I will only mention them briefly as a potential source of users' rights: 17 U.S.C. § 110 allows certain performances and displays of copyrighted works without the permission of the owner; section 111 allows secondary transmissions works; and section 112 allows "ephemeral recordings" of copyrighted works without permission. In sum, users of audio, visual, or audio-visual works are given certain rights of use under sections 110 to 112, and those exceptional uses would otherwise be prohibited by the copyright owners' exclusive rights under section 106. The user rights created in sections 110 to 112, however, may be abridged by restrictive licenses attached to multimedia software products.
context, and in copyright law generally.90 The statute provides:

Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—

(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
(2) the nature of the copyrighted work;
(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
(4) the effect of the use upon the potential market for or value of the copyrighted work.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.91

This provision sanctions uses which infringe the copyright owner's exclusive rights but which are excused because they are "fair uses."92 The statute lists four factors to be considered by courts when deciding whether an infringing use is fair or not.93 These factors are not, however, exhaustive.94 Courts must balance

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90 The doctrine of fair use has been the subject of extensive analysis by courts and commentators, and various approaches for balancing the statute's four factors have been advocated. See, e.g., Wendy Gordon, Fair Use as a Market Failure: A Structural and Economic Analysis of the Betamax Case and its Predecessors, 82 COLUM. L. REV. 1600 (1982); Lydia Pallas Loren, Redefining the Market Failure Approach to Fair Use in an Era of Copyright Permission Systems, 5 J. INTELL. PROP. L. 1, 50 (1997).
92 Id.
93 Id.
94 The term "including," as used in the Copyright Act, is "illustrative and not limitative," 17 U.S.C. § 101 (1994).
the factors, which is a fact intensive exercise that is performed on an ad hoc basis. In the computer software context, courts have analyzed the fair use doctrine only in cases involving reverse engineering. In addition, there have been no Supreme Court cases analyzing fair use in the computer software context. The scope of fair use rights, like other areas of users' rights, remains unsettled. This lack of definition presents a problem for a statute that measures contract enforceability against these rights.

2. 17 U.S.C. § 108: Reproduction by Libraries and Archives. This provision grants libraries and archives a qualified right to make copies of works in limited quantities with some limitations. The copies cannot be made for commercial purposes, the collection of the institution must be open to the public or researchers, and any reproduction or copy by the institution must include a copyright notice. Libraries and archives have a right to the uses described in this section "notwithstanding" the copyright owner's "exclusive rights" under section 106. However, the proprietary use term of a mass-market license could presumably

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97 Lotus Dev. Corp., 516 U.S. 233 (summarily affirming the circuit court's opinion).
99 The legislative history of the statute explains that: Notwithstanding the exclusive rights of the owners of copyright, section 108 provides that under certain conditions it is not an infringement of copyright for a library or archives, or any of its employees acting within the scope of their employment, to reproduce or distribute not more than one copy or phonorecord of a work, provided (1) the reproduction or distribution is made without any purpose of direct or indirect commercial advantage and (2) the collections of the library or archives are open to the public or available not only to researchers affiliated with the library or archives, but also to other persons doing research in a specialized field, and (3) the reproduction or distribution of the work includes a notice of copyright.
force a user to waive this right. Libraries expect to be able to use information in accordance with their users' rights under the Copyright Act and are concerned that mass-market licenses will prevent their ability to continue to do so.

3. 17 U.S.C. § 109: The First Sale Doctrine. This provision of the Copyright Act grants the owner of a particular copy of a work the right to “dispose of it by sale, rental, or any other means.” The language of the statute and the comments indicate that the first sale doctrine is triggered when a copyright owner sells a copy of his work.

Under the first sale doctrine, the copyright owner’s exclusive right of public distribution has no effect upon anyone who owns “a particular copy or phonorecord lawfully made under this title” and who wishes to transfer it to someone else or to destroy it. Once a copyrighted work is sold, the purchaser is free to make subsequent transfers.

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101 Lemley, supra note 6, at 1245 (listing ways that license terms prohibiting copying modify user's rights under the Copyright Act).
103 H.R. REP. NO. 94-1476, at 79.
104 17 U.S.C. § 109 (1994) (granting the right of subsequent disposal to "the owner of a particular copy").
105 The committee notes give the following example of when the first sale doctrine is applicable:

Thus, for example, the outright sale of an authorized copy of a book frees it from any copyright control over its resale price or other conditions of its future disposition. A library that has acquired ownership of a copy is entitled to lend it under any conditions it chooses to impose.

H.R. REP. NO. 94-1476, at 79.

106 The sale of an infringing copy of a work does not trigger the first sale doctrine:

To come within the scope of section 109(a) [subsec. (a) of this section], a copy or phonorecord must have been “lawfully made under this title,” though not necessarily with the copyright owner's authorization. For example, any resale of an illegally "pirated" phonorecord would be an infringement, but the disposition of a phonorecord legally made under the compulsory licensing provisions of section 115 [section 115 of this title] would not.

H.R. REP. NO. 94-1476, at 79.

107 Id.
Mass-market licenses allow distributors of information to avoid making the "first sale" that triggers this limitation. Using a license instead of a sale to transfer possession of a copy would prevent the right of subsequent disposal from vesting in a licensee because there has not been a sale. Avoiding the first sale doctrine is one reason that software producers use licenses. The legislative history of section 109(a) seems to support the validity of contract limitations on subsequent sales. Whether the first sale doctrine and mass-market licenses restricting subsequent transfers can exist concurrently depends on whether preemption applies.

4. 17 U.S.C. § 117: Computer Programs. The Copyright Act was amended in 1980 to reflect the recommendations of a congressional task force on technology. The task force evaluated the role of intellectual property law in developing technologies. The 1980 revision provides:

> Notwithstanding the provisions of section 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided:
> (1) that such a new copy or adaptation is created as an essential step in the utilization of the computer

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110 O'Rourke, supra note 4, at 495 n.60.
111 The committee notes on the first sale provision distinguish contract breach and copyright infringement causes of action:
This does not mean that conditions on future disposition of copies or phonorecords, imposed by a contract between their buyer and seller, would be unenforceable between the parties as a breach of contract, but it does mean that they could not be enforced by an action for infringement of copyright.
H.R. REP. NO. 94-1476, at 79.
113 FINAL REPORT OF THE NATIONAL COMMISSION ON NEW TECHNOLOGICAL USES OF COPYRIGHTED WORKS (1978) [hereinafter CONTU].
program in conjunction with a machine and that it is used in no other manner, or
(2) that such new copy or adaptation is for archival purposes only and that all archival copies are de-
stroyed in the event that continued possession of the computer program should cease to be rightful. Any
exact copies prepared in accordance with the provi-
sions of this section may be leased, sold, or otherwise transferred, along with the copy from which such
copies were prepared, only as part of the lease, sale,
or other transfer of all rights in the program. Adaptations so prepared may be transferred only with the authorization of the copyright owner.\textsuperscript{114}

This provision only applies to "owners" of copies of computer programs.\textsuperscript{115} The industry practice is to license, not sell pro-
grams and therefore, as with the first sale doctrine,\textsuperscript{116} a copyright owner may avoid this provision by distributing his work via license instead of sale. There is ambiguity here as to how licenses may be inconsistent with these provisions: Is the inconsistency with sections 109 and 117 the mere fact that these provisions are being "licensed" around?; or, is a license term inconsistent because it expands the copyright owner's rights? Again, the scope of rights under the Copyright Act is ambiguous.

C. SUMMARY

The Copyright Act gives copyright owners the exclusive right to reproduce, distribute, perform, and display those works\textsuperscript{117} which meet the subject matter requirements of the Act.\textsuperscript{118} The Copyright Act's grant of rights to users of copyright protected information limits the exclusive rights of the copyright owner. Furthermore, because of fundamental difficulties applying the Copyright Act to software, courts have been unable to clearly delineate

\begin{itemize}
\item \textsuperscript{114} 17 U.S.C. § 117 (1994) (emphasis added).
\item \textsuperscript{115} \textit{Id.}
\item \textsuperscript{116} \textit{Id.} § 109; see also \textit{supra} Part II.B.3.
\item \textsuperscript{117} 17 U.S.C. § 106; see \textit{supra} note 87 (giving the full text of section 106).
\item \textsuperscript{118} 17 U.S.C. § 102 (1994).
\end{itemize}
between idea and expression. In addition, many portions of computer programs and databases may be unoriginal or public domain information and therefore, are not protected by the Copyright Act. Software producers remain uncertain regarding which parts of their software are protected expression under the Copyright Act. License agreements create a broad umbrella of contract protection for all parts of software, copyrightable and noncopyrightable, while concurrently expanding copyright protections afforded the copyright owner. This broad contract protection, however, may be at the expense of users' rights and possibly the public.

The next section examines the typical terms used by software producers in mass-market licenses to create contractual protection for information products.

III. MASS-MARKET LICENSES AND TERMS

This section explains the purposes motivating the use of licenses, examines the substance of some typical mass-market license terms, and considers the impact of particular terms on the rights of parties to contracts in the digital information context.

A. WHAT IS A MASS-MARKET LICENSE?

Article 2B defines a mass-market license as a standard form, non-negotiated contract prepared for and used in retail transactions. The information industry uses these licenses for convenience, to lower transaction costs, to avoid the first sale doctrine, and to ensure greater certainty and scope of protection. The shrink-wrap license form is convenient because it can be mass-

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119 O'Rourke, *supra* note 4, at 493.
120 *Id.*
121 U.C.C. § 2B-102(25) (Proposed Draft Jan. 20, 1997). The statute provides: 'Mass-market license' means a standard form prepared for and used in a retail market for information which is directed to the general public as a whole under substantially the same terms for the same information, if the licensee is an end-user licensee and acquired the information in a transaction under terms and in a quantity consistent with an ordinary transaction in the general retail distribution.
122 O'Rourke, *supra* note 4, at 495.
produced along with the retail products and requires no signatures or customization. That convenience, in turn, lowers transaction costs allowing high volume, retail sales. Conducting individual negotiations with each purchaser of a retail software product would be cost prohibitive.\footnote{Id.}

The restrictive terms in licenses essentially "buttress" copyright protection and provide protection where none exists.\footnote{Id. at 497 n.67.} Mass-market licenses allow producers to prohibit almost all unfavorable uses of their products and contractually bind the parties to those terms. Thus licenses create greater certainty and an expanded scope of protection.\footnote{Id. at 497.}

B. ANALYSIS OF LICENSE TERMS

Most licensed digital products contain a mix of copyrightable and noncopyrightable information, but courts have had particular difficulty making this distinction in the software context.\footnote{Id.} This section analyzes several typical license terms with respect to their impacts on both kinds of information.

I. Copyrightable Works: Terms of Mass-Market Licenses Altering the Federal Copyright Bargain. For the most part license terms track the provisions of the Copyright Act.\footnote{O'Rourke, supra note 4, at 492-93.} Some terms, however, expand the copyright owner's protection while restricting the user rights normally afforded by the Copyright Act with respect to copyrightable subject matter.

a. Use of License Instead of Sale Avoids Copyright Act Provisions Granting Rights To "Owners" of Copies. The first sale doctrine allows the "owner" of a copy of a copyrighted work to dispose of that copy by any means he sees fit.\footnote{17 U.S.C. § 109 (1994); H.R. REP NO. 94-1476, at 79-90 (1976).} In addition, section 117 of the Copyright Act allows the "owners" of a copy of software to make copies and modify the software for specific purposes.\footnote{17 U.S.C. § 117.} The retail purchaser of a digital information product

\footnote{Id.}
that comes with a shrink-wrap license is not the "owner" of that
copy, but rather is a "licensee."\textsuperscript{130} Mass-market licenses typically
include a term specifying that title to the copy of software has not
passed to the licensee, and therefore, the licensee does not "own"
the copy.\textsuperscript{131} Under Article 2B, this term is enforceable because
the terms of the contract control the issue of title.\textsuperscript{132} It then
follows that under the plain language of the Copyright Act,\textsuperscript{133}
the right to make necessary modifications and to control subsequent
dispositions is conferred only on owners and does not vest in a
licensee.

The use of a license instead of a sale implies that first sale
document and section 117 rights to control subsequent transfer and
use do not vest in a licensee because he is not an "owner" of the
copy. To ensure this result most licenses will also include terms
expressly preventing the exercise of those rights. A term providing
that the user "may not loan, lease, distribute or transfer" the
software or any copies of the software thwarts the right of a
software purchaser to control the subsequent use of that copy under
section 109.\textsuperscript{134} Prohibitions on uses for any purpose other than
those specified in the license,\textsuperscript{135} as well as terms prohibiting
reverse engineering, expressly prevent a user from making
modifications for achieving interoperability as allowed by section
117 of the Copyright Act.\textsuperscript{136}

\textbf{b. Copying and Other Uses Allowed Under the Copyright Act.}
Almost all commercial software licenses will include a blanket
prohibition on copying.\textsuperscript{137} Almost never will a license contain
provisions granting the user even limited copying or use rights as

\textsuperscript{131} West Software License Agreement, supra note 82 (on file with author) ("Title. Title
to the Software is not transferred to User. Ownership of all copies of the Software and of
copies made by User is vested in West . . . .") (emphasis added).
\textsuperscript{132} U.C.C. § 2B-501.
\textsuperscript{133} 17 U.S.C. at §§ 109, 117.
\textsuperscript{134} West Software License Agreement, supra note 82.
\textsuperscript{135} Id.
\textsuperscript{137} West Software License Agreement, supra note 82 ("Copying. The License permits User
to make that number of copies of the software necessary for use [in connection with West
services and products] at its licensed site. . . . All other copying is prohibited. . . . Other
Restrictions. . . . User may not reproduce all or any portion of the Software . . . or the
Documentation.") (emphasis added).
prescribed in the Copyright Act. For example, West’s software licenses include prohibitions on copying in two different terms and unambiguously prohibit even *de minimus* copying. This type of license term is referred to as a “copyright/proprietary rights notice.” The separate use of the words “copyright” and “proprietary rights” indicates that the software owner clearly intends the license to give the owner proprietary rights in the software, in addition to those rights granted by the Copyright Act.

These additional proprietary rights of the software owner diminish the rights the Copyright Act grants users. License terms restricting use of a product to “the rights of use granted to the User in this Agreement,” or other similar language, grant affirmative rights to the user. However, the grant is exclusive to those uses enumerated in the license. Thus, by negative implication, the affirmative grant denies the user any use allowed by the Copyright Act that is not expressly granted by the license. The “proprietary rights” of the software licensor thereby eradicate the rights of libraries and archives to copy, the right to copy computer programs, performance and display rights, secondary transmission rights, and ephemeral recording rights. The next section discusses the impact of license terms on fair use rights.

c. Fair Use Restrictions On All Users of Licensed Information. Notwithstanding the Copyright Act’s general prohibition on copying, anyone rightfully possessing a copy of copyright protected materials may copy the information under the fair use doctrine. However, license terms can obliterate this right. For example, the license agreement that comes with West’s software includes a term

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138 West Software License Agreement, *supra* note 82.
139 *Id.*
141 West Software License Agreement, *supra* note 82 (limiting use of software to use in connection with West products and services).
142 Lemley, *supra* note 6 at 1262.
145 17 U.S.C. § 110; *supra* note 89.
146 17 U.S.C. § 111; *supra* note 89.
147 17 U.S.C. § 112; *supra* note 89.
on "Copying". The term explicitly restricts the user to copying only for purposes of installing the software for use at the licensed site. The license's broad proscription of copying would presumably prohibit all copying allowed under the fair use doctrine, regardless of the legality of that copying under the four factors analysis.

**d. Proscription of Reverse Engineering.** Most licenses prohibit reverse engineering and/or decompilation, which have been held in some cases to be fair uses. One justification advanced for restraints on reverse engineering is that such a prohibition is necessary to give incentive to the work's producer who may invest millions of dollars in the product and wants to recoup his investment.

There are two counter arguments, however, that reverse engineering as a fair use should be preserved. First, reverse engineering is difficult, costs almost as much as the original development, and often takes as long as a de novo effort, and therefore, it is not free-riding on the efforts of another. Second, restricting reverse engineering thwarts progress, the ultimate constitutional goal, because technological works build on prior efforts. Numerous articles on reverse engineering draw a

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149 West Software License Agreement, supra note 82.
150 *Id.*, In other words, if you want to use the software, you may copy it to the hard drive of a computer for use on that computer. The license further provides that the software's "copyright/proprietary rights notice(s)" must be included with any copy made and "[a]ll other copying is prohibited." *Id.* The restriction thus runs with the software and applies to any third party who may use it.
151 17 U.S.C. § 107 (allowing copying for purposes of "criticism, comment, news reporting, teaching, . . . scholarship, or research"). There may, of course, be independent bars on enforcing the contract prohibition on copying, such as free speech.
153 O'Rourke, supra note 4, at 517, nn.164-65; see, e.g., West Software License Agreement, supra note 82 ("User may not . . . reverse engineer or otherwise attempt to discern the source code of the Software.").
155 O'Rourke, supra note 4, at 497, n.69.
156 *Id.*
157 See Sega Enters. Ltd., 977 F.2d at 1510; Atari Games Corp., 975 F.2d at 832. The Atari court rejected the notion that software computer companies could build Chinese Walls out of copyright protected work around unprotected ideas. In Sega, the court found copyright
variety of conclusions as to when reverse engineering is permissible. The discord among commentators about the scope of this right illustrates the difficulty in using state contract law to address the issue.\footnote{158}

2. Noncopyrightable Works. As noted before, licenses generally cover noncopyrightable as well as copyrightable information, but it is difficult to determine where the line between the two is drawn.\footnote{159} In the preemption analysis, it is necessary to question whether some information is not protected because Congress intended that information to belong to the public domain, or is it not protected because Congress intended to leave protection to the states.\footnote{160} To analyze the impact of license terms, however, one only needs to know that the information is not protected by the Copyright Act. Noncopyrightable information in software may include ideas,\footnote{161} methods of operation,\footnote{162} and unoriginal data.\footnote{163} All of the restrictive terms discussed in the previous section apply to both copyrightable and noncopyrightable information, however, the impact of the terms is slightly different when applied to noncopyrightable information.

License terms that prohibit copying of noncopyrightable data create copyright-like protection.\footnote{154} In addition, the scope of protection created via license is much broader than Copyright Act protection because the additional restrictions license terms place on copyrightable information as to subsequent distribution, fair uses and reverse engineering,\footnote{165} also apply to the noncopyrightable infringement but upheld a fair use defense. Both cases, however, were copyright infringement causes of action and not breach of contract cases; \textit{see also} O'Rourke, supra note 4, at 504 (laying out \textit{Atari} test); \textit{id.} at 509 (recommending a three prong fair use test for decompiling).

\footnote{158} O'Rourke, supra note 3, at 67 n.75.
\footnote{159} Supra Part II.A.
\footnote{160} Lemley, supra note 6, at 1258 (citing Goldstein v. California, 412 U.S. 546, 178 U.S.P.Q. (BNA) 129 (1973)).
\footnote{163} ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1454, 39 U.S.P.Q.2d (BNA) 1161, 1166 (7th Cir. 1996) (ProCD II).
\footnote{165} \textit{See supra} Part III.B.1.
information. Thus, where some license terms may reinforce or expand the existing Copyright Act protection for copyrightable information, those terms also create an independent basis of protection for information that was previously unprotected by the Copyright Act.

3. Scope of Protection and Rights Under Contract Versus Copyright. When comparing the protections afforded by contract with the Copyright Act's protections, two issues regarding scope of protection arise: (1) determining the duration of protection; and (2) identifying the affected parties. Copyright Act protection is for a limited duration, however, a contract relationship can be forever. In addition the parties to the contract are not necessarily limited to the software producer and the retail purchaser. The license may be embedded in the software itself, ensuring that all users of the software are bound by the license provisions.

C. SUMMARY

The Copyright Act confers exclusive rights on the copyright owner while reserving certain rights to users of copyright protected works. Because the software context presents uncertainty about the scope of actual protection and the allocation of rights under the Copyright Act, the information industry routinely relies on contractual protection of its products. The license terms track the Copyright Act for the most part, but in totality, those terms can create much broader protection than the Copyright Act.

Mass-market licenses generally prohibit all copying, including that allowed under the fair use and safe haven provisions of the Copyright Act, modification necessary to use the software, subsequent distribution, and reverse engineering.
of copyrightable and noncopyrightable information. Most contracts do not have a set termination date, so these restrictions last for an unlimited duration. Furthermore, technological fencing in the form of “click-here” license agreements ensures that all users of software are bound by the license terms. My analysis of shrink-wrap license terms is not intended to be a parade of horribles on behalf of an argument that shrink-wrap licenses should be banned. Rather, my analysis of typical software license terms illustrates that each term cannot simply be deemed “inconsistent” with rights under the Copyright Act. Each term is subject to a number of interpretations and raises a variety of issues. Even a cursory analysis of each license term reveals ambiguities, which further complicate the unique legal issues involved in applying federal preemption law and make a determination of whether a license terms is “inconsistent” even more difficult.

**IV. ENFORCEABILITY OF MASS MARKET LICENSE TERMS: FEDERAL PREEMPTION AND THE ROLE OF STATE CONTRACT LAW**

It is clear that particular license terms alter the allocation of rights under the Copyright Act. The core question, however, is whether those license terms are preempted by federal law. This is the essential issue because the underlying justification for state action to clarify mass-market enforceability hinges on the threat of eminent preemption of those terms. This Part examines the current state of the law regarding preemption of intellectual property contracts and then discusses the role of state contract law and the particular implications of the McManis

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177 Elkin-Koren, supra note 5, at 102-05.
178 See discussion supra Part III (discussing typical mass-market license terms and their effect on the rights to intellectual property).
179 Certain terms may be unenforceable under contract law because they are inconsistent with prior agreements or are unconscionable. Lemley, supra note 6, at 1254. This article focuses on the preemption issue and generally leaves the contract analysis to another discussion.
180 See discussion infra Part IV.A.
Proposal in addressing preemption in the digital information context.\footnote{181}{See discussion infra Part IV.B.} Even if the current law clearly pointed toward preemption of license terms that modify the property rights allocation of the Copyright Act, effectuating federal preemption to enforce the Copyright bargain may be beyond the scope of state statutory law. The complicated federal policy determinations inherent in preemption law,\footnote{182}{Infra Part IV.A.} the differing impacts individual terms have on the copyright bargain,\footnote{183}{Supra Part III.B.} and the need for a uniform determination of an issue that is national in scope are factors which support the argument against using the U.C.C. to address federal preemption of license terms.\footnote{184}{Infra Part IV.B.}

A. COPYRIGHT PREEMPTION AND MASS-MARKET LICENSES\footnote{185}

Shrink-wrap license terms that purport to alter the rights granted to purchasers and licensees under patent or copyright law may be preempted by federal intellectual property law.\footnote{186}{See, e.g., 17 U.S.C. § 301 (1994) (giving parameters for preemption).} Several courts have held, or strongly suggested, that federal statutes preempt state contract law to the extent that contract law permits the parties to “opt out” of some parts of the federal statutory scheme. Other courts have found a continuing role for contract law, even where it conflicts with federal law.

1. Vault Corp. v. Quaid Software Ltd. One of the first decisions addressing preemption of contract rights in intellectual property was Vault Corp. v. Quaid Software Ltd.\footnote{187}{Vault Corp. v. Quaid Software Ltd., 847 F.2d 255, 7 U.S.P.Q.2d (BNA) 1281 (5th Cir. 1988).} That case involved Vault’s copy protection program called Prolok, which was designed to prevent unlawful duplication of other software by “locking” it. Vault sold Prolok with a shrink-wrap license, which provided in relevant part that the purchaser could not copy or reverse engineer any part of the software. Quaid purchased a copy of Prolok and
reverse engineered it in order to find a way to defeat the copy protection program. Quaid incorporated its knowledge of Prolok in an "unlocking" product it sold called Ramkey. The final version of Ramkey did not contain any material copied from Prolok.\textsuperscript{188}

Vault sued Quaid, alleging copyright infringement and violation of the shrink-wrap license provision. The Fifth Circuit found that Quaid's reverse engineering constituted a fair use under the Copyright Act and, therefore, was not infringing.\textsuperscript{189}

Vault's second claim relied on Quaid violating the terms of the shrink-wrap license. The Louisiana Software License Enforcement Act specifically authorized contractual terms prohibiting reverse engineering.\textsuperscript{190} The Fifth Circuit found that the Louisiana statute directly conflicted with the rights of purchasers of copyrighted works set out in section 117 of the Copyright Act, and was therefore preempted by federal copyright law. The court relied on a venerable line of Supreme Court cases for the proposition that "[w]hen state law touches upon the area of [patent or copyright statutes], it is 'familiar doctrine' that the federal policy 'may not be set at naught, or its benefits denied' by the state law."\textsuperscript{191}

Courts\textsuperscript{192} and commentators\textsuperscript{193} have endorsed Vault's conclusion that state law cannot expand the rights granted to authors under the copyright law. Vault expressly rejects state enforcement of a license term that denies a right conferred on a user by the Copyright Act.\textsuperscript{194} Furthermore, Vault's invocation of the Sears-
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Compco reasoning suggests a broader basis for preempting state enforcement of license terms: where a license term does not "directly conflict" with the Copyright Act but does interfere with "federal polic[ies]," state contract law enforcing that term is preempted. The holding of Vault seems to support the McManis Proposal's rejection of license terms that are inconsistent with Copyright Act provisions that confer benefits on users of software. However, not all license terms relating to the subject matter of copyright are necessarily preempted.

2. National Car Rental System, Inc. v. Computer Associates Int'l, Inc. In National Car Rental Systems, Inc., Computer Associates licensed software to National for use in National's internal operations. National used the software for its internal operation and allowed its subcontractor to use the software for two other companies. Computer Associates sued and alleged two claims against National: (1) copyright infringement by distribution of the program; and (2) breach of contract by allowing unauthorized use of the program. The court dismissed the first claim because there had not been distribution within the meaning of the Copyright Act. The court then considered whether copyright law preempted a license term that limited the licensee to using the software for internal purposes and applied the Copyright Act's preemption provision. Section 301 preempts a state cause of action when two conditions are met: (1) the work protected by state law is within the subject matter of copyright as defined in

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195 Compco Corp., 376 U.S. at 234; Sears, Roebuck & Co., 376 U.S. at 225.
196 Compco Corp., 376 U.S. at 237.
197 Lemley, supra note 6, at 1257.
199 Id.
200 Id. § 301.
202 Id. § 301. The statute provides in part "all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that... come within the subject matter of copyright as specified by sections 102 and 103... are governed exclusively by this title." Id. § 301(a).
sections 102 and 103 of the Copyright Act; and (2) the state law created right is equivalent to any of the exclusive copyright privileges enumerated in section 106 of the Act. The court held that the software was copyrightable subject matter satisfying the first prong, but that contract law was not preempted because it did not grant rights equivalent to those offered by copyright. The court applied the "extra element" test and found that the contract cause of action included an element not required by copyright, an agreement between the parties. The court cited the legislative history of section 301 in support of its holding: "Nothing in the bill derogates from the rights of parties to contract with each other and to sue for breaches of contract."

Applying this rationale it appears that, contrary to Vault, a license term enforced under state contract law would never be preempted under section 301 because it will always contain an extra element not present in a copyright action. National can be reconciled with Vault, however, because the court in National did not have to decide whether the license agreement would be preempted if the terms directly contradicted rights granted to the user under copyright law. ProCD presents yet another circumstance where software license terms have been subjected to preemption analysis.


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204 National Car Rental Sys., 991 F.2d at 428-29.
206 Id.
206 Id. at 431-35.
207 Id.
210 Id. at 1449; see Feist Publications, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 18 U.S.P.Q.2d (BNA) 1275 (1991) (holding that alphabetically organized telephone directory listings lack the originality required for copyright protection); see also supra note 79, and accompanying text (comparing judicial treatment of alphabetical telephone directory with electronic database of phone numbers).
211 ProCD II, 86 F.3d at 1449.
212 Id.
Zeidenberg assented to the license terms, and then, believing the use restriction unenforceable, he made the database available on the Internet for a fee. ProCD sued Zeidenberg alleging, among other claims, breach of contract, but the district court held that the license was not validly formed as a matter of contract law and refused to enforce it.

On appeal the United States Court of Appeals for the Seventh Circuit held that the contract was validly formed and then considered whether the license terms were preempted by section 301 of the Copyright Act. In applying section 301, the court treated the data as falling within the subject matter of copyright, but held that the action to enforce the license was not preempted because it was qualitatively different from a breach of contract claim. The court’s holding turned on the difference between the scope of rights under the Copyright Act and under contract law. The court emphasized that copyright protection is good against the world, but contract rights exist only between the parties to the agreement. Thus, the rights created by private contract are not equivalent to the rights granted by the Copyright Act. The court did not use the extra element test in applying section 301 and succeeded in creating yet another twist on the preemption analysis of license terms. Writing for the court,

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213 Id. at 1450.
215 ProCD II, 86 F.3d at 1452.
216 Id. at 1453.
217 Both supporters and critics of ProCD II have pointed out this flaw in the court’s application of section 301. Compare O’Rourke, supra note 3, at 74, n.109 (arguing that ProCD was correctly decided but noting the court’s error in treating the data as if it were copyrightable even though it lacked the requisite originality under Feist) with McManis, supra note 57 (criticizing the outcome of ProCD II and questioning the court’s conclusion that data not sufficiently original to be copyrighted is still within the “subject matter of copyright”).
218 ProCD II, 86 F.3d at 1454-55.
219 Id. at 1454.
220 Id.
221 O’Rourke, supra note 3, at 75.
222 The ProCD II case has drawn a lot of criticism for its unorthodox, and perhaps erroneous, reasoning. See, e.g., Elkin-Koren, supra note 5, at 103 (arguing that the ProCD II analysis of legal rights fails to take into account the ability of software manufacturers to prevent the existence of third parties to the contract through technological fencing); Recent
Judge Easterbrook focused on the business necessity of using shrink-wrap licenses to control the use of digital information and concluded that restrictive terms facilitate the accessibility of information by allowing software producers to sell in the retail marketplace without fear of unauthorized copying. He did not, however, address the policy articulated in *Feist* that a central goal of the federal intellectual property regime is maintaining a viable public domain.  

The previous three cases illustrate the sparsity and inconsistency of federal appellate cases regarding the legal issues involved in determining the enforceability of shrink-wrap license terms in light of the Copyright Act. Previous to *ProCD II*, virtually no reported decisions had actually enforced shrink-wrap license provisions as written, especially where those provisions modified federal law.  

*Vault* provides some guidance for analyzing license terms that directly conflict with Copyright Act grants of user rights. *National Car Rental Systems, Inc.* provides an analytical framework for applying the extra element test in the licensing context.  

*ProCD II*, on the other hand, essentially justified abrogation of a critical user's right, access to public domain information, by relying on market factors. In light of the current case law on preemption of shrink-wrap license terms, I now consider the role of state contract law in determining the enforceability of license terms.

**B. THE ROLE OF STATE CONTRACT LAW**

In support of a state statute regulating shrink-wrap license terms, McManis asserts that:

"Given the unsettled state of existing federal appellate case law on this point, it is not at all clear that..."
mass-market licenses made enforceable under section 2B-308 would survive preemption under section 301 of the Copyright Act of 1976,\textsuperscript{226} where the practical effect of enforcement would be to deprive virtually the entire public from 1) gaining access to an uncopyrightable and unpatented idea, procedure, process, system, method of operation, concept, principle, discovery, or data contained in widely-distributed federally copyrightable subject matter; or 2) engaging in any other conduct that would otherwise constitute a fair use of widely-distributed federally copyrightable subject matter.\textsuperscript{227}

To illustrate, McManis compared the holdings in \textit{ProCD, Inc. v. Zeidenberg}\textsuperscript{228} and \textit{Wright v. Warner Books, Inc.}\textsuperscript{229} In \textit{ProCD II}, the Seventh Circuit held that federal copyright law does not preempt enforcement of the shrink-wrap license against a purchaser of the software and database who, with knowledge of the restriction, nevertheless made commercial use of the computer program and database.\textsuperscript{230} The court stated in dictum that “[t]o the extent licenses facilitate distribution of object code while concealing the source code (the point of a clause forbidding disassembly), they serve the same procompetitive functions as does the law of trade secrets.”\textsuperscript{231} \textit{Wright} held that a contractual term purporting to prohibit publication of unpublished library archive manuscripts “in whole or in part unless such publication is specifically authorized,” should not be construed in such a way as to prohibit a biographer from using the manuscripts for scholarly

\textsuperscript{226}The statute provides: “Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.” 17 U.S.C. § 301 (1995).


\textsuperscript{228}ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 39 U.S.P.Q.2d (BNA) 1161 (7th Cir. 1996) (ProCD II).


\textsuperscript{230}ProCD II, 86 F.3d at 1453-55.

\textsuperscript{231}ProCD II, 86 F.3d at 1455.
purposes. The court further stated that it "defies common sense to construe this agreement as giving scholars access to manuscripts with one hand but then prohibiting them from using the manuscripts in any meaningful way with the other. The ProCD II view saw the user's right as alienable and found the software company conditioned access to its information on the user's waiver of those rights. The Wright court found support in Salinger v. Random House, Inc., for the proposition that some fair use rights cannot be denied and such a denial does not comport with the copyright owners limited rights under the Copyright Act.

McManis asserts that state contract law should not codify the enforceability of restrictive license terms because case-law is unsettled as to whether the Copyright Act preempts state enforcement of those license terms. At least two courts, however, have rejected preemption of these licenses. One might speculate that because McManis' argument is not based on conclusive, judicial authority that instead, it stems from his advocacy of a particular outcome: preemption of restrictive license terms. Courts and commentators may be in disagreement over the legality of mass-market licenses, but the information industry has made them a standard feature of digital information products. The industry recognizes the possibility of preemption by including license terms that allow any unenforceable term to be severed. Interestingly,

232 Wright, 953 F.2d at 740.
233 Id. at 741.
235 McManis asserts that state contract law should not codify the enforceability of restrictive license terms because case-law is unsettled as to whether the Copyright Act preempts state enforcement of those license terms. At least two courts, however, have rejected preemption of these licenses. One might speculate that because McManis' argument is not based on conclusive, judicial authority that instead, it stems from his advocacy of a particular outcome: preemption of restrictive license terms. Courts and commentators may be in disagreement over the legality of mass-market licenses, but the information industry has made them a standard feature of digital information products. The industry recognizes the possibility of preemption by including license terms that allow any unenforceable term to be severed. Interestingly,

236 West Software License Agreement, supra note 82 ("Should any provision of this Agreement be held . . . illegal by a court, the validity and enforceability of the other provisions will not be affected").
McManis’ position is aligned with consumer advocates who oppose restrictive mass-market licenses. The consumer groups’ central concern is the high cost to society exacted by granting information broad protection at the expense of public knowledge. Consumer advocates are worried that state laws will give too much protection to some kinds of works and will run roughshod over the statutory limits on protection outlined in the Copyright Act. In particular, this group objects to contract protection of previously “public domain” categories of information: ideas, facts, and unoriginal compilations. Furthermore, they object strenuously to any expansion of the protection afforded copyrightable works by allowing licenses to proscribe fair uses of works.

McManis may be right about the preemption of terms inconsistent with the Copyright Act, and his concern for the integrity of the federal intellectual property regime is more than justified by the widespread use of licenses to supplant it. Unfortunately, the vehicle he has chosen for his message is not the right one for two reasons. First, the underlying goal of the Article 2B drafting effort is to codify commercial practice, not to make intellectual property law. The widespread commercial practice in the retail information industry is to use mass-market licenses with terms that alter the rights of information users. The McManis Proposal would alter the commercial status quo by deeming many typical license terms unenforceable.

Second, it is because of the uncertainty in the federal judiciary, and not in spite of it, that the legal determination of preemption should not be codified in Article 2B. The ProCD cases demonstrate

239 Gail Hillenbrand, Hillenbrand Comment - UCC Article 2B (last visited Sept. 23, 1998) <http://www.ali.org/ali/hillga.htm> (commenting on the draft in her capacity as a consumer advocate employed by Consumers’ Union); Memo to NCCUSL Commissioners from Ralph Nader, July 18, 1997 (on file with author) (recognizing McManis Proposal as an attempt to preserve user, read consumer, rights granted by the fair use provisions of the Copyright Act of 1976); Quinlan, supra note 5, at p. D1.

240 Gail Hillenbrand, Hillenbrand Comment - UCC Article 2B (last visited Sept. 23, 1998) <http://www.ali.org/ali/hillga.htm> (commenting on the draft in her capacity as a consumer advocate employed by Consumers’ Union); Memo to NCCUSL Commissioners from Ralph Nader, July 18, 1997 (on file with author) (recognizing McManis Proposal as an attempt to preserve user, read consumer, rights granted by the fair use provisions of the Copyright Act of 1976); Quinlan, supra note 5, at p. D1.

241 Hillenbrand, supra note 239.

242 Id.
that the preemption issue is a live one and that it ultimately may be resolved in favor of the shrink-wrap license. Furthermore, there are bills in Congress which may resolve some, but probably not all, of these issues.243 At the very least, the complexity of applying preemption analysis in the intellectual property context244 and the myriad of factors which must be analyzed in the case of each license term,245 suggests that the enforceability of particular mass-market license terms should be made by the courts on an \textit{ad hoc} basis.

C. SUMMARY

The federal courts have looked at some restrictive license provisions, but the cases are few and the opinions conflicting. Thus, a uniform state law addressing contract formation issues would be useful for providing guidance to commercial entities who rely heavily on these licenses and the federal courts interpreting state contract law. On the other hand, determining whether particular license terms are preempted by the Copyright Act presents complex issues of law that can ultimately only be decided by federal courts or Congress. A state law prohibiting terms that are "inconsistent" with the Copyright Act rings hollow without a clear understanding of what terms are inconsistent and therefore, preempted. Furthermore, the law would disrupt current commercial practices, a result that is contrary to U.C.C. policy and suggests a motive driven by non-commercial, public policy concerns. States may expressly choose a policy that prohibits particular terms as unfair to users, regardless of the preemption issues. That type of policy consideration, however, is outside the scope of the U.C.C. and is a matter more appropriate for state legislators to decide.

Furthermore, a U.C.C. provision that delves into preemption may not be enacted by information-industry-friendly state legislatures, or, if enacted, would be amended resulting in non-uniform laws, a result that is also contrary to the goals of the U.C.C. Should states

244 See Lemley, supra note 6, at 1269.
245 See discussion supra Part III.B.
act individually, the information industry can use forum selection and choice of law clauses in their licensing agreements to ensure that they battle licensees in the states where these issues will be resolved in favor of their proprietary interests. The resulting patchwork of law would be an especially perverse outcome considering that the integrity of the Copyright Act is of national concern.

Article 2B should take a truly neutral approach in addressing the issues of federal preemption. The most recent draft has replaced the McManis Proposal with a new provision. NCCUSL has adopted section 105 that simply recognizes that some license terms may be preempted by federal law. Section 105 reflects the commercial reality of the information industry, which relies heavily on mass-market licenses, but recognizes that particular terms may be preempted. The current commercial practice is to use severability provisions to ensure that only the preempted terms fail and that the remainder of the license is still enforceable.

V. CONCLUSION

The looming possibility of federal preemption of shrink-wrap license terms is asserted as the central justification for the McManis Proposal. Ultimately, I do not argue that certain license terms are, or are not, preempted. Nor do I argue for, or against, the trend toward privatized intellectual property rights. Rather, I contend that blanket preemption by state statute is a solution that falls short of the analysis required to resolve the complex intersection of federal copyright law and freedom of contract. Considering the varying effects individual license terms have on the copyright bargain, the complexities of preemption analysis in the intellectual property area, and the conflicting and sparse federal appellate case law on preemption of restrictive licenses, a potentially non-uniform, state contract law is wholly inadequate for resolving the preemption issue. In particular, fair use analysis requires each license term to be considered individually by the federal courts. Even then, the outcome of preemption analysis of particular terms is not

247 West Software License Agreement, supra note 238 and accompanying text.
generally predictable. Maintaining the integrity of the Copyright Act, and through it the public domain, may require preemption of some mass-market license terms, but "federal preemption, ... after all, is a matter of first concern to the federal courts" and not to the state courts or legislatures.

ELIZABETH J. MCCLURE

248 When he rejects the holding of ProCD II, McManis acknowledges that he is uncertain how the preemption issue will ultimately be resolved. McManis, supra note 227.