

UIC John Marshall Journal of Information Technology & Privacy Law

Volume 18
Issue 2 *Journal of Computer & Information Law*
- Winter 1999

Article 3

Winter 1999

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Recommended Citation

Stephen Y. Chow, UCITA: A 1990's Vision of E-Commerce, 18 J. Marshall J. Computer & Info. L. 323 (2000)

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UCITA: A 1990'S VISION OF E-COMMERCE

by STEPHEN Y. CHOW†

I. INTRODUCTION

On July 29, 1999, the National Conference of Commissioners on Uniform State Laws ("NCCUSL") promulgated the Uniform Computer Information Transactions Act ("UCITA") and the Uniform Electronic Transactions Act ("UETA"), among other uniform laws, for introduction to state legislatures. These were touted as laws that would promote the burgeoning field of electronic commerce. UETA does, UCITA does not.

UETA has as its fundamental directive to "enable electronic commerce" while maintaining "technological neutrality." There existed during the drafting process the technological capability to ensure to astronomical certainty the integrity of a digitally signed electronic message and the source of that signed message from one who has access to a private key. Yet, the consensus reached by the UETA drafting committee and industry observers was that "it is too early to draft detailed legal rules for a changing marketplace."

II. BACKGROUND

There was no such restraint in the drafting of UCITA. The goal was different. The project began in earnest in 1995 when the Business Software Alliance objected to the continuing inclusion of software under the then and currently still continuing project to revise Article 2 (Sales of Goods) of the Uniform Commercial Code ("UCC").¹ The result was the

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1. Welcoming remarks of Commissioner Richard Hite of Missouri, then President of NCCUSL, July 28, 1995. See Transcript available from NCCUSL. The roots of the effort began with the American Bar Association's Business Law's Section's Uniform Commercial Code Committee Software Licensing Subcommittee (now "Information Licensing"), formed in the late 1980s and still UCITA's primary booster. See Peter A. Alces and Harold F. See, *The Commercial Law of Intellectual Property* 629-30 (1994). The present author developed

NCCUSL executive committee's decision to spin off as a separate UCC Article 2B the "licensing spoke" of a proposed "hub-and-spoke" Article 2 ("UCC2"), structure developed in 1992-95 by Professor Raymond T. Nimmer,² who was appointed Reporter for UCC 2B, now UCITA.

That framework was never reconsidered,³ and UCC2B/UCITA is stuck in the 1992-95 model of making terms available in the retail market only after a purchaser paid for the product and opened the box holding the copy of software.⁴ Despite the subsequent growth of Internet commerce, there is no requirement in UCITA that "mass market" contract terms be made available online.⁵ To the contrary, as shown below, the prudent approach for a producer under UCITA would be to embed in its computer information product its proposed terms—including at least one likely to negate any prior agreement. This clearly is contrary to the promise of web commerce to facilitate "comparison shopping" and competition. By shifting the so-called "duty to read" away from the producer to the vendee immediately preceding use of the producer's product, UCITA subtly but fundamentally regulates the marketplace in favor of the producer.⁶

To validate the same 1992-95 "industry practice," UCITA adopts the counter-intuitive and circular position that ownership rights in use of a copy of computer information are not established upon payment for and receipt of the copy, but upon the acceptance of terms that may be embedded in the copy. Under existing law, having paid the price plus sales tax for a music CD or a videotape—both of which may warn, "licensed for home use only"—one can sell the CD or videotape, but not copy or publicly perform it. Under UCITA, if the CD contains a computer program and terms that prohibit resale,⁷ there is no transfer of the ownership of the CD, even if one paid sales tax, and there is an enforceable contract

a study draft of a UCC Article 2B addressed to "Transfer of Intellectual Property" between 1990 and 1992. *Id.* at 629-72. Transactions with software, particularly "mass-market" were identified as "mixed transactions" involving both goods and intellectual property. *Id.* at 632, 636.

2. Professor Nimmer was chair of the ABA Business Section software licensing subcommittee at its inception.

3. The fundamental structure questions raised in a November 1996 memorandum of a "Policy Subcommittee" appointed by UCITA chair Commissioner Carlyle Ring were rejected by him as "too late" in the process.

4. Prior to that time, "shrink-wrap licensing" actually allowed the purchaser to see terms underneath the plastic shrink-wrap. With the advance of software in the mass market, that "real estate" became "too expensive" to divert from cosmetic features of the box.

5. Proponents of UCITA have countered every suggestion of making terms available pre-transaction with the incredible statements that "it's too expensive" or "impractical."

6. Ironically, the Reporter and Chair, in the comments over which they have final say, insist that "freedom to contract" is the guiding principle for UCITA.

7. See *Bobbs-Merrill Co. v. Strauss*, 210 U.S. 339 (1908) (holding unenforceable a provision under the copyright notice in a book that "[t]he price of this book at retail is one

based on those terms. Any contract at the time of sale, which would assume transfer of ownership of the copy, would be negated under UCITA by the presentment of materially different terms in the copy.

Perhaps the most dangerous feature in UCITA for the financing community and creditors generally is this provision for an enhanced "last shot rule." This rule allows a computer information product producer to avoid adopting terms presented by a vendee along with a proffered payment—even after accepting payment and delivering the product—if the product includes terms that are materially different. Restrictive terms in "click wrap" agreements clicked through by corporate installers of software would be given effect so long as they are available for review before installation of the software. To guarantee itself the last shot, a producer would always want to include clearly "materially different" terms in its product and withhold presentation of those terms until the last possible moment. This is a significant departure from existing UCC2 which promotes agreement on terms, as well as from the promise of an e-commerce environment in which terms can be posted and compared.

Directly detrimental to the interests of users and creditors, the presence in computing equipment of computer information products with restrictions on transferability—as likely to be the case in many desktop computers—would render transfer of such equipment a breach of license under UCITA. Although this result may be wholly appropriate for negotiated licenses calling for substantial royalty payments, and although businesses built on leasing desktop computers may have provided for purging their equipment of user-installed software, this is problematic for "mass market" software. The assumption of most of the commercial world is that a copy of a mass-marketed computer program may be transferred under the "first sale" rule of copyright law, so long as no copies are kept by the transferor. If UCITA were applicable law, it would increase the cost of most corporate asset transfers and due diligence opinions.

UCITA applies to much more than computer programs, that, at least in the packaged form, have been subject to UCC2 for a generation. A root issue is whether the UCC2 framework that UCITA adopts and the UCC2 issues that it addresses, but answers differently, are appropriate for the wide range of "computer information" to which UCITA purports to apply. "Computer information" ranges from (1) functional computer programs that have direct and tangible effects as other products, to (2) signaling information used in computer communication, to (3) factual information (data bases) stored in computer-accessible form for (a) com-

dollar net. No dealer is licensed to sell it at a less price, and a sale at a less price will be treated as an infringement of the copyright").

puter use or (b) human use, to (4) artistic, literary, political, critical and similar works, as are typically the subject of copyright protection, stored in or implemented in computer-accessible form, to (5) ideas involving one or more of the above. UCITA on its face embraces all of these and provides special rules, still within the UCC2 framework, for "informational content" (categories 3(b) to 5). UCC2, addressed to products and their performance, applies directly to functional computer programs, even if rules might be adjusted: software publisher proponents of UCITA insist that it address the UCC2 issues. On the other hand, even with adjusted answers, a UCC2 framework is inappropriate for traditional copyright information and ideas.

Lumping all these types of information together as "intangibles" will disrupt both commercial and intellectual property law practice. On the one hand, research institutions at the "upstream" of innovation are not commercial entities with marketing and legal support to address UCC2 issues, much less a UCC2 framework fine-tuned in UCITA to protect information product publishers. On the other hand, taking functional computer programs out of UCC2 and out of the copyright law privileges attendant to ownership of a copy disrupts a generation of commercial practices and assumptions unnecessarily.

III. ANALYSIS

Following is a detailed textual examination of major structural defects and questionable policy decisions in UCITA that require correction for it to be a sound model or uniform law.

A. THE SCOPE OF UCITA REMAINS EXTREMELY BROAD

Despite statements to the contrary, the text of UCITA remains extremely open-ended as to its coverage.⁸ As a general matter, "[UCITA] applies to computer information transactions."⁹

Computer information transactions are defined broadly:

- (11) "Computer information transaction" means an agreement or the performance of it to create, modify, transfer, or license computer information or informational rights in computer information. The term includes a support agreement under Section 612. The term does not include a transaction merely because the parties' agreement provides that their communications about the transaction will be in the form of computer information.¹⁰

8. On January 12, 2000, the UCITA Standby Drafting Committee voted 4-1 to present to NCCUSL amendments acceptable to the motion picture industry in return for their neutrality in the enactment process.

9. U.C.I.T.A. § 103(a)(1) (1999).

10. *Id.* § 102(a)(11) (emphasis added).

Thus, UCITA applies to agreements (*and* their performance) "to create, modify, transfer or license" either "computer information" or "informational rights" in "computer information" or both.

Computer information, in turn, is defined broadly:

- (10) "Computer information" means 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. The term includes a copy of the information and any documentation or packaging associated with the copy.¹¹

The Reporter intended to include computer programs, source or runtime, "processed" by a computer; interactive multimedia objects, "processed" by a computer; and stock quotations transmitted or accessed in near-real time. On its face the scope includes analog electrical signals such as output "obtained" from a digital-to-analog converter in a CD player (computer); laser pulses (electromagnetic) transmitted on telecommunications fiber optic cables, "obtained" from, or "processed" by a switch or repeater, both computers; digitized transponder data, "processed" by a computer for capture on magnetic media. "[D]ocumentation or packaging associated with a copy" of these are also "computer information."

This information might be more informatively called "digital information products" rather than "intangibles."¹² Computer programs have

11. *Id.* at 102(a)(10). It is not clear why documentation in paper form or packaging should be included, except that industry observers indicated that they wish to have one set of rules. This may conflict with the situation where essentially the same documentation is sold separately in paper form. Nor is it clear what rule applies where the "primary product" is a book in paper form with a CD version included.

"Computer" means an electronic device that accepts information in digital or similar form and manipulates it for a specific result based on a sequence of instructions." UCITA § 102(a)(9). This fails to distinguish between the general purpose computers that were the topic of the discussions of the drafting committee and devices that operate on communications protocols at the lowest, "physical" layer, which may perform fast processing of message headers using dedicated application-specific integrated circuits not capable of general purpose computation. This brings into UCITA all telecommunications service providers although their businesses up to the present have been divided along regulated telecommunications versus "enhanced information services" effectively defined as modification of higher layer ("payload") information. "Electronic" means relating to technology having electrical, digital, magnetic, wireless, optical, or electromagnetic, or similar capabilities." U.C.I.T.A. § 102(a)(26). It should be observed that all light, reflected from a print on paper or transmitted through microfilm, is electromagnetic as well optical and "wireless." Moreover, coded punch cards and bar codes probably should be considered "computer information" even though they are not "electronic."

12. Proponents of UCITA and of the removal of computer program transactions from UCC Article 2 argue that these are different from goods because it is "intangible." But clearly this information is not "incorporeal." That this information exists in some form clearly is material: an entire body of law with performance standards is proposed for information of this form. Characteristic of this form of information is that it is easy to transmit

deterministic, “concrete, tangible” effects,¹³ unlike the informational content they or print copies deliver, that *may* or may not incite a human being to act.

UCITA introduces a new concept of “informational rights:”

(38) “Informational rights” include all rights in information created under laws governing patents, copyrights, mask works, trade secrets, trademarks, publicity rights, or any other law that gives a person, *independently of contract*, a right to control or preclude another person’s use of or access to the information on the basis of the rights holder’s interest in the information.¹⁴

These are “intellectual property rights plus,” but not contract rights. The Reporter wanted to include new rights that may be recognized, such as database and “access” rights. These “information rights” are the traditional “intangibles,” such as “choses in action” which are different from the information itself.

UCITA’s inclusion of digital information products and rights in those products under a single conception of “intangibles” and a single term, “computer information,” is deliberate. It allows the leveraging of intellectual property rights in some computer information, e.g., computer programs, to all computer information, e.g., databases, which today are almost always updated in digital form. An important example is the application of the verb “license” to “computer information” in the definition of “computer information transaction.”¹⁵ Traditionally, it was the *use* of a process—synonymous for most computer scientists to “an algorithm”—that was licensed under patent or trade secret law or the *reproduction* of a computer program that was licensed under copyright law. A “software license” typically includes such licenses. On this point of major controversy, UCITA defines “license” not traditionally as a permission or privilege relative to property rights, but, as a matter of contract, “expressly limits . . . permissions or uses granted, expressly prohibits some uses, or expressly grants less than all rights.”¹⁶

In contrast to UCITA “licenses” which must include an “express” limitation, a UCITA “agreement,” defined to be “the bargain of the parties in fact as found in their language *or* by implication from other cir-

and replicate, but not directly perceivable by human beings. In that sense, it might be “intangible.” On the other hand, the information in electrical or digital form interacts physically with the media and functions in deterministic fashion to allow precise transmission and replication, and is in that sense, “tangible.”

13. See *AT&T Corp. v. Excel Comm., Inc.*, 172 F.3d 1352 (Fed. Cir. 1999); *State Street Bank & Trust Co. v. Signature Financial Group*, 149 F.3d 1368 (Fed. Cir. 1998) (computer programs patentable as creating “a useful, concrete, tangible result”).

14. U.C.I.T.A. § 102(a)(38) (emphasis added).

15. See Raymond T. Nimmer, *Information Law* para. 2.08[3] (1996).

16. U.C.I.T.A. § 102(a)(40).

cumstances,¹⁷ need not be explicit or even a major portion of a larger transaction. Thus, a transaction may include a computer information transaction if the parties would assume that a computer would be used to "obtain" or "process" information other than information about the transaction, such as a requirement to report by e-mail.

The Reporter intended "licenses" to apply to contracts for software development, where computer information is physically "created" and "modified" and to contracts to transmit or provide access to databases kept in digital form. In the later case, it would appear that computer information is physically "transferred."¹⁸ A much more convoluted analysis may be that such a contract is implicated because the computer information is "licensed:" although the verb is not defined, the UCITA definition of "license" as a noun includes "an access contract."¹⁹

The breadth of the UCITA scope definitions make UCITA an important consideration for many sectors of our economy that had very little input into its development and remain generally unaware of its reach. The "upstream" research community of universities and private laboratories, as well as individual researchers are likely to be directly affected.

A research contract that even implicitly calls for the collection of empirical data typically anticipates the "creation" of computer information by automated sampling and recording, and thus includes a computer information transaction. Typical natural and even social scientific research contracts also at least implicitly require analysis of empirical data, calling for the "processing" of computer information and thus including a computer information transaction. Any agreement in a research or technology transfer contract to "transfer" or "license computer information or informational rights in computer information" is also a "computer information transaction."

Unlike the stock quotations sought to be protected from immediate retransmission by one of the major proponents of UCITA, the stock exchanges, data to be collected in scientific research generally have no value as individual data points. A stock quotation has *additional* value being in "digital form" because of the ease of transmission, whereas seismic or protein mapping data have value *only* in a "form capable of being processed by a computer."

17. *Id.* § 102(a)(4)(emphasis added).

18. "Transfer' . . . (B) with respect to computer information, includes a sale, license or lease of a copy as well as a license or an assignment of informational rights in computer information." U.C.I.T.A. § 102(a)(64). This does not preclude physical transfer.

19. U.C.I.T.A. § 102(a)(40). "'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." *Id.* § 102(a)(1).

The "Official Comments"²⁰ do not resolve these issues:

"Computer information transaction." This term establishes the scope of this Act. Section 103. It requires an agreement involving computer information. The term includes transfers of computer programs or multimedia products, software and multimedia development contracts, access contracts, and contracts to obtain information for use in a program, access contract, or multimedia product. However, the mere fact that parties agree to communicate in digital form does not bring a transaction within this definition, nor does a decision by one party to use computer information when the contract does not require this. An agreement to use e-mail to communicate about a contract for the shipment of petroleum or to file an application in digital form does not bring the transaction within this definition. A contract for an airline ticket is not a computer information transaction simply because the ticket may be represented in digital form. The subject matter of that agreement is not the computer information, but the service—air transportation. See comments to Section 103.

A transaction is not for the "creation" of computer information in the sense intended here where the contracted-for activities are merely secretarial, ministerial, or clerical in nature. The computer information must be created, i.e., produced or developed through some business, professional, artistic, imaginative, or similar effort. Of course, a transaction that otherwise qualifies and that occurs with respect to information already in the form of computer information is within the definition regardless of how it was put into that form.²¹

After stating the general rule of including all computer information transactions, UCITA's scope section 103 continues with numerous exceptions and special cases. Notable for possible application to research con-

20. These are preliminary. "Official" Comments are written by the Reporter and the Chair without approval of the drafting committee or the Committee of the Whole. The most recent publicly available draft is dated March 2000.

21. See U.C.I.T.A. § 102 cmt. No. 9. The Reporter's Note 7 to the definitional section of the draft presented to the Committee of the Whole at the ULC 1999 Annual Meeting did not resolve the vagueness, but provided some insight into the difficulty: "This term refers to transactions where *the* primary focus of the transaction *includes* the computer information." (Emphasis added). The primary focus of a typical biotechnology research contract or license is the collection or transfer of the biotechnology information, which obviously *includes* that information in its most usable form, that is, as computer information. Moreover, the Reporter distinguished in Note 7 between "clerical" activities not subject to UCITA from "computer information. . . produced through some business, professional, artistic, or imaginative effort. The latter sounds like a copyrightability databases. However, in Note 10, distinguishing UCITA "computer programs" as a subset of Copyright Act "computer programs," the Reporter characterizes the former as addressing "operations (program)" versus "communicated content (informational content)." Having said this, he arbitrarily states that the issue "does not relate to the copyright law question of distinguishing between a process and a copyrightable expression" and goes on to state that "the distinction relates to contract law issues in determining liability risk and performance obligations."

tracts is subsection 103(d)(5), which states that UCITA does not apply, even if the transaction includes a computer information transaction, to

- (5) a contract that does not require that information be furnished as computer information or a contract in which, under the agreement, the form of the information as computer information is otherwise insignificant with respect to the primary subject matter of the part of the transaction pertaining to the information.²²

An issue arises whether a research contract that does not specify the form of data collection is excluded from UCITA because it does not "require" that the data be "furnished" as "computer information." Subsection 103(d)(5) does not say "*expressly* requires." If the researcher failed to collect, keep or deliver data in computer form and could be successfully sued for breach of contract on that basis, it would appear that the contract "required" that form.

The present UCITA is dangerous because it provides default rules in segments of our economy where the questions are not even asked. Such a statute can be considered "regulatory" and certainly sows the seeds for litigation in those segments that operated under different rules. This was the reason that most of the entertainment industry negotiated for exclusion from UCITA. Many other industries have no idea that UCITA will profoundly affect their transactions.

B. UCITA REMAINS VAGUE AS TO COVERAGE OF MIXED GOODS- INFORMATION TRANSACTIONS

The "mixed transaction" approach of UCITA suffers from continuing imprecision and thus is a problem for producers of goods or providers of services with significant information technology components, whose numbers have increased significantly from the time that the framework for UCITA was first set. This is because the task of separating functional software from functional hardware is improvident, certainly more difficult than separating intellectual property rights in a product from the functional aspects of the product.

The difficulty of the road chosen by UCITA proponents is shown by continued stumbling in the drafting process. The text approved by the NCCUSL Committee of the Whole in 1999 provided:

- (b) Except as otherwise provided in subsection (d) and Section 104, if a computer information transaction includes subject matter other than computer information, the following rules apply:

- (1) If a transaction includes computer information and goods, this [Act] applies to the computer information and informational rights in it. However, if a copy of a computer program is contained in and

22. U.C.I.T.A. § 103(d)(5).

sold or leased as part of *other goods*, this [Act] applies to the copy and the computer program only if:

- (A) the other goods are a computer or computer peripheral; or
- (B) giving the buyer or lessee of the goods access to or use of the program is ordinarily a material purpose of transactions in goods of the type sold or leased.

(2) In all cases not involving goods, this [Act] applies only to the computer information or informational rights in it, unless the computer information and information rights are, or access to them is, the *primary subject matter*, in which case this [Act] applies to the entire transaction.²³

As of February 2000, the rule reads:

(b) Except for subject matter excluded in subsection (d) and as otherwise provided in Section 104, if a computer information transaction includes subject matter other than computer information or subject matter excluded under subsection (d), the following rules apply:

(1) If a transaction includes computer information and goods, this [Act] applies to *the part of the transaction involving computer information, informational rights in it, and creation or modification of it*. However, if a copy of a computer program is contained in and sold or leased as part of goods, this [Act] applies to the copy and the computer program only if:

- (A) the goods are a computer or computer peripheral; or
- (B) giving the buyer or lessee of the goods access to or use of the program is ordinarily a material purpose of transactions in goods of the type sold or leased.

(2) In all other cases, this [Act] applies to the entire transaction if the computer information and informational rights, or access to them, is the *primary subject matter*, but otherwise applies only to *the part of the transaction involving computer information, informational rights in it, and creation or modification of it*.²⁴

The primary change is the shift in focus from the “computer information and informational rights” to “the part of the transaction involving computer information, informational rights in it, and creation or modification of it.” It is unclear whether the change broadens the scope. In either version, the results are difficult to predict.

Again, the difficulty arises from the difficulty in distinguishing functional goods and functional computer programs.²⁵ Although the Reporter—apparently in support of the removal of computer programs from

23. See U.C.I.T.A. § 103(b) (Oct. 1999 “approved” draft) (emphasis added).

24. See U.C.I.T.A. § 103(b) (1999) (emphasis added).

25. As conjectured in the motion picture, *The Matrix*, our entire universe could be computer information.

Article 2—categorically states that “computer information and informational rights are not goods,”²⁶ he had referred in “approved” section 103(b)(1) to “other goods,” assuming software “contained in” such goods were themselves goods. The latter has been the rule for “off the shelf” computer programs for many years.

In the Reporter’s words, “[a]s used in this Act, ‘computer program’ refers to the functional and operating aspects of a digital or similar system,”²⁷ but [o]f course, this Act does not apply to the computer; it only applies to the program (and copy) and other computer information.”²⁸ But virtually every computer includes hard wired (etched) logic functions as well as “firmware” and software, all of which control the “functional and operating aspects” of the computer, and are mathematically indistinguishable—and this is before any operating system, “middleware” or application program is loaded. UCITA distinguishes between computer programs and “informational content” relative to “contract law issues such as liability risk and performance contract obligations.”²⁹ However, relative to these issues, there is no support provided for the distinction between hardware, firmware, software and hybrid implementations of “computer programs.” That “computer programs” are defined as “statements or instructions”³⁰ is addressed to the copyright issues. Yet under copyright principles, a firmware implementation and even some hardware implementations might be considered a “copy” of a program.

The Reporter also makes a number of sweeping assumptions about e-commerce technology. He states, “In online use and distribution of computer information, there is often no tangible medium at all.”³¹ While wireless communication, arguably involving an intangible medium, is increasing, most of Internet commerce still occurs over copper wires and optical fibers—which *are* tangible. Certainly the computer information must be stored or at least presented on tangible media to be useful. What the Reporter apparently means is that in the “downloading” of computer information, the distributor does not transfer to the user a relatively static copy “fixed”³² in a human-portable object such as a piece of paper, a magnetic tape or a laser-readable compact disc. From this in-

26. U.C.I.T.A. § 103 cmt. 4(b) (citing *United States v. Stafford*, 136 F.3d 1109 (7th Cir. 1998); *Fink v. DeClassis*, 745 F. Supp. 509, 515 (N.D. Ill. 1990) (intellectual property)).

27. U.C.I.T.A. § 102 cmt. No. 10.

28. U.C.I.T.A. § 103 cmt. No. 3(c).

29. U.C.I.T.A. § 102 cmt. No. 10.

30. U.C.I.T.A. § 102(b)(12).

31. U.C.I.T.A. § 103 cmt. No. 2, para. 2.

32. Under the Copyright Act, 17 U.S.C. § 101 (1999),

A work is “fixed” in tangible medium of expression when its embodiment in a copy or phonorecord, by or under the authority of the author, is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration. A work consisting of sounds, images, or

creasingly important, but far from dominant, means of distribution of computer information, a significant departure is made from the current state of the law in which content is treated differently from media.³³

... UCITA treats the medium that carries the computer information as part of the computer information and within this Act, whether the medium is a tangible object or electronic. This Act applies to the copy, documentation, and packaging of computer information; these are within the definition of computer information itself. Section 102. They are mere incidents of the transfer of the information.³⁴

If "the copy" and "documentation" of computer information were "mere incidents," then there would be a *right* to a "copy" or "documentation" upon such transfer. Yet many publishers of computer information will charge much more than shipping and handling costs for such "incidents."

Exclusions from UCITA were not based on principle, but upon industry objections. Thus, the banking industry, the recording industry and the motion picture industry each have specific exclusions under subsection 103(d), plus the power to "opt into" UCITA under Section 104 whenever it suited their purposes. Exclusions for the applicability of UCITA to goods that include computer information components under subsection 103(b)(1) were provided to meet the consumer advocate concern that an automobile manufacturer could otherwise take a car out of existing law and put it under the more producer-friendly UCITA on the basis of the multiple on-board computers in most new cars. In other mixed transactions, those involving services not excluded under subsection 103(d), UCITA applies to the computer information transaction component and to the entire transaction if the computer information transaction is "the primary subject matter."³⁵ Because in research involving

both, that are being transmitted, is "fixed" for purposes of this title if a fixation of the work is being made simultaneously with its transmission.

Id. "Copies" are material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device."

Id. On the Internet, computer information is divided into packets that typically are transmitted in multiple "hops" between intermediate specialized computer nodes (routers, switches, bridges, repeaters, etc.). Almost invariably, portions of, if not entire packets are placed in some short-term memory ranging from a register to a queue. Generally these "copies" are deemed "transitory." To manage traffic, however, many Internet Service Providers provide for "caching" of frequently-visited web pages at intermediate nodes. Another client attempting to reach the same page would get a copy of the cached copy. This would appear to fit the Copyright Act definition of a copy. "Temporary Internet Files" under Microsoft Corporation's Windows operating system also contains local copies of pages visited.

33. *E.g.*, 17 U.S.C. § 102 (illustrating the dichotomy of ownership of copy and copyright). Content publishers typically have provided warranties as to the media rather than to the content.

34. U.C.I.T.A. § 103 cmt. No. 4(c), para. 1.

35. U.C.I.T.A. § 103(b)(2).

empirical data, the collection or "creation" of data in computer form can be considered the "primary subject" matter it is arguable that UCITA applies to the entire transaction under subsection 103(b)(2).

Subsection 103(b)(1) above provides for application of UCITA to the computer information portion of certain mixed goods-computer information transactions. However, the application of the rules remain unclear. For example, subsection 103(b)(1)(B) remains ambiguous as to whether a digital camera should be included. There is no definition of a "computer peripheral" as used in subsection 103(b)(1)(A). It is not clear whose "material purpose" controls in subsection 103(b)(1)(B). Is it a material purpose of a seller to give the buyer access or use? Are "goods of the type" cameras or digital cameras? The Reporter notes that "[a] separately licensed program for a digital camera that enables the camera to link to a computer is within this Act."³⁶ Is "license" that comes with the camera "separately licensed?"

Section 104 in fact provides for the application of UCITA to an entire mixed goods-computer information transaction. This "opt-in" provision of UCITA would allow UCITA's instruments for licensor control of a product to be extended in any transaction that includes "computer information" or specifically excluded transactions:

The parties may agree that this [Act], including contract-formation rules, governs the transaction, in whole or part, or that other law governs the transaction and this [Act] does not apply, if a material part of the subject matter to which the agreement applies is computer information or informational rights in it that are within the scope of this [Act], or is subject matter within this [Act] under Section 103(b), or is subject matter excluded by Section 103 (d)(1) or (2). However, any agreement to do so is subject to the following rules:

- (1) An agreement that this [Act] governs a transaction does not alter the applicability of any rule or procedure that may not be varied by agreement or that may be varied only in a manner specified by the rule or procedure. In a mass-market transaction, the agreement does not alter the applicability of:
 - (A) a consumer protection statute [or administrative rule]; or
 - (B) a law applicable to a copy of information in printed form.
- (2) An agreement that this [Act] does not govern a transaction
 - (A) does not alter the applicability of Section 214 or 816; and
 - (B) in a mass-market transaction, does not alter the applicability under [this Act] of the doctrine of unconscionability or fundamental public policy or the obligation of good faith.

36. U.C.I.T.A. § 103 cmt. No. 3(c), para. 6.

(3) In a mass-market transaction, any term under this section which changes the extent to which this [Act] governs the transaction must be conspicuous.

(4) A copy of a computer program contained in and sold or leased as part of goods which is excluded from this [Act] by Section 103(b)(1) cannot provide the basis for an agreement under this section that this [Act] governs the transaction.³⁷

The producer or publisher of information products may impose applicability of UCITA as part of terms that are presented after payment upon first use of the information product, as explained below, a core feature of UCITA. "In determining whether an enforceable agreement to opt-in or opt-out was formed, a court should apply the contract formation rules of this Act, since a material part of the agreement involves a computer information."³⁸

Section 104 appears to allow the "bootstrapping" of a book sale into a UCITA "license" transaction "if a material part of the subject matter to which the agreement applies is computer information or information rights in it that are within the scope of this [A]ct."³⁹ Thus, a book, devoted to computer information⁴⁰ may include a provision enforceable under UCITA: "if you turn this page, you agree to the application of UCITA and not to copy any portion of this book." Even in a mass-market transaction, where section 104(1) provides that "opting-in" does not alter "the applicability of a law applicable to a copy of information in printed form," it has been the position of the Reporter and other proponents of UCITA that "agreement" takes a transaction outside the scope of copyright law.⁴¹ Moreover, by "negative implication," non-mass market transactions as well as UCITA transactions not made so by "opting-in" under the section, for example printed documentation for computer information, may alter copyright law. While information in print form or otherwise that is not widely distributed may be subject to restrictions under state trade secret law as supplemented by contract, widely published materials typically have been protected by intellectual property

37. The book itself may be "computer information" if it is "documentation" that is "associated" with a copy of computer information. U.C.I.T.A. § 104.

38. U.C.I.T.A. § 104 cmt. No. 2, para. 5. Subsection 104(4) appears to rule out this result for certain transactions with embedded software. *See also* Draft Official cmt. 3.b to UCITA § 104. As in so much of UCITA, however, the language leaves significant room for argument: Subsection 104(4) addresses the effect of the inclusion of a "copy" of a computer program, *not* the inclusion of a "license" or other UCITA-based record, leaving open the argument that the inclusion of a UCITA "license" would allow an opt-in.

39. U.C.I.T.A. § 104.

40. *Id.* § 102(a)(10).

41. An "agreement" is an "additional element" of a UCITA "right" that is argued to take it outside the state-based rights "equivalent" to federal copyright that are preempted under 17 U.C.C. § 301(a). *See also* U.C.I.T.A. § 105 cmt. No. 2.

law. UCITA changes this regime by allowing restrictive arrangements to apply to mass market transactions.

This power to control computer (and other) information "downstream" to the user can be used most effectively by large incumbent publishers. The typical term in software products prohibiting reverse engineering, otherwise generally approved under the Uniform Trade Secrets Act and for certain purposes in the Digital Millennium Copyright Act, limits not only the development of competitive products, but also fixes of products for which they are paid,⁴² development of interoperable products,⁴³ the ability to understand what a product does⁴⁴—as well as the enforcement of proprietary rights.⁴⁵ By allowing the producer to limit user choice to accepting embedded terms or not, UCITA provides the greatest power to those for whom there is little competition, that is, those who already have market power.

C. UCITA CONTRACT FORMATION RULES ALLOW THE PARTY
EMBEDDING CONTRACT TERMS IN AN INFORMATION PRODUCT
TO PREVAIL IN EVERY CASE

UCC2B/UCITA extends the once-novel Article 2 concept of "blanket assent," forming a contract even if there is no "meeting of the minds" on each term, to a formalistic adoption of all terms if there is "manifestation of assent" after "opportunity to review" those terms. Because a primary objective of UCC2B was the validation of shrink-wrap software licenses, including "click-through" terms provided only after the product is purchased, the UCC2B drafting committee adopted a proposal to delay contract formation until after those terms are made available—subject to a right to return.⁴⁶ This was to avoid the situation in *Step-Saver Data Systems, Inc. v. Wyse Step-Saver Data Systems, Inc.*⁴⁷ where the contract

42. Example include in-house "Y2K" fixes.

43. Examples are new games using a proprietary console or platform and the development of a DVD player for Linux.

44. An example is the CPHack reverse engineering of CyberPatrol to discover what material was being filtered by the program.

45. Innovators such as Lucent Technologies hold patents and mask work rights whose enforcement requires understanding of accused products. A UCITA-empowered ban on reverse engineering could seriously hamper investigation required for such enforcement.

46. The proposal was made by a sub-subcommittee (chaired by Business Software Alliance representative, Holly Towle) of the software licensing subcommittee of the UCC Committee of the American Bar Association's Business Section, formerly chaired by the Reporter. Neither the proposal nor UCITA has been endorsed by the more inclusive organizations. Almost all of the individual supporters of UCITA are members of the subcommittee, Brian Dengler, Don Cohen (chair), Mary Jo Dively (co-chair), Micalyn Harris, Terrence Maher and Wayne Bennett.

47. *Step-Saver Data Systems v. Wyse Step-Saver Data Systems*, 939 F.2d 91 (3d Cir. 1991) (John Minor Wisdom, J.).

and its terms were deemed to be fixed when the seller mailed software in fulfillment of a purchase order and the “shrink wrap” terms were treated as proposed but unaccepted additional terms.⁴⁸

To allow a “choice” of rejecting the after-payment terms, UCITA ostensibly provides for a refund if the terms are rejected.⁴⁹ Calling this a “refund right” that favors the “licensee,” UCITA proponents cite to *ProCD*, as a validation of shrink-wrap licensing on that basis.⁵⁰ Opponents call this “right” illusory as very few people read the click-through terms and fewer would return for a refund on the basis of even onerous terms; most have relevance only when a defect in the performance of the product is manifested—after installation which usually constitutes acceptance. Indeed, many, if not most, people believe that the deal was completed when they paid for the copy—including sales tax—after being warned by a retailer that the product could not be returned after opening of the shrink wrap.

The adoption-of-terms-or-refund mechanism is spread out across a half-dozen sections in convoluted fashion. The basic principle is set forth as follows:

SECTION 112. MANIFESTING ASSENT; OPPORTUNITY TO REVIEW.

(a) A person manifests assent to a record or term if the person, acting with knowledge of, or after having an opportunity to review the record or term or a copy of it:

- (1) authenticates the record or term with intent to adopt or accept it; *or*
- (2) intentionally engages in conduct or makes statements with reason to know that the other party or its electronic agent may infer from the conduct or statement that the person assents to the record or term.

(b) An electronic agent manifests assent to a record or term if, after having an opportunity to review it, the electronic agent:

- (1) authenticates the record or term; *or*
- (2) engages in operations that in the circumstances indicate acceptance of the record or term.

(c) If this [Act] or other law requires assent to a specific term, a manifestation of assent must relate specifically to the term.

48. *Id.*

49. A closer examination of the text suggests that there are alternatives for avoiding this “right,” even based on current practice.

50. *ProCD* involved unusually good facts for the licensor: there were multiple notices that the product, including some copyrighted material, was not licensed for commercial use, and such a restriction obviously allowed the product to be distributed at a lower price to non-commercial users.

(d) Conduct or operations manifesting assent may be proved in any manner, including a showing that a person or an electronic agent obtained or used the information or informational rights and that a procedure existed by which a person or an electronic agent must have engaged in the conduct or operations in order to do so. Proof of compliance with subsection (a)(2) is sufficient if there is conduct that assents and subsequent conduct that reaffirms assent by electronic means.

(e) With respect to an opportunity to review, the following rules apply:

(1) A person has an opportunity to review a record or term only if it is made available in a manner that ought to call it to the attention of a reasonable person and permit review.

(2) An electronic agent has an opportunity to review a record or term only if it is made available in manner that would enable a reasonably configured electronic agent to react to the record or term.

(3) If a record or term is available for review only after a person becomes obligated to pay or begins its performance, the person has an opportunity to review only if it has a right to a return if it rejects the record. However, a right to a return is not required if:

(A) the record proposes a modification of contract or provides particulars of performance under Section 305 ["Terms To Be Specified"]; or

(B) the primary performance is other than delivery or acceptance of a copy, the agreement is not a mass-market transaction, and the parties at the time of contracting had reason to know that a record or term would be presented after performance, use, or access to the information began.

(4) The right to a return under paragraph (3) may arise by law or by agreement.

(f) The effect of provisions of this section may be modified by an agreement setting out standards applicable to future transactions between the parties.⁵¹

The Reporter states that this section "corresponds" to RESTATEMENT (SECOND) OF CONTRACTS,⁵² "but more fully explicates the concept."⁵³ The RESTATEMENT, however, provides the general principle that "the formation of a contract requires a bargain in which there is a manifestation of

51. U.C.I.T.A. § 112 (emphasis added). This central provision was amended as recently as February 2000. The prior version approved by the NCCUSL Committee of the Whole provided:

(B) in a case not involving a mass-market license, the parties at the time of contracting has reason to know that a record or term would be presented after performance, use, or access to the information began, unless the performance was mere delivery of a copy.

Id.

52. RESTATEMENT (SECOND) OF CONTRACTS § 19 (1981).

53. U.C.I.T.A. § 112 cmt. No. 2, para. 2.

mutual assent to the exchange and a consideration.”⁵⁴ It is far from clear that there is mutual assent where the parties are remote from each other in space, time, and legal relationship,⁵⁵ or that the imposition of new restrictive terms after the purchaser received a copy upon payment does not fail for lack of consideration. Nonetheless UCITA takes formalism further with its provision at UCITA § 112(a)(1) that “authentication” is all that is required.

“Authentication” is itself defined disjunctively in the “black letter” of UCITA:

(6) “Authenticate” means:

(A) to sign; *or*

(B) with the intent to sign a record, otherwise to execute or adopt an electronic symbol, sound, message, or process referring to, attached to, included in, or logically associated or linked with, that record.⁵⁶

Although it may appear reasonable in the paper world to accept a signature as a manifestation of assent to a contract, the same may not be true for the type of “authentication” defined in UCITA. A loading dock clerk is not likely without special cause to sign “XYZ Corporation” in her own handwriting, but a technician installing software at a workstation will routinely click through embedded terms and enter “XYZ Corporation” in response to a request to do so. The latter actions should not be given the same dignity as the former. Yet, on its face, a simple “click” could be a “procedure” sufficient to “authenticate.” Under the UCITA approach of delaying contract formation, discussed below, there is no contract and any use would be an infringement.

The situation is not helped, but exacerbated, by another provision of UCITA:

SECTION 108. PROOF AND EFFECT OF AUTHENTICATION.

(a) Authentication may be proven in any manner, including a showing that a party made use of information or access that could have been

54. RESTATEMENT (SECOND) OF CONTRACTS § 17(1) (emphasis added).

55. The producer presumably “pre-assents” to terms provided with its product through various distribution channels. The legal relationships present in pre-mass-market mediated software distribution had been that of licensor, licensee/ sublicensor and sublicensee. That situation still occurs with respect to value-added reseller situations. The multi-party distribution of mass market information products presents a different problem. It could be argued that the mass-market software retailer is selling the copy, while the license of intellectual property is directly licensed from the producer, to the extent that the license grants privileges greater than those acquired by ownership of the copy. But the model in UCITA is one where there is no ownership of the copy transferred. What does the retailer sell and the customer buy? Is it a pre-paid option to enter an end-user license agreement? Why do we pay sales taxes on such a transaction?

56. U.C.I.T.A. § 102(a)(6) (emphasis added).

available only if it engaged in conduct or operations that authenticated the record or term.

(b) Compliance with a commercially reasonable attribution procedure agreed to or adopted by the parties or required by law for authenticating a record authenticates the record *as a matter of law*.⁵⁷

Under subsection (a), "authentication" could be proven by showing that the only way to access or install an information product would be to comply with the instruction "sign by clicking here." The introduction in subsection (b) of "attribution procedure," which is defined as "a procedure to verify that an electronic authentication, display, message, record, or performance is that of a particular person *or* to detect changes or errors in information"⁵⁸ on its face provides two additional ways of proving "authentication."⁵⁹

Much is made by UCITA proponents of the "right to a return" in transactions involving post-payment presentation of terms. Subsection 112(e)(3) provides for significant exceptions. Subsection (e)(3)(A), applicable to all transactions including those in the mass market, allows proposals for contract modification and specification of particulars of performance without a right to return.⁶⁰ Thus, a right to return can be circumvented through inclusion in a "clickwrap" agreement of language that "these terms supersede any previous agreement." It can also be circumvented where there exists "an agreement that is otherwise sufficiently definite to be a contract" and "it leaves particulars of performance to be specified by one of the parties."⁶¹

The agreement which permits one party to specify terms may be found in a course of dealing, usage of trade, implication from the circumstances or in explicit language used by the parties. Thus, acquisition of information through a telephone order where there is reason to know that terms to be provided by the other party will indicate details of the contractual arrangement may fall within this section. Supplied under this section, the details supplied are bounded by trade use and commercial expectations (as well as by the terms actually agreed by the parties). They do not, however, require that the other party agree to the terms since, by definition, the original agreement constitutes assent to the later terms under the limitations described here.⁶²

57. *Id.* § 108 (emphasis added).

58. *Id.* § 102(a)(5) (emphasis added).

59. *Id.* § 212 and 213 (providing for showing "commercial" reasonableness, introduces other concepts such as the "adoption" of a procedure, which is distinguished from "agreement" to a procedure).

60. *See* U.C.I.T.A. § 112 cmt. No. 9.

61. U.C.I.T.A. § 305.

62. U.C.I.T.A. § 305 cmt. 2, para. 2.

Thus, a telephone order for mass-market software in which terms are not discussed allows the enforceable post-payment presentation of "click-wrap" terms without a right to return.

In the non-mass-market case, subsection (e)(3)(B) excuses a right to a return of the parties "had reason to know that a record or term would be presented after performance" and if "the primary performance is other than delivery or acceptance of a copy." This convoluted language applies to so-called "layered contracts," where performance is made while a contract is still being negotiated.⁶³ It would also apply to development contracts.

The "right to return" itself, under subsection (e)(4), "may arise by law or by agreement." Thus, the "right to return" specified under Section 209⁶⁴ is adequate to provide this component of a post-payment opportunity to review. No language offering the right to return is required.

It is characteristic of UCITA to provide in multiple, redundant ways for adoption of the record that can be embedded in the product. Thus, UCITA provides:

SECTION 208. ADOPTING TERMS OF RECORDS. Except as otherwise provided in Section 209, the following rules apply:

- (1) A party adopts the terms of a record, including a standard form, as the terms of the contract if the party agrees to the record, *such as by manifesting assent.*
- (2) The terms of a record may be adopted pursuant to paragraph (1) after beginning performance or use *if* [not only if] the parties had reason to know that their agreement would be represented in whole or part by a later record to be agreed on and there would not be an opportunity to review the record or a copy of it before performance before performance or use begins. If the parties fail to agree to the later terms and did not intend to form a contract unless they so agreed, Section 202(e) applies.
- (3) If a party adopts the terms of a record, the terms become part of the contract without regard to the party's knowledge or understanding of individual terms in the record, except for a term that is unenforceable because it fails to satisfy another requirement of this [Act].⁶⁵

Subsection (1) on its face states that (a) manifestation of assent (after knowledge of opportunity to review) is "agreement" to the record and also "adoption" of the terms of the record and (b) there are other methods of agreement than manifestation of assent under UCITA § 112 with its four methods of allowing post-payment terms. Subsection (2) makes

63. See U.C.I.T.A. § 112 cmt. No. 9.

64. See *infra* text accompanying note 67.

65. U.C.I.T.A. § 208 (emphasis added).

clear that "reason to know" of subsequent terms is sufficient, but not necessary. Section 112(e)(3)(A) provides other methods for the producer to avoid a "right of return."

The "mass market license"⁶⁶ concept touted by UCITA proponents as protective of small businesses and consumers is not much better:

SECTION 209. MASS-MARKET LICENSE.

(a) A party adopts the terms of a mass-market license for purposes of Section 208 only if the party agrees to the license, such as by manifesting assent, before or during the party's initial performance or use of or access to the information. A term is not part of the license if:

- (1) the term is unconscionable or is unenforceable under Section 105(a) or (b); or
- (2) subject to Section 301, the term conflicts with a term to which the parties to the license have expressly agreed.

(b) *If a mass-market license or a copy of the license is not available in a manner permitting an opportunity to review by the licensee before the licensee becomes obligated to pay and the licensee does not agree, such as by manifesting assent, to the license after having an opportunity to review, the licensee is entitled to a return under Section 112 and, in addition, to:*

- (1) reimbursement of any reasonable expenses incurred in complying with the licensor's instructions for returning or destroying the computer information or, in the absence of instructions, expenses

66. "Mass-market license" means a standard form used in a mass-market transaction." U.C.I.T.A. § 102(a)(43). In turn,

"Mass-market transaction" means a transaction that is:

- (A) a consumer contract; or
- (B) any other transaction with an end-user licensee if:
 - (i) the transaction is for information or informational rights directed to the general public as a whole, including consumers, under substantially the same terms for the same information;
 - (ii) the licensee acquires the information or informational rights in a retail transaction under terms and in a quantity consistent with an ordinary transaction in a retail market; and
 - (iii) the transaction is not:
 - (I) a contract for redistribution or for public performance or public display of a copyrighted work;
 - (II) a transaction in which the information is customized or otherwise specially prepared by the licensor for the licensee, other than minor customization using a capability of the information intended for that purpose;
 - (III) a site license; or
 - (IV) an access contract

U.C.I.T.A. § 102(1)(44). In the early drafting, this was a concept that had the potential of being addressed to expectations as to functionality and transferability of copies; after much debate, the compromise reflects the mass market software publishing industry's insistence that it would not accept additional risk of liability. The on-line data base publishers insisted that they not be included in the concept at all.

incurred for return postage or similar reasonable expense in returning the computer information; and

(2) compensation for any reasonable and foreseeable costs of restoring the licensee's information processing system to reverse changes in the system caused by the installation, if:

(A) the installation occurs because information must be installed to enable review of the license; and

(B) the installation alters the system or information in it but does not restore the system or information after removal of the installed information because the licensee rejected the license.

(c) In a mass-market transaction, if the licensor does not have an opportunity to review a record containing proposed terms from the licensee before the licensor delivers or becomes obligated to deliver the information, and if the licensor does not agree, such as by manifesting assent, to those terms after having that opportunity, the licensor is entitled to a return.⁶⁷

Aside from requiring that manifestation of assent occur "before or during the party's initial performance or use," there is little added "protection" over section 208. Express recitation in subsection 209(a)(1) of unconscionability and unenforceability provisions suggest that those provisions are not applicable to the non-mass-market case. Subsection 209(a)(2) is illusory since most records will include a merger clause precluding parol evidence. Finally, the "enhanced right to return," even if return of all copies is possible, is an illusory benefit because rejection is unlikely—most people do not even read the terms—damage by loading of the terms is also unlikely—installation is not commenced until after clicking on "accept"—and the conjunction of the two is most unlikely. Section 209 makes UCITA more complicated to apply without significant benefits.

D. UCITA'S "LAST SHOT" RULE DISRUPTS CURRENT BUSINESS PRACTICES AND ENCOURAGES THE EMBEDDING OF STRANGE TERMS IN INFORMATION PRODUCTS

UCITA's reintroduction of a "last shot" rule disrupts current practice based on Article 2. Even though academics are dissatisfied with the Article 2 "battle of forms," businesses have learned to operate with well-drafted purchase orders and invoices to reach a balance. UCITA would upset the balance, rendering current user practices ineffective, so that the party controlling the product can almost always get its terms. The situation has been compared by Professor White to General Electric prevailing over General Motors by placing a label on its headlamps stating, "By installing this item, you agree to all General Electric's terms."

67. U.C.I.T.A. § 209 (emphasis added).

Suppose Telco issues a purchase order for equipment that includes SoftCo's software. Suppose further that SoftCo ships the software with materially different terms as part of a "click-through" procedure for installing the software. Suppose a Telco information technology staffer installs the software, clicking through the installation procedure, including the "click yes, if you accept the terms" button.

Under existing law and the *Step-Saver* decision, a contract was formed with SoftCo's acceptance of the purchase order by shipping. Current UCC2 provides:

§ 2-207. ADDITIONAL TERMS IN ACCEPTANCE OF CONFIRMATION.

- (1) A definite and seasonable expression of acceptance or a written confirmation which is sent within a reasonable time operates as an acceptance even though it states terms additional to or different from those offered or agreed upon, unless acceptance is expressly made conditional on assent to the additional or different terms.
- (2) The additional terms are to be construed as proposals for addition to the contract. Between merchants such terms become part of the contract unless:
 - (a) the offer expressly limits acceptance to the terms of the offer;
 - (b) they materially alter it; or
 - (c) notification of objection to them has already been given or is given within a reasonable time after notice of them is received.
- (3) Conduct by both parties which recognizes the existence of a contract is sufficient to establish a contract for sale although the writings of the parties do not otherwise establish a contract. In such case the terms of the particular contract consist of those terms on which the writings of the parties agree, together with any supplementary terms incorporated under any other provisions of this Act.⁶⁸

SECTION 204. ACCEPTANCE WITH VARYING TERMS.

- (a) In this section, an acceptance materially alters an offer if it contains a term that materially conflicts with or varies a term of the offer or that adds a material term not contained in the offer.
- (b) Except as otherwise provided in Section 205, a definite and seasonable expression of acceptance operates as an acceptance, even if the acceptance contains terms that vary from the terms of the offer, *unless* the acceptance materially alters the offer.
- (c) If an acceptance materially alters the offer, the following rules apply:
 - (1) A contract is not formed unless:

68. U.C.C. § 2-207 (1999) Official Text.

(A) a party agrees, such as by manifesting assent, to the other party's offer or acceptance; or

(B) all the other circumstances, including the conduct of the parties, establish a contract.

(2) If a contract is formed by the conduct of both parties, the terms of the contract are determined under Section 210.

(d) If an acceptance varies from but does not materially alter the offer, a contract is formed based on the terms of the offer. In addition, the following rules apply:

(1) Terms in the acceptance which conflict with terms in the offer are not part of the contract.

(2) An additional non-material term in the acceptance is a proposal for an additional term. Between merchants, the proposed additional term becomes part of the contract unless the offeror gives notice of objection before, or within a reasonable time after, it receives the proposed terms.⁶⁹

Under subsection 204(a), because the shipment included materially different terms, the acceptance materially alters the offer, so that under subsection 204(b), the shipment did not operate as an acceptance, so there was no contract at that time. A contract might subsequently be formed with terms offered by SoftCo if Telco "agrees, such as by manifesting assent." Telco would be deemed to have manifested assent because the staffer "intentionally engage[d] in conduct [clicking] . . . with reason to know that the other party . . . may infer from the conduct . . . that the person assents [notice of terms available and click 'I accept']" under UCITA § 112(a)(2). Under UCITA § 112(d), proof of assent may be "a showing that a person . . . obtained or used the information or informational rights and that a procedure existed by which a person . . . must have engaged in the conduct . . . in order to do so" and "proof of compliance with subsection (a)(2) is sufficient if there is conduct that assents [click] and subsequent conduct that reaffirms assent by electronic means [proceeding with installation]."

Alternatively, the terms are determined under Section 210 "[i]f a contract is formed by the conduct of both parties."⁷⁰ Subsection 210(a) refers a court to course of performance and other expectations formed by business custom to determine the terms.⁷¹ However, subsection 210(b)

69. U.C.I.T.A. § 204.

70. *Id.* § 204(c)(2).

71. *Id.* § 210.

SECTION 210. TERMS OF CONTRACT FORMED BY CONDUCT.

(a) Except as otherwise provided in subsection (b) and subject to Section 301, if a contract is formed by conduct of the parties, the terms of the contract are determined by consideration of the terms and conditions to which the parties expressly agreed, course of performance, course of dealing, usage of trade, the nature of the

expressly provides: "This section does not apply if the parties authenticate a record of the agreement or a party agrees, such as by manifesting assent, to the record containing the contract terms of the other party [clicking 'I accept']."

Conditioning its purchase order on acceptance of all its terms does not help Telco.⁷² Section 205(b) provides that no contract is formed unless SoftCo agreed to Telco's terms. If Telco takes the position that SoftCo accepted the terms of the purchase order by shipping, we are brought back full circle to the UCITA 204 analysis above, because SoftCo's acceptance materially alters the offer. If Telco's purchase order was a standard form, UCITA § 205(c)(1) would make ineffective Telco's condition because Telco's staffer, by installing the software, did not act consistently with the conditional language. In contrast, SoftCo's condition would always remain effective because SoftCo does not have any further opportunity to act, and Telco has the choice only of rejecting the software or installing it and thereby accepting SoftCo's terms.

Even if there already existed a master agreement by its term modifiable only by a signed writing, it is arguable that that condition may be met by SoftCo requiring entry of the corporate name to proceed through installation. As discussed above, because "authenticate" is defined to

parties' conduct, the records exchanged, the information or informational rights involved, and all other relevant circumstances. If a court cannot determine the terms of the contract from the foregoing factors, the supplementary principles of this [Act] apply.

(b) This section does not apply if the parties authenticate a record of the agreement or a party agrees, such as by manifesting assent, to the record containing the contract terms of the other party.

Id.

72. *Id.* § 205.

SECTION 205. CONDITIONAL OFFER OR ACCEPTANCE.

(a) In this section, an offer or acceptance is conditional if it is conditioned on agreement by the other party to all the terms of the offer or acceptance.

(b) Except as otherwise provided in subsection (c), a conditional offer or acceptance precludes formation of a contract unless the other party agrees to its terms, such as by manifesting assent.

(c) If an offer and acceptance are in standard forms and at least one form is conditional, the following rules apply:

(1) Conditional language in a standard term precludes formation of a contract only if the actions of the party proposing the form are consistent with the conditional language, such as by refusing to perform, refusing to permit performance, or refusing to accept the benefits of the agreement, until its proposed terms are accepted.

(2) A party that agrees, such as by manifesting assent, to a conditional offer that is effective under paragraph (1) adopts the terms of the offer under Section 208 or 209, except a term that conflicts with an expressly agreed term regarding price or quantity.

Id.

mean "to execute or adopt a symbol or sound . . . with intent of the authenticating person" *either* to "identify that person" *or* to "adopt or accept the terms or a particular term of a record," there can be considerable mischief.

An example of a situation where a large user can be caught off-guard is a hardware contract with significant "computer information" components in which the producer opts in to all of UCITA using a click-through license. Another example is a software update that contains new terms.

In a UCITA jurisdiction, in order to assure the producer would always get the "last shot," one would counsel the producer to include some term in any putative acceptance of an offer—such as the product delivered—at least one term that would be materially different from any contained in the offer. Generally a more restrictive licensing term would work. A "strange" term, such as a restriction on publishing reviews of the product, would also work.

The publishing of mass-market license terms would take some of this control away from the producer because it would allow for comparison shopping by the few who take the time to read the terms—competition. Some products, even in the mass-market place, may cost between \$500 and \$1,500. If one of two comparable products had a license that allowed for installation on a home computer in addition to an office computer and the other did not, knowing this ahead of time might affect a vendee's choice. More importantly, it may fore the more restrictive producer to relax its terms.

UCITA proponents have steadfastly refused to require that terms be made available on the Internet—thereby negating one of the great promises of the Internet to allow informed decisions. The reason cited is "expense" or "impracticability." UCITA contains instead a "safe harbor" to encourage posting.⁷³ UCITA, however, already bolsters the enforce-

73. *Id.* § 211.

SECTION 211. PRETRANSACTION DISCLOSURES IN INTERNET-TYPE TRANSACTIONS.

This section applies to a licensor that makes its computer information available to a licensee by electronic means from its Internet or similar electronic site. In such a case, the licensor affords an opportunity to review the terms of a standard form license which opportunity satisfies Section 112(e) with respect to a licensee that acquires the information from that site, if the licensor: (1) makes the standard terms of the license readily available for review by the licensee before the information is delivered or the licensee becomes obligated to pay, whichever occurs first, by: (A) displaying prominently and in close proximity to a description of the computer information, or to instructions or steps for acquiring it, the standard terms or a reference to an electronic location from which they can be readily obtained; or (B) disclosing the availability of the standard terms in a prominent place on the site from which the computer information is offered and promptly furnishing a copy of the standard terms on request before the transfer of the computer information; and (2) does not take affirmative acts to prevent printing or storage of the standard terms for archival or review purposes by the licensee.

ability of late-provided terms, when the industry has prospered under the existing regime. With UCITA's further provision of incentives to have the "last shot" along with pre-transaction ignorance of the terms, there is hardly any reason to take advantage of the "safe harbor."

E. UCITA RESOLVES "UPSTREAM" ISSUES IN FAVOR OF THE PUBLISHER-LICENSEE TO THE DETRIMENT OF THE CREATOR-LICENSOR, CLOUDING OWNERSHIP BY UPSTREAM DEVELOPERS

Individual authors, artists and inventors should be concerned about a provision of UCITA designed to protect publishers from claims of infringement that often follow even casual contact between such individuals anyone associated with the publisher:

SECTION 207. FORMATION: RELEASES OF INFORMATIONAL RIGHTS.

(a) A release is effective without consideration if it is:

(1) in a record to which the releasing party agrees, such as by manifesting assent, and which identifies the informational rights released; or

(2) enforceable under estoppel, implied license, or other law.

(b) A release continues for the duration of the informational rights released if the release does not specify its duration and does not require affirmative performance after the grant of the release by:

(1) the party granting the release; or

(2) the party receiving the release, except for relatively insignificant acts.

(c) In cases not governed by subsection (b), the duration of a release is governed by Section 308.⁷⁴

Although these rules generally reflect the very limited reported case law in this area, there was no discussion of these provisions on their merits, and no involvement of any representative of affected classes of individuals. It is intended that one who appears on a videotape may release her personality rights by so indicating on the tape. It may well be that the mere voluntary transmission of information by individual researchers at universities and other institutions, even on a temporary record, might constitute a "release," so long as there was some warning like the chat room notification that such terms were available for review. The breadth of the UCITA § 207 "release"—which is defined no more specifically than a perpetual license with no licensor obligations—may conflict with stricter rules of waiver that may be promulgated to protect privacy.

Id.

74. *Id.* § 207.

As part of a "deal" with the motion picture industry to procure its neutrality on enactment of UCITA, on January 12, 2000, the UCITA standby drafting committee voted 4-1 to recommend to the NCCUSL Committee of the Whole to restore another provision unfavorable to upstream producers that had been removed by the vote of NCCUSL last summer:

SECTION 216. IDEA OR INFORMATION SUBMISSION.

(a) The following rules apply to a submission of an idea or information for the creation, development, or enhancement of computer information which is not made pursuant to an existing agreement requiring the submission:

(1) A contract is not formed and is not implied from the mere receipt of an unsolicited submission.

(2) Engaging in a business, trade, or industry that by custom or practice regularly acquires ideas is not in itself an express or implied solicitation of the information.

(3) If the recipient seasonably notifies the person making the submission that the recipient maintains a procedure to receive and review submissions, a contract is formed only if:

(A) the submission is made and accepted pursuant to that procedure; or

(B) the recipient expressly agrees to terms concerning the submission.

(b) An agreement to disclose an idea creates a contract enforceable against the receiving party only if the idea as disclosed is confidential, concrete, and novel to the business, trade, or industry or the party receiving the disclosure otherwise expressly agreed.⁷⁵

Although this provision would not raise as much of an issue with respect to ownership of technology as unintentional "releases," it further erodes the position of the upstream developer.

UCITA also stacks the deck in favor of the publisher as licensee in "upstream" transactions on the warranty side. Thus, researchers and research institutions, who are not used to making UCC-2 like warranties, are saddled UCITA's UCC-2 based warranties. Among those that are likely to make a difference are the following:

SECTION 401. WARRANTY AND OBLIGATIONS CONCERNING NONINTERFERENCE AND NONINFRINGEMENT.

(a) A licensor of information that is merchant regularly dealing in information of the kind warrants that the information will be delivered free of the rightful claim of any third person by way of infringement or

75. U.C.I.T.A. § 216 (approved by NCCUSL Executive Committee subject to vote of the Committee of the Whole at the 2000 Annual Meeting).

misappropriation, but a licensee that furnishes detailed specifications to the licensor and the method required for meeting the specifications holds the licensor harmless against any such claim that arises out of compliance with either the required specification or the required method except for a claim that results from the failure of the licensor to adopt, or notify the licensee of, a noninfringing alternative of which the licensor had reason to know.

(b) A licensor warrants:

(1) for the duration of the license, that no person holds a rightful claim to, or interest in, the information which arose from an act or omission of the licensor, other than a claim by way of infringement or misappropriation, which will interfere with the licensee's enjoyment of its interest; and

(2) as to rights granted exclusively to the licensee, that within the scope of the license:

(A) to the knowledge of the licensor, any licensed patent rights are valid and exclusive to the extent exclusivity and validity are recognized by the law under which the patent rights were created; and

(B) in all other cases, the licensed informational rights are valid and exclusive for the information as a whole to the extent exclusivity and validity are recognized by the law applicable to the licensed rights in a jurisdiction to which the license applies.

(c) The warranties in this section are subject to the following rules:

(1) If the licensed informational rights are subject to a right of privileged use, collective administration, or compulsory licensing, the warranty is not made with respect to those rights.

(2) The obligations under subsections (a) and (b)(2) apply solely to informational rights arising under the laws of the United States or a State, unless the contract expressly provides that the warranty obligations extend to rights under the laws of other countries. Language is sufficient for this purpose if it states "The licensor warrants 'exclusivity' 'noninfringement' 'in specified countries' 'worldwide,'" or words of similar import. In that case, the warranty extends to the specified country or, in the case of a reference to "worldwide" or the like, to all countries within the description, but only to the extent the rights are recognized under a treaty or international convention to which the country and the United States are signatories.

(3) The warranties under subsections (a) and (b)(2) are not made by a license that merely permits use, or covenants not to claim infringement because of the use, of rights under a licensed patent.

(d) Except as otherwise provided in subsection (e), a warranty under this section may be disclaimed or modified only by specific language or by circumstances that give the licensee reason to know that the licensor

does not warrant that competing claims do not exist or that the licensor purports to grant only the rights it may have. In an automated transaction, language is sufficient if it is conspicuous. Otherwise, language in a record is sufficient if it states "There is no warranty against interference with your enjoyment of the information or against infringement," or words of similar import.

(e) Between merchants, a grant of a "quitclaim," or a grant in similar terms, grants the information or informational rights without an implied warranty as to infringement or misappropriation or as to the rights actually possessed or transferred by the licensor.⁷⁶

SECTION 404. IMPLIED WARRANTY: INFORMATIONAL CONTENT.

(a) Unless the warranty is disclaimed or modified, a merchant that, in a special relationship of reliance with a licensee, collects, compiles, processes, provides, or transmits informational content warrants to that licensee that there is no inaccuracy in the informational content caused by the merchant's failure to perform with reasonable care.

(b) A warranty does not arise under subsection (a) with respect to:

(1) published informational content; or

(2) a person that acts as a conduit or provides no more than editorial services in collecting, compiling, distributing, processing, providing, or transmitting informational content that under the circumstances can be identified as that of a third person.

(c) The warranty under this section is not subject to the preclusion in Section 113(a)(1) on disclaiming obligations of diligence, reasonableness, or care.⁷⁷

In present practice, a university licensor of a patent makes no representation and no implied warranty that a patent is valid or that a licensee's exploitation of the patent will not result in infringement of a third party patent; such representations are negotiated for additional fees. This is very different for manufacturers of product. UCITA § 401 is based on the commercial producer model, yet may well apply to universities who have licensing offices. This would change the baseline for negotiation of research contracts unfavorably for upstream licensors, and to that extent at least, would chill innovation.

76. *Id.* § 401. *Id.* § 102(a)(45). "Merchant" means a person:

(A) that deals in information or informational rights of the kind involved in the transaction; (B) that by the person's occupation holds itself out as having knowledge or skill peculiar to the relevant aspect of the business practices or information involved in the transaction; or (C) to which the knowledge or skill peculiar to the practices or information involved in the transaction may be attributed by the person's employment of an agent or broker or other intermediary that by its occupation holds itself out as having the knowledge or skill.

Id.

77. *Id.* § 404.

F. UCITA EXTENDS TO THE MASS MARKET NEGOTIATED LICENSE PRINCIPLES AND, BY RESTRICTING TRANSFER, CLOUDS MERGERS, ACQUISITIONS AND FINANCING, THEREBY THREATENING INNOVATION

The title and transfer provisions, UCITA § 501-506, generally reinforce control by the producer of the information product. These remain contentious in the debate over UCITA's alleged circumvention of federal intellectual property policy relative to "first sale." For example, UCITA § 502(a)(2), providing that "a licensee's right under the license to possession or control of a copy is governed by the license and does not depend solely on title to the copy," appears directly contrary to the Copyright Law's preservation of the rights of an "owner" of a copy of a computer program to modify the copy for use and to resell the copy.⁷⁸

One of the goals of UCITA apparently is to repair the erroneous usage, "this software is licensed." The statement is reasonably compared to the statement on videotapes, "this video is licensed for home use only," a reminder that only limited privileges (license) were granted and the rights of the owner of the copy are limited under copyright law. The alternative reading, that the copy is "licensed" is strained in common usage—copies are lent or sold, not "licensed." In any case, the ambiguity would be resolved against the drafter.

A relatively recent decision by the Court of Appeals for the Federal Circuit sustained an argument that continuing restrictions on use of computer programs precluded ownership of the copies in the context of a negotiated, single-payment (paid-up) license agreement, but held the contrary for copies, with the same terms, acquired on the "open market."⁷⁹ A traditional non-exclusive license is viewed as the grant of a privilege—agreement not to sue for infringement—that is personal to the grantee and therefore not transferable. Traditional licensors carefully pick their licensees to maximize their royalties. In the open market or mass-market situation, the licensor by its choice of channel of distribution has voluntarily waived its right to choose the licensee and therefore arguably has waived the restriction on transferability and thus any ownership interest in the copy. Certainly a licensor may not maintain the creation of a confidential relationship when it has chosen to distribute to a mass market.

Reasons for restricting transferability include segmenting the market, as in *ProCD*, collecting a second toll upon transfer, and preventing reverse engineering. There is societal benefit in allowing lower prices to less frequent users. Prohibition of reverse engineering, on the other hand, runs against the policy, recognized in NCCUSL's Uniform Trade Secrets Act that one is privileged to learn from information and objects

78. 17 U.S.C. §§ 117, 109, respectively.

79. *DSC Comm. Corp. v. Pulse Comm., Inc.* 170 F.3d 1354, 1360-62 (Fed. Cir. 1999).

embedding the information placed in the public domain. The optimization of UCITA for the producer-continues-to-control model for future revenue may unduly steer producers away from the alternative pay-as-you-go bandwidth model used by telecommunications companies and to which computer manufacturers and distributors are turning with their lease-and-Internet deals.

Another argument is made that restriction of transferability helps to prevent privacy. Copyright law already does this for copyrightable works. The additional benefit is to allow a copyright licensor to sue in state court under contract law without the ubiquitous and often-sustained defense of "fair use." Opponents maintain that this is direct circumvention of federal intellectual property law. Another benefit is to producers of works not protected under copyright, such as alphabetically-organized compilations of factual information.⁸⁰ Again, opponents maintain that this circumvents federal copyright law. An important question is whether NCCUSL was the proper forum for deciding this debate.

The basic approach of UCITA is to preserve ownership of rights to the licensor. Thus, UCITA mixes terminology such as "ownership" and "conveyance" and "transfer," only the last of which is a defined term. Notably, it is defined in a way that conflicts with the use of "transfer of copyright ownership" as defined in the Copyright Act,⁸¹ which includes certain exclusive licenses, but not non-exclusive licenses, of copyright.

SECTION 501. OWNERSHIP OF INFORMATIONAL RIGHTS.

(a) If an agreement provides for conveyance of ownership of informational rights in a computer program, ownership passes at the time and place specified by the agreement but does not pass until the program is in existence and identified to the contract. If the agreement does not specify a different time, ownership passes when the program and the informational rights are in existence and identified to the contract.

(b) Transfer of a copy does not transfer ownership of informational rights.⁸²

Although subsection (b) on its face is consistent with copyright law, the provision in the Copyright Act for the distinction between ownership of copyright and ownership of a material object in which the copyrighted work is embodied,⁸³ is more neutral, and even suggests that transfer of a

80. The interest of the most active data base publishers, the stock exchanges and commercial credit rating firms, can be met without absolute bars on transferability. Assented-to waiting periods for retransmission of fifteen minutes for stock exchanges and six months for credit firms likely are adequate for their commercial activities and likely would not offend the federal intellectual property-public domain balance.

81. 17 U.S.C. § 101 (1999).

82. U.C.I.T.A. § 501.

83. 17 U.S.C. § 202.

copy results in some license ("first sale"), but not a transfer of ownership. UCITA's use of similar language to mean something very different has been criticized by intellectual property law practitioners and scholars. It is noteworthy that the Reporter acknowledges in Official Comment 3 (third paragraph) that "*In re Bedford Computer*, 62 Bankr. 555 (D. N.H. 1986) provides guidance on the relevant issues," since that opinion treats software as a "tangible," in contradiction to a central premise of UCITA.

Section 502 directly challenges the "first sale" provision of the Copyright Act by severely limiting transfers of title to a copy of computer information:

SECTION 502. TITLE TO COPY.

(a) In a license:

- (1) title to a copy is determined by the license;
- (2) a licensee's right under the license to possession or control of a copy is governed by the license and does not depend solely on title to the copy; and
- (3) if a licensor reserves title to a copy, the licensor retains title to that copy and any copies made of it, unless the license grants the licensee a right to make and sell copies to others, in which case the reservation of title applies only to copies delivered to the licensee by the licensor.

(b) If an agreement provides for transfer of title to a copy, title passes:

- (1) at the time and place specified in the agreement; or
- (2) if the agreement does not specify a time and place:
 - (A) with respect to delivery of a copy on a tangible medium, at the time and place the licensor completed its obligations with respect to tender of the copy; or
 - (B) with respect to electronic delivery of a copy, if a first sale occurs under federal copyright law, at the time and place at which the licensor completed its obligations with respect to tender of the copy.

(c) If the party to which title passes under the contract refuses delivery of the copy or rejects the terms of the agreement, title reverts in the licensor.⁸⁴

Subsection (a)(2) seems to be directly in conflict with the federal Copyright Act provision that "[n]otwithstanding the provisions of section 106(3) [exclusive rights of distribution in the copyright owner], the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that

84. U.C.I.T.A. § 502.

copy or phonorecord.”⁸⁵

The provision for transfer of a license (contractual interest) is obviously skewed:

SECTION 503. TRANSFER OF CONTRACTUAL INTEREST. The following rules apply to a transfer of a contractual interest:

(1) A party’s contractual interest may be transferred unless the transfer:

(A) is prohibited under other law; or

(B) except as otherwise provided in paragraph (3), 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.

(2) Except as otherwise provided in paragraph (3) and Section 508(a)(1)(B), a term prohibiting transfer of a party’s contractual interest is enforceable, and a transfer made in violation of that term is a breach of contract and is ineffective to create contractual rights in the transferee against the nontransferring party, except to the extent that:

(A) the contract is a license for incorporation or use of the licensed information or informational rights with information or informational rights from other sources in a combined work for public distribution or public performance and the transfer is of the completed, combined work; or

(B) the transfer is of a right to payment arising out of the transferor’s due performance of less than its entire obligation and the transfer would be enforceable under paragraph (1) in the absence of the term prohibiting transfer.

(3) A right to damages for breach of the whole contract or a right to payment arising out of the transferor’s due performance of its entire obligation can be transferred notwithstanding an agreement otherwise.

(4) A term that prohibits transfer of a contractual interest under a mass-market license by the licensee must be conspicuous.⁸⁶

Although the provision adopts a traditional “material change of burden” test for transferability of contractual rights, it clearly favors publishers in the exception in subsection (2)(A) a “combined work” and allows for additional arguments under subsection (2)(B) why transfer of a right to payment might constitute a “material change of burden.” A motion to make unenforceable prohibitions of transfers of mass-market licenses failed on the NCCUSL floor by a close vote of 61-67. The “compromise” of

85. 17 U.S.C. § 109(a) (1999) (“first sale”).

86. U.C.I.T.A. § 503.

notice under subsection (4) must be viewed in light of what is "conspicuous."⁸⁷ Typically, no one will read the "click-through" license.

A licensor's interests are further protected under the following sections:

SECTION 504. EFFECT OF TRANSFER OF CONTRACTUAL INTEREST.

(a) A transfer of "the contract" or of "all my rights under the contract," or a transfer in similar general terms, is a transfer of all contractual interests under the contract. Whether the transfer is effective is determined by Sections 503 and 508(a)(1)(B).

(b) The following rules apply to a transfer of a party's contractual interests:

(1) The transferee is subject to all contractual use terms.

(2) Unless the language or circumstances otherwise indicate, as in a transfer as security, the transfer delegates the duties of the transferor and transfers its rights.

(3) Acceptance of the transfer is a promise by the transferee to perform the delegated duties. The promise is enforceable by the transferor and any other party to the original contract.

(4) The transfer does not relieve the transferor of any duty to perform, or of liability for breach of contract, unless the other party to the original contract agrees that the transfer has that effect.

(c) A party to the original contract, other than the transferor, may treat a transfer that conveys a right or duty of performance without its consent as creating reasonable grounds for insecurity and, without preju-

87. *Id.* § 102(a)(14). "Conspicuous," with reference to a term, means so written, displayed, or presented that a reasonable person against which it is to operate ought to have noticed it. A term in an electronic record intended to evoke a response by an electronic agent is conspicuous if it is presented in a form that would enable a reasonably configured electronic agent to take it into account or react to it without review of the record by an individual. Conspicuous terms include the following:

(A) with respect to a person:

(i) a heading in capitals in a size equal to or greater than, or in contrasting type, font, or color to, the surrounding text;

(ii) language in the body of a record or display in larger or other contrasting type, font, or color or set off from the surrounding text by symbols or other marks that draw attention to the language; and

(iii) a term prominently referenced in an electronic record or display which is readily accessible or reviewable from the record or display; and

(B) with respect to a person or an electronic agent, a term or reference to a term that is so placed in a record or display that the person or electronic agent cannot proceed without taking action with respect to the particular term or reference.

dice to the party's rights against the transferor, may demand assurances from the transferee under Section 708.⁸⁸

SECTION 505. PERFORMANCE BY DELEGATE; SUBCONTRACT.

(a) A party may perform its contractual duties or exercise its contractual rights through a delegate or a subcontract unless:

- (1) the contract prohibits delegation or subcontracting; or
- (2) the other party has a substantial interest in having the original promisor perform or control the performance.

(b) Delegating or subcontracting performance does not relieve the delegating party of a duty to perform or of liability for breach.

(c) An attempted delegation that violates a term prohibiting delegation is not effective.⁸⁹

SECTION 506. TRANSFER BY LICENSEE.

(a) If all or any part of a licensee's interest in a license is transferred, voluntarily or involuntarily, the transferee does not acquire an interest in information, copies, or the contractual or informational rights of the licensee unless the transfer is effective under Section 503 or 508(a)(1)(B). If the transfer is effective, the transferee takes subject to the terms of the license.

(b) Except as otherwise provided under trade secret law, a transferee acquires no more than the contractual interest or other rights that the transferor was authorized to transfer.⁹⁰

Other than excusing in Section 504(b)(2) from delegation of duties the transferee of a security interest in contractual rights, there is little provided for secured financing of computer information transactions.

UCITA Sections 507-511 establish rules for a different form of software financing, a "financial accommodation contract," defined as "an agreement under which a person extends a financial accommodation to a licensee and *which does not create a security interest* in a transaction subject to [Article 9 of the Uniform Commercial Code]. The agreement may be in any form, including a license or lease."⁹¹ The financial accommodator, a "financier"⁹² has strictly limited rights: "The financier's reme-

88. *Id.* § 504.

89. *Id.* § 505.

90. *Id.* § 506.

91. *Id.* § 102(a)(29) (emphasis added).

92. U.C.I.T.A. § 102(a)(31). "Financier" means a person that provides a financial accommodation to a licensee under a financial accommodation contract and either (i) becomes a licensee for the purpose of transferring or sublicensing the license to the party to which the financial accommodation is provided or (ii) obtains a contractual right under the financial accommodation contract to preclude the licensee's use of the information or informational rights under a license in the event of breach of the financial accommodation contract. The term does not include a person that selects, creates, or supplies the information that is the subject of the li-

dies under the financial accommodation contract are subject to the licensor's rights and the terms of the license.⁹³ A financier's rights under UCITA clearly take second place to the publisher-licensor's rights.

The typical situation is described in Section 507:

SECTION 507. FINANCING IF FINANCIER DOES NOT BECOME LICENSEE. If a financier does not become a licensee in connection with its financial accommodation contract, the following rules apply:

- (1) The financier does not receive the benefits or burdens of the license.
- (2) The licensee's rights and obligations with respect to the information and informational rights are governed by:
 - (A) the license;
 - (B) any rights of the licensor under other law; and
 - (C) to the extent not inconsistent with subparagraphs (A) and (B), any financial accommodation contract between the financier and the licensee, which may add additional conditions to the licensee's right to use the licensed information or informational rights.⁹⁴

Section 508 applies to the less common situation where the financier is the immediate licensee and "transfers" its interest to the financed party:

SECTION 508. FINANCE LICENSES.

(a) If a financier becomes a licensee in connection with its financial accommodation contract and then transfers its contractual interest under the license, or sublicenses the licensed computer information or informational rights, to a licensee receiving the financial accommodation, the following rules apply:

- (1) The transfer or sublicense to the accommodated licensee is not effective unless:
 - (A) the transfer or sublicense is effective under Section 503; or
 - (B) the following conditions are fulfilled:
 - (i) before the licensor delivered the information or granted the license to the financier, the licensor received notice in a record from the financier giving the name and location of the accommodated licensee and clearly indicating that the license was being obtained in order to transfer the contrac-

cense, owns the informational rights in the information, or provides support for, modifications to, or maintenance of the information.

Id.

93. *Id.* § 510(b)(3).

94. *Id.* § 507.

tual interest or sublicense the licensed information or informational rights to the accommodated licensee;

(ii) the financier became a licensee solely to make the financial accommodation; and

(iii) the accommodated licensee adopts the terms of the license, which terms may be supplemented by the financial accommodation contract, to the extent the terms of the financial accommodation contract are not inconsistent with the license and any rights of the licensor under other law.

(2) A financier that makes a transfer that is effective under paragraph (1)(B) may make only the single transfer or sublicense contemplated by the notice unless the licensor consents to a later transfer.

(b) If a financier makes an effective transfer of its contractual interest in a license, or an effective sublicense of the licensed information or informational rights, to an accommodated licensee, the following rules apply:

(1) The accommodated licensee's rights and obligations are governed by:

(A) the license;

(B) any rights of the licensor under other law; and

(C) to the extent not inconsistent with subparagraphs (A) and (B), the financial accommodation contract, which may impose additional conditions to the licensee's right to use the licensed information or informational rights.

(2) The financier does not make warranties to the accommodated licensee other than the warranty under Section 401(b)(1) and any express warranties in the financial accommodation contract.⁹⁵

As perhaps the only concession to financiers, UCITA extends the "hell-or-high-water" payment obligation to the field of computer information product financing:

SECTION 509. FINANCING ARRANGEMENTS: OBLIGATIONS IRREVOCABLE. Unless the accommodated licensee is a consumer, a term in the financial accommodation contract providing that the accommodated licensee's obligations to the financier are irrevocable and independent is enforceable. The obligations become irrevocable and independent upon the licensee's acceptance of the license or the financier's giving of value whichever occurs first.⁹⁶

95. *Id.* § 508.

96. *Id.* § 509.

It is notable that this provision does not have the protections for the financed party as does UCC 2A.⁹⁷

The financier's remedies relative to the subject matter of a UCITA "license" are very limited:

SECTION 510. FINANCING ARRANGEMENTS: REMEDIES OR ENFORCEMENT.

(a) Except as otherwise provided in subsection (b), on material breach of a financial accommodation contract by the accommodated licensee, the following rules apply:

- (1) The financier may cancel the financial accommodation contract.
- (2) Subject to paragraphs (3) and (4), the financier may pursue its remedies against the accommodated licensee under the financial accommodation contract.
- (3) If the financier became a licensee and made a transfer or sublicense that was effective under Section 508, it may exercise the remedies of a licensor for breach, including the rights of an aggrieved party under Section 815, subject to the limitations of Section 816.
- (4) If the financier did not become a licensee or did not make a transfer that was effective under Section 508, it may enforce a contractual right contained in the financial accommodation contract to preclude the licensee's further use of the information. However, the following rules apply:

(A) *The financier has no right to take possession of copies, use the information or informational rights, or transfer any contractual interest in the license.*

(B) If the accommodated licensee agreed to transfer possession of copies to the financier in the event of material breach of the financial accommodation contract, the financier may enforce that contractual right only if permitted to do so under subsection (b)(1) and Section 503.

(b) The following additional limitations apply to a financier's remedies under subsection (a):

- (1) A financier described in subsection (a)(3) which is entitled under the financial accommodation contract to take possession or prevent use of information, copies, or related materials may do so only if the licensor consents or if doing so would not result in a material adverse change of the duty of the licensor, materially increase the burden or risk imposed on the licensor, disclose or threaten to disclose trade secrets or confidential material of the licensor, or materially

97. The comparable "hell or high water" provision under U.C.C. § 2A-407 involves a "finance lease" that is qualified by restrictions on a relationship between the property owner and the "financier." There is no such limitation in UCITA.

impair the licensor's likelihood or expectation of obtaining return performance.

(2) The financier may not otherwise exercise control over, have access to, or sell, transfer, or otherwise use the information or copies without the consent of the licensor unless the financier or transferee is subject to the terms of the license and:

(A) the licensee owns the licensed copy, the license does not preclude transfer of the licensee's contractual rights, *and* the transfer complies with federal copyright law for the owner of a copy to make the transfer; or

(B) the license is transferable by its express terms and the financier fulfills any conditions to, or complies with any restrictions on, transfer.

(3) The financier's remedies under the financial accommodation contract are otherwise subject to the licensor's rights and the terms of the license.⁹⁸

In a fashion typical of UCITA, the licensor's rights are reiterated in different ways. Thus, in the general case, the "financier" is not allowed to gain possession of the copy, but even if the licensee owns the copy and the financial accommodation contract provide for the "financier" to gain possession, the "financier" may not do so unless the license agreement allows it.

Section 511 further reiterates and protects the interests of the licensor:

SECTION 511. FINANCING ARRANGEMENTS: EFFECT ON LICENSOR'S RIGHTS.

(a) The creation of a financier's interest does not place any obligations on or alter the rights of a licensor.

(b) A financier's interest does not attach to any intellectual property rights of the licensor unless the licensor expressly consents to such attachment in a license or another record.⁹⁹

With the exception of Section 509, there is little to help the financier or the financed party in UCITA. Instead, UCITA allows the restriction of use of copies of computer information that under existing law would be assumed to be lawful. As applied to the transfer of assets, UCITA promises to be a significant burden on commerce.

IV. CONCLUSION

UCITA is a 1990s statute created by a small group of lawyers guided by the concerns of large mass market software and database publishers

98. U.C.I.T.A. § 510 (emphasis added).

99. *Id.* § 511.

when confronted with pending liberalization of UCC 2. It is finely tuned for those concerns. Hence there are many redundancies to provide certainty for the terms presented by those publishers ("manifesting assent" is one way to "agree"). The "balance" between licensor and licensee is achieved by taking away from the upstream licensor and the user-licensee and favoring the publisher. The "freedom" to contract is the ability for the publisher to always specify any terms and the much more proscribed ability for other parties to say "no."

This kind of "certainty," while desired by the publisher-producer, does not foster innovation in the developing e-commerce. Existing UCC 2, supplemented by intellectual property law, notably trade secrets law have formed a tested environment in which software and e-commerce have grown; no market failure has ever been identified that calls for remedial legislation, much less the complicated new rules presented in UCITA. Under existing law, some uncertainty exists, but this allows self-regulation among parties to contracts. The parties exercise self-restraint and adopt "reasonable" terms that their lawyers tell them that a court will accept.

UCITA's subtle changes to the existing law, while unappreciated by some legislators assured that UCITA will invite large software and database publishers to their states, tells a practicing attorney on behalf of a publisher-producer to embed terms in the information product at least one of which is certain to be materially different from any term offered by the vendee. To prevent any real response to these terms—or any competition based on comparison of these terms—the attorney would also advise secreting of the terms until the last possible moment, at installation of the information product. This is perhaps the most disappointing part of UCITA: instead of making use of the Internet to promote an efficient market through accessibility to information on terms, it promotes the establishment of publisher fiefdoms through wholesale acceptance of restrictions on use of information.

Hitherto, to sue for trade secret misappropriation, one had to show that the proprietor expended reasonable efforts to keep the information secret; under UCITA, information can be restricted, even if distributed to millions, so long as the restrictive term was presented an instant before use of the information. Hitherto, the sale of a copy of information in the mass market released the transferability of the copy;¹⁰⁰ UCITA provides much support for the contrary proposition that the purported restriction itself will negate transfer of ownership. UCITA thus disrupts at least two important areas of intellectual property law. Its transfer to upstream research of the UCC 2 products template further challenges the assumptions of the innovation community.

100. See *supra* note 7.

It is lamentable that the drafters of UCITA, preoccupied with preserving the favor of publishers that established themselves in the shrink-wrap world of the early 1990s, failed to address even the proper balance of "certainty" for the publisher with accessibility to vendees of information about transactions. Without the latter, there can be little of the competition in terms that UCITA proponents tout as their self-regulation. UCITA provides an outdated vision for e-commerce.