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CASENOTE

ProCD, INC. V. ZEIDENBERG AND ARTICLE 2B: FINALLY, THE VALIDATION OF SHRINK- WRAP LICENSES

I. INTRODUCTION

Imagine that you have created a new computer program.¹ Parts of the program are protected by copyright law.² However, other parts are a compilation of public information³ and may not be protected by intellectual property law. Undeterred, you seek to protect the uncopyrighted information, which you obtained through time-consuming effort, via a written license attached to each package of the software you sell.⁴ The

1. This hypothetical situation was adapted from *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996), where Judge Easterbrook wrote the opinion allowing for enforcement of the shrink-wrap license at issue.

2. See Subject Matter of Copyright, 17 U.S.C. § 102 (1994).

3. See also Mark A. Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 S. CAL. L. REV. 1239, 1265-70 (1995) (describing the conflict that may appear between shrink-wrap licenses and intellectual property protection). But see Karen Puhala *The Protection of Computer Software Through Shrink-wrap License Agreements*, 42 WASH. & LEE L. REV. 1347, 1348-49, 1349 n.4 (1985) (discussing the failure of "traditional means of protection through copyright, trade secret and patent laws . . . to provide sufficient protection of proprietary interests in software." See generally *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 364 (1991) (holding that some compilations of fact do not come under the umbrella of copyright protection); *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 156 (1989) (holding that state law may not interfere with the public's right to economic benefits from the most efficient method of manufacturing unpatented articles); *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1088 (9th Cir. 1989) (interpreting terms of a contract to be consistent with the policies of copyright law); see, e.g., S. MANDELL, *COMPUTERS, DATA PROCESSING AND THE LAW* 5, 124-36 (1984) (discussing the appropriateness of alternative means of protection for software); J. SOMA, *COMPUTER TECHNOLOGY AND THE LAW* 22, 24 (1983) (stating that traditional means of protecting software are inadequate).

4. This type of license is called a shrink-wrap license or a "box-top" license, among other labels. The purpose of shrink-wrap licenses is to "retain software title in the publishers, thereby giving publishers the right to determine the uses to which their software may be put." Michael G. Ryan *Offers Users Can't Refuse: Shrink-Wrap License Agreements as Enforceable Adhesion Contracts*, 10 CARDOZO L. REV. 2105, 2109 (1989); see also Tim Alan

terms of the license essentially state that anyone who purchases the software is prohibited from reselling the software or its contents, and that offenders will be subject to legal action.⁵ Through good fortune, you manage to make a handsome profit from the legal sale of your software.⁶ However, you soon find out that the information you have worked diligently to compile into your software is now available on the Internet⁷ at a fraction of the amount you charge to consumers.⁸ What are your options against the infringer?

Covington, *The Future of Shrinkwrap Licenses* (visited Feb. 4, 1997) <<http://www.fenwick.com/pub/future.html>> (discussing "shrinkwrap," "tear open," and "box top" licenses); David W. Maher, *The Shrink-wrap License: Old Problems In A New Wrapper*, 34 J. COPYRIGHT SOC'Y U.S.A. 292, 295 (1987) (stating that "shrink-wrap" licenses are also called "box top" or "tear-open" licenses); David Einhorn, Comment, *The Enforceability of "Tear-Me-Open" Software License Agreements*, 67 J. PAT. & TRADEMARK OFF. SOC'Y 509 (1985) (describing "shrink-wrap" licenses as "tear-me-open" and "blister-pack" licenses). See generally Carey R. Ramos & Joseph P. Verdon, *Shrinking and Click-On Licenses After ProCD v. Zeidenberg*, 13 COMPUTER LAW. 1 (1996) (discussing "shrink-wrap" licenses and computer screen "click-on" licenses); Robert Gomulkiewicz & Mary L. Williamson, *A Brief Defense of Mass Market Software License Agreements*, 22 RUTGERS COMPUTER & TECH. L.J. 335 (1996) (discussing end-user license agreements ("EULAs")); David L. Hayes, *Shrink-wrap License Agreements: New Light on a Vexing Problem*, 15 HASTINGS COMM./ENT. L.J. 653 (1993) (describing a "shrink-wrap" license); James T. Peys, *Commercial Law—The Enforceability of Computer 'Box-Top' License Agreements Under the U.C.C.*, 7 WHITTIER L. REV. 881 (1985) (describing "box-top" license agreements in relation to the U.C.C.).

5. See D.C. Toedt, III, *Shrinkwrap License Enforceability Issues*, 453 PLL/PAT 613, 645-54 (1996) (showing a sample license agreement); Thomas M.S. Hemnes, *Restraints on Alienation, Equitable Servitudes, and the Feudal Nature of Computer Software Licensing*, 71 DENV. U. L. REV. 577, 600-06 (1994) (displaying a sample licensing agreement and discussing history of licensing); Gary W. Hamilton & Jeffrey C. Hood, *The Shrink-Wrap License—Is It Really Necessary?*, 10 COMPUTER LAW. 16 (1993) (describing usual terms of shrink-wrap licenses); see also Richard H. Stern, *Shrink-wrap Licenses of Mass Marketed Software: Enforceable Contracts or Whistling in the Dark?*, 11 RUTGERS COMPUTER & TECH. L.J. 51 (1985) (describing typical clauses in shrink-wrap licenses).

6. See Gomulkiewicz & Williamson, *supra* note 4, at 336-37 (discussing the heavy costs associated with writing EULAs). The high resource costs of making shrink-wrap licenses are due to "in-house lawyer and paralegal time, outside counsel fees, product management efforts, manufacturing, foreign language translation, layout and printing, and the materials on which the EULAs are printed." *Id.*

7. Internet is "any network that connects other networks . . . [or] a large network of this type that covers the U.S. and extends to Canada, Europe, and Asia, providing connectivity between governments, universities, and corporate networks and hosts." DICTIONARY OF SCIENCE AND TECH. 1129 (1992) [hereinafter DICT. SCI. & TECH.]. A network is "a system of communication through telephone lines, switches, and signal repeaters that connect all users." *Id.* at 2. A network is also defined as a "loosely coupled group of functional units, such as computers." *Id.* "The computers, called nodes of the network, exchange messages over communication links." *Id.*

8. This particular scenario is taken directly from the *ProCD* case, but could happen quite easily to any other software producer. See *supra* note 1 and accompanying text (discussing the fact that this hypothetical is taken from *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996)).

Before the decision in *ProCD v. Zeidenberg*,⁹ a person faced with this dilemma would have no recourse at law.¹⁰ However, after the United States Court of Appeals for the Seventh Circuit held shrink-wrap licenses to be enforceable,¹¹ there is new hope for software producers to prevent end-users from the unauthorized use of licensed software.¹² Furthermore, this decision provides a guideline for parties who enter into Internet contracts since these types of contractual agreements deal with the same, or similar, issues as those confronting shrink-wrap licenses.¹³ Lastly, this case is buttressed by the proposed Article 2B of the Uniform Commercial Code ("U.C.C."), which includes a section ex-

9. *ProCD*, 86 F.3d at 1447.

10. This is based on the decisions from the case law prior to *ProCD* that were declined to enforce shrink-wrap licenses. See *Step-Saver Data Sys., Inc. v. Wyse Tech.*, 939 F.2d 91, 105-06 (3d Cir. 1991) (holding warranty disclaimer provision of license agreement to be unenforceable); *Vault Corp. v. Quaid Software, Ltd.*, 847 F.2d 255, 270 (5th Cir. 1988) (holding that license agreement which prohibited decompilation or disassembly of plaintiff's program was unenforceable); *Arizona Retail Sys., Inc. v. The Software Link, Inc.*, 831 F. Supp. 759, 766 (D. Ariz. 1993) (ruling that warranty disclaimer clause in license agreement was not enforceable); see also Steven A. Marenberg & Elliot Brown, 'Scope of Use' Restrictions in Software Licenses, 10 *COMPUTER LAW*. 1, 2 (1993) (stating that the courts have provided "neither certain nor uniform" answers to the restrictive "scope of use" provisions in software licenses). But see Puhala, *supra* note 3, at 1350-51 n.12 (discussing cases decided before the rulings from *Vault Corp.*, *Step-Saver Data Sys., Inc.*, or *Arizona Retail Sys., Inc.* were handed down which have upheld the enforceability of similar clauses in software license agreements, such as limitation of liability clauses, forum selection clauses, breach of contract clauses, and warranty disclaimer provisions).

11. *ProCD*, 86 F.3d at 1455. In another recent opinion by Judge Easterbrook, the Seventh Circuit held that the terms of a clause in a sales agreement were binding on a purchaser who failed to return the faulty product before the 30-day warranty period ran out. *Hill v. Gateway 2000, Inc.*, 105 F.3d 1147, 1150 (7th Cir. 1997), *reh'g denied*, (7th Cir. Feb. 3, 1997) (describing the clause as an arbitration clause). In fact, the opinion cites to *ProCD*, among other cases, as authority for the proposition that "commercial transactions in which people pay for products with terms to follow" are enforceable. *Id.* at 1148. A copy of the arbitration clause is reprinted in the district court's opinion. See *Hill v. Gateway 2000, Inc.*, No. 96 C 4086, 1996 WL 650631, at *2 (N.D. Ill. Nov. 7, 1996), *vacated*, 105 F.3d 1147 (7th Cir. 1997) (compelling the plaintiffs to submit to arbitration on remand). As an aside, Professor Raymond Nimmer brought the *Hill* case to this author's attention during Professor Nimmer's recent presentation on Article 2B. See Professor Raymond T. Nimmer, Remarks at *The John Marshall Law School's 41st Annual Conference on Developments in Intellectual Property Law* (Feb. 27, 1997) [hereinafter Nimmer, Remarks] (noting that Professor Nimmer is the Leonard Childs Professor of Law at the University of Houston Law Center and that he is currently the Reporter for the Drafting Committee on U.C.C. Article 2B-Licenses).

12. See Gomulkiewicz & Williamson, *supra* note 4, at 335. Shrink-wrap licenses will allow software producers to prevent individuals from profiting from the producers' hard work. *Id.*

13. Gary H. Moore & J. David Hadden, *On-Line Software Distribution: New Life for 'Shrinkwrap' Licenses?*, 13 *COMPUTER LAW*. 1 (1996) (forecasting the higher probability of enforceability of on-line licenses as compared to the shrink-wrap licenses).

pressly dealing with shrink-wrap licenses.¹⁴

This Casenote sets forth the reasons why the *ProCD* decision is the correct ruling.¹⁵ In doing so, Part II of this Casenote lays out the facts that led to the decision by the Seventh Circuit. Part III addresses the issues and conclusions most troublesome to opponents of shrink-wrap licenses. Part IV expounds upon the reasoning utilized in the Seventh Circuit's ruling.¹⁶ Part V details this Casenote's analysis of the decision reached in *ProCD*. This Casenote argues that: (1) shrink-wrap licenses should be valid due to licensing and contract considerations; (2) federal copyright law does not preempt the terms of shrink-wrap licenses; and (3) the proposed Article 2B is consistent with *ProCD* so as to fortify the Seventh Circuit's ruling. Finally, in light of the explosion of Internet licensing agreements, Part VI urges the legislators revising Article 2B to enact its timely provisions because the proposed changes will settle the shrink-wrap quandary once and for all.

II. BACKGROUND

ProCD, Inc., ("ProCD")¹⁷ is in the business of creating national di-

14. U.C.C. § 2B-208, Mass-Market Licenses (Proposed Draft, Sept. 25, 1997). See Lemley, *supra* note 3, at 1293-94 (displaying Section 2-2203 of the U.C.C. Revised Article 2 from Oct. 8, 1994, which enunciates the guidelines for standard form licenses); Holly Keesling Towle, *Licensing and the Uniform Commercial Code*, 454 *PLI/PAT* 353 (1996) (showing the provisions of Article 2B that are apposite to mass market licenses, and discussing the history of Article 2B and how it is being drafted under "the joint auspices of the National Conference of Commissioners on Uniform State Laws ("NCCUSL") and the American Law Institute ("ALI")"); see also Richard Raysman & Peter Brown, *Devising a Legal Framework for Software Licensing: UCC Draft Article 2B* (visited Feb. 4, 1997) <<http://brownraysman.com/doclib/ucc.draft.html>> (describing the revisions in Article 2B which affect mass market licenses).

15. See *ProCD*, 86 F.3d at 1447; see also Gomulkiewicz & Williamson, *supra* note 4, at 335 (arguing in defense of shrink-wrap licenses).

16. See Neil Weinstock Netanel, *Copyright and a Democratic Society*, 106 *YALE L.J.* 283, 447-55 (1996) (discussing Judge Easterbrook's views on the relationship between contract law and copyright law); see also Hill, 105 F.3d at 1 (exemplifying Judge Easterbrook's outlook in favor of contractual agreements). See generally Frank H. Easterbrook, *Intellectual Property is Still Property*, 13 *HARV. J.L. & PUB. POL'Y* 108 (1990) (maintaining that physical property and intellectual property should be given identical treatment). Neoclassicists would treat "literary and artistic works as 'vendible commodities,' best made subject to broad proprietary rights that extend to every conceivable valued use." Netanel, *supra*, at 286.

17. *ProCD, Inc.* is incorporated in the state of Delaware and its principal place of business is in Danvers, Massachusetts. *ProCD, Inc. v. Zeidenberg*, 908 F. Supp. 640, 644 (W.D. Wis. 1996), *rev'd*, 86 F.3d 1447 (7th Cir. 1996). *ProCD* has a World Wide Web site which allows Internet users to order the directories *ProCD* creates. The Uniform Resource Locator ("URL") of the web site is <<http://www.procd.com>>.

rectories of residential and business listings.¹⁸ The company spent millions of dollars to create these directories.¹⁹ After compiling the information, ProCD sold the directories on CD-ROM²⁰ under the trademark "Select Phone."²¹ Each Select Phone product sold is packaged in a box²² that contains five CD-ROM disks²³ containing the program²⁴ and

18. *ProCD*, 908 F. Supp. at 644. The facts from the record state that ProCD compiled over 95 million residential and commercial listings from about three thousand publicly available telephone books published nationwide to make Select Phone. Brief for Appellant at 7, *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996) (No. 96-1139) [hereinafter Brief for Appellant]. The listings include full names, street addresses, telephone numbers, zip codes, zip-plus-four codes, and "SIC" codes, where appropriate. *Id.* at 6-7. "SIC" code is the Standard Industrial Classification code of each business listing. *Id.*

19. Brief for Appellant, *supra* note 18, at 7. The approximate cost to ProCD of compiling the database was \$10 million. *Id.* The Database is also quite expensive to keep current. *ProCD*, 86 F.3d at 1449. ProCD engaged in price discrimination to maximize its profits, which has allowed ProCD to charge a more affordable price to consumers, either via the Internet or in computer stores, and a higher price to retailers and manufacturers. *Id.* In 1995, the retail price for Select Phone was between \$149 and \$169. Brief for Appellant, *supra* note 18, at 7. Due to the success of its products, ProCD's annual gross sales is about \$20 million. *Id.* "Price discrimination" is the practice whereby "[one] buyer pays a price that is different from the price paid by another buyer for an identical product or service." BLACK'S LAW DICTIONARY 1189 (6th Ed. 1990).

20. Brief for Appellant, *supra* note 18, at 7. ProCD utilizes a special compression technique that allows for storage of "vast amounts of data on a single CD-ROM disk by translating words into symbols and other codes." *Id.* The information actually stored on the CD-ROM disk is a complicated code, and not the words of the listings, that is "undecipherable and generally useless to the user." *Id.* The "key" that unlocks the door to the listings is ProCD's software, which translates the code and produces listings comprehensible to users by converting the compressed code into properly formatted and fielded roman characters." *Id.* CD-ROM is a "compact disc containing data that can be read by a computer[.]" MERRIAM WEBSTER'S COLLEGIATE DICTIONARY 183 (10th ed. 1994); see also *ProCD*, 86 F.3d at 1449 (giving literal definition of CD-ROM as "compact disc—read only memory").

21. Brief for Appellant, *supra* note 18, at 6-7. ProCD has a copyright for the software under registration number TX 4-024-766. *Id.* ProCD offers a "potentially cheaper" alternative to manufacturers and retailers, who pay high prices to "specialized information intermediaries" for such mailing lists. *ProCD*, 86 F.3d at 1449. The database may also afford consumers a more efficient method of accessing telephone numbers in other states. *Id.*

22. *ProCD*, 908 F. Supp. at 645. The outside of each Select Phone box contains a note that alerts the purchaser to the existence of a license agreement. *Id.* However, the specifics of the agreement are not displayed in the notice. *Id.* There is also a notice referring to the License Agreement on each CD-ROM disk, as well as being printed in full in the User Guide and under the "HELP" menu on each disk. Brief for Appellant, *supra* note 18, at 9.

23. Brief for Appellant, *supra* note 18, at 7. Each disk covers a geographic region of the United States— e.g., Northeast, Central, South, Great Lakes, and Pacific. *Id.*

24. Brief for Appellant, *supra* note 18, at 8. The program conducts a search according to the user's criteria, specifically by name, address, telephone number, SIC code, or any combination thereof. *Id.* For instance, one criteria may be to "find all people named Tatum in Tennessee, plus all firms with 'Door Systems' in the corporate name." *ProCD*, 86 F.3d at 1449. The program also allows "end-users" to print and "download" the listings. Brief for Appellant, *supra* note 18, at 8. To "download," in this instance, is to copy a listing from the Select Phone™ CD-ROM disks. *Id.* at 8 n.5. "End-users" are another name for software

the residential and business listings,²⁵ a User Guide, and a registration card. The User Guide includes the terms of the "Single User License Agreement" ("License Agreement").²⁶ Moreover, once the program is installed into an end-user's computer, a notice reminds users that the License Agreement restricts the usage of the product and the data.²⁷ A full refund is guaranteed to users who believe they cannot or who do not want to comply with the terms of the License Agreement.²⁸

purchasers. See Gomulkiewicz & Williamson, *supra* note 4, at 335 (labeling the software user as an "end-user"). A more exact definition of "download" is "to transfer (data) from a usu[ally] large computer to the memory of another device (as a smaller computer)." MERIAM WEBSTER'S COLLEGIATE DICTIONARY 349 (10th ed. 1994). A computer program is defined under U.S. law as a "set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result." 17 U.S.C. § 101 (1994 & Supp. D). The process of developing a program consists of three stages. Puhala, *supra* note 3, at 1347 n.1. The first stage comprises a "flow chart setting forth the logical steps involved in a program." *Id.* The second stage is making the source program, which is a "translation of the flow chart into a programming language that the programmer can read and understand." *Id.* The third stage forms the object program, which is a "translation of the programming language into machine language that the computer understands directly and which enables the computer to execute the program." *Id.* Furthermore, the computer must "translate the source program into the object program before it can execute the program." *Id.* The two types of software are application software, which "performs a specific task," and operating system software, which "manages the internal functions of the computer or facilitates the use of application software." *Id.* at 1348 n.1. See generally 17 U.S.C. § 117 (1994) (dealing with two circumstances where copyright law does not protect a computer program, i.e., essential step and archival purposes).

25. See *Feist Publications, Inc. v Rural Tel. Serv. Co., Inc.*, 499 U.S. at 340, 347 (1991) (holding that telephone directories are not copyrightable because the compilation of facts does not possess any "modicum of originality"). But see Brief for Appellant, *supra* note 18, at 8 n.4 (asserting that the ability of Select Phone™ to search by a variety of fields differentiates it from normal telephone books; plus, ProCD's product contains information, such as ZIP and SIC codes, not covered in printed telephone directories).

26. *ProCD*, 908 F. Supp. at 645. The license agreement explicitly states the following:

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

Id.

27. *Id.* The terms depicted on the computer screen declare the following:

The listings contained within this product are subject to a License Agreement. Please refer to the Help menu or to the User Guide[] The listings on this product are licensed for authorized users only. The user agreement provides that copying of the software and the data may be done only for individual or personal use and that distribution . . . is prohibited [Y]ou will not make the Software or the Listings in whole or in part available to any other user in any networked or time-shared environment, or transfer the Listings in whole or in part to any computer other than the computer used to access the Listings.

Id.

28. Brief for Appellant, *supra* note 18, at 9.

In 1994, Matthew Zeidenberg²⁹ purchased Select Phone™ at a retail computer store.³⁰ Upon realizing that he could download data from Select Phone and make it available over the Internet for commercial purposes,³¹ Zeidenberg purchased two more copies of the program.³² Acting upon his discovery, Zeidenberg started a company called Silken Mountain Web Services, Inc., (“Silken Mountain”) to form a database that could be used by Internet users to access telephone listings.³³ Silken Mountain downloaded the telephone listings from ProCD’s database and from another company’s database.³⁴

Though Zeidenberg saw the warnings on the computer screen, he did not believe that the license terms were binding on him.³⁵ As a result, Zeidenberg created his own computer program which allowed users of

29. *ProCD*, 908 F. Supp. at 644. Zeidenberg is a graduate student who is presently, and at all times relevant to the *ProCD* case, studying for a Ph.D. in computer science at the University of Wisconsin-Madison. E-mail from Matthew Zeidenberg, defendant in *ProCD v. Zeidenberg*, to Author of this Casenote (Feb. 27, 1997) (on file with author). See Brief for Appellant, *supra* note 18, at 9 n.6 (stating that Zeidenberg had used hundreds of computer programs with license terms similar to those of ProCD’s).

30. *ProCD*, 908 F. Supp. at 645.

31. E-mail from Matthew Zeidenberg, Defendant in *ProCD v. Zeidenberg*, to Author of this Casenote (Mar. 3, 1997) (on file with author). Zeidenberg stated explicitly, “[n]either Silken Mountain nor I made money. Both lost some [money]. I never charged for the use of the page or the search engine: I hoped to make money off of advertising on the page, but never did. Th[e] latter was my ‘commercial purpose.’” *Id.*

32. *ProCD*, 908 F. Supp. at 645. Zeidenberg bought the new versions of Select Phone™ in March 1995 and in April 1995, respectively. *Id.*

33. *Id.* Zeidenberg is the sole employee, officer, and shareholder of Silken Mountain. *Id.* Zeidenberg also consulted with attorneys regarding his decision to incorporate Silken Mountain. Record Appendix in Support of Brief for Appellant at 131-32, *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996) (No. 96-1139) [hereinafter Record Appendix]. Silken Mountain did not have any income during its existence; Zeidenberg provided the company with the capital necessary to function daily. *Id.* at 132. Silken Mountain had a Web site with the following URL: <<http://bovine.ssc.wisc.edu:8080/phglimpse.html>>. However, this site has since been deleted by Zeidenberg. E-mail from Matthew Zeidenberg, Defendant in *ProCD v. Zeidenberg*, to Author of this Casenote (Feb. 10, 1997) (on file with author). Zeidenberg stated that the site was left on the Web inadvertently after Silken Mountain dissolved. *Id.*

34. *ProCD*, 908 F. Supp. at 645. The name of the other company was Digital Directory Assistance (“DDA”) and the product used by Silken Mountain was Phone disc. See E-mail from Matthew Zeidenberg, Defendant in *ProCD v. Zeidenberg*, to Author of this casenote (Feb. 26, 1997) (on file with author). In a deposition of Zeidenberg, he admitted that he “willfully took [ProCD’s] listings in order to assemble [his] own database.” Record Appendix, *supra* note 33, at 163 (detailing the deposition taken of Zeidenberg on October 17, 1995).

35. See Brief for Appellees at 4, *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996) (No. 96-1139) [hereinafter Brief for Appellees]. Zeidenberg read the information regarding the *Feist* decision which held telephone directory print to be excluded from copyright protection. See Record Appendix, *supra* note 33, at 31; see also *ProCD*, 908 F. Supp. at 645 (discussing the license terms on the computer screen).

the program to search through ProCD's database.³⁶ In May 1995, Silken Mountain contracted with Branch Information Systems ("Branch") to gain access to the Internet.³⁷ Soon thereafter, Silken Mountain allowed Internet users to access the database.³⁸ However, once ProCD learned of Silken Mountain's exploits, ProCD demanded that Silken Mountain cease its actions.³⁹ Zeidenberg responded with a letter admitting to downloading ProCD's telephone list, but defiantly expressed his intentions to continue this activity.⁴⁰

Branch halted its business relationship with Silken Mountain after it was made aware of ProCD's disapproval of Zeidenberg's activities,⁴¹ thus forcing Zeidenberg to find another Internet provider. Therefore, in August 1995, Silken Mountain entered into another agreement with Ivory Tower Information Services ("Ivory Tower") to gain access to the Internet, whereby Internet users could use Silken Mountain's database without charge.⁴²

ProCD filed suit against Zeidenberg and Silken Mountain in September 1995 in the United States District Court for the Western District of Wisconsin requesting a preliminary injunction against Silken Mountain's activities.⁴³ The suit was based on claims under the Copyright

36. *ProCD*, 908 F. Supp. at 645. Silken Mountain had over 20,000 "hits" on the Internet daily, thus indicating the large number of people who are interested in this information. Record Appendix, *supra* note 33, at 136. This was the damage claimed by ProCD. *Id.* The difference between ProCD's database and Silken Mountain's database was that the latter's software program permitted searches based only on the name or industry code, whereas ProCD's program could search numerous fields, such as name, address, telephone number, area code, or zip code. *ProCD*, 908 F. Supp. at 645.

37. *ProCD*, 908 F. Supp. at 645. Silken Mountain paid \$1,000 to Branch for Internet access at a monthly rate of \$500, or \$6,000 annually. Record Appendix, *supra* note 33, at 132.

38. *ProCD*, 908 F. Supp. at 645. However, individuals who accessed Silken Mountain's home page on the Internet did not use or copy the Select Phone software. *Id.*

39. *Id.*

40. Record Appendix, *supra* note 33, at 111 (displaying letter written by Zeidenberg to ProCD's counsel in reply to letter written by ProCD's counsel demanding that Zeidenberg and Silken Mountain cease activities that violated the shrink-wrap license agreement).

41. Brief for Appellees, *supra* note 35, at 6. Silken Mountain's Web page using Branch's Internet service was only accessible by Internet users for a few days due to Branch's fear of an impending lawsuit by ProCD. *Id.*

42. *Id.* Ivory Tower stipulated to allow Silken Mountain to gain access to the Internet unless a court determined otherwise. *ProCD*, 908 F. Supp. at 645.

43. *ProCD*, 908 F. Supp. at 645-46; *see also* Brief for Appellant, *supra* note 18, at 26 (displaying the trial court's Order of Preliminary Injunction against Zeidenberg, Silken Mountain, and Ivory Tower). Ivory Tower settled out-of-court with ProCD and was dismissed from the case. *Id.* at 5 n.2. Accordingly, the District Court permanently enjoined Ivory Tower from allowing the information provided by ProCD to be accessible on the Internet. *Id.* at 30-31 (displaying the Final Order and Permanent Injunction of Oct. 23, 1995).

Act,⁴⁴ the Wisconsin Computer Crimes Act,⁴⁵ and Wisconsin contract and tort laws.⁴⁶ On January 5, 1996, the District Court granted both Silken Mountain's and Zeidenberg's motions for summary judgment.⁴⁷ ProCD appealed the District Court's ruling.⁴⁸

III. ISSUES & CONCLUSIONS OF THE *PROCD* COURT

In reversing the District Court's decision, the Seventh Circuit validated the enforcement of shrink-wrap licenses.⁴⁹ The Seventh Circuit delved into two issues: whether shrink-wrap licenses are enforceable and whether shrink-wrap licenses are preempted by federal copyright law.⁵⁰ First, the court held that shrink-wrap licenses are enforceable, unless some terms are "objectionable on grounds applicable to contracts in general."⁵¹ Second, the court ruled that the shrink-wrap license at issue was not preempted by the Copyright Act, deciding that state contract law governs shrink-wrap licenses and not preempted by federal copyright law.⁵² As a result, shrink-wrap licenses are enforceable as long as the terms of the license are reasonable.⁵³

44. See generally Copyright Act, 17 U.S.C. §§ 101-10 (1994 & Supp. I) (defining the federal copyright laws).

45. *ProCD*, 908 F. Supp. at 643.

46. *Id.*; see also Brief for Appellant, *supra* note 18, at 4 (stating that ProCD alleged that Zeidenberg made "unauthorized copying and use of ProCD's copyrighted software . . . in direct violation of the License Agreement governing the product") (emphasis added). See generally Wisconsin Computer Crimes Act, WIS. STAT. § 943.70 (1996).

47. Brief for Appellant, *supra* note 18, at S.A. 25 (displaying the Summary Judgment Order).

48. See Brief for Appellant, *supra* note 18, at S.A. 32 (displaying the Notice of Appeal filed by ProCD on January 17, 1996).

49. *ProCD, Inc. v. Zeidenberg, Inc.*, 86 F.3d 1447 (7th Cir. 1996). *ProCD* "is the first case to consider directly the enforceability of shrinkwrap licenses in mass-market consumer transaction." Ramos & Verdon, *supra* note 4, at 3.

50. *ProCD*, 86 F.3d at 1448-49.

51. *Id.* at 1449. Terms objectionable to contracts include violations of a "rule of positive law" or unconscionable contracts. *Id.* See generally Unconscionable Contract or Clause, U.C.C. § 2-302 (1987) (defining what constitutes unconscionability).

52. *ProCD*, 86 F.3d at 1454. See generally Preemption with Respect to Other Laws, 17 U.S.C. § 301 (1994) (stating that the Copyright Act preempts any law that comes within the ambit of copyright protection).

53. *ProCD*, 86 F.3d at 1448-49; Zeidenberg has decided that he will not appeal the Seventh Circuit's decision. E-mail from Matthew Zeidenberg, defendant in *ProCD v. Zeidenberg*, to Author of this Casenote (Feb. 2, 1997) (on file with author). Zeidenberg stated that he did not believe he could obtain certiorari from the U.S. Supreme Court and that he was "burned out" from litigating the case, though he still insists that the Seventh Circuit's holding was incorrect. *Id.*; see also *supra* note 51 (showing the examples given by the Seventh Circuit as unreasonable terms).

IV. THE *PROCD* COURT'S ANALYSIS

The Seventh Circuit's⁵⁴ analysis in *ProCD* first entailed determining when, if at all, a contract was formed between ProCD and Zeidenberg.⁵⁵ Second, the court looked to whether the subject matter of the license agreement was preempted by federal copyright law.⁵⁶

A. CONTRACT FORMATION

Like the District Court, the Seventh Circuit in *ProCD* treated the license agreement as an ordinary contract accompanying the sale of a product.⁵⁷ Therefore, the Court ruled that the common law of contracts and the Uniform Commercial Code to be the controlling bodies of law.⁵⁸ In regard to contract law, the Seventh Circuit first addressed the District Court's reasoning that a contract was formed the moment the customer paid for the software and exited the store.⁵⁹ The court deduced, therefore, that the customer would also accept all of the terms accompanying the sale of the software specifically, that the transaction was subject to a license.⁶⁰ The Seventh Circuit stated that it would be impractical for a vendor, such as ProCD, to put all of the provisions of the license on the box containing the software.⁶¹ Hence, ProCD chose to put the actual license agreement in two places: (1) printed fully in the User Guide, and (2) encoded in each disk to be displayed prominently on the computer screen once the user accessed the program.⁶² As a matter of fact, the user could not continue to download the program unless the user clicked the screen assenting to the terms of the license.⁶³

54. The panel of the Seventh Circuit that heard the *ProCD* case consisted of Circuit Judges Coffey, Flaum, and Easterbrook. *ProCD*, 86 F.3d at 1448.

55. See *id.* at 1450-53 (dealing with the contract formation portion of the court's holding).

56. *Id.* at 1453-55 (discussing the topic of preemption).

57. *Id.* at 1450. Judge Easterbrook further stated that the "legal differences between 'contracts' and 'licenses' (which may matter under the copyright doctrine of first sale) is a subject for another day." *Id.* *ProCD, Inc. v. Zeidenberg*, 908 F. Supp. 640, 650-51 (W.D. Wis. 1996) (discussing the overwhelming application of the U.C.C. to mass market software licenses).

58. *ProCD*, 86 F.3d at 1450.

59. *Id.*

60. *Id.* The court cited to *Peeters v. State*, 142 N.W. 181 (1913), in support of the proposition that a contract was formed the moment the purchaser paid for the product and left the store. *ProCD*, 86 F.3d at 1450.

61. *Id.* The Seventh Circuit agreed with the trial judge that a party to a contract cannot agree to hidden terms, but the terms in ProCD's license agreement was not hidden—the terms were inside the software box and a notice on the outside of the box described the existence of the license. *Id.*

62. Record Appendix, *supra* note 33, at 129-30.

63. *ProCD*, 86 F.3d at 1452.

The court next analyzed the standardization of contracts.⁶⁴ In its analysis, the court gave numerous examples of standardized contracts where the “exchange of money precedes the communication of detailed terms” such as the situation in *ProCD*.⁶⁵ For example, when a buyer purchases insurance, the insurance agent speaks with the buyer first, then the buyer pays the agent, and, lastly, the policy and its terms are sent to the buyer.⁶⁶ The court also described other types of situations with similar agreements, such as the purchase of airline tickets, concert tickets and consumer goods, including radio sets and over-the-counter drugs.⁶⁷ Beside the obvious benefit to vendors,⁶⁸ the use of standardized contracts “serves buyers’ interests [as well] by accelerating effectiveness and reducing transaction costs.”⁶⁹ Moreover, the Seventh Circuit noted that the customer’s right to return the product for a refund if the customer finds the “terms . . . unacceptable . . . may be a means of doing business valuable to buyers and sellers alike.”⁷⁰

The Seventh Circuit looked to the type of sales that presently prevailed in the software industry.⁷¹ Most software sales, the court noted, occur via telephone orders, via Internet orders, or over the wire, with the minority of sales taking place over-the-counter, where the software boxes may be perused by the buyer.⁷² At this point, the court referred to electronic sales where “there is only a stream of electrons, a collection of

64. *Id.* at 1451 (citing E. ALLAN FARNSWORTH, 1 FARNSWORTH ON CONTRACTS § 4.26 (1990) and RESTATEMENT (SECOND) OF CONTRACTS: STANDARDIZED AGREEMENTS § 211 cmt. a (1981)). Comment a of Section 211 compares the standardization of agreements favorably to the standardization of goods and services, because the mandates of mass production and distribution necessarily require standardization. RESTATEMENT (SECOND) OF CONTRACTS: STANDARDIZED AGREEMENTS § 211 cmt. a (1981). The advantages of standardization are, *inter alia*, that “[o]perations are simplified and costs reduced, to the advantage of all concerned.” *Id.*; see also E. ALLAN FARNSWORTH, FARNSWORTH ON CONTRACTS § 4.26 (1982) (dealing with standardized agreements and also stating that standard forms “simplify operations and reduce costs”).

65. *ProCD*, 86 F.3d at 1451.

66. *Id.*

67. *Id.* The Seventh Circuit stated that it did not know of any states that disregarded the warranties that accompanied consumer products dealing with occasions implied by the U.C.C. when the contract was silent. *Id.*

68. See RESTATEMENT (SECOND) OF CONTRACTS: STANDARDIZED AGREEMENTS § 211 cmt. a (1981).

69. *ProCD*, 86 F.3d at 1451.

70. *Id.* at 1451. *ProCD* did, in fact, allow Zeidenberg, and other purchasers of *ProCD*’s software, to obtain a refund for returning the product if they did not agree with the terms of the agreement. See *supra* notes 26 and 28 and accompanying text (discussing *ProCD*’s refund policy).

71. *ProCD*, 86 F.3d at 1451-52.

72. *Id.* However, the facts of *ProCD* indicate that Zeidenberg purchased *ProCD*’s software at a retail store in an over-the-counter fashion. See *supra* note 30 and accompanying text (discussing the fact that Zeidenberg purchased *ProCD*’s software in a retail store).

information that includes data, an application program, instructions, many limitations, and the terms of sale.⁷³ Then, the court criticized Zeidenberg's argument that "unboxed sales are unfettered by terms so the seller has made a broad warranty and must pay consequential damages for any shortfalls in performance," because the results of the argument are such that it would "drive prices through the ceiling or return transactions to the horse-and-buggy age."⁷⁴

In its analysis of the U.C.C., the Seventh Circuit first disapproved of the District Court's determination that the U.C.C. disfavors transactions in which money changes hands before the terms are fully disclosed.⁷⁵ The District Court relied on the argument that the American Law Institute ("ALI") and the National Conference of Commissioners on Uniform State Laws ("NCCUSL")⁷⁶ proposed the draft of Article 2B to encompass standard-form user licenses because they believed that the present U.C.C. does not validate shrink-wrap licenses.⁷⁷ The Seventh Circuit countered this position by reasoning that "[t]o propose a change in a law's text is not necessarily to propose a change in the law's effect. New words may be designed to fortify the current rule with a more precise text that curtails uncertainty."⁷⁸ The court went on to conclude that, given the large number of law review articles dealing with the status of shrink-wrap licenses,⁷⁹ there is a strong need to reduce the uncertainty on this topic.

The Seventh Circuit next addressed portions of the present version of the U.C.C. that are appurtenant to shrink-wrap licenses.⁸⁰ The first section the court looked to was Section 2-204(1), which deals with formation of contracts.⁸¹ Given both that a vendor is the master of the offer

73. *ProCD*, 86 F.3d at 1451-52.

74. *Id.* at 1452.

75. *Id.* The Court referred to the sequence in this type of transaction as "money now, terms later." *Id.* Since the state of Wisconsin's version of the U.C.C. is not materially different from the Official Version of the U.C.C., the Seventh Circuit used the numbering system from the Official Version. *Id.*

76. See Towle, *supra* note 14, at 356 (describing the people involved in the NCCUSL). The NCCUSL consists of four commissioners from every state, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. *Id.* Commissioners usually are "law school professors, legislators, practicing lawyers, and state code revisers" who are appointed by the governor of each state. *Id.*

77. *ProCD*, 86 F.3d at 1452.

78. *Id.*

79. *Id.* See notes 3-5 and accompanying text (citing law review articles that discuss shrink-wrap licenses). To prove this point, the Seventh Circuit referred to the paucity of cases dealing with shrink-wrap licenses as a sign that businesses are less uncertain about this topic than scholars. *ProCD*, 86 F.3d at 1452; see *supra* note 9 (discussing the three cases prior to *ProCD* which deal with shrink-wrap licenses in one context or another).

80. *ProCD*, 86 F.3d at 1452.

81. *Id.* Formation in General, U.C.C. § 2-204 (1996) provides:

and may invite acceptance by conduct, and that a buyer may accept by performing the acts the vendor deems to qualify as acceptance, the court concluded that Zeidenberg performed in a manner consistent with accepting ProCD's offer when he purchased the software and downloaded the program.⁸² Furthermore, the court interpreted Section 2-204 to mean that the U.C.C. allows contracts to be formed in ways other than the conventional method of "paying the price and walking out of the store."⁸³ Again, since ProCD proposed another method for a buyer to accept, and since Zeidenberg performed in a manner that complied with the terms specified by ProCD, he accepted ProCD's offer.⁸⁴ The contract would not be formed, however, if the buyer returned the product due to the buyer's conclusion that the terms of the license agreement made the software worth less than the purchase price.⁸⁵

Next, the Seventh Circuit proceeded to discuss Section 2-606⁸⁶ of the U.C.C. The court interpreted Section 2-606(1)(b) to mean that a buyer accepts goods when, after having an opportunity to inspect the goods, the

(1) A contract for sale of goods may be made in any manner sufficient to show agreement, including conduct by both parties which recognizes the existence of such a contract.

(2) An agreement sufficient to constitute a contract for sale may be found even though the moment of its making is undetermined.

(3) Even though one or more terms are left open a contract for sale does not fail for indefiniteness if the parties have intended to make a contract and there is reasonably certain basis for giving an appropriate remedy.

Id.

82. *ProCD*, 86 F.3d at 1452.

83. *Id.*

84. *Id.* In fact, Zeidenberg had to accept ProCD's terms in order for him to proceed in downloading the program, because the computer program would not allow him to continue unless he 'clicked' to accept the terms stated on the screen. *See supra* note 27 (displaying the license terms shown on the computer screen).

85. *ProCD*, 86 F.3d at 1452. The Seventh Circuit stated that "[n]othing in the U.C.C. requires a seller to maximize the buyer's net gains." *Id.*

86. *Id.* at 1452-53. What Constitutes Acceptance of Goods, U.C.C. § 2-606 (1996):

(1) Acceptance of goods occurs when the buyer

(a) after a reasonable opportunity to inspect the goods signifies to the seller that the goods are conforming or that he will take or retain them in spite of their non-conformity; or

(b) *fails to make an effective rejection* (subsection (1) of Section 2-602), but such acceptance does not occur until the buyer has had a *reasonable opportunity to inspect* them; or

(c) does any act inconsistent with the seller's ownership; but if such act is wrongful as against the seller it is an acceptance only if ratified by him.

(2) Acceptance of a part of any commercial unit is acceptance of that entire unit.

Id. (emphasis added).

buyer fails to make an effective rejection under Section 2-602(1).⁸⁷ Applying this to the *ProCD* situation, the court reasoned that Zeidenberg had the opportunity to return the software if he did not agree to the terms of the license.⁸⁸ Since Zeidenberg knew of the license and did not return the software, he was thereby bound by the terms of the agreement.⁸⁹

Additionally, the Seventh Circuit discussed other requirements that the U.C.C. imposes on parties entering into an agreement.⁹⁰ In doing so, the court stated that, with the exception of the disclaimer of implied warranty of merchantability and the promise to make firm offers or to negate oral modifications, other sections of the U.C.C. do not require vendors to place conspicuous terms on the license.⁹¹ Specifically, the court mentioned a forum-selection clause on the back of a cruise ship ticket in a notable case in which an inconspicuous clause was held enforceable.⁹² The court also asserted that Zeidenberg failed to find any case that required the terms of shrink-wrap licenses to be displayed prominently or that have held that the ordinary terms of shrink-wrap licenses should be "undercut rather than enforced."⁹³ As a result, the Seventh Circuit equated the terms of a license as "conceptually identical to the contents

87. *ProCD*, 86 F.3d at 1452-53. "Rejection of goods must be within a reasonable time after their delivery or tender. It is ineffective unless the buyer seasonably notifies the seller." Manner and Effect of Rightful Rejection, U.C.C. § 2-602(1) (1996).

88. *ProCD*, 86 F.3d at 1452-53. The Seventh Circuit observed that Zeidenberg had the chance to inspect the software package, to try the software, and to read the license agreement, and yet, he did not reject the goods. *Id.* Further, the court stated that the U.C.C. has always permitted parties to "structure their relations so that the buyer has a chance to make a final decision after a detailed review." *Id.* at 1453.

89. *Id.*

90. *Id.*

91. *Id.*; see also Exclusion or Modification of Warranties, U.C.C. § 2-316(2) (1996) (stating that terms excluding or modifying the implied warranty of merchantability must be conspicuous); Modification, Rescission and Waiver, U.C.C. § 2-209(2) (1996) (requiring parties to sign agreements indicating a modification or rescission when the initial agreement so requires); Firm Offers, U.C.C. § 2-205 (1996) (mandating that terms allowing for a period in which the contract will be held open for the offeree must be signed by the offeror); General Definitions, U.C.C. § 1-201(10) (1996):

"Conspicuous": A term or clause is conspicuous when it is so written that a reasonable person against whom it is to operate ought to have noticed it. A printed heading in capitals (as: Non-Negotiable Bill of Lading) is conspicuous. Language in the body of a form is "conspicuous" if it is in larger or other contrasting type or color. But in a telegram any stated term is "conspicuous." Whether a term or clause is "conspicuous" or not is [to be decided] by the court.

Id. (emphasis added).

92. *ProCD*, 86 F.3d at 1453; see *Carnival Cruise Lines, Inc. v. Shute*, 499 U.S. 585 (1991) (holding forum-selection clauses to be reasonable and enforceable, and that the clauses do not violate the statute which prohibited depriving claimants of trial by a court of competent jurisdiction).

93. *ProCD*, 86 F.3d at 1453.

of the package.⁹⁴ In this respect, the terms of use in a license agreement are a part of the product, just as the content of the database is a part of the software.⁹⁵ The court closed its contractual analysis by stating that consumers in a market economy are protected when vendors compete against each other, not when the judicial system revises the package's contents.⁹⁶

B. PREEMPTION

Following its analysis of contract formation, the Seventh Circuit shifted its analysis to the preemption issue. Section 301(a) of the Copyright Act is the statutory provision which covers preemption.⁹⁷ First, the court critiqued the District Court's conclusion that the data garnered by ProCD was within the subject matter of copyright.⁹⁸ The court looked to *Feist Publications, Inc. v. Rural Telephone Services Co., Inc.*⁹⁹ in support of its assessment that telephone listings were not original enough to qualify for coverage under copyright.¹⁰⁰ The Court interpreted Section 301(a) to mean that states are prevented from "giving special protection to works of authorship that Congress has decided should be in the public domain, which it can accomplish only if 'subject matter of copyright' includes all works of a type covered by Sections 102 and 103, even if federal

94. *Id.* The court concluded that Wisconsin would not allow a buyer to pick and choose among the terms of a license, just as no court would dare force ProCD to pick a certain number of phone books or phone listings in forming a software program. *Id.*

95. *Id.*

96. *Id.* The court stressed that adjusting the license terms in favor of Zeidenberg may help him today, but would harm consumers in the long run because the price of software would be increased to compensate for lost revenues due to copying of programs. *Id.*

97. Preemption with Respect to Other Laws, 17 U.S.C. § 301 (1994) which provides in relevant part:

[A]ll legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by § 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by §§ 102 and 103 . . . are governed exclusively by this title.

Id.

98. *ProCD*, 86 F.3d at 1453.

99. *Feist Publications, Inc. v. Rural Tele. Serv. Co., Inc.*, 499 U.S. 340 (1991) (holding that some compilations of fact do not come under the umbrella of copyright protection).

100. *ProCD*, 86 F.3d at 1453. The Seventh Circuit cited to numerous authorities for this proposition. See *Baltimore Orioles, Inc. v. Major League Baseball Players Ass'n*, 805 F.2d 663, 676 (7th Cir. 1986) (holding that players' state law publicity rights are preempted); see also PAUL GOLDSTEIN, COPYRIGHT § 15.2.3 (2d ed. 1996); MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 101[B] (1995); and WILLIAM F. PATRY, COPYRIGHT LAW AND PRACTICE 1108-09 (1994).

law does not afford protection."¹⁰¹

Then, the Seventh Circuit decided that the rights created by contract law are not equivalent to the general scope of rights exclusive to copyright law.¹⁰² The court first held that contracts do not create exclusive rights because they pertain to the contracting parties only, whereas the rights created by copyright law deal with strangers to the author, in addition to the contracting parties.¹⁰³ An example of the compromise between contract law and copyright law occurs when a person finds a copy of Select Phone on the street.¹⁰⁴ This person would not be affected by the shrink-wrap license, but would be restricted under the copyright laws from copying or transmitting the program.¹⁰⁵

The court also looked at trade secrets, video rentals, and LEXIS database usage.¹⁰⁶ In the case of trade secrets, the common customer list is not copyrightable but is protected under the aegis of trade secret law.¹⁰⁷ Moreover, contracts involving trade secrets may be enforced since such contracts do not affect a stranger's independent discovery and use of the secret.¹⁰⁸ The court used the paradigm of videotape rentals to show that a person who rents the video may not keep the tape by asserting that Section 301(a) makes the rental contract unenforceable.¹⁰⁹ In addition, the court illustrated that a law student using the LEXIS database may not contravene the contractual agreement with LEXIS and resell such access to a law firm at a lower price than what LEXIS would charge the firm.¹¹⁰ The court used the preceding examples to point out that Zeidenberg violated the agreement with ProCD by paying the consumer price for the software when, in fact, he used the software

101. *ProCD*, 86 F.3d at 1453. *See generally* Subject Matter of Copyright: In General, 17 U.S.C. § 102 (1994); Subject Matter of Copyright: Compilations and Derivative Works, 17 U.S.C. § 103 (1994).

102. *ProCD*, 86 F.3d at 1454. The court sought assistance from three federal appellate cases to support this proposition. *See National Car Rental Sys., Inc. v. Computer Assoc. Int'l, Inc.*, 991 F.2d 426, 433 (8th Cir. 1993); *Taquino v. Teledyne Monarch Rubber*, 893 F.2d 1488, 1501 (5th Cir. 1990); *Acorn Structures, Inc. v. Swantz*, 846 F.2d 923, 926 (4th Cir. 1988).

103. *ProCD*, 86 F.3d at 1454.

104. *Id.*

105. *Id.*

106. *Id.*

107. *Id.*

108. *Id.*; *see also* *Kewanee Oil Co. v. Bicon Corp.*, 416 U.S. 470 (1974) (holding that federal patent laws do not preempt state trade secret laws).

109. *ProCD*, 86 F.3d at 1454.

110. *Id.* The court cited to *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), for the proposition that "promises to pay for intellectual property may be enforced even though federal law offers no protection against third-party uses of that property." *ProCD*, 86 F.3d at 1454.

for commercial purposes.¹¹¹ Since Zeidenberg used the software for commercial purposes, he should have been charged the higher commercial price.¹¹²

The court reasoned that courts normally read preemption clauses to leave private contracts unaffected, even though Congress has the power to preempt the enforcement of intellectual property contracts.¹¹³ As an example, the court used the preemption clause of 49 U.S.C. § 1305(a)(1)¹¹⁴ to show that the rules respecting private choice, such as contract law, are not preempted by a clause such as 49 U.S.C. § 1305(a)(1). Likewise, the court reasoned that Section 301(a) plays a similar role to 49 U.S.C. § 1305(a)(1) because Section 301(a) “prevents states from substituting their own regulatory systems for those of the national government.”¹¹⁵ Since Section 301(a) does not interfere with private transactions dealing with intellectual property, it follows that Section 301 the Seventh Circuit feared labeling all contracts as falling outside the coverage of the preemption clause because “the variations and possibilities are too numerous to foresee.”¹¹⁶ But, the court still held that enforcing shrink-wrap licenses like ProCD’s would not interfere with Section 301(a).¹¹⁷

Lastly, the Seventh Circuit questioned whether ProCD’s license agreement withdraws information from the public domain.¹¹⁸ The court held that the license did not detract any information from the public since anyone could still copy and disseminate the data from the myriad telephone books used by ProCD.¹¹⁹ In fact, the court deduced that enforcing shrink-wrap licenses would increase the amount of available information because software producers would be able to charge lower prices to consumers.¹²⁰ Judge Easterbrook noted that licenses often ben-

111. *ProCD*, 86 F.3d at 1454.

112. *Id.* See *supra* note 19 (discussing ProCD’s use of price discrimination).

113. *ProCD*, 86 F.3d at 1454 (citing *American Airlines, Inc. v. Wolens*, 115 U.S. 219 (1995)).

114. *Id.* at 1454-55. The relevant portions of § 1305(a)(1) state that a federal statute preempts any state “law, rule, regulation, standard, or other provision . . . relating to rates, routes, or services of any air carrier.” Airline Deregulation Act of 1978, 49 U.S.C. § 1305(a)(1) (1994).

115. *ProCD*, 86 F.3d at 1455.

116. *Id.* The court recognized that some contracts may interfere with Section 301 (a) when the court analyzed the reasoning from *Wolens*, 115 U.S. 219, and *National Car Rental*, 991 F.2d at 426.

117. *ProCD*, 86 F.3d at 1455.

118. *Id.*

119. *Id.* The same applies to the SIC codes and ZIP codes. *Id.*

120. *Id.* The court also stated that licenses serve the same “procompetitive functions as . . . the law of trade secrets” because licenses “facilitate the distribution of object code while concealing the source code.” *ProCD*, 86 F.3d at 1455 (citing *Rockwell Graphic Sys., Inc. v. DEV Indus., Inc.*, 925 F.2d 174, 180 (7th Cir. 1991)).

efit the buyer because the vendor will permit the buyer to "make extra copies, to use the software on multiple computers, . . . [and] to incorporate the software into the user's products."¹²¹

The court concluded its analysis by reiterating the holding that "a simple two-party contract is not 'equivalent to any of the exclusive rights within the general scope of copyright' and therefore may be enforced."¹²²

V. AUTHOR'S ANALYSIS

The analysis section of this casenote consists of two main arguments. First, this casenote scrutinizes *ProCD* and shows that the Seventh Circuit's enforcement of shrink-wrap licenses is a sound decision. Second, this casenote analyzes how proposed Article 2B of the U.C.C. supports *ProCD* in validating shrink-wrap licenses. After the analysis portion of this casenote is completed, the validity of shrink-wrap licenses will be apparent and the soundness of the *ProCD* holding will be evident.

A. THE SEVENTH CIRCUIT'S VISIONARY DECISION

In analyzing the Seventh Circuit's ruling, Part V A1 first shows how contract formation under the U.C.C. validates shrink-wrap licenses. Next, Part V A.2 examines and dispels the notion that federal copyright law preempts shrink-wrap licenses. As a result, this casenote demonstrates why *ProCD*'s validation of shrink-wrap licenses are a valid and enforceable method to protect software.

1. *The Uniform Commercial Code Allows For ProCD's Shrink-Wrap License*

Although the classification of shrink-wrap licenses has been troublesome,¹²³ the Seventh Circuit's ruling in *ProCD* has done much to clarify

121. *ProCD*, 86 F.3d at 1455.

122. *Id.*

123. Deborah Kemp, *Mass Marketed Software: The Legality of the Form License Agreement*, 48 LA. L. REV. 87, 95 (1987) (stating that commentators argue in favor of applying Article 2 of the U.C.C. to shrink-wrap license terms). Classifying shrink-wrap licenses as either a license or a sale will change the legal implications of the agreement. *Id.* One commentator has even called the use of a "license" in trade secret shrink-wrap agreements to be a legal fiction for the protection of software producers. Lemley, *supra* note 3, at 1244. The enforceability of shrink-wrap licenses had been considered doubtful, especially before the *ProCD* decision was handed down. See Hayes, *supra* note 4, at 669; David A. Rice, *Public Goods, Private Contract and Public Policy: Federal Preemption of Software License Prohibitions Against Reverse Engineering*, 53 U. PITT. L. REV. 543, 562 (1992) (describing the difference between a license and a sale); Susan J. Bahr, *The Canadian Computer Software Copyright Law: One Small Step for U.S. Software Vendors*, 17 RUTGERS COMPUTER & TECH. L.J. 139, 162 (1991) (stating that the decision in *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255 (5th Cir. 1988), "blurred the distinction between licensees and owners").

this problem.¹²⁴ The court in *ProCD* examined the shrink-wrap license in the view of contract law for the reasons stated in the opinion.¹²⁵ Despite the fact that both the Seventh Circuit and trial court applied the U.C.C. to the shrink-wrap license involved in the case,¹²⁶ each court utilized different portions of the U.C.C. in their respective analyses.¹²⁷ As a

124. See *supra* note 122 and accompanying text (discussing the holding of *ProCD*). Though it is true that *ProCD*'s holding only applies to the states within the jurisdiction of the Seventh Circuit, the case will still be a valuable guide to courts in other jurisdictions. See Toedt, *supra* note 5, at 628.

125. See *supra* note 57 and accompanying text (discussing the Seventh Circuit's similar use of the trial court's analysis of shrink-wrap licenses by looking to the U.C.C.); see also *Architectronics, Inc. v. Control Sys., Inc.*, 935 F. Supp. 425, 431-32 (S.D.N.Y. 1996) (using reasoning similar to the *ProCD* court in stating that Article 2 of the U.C.C. is applicable to licenses, as well as contracts); *ProCD, Inc., v. Zeidenberg*, 908 F. Supp. 640, 650-51 (W.D. Wis. 1996) (stating sound reasons for applying the U.C.C. to shrink-wrap licenses); cf. Kemp, *supra* note 124, at 100 (construing *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 498 (1917)) (reasoning that "the content of an agreement rather than its name determines whether the parties are in fact engaged in a sale[s] transaction"). See generally Page M. Kaufman, Note, *The Enforceability of State 'Shrink-wrap' License Statutes in Light of Vault Corp. v. Quaid Software, Ltd.*, 74 CORNELL L. REV. 222, 233-35 (1988) (tracing the use of licensing agreements in computer software to deal with potential violations of trade secrets).

126. See *supra* note 126 and accompanying text (discussing the Seventh Circuit's agreement with the trial court to use U.C.C.).

127. See *Step-Saver Data Sys.*, 939 F.2d 91 (holding disclaimer of warranty terms to be unenforceable because the terms were known to the licensee only after the software package was shipped to the licensee); *Arizona Retail Sys.*, 831 F. Supp. 759 (dealing with disclaimer warranties in two sets of agreements, and ruling that the first set of agreements were enforceable because the licensee had an "opportunity to review" the license terms, but refusing to enforce the second set of agreements since the terms were not disclosed to the licensee upon each shipment); see also Hayes, *supra* note 4, at 659 (describing the *Step-Saver* court's application of Section 2-207 to the software program because software should be considered a "good" under the U.C.C.); Moore & Hadden, *supra* note 13, at 3 (detailing the *Step-Saver* court's analysis of Section 2-207). Compare *ProCD*, 86 F.3d at 1452-53 (analyzing U.C.C. Sections 2-204, 2-606, and 2-602), with *ProCD*, 908 F. Supp. at 652 (utilizing U.C.C. Sections 2-207 and 2-209, and citing *Step-Saver Data Sys., Inc. v. WYSE Tech.*, 939 F.2d 91 (3rd Cir. 1991) and *Arizona Retail Sys., Inc. v. The Software Link, Inc.*, 831 F. Supp. 759 (D. Ariz. 1993), as support for applying those sections). See generally Einhorn, *supra* note 4, at 517 (predicting that Section 2-207 "might ultimately control software mail order transactions"). However, both courts in *Step-Saver* and *Arizona Retail* realized that there is a difference between conspicuous notice of license terms made available to the licensee before the contract is formed and alerting the licensee as to the existence of a license after contract formation. *Step-Saver*, 939 F.2d at 104-05; *Arizona Retail*, 831 F. Supp. at 763-64. The Seventh Circuit in *ProCD* did not follow this line of analysis because the court reasoned that *Step-Saver* dealt with "battle of the forms" and that *Arizona Retail* "found that the buyer knew the terms of the license before purchasing the software." *ProCD*, 86 F.3d at 1452. See generally Additional Terms in Acceptance or Confirmation, U.C.C. § 2-207 (1996) (determining when a contract is formed in situations where forms are sent between the parties); Modification, Rescission and Waiver, U.C.C. § 2-209 (1996) (stating that "[a]n agreement modifying a contract within this Article needs no consideration to be binding").

result, each court came to diametrically opposing decisions in the case.¹²⁸ In addition, although this casenote agrees with the application of common law contracts and the U.C.C. to validate shrink-wrap licenses, there are others who would hold shrink-wrap licenses invalid based on the theory that purchasers have not assented to the terms of shrink-wrap licenses.¹²⁹ Indeed, the Seventh Circuit propounded the more persuasive argument.

An analysis of whether a shrink-wrap license constitutes a valid contract entails defining contract formation.¹³⁰ Just as the Seventh Circuit did in *ProCD*,¹³¹ this Casenote will look to the U.C.C. to accomplish this analysis. Furthermore, other sources have also analyzed shrink-wrap license enforcement using provisions of the U.C.C.¹³²

128. See *supra* note 10 and accompanying text (discussing the Seventh Circuit's reversal of trial court decision).

129. See Lemley, *supra* note 3, at 1248-53. See generally Offer and Acceptance in Formation of Contract, U.C.C. § 2-206 (1996); Additional Terms in Acceptance or Confirmation, U.C.C. § 2-207 (1996); Modification, Rescission and Waiver, U.C.C. § 2-209 (1996); and What Constitutes Acceptance of Goods, U.C.C. § 2-606 (1996).

130. RESTATEMENT (SECOND) OF CONTRACTS § 17 (1988) (defining offer, acceptance and consideration as the traditional means of contract formation).

131. See *supra* Part iv.a (discussing the Seventh Circuit's approach in analyzing contract formation).

132. One commentator has performed four types of analyses under the U.C.C. to determine when acceptance takes place in shrink-wrap license situations. See Kemp, *supra* note 124, at 106-08. Those four types are the following: (1) the vendor seeks to modify the original sale by denying completion of the sale; (2) the act of *breaking the seal or shrink-wrap* is acceptance of the offer of the license agreement; (3) the "sending of the software accompanied by the license agreement may constitute a *conditional acceptance* of the user's offer to purchase;" and (4) the vendor's "advertisement is the offer, and the user's *order* is the *acceptance*." *Id.* (emphasis added). Another commentator interpreted shrink-wrap licenses in three different ways: (1) conditions subsequent to sale, (2) reverse unilateral contract, and (3) conditions precedent to sale. Einhorn, *supra* note 4, at 513. The first interpretation is generally frowned upon by courts because "[c]onditions subsequent cause a forfeiture of contract rights which are otherwise due and enforceable." *Id.* The second interpretation is basically an "offer of a performance for a promise, rather than an offer of a promise for a performance." *Id.* This interpretation is unworkable because the "purchaser would be relinquishing rights in return for no further consideration from the publisher." *Id.* at 514. Lastly, the third interpretation may be viable if "adequate notice of the license terms is provided to the consumer *before* the money is paid . . . [thereby allowing the purchaser to] manifest acceptance of a conditional offer." *Id.* The commentator proceeded to criticize the third possibility on the basis that most consumers "do not receive adequate notice that use of the software will be limited by the terms of a license." *Id.* However, the *ProCD* situation is not vulnerable to this critique since *ProCD*'s software package included a notice that a license was included with the program which limited the purchaser's use of the software. See *supra* note 22 and accompanying text (discussing the notice on *ProCD*'s software package); Raymond T. Nimmer et al., *License Contracts Under Article 2 of the Uniform Commercial Code: A Proposal*, 19 RUTGERS COMPUTER & TECH. L.J. 281, 292 (1993) (stating that numerous cases have concluded that software agreements are "transactions in goods treatable under the U.C.C. sales article"); see also Michael Schwarz, *Tear-Me-Open Software*

A contract could have been formed at two junctions in the relationship between ProCD and Zeidenberg. The first instance of contract formation is when Zeidenberg purchased the software at the retail store. Section 2-204(1) of the U.C.C. allows contracts to be formed in "any manner sufficient to show agreement, including conduct by both parties which recognizes the existence of such a contract."¹³³ Thus, as the *ProCD* court reasoned, a contract was formed between ProCD and Zeidenberg when Zeidenberg purchased ProCD's software at a retail computer store.¹³⁴

Moreover, at the time Zeidenberg purchased the software, he also implicitly purchased the terms and conditions that were contained in the software package.¹³⁵ One such condition was the shrink-wrap license which described a purchaser's rights and limitations in using the software.¹³⁶ This logic is reasonable when considering, as the Seventh Circuit did, other types of transactions with similar circumstances.¹³⁷ In particular, the Seventh Circuit looked to insurance policy agreements, airline ticket and concert ticket purchases.¹³⁸

License Agreements: A Uniform Commercial Code Perspective on an Innovative Contract of Adhesion, 7 *COMPUTER/L.J.* 261, 265-66 (1986) (concluding that "ready made software should be regarded as 'goods' for the purposes of a U.C.C. analysis"); Graham P. Smith, *Shrink-wrap Licenses in Europe After the EC Software Directive*, 11 *COMPUTER/L.J.* 597, 606 n.2 (1992) (stating that the "Louisiana statute was found to be unenforceable . . . [and that] [t]he Illinois statute was repealed"); Rice, *supra* note 124, at 565-66. *But cf.* Hayes, *supra* note 4, at 661 (stating that the *Step-Saver* court rejected the conditional acceptance theory). The second interpretation is the type that was adopted by the states of Illinois and Louisiana when both passed Software License Enforcement Acts. Kemp, *supra* note 124, at 106-07. However, both states' Acts have been abrogated. *See ProCD*, 908 F. Supp. at 655-56 (stating that Illinois repealed its law and that Louisiana's statute was partially invalidated by the Fifth Circuit in *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255 (5th Cir. 1988)); *see generally* *Vault*, 847 F.2d at 269-70 (holding the Louisiana Act to be preempted by federal law).

133. Formation in General, U.C.C. § 2-204(1) (1996). In addition, Section 2-206 (1)(a) states that, "[u]nless otherwise unambiguously indicated by the language or circumstances an offer to make a contract shall be construed as inviting acceptance in any manner and by any medium reasonable in the circumstances." Offer and Acceptance in Formation of Contract, U.C.C. § 2-206(1) (1996).

134. *See supra* note 81 and accompanying (discussing the Seventh Circuit's reasoning regarding Section 2-204 of the U.C.C.).

135. *See supra* note 61 and accompanying text (discussing the Seventh Circuit's reasoning on this matter).

136. *See supra* notes 26-27 (displaying the terms of ProCD's license agreement).

137. *See supra* text accompanying notes 67-68 (stating the examples that the Seventh Circuit used).

138. *See supra* text accompanying notes 66-67. These types of contracts are classified as "contracts of adhesion." *See* 1 ARTHUR L. CORBIN, CORBIN ON CONTRACTS § 1.4, at 13-15 (Joseph M. Perillo ed., rev. ed. 1993) (describing the history and types of adhesion contracts); 7 SAMUEL WILLISTON, WILLISTON ON CONTRACTS § 900 at 29-30 (Walter H. Jaeger ed., 3d ed. 1963) (discussing adhesion contracts).

Alternatively, the second instance where a contract could have been formed between ProCD and Zeidenberg is under the language of Section 2-606¹³⁹ of the U.C.C. This section deals with situations where a purchaser is deemed to accept the terms of a transaction when the purchaser fails to reject the transaction's conditions after having an opportunity to examine the product.¹⁴⁰ The Seventh Circuit reasoned that Zeidenberg had an opportunity to inspect ProCD's software, particularly after he purchased three versions of the program and viewed the license terms on the computer screen each time he downloaded the software contents.¹⁴¹ Plus, Zeidenberg failed to "make an effective rejection"¹⁴² upon finding disagreement with those terms. Zeidenberg easily could have returned the software he had purchased and, according to ProCD's license terms, he would be entitled to a full refund.¹⁴³ But instead, he elected to download the contents of the software, thereby accepting the transaction. Hence, an application of the U.C.C. clearly shows that a valid contract was formed between ProCD and Zeidenberg.

2. Federal Copyright Law Does Not Preempt The Terms Of Shrink-Wrap Licenses

Perhaps the zealous opposition to the shrink-wrap license in *ProCD*, and to shrink-wrap licenses in general,¹⁴⁴ stems from the argument that

139. See *supra* note 86 (defining U.C.C. Section 2-606).

140. See *supra* note 86 (defining U.C.C. Section 2-606).

141. See *supra* text accompanying notes 32 and 88-89 (discussing the numerous times Zeidenberg purchased ProCD's software and failed to return the software after deciding to not comply with the license terms).

142. See *supra* notes 86-87 and accompanying text (defining Sections 2-602 and 2-606 and discussing "failure to make effective rejection").

143. See *supra* note 26 (displaying the license terms allowing for a full refund to customers who do not want to comply with the terms); see also Puhala, *supra* note 3, at 1362-63 (stating that a software purchaser will have an opportunity to inspect the shrink-wrap terms after purchasing the program and that the purchaser can return the software for a refund if the purchaser does not agree with the terms of the license); Schwarz, *supra* note 133, at 264 (stating that a purchaser "can reject the offered terms by returning the goods for a refund of the purchase price"). See generally David M. Mirchin, *Wisconsin Case Could Spur Changes in Software Licenses*, CORP. LEGAL TIMES, June 1996, at 21 (giving present-day examples where consumers have the responsibility of returning the product if they do not "find a product or its terms acceptable" and, in return, the consumer will receive a full refund from the retailer).

144. There is another argument that the court in *ProCD* did not fully analyze federal preemption because the Seventh Circuit did not consider the Copyright Clause of the U.S. Constitution which applies to states through the Supremacy Clause of the U.S. Constitution. Netanel, *supra* note 16, at 383-84, 387; see Netanel, *supra* note 16, at 383-84, 387 nn.452 & 455; Toedt, *supra* note 5, at 622-26; see also Kaufman, *supra* note 126, at 223; Lemley, *supra* note 3, at 1240. Professor Mark Lemley submitted an *amicus curiae* brief in the *ProCD* case contending that shrink-wrap licenses should not be enforceable because they are preempted by federal copyright law. See *Feist Publications, Inc. v. Rural Tele-*

provisions in the license agreement which purport to restrict software purchasers' use of the program should be preempted by Section 301¹⁴⁵ of the Copyright Act; in essence, claiming that the *ProCD* decision was erroneous.¹⁴⁶ The two elements of Section 301 that must be met for preemption to occur are as follows: (1) the work at issue must be within the *subject matter* of copyright, and (2) the right being asserted under state law must be *equivalent* to rights assertable under copyright law.¹⁴⁷

phone Serv., 499 U.S. 340 (1991); *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979); *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974); *National Car Rental Sys., Inc. v. Computer Assocs. Int'l, Inc.*, 991 F.2d 426 (8th Cir. 1993). Furthermore, one commentator has determined that due to the "existence of Section 301 . . . the courts usually need not gauge whether federal interest in this field is dominant . . . the courts may simply turn to the explicit statutory language." MELVILLE B. NIMMER & DAVID NIMMER, *NIMMER ON COPYRIGHT* § 1.01[B] (1996) [hereinafter *NIMMER ON COPYRIGHT*]. The Copyright Clause states that "Congress shall have Power To promote the Progress of Science and Useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. CONST. art. I, § 8, cl. 8; see also U.S. CONST. art. VI, § 2 (defining the Supremacy Clause). See generally *Jones v. Rath Packing Co.*, 430 U.S. 519 (1977) (defining express field preemption); *Goldstein*, 412 U.S. at 546 (1973) (defining preemption and specifying that three types of preemption exist); *Florida Lime and Avocado Growers, Inc. v. Paul*, 373 U.S. 132, 142 (1963) (holding that preemption occurs when it is "physically impossible" for a party to comply with both the federal and state statutes); *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218 (1947) (defining "implied field" preemption); Brief *Amicus Curiae* of American Committee for Interoperable Systems in Support of Appellees at 4, *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996) (No. 96-1139) n.452; Toedt, *supra* note 5, at 623-24. However, this Casenote maintains that the court in *ProCD* did analyze preemption, albeit indirectly, by applying cases that have dealt with the Copyright Clause's principles. *ProCD*, 86 F.3d at 1449, 1454-55

145. Preemption with Respect to Other Laws, 17 U.S.C. § 301 (1994). The relevant portions of the Preemption statute are the following:

(a) On and after January 1, 1978, all legal or equitable rights that are *equivalent* to any of the exclusive rights within the general scope of copyright as specified by Section 106 in works of authorship that are fixed in a tangible medium of expression and come within the *subject matter of copyright* as specified by Sections 102 and 103, whether created before or after that date and whether published or unpublished, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.

(b) Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any State with respect to—

(1) subject matter that does not come within the subject matter of copyright as specified by sections 102 and 103, including works of authorship not fixed in any tangible medium of expression; or . . .

(3) activities violating legal or equitable rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106.

Id. (emphasis added).

146. See generally Netanel, *supra* note 16, at 383-84, 387 n.455 (critiquing *ProCD*).

147. See *National Car Rental*, 991 F.2d at 426; see also Kemp, *supra* note 124, at 111-12. *But cf.* Maureen A. O'Rourke, *Drawing the Boundary Between Copyright and Contract*:

However, there are two countervailing arguments which can negate the potential for preemption. The first principle is the "extra element test,"¹⁴⁸ while the second argument contends that, in enacting Section 301, Congress did not intend to preempt contracts between private parties.¹⁴⁹ The seminal case that has dealt with, and endorsed, both theories is *National Car Rental Sys., Inc. v. Computer Assoc. Int'l, Inc.*¹⁵⁰

In *National Car Rental*, the U.S. Court of Appeals for the Eighth Circuit decided on the issue of whether the licensee's unauthorized use of the licensor's computer programs, in violation of the contractual agreement, was a claim which should be preempted by the Copyright Act.¹⁵¹ The unauthorized use alleged by the licensor consisted of using the computer program to process the data of third parties.¹⁵² The Court held that the "contractual restriction on use of the programs constitutes an *additional element* making this cause of action *not equivalent* to a copy-

Copyright Preemption of Software License Terms, 45 DUKE L.J. 479, 518 (1995) (critiquing Section 301 for its lack of clarity and cloudy legislative history, which leads to difficulty in the courts' handling of preemption issues regarding state enforcement of private contractual rights); Rice, *supra* note 124, at 602 (stating that the "legislative history of § 301(b) makes the scope and limits of statutory preemption less clear"). See generally Preemption With Respect To Other Laws, 17 U.S.C. § 301 (1994).

148. See NIMMER ON COPYRIGHT § 1.01[B][1], *supra* note 145, at 1-15 n.60.1; see also *National Car Rental*, 991 F.2d at 431-33; Kaufman, *supra* note 126, at 230-32; O'Rourke, *supra* note 148, at 523; Lemley, *supra* note 3, at 1257; cf. Aronson, 440 U.S. at 262 (concluding that "state law is not displaced merely because the contract relates to intellectual property which may or may not be patentable").

149. See NIMMER ON COPYRIGHT § 1.01[B][1][a], *supra* note 145, at 1-16 to 1-20; see also *National Car Rental*, 991 F.2d at 433-34; O'Rourke, *supra* note 148, at 517-18; Kemp, *supra* note 124, at 112; and Rice, *supra* note 124, at 602-04.

150. See *National Car Rental*, 991 F.2d at 431-34. But see *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 269 (5th Cir. 1988) (holding that Louisiana's Software License Enforcement Act was preempted by federal copyright law because it conflicted with rights of computer program owners). See Rice, *supra* note 124, at 548 (stating that *Vault* "dealt . . . confusingly with copyright law preemption"); Bahr, *supra* note 124, at 162 (criticizing *Vault* for "blurr[ing] the distinction between licensees and owners"); Ryan, *supra* note 4, at 2116 n.53 (reproaching the *Vault* decision for "misreading the Louisiana statute" and "perpetuating the uncertainty surrounding shrink-wrap license enforceability"). One commentator has hailed *Vault* as "[t]he most celebrated decision on intellectual property preemption." Lemley, *supra* note 3, at 1256. However, *Vault* has been criticized severely for its inadequate preemption analysis.

151. *National Car Rental*, 991 F.2d at 427. Four factors are used in determining whether fair use exists. *Id.* at 428. First, the court looks to the "purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes." *Id.* Second, the "nature of the copyrighted work" is determined. *Id.* Third, the court determines the "amount and substantiality of the portion used in relation to the copyrighted work as a whole." *Id.* Lastly, the court analyzes the "effect of the use upon the potential market for or value of the copyrighted work." *Id.* See generally *Limitations on Exclusive Rights: Fair Use*, 17 U.S.C. § 107 (1994) (allowing certain use of copyrighted materials which do not constitute infringement).

152. *National Car Rental*, 991 F.2d at 428.

right action.”¹⁵³

Likewise, in the case at bar, ProCD claimed that Zeidenberg used its software in violation of the restrictive license.¹⁵⁴ The Seventh Circuit adopted the same reasoning as applied in *National Car Rental* when the court deduced that the rights created by contract are not equivalent to the exclusive rights within the scope of copyright law.¹⁵⁵ Thus, the Court correctly held that the terms of ProCD’s license agreement could not be preempted by Section 301 of the Copyright Act.¹⁵⁶

Secondly, the Eighth Circuit supported its conclusion by looking to legislative history.¹⁵⁷ When copyright law was revised in 1976, the original draft of Section 301 contained Section 301(b)(3),¹⁵⁸ which gave examples of causes of actions not preempted by the copyright laws.¹⁵⁹ One such restriction was that breach of contract actions would not be pre-

153. *Id.* at 432 (emphasis added). The Eighth Circuit also stated that it “found no general rule holding breach of contract actions such as [the one in *National Car Rental*] preempted.” *Id.* Another wording of the extra element states that there cannot be preemption when a state-created cause of action requires an “extra element” in addition to the “acts of reproduction, performance, distribution or display” such that the right lies outside the scope of copyright. *Id.* at 431; see *Acorn Structures, Inc. v. Swantz*, 846 F.2d 923, 926 (4th Cir. 1988) (holding that a breach of contract action “entails a distinct cause of action which is clearly not within the subject matter of copyright but arises out of the implicit contractual provisions of the . . . agreement”).

154. See *supra* note 43 (discussing the use prohibited by ProCD’s license).

155. *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1454 (7th Cir. 1996). The Seventh Circuit also cited other cases in dealing with this issue, but *National Car Rental* is the case most on point. See generally *Acorn Structures*, 846 F.2d 923 (holding breach of home-design agreement not preempted by copyright law because the contract “[arose] out of the implicit contractual provisions of the design agreement”).

156. *ProCD*, 86 F.3d at 1455.

157. *National Car Rental*, 991 F.2d at 433. Numerous sources have observed that Congress intended Section 301 to not preempt contract law. See NIMMER ON COPYRIGHT § 1.01[B][1][a], *supra* note 145, at 1-16 to 1-20; see also O’Rourke, *supra* note 148, at 517-18; Rice, *supra* note 124, at 602-04.

158. NIMMER ON COPYRIGHT § 1.01[B][1][a], *supra* note 145, at 1-16 to 1-17 & n.65 (citing 17 U.S.C. § 301 (b)(3); H.R. 4347, 89th Cong., 2d Sess. (1966)):

(b) Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any State with respect to—

(3) activities violating rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by Section 106, including breaches of contract, breaches of trust, invasion of privacy, defamation, and deceptive trade practices such as passing off and false representation.

17 U.S.C. § 301(b)(3) (1994) (emphasis added).

159. H.R. REP. NO. 94-1476, at 132 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5748; see NIMMER ON COPYRIGHT § 1.01[B][1][a], *supra* note 145, at 1-17; see also *National Car Rental*, 991 F.2d at 433, n.4; O’Rourke, *supra* note 148, at 217-18; and Rice, *supra* note 124, at 603.

empted by Section 301.¹⁶⁰ However, in the final draft of the Copyright Act, the proposed restrictions on Section 301 were deleted from the language of the statute.¹⁶¹ Many observers have agreed with *National Car Rental* in concluding that the deletion was not intended by Congress to disavow the contractual restrictions on Section 301 preemption.¹⁶² Congress' reasons for deleting the restrictive language from Section 301 was to prevent confusion from the "addition of the tort of misappropriation to the list of non-preempted causes of action."¹⁶³ Based on this reasoning, the Eighth Circuit held that Congress did not intend the Copyright Act to preempt actions for breach of contract.¹⁶⁴

Though the Seventh Circuit did not utilize this argument in its preemption analysis in *ProCD*, this Casenote agrees with the above reasoning that Congress did not intend Section 301 to preempt breach of contract actions. As the Seventh Circuit wisely reasoned, it is "prudent to refrain from adopting a rule that anything with the label 'contract' is necessarily outside the preemption clause: the variations and possibilities are too numerous to foresee."¹⁶⁵ Thus Section 301 of the Copyright Act does not preempt the license agreement between *ProCD* and Zeidenberg. However, since the preemption issue is still quite uncertain, a uniform guideline applied in every state, such as the proposed Article 2B, would do much to resolve whether breach of contract claims are preempted by Section 301.

B. PROPOSED ARTICLE 2B: CONSISTENT WITH *ProCD* WHILE FORTIFYING SEVENTH CIRCUIT'S RULING

In this section, this Casenote applies the proposed Article 2B to *ProCD* to show how the proposed article strengthens the Seventh Circuit's decision and validates shrink-wrap licenses. Admittedly, despite the Seventh Circuit's holding in *ProCD*, the enforceability of shrink-wrap

160. *National Car Rental*, 991 F.2d at 433; see also Rice, *supra* note 124, at 603; cf. Kemp, *supra* note 124, at 112 (citing to a comment from § 301 as professing breach of contract actions to be precluded from preemption).

161. O'Rourke, *supra* note 148, at 518; Rice, *supra* note 124, at 603.

162. See NIMMER ON COPYRIGHT § 1.01[B][1][a], *supra* note 145, at 1-18 to 1-19; see also *supra* note 161 (displaying commentators who agree with *National Car Rental*).

163. *National Car Rental*, 991 F.2d at 433-34; see also O'Rourke, *supra* note 148, at 518; Rice, *supra* note 124, at 603.

164. *National Car Rental*, 991 F.2d at 433-34; see O'Rourke, *supra* note 148, at 518; Rice, *supra* note 124, at 604.

165. *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1455 (7th Cir. 1996). See generally *National Basketball Ass'n v. Motorola, Inc.*, 105 F.3d 841, 849-50 (2nd Cir. 1997) (following *ProCD*'s preemption analysis); *Architectronics, Inc. v. Control Sys., Inc.*, 935 F. Supp. 425, 439 (S.D.N.Y. 1996) (following *ProCD*'s preemption analysis).

licenses are still unresolved.¹⁶⁶ One main reason is because *ProCD* is limited in its application to the states within the Seventh Circuit's jurisdiction.¹⁶⁷ Additionally, little statutory or case law deals with the current prevalence of software contracts, ranging from shrink-wrap licenses to on-line agreements.¹⁶⁸ Thus, a national effort such as the proposed Article 2B¹⁶⁹ would pave the way for resolving many of the complications involved in the emerging area of software licenses.

Section 208¹⁷⁰ of Article 2B deals with shrink-wrap licenses.¹⁷¹

166. See Smith, *supra* note 133, at 597 (stating that the "efficacy of shrink-wrap licenses remains as uncertain as ever").

167. See Dan Goodin, *Seeking New Rules for a New Game; Commercial Code Meets the Digital Age*, LEGAL TIMES, Nov. 4, 1996, at 2 (noting that the *ProCD* holding is binding in Illinois, Wisconsin, and Indiana only); see also *supra* note 125 (discussing *ProCD* as binding only within the Seventh's Circuit's jurisdiction).

168. See Ramos & Verdon, *supra* note 4, at 2 (positing that "it has become standard industry practice for software developers to rely on shrinkwrap licenses in mass-market consumer transactions"); Fred M. Greguras & Sandy J. Wong, *Software Licensing Flexibility Complements the Digital Age*, 11 COMPUTER LAW. 15 (1994) (stating that licensing practices are not keeping pace with the evolution of the computer industry); Wendy J. Gordon, *Assertive Modesty: An Economics of Intangibles*, 94 COLUM. L. REV. 2579, 2590 (1994) (concluding that "to maintain our current health, the legal regime has to change . . . to protect the practitioners in this newly valuable and newly vulnerable area" of computer law); see also Ryan, *supra* note 4, at 2105 (detailing the statistics and effects of software piracy on the software industry); Nimmer et al., *supra* note 133, at 292-93 (describing that the "software industry accounts for almost 2.0% of the country's entire gross national product . . . that software and related information services accounted for revenues in excess of \$93 billion in 1990 . . . [and] has been growing"); Goodin, *supra* note 168, at 2 (describing the present uncertainty in the validity of on-line contracts); Toedt, *supra* note 5, at 617 (discussing the ubiquitous shrink-wrap licenses and the increase in "click-on" Internet agreements in the software industry); Towle, *supra* note 14, at 359 (stating that the "law dealing with electronic commerce is not clear—especially for totally paperless transactions").

169. See *generally* Licenses, U.C.C. Article 2B (Proposed Draft, Sept. 25, 1997) <<http://www.law.upenn.edu/library/ulc/ucc2/ucc2bjan.htm>>.

170. Mass-Market Licenses, U.C.C. § 2B-208 (Proposed Draft, Sept. 25, 1997):

(a) Except as otherwise provided [in] Section 2B-209, a party adopts the terms of a mass-market license for purposes of Section 2B-207(a) if the party *agrees, including by manifesting assent*, to the license before or in connection with the initial performance or use of or access to the information. However, except as otherwise provided in this section, a term [for which there was *no opportunity to review* before payment of the contract fee is not adopted and] does not become part of the contract if the party does not know of or manifest assent to the particular term and the term creates an obligation or imposes a limitation that:

(1) the party proposing the form should know would cause an ordinary reasonable person acquiring this type of information in the general mass market to refuse the license if that party knew that the license contained the particular term; or

(2) conflicts with the negotiated terms of the agreement between the parties to the license.

(b) Subsection (a)(1) does not exclude a term that:

This provision is modeled after Section 211 of the Restatement (Second) of Contracts,¹⁷² which covers standardized agreements or adhesion contracts.¹⁷³ Furthermore, other provisions in Article 2B which affect

(1) states a limit on the licensee's use of the information which limit would exist under intellectual property law in the absence of the contractual term;

(2) was disclosed in compliance with any federal or state law;

(3) was reasonably disclosed on the product packaging or otherwise before payment of the license fee, or was part of the product description; or

(4) becomes part of the contract under other provisions of this article.

(c) The court may exclude a term under this subsection (a)(1) only if it finds that the term is bizarre or oppressive by industry standards or commercial practices, abrogates or substantially conflicts with the nonstandard terms explicitly agreed to by the parties to the license, or eliminates the dominant purpose of the transaction as agreed to by the parties to the license.]

Id. (emphasis added).

The reporter's notes mentions that Section 2B-208 is the portion of Article 2B that "deals with all standard forms used in . . . mass market . . . transactions." Mass-Market Licenses, U.C.C. § 2B-208, Reporter's notes 1 (Proposed Draft, Sept. 25, 1997). Section 2B-209 is the proposed analogue of Section 2-207 of the U.C.C., also known as the "battle of the forms" provision. *Compare* Conflicting Terms, U.C.C. § 2B-209 (Proposed Draft, Sept. 25, 1997), *with* Additional Terms in Acceptance or Confirmation, U.C.C. § 2-207 (1996).

171. Definitions, U.C.C. § 2B-102(a)(25) (Proposed Draft, Sept. 25, 1997) (defining "license" as "a contract that authorizes, prohibits, or controls access to or use of information and by its terms limits the scope of the rights granted or affirmatively grants less than all rights in the information, whether or not the contract transfers title to a copy of the information and whether or not the rights granted are made exclusive to the licensee").

172. *See* Mass-Market License, U.C.C. § 2B-208, Reporter's notes 8 (Proposed Draft, Sept. 25, 1997) (stating that Section 2B-208 in part adopts and expands on the principles of the Section 211 of the Restatement (Second) of Contracts). However, it must be noted that Section 211 has only been adopted by a minority of the states. *Id.*

See also Restatement (Second) of Contracts: Standardized Agreements § 211 (1981).

This provision states the following:

(1) Except as stated in Subsection (3), where a party to an agreement signs or otherwise manifests assent to a writing and has reason to believe that like writings are regularly used to embody terms of agreements of the same type, he adopts the writing as an integrated agreement with respect to the terms included in the writing.

(2) Such a writing is interpreted wherever reasonable as treating alike all those similarly situated, without regard to their knowledge or understanding of the standard terms of the writing.

(3) Where the other party has reason to believe that the party manifesting such assent would not do so if he knew that the writing contained a particular term, the term is not part of the agreement.

Id.

173. *See supra* notes 65 and 142 and accompanying text (discussing the advantages of standardized agreements); Gomulkiewicz & Williamson, *supra* note 4, at 342-44 (discussing adhesion contracts and stating that "[t]he vast majority of contracts in the United States are adhesion contracts"); Ryan, *supra* note 4, at 2117-35 (analyzing shrink-wrap licenses as adhesion contracts); *see also* Standard Oil Co. of California v. Perkins, 347 F.2d 379 (9th Cir. 1965) (dealing with adhesion contracts); Todd D. Rakoff, *Contracts of Adhesion: An Essay in Reconstruction*, 96 HARV. L. REV. 1173, 1177 (1983) (defining adhesion

shrink-wrap licenses will be explored.¹⁷⁴ Generally, Section 2B-208¹⁷⁵ governs the formation of mass-market licenses.¹⁷⁶ Before a mass-market license is formed, however, the terms must be “conspicuous,”¹⁷⁷ there

contracts through seven common characteristics); W. David Slawson, *Standard Form Contracts and Democratic Control of Lawmaking Power*, 84 HARV. L. REV. 529, 529-30 (1971) (stating that standard form contracts “account for more than ninety-nine percent of all the contracts now made” and that their “predominance . . . is the best evidence of their necessity”); Edwin W. Patterson, *The Delivery of a Life-Insurance Policy*, 33 HARV. L. REV. 198, 222 (1919) (coining the term “contracts of ‘adhesion’”); cf. Arthur Allen Leff, *Unconscionability and the Crowd—Consumers and the Common Law Tradition*, 31 U. PITT. L. REV. 349 (1970) [hereinafter Leff, *Unconscionability and the Crowd*] (discussing unconscionability in relation to adhesion contracts); Einhorn, *supra* note 4, at 516 n.24 (discussing the unconscionable disclaimer provisions of adhesion contracts).

174. See generally Definitions, U.C.C. §§ 2B-102(a)(7), (a)(28) & (a)(29) (Proposed Draft, Sept. 25, 1997) (defining “conspicuous,” “mass-market licenses” and “mass-market transaction,” respectively); Unconscionable Contract or Clause, U.C.C. § 2B-111 (Proposed Draft, Sept. 25, 1997); Manifesting Assent, U.C.C. § 2B-112 (Proposed Draft, Sept. 25, 1997); and Opportunity to Review; Refund, U.C.C. § 2B-113 (Proposed Draft, Sept. 25, 1997).

175. Mass-Market Licenses, U.C.C. § 2B-208 (Proposed Draft, Sept. 25, 1997).

176. Definitions, U.C.C. § 2B-102(a)(28) (Proposed Draft, Sept. 25, 1997). This provision defines a “mass-market license” as follows: “[A] standard form that is prepared for and used in a mass-market transaction.” *Id.*

“Mass-market transaction” is defined in Article 2B as follows:

[A] transaction in a retail market involving information directed to the general public as a whole under substantially the same terms for the same information, and involving an end-user licensee that acquired the information under terms and in a quantity consistent with an ordinary transaction in the general retail distribution. The term does not include:

- (A) a transaction between parties neither of which is a consumer in which either the total consideration for the particular item of information or the reasonably expected fees for the first year of an access contract exceeds [];
- (B) a transaction in which the information is customized or otherwise specially prepared for the licensee;
- (C) a license of the right publicly to perform or display a copyrighted work; or
- (D) a site license, or an access contract not involving a consumer.

Definitions, U.C.C. § 2B-102(a)(29) (Proposed Draft, Sept. 25, 1997).

177. Definitions, U.C.C. § 2B-102(7) (Proposed Draft, Sept. 25, 1997):

“Conspicuous”, with reference to a term, means so written, displayed or presented that a reasonable person against whom it is to operate ought to have *noticed* it or, in the case of an electronic message intended to *evoke a response* by an electronic agent without the need for review by an individual, in a form that would enable a reasonably configured electronic agent to take it into account or react to it without review of the message by an individual. A term is *conspicuous* if it is:

- (A) a heading in all capitals (as NON-NEGOTIABLE BILL OF LADING) equal or greater in size to the surrounding text;
- (B) language in the body of a record or display in larger or other contrasting type or color than other language;
- (C) a term *prominently referenced* in the body or text of an electronic record or display and can be readily accessed from the record or display;

must be an "opportunity to review"¹⁷⁸ those terms, and a "manifestation of assent"¹⁷⁹ to the terms must occur.

(D) language so positioned in a record or display that a party cannot proceed without taking some additional action with respect to the term or the reference thereto; or

(E) language readily distinguished in another manner.

Id. (emphasis added).

See generally Definitions, U.C.C. § 2B-102(a)(16) & (a)(17) (Proposed Draft, Sept. 25, 1997):

"Electronic agent" means a computer program or other electronic or automated means used, selected, or programmed by a party to initiate or respond to electronic messages or performances in whole or in part without review by an individual.

"Electronic message" means a record that, for purposes of communication to another person, is stored, generated, or transmitted by electronic means. The term includes electronic data interchange, electronic or voice mail, facsimile, telex, telecopying, scanning, and similar communications.

Id.

178. Opportunity to Review; Refund, U.C.C. § 2B-113 (Proposed Draft, Sept. 25, 1997):

(a) A party or electronic agent has an *opportunity to review* a record or term if it is made available in a manner designed to *call it to the attention* of the party and to permit review of its terms or to enable the electronic agent to react to the record or term.

(b) Except for a proposal to modify a contract, if a record is *available for review* only after a contract fee is paid, a party has an *opportunity to review* only if it has a *right to a refund* of any contract fees paid or to stop any payment already initiated if it refuses the terms, discontinues use, and returns all copies. For multiple products transferred for a bundled price:

(1) if the party whose terms are refused is the transferor of the bundled product, the refund must be the entire bundled price on return of the entire bundled product, unless the licensee agrees to an allocation of the total fee attributable to the rejected license; and

(2) if the party whose terms are refused was not the transferor of the entire bundled product, the refund must be for the contract fee paid for the rejected license or, if not separately stated, a reasonable allocation of the total fee attributable to the license.

Id. (emphasis added).

179. Manifesting Assent, U.C.C. § 2B-112 (Proposed Draft, Sept. 25, 1997):

(a) A party or electronic agent *manifests assent* to a record or term if, with knowledge of the terms or after having an *opportunity to review* the record or term under Section 2B-113, it:

(1) authenticates a record or term, or engages in other affirmative conduct or operations that the record *conspicuously* provides or the circumstances, including the terms of the record, clearly indicate will constitute *acceptance* of the record or term; and

(2) had an *opportunity to decline* to authenticate the record or term or engage in the conduct.

(b) The mere retention of information or a record without objection is not a manifestation of assent.

(c) If assent to a particular term in addition to assent to a record is required, a party's conduct does not manifest assent to that term unless there was an *opportunity to review* the term and the authentication or conduct relates specifically to the term.

In *ProCD*, the license terms were “conspicuous” as there was a notice on the outside of each software package referring to the terms inside the package.¹⁸⁰ There was also a notice of the terms in the user’s manual and on the computer screen.¹⁸¹ Zeidenberg was afforded an “opportunity to review” the license terms since the terms were called to Zeidenberg’s attention in the User Guide and on the computer screen,¹⁸² and since the terms explicitly allowed a purchaser of ProCD’s program to return the product for a full refund.¹⁸³ Thus, ProCD’s license agreement met Article 2B’s requirements for “conspicuous” terms and an “opportunity to review” the terms.

Zeidenberg also met Article 2B’s “manifesting assent”¹⁸⁴ requirement when, after having an opportunity to review the license terms, he “engaged in . . . affirmative conduct” constituting acceptance of the terms.¹⁸⁵ The “affirmative conduct” was Zeidenberg’s act of “clicking on the displayed button”¹⁸⁶ on the computer screen before downloading

(d) A manifestation of assent may be proved in any manner, including by a showing that a procedure existed by which a party or an electronic agent must have engaged in conduct or operations that manifests assent to the contract or term in order to proceed further in the use it made of the information.

Id. (emphasis added).

180. See *supra* note 22 (discussing the ways that ProCD notified software purchasers of the existence of a license and the placement of the actual license terms). See generally Ryan, *supra* note 4, at 2128-29 (stating that consciousness of the shrink-wrap license is an important factor in determining “whether the shrink-wrap license meets the degree of assent required to initiate a judicial review for fairness and commercial justification”).

181. See *supra* notes 26 and 27 and accompanying text (displaying and discussing the license terms in the User Guide and on the computer screen).

182. See *supra* notes 26 and 27 and accompanying text (displaying and discussing the license terms in the User Guide and on the computer screen).

183. See *supra* note 26 and 28 and accompanying text (showing that ProCD’s license terms allowed a purchaser to refund the software); see also Opportunity to Review; Refund, U.C.C. § 2B-113, Reporter’s notes 2 (Proposed Draft, Sept. 25, 1997) (reasoning that the “opportunity to review can come at or before payment, or later. If the opportunity follows payment, there is no opportunity to review unless the party can return the product and receive a refund if it declines the terms of the record” (emphasis added)). See generally Richard Raysman & Peter Brown, *Computer Law: Shrink Wrap License Agreements*, N.Y. L.J., Apr. 9, 1996 (visited Feb. 3, 1997) <<http://www.brmlaw.com/doclib/complaw.40996.html>> (suggesting that shrink-wrap license producers should give purchasers “clear and explicit notice” of license terms and a method for software purchasers to obtain refunds in order to have valid contracts).

184. Manifesting Assent, U.C.C. § 2B-112, Reporter’s notes 3 (Proposed Draft, Sept. 25, 1997) (stating that the requisite steps for “manifesting assent” are: (1) that “the party manifesting assent must . . . be one that can bind the party being charged with the benefits or limitations of the terms of the record and, where[] assent equates with acceptance, the contract itself”, (2) an “affirmative act”, and (3) “an opportunity to review the record or term”).

185. Manifesting Assent, U.C.C. § 2B-112(a)(1) (Proposed Draft, Sept. 25, 1997).

186. Manifesting Assent, U.C.C. § 2B-112, Reporter’s notes 3 (Proposed Draft, Sept. 25, 1997) (stating that “clicking on a displayed button in response to an on-screen description

each of ProCD's programs.¹⁸⁷

Turning to Section 2B-208 itself, subsection (a) covers situations when a licensee¹⁸⁸ is deemed to have accepted the terms of a mass-market license.¹⁸⁹ *ProCD* fits this requirement because Zeidenberg used the software by "clicking on" the button on the computer screen when he downloaded the software.¹⁹⁰ Subsection (a)(1) mandates that acceptance of the terms under subsection (a) constitutes acceptance of all the terms of the license unless the licensor knows that a reasonable licensee¹⁹¹ would refuse the objectionable terms had the licensee known of those terms.¹⁹² Subsection (a) further states that certain terms would still be part of the license agreement if the licensee either manifested assent to the terms or clearly knew of the terms before manifesting assent.¹⁹³ In *ProCD*, the license terms restricting a purchaser's use of the software

that this act constitutes acceptance of a particular term or an entire contract" would be an affirmative act).

187. See *supra* note 61 and accompanying text (stating that the Seventh Circuit in *ProCD* found that Zeidenberg could not download the software unless he "clicked" in agreement with the terms on the computer screen).

188. Definitions, U.C.C. § 2B-102(a)(26) (Proposed Draft, Sept. 25, 1997) (defining "licensee" to be "a transferee or any other person designated in, or authorized to exercise rights as a licensee in a contract under this article, whether or not the contract constitutes a license"). The Reporter's notes state that the terms "licensee" and "licensor" are subject to generic usage. Definitions, U.C.C. § 2B-102, Reporter's notes 17 (Proposed Draft, Sept. 25, 1997).

189. Mass-Market Licenses, U.C.C. § 2B-208(a) (Proposed Draft, Sept. 25, 1997). The Reporter's notes state that Section 2B-208 "deals with single-form cases." Mass-Market Licenses, U.C.C. § 2B-208, Reporter's notes 6 (Proposed Draft, Sept. 25, 1997).

190. See *supra* note 186; see also Toedt, *supra* note 5, at 621 (stating that "Seventh Circuit validated a common practice among software vendors, namely requiring users to signify assent to license terms by . . . clicking on an 'I agree' button that was presented on the screen").

191. See Mass-Market Licenses, U.C.C. § 2B-208, Reporter's notes 9 (Proposed Draft, Sept. 25, 1997) (stating that this Draft of Article 2B "focuses on the perspective of the party proposing the form with respect to an ordinary user of the information", as opposed to the Restatements approach, which focuses on "the perception of the party proposing the form as to the reactions of the recipient"; arguing that the Restatements approach of a "one[-]to[-]one relationship creating an individualized perception would be unrealistic").

192. Mass-Market Licenses, U.C.C. § 2B-208(a)(1) (Proposed Draft, Sept. 25, 1997). Refusal terms are "terms that the proposing party has reason to know would cause a refusal of the license if the licensee were aware of the terms." Mass-Market Licenses, U.C.C. § 2B-208, Reporter's notes 8 (Proposed Draft, Sept. 25, 1997). Subsection (a)(1) prevents "the creation of terms that contradict the basics of the agreement without giving the assenting party fair notice of the terms." Mass-Market Licenses, U.C.C. § 2B-208, Reporter's notes 7 (Proposed Draft, Sept. 25, 1997) (emphasis added).

193. Mass-Market Licenses, U.C.C. § 2B-208(a) (Proposed Draft, Sept. 25, 1997). Subsection (a) "places two general restrictions on the enforceability of terms in the mass market license in situations where the term is not known by or called to the party's attention and assented to by the party." Mass-Market Licenses, U.C.C. § 2B-208, Reporter's notes 7 (Proposed Draft, Sept. 25, 1997).

would qualify as a term that Zeidenberg would refuse had he known of the terms. However, subsection (b)(3) states that those terms are binding upon Zeidenberg because Zeidenberg was made aware of those terms and manifested his assent to them.¹⁹⁴ The terms were “reasonably disclosed on the product packaging” which Zeidenberg had a chance to view “before payment of the license fee,” and were “part of the product description.”¹⁹⁵

Subsection (b)(4) holds that terms enforceable under another provision of Article 2B could not be excluded from the license.¹⁹⁶ One provision of Article 2B that may come into play is Section 2B-111,¹⁹⁷ which covers unconscionable contracts or terms.¹⁹⁸ Though the *ProCD* court did not need to analyze this issue, other software producers should keep unconscionability in mind when writing shrink-wrap licenses. Otherwise, a court has the option to “refuse to enforce the contract, enforce the remainder of the contract without the term, or so limit the application of the term as to avoid any unconscionable result.”¹⁹⁹

Subsection (b)(1) asserts that exclusive rights granted under intellectual property laws are not precluded by subsection (a)(1).²⁰⁰ This subsection essentially pronounces that Section 2B-208 does not hinder

194. Mass-Market Licenses, U.C.C. § 2B-208(b)(3) (Proposed Draft, Sept. 25, 1997). Subsection (b) describes situations in which terms would not be excluded from mass-market licenses. Mass-Market Licenses, U.C.C. § 2B-208, Reporter's notes 11 (Proposed Draft, Sept. 25, 1997).

195. *Id.*; see *supra* notes 180-82 and accompanying text (discussing instances when Zeidenberg had opportunities to view the license terms).

196. Mass-Market Licenses, U.C.C. § 2B-208(b)(4) (Proposed Draft, Sept. 25, 1997). In particular, the Reporter's notes refer to “conspicuous language” provisions. Mass-Market Licenses, U.C.C. § 2B-208, Reporter's notes 11 (Proposed Draft, Sept. 25, 1997).

197. Unconscionable Contract or Term, U.C.C. § 2B-111 (Proposed Draft, Sept. 25, 1997).

198. See generally Puhala, *supra* note 3, at 1378 (discussing unconscionability and concluding that “courts probably will uphold the provisions of shrink-wrap licenses if the shrink-wrap license becomes part of the sales contract”); Leff, *Unconscionability and the Crowd*, *supra* note 174, at 349 (analyzing the unconscionability clause in U.C.C.); O'Rourke, *supra* note 148, at 532 (discussing procedural and substantive unconscionability); Einhorn, *supra* note 4, at 516-17 (discussing unconscionability of disclaimer provisions in adhesion contracts); Ryan, *supra* note 4, at 2122-23 n.86 (discussing development of unconscionability); and Schwarz, *supra* note 133, at 276 (stating that unconscionability is used to prevent “oppression and unfair surprise”).

199. Unconscionable Contract or Term, U.C.C. § 2B-111(a) (Proposed Draft, Sept. 25, 1997).

200. Mass-Market Licenses, U.C.C. § 2B-208(b)(1) (Proposed Draft, Sept. 25, 1997). The Reporter's notes warn that Section 2B-208 “does not validate terms outside what rights the licensor would have under copyright and patent.” Mass-Market Licenses, U.C.C. § 2B-208, Reporter's notes 11 (Proposed Draft, Sept. 25, 1997). The intent of the Drafter's of Article 2B is to “validate contract terms that merely implement a copyright owner's exclusive rights and reflect conditions already established by federal property law.” *Id.*

federal preemption. Lastly, subsection (c) describes the only situations in which courts may exclude terms under subsection (a)(1).²⁰¹ The most relevant provision refers to terms that are "bizarre or oppressive by industry standards or commercial practices."²⁰² The court in *ProCD* did not address this issue, but the Reporter's notes to Section 2B-208 suggest that "if . . . [the licensor] wish[es] to impose a bizarre term, the only safe procedure . . . [the licensor] can adopt entails one in which that term is brought to the licensee's attention and assented to by the licensee."²⁰³

Thus, Section 2B-208, combined with other provisions of Article 2B, would explicitly enforce shrink-wrap licenses. As applied to the facts from *ProCD*, the shrink-wrap license written by ProCD would also be valid and enforceable under Article 2B. Hence, it is evident that the Seventh Circuit came to a conclusion that comports with Article 2B.

VI. CONCLUSION

If enacted, Article 2B should quell the dispute concerning shrink-wrap licenses.²⁰⁴ Given that mass-market licenses are omnipresent in the software industry, to hold such contracts invalid would be disastrous. There must be a legal standard which courts can apply to enforce such contracts, particularly in light of the large amount of agreements formed over the Internet.²⁰⁵ *ProCD* has led the way by enforcing shrink-wrap

201. Mass-Market Licenses, U.C.C. § 2B-208(c) (Proposed Draft, Sept. 25, 1997).

202. *Id.*

203. Mass-Market Licenses, U.C.C. § 2B-208, Reporter's notes 10 (Proposed Draft, Sept. 25, 1997).

204. See Dawan Stanford, Comment, *How the Uniform Commercial Code is Being Updated to Handle the Information Economy*, RECORDER, July 10, 1996, at 4 (stating that the "enactment of Article 2B will eliminate many of the problems and uncertainties in license contracts"); see also Raymond T. Nimmer, *Intangibles Contracts: Thoughts of Hubs, Spokes, and Reinvigorating Article 2*, 35 WM. & MARY L. REV. 1337 (1994) [hereinafter Nimmer, *Intangibles Contracts*] (detailing the need to revise Article 2 due to the evolution in the way transactions occur); James B. Gambrell et al., *Whelan and Altai: Protecting Software by Abusing 'Idea' and 'Expression,'* 11 COMPUTER LAW. 9 (1994) (hypothesizing that the protection available for software may need an overhaul); Ryan, *supra* note 4, at 2107 (stating that present legal remedies do not afford software publishers the "necessary degree of protection"); Donald H. Vish, *Under the Proposed Article 2B, the Uniform Commercial Code Would Finally and Properly Cover Information Licenses and Software Products*, LEGAL TIMES, Aug. 19, 1996, at 25 (concluding that "the instances in which Article 2B departs from historical commercial rules are well-reasoned and well-defined").

205. See generally Moore & Hadden, *supra* note 13, at 1 (proposing that on-line agreements stand a far greater chance of being enforced than "hard copy" shrink-wrap licenses); Netanel, *supra* note 16, at 305-06 (surmising that "database access contracts would more closely resemble the standard contractual meeting of the minds than do shrinkwrap licenses and thus might have a greater chance of surviving the contract law challenged that have until recently thwarted shrinkwrap licenses").

licenses.²⁰⁶ Though the revisions of Article 2B should be completed soon,²⁰⁷ it will be subject to an extensive adoption process by each state.²⁰⁸ Therefore, the ALI, NCCUSL and the states should enact Article 2B immediately to ensure that adequate, uniform protection is afforded to agreements formed under shrink-wrap licenses.

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206. See Richard Raysman & Peter Brown, *Shrinkwrap Licenses Revisited*, N.Y. L.J., Aug. 13, 1996, at 3 (concluding that the impact of *ProCD* may “extend beyond consumer software transactions and could help to facilitate many types of agreements formed on-line”).

207. Nimmer, Remarks, *supra* note 11. Professor Nimmer stated that he expects the revisions of Article 2B to be finished within the next three to nine months. *Id.* Additionally, Professor Nimmer predicted that “[by] the end of this decade, every article of the U.C.C. will be revised and at least two new U.C.C. articles will have been promulgated.” Nimmer, *Intangibles Contracts*, *supra* note 201, at 1337; see also Jean Braucher, *The UCC Gets Another Rewrite*, A.B.A. J., Oct. 1996, at 66 (describing the provisions of the U.C.C. that will be amended due to the “transition from an economy based on manufacturing to one built on services and information”).

208. Braucher, *supra* note 203, at 67 (describing the process by which the code will be revised and expanded). A drafting committee is first assembled, which comprises of NCCUSL members, ALI representatives, an American Bar Association (“ABA”) adviser and a reporter. *Id.*; see also Vish, *supra* note 201, at 25 (stating that the drafting committee consists of 15 members, three of which are from ALI, which leaves 10 committee members from NCCUSL); Goodin, *supra* note 168, at 2 (elaborating on the reporter’s role—to handle competing interest and oversee the final draft—and discussing the characteristics that qualifies a person as a reporter—e.g., “a good listener . . . [who] works well with all interests and is seen as being fair-minded”); and Nimmer, Remarks, *supra* note 11 (stating that Professor Raymond Nimmer is presently the Reporter for the Drafting Committee of U.C.C. Article 2B). After the drafting committee proposes and refines the statutory language, the full ALI and NCCUSL must approve the revisions. Braucher, *supra* note 203, at 67. Then, each state must enact the provisions. *Id.*; see Vish, *supra* note 201, at 25; *Commercial Law Update Hits Rough Spot Over Licensing: Does UCC 2B Favor Software Vendors Over Users?*, 4 VOORHEES REP. 16 (1996); see also Goodin, *supra* note 168, at 2 (stating that ratification by all 50 states could take more than three years). Interestingly, the committee’s meetings are open to the public.

