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The Preemption of Shrink Wrap Licenses in the Wake of Vault Corp. v. Quaid Software Ltd., 8 Computer L.J. 157 (1988)

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THE PREEMPTION OF SHRINK WRAP LICENSES IN THE WAKE OF *VAULT CORP. v. QUAID SOFTWARE LTD.*

by MARY BRANDT JENSEN*

I. INTRODUCTION

For the last several years, most mass-marketed software for microcomputers has been sold with shrink-wrap license notices. A shrink-wrap license notice states that the user of the software agrees to the stated terms by opening the package or using the software. These licenses are also known as box top licenses, tear-me-open licenses or self-executing licenses. Since software companies began using these notices, commentators have questioned whether their terms can be enforced under the Uniform Commercial Code (U.C.C.) and contract law.[1] In response to questions about the enforceability of shrink-wrap license notices, Louisiana and Illinois passed Software License Enforcement Acts.[2] Commentators then questioned the validity of these acts.[3] De-

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1. *See* Davidson, *Basic Contract Questions with Respect to "Box-top" Software Licenses*, COMPUTER LITIGATION 1984: RESOLVING COMPUTER RELATED DISPUTES AND PROTECTING PROPRIETARY RTS. 329; Davidson, *"Box-top" Software Licenses*, BENCH & B. MINN., March 1984, at 9; Einhorn, *The Enforceability of "Tear-Me-Open" Software License Agreements*, 67 J. PAT. & TRADEMARK OFF. SOC'Y 509 (1985); Maher, *The Shrink-Wrap License: Old Problems in a New Wrapper*, 34 J. COPYRIGHT SOC'Y AM. 292 (1987); Peys, *Commercial Law—The Enforceability of Computer "Box-Top" License Agreements under the U.C.C.*, 7 WHITTIER L. REV. 881 (1985); Puhala, *The Protection of Computer Software Through Shrink-Wrap License Agreements*, 42 WASH. & LEE L. REV. 1347 (1985); Raysman, *"Shrink-Wrap" License Agreements*, N.Y.L.J., Oct. 11, 1984, at 1; Reynolds, *The Self Executing License: A Legal Fiction*, 2 COMPUTER L. REP. 549 (1984); Schwarz, *"Tear-Me-Open" Software License Agreements: A Uniform Commercial Code Perspective on an Innovative Contract of Adhesion*, 7 COMPUTER L.J. 261 (1986); Stern, *Enforceability of Specific Provisions Contained in Box-Top Licenses*, COMPUTER LITIGATION 1984: RESOLVING COMPUTER RELATED DISPUTES AND PROTECTING PROPRIETARY RIGHTS 343; Stern, *Shrink-Wrap Licenses of Mass Marketed Software: Enforceable Contracts or Whistling in the Dark?*, 11 RUTGERS COMPUTER & TECH. L.J. 51 (1985).

2. Louisiana Software License Enforcement Act, LA. REV. STAT. ANN. §§ 51:1961-

spite the barrage of commentary on the validity of the notices, there was no case law concerning shrink-wrap licenses or software license enforcement acts until the Federal District Court for the Eastern District of Louisiana decided *Vault Corp. v. Quaid Software Ltd.*[4]

II. THE CASE

In August of 1985, Vault Corporation, a California producer of data protection software, sued Canadian-based Quaid Software, Ltd., a producer of copying software. Vault's data protection software is named PROLOK, and Quaid's copying program is called COPYWRITE. Quaid purchased some PROLOK diskettes, through the mail, which were accompanied by a shrink-wrap license agreement.[5] Quaid then developed a program which could copy diskettes protected by PROLOK. The first version of this program was developed by analyzing PROLOK with commercially available analysis programs and disassembling and decompiling PROLOK. Eventually, Quaid developed a program capable of analyzing the functions of PROLOK without disassembling or decompiling that program.[6] In its complaint, Vault stated that Quaid had violated its copyright, contributed to other infringements upon its copyright, violated the license agreement covering PROLOK, and misappropriated Vault's trade secrets.[7]

The federal district court found that Quaid had not violated Vault's copyright. The court held that Quaid did not violate the exclusive right

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1966 (West Supp. 1987); Software License Enforcement Act, ILL. REV. STAT. ch. 29, §§ 801-808 (Supp. 1987).

    3. *See* Snowman, *Preemption of the Louisiana Software Enforcement Act by Copyright Law (or Suffocation by Shrink-Wrap)*, 8 COMM. ENT. L.J. 163 (1985).

    4. 655 F. Supp. 750 (E.D. La. 1987).

    5. The license agreement printed on the PROLOK packages stated:

IMPORTANT! VAULT IS PROVIDING THE ENCLOSED MATERIALS TO YOU ON THE EXPRESS CONDITION THAT YOU ASSENT TO THIS SOFTWARE LICENSE. BY USING ANY OF THE ENCLOSED DISKETTE(S), YOU AGREE TO THE FOLLOWING PROVISIONS. IF YOU DO NOT AGREE WITH THESE LICENSE PROVISIONS, RETURN THESE MATERIALS TO YOUR DEALER, IN ORIGINAL PACKAGING WITHIN 3 DAYS FROM RECEIPT, FOR A REFUND.

1. This copy of the PROLOK Software Protection System and this PROLOK Software Protection Diskette (the "Licensed Software") are licensed to you, the end-user, for your own internal use. Title to the Licensed Software and all copyrights and proprietary rights in the Licensed Software shall remain with VAULT. You may not transfer, sub-license, rent, lease, convey, copy, modify, translate, convert to another programming language, decompile or disassemble the Licensed Software for any purpose without VAULT's prior written consent. . . . To the extent the laws of the United States of America are not applicable, this license agreement shall be governed by the laws of the State of Louisiana.

655 F. Supp. at 753-54.

    6. 655 F. Supp. at 755.

    7. *Id.* at 752.

to reproduce PROLOK, because there was no evidence that Quaid had ever made a copy of PROLOK. Quaid merely loaded PROLOK into a computer for analysis. Because Title XVII of the United States Code[8] expressly allows users to load programs into a computer, the court found that Quaid's actions did not infringe upon Vault's exclusive right to reproduce PROLOK.[9] The court also found that Quaid had not violated Vault's exclusive right to produce derivative works, because a derivative work must incorporate a portion of the copyrighted work and be substantially similar to the copyrighted work.[10] Because only thirty characters of PROLOK code had ever been incorporated in COPYWRITE, and no PROLOK code existed in the current version of COPYWRITE, COPYWRITE was not substantially similar to or a derivative work of PROLOK.[11]

After finding that Quaid itself had not violated Vault's copyright, the court further held that Vault had no standing to assert a claim of contributory infringement. Vault's claim relied on the fact that Quaid's software could be used to make illegal copies of software protected by PROLOK. The court noted that this claim was based upon the potential to copy software that belonged to other copyright owners, not upon the copying of PROLOK itself. Because Vault did not own the copyright to the programs which Quaid was allegedly helping others to copy, Vault did not have standing to raise the claim. According to the court, even if Vault had standing, no contributory infringement could have been established. The court observed that a product does not infringe upon another product's copyright if it is capable of "commercially significant noninfringing uses." Because COPYWRITE can be used to produce legitimate archival copies of protected software, COPYWRITE

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8. Notwithstanding the provisions of section 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided:

(1) that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner, or

(2) that such new copy or adaptation is for archival purposes only and that all archival copies are destroyed in the event that continued possession of the computer program should cease to be rightful.

Any exact copies prepared in accordance with the provisions of this section may be leased, sold, or otherwise transferred, along with the copy from which such copies were prepared, only as part of the lease, sale, or other transfer of all rights in the program. Adaptations so prepared may be transferred only with the authorization of the copyright owner.

17 U.S.C. § 117 (1982).

9. 655 F. Supp. at 758.

10. *Id.* at 759.

11. *Id.* at 758-59.

does not infringe upon PROLOK.[12]

Once the court determined that there was no basis for the copyright claims, it turned to the claim that Quaid had violated the terms of the Vault license agreement. The court noted that the license agreement in the PROLOK package was a contract of adhesion, which would not ordinarily be enforceable in Louisiana without specific validating legislation. Thus, the license agreement would be enforceable only if the Louisiana Software License Enforcement Act (the Louisiana Act) was a valid and enforceable statute. The court stated, however, that the Act would be invalidated if federal copyright law preempted it.[13]

The Louisiana Act purports to make certain restrictions in software licenses enforceable if the licensor retains title to the copy of the computer software. If title to the copy of the software is retained, the licensor may prohibit or limit any copying of the software for any purpose. The licensor may also prohibit or limit the right to modify, adapt, translate, reverse engineer, decompile, disassemble, or create derivative works based on the software. In addition, the licensor may prohibit or limit rights concerning further transfer, assignment, rental, sale or other disposition of the licensed copy of the software.[14] The court found that the Louisiana Act conflicts with provisions of federal copyright law and attempts to extend the copyright monopoly beyond the limits set by Congress. As a result, the Louisiana Act is preempted by federal copyright law and unenforceable.[15]

Title XVII preempts actions under state common or statutory law which are based upon rights that are equivalent to rights covered by federal copyright law.[16] In addition, the *Sears-Compco* preemption doctrine invalidates actions based on state common or statutory law which "clash with the objectives of federal patent [or copyright] laws."[17] The Louisiana Act permits a copyright holder to prohibit all copying and thus is in direct conflict with federal copyright law, which allows copying for archival purposes and as "an essential step in the utilization of a computer program."[18] The provision in the Louisiana Act which allows the licensor to prohibit the creation of derivative works merely provides a right equivalent to the right granted by federal copyright law, which gives the copyright owner the exclusive right to create derivative works.

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12. *Id.* at 759 (*relying on* Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417 (1984)).

13. *Id.* at 761-62.

14. LA. REV. STAT. ANN. § 51:1964 (West Supp. 1987).

15. 655 F. Supp. at 761-64.

16. 17 U.S.C. § 301 (1982).

17. 655 F. Supp. at 763 (*relying on* Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964), and Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964)).

18. *Id.* at 762.

Furthermore, by allowing the licensor to completely prohibit reverse engineering, by extending indefinitely the exclusive right to reproduce copies of the software, and by providing protection for all computer programs whether copyrightable or not, the Louisiana Act conflicts with the objectives of the federal copyright law.[19] Since the Louisiana Act conflicts with federal copyright law, grants equivalent rights, and attempts to extend protection beyond the objectives of federal copyright law, it is preempted by federal copyright law and is unenforceable.[20]

The court also held that the shrink-wrap license provisions were unenforceable to the extent that they conflicted with the purposes of federal copyright law.[21] Since the provisions in the Louisiana Act concerning copying, modification, adaptation, reverse engineering, and preparation of derivative works conflicted with federal copyright law, these provisions of the shrink-wrap license agreement were similarly unenforceable. In these areas, Vault was limited to the protection provided by federal copyright law. If Vault failed to prove a copyright violation, it could not rely upon a breach of contract action based on the terms of the unenforceable license agreement.[22]

III. IMPLICATION OF THE CASE

It may appear that the court's ruling in *Vault* would have little effect upon shrink-wrap licenses outside Louisiana. The *Vault* court only turned to the Louisiana Act after noting that contracts of adhesion, such as shrink-wrap licenses, are not enforceable in Louisiana absent specific validating legislation. Most states do not take such a strong stance against contracts of adhesion, and often the presumption is in favor of enforcing contracts of adhesion.[23] Thus it appears that the invalidation of a software license enforcement act would have little effect in a state where validating legislation was unnecessary to enforce contracts of adhesion.

The reasoning of *Vault*, however, extends far beyond the validity of a software license enforcement act. Much of the reasoning extends to the contract which the act seeks to enforce. If the act conflicts with federal copyright law in seeking to enforce certain rights, then license agreements which seek to enforce those same rights outside the bounds of copyright actions must also conflict with federal copyright law. To understand the full extent of the effect of *Vault* on shrink-wrap licenses, one must examine both the general history of the preemption

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19. *Id.*
20. *Id.*
21. *Id.*
22. *Id.* at 763-64.
23. *See generally,* Litvinoff, 6 LA. CIV. L. TREATISES §§ 194-95 (1969).

doctrine and the history of preemption of breach of contract actions and similar state actions.

A. GENERAL HISTORY OF THE PREEMPTION DOCTRINE

Prior to the Copyright Act of 1976, the copyright statutes contained no provision dealing specifically with preemption.[24] Because of the absence of such a provision and the long history of state common law copyright protection for some works, the United States Supreme Court declared, in *Goldstein v. California*,[25] that state actions which presented no conflict with federal copyright law were not preempted. Although the Court in *Goldstein* found no conflict between the state law in question and federal copyright law, it left open the possibility that other state actions might conflict with federal copyright law and be preempted.

In the Copyright Act of 1976, Congress changed the law of preemption by enacting a section dealing with the preemption of state law. Section 301(a) states the following:

> 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.[26]

This provision is a clear statement of the intention of Congress to preempt the field of copyright law and overrules the Supreme Court's holding in *Goldstein*.

Since the enactment of section 301, the courts have developed a two part test to determine whether a state action has been preempted by federal copyright law.[27] First, the court determines whether the state action attempts to protect or grant a right in copyrightable subject matter that is equivalent to one of the rights granted by federal copyright law. If the court finds an equivalent right, the action is preempted.[28] If

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24. Copyright Act of 1976, Pub. L. No. 94-553, § 301, 90 Stat. 2541 (codified at 17 U.S.C. § 301).

25. 412 U.S. 546 (1973).

26. 17 U.S.C. § 301(a) (1982).

27. *See* Acorn Structures, Inc. v. Swantz, 657 F. Supp. 70, 72-75 (W.D. Va. 1987); Associated Film Distribution Corp. v. Thornburgh, 614 F. Supp. 1100, 1119-21 (E.D. Pa. 1985) (on remand from 683 F.2d 808 (3rd Cir. 1985)); Schuchart & Associates, Etc. v. Solo Serve Corp., 540 F. Supp. 928, 944-48 (W.D. Tex. 1982); Factors Etc., Inc. v. Pro Arts, Inc., 496 F. Supp. 1090, 1095-1100 (S.D.N.Y. 1980).

28. *Id.*

the court does not find an equivalent right, it moves to the second step of the test. Under the second step, the court analyzes the state action to determine whether it conflicts with the purposes of federal copyright law. If a conflict exists, the state action is preempted, even though no equivalent federal right is found. The state action survives only where the court finds no equivalent federal right and no conflict with the purposes of federal copyright law.[29]

There is no longer any question that computer software qualifies as copyrightable subject matter.[30] Thus, if the computer program involved in the state action is copyrighted, the courts determine whether the right asserted is equivalent to one of the rights covered by federal copyright law. The rights conveyed by federal copyright law include the copyright owner's exclusive right to reproduce copies, to prepare derivative works, and to distribute copies.[31] Federal copyright law, however, limits these exclusive rights by granting persons other than the copyright owner certain limited rights such as: the right to sell or otherwise dispose of a copy after the copyright owner has sold that copy;[32] the right to rent, lease, or loan a copy after the copyright owner has sold that copy;[33] the right to make copies of computer programs in the process of using them in machines;[34] the right to make an archival copy of a computer program;[35] and the right to make certain adaptations of computer programs, as long as the adaptations are not transferred to anyone else.[36] Thus, any state action which concerns a right similar to one of these rights or limitations, or which might affect one of these rights or limitations, is a potential candidate for preemption.

While it may be relatively simple to list the rights which federal copyright law grants, it is not a simple task to determine whether a particular right in a state action is equivalent to one of these rights. According to Professor Nimmer, a state right is subject to preemption if it falls within the general scope of copyright, even if the precise contours of the state right differ from those granted by section 106 of the Copyright Act.[37] The fact that the state right is narrower or broader than

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29. *Id.* *See also* Snowman, *Preemption of the Louisiana Software Enforcement Act by Copyright Law (or Suffocation by Shrink-Wrap)*, 8 COMM. ENT. L.J. 163, 224-35 (1985).

30. *See* 17 U.S.C. §§ 101 & 117 (1982).

31. 17 U.S.C. § 106 (1982). The other two exclusive rights, the rights to perform and display the work publicly, are rarely the subject of copyright actions concerning mass marketed computer software and, therefore, will not be addressed in this analysis.

32. 17 U.S.C. § 109 (1982).

33. *Id.*

34. 17 U.S.C. § 117 (1982).

35. *Id.*

36. *Id.*

37. 1 NIMMER ON COPYRIGHT § 1.01[B][1]. *See also* Harper & Row, Publishers, Inc. v. Nation Enterprises, 501 F. Supp. 848, 852 (S.D.N.Y. 1980), *aff'd* 723 F.2d 195 (2nd Cir.

the federal right will not make it immune to preemption.[38] Any state right is equivalent to copyright, and is therefore preempted, if the act of reproduction, performance, distribution or display creates an action under the state right.[39] If the state action requires additional elements, however, which cause the state right to be "different in kind" or "qualitatively different" from the federal right, the state action is not preempted.[40]

B. PREEMPTION OF BREACH OF CONTRACT AND ANALOGOUS ACTIONS

1. *Equivalent Rights Test*

Despite references in the legislative history of the Copyright Act of 1976 which indicate that breach of contract actions are not equivalent to copyright actions and, therefore, are not preempted,[41] some courts have found state law breach of contract actions to be preempted by federal

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1983), *rev'd on other grounds*, 471 U.S. 539 (1985) (preemption is required when the state law rights asserted are not "different in kind" from the rights protected by the Copyright Act).

38. 1 NIMMER ON COPYRIGHT § 1.01[B][1], n.43.1a. *See also*, H.R. REP. NO. 1476, 94th Cong., 2d Sess. 131, *reprinted in* 1976 U.S. CODE CONG. & ADMIN. NEWS 5659, 5746.

39. 1 NIMMER ON COPYRIGHTS § 1.01[B][1], nn.43.1-43.2a.

40. Harper & Row, Publishers, Inc. v. Nation Enterprises, 501 F. Supp. 848, 852; 1 NIMMER ON COPYRIGHT § 1.01[B][1], n.43b.2.

41. The original draft of section 301(b) reads as follows:

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.

H.R. 4347, 89th Cong., 2d Sess. (1966). The specific examples, including the language referring to breaches of contract, were dropped from the final language of the Copyright Act of 1976. The House Report accompanying the final version of the Act, however, retained references to the examples, stating:

The examples in clause (3), while not exhaustive, are intended to illustrate rights and remedies that are different in nature from the rights comprised in a copyright and that may continue to be protected under State common law or statute. The evolving common law rights of "privacy," "publicity," and trade secrets, and the general laws of defamation and fraud, would remain unaffected as long as the causes of action contain elements, such as an invasion of personal rights or a breach of trust or confidentiality, that are different in kind from copyright infringement. Nothing in the bill derogates from the rights of parties to contract with each other and to sue for breaches of contract; however, to the extent that the unfair competition concept known as "interference with contract relations" is merely the equivalent of copyright protection, it would be preempted.

H.R. REP. NO. 1476, 94th Cong. 2d Sess. 132, *reprinted in* 1976 U.S. CODE CONG. & ADMIN. NEWS 5748. For a more detailed discussion of the legislative history concerning the examples deleted from section 106, see 1 NIMMER ON COPYRIGHT § 1.01[B][1] and Snowman, *supra* note 3, at 221-24.

law.[42] In addition, courts have found that in some cases, claims based upon theories of implied contract, quantum meruit, and unjust enrichment are preempted.[43] This preemption may be a result of the similarity between these claims and breach of contract actions. Courts analyze breach of contract cases under the same tests that are applied to other state actions. These state actions are considered to be preempted under the equivalent rights test if proof of copying, distribution, display, or creation of a derivative work is sufficient to prove breach of contract. If additional, qualitatively different, elements are required to prove breach of contract, the state action passes the equivalent rights test, but is still subject to the conflicting purposes test.[44]

An analysis of recent breach of contract cases indicates that the mere existence of a contract or a promise not to breach it does not constitute a qualitatively different element for purposes of the equivalent rights test.[45] If a party to the contract makes a promise that is qualitatively different, however, such as a promise to pay for what is received, the breach of the promise constitutes a qualitatively different element. A failure to fulfill a promise to pay for goods or services, therefore, constitutes a qualitatively different element.[46] A breach of the promise to pay is not usually relevant in shrink-wrap breach of contract situations. In the typical shrink-wrap situation, the software user paid for the copy of the software to which the agreement was attached. A software producer usually bases his claim of breach upon the failure to comply with some clause in the shrink-wrap agreement other than the promise to pay.

Often a software producer claims that the user violated the clause limiting or prohibiting copying of the software. To prove that the user breached this clause of the contract, the producer need only prove that the user copied the software under a particular set of circumstances. Thus, no extra element of proof exists to prevent the action from being preempted under the equivalent rights test. The particular circum-

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42. Acorn Structures, Inc. v. Swartz, 657 F. Supp. 70 (W.D. Va. 1987); Smith v. Weinstein, 578 F. Supp. 1297 (S.D.N.Y. 1984).

43. See McNabb Bennett & Assoc. v. Terp Meyers Architects, No. 85 C 8792, slip op. (N.D. Ill. June 19, 1986); P.I.T.S. Films v. Laconis, 588 F. Supp. 1383 (E.D. Mich. 1984).

44. See Acorn Structures, 657 F. Supp. at 73; McNabb Bennett & Assoc. v. Terp Meyers Architects, No. 85 C 8792, slip op.; P.I.T.S. Films, 588 F. Supp. at 1385; Weinstein, 578 F. Supp. at 1307.

45. See Acorn Structures, 657 F. Supp. at 74-75; McNabb Bennett & Assoc. v. Terp Meyers Architects, No. 85 C 8792, slip op.; P.I.T.S. Films, 588 F. Supp. at 1385-86; Weinstein, 578 F. Supp. at 1307 ("Plaintiff cannot merely rephrase the same claim citing contract law and thereby obtain relief equivalent to that which he has failed to obtain under copyright law.").

46. Brignoli v. Balch Hardy and Scheinman, 645 F. Supp. 1201 (S.D.N.Y. 1986); see also 1 NIMMER ON COPYRIGHT § 1.01[B][1] (the promise to pay the stated royalty).

stances under which the act of copying occurred do not qualitatively change the act of copying.[47] Only the scope of the right to reproduce is affected. The fact that the state right is either narrower or broader than the federal right does not make the state right qualitatively different.[48] Thus, the circumstances under which the copying must occur to constitute a breach of contract cannot prevent the action from being preempted under the equivalent rights test.

Actions based upon a violation of license terms which prohibit or limit the right to transfer, rent, lease or otherwise assign the copy of the software to which the agreement was attached are preempted under the same reasoning which applies to actions based on the copying clauses. Transfers, leases and other assignments are forms of distribution and are often forbidden by shrink-wrap agreements. In order to prove a breach of this type of agreement, the software producer need only prove that the user sold, transferred, rented, leased or otherwise assigned the copy of the software.[49] Again, the circumstances surrounding the original transaction in which the user acquired the copy of the software, as well as the circumstances surrounding the user's distribution of that copy, affect only the scope of the right and do not make the breach of contract action qualitatively different from a copyright action.[50]

Clauses in shrink-wrap licenses which prohibit or limit the right to adapt, modify, translate, or produce derivative works from the copy to which the license is attached are also preempted under the equivalent rights test. The act of adapting, modifying, or translating a work is the act of creating a derivative work.[51] Because the publisher must prove only that the user adapted, modified, or translated the software in order to prove a breach of contract, the publisher need not prove any elements different in kind from those required to prove the creation of a derivative work under copyright law. As in the two types of clauses previously discussed, the circumstances surrounding the original software transaction and the act of creating the derivative work affect only the scope of the right, not its qualitative nature. Thus, actions based upon clauses prohibiting the right to adapt, modify, translate, or produce derivative works are also preempted under the equivalent rights test.

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47. *See Nation Enterprises*, 501 F. Supp. at 852; *Acorn Structures*, 657 F. Supp. at 74-75.

48. 1 NIMMER ON COPYRIGHT § 1.01[B][1], n.43.1a. *See also* H.R. REP. NO. 1476, 94th Cong., 2d Sess. 131, *reprinted in* 1976 U.S. CODE CONG. & ADMIN. NEWS 5747.

49. *Vault*, 655 F. Supp. at 750.

50. *Id.*

51. 2 NIMMER ON COPYRIGHT § 8.09.

2. *Conflicting Purposes Test*

Actions based on clauses which limit the number of machines that the copy may be used with or the number of people who may use the copy do not appear to be equivalent to actions based on any of the rights granted by section 106 of the Copyright Act. Similarly, the rights under clauses which concern disassembly, decompilation, and other uses of the software do not appear to be equivalent to section 106 rights. Although these clauses pass the equivalent rights test, they must also pass the conflicting purposes test in order to survive a preemption challenge.[52]

The primary purpose of copyright regulation is to promote the free flow and use of ideas and to encourage creativity which will lead to new ideas, products, and services. By providing adequate protection to authors, such regulation will create an incentive to produce.[53] Traditionally, copyright laws have relied on the fact that the copyright owner's exclusive right to reproduce copies of the work, distribute copies of the work, publicly perform the work, publicly display the work, and create derivative works provides sufficient incentive to create new works. In attempting to give the copyright owner more protection than the copyright laws have deemed necessary, clauses concerning disassembly and decompilation of the software restrict the free flow of ideas and the creation of new ideas, products and services. The additional protection sought—the right to prevent reverse engineering—would provide greater protection than that currently provided by trade secret law. Only patent protection, which has much stiffer qualification requirements and a much shorter period of protection than copyright protection, allows so great a limitation on the free flow of ideas. Because clauses which prohibit disassembly and decompilation attempt to provide a patent-like protection for a copyrightable work without meeting the requirements of patent law, these clauses appear to conflict with the purpose of the copyright laws.

Clauses contained in shrink-wrap agreements which regulate by whom and under what circumstances a copy of a program can be used also attempt to restrict the right of the owner or possessor to use the copy. In contrast to patent laws, which grant the owner of a patent the right to exclude others from using an invention, copyright law does not give the copyright owner the right to prevent others from using a copyrighted work.[54] The idea that control over use conflicts with the purposes of copyright law is further supported by the refusal of the courts

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52. Schuchart & Assoc. v. Solo Serve Corp., 540 F. Supp. 928 (W.D. Tex. 1982).

53. Twentieth Century Music Corp. v. Aiken, 422 U.S. 151 (1975); Goldstein v. California, 412 U.S. 546, 555 (1973); Mazer v. Stein, 347 U.S. 201, 219 (1954).

54. 1 NIMMER ON COPYRIGHT § 2.18.

to extend copyright protection to the utilitarian aspects of a work.[55] Restrictions on the use of copyrighted works appear most often in the context of copyrighted designs, patterns, and architectural drawings. In these areas, the courts have found that restrictions on use conflict with the purposes of copyright law.[56] Restrictions on use have also been addressed by the courts in the contexts of attempts to control the conditions of resale[57] and attempts to prevent incorporation of a copy of a copyrighted work into another article.[58] In both situations, courts have refused to allow the copyright owner to control the use of a copy of a work after the initial sale of the copy. Given the direction the courts have taken in these situations, it is likely that courts will find that the attempts of software producers to limit the number of machines on which a particular copy can be used or the number of people that can use a particular copy conflict with the policies underlying copyright law.[59]

IV. CONCLUSION

The concept that federal copyright law preempts actions based on clauses which prohibit or limit copying, further transfer, rental, leasing, or other assignments of the copy of the software, the right to adapt, modify, translate or create derivative works based on the software, dis-

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55. 17 U.S.C. § 101 (1982).

56. *See Acorn Structures*, 657 F. Supp. at 70.

57. *See* Bobbs-Merrill v. Straus, 147 F. 15, 27 (2d Cir. 1906), *aff'd* 210 U.S. 339 (1908). *See also* United States v. Masonite Corp. 316 U.S. 265, 278 (1942); Boston Store v. American Graphophone Co., 246 U.S. 8 (1918); Straus v. Victor Talking Machine, Co., 243 U.S. 490 (1917).

58. C.M. Paula Co. v. Logan, 355 F. Supp. 189 (N.D. Tex. 1973).

59. Much of the analysis in this paragraph is based upon the "first sale" doctrine of section 109 of the Copyright Act. If there has been no "sale" of the copy of the software, i.e., if neither the transaction between the software producer and the software distributor nor the transaction between the software distributor and the end user is a sale, clauses limiting or prohibiting subsequent transfers or uses of the copy of the software might survive the conflicting purpose test. If there has been no "sale" and if the retention of title clause in a shrink-wrap license retains title to the *copy* of the software, not just the software itself, such clauses might be enforceable in a breach of contract action. It is unlikely, however, that all of these conditions will be met. Most commentators agree that a sale usually occurs somewhere in the software distribution chain. In addition, many commentators believe that the typical shrink-wrap license transaction itself is a sale. For further discussion of the "first sale" doctrine in the context of shrink-wrap licenses, *see* Brooks, *Shrink-Wrapped License Agreements: Do They Prevent the Existence of a 'First Sale'?*, 1 COMPUTER LAW. 17 (1984); Einhorn, *The Enforceability of 'Tear-Me-Open' Software License Agreements*, 67 J. PAT. & TRADEMARK OFF. SOC'Y 509 (1985); Puhala, *The Protection of Computer Software Through Shrink-Wrap License Agreements*, 42 WASH. & LEE L. REV. 1347 (1985); Stern, *Shrink-Wrap Licenses of Mass Marketed Software: Enforceable Contracts or Whistling in the Dark?*, 11 RUTGERS COMPUTER & TECH. L.J. 51 (1985).

assembly or decompilation, or use of the software, completely destroys the force of shrink-wrap licenses. Any legal force which remains is probably of little use to software producers. It appears that after *Vault v. Quaid Software Ltd.,* there is little life left in shrink-wrap license agreements.[60]

60. Shortly after the decision in *Vault* was published, Miscrosoft, a major software publisher, stopped using a shrink-wrap license packaging format. Brownstein, *Microsoft Drops Its 'Shrink Wrap' License Package,* Infoworld, June 22, 1987, at 13.