Shrinkwrap and Clickwrap Agreements: 2B or Not 2B?

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NOTE

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Garry L. Founds*

I. INTRODUCTION ................................................................. 99
II. ENFORCEABILITY OF SHRINKWRAP AND CLICKWRAP AGREEMENTS UNDER UCITA ...................................................... 101
III. FEDERAL COPYRIGHT LAW VS. STATE CONTRACT LAW ......... 103
   A. The Differing Approaches to the Preemption Question .......... 103
   B. Preemption Under Section 301 of the Copyright Act .......... 106
IV. LIMITATIONS ON COPYRIGHT RIGHTS AND THE SUPREMACY CLAUSE ................................................................................ 114
   A. The Balance of Copyright Law ............................................. 114
   B. Common Terms and Preemption ......................................... 116
      1. Terms Restricting the Copying of Software .................. 117
      2. Terms Restricting Reverse Engineering ...................... 118
      3. Terms Restricting First Sale Rights .............................. 119
      4. Potential Solutions ....................................................... 120
V. THE FUTURE OF UCITA: IS IT RELEVANT? ......................... 120
VI. CONCLUSION ........................................................................ 122

I. INTRODUCTION

According to a survey conducted in 1997 for the National Science

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Foundation, over forty percent of Americans own personal computers.\(^1\) Although nearly every one of these computer owners at some point will purchase and install software, most of them likely will never take the time to read the agreements that accompany the software.\(^2\) Humorist Dave Barry provides insight into the reason for such apathy in his satirical take on the typical software agreement:

By breaking this seal, the user hereinafter agrees to abide by all the terms and conditions of the following agreement that nobody ever reads, as well as the Geneva Convention and the U.N. Charter and the Secret Membership Oath of the Benevolent Protective Order of the Elks[, and such other terms and conditions, real and imaginary, as the Software Company shall deem necessary and appropriate, including the right to come to the user's home and examine the user's hard drive, as well as the user's underwear drawer if we feel like it, take it or leave it, until death do us part, one nation indivisible, by the dawn's early light, in the name of the Father, the Son, and the Holy Ghost, finders keepers, losers weepers, thanks you've been a great crowd, and don't forget to tip your servers.

This "contract" inadvertently highlights two key problems inherent in the typical mass-market software licensing agreement: (1) the public is powerless to negotiate; and (2) the terms often are perceived as exceedingly broad and restrictive. The Uniform Computer Information Transactions Act (UCITA) purports to resolve these issues by establishing the general enforceability of such agreements, with certain qualifications related to unconscionability, assent, and other caveats.\(^4\)

UCITA, however, does not resolve, or even purport to resolve, another important issue: the tension between federal copyright law and state contract law. Computer software falls within the purview of the Copyright Act of 1976.\(^5\) Under the Act, software users are entitled to rights

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2. Software agreements that appear on the packaging containing the installation CD or diskettes are called shrinkwrap agreements; software agreements that appear on screen prior to downloading software from the internet or prior to installation of the software are called clickwrap agreements.
3. DAVE BARRY, DAVE BARRY IN CYBERSPACE 98 (1996).
4. See Draft of the Uniform Computer Information Transactions Act (visited Oct. 18, 1999) <http://www.law.upenn.edu:80/bllulc/ucita_99.htm> [hereinafter UCITA Draft]. Although UCITA establishes the general enforceability of shrinkwrap and clickwrap agreements, both the blackletter text and the Reporter's Notes indicate important caveats and protections for the licensee. For example, the text and notes make clear that general issues of contract law remain, notions of unconscionability remain relevant, and new protections have been added for consumers, such as cost-free refund rights, among others. See id.
that often exceed those granted by software agreements. For example, under the Act and federal case law interpreting the Act, users are entitled to make a copy of the software for archival purposes or as necessary to use the software; to reverse engineer software within certain limits; and to have at least limited rights to transfer the software. Yet, software agreements often attempt to place more narrow limits on these rights. Thus, a tension between the federal Copyright Act and state contract law frequently arises. The question then becomes which law, state or federal, should prevail, or more specifically, should federal law preempt state law? UCITA suggests that in general, state contract law should prevail, but it also concedes that federal preemption remains a possibility.

This Note addresses UCITA's attempt to resolve the enforceability issue; argues for an approach to preemption that promotes clarity and preserves the objectives of Congress established by the Copyright Act; discusses whether UCITA remains relevant in light of the preemptive power of copyright law; and proposes that additional federal legislation is a more appropriate solution to the problems surrounding computer software reproduction and use. Part II discusses briefly the enforceability of shrinkwrap and clickwrap agreements, particularly in light of UCITA. Part III outlines the two approaches to federal copyright law preemption of state contract law and argues that section 301 of the Copyright Act is not the appropriate vehicle for preemption. Part IV explores the preemption of such agreements under general principles derived from the Supremacy Clause. Part V addresses the relevance of UCITA in light of the preemption issue and widespread criticism of UCITA.

II. ENFORCEABILITY OF SHRINKWRAP AND CLICKWRAP AGREEMENTS UNDER UCITA.

There are at least four potential arguments against the enforcement of shrinkwrap and clickwrap agreements: (1) the contract is unenforceable due to a lack of assent (depending on the location of the license within the packaging); (2) the agreement is an unenforceable contract of adhesion; (3) particular terms are unconscionable; or (4) for expensive software, the contract is unenforceable under the statute of frauds. For a while, it appeared that courts generally would refuse to enforce shrinkwrap and clickwrap agreements, based on one or more of these arguments. However,
courts appear increasingly willing to find such agreements enforceable.\(^9\)

Continuing this trend of enforcement is the National Conference of Commissioners on Uniform State Laws (NCCUSL), the organization responsible for the promulgation of UCITA. In 1994, the NCCUSL, in conjunction with the American Law Institute (ALI), began work on an addition to the Uniform Commercial Code (UCC), Article 2B, that would address the enforceability of shrinkwrap and clickwrap licenses.\(^10\) During the drafting process, however, Article 2B came under heavy criticism from consumer groups, writer and artist organizations, industry groups, academics, and even members of the drafting committee itself.\(^11\) Thus, in April 1999, the ALI withdrew its support for the fledgling legislation. Without support from ALI, the legislation could not be proposed to state legislatures as an addition to the UCC; nevertheless, the NCCUSL continues to advocate the legislation's adoption. The NCCUSL changed the name from Article 2B to UCITA and has retained the text of Article 2B almost verbatim.\(^12\) UCITA is complete, and the NCCUSL expects to present the final version to state legislatures by the new millennium.\(^13\)

Although UCITA renders shrinkwrap and clickwrap agreements generally enforceable, it also explicitly recognizes the potential for federal preemption while remaining neutral on the policy debates inherent in preemption analysis. For example, although section 105 states that "[a]
provision of this [Act] which is preempted by federal law is unenforceable
to the extent of such preemption,”14 it provides no further guidance on the
issue. Instead, the Prefatory Note states that UCITA will not choose sides
in the debate over the extent to which copyright law should preempt state
contract law and that the issue is “ultimately one of federal policy.”15

III. FEDERAL COPYRIGHT LAW VS. STATE CONTRACT LAW.

A. The Differing Approaches to the Preemption Question

How should the courts and Congress resolve the preemption issue? The Supremacy Clause of the Constitution states: “This Constitution, and
the [l]aws of the United States which shall be made in [p]ursuance thereof . . .
shall be the supreme [l]aw of the [l]and . . . any [t]hing in the
Constitution or [l]aws of any [s]tate to the [c]ontrary notwithstanding.”16
This language makes clear that, under certain circumstances, federal law
may preempt state law. However, the various circumstances under which
preemption may occur has been described in a number of different ways,
resulting in little agreement regarding the appropriate categorization of
the various approaches to federal law preemption of state law.17 For example,
the U.S. Supreme Court has articulated as few as two and as many as four
general categories.18 Commentators likewise have found anywhere from
two to six categories.19 Nevertheless, there seems to be at least some
agreement that preemption may be divided into two broad categories,
express and implied, with anywhere from two to four subcategories for the
latter. This Note groups preemption analysis into three general categories:
(1) express preemption, which occurs when the statute in question
expresses congressional intent to preempt state law in a specified field; (2)
implied preemption through federal law’s exclusive occupation of a given
field; and (3) implied preemption through state law’s conflict with the
objectives of federal law.20

14. UCITA Draft, supra note 4, § 105.
15. Article 2B Draft, supra note 11, § 2B-105(a).
17. See S. Candice Hoke, Preemption Pathologies and Civic Republican Values, 71
B.U.L. REV. 685, 733-35 (1991) (providing a detailed analysis of the myriad attempts to
categorize preemption precedent).
(1983).
19. See Hoke, supra note 17, at 733 n.226.
20. See Hoke, supra note 17, at 734 n.228, 735 n.236; see also Stephen D. Otero, Note,
With respect to copyright law, there are two potential avenues to the preemption of state law: express preemption under section 301 of the Copyright Act and preemption due to state law’s interference with the objectives of and policy decisions underlying the Copyright Act. This Note refers to the latter form of preemption as Supremacy Clause preemption. Under section 301 of the Copyright Act, federal copyright law preempts all state “legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright.” Under a general Supremacy Clause analysis, state law is preempted if it “stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.” Stated differently, “the federal policy ‘may not be set at naught, or its benefits denied’ by the state law.” The difference between these two approaches is clear. Supremacy Clause analysis would compel an inquiry into the policy decisions underlying the Copyright Act, while section 301 would require one to ask simply whether the state rights sought to be enforced are equivalent to rights established by the Copyright Act.

As an initial matter, some argue that section 301 obviates the use of Supremacy Clause analysis as an approach to copyright preemption. Such an assertion, however, is not the most reasonable reading of section 301. Clearly this section does not assert that it provides the only avenue to copyright preemption of state law; instead, it attempts to make clear that states may not pass laws intended to regulate rights identical to those protected by the Copyright Act. Indeed, to remove the possibility of Supremacy Clause analysis with respect to the Copyright Act would be implausible, since either Congress would have to make clear that the policies underlying the Act are subordinate to state policy choices in this realm, or the Supreme Court would have to overturn the fundamental tenet...


21. See Article 2B Draft, supra note 12, § 2B-105, Reporter’s Note (referring to implied preemption as “preemption under the Supremacy Clause”); ROBERT P. MERGES ET AL., INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGIES AGE 812-13 (1997) (labeling as “Supremacy Clause preemption” any analysis that goes beyond § 301 to discuss whether the state law in question is an “obstacle” to the objectives of the Copyright Act).


25. See MERGES ET AL., supra note 21, at 811.
of implied preemption of state law. In fact, under analogous circumstances, the Supreme Court recently found untenable the argument that an express preemption clause in a federal statute eliminates the possibility of implied preemption of state law.\textsuperscript{26}

Several federal courts also have suggested that Supremacy Clause analysis is still a viable approach to copyright preemption. For example, in \textit{Vault Corp. v. Quaid Software Ltd.},\textsuperscript{27} the Fifth Circuit Court of Appeals applied a Supremacy Clause analysis to find that a state statute permitting enforcement of shrinkwrap licenses was preempted under federal copyright law.\textsuperscript{28} Also, in \textit{Associated Film Distribution Corp. v. Thornburg},\textsuperscript{29} the Federal District Court for the Eastern District of Pennsylvania held that a state statute regulating the licensing of motion pictures was preempted by copyright law, noting that the "more general question of conflict between the two statutory schemes under the Supremacy Clause is decisive."\textsuperscript{30}

The one case that may call into question the viability of Supremacy Clause preemption is \textit{ProCD, Inc. v. Zeidenberg}.\textsuperscript{31} The Federal District Court for the Western District of Wisconsin initially found that the agreement in question was preempted by copyright law, based upon reasoning that combined section 301 analysis with public policy arguments clearly implicating the Supremacy Clause approach:

- It would alter the "delicate balance" of copyright law to allow parties to avoid copyright law by contracting around it.
- . . . Contracts that are consistent with the copyright law's goals of self-protection should be upheld. Rightful owners should be able to define the limits of permissible copying or modification of their works.
- . . . It is only when a contract erects a barrier on access to information that under copyright law should be accessible that [section] 301 operates to protect copyright law from individually crafted evasions of that law.
- Plaintiff's license agreement is an attempt to avoid the confines of copyright law (citation omitted). Its prohibition on the distribution of public information cannot be squared with the purposes of copyright law . . . .\textsuperscript{32}

The Seventh Circuit, in an opinion drafted by Judge Easterbrook,

\textsuperscript{27} 847 F.2d 255 (5th Cir. 1988).
\textsuperscript{28} See id. at 269-70.
\textsuperscript{30} Id. at 993.
\textsuperscript{31} 86 F.3d 1447 (7th Cir. 1996).
reversed, holding that since contract claims are not "equivalent" to copyright infringement claims, the contract should not be preempted.\(^{33}\) Although the Seventh Circuit's reliance on only section 301 could be construed as an implicit rejection of the district court's inclusion of an inquiry into the agreement's incongruance with the objectives of copyright law, the fact that the Seventh Circuit completely ignored one obvious foundation for the district court's opinion is oddly conspicuous.\(^{34}\) Moreover, many scholars and commentators criticized this decision's treatment of the preemption question.\(^{35}\) Thus, Judge Easterbrook's opinion is hardly a convincing argument that preemption based upon a general Supremacy Clause analysis should be rejected.

Since both avenues to preemption remain, the question becomes whether both, one, or neither is the appropriate vehicle for preemption of state contract law, or more specifically, for the preemption of shrinkwrap and clickwrap licenses. Many courts and commentators, like the district court in \textit{ProCD, Inc.}, analyzed a claim for copyright preemption of contract law through an amalgam of the section 301 and Supremacy Clause approaches. However, clarity calls for at least an attempt to retain a distinction between the two, for a section 301 analysis that devolves into a debate over the policy decisions underlying the Copyright Act is, in truth, little more than a Supremacy Clause approach to preemption. Moreover, the danger in combining the two approaches is evident from the \textit{ProCD, Inc.} reversal: Viewing the tests as parts of a whole can lead one to the erroneous conclusion that a failure under section 301—that is, a finding that the contract right is not equivalent to a copyright right—is the end of the inquiry. If the district court in \textit{ProCD, Inc.} bifurcated more explicitly its inquiry, it may have forced Judge Easterbrook to address, or at least acknowledge, the argument that the agreement was inconsistent with the goals of copyright law. Thus, this Note addresses the two approaches distinctly, beginning with section 301.

\textbf{B. Preemption Under Section 301 of the Copyright Act}

There is a strong, and perhaps convincing, argument that section 301 preemption is not available for state contract law. This argument proceeds as follows. Section 301 preempts only state rights that are equivalent to rights created under the Copyright Act. Contract rights derive not from the

\begin{itemize}
  \item \textit{ProCD, Inc.}, 86 F.3d at 1455.
  \item See \textit{id.}
\end{itemize}
fact that the given work is protectable under the Copyright Act, but from an agreement between the parties. Thus, the contract rights are not equivalent to the copyright rights and should not be preempted under section 301. The crux of this argument is that the extra element of bargain inherent in contract rights renders contract rights innately different from copyright rights. Proponents of this position also assert that freedom of contract generally supports this argument.\(^{36}\)

Little can be said for the contrary position. One potential argument for preemption under section 301, at least in the context of mass-market licenses of software, is that the element of "bargain" is missing since the contract essentially is a contract of adhesion.\(^{37}\) However, there is a readily apparent problem with such an assertion: it ignores the fact that contracts of adhesion usually are enforced as an implied agreement between the parties. Indeed, the Restatement (Second) of Contracts (Restatement) has made this point patently clear:

(1) Except as stated in [s]ubsection (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.\(^{38}\)

Moreover, the comments to section 211 of the Restatement provide compelling policy arguments for the necessity of adhesion contracts.

**Utility of standardization.** Standardization of agreements serves many of the same functions as standardization of goods and services; both are essential to a system of mass production and distribution. Scarce and costly time and skill can be devoted to a class of transactions rather than to details of individual transactions. Legal rules which would apply in the absence of agreement can be shaped to fit the particular type of transaction, and extra copies of the form can be used for purposes such as record-keeping, coordination and supervision. Forms can be tailored to office routines, the training of personnel, and the requirements of mechanical equipment. Sales personnel and customers are freed from attention to numberless variations and can focus on meaningful choice among a limited number of significant features: transaction-type, style, quantity, price,
or the like. Operations are simplified and costs reduced, to the advantage of all concerned.\textsuperscript{39}

Both Article 2 of the UCC\textsuperscript{40} and UCITA provide justifications for adhesion contracts similar to those proffered by the Restatement.\textsuperscript{41}

Nevertheless, it is generally accepted that courts may place upon adhesion contracts certain limitations, such as construction against the drafting party and the unenforceability of terms that are unconscionable or against public policy. Thus, for the argument supporting section 301 preemption to be successful, one must maintain either that in this context the law should not imply a bargain between the parties or that despite this implied bargain, issues of unconscionability or public policy should render the contract or specific terms thereof unenforceable.

For the sake of clarity, these arguments should be resolved by turning to basic contract law, not the preemptive power of federal copyright law. If a clause or the entire agreement is determined to be unenforceable under contract law, the owner of the work will have no other recourse than to turn to other forms of protection, such as the Copyright Act. Thus, for a given scenario, one might arrive at the same destination—application of copyright law—but the path to that destination would be far more clear. Why obfuscate the path with a preemption analysis when basic issues of contract law would suffice?

Professor Dennis Karjala nevertheless makes this argument, but attempts to do so on a broader scale.

The existence of an actual bargain in negotiated contracts distinguishes state enforcement interests qualitatively from a copyright claim in that context. The absence of bargaining with respect to widely distributed works, however, leaves essentially no state interest in enforcing "contracts" that eliminate restrictions on copyright rights other than the very expansion of such rights that the contract seeks to achieve, which makes the contract claim qualitatively the same as a copyright claim.

\ldots It takes more, in other words, than a mere label from a state statute or court that a claim is "contractual" to avoid preemption under section 301. At the extreme, for example, a state statute might otherwise simply declare that every sale of a copy of a copyright-protected work automatically includes, as a part of the sale contract, a term promising not to use in a competing work ideas or facts contained in the protected work. A claim for wrongful use of the ideas or facts under such a statute would be "contractual" only because the state chose to attach that name. Whatever virtues such a statute

\textsuperscript{39} Id. at 120, § 211 cmt. a.

\textsuperscript{40} Article 2 of the UCC sets forth default rules for commercial sales transactions generally.

\textsuperscript{41} See UCITA Draft, supra note 4, at Reporter's Notes, § 211.
might otherwise have, it does not promote the stability and confidence of personal business relationships that is the ground for nonpreemptive deference to the enforcement of actual negotiated agreements, because its operation requires no such relationship as a predicate.\(^42\)

Although he makes a valiant effort to extend his argument beyond the basic "no extra element because there is no bargain" formula, Professor Karijala cannot completely escape that theme. In sum, he appears to argue that the state interest in enforcing actually negotiated agreements is the stability and confidence of personal business relationships, and, with contracts of adhesion, there is no such state interest. However, this assertion itself is questionable, for the enforcement of adhesion contracts does promote stability in the market, or at least that view is generally accepted. As noted earlier, these contracts are essential in the modern economy. If adhesion contracts typically are enforced, why should an adhesion contract that touches upon copyright issues be analyzed any differently? At bottom, the arguments for doing so focus on the purposes of the Copyright Act and how such contracts stand as obstacles to those purposes. These arguments, therefore, should be viewed as arguments for preemption under Supremacy Clause analysis and not as support for preemption under section 301. To shoehorn the section 301 label onto such arguments introduces needless complexity into the analysis and poses the threat of a decision similar to \textit{ProCD, Inc.}, in which the court ignored altogether the argument based upon interference with the objectives of copyright law.

A few courts have taken a slightly more simplistic approach to arguing that section 301 should provide for the preemption of some contract clauses, arguing that when a contractual provision may be breached by activity that also would create liability under the Copyright Act, that provision should be preempted under section 301, since the contract right then would be "equivalent" to a right created under the Copyright Act.\(^43\) For example, in Wolff v. \textit{Institute of Electrical and Electronics Engineers, Inc.},\(^44\) the Federal District Court for the Southern District of New York held:

State causes of action are "equivalent" to the exclusive rights within copyright law, and accordingly preempted by that statute, unless they are "qualitatively different" from the rights granted under the Copyright Act . . . . In the case at bar, [Institute of Electrical and Electronics Engineers, Inc.] breached its contract with plaintiffs . . . by infringing plaintiffs' copyright. It is difficult to see how the resulting

\(^{42}\) Karijala, \textit{supra} note 7, at 527-28.

\(^{43}\) See \textit{Nimmer \& Nimmer, supra} note 35, § 1.01[B][1][a].

claims are qualitatively different. Accordingly[,] the breach of contract claim is preempted.  

Also, in American Movie Classics Co. v. Turner Entertainment Co., the district court found a television performance license preempted, stating: “[A] breach of contract claim is preempted if it is merely based on allegations that the defendant did something that the copyright laws reserve exclusively to the plaintiff (such as unauthorized reproduction, performance, distribution, or display).” Finally, in National Car Rental System, Inc. v. Computer Associates International, Inc., although ultimately deciding against preemption, the Eighth Circuit Court of Appeals stated that it did “not need to decide whether a breach of contract claim based [solely] on a wrongful exercise of one of the exclusive copyright rights is preempted,” citing cases that had found preemption under those circumstances. Such broad statements often rely on citations to the treatise Nimmer on Copyright; however, this treatise does not support such a simple statement of the issue.

First, Professor Nimmer never states specifically that contract provisions that may be breached by unauthorized “reproduction, performance, distribution, or display” should be preempted. Instead, he states simply that “in essence, a right that is ‘equivalent to copyright’ is one that is infringed by the mere act of reproduction, performance, distribution, or display.” Indeed, Professor Nimmer concedes that in most contexts, contracts should survive preemption under section 301.

Professor Nimmer argues for section 301 preemption of shrinkwrap contracts, but like Professor Karjala, he does so by using the adhesion issue to bolster his position. First, he notes that “a breach of contract cause of action can serve as a subterfuge to control nothing other than the

45. Id. at 69.
47. Id. at 931; see also NIMMER & NIMMER, supra note 35, § 1.01[B][1][a], at 1-16 n.68.4; Smith v. Weinstein, 578 F. Supp. 1297, 1307 (S.D.N.Y. 1984) (“To the extent plaintiff rests his contract claim not on breach of the terms of the contract but on Weinstein’s having copied his property... it is of course preempted. 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.”).
48. 991 F.2d 426, 434 n.6 (8th Cir. 1993), cert. denied, 510 U.S. 861 (1993).
49. Id. at 434 n.6 (8th Cir. 1993); see also NIMMER & NIMMER, supra note 35, § 1.01[B][1][a], at 1-16 n.69.
51. NIMMER & NIMMER, supra note 35, § 1.01[B][1][a], at 1-12.
52. Id.
53. See id. at 1-17.
54. See id. at 1-19.
reproduction, adaptation, public distribution, etc. of works within the subject matter of copyright." He then combines this rather subjective "subterfuge" element with concerns over adhesion: "That situation typically unfolds when the 'contract' at issue consists of a 'shrinkwrap license' to which the copyright owner demands adhesion as a condition to licensing its materials." This line of reasoning should be contrasted with his comment on the decision in Acorn Structures, Inc. v. Swantz:

The district court found pre-emption, invoking the Sears/Compco holding that "state laws are pre-empted when their scheme of protection clashes with the objectives of the federal [copyright] laws." Given that Acorn confronted not a state law, but rather a freely-bargained contract among parties who understood its import, the court erred in finding pre-emption.

Thus, Professor Nimmer draws a distinction between freely bargained contracts and mass-market agreements, hinting that when questions of adhesion exist, the extra element of bargain, present in freely-bargained contracts, is missing. As mentioned earlier, injecting a section 301 preemption analysis at this point only obfuscates the issue of enforceability under contract law and ignores the necessary efficiency of adhesion contracts.

A different situation arises when the contract in question is not enforceable under state contract law, due to issues of unconscionability or the like, but nevertheless is enforceable under a state law addressing software licensing generally. In such a situation, preemption under section 301 may be appropriate, since the extra element of agreement, even an implied agreement, is missing. This scenario arose in Vault Corp. v. Quaid Software Ltd., in which the Fifth Circuit Court of Appeals held that the contract in question would not be enforceable under basic contract principles due to adhesion issues but would be enforceable, if not for preemption, under Louisiana’s software licensing statute. Clearly, however, it would not be proper to use such an example to support the proposition that agreements, otherwise enforceable as adhesion contracts under state law, sometimes may be preempted by section 301. In this regard, it is important to note that UCITA purports to leave in place basic notions of contract law; it does not attempt to render enforceable those agreements that otherwise would not be enforceable due to issues of

55. Id.
56. Id. (emphasis added).
58. NIMMER & NIMMER, supra note 35, § 1.01[B][1][a], at 1-17 n.71.
59. 847 F.2d 255, 270 (5th Cir. 1988).
60. See id. at 270.
unconscionability, public policy, or the like. Thus, shrinkwrap and clickwrap agreements held enforceable under UCITA should not be preempted under section 301 of the Copyright Act.

In addition to the basic "extra element" argument against preemption under section 301, two other arguments against preemption exist. First, the legislative history of section 301 renders questionable the ability of section 301 to preempt state contract law. For example, the National Car Rental court relied on the following language from the House committee report to the Copyright Act: "Nothing in the bill derogates from the rights of parties to contract with each other and to sue for breaches of contract." Although Congress eventually removed the language that specifically exempted contract claims and other specific state law claims from the preemptive effect of section 301, the court found that congressional intent weighed more heavily in favor of nonpreemption of contract claims:

The facts surrounding the deletion of [section] 301(b)(3) suggest Congress did not intend to reverse the presumption of non-preemption for the examples initially included in [section] 301(b)(3). Instead, it appears that certain members of the House were concerned about the subsequent addition of the tort of misappropriation to the list of non-preempted causes of action, and suggested deletion of the specific examples in order to prevent confusion about the scope of preemption. The better view is that the legislative history suggests a congressional intent not to preempt breach of contract actions.

Second, the following argument proffered by Judge Easterbrook in ProCD deserves consideration:

Rights "equivalent to any of the exclusive rights within the general scope of copyright" are rights established by law—rights that restrict the options of persons who are strangers to the author. Copyright law forbids duplication, public performance, and so on, unless the person wishing to copy or perform the work gets permission; silence means a ban on copying. A copyright is a right against the world. Contracts, by contrast, generally affect only their parties; strangers may do as they please, so contracts do not create "exclusive rights." Someone who found a copy of [plaintiff's software] on the street would not be affected by the shrinkwrap license—though the federal copyright laws of their own force would limit the finder's ability to copy or transmit the application program.

61. See UCITA Draft, supra note 4, at Prefatory Note, § 211.
62. Whether such agreements nevertheless should be preempted under the Supremacy Clause is addressed infra Part IV.
64. Id. at 433-34.
65. ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1454 (7th Cir. 1996).
Judge Easterbrook concluded that the above distinction renders contract rights inherently different from rights created under copyright law and, therefore, not subject to section 301 preemption. Interestingly, the Reporter's Notes to the original UCC Article 2B Draft also relied on this argument to support its conclusion that section 301 generally should not preempt contracts. The Reporter's Notes, however, stated the proposition more succinctly: "[A] contract deals with the relationship between parties to an agreement, while property law in the Copyright Act deals with interests good against persons with whom the property owner has not dealt."  

Nevertheless, this argument appears vulnerable on at least two fronts. First, it assumes that shrinkwrap licenses do not create rights against the world, when, in fact, they attempt just such a result by purporting to bind anyone who uses the software. On a theoretical level, however, the argument retains some attraction, since a contract claim could be brought only against parties to the agreement. Thus, if someone indeed found an unlabeled diskette containing software, and if, upon installation, a licensing agreement did not appear on screen, the user of the software would be bound only by the constraints of intellectual property law. Second, Professor Netanel attacks this argument by maintaining that Judge Easterbrook "blithely eluded the argument that standardized contracts that systematically proscribe user copying of public domain material may frustrate the social policy behind copyright law's delicate balance of incentive and access."  

This attack, although considerable, addresses preemption under the Supremacy Clause analysis and not under section 301. Thus, at least with respect to preemption under section 301, Judge Easterbrook's argument remains theoretically intact. 

In light of the foregoing, shrinkwrap and clickwrap licenses should not be considered preempted under section 301 of the Copyright Act. If an adhesion shrinkwrap contract or contract clause is questionable due to issues of unconscionability or the like, the more appropriate approach is to analyze enforceability under basic contract principles, and then turn to copyright law if the plaintiff brings such an alternative claim. 

Nevertheless, as noted by Professor Netanel, some clauses, particularly those contained in standardized, mass-market agreements, may implicate the social-policy decisions underlying the Copyright Act. In such a situation, preemption analysis under the Supremacy Clause is warranted. Under this approach, the pertinent question becomes whether enforcement of certain provisions contained in software licensing agreements "stands as

an obstacle to the accomplishment and execution of the full purposes and objectives of Congress."

IV. LIMITATIONS ON COPYRIGHT RIGHTS AND THE SUPREMACY CLAUSE

A. The Balance of Copyright Law

The Copyright Act provides that the owner of a copyright has the right to reproduce the copyrighted work, to prepare derivative works of the copyrighted work, and to distribute copies of the copyrighted work to the public. Although Congress granted a broad range of rights to the copyright owner, it chooses to limit significantly those rights through the fair use doctrine, first sale rights, the idea/expression dichotomy, and other limitations. Since fair use is the objective of Congress that is most frequently cited as being blocked by shrinkwrap and clickwrap agreements, the following discussion focuses upon this limitation.

Section 107 of the Act provides a nonexhaustive list of factors to be considered in determining whether the fair use limitation should apply in a given case: the purpose and character of the use, the nature of the copyrighted work, the amount and substantiality of the portion used, and the effect of the use upon the potential market for or value of the copyrighted work. Some typical examples of fair use include reproduction for the sake of "criticism, comment, news reporting, teaching . . . scholarship, or research".

The predominate view in both case law and commentary is that the fair use doctrine, as well as the other limitations on the copyright monopoly, is intended to strike a balance between the incentive to create that is generated by the copyright owner's right to control an expressive work and the public benefit derived from the ability to make use of that work. As Professor Netanel notes:

Copyright law strikes a precarious balance. To encourage authors to create and disseminate original expression, it accords them a bundle of proprietary rights in their works. But to promote public education

73. See generally Netanel, supra note 35 (discussing various perspectives on the proper balance to strike between these competing interests); Karjala, supra note 7 (arguing that this balance should not be upset by the private reordering of contractual arrangements).
and creative exchange, it invites audiences and subsequent authors to use existing works in every conceivable manner that falls outside the province of the copyright owner's exclusive rights.

Professor Mark A. Lemley reaches a similar conclusion: "The intellectual property laws are decidedly instrumental in nature—they are written to achieve specific purposes . . . . [A]ll of the intellectual property laws reflect a series of compromises between different affected parties."75 Moreover, Professor Lemley sees this compromise as necessary to the achievement of a uniquely constitutional goal: "The Congress shall have Power . . . . To promote the progress of science and the useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."76 He observes that "[t]his is one of the few clauses in the [U.S.] Constitution which explicitly conditions a grant of power on the achievement of a goal."77 The fair use compromise created by Congress furthers the constitutional goal, for it allows authors and others to bring to market expressive works of potentially great public benefit that are made possible only through the "fair use" of another's expressive work.

The full purpose and objective of Congress is clear: to promote the progress of science and the useful arts by striking a balance between the copyright owner's ability to control expressive works and the public's interest in access to and limited use of expressive works. It follows, therefore, that state rights which upset this balance will be at odds with federal policy, indeed with a congressional attempt to fulfill a specific constitutional mandate. Thus, contract provisions that attempt to circumvent the doctrine of fair use, a key to this congressional balance, stand as obstacles to the full purpose of Congress and should be preempted under the Supremacy Clause. In this regard, it is important to note that, early in the drafting process, the potential for Supremacy Clause preemption was not lost on the NCCUSL, for in the Reporter's Notes to Article 2B, the reporter stated: "In some cases, preemption may arise under the federal constitutional Supremacy Clause."78 This language is conspicuously missing from the Reporter's Notes to UCITA.

Under general Supremacy Clause analysis, not under section 301, the distinction between two-party, bargained agreements and mass-market adhesion contracts becomes significant. A bargained agreement between

75. Lemley, supra note 70, at 1275.
77. Lemley, supra note 70, at 1275 n.159.
two parties poses little threat to the purposes of Congress for the following reasons: one can presume safely that such contracts are not likely to be widespread and that the parties (if they have similar bargaining power) have taken into account the fact that, absent a contract, the user would be entitled to fair use of a publicly available work, the purchaser of the software would also have a first sale right, and other issues related to copyright. However, mass-market adhesion contracts pose a much greater threat to the purposes of Congress for the following reasons: they purport to bind all who use the software; they are pervasive; there is great inequity in bargaining power; and consumers often do not understand the copyright issues involved. Thus, software companies frequently will be able to use such agreements to bind consumers to contracts that impinge upon limitations important to the balance struck by the Copyright Act. Although apparently reluctant to characterize this concern as a preemption issue, the Reporter's Notes to UCITA reach a similar conclusion in its discussion of "public policy invalidation":

A term or contract that results from an informed private agreement between commercial parties should be presumed to be valid . . . . On the other hand, terms in a mass-market license that prohibit persons from observing the visible operations or visible characteristics of software and using the observations to develop non-infringing commercial products, that prohibit quotation of limited material for education or criticism purposes, or that preclude a public library licensee from making an archival copy would ordinarily be invalid in the absence of a showing of significant commercial need.79

B. Common Terms and Preemption

Having determined that UCITA remains vulnerable to copyright preemption, the following discussion explores how the preemption question may become relevant to typical mass-market software licenses. Below are some common terms that appear in software licenses. They are presented to illustrate how software agreements may implicate fair use, as well as other limitations on copyright, such as the related limitation of reverse engineering and the first sale doctrine:

Software

You may install and use one copy of the SOFTWARE PRODUCT, or in its place, any prior version for the same operating system, on a single computer. The primary user of the computer on which the SOFTWARE PRODUCT is installed may make a second copy for his or her exclusive use on either a home or portable computer.80

80. Microsoft Office™ 4.2.1, *End User License Agreement for Microsoft Software*
You may [i]nstall the [s]oftware in a single location on a hard disk or other storage device of up to the number of computers indicated in the upper right-hand corner of this Agreement... [You may] [m]ake one backup copy of the [s]oftware, provided your backup copy is not installed or used on any computer... The primary user of each computer on which the [s]oftware is installed or used may also install the [s]oftware on one home or portable computer. However, the [s]oftware may not be used on the secondary computer by another person at the same time the [s]oftware on the primary computer is being used.81

Reverse Engineering

You may not reverse engineer, decompile, or disassemble the SOFTWARE PRODUCT, except and only to the extent that such activity is expressly permitted by applicable law not withstanding this limitation.

[Y]ou agree not to modify, adapt or translate the [s]oftware. You also agree not to reverse engineer, decompile, disassemble or otherwise attempt to discover the source code of the [s]oftware.82

First Sale Rights

You may not rent or lease the SOFTWARE PRODUCT... You may permanently transfer all of your rights under the [agreement], provided you retain no copies, you transfer all of the SOFTWARE PRODUCT (including all component parts, the media and printed materials, any upgrades, this [agreement], and, if applicable, the Certificate of Authenticity), and the recipient agrees to the terms of this [agreement]. If the SOFTWARE PRODUCT is an upgrade, any transfer must include all prior versions of the SOFTWARE PRODUCT.83

You may not rent, lease, sublicense or lend the [s]oftware or [d]ocumentation. You may, however, transfer all your rights to use the [s]oftware to another person or legal entity provided that you transfer this Agreement, the [s]oftware, including all copies, updates and prior versions... and all [d]ocumentation to such person or entity and that you retain no copies, including copies stored on a computer.84

1. Terms Restricting the Copying of Software

After a review of these clauses, it becomes clear that, when read in light of section 117 of the Copyright Act, many software licenses do not

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82. Microsoft Office®™ 4.2.1, supra note 80.
83. Adobe Acrobat®™ 3.0, supra note 81.
84. Microsoft Office®™ 4.2.1, supra note 80.
85. Adobe Acrobat®™ 3.0, supra note 81.
violate the fair use allowance to make copies.\textsuperscript{86} Section 117 of the Copyright Act provides:

\begin{quote}
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.\textsuperscript{87}
\end{quote}

Of course, if a software license attempted to create more narrow limits on the ability to make copies, such a clause should be preempted. The Ninth Circuit Court of Appeals reached an opposite conclusion; however, it based its decision on an overly narrow reading of the statute.\textsuperscript{88} It reasoned that section 117 requires the person making the copy to be "an owner of a copy," and since the user in that case was a "licensee," section 117 was not applicable.\textsuperscript{89} There are two problems with this argument. First, since nearly all software agreements are characterized as licenses, this approach would render section 117 moot. Second, it ignores the threat of preemption under a Supremacy Clause analysis, for not allowing the user to exercise those rights established under section 117 clearly would stand as an obstacle to congressional objectives.

2. Terms Restricting Reverse Engineering

Although software companies appear eager to comply with section 117, they have ignored precedent on the right of software users to reverse engineer.\textsuperscript{90} This right is not established by statute, but most courts agree that reverse engineering is protected fair use, at least under certain circumstances.\textsuperscript{91} Most of these decisions note that the right exists only to the extent that the reverse engineering is undertaken to utilize

\textsuperscript{87} 17 U.S.C. § 117 (1994).
\textsuperscript{88} See MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511, 518 n.5 (9th Cir. 1993); see also MERGES ET. AL., supra note 21, at 929 (noting that this reasoning would read "section 117 out of the Act altogether").
\textsuperscript{89} MAI Sys. Corp., 991 F.2d at 518 n.5.
\textsuperscript{90} Reverse engineering is the process by which software developers decompile software to determine how it operates and how to develop new software that is compatible with the software which is being reverse engineered.
\textsuperscript{91} See Lemley, supra note 70, at 1247 n.31.
uncopyrightable material. Nevertheless, such activity often could result in
the creation of new and useful software products. Clearly, in light of the
constitutional goal of promoting the progress of science and the useful arts
through the balance established in the Copyright Act, a prohibition of such
activity would stand as an obstacle to the full purpose of Congress. Thus,
under the Supremacy Clause analysis, such restrictions on reverse
engineering should be preempted. Indeed, the Microsoft™ clause on
reverse engineering all but concedes this point with its caveat that reverse
engineering is allowed when "expressly permitted by applicable law
notwithstanding this limitation."\(^92\)

3. Terms Restricting First Sale Rights

Whether typical restrictions of first sale rights violate the Copyright
Act's mandates on the subject is not clear. The pertinent portions of section
109 state:

[T]he owner of a particular copy . . . lawfully made under this title . . .
is entitled, without authorization of the copyright owner, to sell or
otherwise dispose of the possession of that copy . . .

[U]nless authorized by the owners of copyright . . . in a computer
program . . . [no] person in possession of a particular copy of a
computer program . . . may, for the purposes of direct or indirect
commercial advantage, dispose of, or authorize the disposal of, the
possession of that . . . computer program . . . by rental, lease, or
lending, or by any other act or practice in the nature of rental, lease, or
lending. . . . The transfer of possession of a lawfully made copy of a
computer program by a nonprofit educational institution to another
nonprofit educational institution or to faculty, staff, and students does
not constitute rental, lease, or lending for direct or indirect commercial
purposes under this subsection.\(^93\)

Clauses that purport to limit a software user's right to resell the
software typically attempt only to ensure that the software user does not
retain copies of the software, which seems to be a reasonable limitation in
light of the analogous situation involving the sale of a book, magazine, or
the like. However, limitations on the right to rent or lend are more
problematic. Section 109(b)(1)(A) provides that such activity indeed is
prohibited, but only if its purpose is to compete directly or indirectly with
the copyright owner.\(^94\) Lending to a friend would appear to fall outside of
section 109's definition of prohibited conduct, but within the typical
software agreement's limitation. Thus, a tension between the Copyright Act
and state contract law again arises, and a preemption analysis becomes

\(^92\) Microsoft Office™ 4.2.1, supra note 80.
\(^94\) See id. § 109(b)(1)(A).
necessary.

The preceding paragraph illustrates how clauses may arise that are questionable in light of the fair use doctrine or other limitations of copyright but that do not blatantly offend such doctrines. When such provisions are challenged with a claim of preemption, inconsistent and unpredictable results may occur. In such a scenario, however, UCITA is of no assistance, for it remains neutral on the policy issues inherent in Supremacy Clause preemption.

4. Potential Solutions

In light of the current confusion over enforceability and preemption, solutions should be explored on a federal level. Allowing states to address the problem individually will only perpetuate inconsistency and inefficiency. One potential solution is to create a new, *sui generis* form of intellectual property protection for computer software. Indeed, commentators have presented many compelling arguments for such a solution: the need for shorter monopoly duration due to the "importance of improving existing programs" and the "relatively short commercial life of most application programs;" the clear importance of reverse engineering in the computer industry; and software vulnerability to "rapid imitation."95

Another possible solution is to amend the Copyright Act, an approach often employed by Congress. Congress passed early copyright statutes with primarily printed materials in mind; and as technology progressed, it amended copyright law accordingly. For example, with the advent of sound recordings, existing sections of the current Act were amended and new sections were added to address problems specific to that medium. Recently, sections have been added and amended to clarify many rights relative to computer software.96 However, further modification of existing copyright law is necessary if Congress retains copyright law as the primary protection for computer software. In light of the foregoing discussion, Congress should amend the Copyright Act to make clear that mass-market licenses are generally enforceable but may not attempt to limit fair use or reverse engineering rights.

V. THE FUTURE OF UCITA: IS IT RELEVANT?

UCITA implicitly comports with the Author's proposed approach to


the preemption issue (the rejection of section 301 preemption and the applicability of general Supremacy Clause preemption), but it underestimates the impact and scope of preemption under a general Supremacy Clause analysis. This issue raises the question of UCITA's viability.

Shrinkwrap and clickwrap licenses have three primary goals: to disclaim warranties, to limit liability for the breach of warranties, and to prohibit or limit the copying and use of material protected under the Copyright Act. If one concludes, as UCITA concedes, that preemption remains a viable option, anytime a mass-market licensing term goes beyond the confines of the rights granted under copyright law, a defendant could argue that the term should be preempted. If successful, the software licensor's "contract" rights would be limited to only those rights that are allowable under the Copyright Act. Some software manufacturers seem to concede this issue, as demonstrated by their use of language identical to that contained in pertinent sections of the Copyright Act, and by blanket concessions such as the following: "You may not reverse engineer, decompile, or disassemble the SOFTWARE PRODUCT, except and only to the extent that such activity is expressly permitted by applicable law notwithstanding this limitation." 97 In the end, the only remaining purposes for creating shrinkwrap and clickwrap agreements arguably could be to disclaim warranties and to limit liability for breach of warranty, thereby calling into question the efficacy of passing legislation as extensive as UCITA. If states begin to question the efficacy of UCITA, its future becomes questionable.

Of course, one could argue that shrinkwrap and clickwrap agreements serve additional purposes beyond the most obvious three mentioned above. First, one could argue that they serve an informational function, that is, to make explicit what the copyright owner considers to be its rights under copyright law. 98 Although this purpose arguably is significant, it also could be accomplished by a statement, on the packaging or on screen, that does not purport to be a binding agreement. Second, one could argue that clauses contained in shrinkwrap agreements may go beyond the typical rights created under copyright law without obstructing the full purposes of Congress, thereby allowing the software producer to create useful and important limitations beyond the basic precepts of copyright. However, the

97. Microsoft Office™ 4.2.1, supra note 80.
98. Indeed, it appears that some software manufacturers concede that many clauses are merely informational, through their adoption of language identical to that of the Copyright Act or through other caveats based explicitly upon intellectual property law. See supra note 92 and accompanying text.
success of this argument depends on how broadly one reads the full purpose of Congress in the realm of copyright law. It seems that such scenarios would be rare indeed if one considered the “full purpose of Congress” with regard to copyright law to be the precise balance struck by the rights and exceptions established in the Copyright Act and case law interpreting that Act.

Another obstacle to UCITA’s future is the vehement opposition it has received from many different sources.\textsuperscript{99} Indeed, a particularly unprecedented development occurred recently when fourteen state attorneys general voiced opposition to UCITA in a letter to NCCUSL.\textsuperscript{100} Such widespread refutation of UCITA’s approach could cause states to question further its efficacy.

Although shrinkwrap and clickwrap agreements may serve some limited purposes beyond placing limits on the reproduction and use of software, those purposes are either questionable or may be accomplished without passing extensive legislation. This fact, combined with the widespread criticism of and opposition to UCITA, renders its future far from certain. Of course, one should not discount the lobbying power of software giants that have much to gain from the adoption of UCITA. Whether this influence is able to offset the criticism and arguable irrelevance of UCITA remains to be determined.

VI. CONCLUSION

Shrinkwrap and clickwrap agreements increasingly are being deemed enforceable, and UCITA stands ready to lend further support to that movement. Although such agreements should not be preempted under section 301 of the Copyright Act, preemption under the Supremacy Clause remains a viable option. Indeed, UCITA itself hints at such vulnerability.

Although many courts and commentators addressed the preemption issue through an amalgam of section 301 and a general Supremacy Clause analysis, doing so poses the threat of a decision similar to \textit{ProCD, Inc.}, in which the court ignored the fact that the agreement may have interfered with the objectives of the Copyright Act. Thus, when faced with an allegedly questionable shrinkwrap contract or clause, this Note proposes an inquiry that proceeds as follows. Analyze the agreement or clause under basic principles of contract law to determine enforceability. If it is not enforceable due to issues of unconscionability or the like, the owner of the

\textsuperscript{99} See Some Organizations That Have Opposed or Criticized UCITA, supra note 11. Some entities that have voiced opposition include consumer groups, writer and artist organizations, industry groups, and academics.

\textsuperscript{100} See UCITA Passes NCCUSL, supra note 13.
work is left with no recourse for protection other than intellectual property law such as copyright or patent law, thereby obviating the need for section 301 preemption analysis. If the clause is enforceable, one should turn to the Supremacy Clause analysis and discern whether enforcement would stand as an obstacle to the full objectives of Congress.

Although this approach is clearer than combining the two avenues to preemption, if Supremacy Clause analysis is necessary, the inquiry could become complex in application and, admittedly, may be prone to inconsistent results. Unfortunately, UCITA would not bring the law any closer to solving this problem, since it attempts to remain neutral on the policy issues inherent in the preemption question. Considering the economic importance of software use and development, consistency and predictability are a desirable goal. Thus, the most appropriate response to this issue is federal legislation not a patchwork of questionable state laws. In particular, Congress should amend the Copyright Act to make clear that mass-market licenses generally are enforceable, but may not attempt to limit fair use, reverse engineering rights, or other rights key to copyright law’s careful balance.