

CONTRACTING BEYOND COPYRIGHT:
PROCD, INC. v. ZEIDENBERG

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I. INTRODUCTION

In *ProCD, Inc., v. Zeidenberg*,¹ the United States Court of Appeals or the Seventh Circuit held that shrinkwrap licensing agreements² included with software products sold off the shelf are valid contracts under Article 2 of the Uniform Commercial Code ("U.C.C.") and that the Copyright Act does not preempt the enforcement of such contracts. Because the Seventh Circuit's result is contrary to that reached by the Third and Fifth Circuits,³ the federal courts are now split on the status of shrinkwrap licenses, an issue of considerable significance for the software industry and the subject of vibrant academic debate.⁴

The Seventh Circuit reached the correct result in finding shrinkwrap licenses generally valid contracts. Enforceable shrinkwrap licenses are

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1. 86 F.3d 1447 (7th Cir. 1996).

2. Shrinkwrap is the plastic wrapping encasing the boxes in which software is usually sold. Some such agreements purport to bind the purchaser with the breaking of the shrinkwrap seal to open the box — hence the term "shrinkwrap license." See *ProCD*, 86 F.3d at 1499. The terms "end-user licenses" and "mass marketed licenses" are synonymous. Typically, such licenses disclaim all express or implied warranties, prohibit decompilation and reverse engineering, and prohibit subsequent resale of the physical copy bought from the manufacturer. See *ProCD, Inc. v. Zeidenberg*, 908 F. Supp. 640, 650 (W.D. Wis.), rev'd, 86 F.3d 1447 (7th Cir. 1996); see also, e.g., Mark A. Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 S. CAL. L. REV. 1239, 1267-84 (1995); Maureen O'Rourke, *Drawing the Boundary Between Copyright and Contract: Copyright Preemption of Software License Terms*, 45 DUKE L.J. 479, 485 n.10 (1995); Lloyd L. Rich, *Mass Market Software and the Shrinkwrap License*, 37 COLO. LAW. 1321, 1321 (1994).

3. See *Vault Corp. v. Quaid Software Corp.*, 847 F.2d 255 (5th Cir. 1988) (holding that a state law declaring shrinkwrap licenses enforceable was preempted by the Copyright Act); *Step-Saver Data Sys., Inc. v. Wyse Tech.*, 939 F.2d 91 (3d Cir. 1991) (holding that the terms of a shrinkwrap license did not become part of the parties' sales agreement under U.C.C. § 2-207); see also *Arizona Retail Sys., Inc. v. Software Link, Inc.*, 831 F. Supp. 759 (D. Ariz. 1993) (treating a shrinkwrap license as a proposal to modify an existing sales contract under U.C.C. § 2-209 and holding it invalid without the express assent of both parties). It appears that *ProCD* is the first case to address both the U.C.C. and copyright dimensions of shrinkwrap license enforceability.

4. See *supra* note 2. In view of this outpouring of academic commentary, the volume of litigation has been surprisingly low. See *ProCD*, 908 F. Supp. at 650 (W.D. Wis. 1996). Note that a current proposal to amend the U.C.C. would make these licenses enforceable, thus disposing of the contract issue; the preemption issue, however, would remain unresolved. See generally Lemley, *supra* note 2, at 1259-63.

efficient and will not unduly burden software purchasers in a competitive market. The court was incorrect, however, in concluding that no contract rights are preempted by the Copyright Act. Because the shrinkwrap license in *ProCD* sought to prohibit the copying of material unprotected by the Copyright Act, the Seventh Circuit should have followed the district court's analysis and held the license preempted.

II. THE DISTRICT COURT DECISION

Software manufacturer ProCD brought suit in the United States District Court for the Western District of Wisconsin for injunctive and monetary relief against Matthew Zeidenberg, a purchaser of its Select-Phone CD-ROM product. SelectPhone is a database of over ninety-five million telephone listings compiled from around 3000 local telephone books.⁵ Zeidenberg acknowledged that he had copied the SelectPhone listings and uploaded them to the World Wide Web, where they could be accessed for a price.⁶ ProCD maintained that through these acts Zeidenberg had infringed its copyright in the software, violated the express provisions of the shrinkwrap license provided with the software, violated the Wisconsin Computer Crimes Act,⁷ and misappropriated its product. Zeidenberg argued that the uploaded data was not susceptible of copyright protection, the shrinkwrap license was invalid, and the Copyright Act preempted ProCD's state law claims.⁸ On cross motions for summary judgment, Chief Judge Crabb ruled in favor of Zeidenberg.⁹

A. Copyright Analysis

Chief Judge Crabb first ruled that Zeidenberg had not infringed ProCD's copyright by copying the SelectPhone data. In *Feist Publications, Inc. v. Rural Telephone Service Co.*,¹⁰ the Supreme Court held that an alphabetical arrangement of listings in a telephone book failed to achieve the modicum of creativity necessary for copyright protection. As here, the listings were copied and made available to the public.¹¹ ProCD

5. See *ProCD*, 908 F. Supp. at 643.

6. See *ProCD*, 86 F.3d at 1450.

7. WIS. STAT. § 943.70 (1996).

8. See *ProCD*, 908 F. Supp. at 643-44.

9. See *id.* at 644.

10. 499 U.S. 340 (1991).

11. See *id.* at 343. Both the plaintiff and defendant in *Feist* distributed their listings to the public for free; they charged a fee for yellow pages advertising and competed on that basis. See *id.*

did not attempt to distinguish *Feist*, and the court held that its listings were not protected by copyright.¹²

ProCD also argued that Zeidenberg had infringed by copying the SelectPhone software to his hard drive in order to upload the data. This software, which allowed the user to access and sort the SelectPhone data, was clearly protected by copyright.¹³ Chief Judge Crabb rejected ProCD's argument, however, in light of § 117 of the Copyright Act, which authorizes the user to copy the program insofar as such copying is an "essential step in the utilization of the computer program."¹⁴ Here, the accused copy was necessary if Zeidenberg used the software at all.¹⁵

B. Contract Analysis

Looking to Article 2 of the U.C.C. for guidance on the contract question,¹⁶ the district court entertained three possible approaches:

- (1) the shrinkwrap license constituted an offer subject to a right of inspection under U.C.C. § 2-206;
- (2) the terms were a written confirmation of a previously established sales contract under § 2-207; and
- (3) the terms were a proposed modification of the sales contract under § 2-209.¹⁷

12. See *ProCD*, 908 F. Supp. at 647. It was of no moment that ProCD had distributed its listings on CD-ROM rather than in the pages of a book. The Copyright Act of 1976 states: "[c]opyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, whether directly or with the aid of a machine or device." 17 U.S.C. § 102 (1994) (emphasis added).

13. See *ProCD*, 908 F. Supp. at 647.

14. 17 U.S.C. § 117 (1994), quoted in *ProCD*, 908 F. Supp. at 648. In consequence, Chief Judge Crabb deemed it unnecessary to decide whether the equitable doctrine of fair use may have authorized Zeidenberg to make an intermediate copy of SelectPhone to access its uncopyrighted elements. See *ProCD*, 908 F. Supp. at 650 (citing *Sega Enters., Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1520 (9th Cir. 1992); *Atari Games Corp. v. Nintendo of Am., Inc.*, 975 F.2d 832, 843 (Fed. Cir. 1992)).

15. See *ProCD*, 908 F. Supp. at 648-49. Chief Judge Crabb thought it unnecessary to adopt the "broad proposition" upheld in *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 261 (5th Cir. 1988), that under § 117 purchasers may copy software for purposes not intended by the copyright owner. Zeidenberg had "used SelectPhone™ exactly as plaintiff intended: to access and download data." *ProCD*, 908 F. Supp. at 649. Chief Judge Crabb's characterization, however, may be a bit facile: one could just as easily say that Zeidenberg had not simply accessed data, but accessed data for distribution via the Internet. This formulation leads naturally to the conclusion that Zeidenberg had deviated from ProCD's intent as expressed in the license terms.

16. The court noted that the consensus view is to treat these "licenses" as sales of goods under the U.C.C. See *ProCD*, 908 F. Supp. at 651-52 (citing *Lemley*, *supra* note 2, at 1244 n.23).

17. See *id.* at 651.

ProCD argued for the first interpretation, asserting that Zeidenberg accepted the software by using it.¹⁸ Zeidenberg maintained that the latter two interpretations were controlling.¹⁹

The court adopted Zeidenberg's approach. Chief Judge Crabb noted first that payment for the software was sufficient to create a contract under U.C.C. § 2-204.²⁰ Because the shrinkwrap license terms were hidden from Zeidenberg at the time of sale, these terms were not a part of the original contract — the mere reference to the license on the outside of the package was insufficient to incorporate them.²¹ Instead, the court explained, the shrinkwrap license was either a proposed modification to the contract under § 2-209 or a written confirmation of the agreement under § 2-207.²² Though ProCD argued that Zeidenberg had waived his rights to inspection, revocation, and rejection under § 2-206, Chief Judge Crabb noted that this section contains no such rights.²³ While such rights can be found in §§ 2-602 and 2-608,²⁴ in her view these sections were inapposite: designed to protect the consumer from damaged or otherwise unsatisfactory goods, they do not include a right to inspect the terms of sale.²⁵

18. See *id.* It is unclear whether ProCD was arguing that acceptance of the offer or of the goods was contingent on use. Cf. *infra* note 54 (discussing the Seventh Circuit's distinction between these two concepts).

19. See *ProCD*, 908 F. Supp. at 651.

20. See *id.* at 652. This section states: "A contract for sale of goods may be made in any manner sufficient to show agreement, including conduct by both parties which recognizes the existence of such a contract." U.C.C. § 2-204(1) (1995).

21. See *id.* at 654 (noting that "[d]efendants did not receive the opportunity to inspect or consider those terms. Mere reference to the terms at the time of initial contract formation does not present buyers an adequate opportunity to decide whether they are acceptable"). The court distinguished *McCrimmon v. Tandy Corp.*, 202 Ga. App. 233 (1991) (enforcing a limited warranty available for inspection by the customer prior to purchase). See *ProCD*, 908 F. Supp. at 651.

22. See *ProCD*, 908 F. Supp. at 652. The court noted that it was following the general approach of both *Step-Saver Data Sys., Inc. v. Wyse Tech.*, 939 F.2d 91 (3d Cir. 1991) (relying on § 2-207) and *Arizona Retail Sys., Inc. v. Software Link, Inc.*, 831 F. Supp. 759 (D. Ariz. 1997) (relying on § 2-209).

23. See *ProCD*, 908 F. Supp. at 652; U.C.C. § 2-206 (1995). Section 2-206 states the general rule that an offer may be accepted in any manner reasonable under the circumstances and treats several details concerning offers to buy goods for immediate shipment.

24. These sections come into play once the sales contract has been struck. Under § 2-602, if the purchased goods fail to meet the contract specifications, the purchaser may reject them "within a reasonable time after their delivery or tender." U.C.C. § 2-602 (1995). The purchaser accepts the goods, however, by failing to reject them after a reasonable opportunity for inspection. See U.C.C. § 2-606(1) (1995). In this case, the seller's obligation is discharged unless the conditions specified in § 2-608 obtain, in which case the purchaser is allowed a reasonable time within which to revoke its acceptance. See U.C.C. § 2-608 (1995).

25. See *ProCD*, 908 F. Supp. at 652.

Proceeding under either § 2-207 or § 2-209 led to the same result.²⁶ Zeidenberg's continued use of the product did not constitute the express assent required under § 2-209 before a proposed modification will be incorporated into an existing contract.²⁷ Under § 2-207, terms later added to a contract between merchants are treated as proposals that become binding only if they do not materially alter the contract.²⁸ Chief Judge Crabb noted that the purpose of § 2-207 is to forestall the "battle of forms" that would result between contracting merchants bound by the last form issued. Because an actual battle of forms was unlikely in the instant context, § 2-209 afforded the preferable way to dispose of the issue. Nevertheless, the court declared the contested terms invalid under § 2-207,²⁹ stressing Zeidenberg's inability to bargain over, object to, or even review the shrinkwrap license prior to the software purchase.³⁰

C. Federal Copyright Preemption

The district court next ruled that § 301 of the Copyright Act³¹ precluded enforcement of the shrinkwrap license. Section 301 preempts any state law right satisfying two conditions. First, the right must attach to a work that "come[s] within the subject matter of copyright as specified by sections 102 and 103" of the Copyright Act.³² Second, it must be "equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106."³³ Chief Judge Crabb cited *Baltimore Orioles v. Major League Baseball Players*³⁴ for the proposition that "the 'subject matter of copyright' includes works that fit within the general subject matter of §§ 102 and 103, whether or not the

26. See *id.* at 655.

27. See *id.* (citing *Arizona Retail*, 831 F. Supp. at 759, 765-66).

28. See U.C.C. § 2-207(2)(b) (1995).

29. See *ProCD*, 908 F. Supp. at 655 (citing *Step-Saver*, 939 F.2d at 99). The court noted that "it is improbable to think that the drafters wanted consumers to be held to additional proposed terms in situations in which merchants were given protection." *Id.*

30. See *id.* *ProCD* also argued that Zeidenberg should have been bound by the license terms as to subsequent purchases of updated versions of the software, in view of his actual knowledge of the terms. The court rejected this argument as well, noting that "[e]ach software purchase creates a new contract." See *id.* at 655-56.

31. 17 U.S.C. § 301 (1994).

32. 17 U.S.C. § 301(a) (1994).

33. *Id.* Among the rights specified in § 106 are those of reproduction, distribution, and creation of derivative works. See 17 U.S.C. § 106 (1994).

34. 805 F.2d 663, 674 (7th Cir. 1986) (holding that the Copyright Act preempted a state law right of publicity claim in baseball players' television performances even though the performances were unprotected for lack of creativity).

works qualify for actual protection."³⁵ Under § 103, copyright protection extends to compilations of facts which have been "selected, coordinated, or arranged" in a sufficiently creative manner.³⁶ Because the Select-Phone data was such a compilation, and failed to achieve copyright protection only for lack of creativity, it met the first prong of the preemption test.³⁷ As to the second prong, Chief Judge Crabb noted that preemption applies unless there is "an extra element that makes the state law claim qualitatively different from the underlying copyright claim."³⁸ The contract claim, however, was "nothing more than an effort to prevent defendants from copying and distributing [ProCD's] data."³⁹ Thus ProCD's contract claim was identical in practicality to claims which would have arisen under § 106 had the SelectPhone arrangement enjoyed copyright protection.⁴⁰

III. THE SEVENTH CIRCUIT'S DECISION

The Seventh Circuit reversed and remanded. Writing for a unanimous three-judge panel, Judge Easterbrook held that the shrinkwrap license included with the SelectPhone software was binding on Zeidenberg and that the state law contract claim was not preempted by the Copyright Act.⁴¹

35. *ProCD*, 908 F. Supp. at 656. Chief Judge Crabb noted that "other courts have ruled similarly." *Id.* (citing *Harper & Row Publishers, Inc. v. Nation Enters.*, 723 F.2d 195, 201 (2d Cir. 1983), *rev'd on other grounds*, 471 U.S. 539 (1985); *Ehat v. Tanner*, 780 F.2d 876, 877 (10th Cir. 1985); *Nash v. CBS, Inc.*, 704 F. Supp. 823, 832 (N.D. Ill. 1989)).

36. 17 U.S.C. § 101 (1994) (defining the term "compilation"). Section 103(a) expressly includes compilations within the subject matter of copyright. See 17 U.S.C. § 103(a) (1994).

37. See *ProCD*, 908 F. Supp. at 657.

38. *Id.* at 657-58 (citing, *inter alia*, *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1164 (1st Cir. 1994); *Harper & Row Publishers, Inc. v. Nation Enters.*, 723 F.2d 195, 201 (2d Cir. 1983)).

39. *ProCD*, 908 F. Supp. at 657. The court noted the holdings of several tribunals that a claim for breach of contract can never be equivalent to a claim asserted under § 106. See *id.* (citing *National Car Rental Sys., Inc. v. Computer Assoc. Int'l, Inc.*, 991 F.2d 426, 433 (8th Cir. 1993); *Taquino v. Teledyne Monarch Rubber*, 893 F.2d 1488, 1501 (5th Cir. 1990); *Acorn Structures, Inc. v. Swantz*, 846 F.2d 923, 926 (4th Cir. 1988); *Trenton v. Infinity Broadcasting Corp.*, 865 F. Supp. 1416, 1429 (C.D. Cal. 1994)).

40. The court ruled that the misappropriation claim and the claim under the Wisconsin Computer Crimes Act were likewise preempted. See *ProCD*, 908 F. Supp. at 659-62.

41. *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1449 (7th Cir. 1996). The court did not pass on the other claims, viewing them as unnecessary to its decision. See *id.*

A. Contract Analysis

Judge Easterbrook agreed in the first instance with the principle that "[o]ne cannot agree to hidden terms."⁴² His conclusion, however, was that upon running the program for the first time, Zeidenberg was put on sufficient notice of the license terms, which were "splashed . . . on the screen" in such a way that Zeidenberg could not continue without indicating his acceptance.⁴³ Zeidenberg then acquiesced to the terms by continuing to use the software.⁴⁴

Judge Easterbrook found support for this result in economic analysis, opining that consumers are better off under a regime of enforceable shrinkwrap licenses.⁴⁵ He relied first on the familiar argument that standardized license agreements obviate costly bargaining over substantially identical terms in repeated transactions of the same type. Pointing to insurance contracts, airplane tickets, and concert tickets as familiar examples, he noted that "transactions in which the exchange of money precedes the communication of detailed terms are common."⁴⁶ Such transactions typically create enforceable contracts, because requiring express assent prior to payment would be inefficient.⁴⁷ Next Judge Easterbrook argued that, in the specific context of computer software, refusing to enforce such agreements would subject manufacturers to broad implied warranty terms and consequential damages. Such an arrangement would harm consumers by "driv[ing] prices through the ceiling."⁴⁸ Judge Easterbrook also indicated that, despite the individual software purchaser's evident lack of bargaining power, the competitive market was the proper mechanism to punish vendors for faulty software or unreasonable license terms.⁴⁹

42. *Id.* at 1450.

43. *Id.* at 1452.

44. *See id.*

45. *See id.* at 1451-52.

46. *Id.* at 1451.

47. *See id.* (citing RESTATEMENT (SECOND) OF CONTRACTS § 211 cmt. a (1981)).

48. *Id.* at 1452. Judge Easterbrook also noted that the contested restraint enabled ProCD to engage in price discrimination by charging commercial users of its product more than non-commercial users. Without the restraint, ProCD would be unable to prevent non-commercial arbitrageurs from purchasing the database at the low price and reselling it to commercial users, undercutting ProCD's commercial price. According to Judge Easterbrook, ProCD would then raise the non-commercial price of its database, harming those users who could no longer afford it. *See id.* at 1449-50.

49. *See id.* at 1453.

Turning to the U.C.C., Judge Easterbrook rested his analysis on § 2-204.⁵⁰ He noted that the vendor, as “master of the offer,” may specify the mode of acceptance; the buyer accepts by performing in a manner consistent with that specified.⁵¹ Judge Easterbrook held that by placing the software on the shelf, ProCD had proposed a contract, the acceptance of which was conditioned on use of the software. Had Zeidenberg found the license terms unacceptable, he could have rejected the offer by returning the product.⁵² Judge Easterbrook also reviewed the inspection and revocation argument rejected by the district court.⁵³ In his view, the right of revocation under U.C.C. § 2-602 extended to the terms of sale: “the terms of the license are conceptually identical to the contents of the package. . . . Terms of use are no less a part of ‘the product’ than are the size of the database and the speed with which the software compiles listings.”⁵⁴

B. Federal Copyright Preemption

Judge Easterbrook disagreed with the district court’s conclusion that the rights asserted by ProCD under state law were equivalent to those specified in § 106 of the Copyright Act.⁵⁵ While a copyright is “a right against the world,” the binding force of rights created under contract extends only to the participants in the agreement.⁵⁶ Thus, Judge Easterbrook reasoned, unlike the rights granted in § 106, contractual rights are not “exclusive rights” reserved by the author and, as such, can never be equivalent to rights granted by the Copyright Act.⁵⁷ To reinforce this point, Judge Easterbrook invoked the example of “everyday transactions in intellectual property”⁵⁸ — surely § 301 does

50. See *id.* at 1452. The Seventh Circuit thus adopted none of the three approaches suggested by the district court, though the analysis under § 2-204 is functionally quite similar to the approach under §§ 2-602, 2-606, and 2-608 rejected by the district court and discussed in dictum by the Seventh Circuit. See *supra* note 24; *infra* note 54. On the district court’s treatment of § 2-204, see *supra* note 20 and accompanying text.

51. See *ProCD*, 86 F.3d at 1452.

52. See *id.* at 1452-53.

53. See *supra* notes 23-25 and accompanying text.

54. *ProCD*, 86 F.3d at 1453. Judge Easterbrook was careful to note the distinction between acceptance of the offer under § 2-204 and acceptance of the goods under § 2-606. He indicated that § 2-204 was sufficient to dispose of the issue here; he addressed § 2-606 “only to show that . . . the U.C.C. consistently permits the parties to structure their relations so that the buyer has a chance to make the final decision after a detailed review.” *Id.*

55. See *id.* Thus the Seventh Circuit followed the approaches of the Fourth, Fifth, and Eighth Circuits. See *supra* note 39.

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

57. See *id.*

58. *Id.*

not preempt the agreements between a video rental store and its customers, despite the undisputed copyright in the rented material.⁵⁹

Judge Easterbrook also addressed the interplay between federal and state intellectual property protection outside the copyright context. The Supreme Court's decisions in *Kewanee Oil Co. v. Bicron Corp.*⁶⁰ and *Aronson v. Quick Point Pencil Co.*⁶¹ turned on the idea that enforcement of the state law rights in question removed no information from the public domain; the same consideration applied here. Furthermore, contractual limitations on software reverse engineering "serve the same procompetitive functions as does the law of trade secrets."⁶²

IV. DISCUSSION

Judge Easterbrook reached the correct result on the U.C.C. issue. His understanding of copyright preemption, however, proves too narrow, as the analysis below will reveal.

A. Contract Analysis

Shrinkwrap licenses are contracts of adhesion: they are offered to consumers on a "take it or leave it" basis with no opportunity to bargain for the contract terms.⁶³ As the varying approaches in the *ProCD* opinions illustrate, the U.C.C. is of little direct help in divining the circumstances under which such contracts are to be enforced. Thus to find the answer we must turn to broader considerations of public policy.

As usual, the main considerations in crafting an appropriate rule are economic efficiency and fairness. As Judge Easterbrook notes, a regime of enforceable shrinkwrap licenses produces the efficiency benefit of transaction cost savings.⁶⁴ Particularly in the realm of mass sales of

59. *See id.*

60. 416 U.S. 470 (1974) (holding that state trade secret laws — including nondisclosure agreements — are consistent with the federal patent laws because they allow third parties to discover and use the information through reverse engineering).

61. 440 U.S. 257 (1979) (holding that contracts to pay for intellectual property may be enforced even where federal law does not protect that property).

62. *ProCD*, 86 F.3d at 1455 (citing *Rockwell Graphic Sys., Inc. v. DEV Indus., Inc.*, 925 F.2d 174, 180 (7th Cir. 1991)).

63. *See, e.g., Lemley, supra note 2, at 1286-89; I. Trotter Hardy, Contracts, Copyright, and Preemption in a Digital World, 1 RICH. J.L. & TECH. 2, 29-32 (1995); David A. Rice, Public Goods, Private Contract and Public Policy: Federal Preemption of Software License Prohibitions Against Reverse Engineering, 53 U. PITT. L. REV. 543, 563-64 (1992).*

64. *See supra notes 45-47 and accompanying text; see also, e.g., Robert W. Gomulkiewicz & Mary L. Williamson, A Brief Defense of Mass Market Software License Agreements, 22 KUTGERS COMPUTER & TECH. L.J. 335, 341-46 (1996); Celeste L. Tito, The Servicewrap: 'Shrinkwrap' for Mass-Marketed Software Services, 13 COMPUTER LAW 19,*

products and services, standard form contracts save both producers and consumers time and money in negotiating individual contracts.⁶⁵ These efficiency benefits must be weighed against the potential for sellers to include hidden terms, not reviewable at the time of purchase, which unfairly burden the purchaser. It does not seem probable, however, that producers will include terms in their shrinkwrap licenses that are manifestly unfair. First, the courts are equipped to apply the usual tests of contract law to invalidate such terms.⁶⁶ Second, it is unlikely that in a reasonably competitive market consumers will continue to purchase software binding them to such unconscionable terms. As Judge Easterbrook notes, suppliers of computer software will compete with each other not only on the quality of the actual software program, but also on the terms of the license.⁶⁷ So long as consumers have adequate information concerning the license terms, those that have the best overall package (including the quality of the software, the price, and the terms of use) will attract more customers. Furthermore, even if a manufacturer could exploit imperfect information to foist unfair terms on consumers, its resulting reputation for unfairness would drive it out of business. Thus, no rational manufacturer facing a competitive market would attempt to include such terms in its license.⁶⁸

The legal rule should, of course, work to ensure that consumers have adequate information. In order to be bound by the contract, the consumer must know the exact terms of the license, or, at the very least, enjoy the right to return the software after discovering undesired terms. Under Judge Easterbrook's formulation in *ProCD*, Zeidenberg could have rejected the contract by returning the SelectPhone program; because he failed to do so, he was bound by the contract. Thus, Judge

19 (1996).

65. See Rice, *supra* note 63, at 563 (noting that shrinkwrap licenses are a "rational and expedient response to the evolution of market conditions and arrangements; neither contemporary theory nor actual practice would render either the contracts or their specific terms unenforceable solely because they are contracts of adhesion.").

66. See, e.g., Gomulkiewicz & Williamson, *supra* note 64, at 345; 3 ARTHUR LINTON CORBIN, CORBIN ON CONTRACTS § 559A(B) (Supp. 1997); U.C.C. § 2-302 (1995) ("Unconscionable Contracts or Clauses"). Courts will refuse to enforce contract terms when they work oppressive burdens or unfair surprise on one of the parties in light of the circumstances. See, e.g., Wheeler v. St. Joseph Hosp., 133 Cal. Rptr. 775, 783 (Ct. App. 1976); U.C.C. § 2-302 cmt. 1 (1995). Judge Easterbrook noted that unconscionable terms in the shrinkwrap license context can be addressed through standard contract analysis. See *ProCD*, 86 F.3d at 1449.

67. See *ProCD*, 86 F.3d at 1453 (citing *Digital Equip. Corp. v. Uniq Digital Techs., Inc.*, 73 F.3d 756 (7th Cir. 1996)).

68. Of course the markets in computer software will rarely be perfectly competitive. Insofar as they deviate too far from the competitive norm, however, the problem is best dealt with by antitrust law.

Easterbrook's approach is sound, at least as to shrinkwrap licenses which do not implicate copyright preemption concerns.

B. Federal Copyright Preemption

The preemption issue — which is as steeped in policy considerations as the first question — is a special case of the familiar incentive-access problem of copyright law. Expanding the scope of copyright protection increases the economic value of the creative works to which it attaches. As the incentives of individuals to produce creative works increase, so does society's store of such works.⁶⁹ This is the animating rationale of United States copyright law; it is enshrined in the Constitution.⁷⁰ At the same time, however, the increased rights invariably limit the access of other parties to the use and enjoyment of these works, including the creation of new works drawing upon their copyrighted predecessors.⁷¹ In the extreme case, the constitutional goal of encouraging creativity would be utterly defeated if no one could enjoy its results. It is the difficult task of copyright law to balance the two competing goals of encouraging creativity and promoting access to works of authorship thus created.⁷²

The question in *ProCD* is the extent to which rights created under contract will upset the balance between these goals struck by the Supreme Court as a matter of copyright law in *Feist*.⁷³ On the one hand, *ProCD* presents what appears to be a particularly onerous "free rider" problem: databases are very expensive to create and very easy to copy.⁷⁴ Absent some form of protection, the price of databases will tend to be driven down to the cost of reproducing them, and database creators will be denied a return on their investments. The contractual "quasi-copyrights" to which manufacturers have turned in response are clearly less expansive than true copyrights — they are powerless to prevent free riding by those who have obtained a copy of the program without

69. See Glynn S. Lunney, Jr., *Reexamining Copyright's Incentives-Access Paradigm*, 49 VAND. L. REV. 483, 492-95 (1996).

70. See U.S. CONST. art. I, § 8, cl. 8 (empowering Congress "[t]o 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"); see also, e.g., Jeremy Waldron, *From Authors to Copiers: Individual Rights and Social Values in Intellectual Property*, 68 CHI.-KENT L. REV. 841, 848-49 (1993) (noting that "the Constitution stipulates that authors' rights are created to serve the social good").

71. See Lunney, *supra* note 69, at 495-98.

72. See *id.* at 485.

73. *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340 (1991).

74. Indeed, Judge Easterbrook states that the cost of creating and updating *ProCD*'s database exceeded \$10 million. See *ProCD*, 86 F.3d at 1449.

purchasing it from the manufacturer.⁷⁵ Nevertheless, because such use will necessarily be rare,⁷⁶ shrinkwrap licenses can significantly ameliorate the free rider problem. On the other hand, the Supreme Court was aware of this free rider problem when it disavowed "sweat of the brow" as the touchstone of copyrightability in *Feist*.⁷⁷ The courts have not been consistent on the issue whether federal copyright laws preempt these quasi-copyright contracts.⁷⁸ To find the answer, we must view these contracts in the light of *Feist*, refracted through the lens of § 301.

Recall that copyright preemption poses two discrete legal questions.⁷⁹ As to the first question, both courts in *ProCD* agreed that fact compilations, even if unprotected for lack of creativity, nevertheless fall under the subject matter of copyright and thus within the ambit of § 301.⁸⁰ This result is undoubtedly correct. If states were free to remove unprotected works of authorship from the public domain, the preemption clause would have little meaning.⁸¹ This result is also consistent with the language of the House Report.⁸² As to the second criterion, however — that the legal or equitable right asserted must be equivalent to one of the exclusive rights under §106 of the Copyright Act — Judge Easterbrook's analysis is not as convincing. His argument is that, because copyright operates against the world whereas contracts bind only the parties, no

75. See *ProCD*, 86 F.3d at 1454.

76. The only way it is likely to arise, apart from illegal copying, is if the purchaser from the manufacturer sells or gives copies of the program to a third party. The manufacturer could probably prevent such transfers by retaining ownership of the physical medium on which the copy is stored. Furthermore, merely running the program — which requires the computer to load a copy of it into RAM — may constitute copyright infringement unless the § 117 exemption applies. See *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993). Section 117 by its terms applies only to "the owner of a copy" of the program; mere possessors cannot claim the benefit of the exemption. 17 U.S.C. § 117 (1994). Whether a subsequent possessor of the copy is an owner for purposes of § 117 will not always be an easy question. See generally David Nimmer, *Brains and Other Paraphernalia of the Digital Age*, 10 HARV. J.L. & TECH. 1, 21-22 (1996).

77. See *Feist*, 499 U.S. at 349-50.

78. Some courts have held such contracts preempted. See, e.g., *Vault Corp. v. Quaid Software, Ltd.*, 847 F.2d 255 (5th Cir. 1988); *American Movie Classics Co. v. Turner Entertainment Co.*, 922 F. Supp. 926, 931 (S.D.N.Y. 1996); *Wolff v. Institute of Elec. & Elec. Eng'rs, Inc.*, 768 F. Supp. 66 (S.D.N.Y. 1991). Compare the cases cited in note 39, *supra*, in which the contracts were enforced.

79. See *supra* text accompanying notes 32-33.

80. See *ProCD*, 86 F.3d at 1453; *supra* notes 34-37 and accompanying text.

81. See 1 DAVID NIMMER & MELVILLE B. NIMMER, *NIMMER ON COPYRIGHT* § 101[B][2], at 1-42.2 to 1-44.1.

82. See H.R. REP. No. 94-1476, at 129-33 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5747 ("As long as the work fits within the general subject matter categories of section 102 and 103, the bill prevents the States from protecting it even if it fails to achieve Federal statutory copyright because it is too minimal or lacking in originality to qualify, or because it has fallen into the public domain.").

right under a contract can be equivalent to a right under the Copyright Act, and therefore no contract term can be preempted by § 301.⁸³ Yet because federal law is always broader in application than state law, no state law would be preempted on a rigorous application of this idea.⁸⁴ Otherwise, it is difficult to see where to draw the line circumscribing equivalent state rights.⁸⁵

A more meaningful approach would apply § 301 by examining the act giving rise to the breach of contract and asking whether *that act* could give rise to a claim under § 106.⁸⁶ In *ProCD* the answer is undeniably affirmative; thus the contract there would be preempted. The alternative would allow individuals to contract beyond copyright — that is, to use the mechanism of contract to restrict access to what Congress has made available to everyone.⁸⁷

Judge Easterbrook's concerns about the perverse results flowing from a proposal such as this are unfounded. For instance, he asks rhetorically whether a student may sell his unrestricted LEXIS access to a law firm.⁸⁸ The unstated suggestion is that the answer must be "no" under any sensible scheme of law, but "yes" under a rule favoring Zeidenberg. This suggestion, however, is incorrect. The action that breaches the contract here is the student's grant of access to the law firm,

83. See *ProCD*, 86 F.3d at 1454.

84. For instance, a state law prohibiting the copying of non-creative fact compilations would bind only those users of the work to whom it applied under the prevailing choice of law doctrine. Thus the law would be narrower in scope than federal copyright, just as contract rights are. Nevertheless, the hypothetical state law seems to be in the core of what § 301 proscribes.

85. Furthermore, Congress removed from the preemption clause a provision that would have excluded all contracts from preemption. See 122 CONG. REC. H10910 (daily ed. Sept. 22, 1976). This deletion supports the inference that at least some contracts may be preempted.

86. This formulation in terms of acts is consistent with the "extra element" test embraced by the district court. See *supra* notes 38-40 and accompanying text; *ProCD*, 908 F. Supp. at 658 (distinguishing *National Car Rental Sys., Inc. v. Computer Assoc. Int'l, Inc.*, 991 F.2d 426 (8th Cir. 1993), on the ground that "the plaintiff [in that case] did not claim that the defendant had improperly reproduced, distributed, or displayed the software, all of which would be claims that would have to [be] brought under federal copyright law").

87. In *Feist*, the Supreme Court suggested that Congress lacks the constitutional authority to protect non-creative works. See *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 346-47 (1991). This does not mean, however, that Congress is powerless to preempt state protection of such works. Rather, its authority to encourage authorship includes the power to preserve the store of public-domain facts on which all creative works must rely.

88. See *ProCD*, 86 F.3d at 1454.

which violates no right granted in § 106; thus the contract would not be preempted under the proposal offered here.⁸⁹

It could be argued that the proposed approach elevates form over substance. Perhaps there is no real difference between copying the information from LEXIS and selling it on the one hand, and providing the law firm with access on the other. On this view, the instant proposal may seem at least as arbitrary as Judge Easterbrook's approach. The response to this argument is twofold. First, any division between equivalent and non-equivalent rights will necessarily involve some degree of arbitrariness; nevertheless, the approach suggested here is consonant with the basic precepts of copyright. Copyright law is not concerned with the question whether a service such as LEXIS can charge for its use, nor is it concerned with the enforcement of contracts that protect the service. It is concerned with the underlying information. Second, closer scrutiny reveals that the two scenarios are not functionally identical. In the second situation, the costs of transmitting the information between the student and the firm will undoubtedly be higher. But the discrepancy between the costs of creation and reproduction is precisely what intellectual property protection in general seeks to offset. Forcing the copier to use the higher cost method of access seems a fair compromise between allowing copyright protection or its equivalent to attach — in opposition to the combined mandate of *Feist* and § 301 — and allowing no protection whatsoever.

V. CONCLUSION

It remains to be seen whether the courts will arrive at a consensus on the issue of shrinkwrap license enforceability. The Seventh Circuit reached the correct result as to contracts which do not seek to prevent copying; moreover, despite the contrary approaches of *Step-Saver*⁹⁰ and *Arizona Retail*,⁹¹ the current proposal to amend the U.C.C. is encouraging.⁹² Yet four circuits now adhere to Judge Easterbrook's unduly narrow view of copyright preemption.⁹³ The incentive-access dilemma is a difficult and inevitable problem of copyright protection. By allowing individuals to contract beyond copyright, the Seventh Circuit failed to

89. What the hypothetical does illustrate is that the proposed scheme fails to solve the free rider problem. Such a solution, however, is for Congress and not the courts to fashion. Note that a bill creating sui generis database protection has been proposed as an amendment to Title 15. See H.R. 3531, 104th Cong. § 4 (1996).

90. *Step-Saver Data Sys., Inc. v. Wyse Tech.*, 939 F.2d 91 (3d Cir. 1991).

91. *Arizona Retail Sys., Inc. v. Software Link, Inc.*, 831 F. Supp. 759 (D. Ariz. 1993).

92. See *supra* note 4.

93. See *supra* notes 39 & 55.

recognize that it is the province of Congress, and not individuals, to strike the appropriate balance.

