Shrinkwrap Licenses: Consequences of Breaking the Seal

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INTRODUCTION

In the last 50 years, computer software has evolved from custom designed programs printed on punch cards for use with huge, million-dollar mainframes into retail items available in the mass market at affordable prices for individual consumers to use with their personal computers. The law, however, has played tortoise to technology's hare—it remains to be seen whether legal forms will develop to appropriately resolve the multitude of problems posed by the advent of computer technology. One such problem is the status of shrinkwrap licenses.

Shrinkwrap licensing represents an attempt by software manufacturers to provide greater protection for their products than currently afforded under pure copyright protection. Pur-
chasers of mass produced software encounter shrinkwrap licenses as the list of fine print terms expressed in complicated legalese which the user is expected to read (though more likely will ignore) prior to using the product. Often, the terms are printed on an envelope within the actual purchased package which contains the software diskettes. The user may constructively assent to these terms by opening the flap of the envelope. Another way a purchaser can consent to the licensing terms is by breaking a plastic seal which tightly fits the software package,

336 (1996) (discussing how end user license agreements as “EULA”s and shrinkwrap licenses afford greater protection for software manufacturers); Kemp, supra note 1, at 90-94 (noting that software manufacturers are trying to protect their proprietary rights in their computer programs); Lemley, supra note 3, at 1239 (recognizing software vendors' attempts, through license provisions, to “compel their customers to adhere to more restrictive provisions than copyright ... law would require”).

5 See Lemley, supra note 3, at 1241 (explaining that theoretically purchasers will read license terms before using software); see also Kemp, supra note 1, at 91 (detailing simplicity of copying computer programs stored on floppy disks and noting that there is no accurate method to determine how much software is illegally copied for personal use). A typical term of a shrinkwrap license is one that limits the warranties of the software in an attempt to avoid liability for incidental or consequential damages. See Lemley, supra note 3, at 1245; see also Step-Saver Data Sys., Inc. v. Wyse Tech., 939 F.2d 91, 105-06 (3d Cir. 1991) (finding that warranty disclaimer could not be incorporated into parties agreement). Some shrinkwrap licenses even attempt to limit software users’ rights that would otherwise be permitted under copyright law. See Lemley, supra note 3, at 1246-47. Generally these are the types of provisions that raise questions of preemption and, therefore, may be unenforceable. See Vault Corp. v. Quaid Software Ltd., 847 F.2d 255, 268-70 (5th Cir. 1988) (invalidating statute which upheld validity of software licenses, as directly preempted by section 117 of Copyright Act).

6 See Gomulkiewicz & Williamson, supra note 4, at 339-40. When a computer manufacturer has pre-loaded software onto a computer, acceptance of the license agreement is often expressed by confirming to conduct as indicated in text displayed on the computer next to the power switch. The text usually states that “by turning on the machine you assent to the terms of the license agreement.” Id. at 340 (discussing license acceptance when software is pre-loaded on computer). Other manufacturers place the same type of notice on the computer's power cords. See id. at 330-41 (suggesting that plugging in power cord and booting up computer constitute acceptance of license).

7 See Vault Corp., 847 F.2d at 257 n.2. The license agreement in Vault Corp. was as follows:

[Vendor] is providing the enclosed materials to you on the express condition that you assent to this software license. By using any of the enclosed diskette(s), you agree to the following provisions. If you do not agree with the license provisions, return these materials to your dealer, in original packaging within 3 days from receipt, for a refund.

Id. In contract terms, such a proposed agreement constitutes a “reverse unilateral contract.” JOHN D. CALAMARI & JOSEPH M. PERILLO, CONTRACTS § 2-10 (3d ed. 1987).
hence the name "shrinkwrap."  

Courts have generally refused to recognize the terms of these licenses because the terms were not reviewable by the purchaser until after the price of the item had been paid, and therefore the terms were not part of the bargained-for exchange. Some courts have also invoked the Federal Copyright Act to preempt state enforcement of some shrinkwrap contract terms. Moreover, shrinkwraps have been held unenforceable as contracts of adhesion because very often users have no notice of the existence of the license, or of the fact that their conduct manifests assent to its terms. The sole exception to this general rule of non-enforcement of shrinkwrap licenses is the case of *ProCD v. Zeidenberg*. In *ProCD*, the Seventh Circuit enforced a shrinkwrap license, creating a split in the circuits with regard to the enforceability of shrinkwraps.

In an attempt to reconcile the law of shrinkwraps specifically, and to promulgate a set of rules governing commerce of intangible goods generally, the National Conference of Commissioners on Uniform State Laws (NCCUSL) is currently drafting a supplement to Article 2 of the Uniform Commercial Code. This supplement, entitled Article 2B-Licenses, aims to consolidate the law of shrinkwraps, and although not yet complete, is expected to be given to the states for ratification in late 1997. Thus, at

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8 See Lemley, supra note 3, at 1241 (discussing origin of term "shrinkwrap"); see also *ProCD*, Inc. v. Zeidenberg, 86 F.3d 1447, 1449 (7th Cir. 1996) [hereinafter *ProCD*] (noting that vendors of software prefer term "end user" license instead of "shrinkwrap" license).

9 See *Step-Saver*, 939 F.2d at 104 (finding that license terms were not part of bargained for agreement); see also Moore & Hadden, supra note 3, at 3-4 (suggesting ways to resolve absence of bargaining).

10 See *Vault Corp.*, 847 F.2d at 269-70 (finding Louisiana's License Act preempted by federal law).

11 See id. (upholding district court's finding that license agreement was contract of adhesion); see also Jane C. Ginsburg, *Putting Cars on the "Information Superhighway": Authors, Exploiters, and Copyright in Cyberspace*, 95 COLUM. L. REV. 1466, 1472 n.23 (1995) (defining shrinkwrap license as contract of adhesion).

12 86 F.3d 1447 (7th Cir. 1996).

13 See id. (reversing district court's decision that federal law prohibits enforce- ment of shrinkwrap licenses).

14 Compare *ProCD*, 86 F.3d at 1447 (upholding shrinkwraps as enforceable contracts by Seventh Circuit), with *Step-Saver*, 939 F.2d at 104 (invalidating of shrinkwrap terms by Third Circuit).

15 See AMERICAN LAW INSTITUTE AND NATIONAL CONFERENCE OF COMMISSIONERS ON UNIFORM STATE LAWS, UNIFORM COMMERCIAL CODE ARTICLE 2B LICENSES, 3 (Draft May 1997) [hereinafter DRAFT] (discussing purpose of Article 2 Supplement).
present, given the divergent case law and the unfinished status of the draft proposal, the law with regard to shrinkwraps is unclear.\textsuperscript{16}

This Note will discuss the development of case law concerning shrinkwraps, the rationales of the various courts deciding the issues, and the questions left unresolved by the judiciary. Next, this Note will focus on the portion of proposed Article 2B which attempts to provide a uniform test for the enforceability of shrinkwraps. Finally, this Note will point out the merits and shortcomings of the “2B” approach. Specifically, this Note will assert that, notwithstanding some minor improvements which could be articulated with respect to the definition of certain terms, proposed Article 2B provides a competent framework for analyzing the legal effect of shrinkwrap licenses.

I. DEVELOPMENT AND CRITIQUE OF SHRINKWRAP LICENSING LAW

A. Step-Saver Data Systems, Inc. v. Wyse Technology: Unenforceability of Shrinkwrap Licenses

The question of enforceability of a shrinkwrap license first\textsuperscript{17} came before the judiciary in \textit{Step-Saver Data Systems, Inc. v. Wyse Technology}.\textsuperscript{18} Step-Saver Data Systems (“Step-Saver”) was a value-added retailer of computer software and hardware systems.\textsuperscript{19} The company marketed a multi-user computer network comprised of a central computer, provided by defendant Wyse Technology, and several terminals linked through an operating system, provided by another defendant, The Software Link

\textsuperscript{16} See supra notes 9-14 and accompanying text (demonstrating existing division among circuit courts concerning enforceability of shrinkwrap licenses).

\textsuperscript{17} While other cases dealing with software licensing preceded \textit{Step-Saver}, see, e.g., \textit{Vault Corp. v. Quaid Software Ltd.}, 847 F.2d 255, 268-70 (5th Cir. 1988), the \textit{Step-Saver} court was the first to actually rule on the enforceability of a shrinkwrap software license. In \textit{Vault Corp.}, the Fifth Circuit held that a Louisiana statute permitting the enforcement of software license agreements was preempted by federal copyright law. \textit{Id.} at 270. Therefore, the court found that any licenses granted pursuant to the Louisiana law were unenforceable because they interfered with the copyright privileges granted to consumers by federal law. \textit{See id.} The court, however, was not called upon to decide the enforceability of the actual license agreement. \textit{See id.} at 255.

\textsuperscript{18} 939 F.2d 91 (3d Cir. 1991).

\textsuperscript{19} Specifically, Step-Saver sold systems for use in the offices of doctors and lawyers. \textit{See id.} at 93.
When Step-Saver began to receive complaints about its systems from its consumers, it sought assistance from the manufacturers of the hardware and software components of its systems. Unable to resolve the dispute amicably, Step-Saver brought suit against the manufacturers, alleging breach of warranty and intentional misrepresentation. TSL defended by claiming that the license agreement printed on the box-top of its software constituted the entire agreement between itself and Step-Saver. This license agreement disclaimed all product warranties by TSL.

The central issue before the Step-Saver court was the effect of the box-top license. The court, after initially noting that its analysis would be governed by the Uniform Commercial Code ("U.C.C.") held that the warranty disclaimers and remedy limi-

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20 See id. at 93-94.
21 See id. at 94.
22 See id.
23 See id.
24 See id. at 94-95.
25 Id. at 95-106 (discussing effect of box-top licenses).
26 See id. at 98. All of the parties to the suit agreed that the products sold constituted goods. See id. at 94 n.6. This is ironic since the primary reason for developing software licenses was to circumvent the effect of the first sale doctrine of copyright law. According to the first sale doctrine, once the copyright holder sells a copy of the copyrighted work to a third party, that third party may then sell or otherwise dispose of the copy without the copyright holder's consent. See 17 U.S.C.A. § 109(a) (West 1977) ("The owner of a particular copy ... lawfully made ... or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy ... ."); see also Bobbs-Merrill Co. v. Straus, 210 U.S. 339, 349-51 (1908) (explaining first sale doctrine). Thus, without a shrinkwrap license, purchasers of software could buy a copy of a computer program, and then lease or lend it to another without violating any copyright on the program. Since copying software is relatively easy, software producers were concerned that companies would form specifically to purchase copies of programs and lease them to consumers. Consumers could, instead of purchasing their own copy of the program, simply lease a copy of the program, and copy it. See Kemp, supra note 1, at 92-93 (detailing problems associated with software rental). This copying by the individual consumers would presumably infringe the copyright, but it would be impractical for the copyright holder to identify and sue each individual copier. See id. at 92 (stressing difficulty in enforcing copyright laws against individuals). Therefore, it would be in the software producers' best interest to sue the companies that were distributing the copies of the program to individual consumers, rather than the consumers themselves. The first sale doctrine, however, stands as a bar to successful suit against these software "rental" companies. By characterizing the original transaction between the software producer and the software company as a license instead of a sale, and by making the license personal and non-transferable, software producers hoped to avoid the reach of the first sale doctrine. See David L. Hayes, Shrinkwrap License Agreements: New Light on a Vexing
tations on the licensing agreement had not become part of the parties' agreement. In resolving the dispute, the court used section 2-207 of the U.C.C. in its analysis. Applying section 2-207, the court first concluded that the behavior of the parties indicated the existence of a contract. Thus, as the court stated, "th[is] dispute is ... not over the existence of a contract, but the nature of its terms," and therefore the court applied section 2-207 to determine the terms of the contract. The court held that the additional terms on the box-top were unenforceable for several reasons. First, the contract was sufficiently definite without

Problem, 9 COMPUTER LAW. 1, 1 (1992) (noting that computer companies elect to license, rather than sell, computer programs in attempt to avoid first sale doctrine). Questions remain, however, as to whether the use of such practices to circumvent the first sale doctrine would be statutorily preempted by the Federal Copyright Act or constitutionally preempted by the exclusive constitutional grant of authority over copyright issues to the federal government. See U.S. CONST. art. I, § 8, cl. 8 (vesting Congress with power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries"); see also Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141 (1989) (discussing preemption doctrine with respect to patent law). The irony is manifest in the fact that the transaction is called a license in order to avoid the effect of the first sale doctrine, but the licensor of this fictional "non-sale" transaction looks for relief to the U.C.C., which specifically governs sales.

27 See Step-Saver, 939 F.2d at 105.
28 See id. at 98-100. Section 2-207 of the U.C.C. provides:

Additional Terms in Acceptance or Confirmation.

(1) A definite and seasonable expression of acceptance or a written confirmation which is sent within a reasonable time operates as an acceptance even though it states terms additional to or different from those offered or agreed upon, unless acceptance is expressly made conditional on assent to the additional or different terms.

(2) The additional terms are to be construed as proposals for addition to the contract. Between merchants such terms become part of the contract unless: (a) the offer expressly limits acceptance to the terms of the offer; (b) they materially alter it; or (c) notification of objection to them has already been given or is given within a reasonable time after notice of them is received.

(3) Conduct by both parties which recognizes the existence of a contract is sufficient to establish a contract for sale although the writings of the parties do not otherwise establish a contract. In such case the terms of the particular contract consist of those terms on which the writings of the parties agree, together with any supplementary terms incorporated under any other provisions of this Act.

U.C.C. § 2-207 (West 1996).
29 See Step-Saver, 939 F.2d at 98. It is important to note that the finding of a contract was not based on the box-top license agreement, but rather on the conduct between the parties. See id.
30 Id. at 98; see McJunkin Corp. v. Mechanics Inc., 888 F.2d 481, 488 (6th Cir. 1989) (holding that where parties' behavior indicates existence of contract, section 2-207 governs its terms).
regard to the terms of the box-top license.\textsuperscript{31} Second, the additional terms did not become part of the agreement because the integration clause and the “consent by opening” language in the beginning of the licensing agreement did not expressly state that the seller would be unwilling to proceed absent the buyer’s acceptance of the additional terms.\textsuperscript{32}

The Step-Saver court also rejected the contention that the box-top license was enforceable because it manifested a course of dealing between the parties.\textsuperscript{33} Finally, the court was not persuaded by a public policy argument that “requiring software companies to stand behind representations concerning their products will inevitably destroy the software industry.”\textsuperscript{34} Rather, the court noted that the timing of the presentation of disclaimers to a purchaser was a relevant factor in determining the disclaimer’s enforceability.\textsuperscript{35} The court further noted that the dis-

\textsuperscript{31}See Step-Saver, 939 F.2d at 100. U.C.C. section 2-204(3) provides that “[e]ven though one or more terms are left open a contract for sale does not fail for indefiniteness if the parties have intended to make a contract and there is a reasonably certain basis for giving an appropriate remedy.” U.C.C. § 2-204(3) (West 1996). The court found that the essential terms (i.e. the goods involved, quantity, and price) were dealt with in the course of negotiations between the parties. See Step-Saver, 939 F.2d at 100. Thus, by definition, the terms in the box-top license were not essential to the contract. See id. The Step-Saver court also rejected the defendant’s (TSL) argument that the nature of the transaction, sale, or license and the warranties available were only mentioned in the box-top license. Id.

\textsuperscript{32}See id. at 103. The test adopted by the court to determine whether a writing constitutes conditional acceptance was whether such a writing requires the seller “to demonstrate an unwillingness to proceed with the transaction unless the additional ... terms are included in the contract.” Id. at 102. The court found that the integration clause and “consent by opening language w[ere] insufficient to constitute a conditional acceptance.” Id.

\textsuperscript{33}Step-Saver, 939 F.2d at 103. U.C.C. section 1-205(1) defines course of dealing as “a sequence of previous conduct between the parties to a particular transaction which is fairly to be regarded as establishing a common basis of understanding for interpreting their expressions and other conduct.” U.C.C. § 1-205(1) (West 1996). The court found that there was no course of dealing because repeated offers of a term without an expressed acceptance did not constitute acceptance of an additional term. See id. at 104. Thus, by sending Step-Saver several boxes of software with the licensing agreement included, TSL did no more than request that the terms be included. See id. Since there was never an acceptance on the part of Step-Saver, the terms were never included. See id. The court held that “the actions of TSL in repeatedly sending a writing, whose terms would otherwise be excluded under U.C.C. § 2-207, cannot establish a course of conduct between TSL and Step-Saver that adopted the terms of the writing.” Id.

\textsuperscript{34}Id. at 104.

\textsuperscript{35}See id. at 104-05. The Step Saver court stated that:

When a disclaimer is not expressed until after the contract is formed, U.C.C. § 2-207 governs the interpretation of the contract, and, between
claimer provision constituted a material alteration of the parties' agreement because it reallocated risk and, therefore, could not become part of the contract unless both parties had manifested assent to its incorporation.\(^{35}\)

The decision in *Step-Saver* represents the initial hesitancy of courts to grant acceptance of shrinkwrap licenses. However, the *Step-Saver* court's decision did not address enforceability of shrinkwraps in general, it only addressed whether the terms were enforceable as part of an overreaching sale agreement between the parties.\(^{37}\) In *Step-Saver*, the parties conducted their transactions face-to-face and had ample opportunity to discuss the terms of their agreement. Thus, the court did not need to decide whether a shrinkwrap license *per se* would be enforceable if it had constituted the only expression of agreement between the parties, and if the purchaser had no opportunity to negotiate the terms of the sale/license.

The holding of *Step-Saver*, therefore, offers little help when applied to licenses for mass produced software which impose standard terms, identical to every consumer, to be accepted by the consumer without the opportunity to negotiate.

As the software market changed from one of custom designed software for commercial use to one of mass marketed software sold in retail stores, the question of the enforceability of shrinkwraps as the sole expression of an agreement between the parties came to the forefront. It was left to the court in *ProCD, Inc. v. Zeidenberg*\(^{38}\) to decide this issue.

B. ProCD, Inc. v. Zeidenberg: Shrinkwraps Enforced

In *ProCD*, the Seventh Circuit directly addressed the status of shrinkwrap licenses. Specifically, the court held such licenses to be enforceable as long as they did not violate generally accepted principles of contract law and were not preempted by existing Federal Copyright Law.\(^{39}\)

In *ProCD*, a manufacturer of computer software ("ProCD,
In order to effectively market the software, ProCD, Inc. engaged in price discrimination. This practice involved licensing the software to commercial users at higher prices than those prices offered to private users. ProCD, Inc. could justify price discrimination because a commercial user would derive greater utility from the software by using it as a potential mailing or marketing list and, therefore, would pay more than a private individual whose use would be limited to personal interest. A problem arose, however, when Zeidenberg, a private user who paid a lower price for a limited use version of the software, made the database commercially available over the Internet through his own proprietary search engine.

ProCD, Inc. sued Zeidenberg in district court seeking an injunction against all activities proscribed within the shrinkwrap license packaged with the software. The shrinkwrap license was printed on the actual CD-ROM, the instruction manual, and appeared on the screen every time the program ran. Additionally, the license provided that if the user did not consent to its terms the user could return the software for a full refund. The district court denied the injunction finding that the terms of the shrinkwrap were unenforceable because they were preempted by Federal Copyright Law, and that there was no clear manifestation of assent upon which to enforce the terms at issue. From this denial, ProCD, Inc. appealed.

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The Seventh Circuit Court of Appeals held that the terms were not preempted by Federal Copyright Law, and that shrinkwrap licenses are generally enforceable so long as they do not violate established principles of contract law. In reaching its conclusion, the ProCD court discussed the dynamics of the software market and the need to preserve the feasibility of shrinkwrap licenses, so that mass market software ventures could be feasible. The court then turned to the U.C.C. to resolve the remaining issues.

1. The ProCD Court’s Treatment of Contract Issues

The Seventh Circuit disagreed with the district court’s view that the U.C.C. “cannot countenance the sequence of money now, terms later.” Instead, the ProCD court likened the nature of this transaction to that of other cases in which the specific terms of the bargain were not disclosed until after the sale. Specifically, the court discussed the price discrimination schemes and their benefit to consumers. The benefit of such schemes is that they give private users the ability to use powerful software at a reduced cost. According to the court, to compensate for the negligible amount of revenue derived from licensing to private users, software developers license similar versions of their software to commercial users at greatly inflated prices. See id. at 1449-50. If a private user used the software commercially, such use would cause significant economic harm in the form of lost potential revenue to the software developer. See id. at 1449. This, in turn, would create either a disincentive to sell to private individuals or an incentive to sell to private individuals at a higher price in order to recover the costs of abuse of the licensing agreement. In addition, the court noted that the use of standardized shrinkwrap licenses permits an efficient means of mass production and distribution of the product without having to face the near impossible task of re-negotiating each individual transaction. See id. at 1450.

This view was also adopted by the drafters of Article 2B (discussed infra in section II-C). Generally Article 2B does not require that a consumer have notice of a term before paying for a product, but rather upholds the validity of licenses that give notice before commencing use of the product, or at some reasonable time thereafter. See U.C.C. § 2B-308(a) (proposed official draft 1997). The only time notice must be given prior to assent is if the term is a refusal term (i.e. a term that the vendor knows would cause a consumer to refuse to go forward with the transaction). See id. § 2B-308(b). If the term is a refusal term, it must be “clearly disclosed” prior to the consumer’s assent to the license. See id. § 2B-308(c). For further discussion of section 2B-308(c), see infra Part II-C.

germane to the transaction and of greater value to the consumer, could be placed. The ProCD court agreed that to do otherwise would require that certain terms, not of immediate interest to the average consumer, take up most of the space on the package.

The ProCD court treated the software license as a standardized contract, and it rationalized this characterization on the basis that the use of shrinkwrap licenses is fast becoming an accepted means of doing business of benefit to both buyers and sellers of mass produced software.

The ProCD court applied general contract principles and the U.C.C. to find that the license terms were enforceable. Specifically, U.C.C. section 2-204(1) was invoked to support the contention that "[a] contract for sale of goods may be made in any manner sufficient to show agreement." Therefore, the ProCD court maintained that "[a] vendor, as master of the offer, may invite acceptance by conduct, and may propose limitation on the kind of conduct that constitutes acceptance. A buyer may accept by performing the acts the vendor proposes to treat as acceptance." In ProCD, the vendor defined acceptance as the opening and use of the product. By so doing, the purchaser would be deemed to have accepted the terms of the license. Consequently, the court held that the shrinkwrap licenses contained in the software package were enforceable unless the terms were otherwise objectionable on general contract principles.

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54 See ProCD, 86 F.3d at 1451.
55 See id. (citing descriptions of system requirements, potential incompatibilities, standard warranty, and license information as examples of such terms).
56 Id.; see RESTATEMENT (SECOND) OF CONTRACTS § 211 cmt. a (1981) ("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."); see also E. ALLAN FARNSWORTH, 1 FARNSWORTH ON CONTRACTS § 4.26, at 310 (2d ed. 1990) (noting that "routine transactions" consist of standard forms that leave little room for negotiation between buyer and seller).
57 See ProCD, 86 F.3d at 1451-52 (explaining that to do otherwise "would drive prices through the ceiling or return transactions to the horse-and-buggy age"); FARNSWORTH, supra note 56, at 311 (stating that advantages of standardization to both parties include reduced costs).
58 ProCD, 86 F.3d at 1452 (citing U.C.C. § 2-204(1) (West 1996)).
59 Id.
60 See id.
61 See id.
62 See id. at 1454-55.
By so doing, the ProCD court granted shrinkwrap licenses a broad acceptance similar to that of other contracts, radically redefining their effect in the marketplace. 63

While this holding is an important first step in providing certainty in the mass software market, the ProCD court failed to follow through and articulate a sound policy in analyzing shrinkwrap licenses.

It is submitted that the ProCD court erred in three significant respects: (a) it failed to articulate a notice requirement as a prerequisite to enforceability; (b) it failed to take into account the intangible nature of the subject matter involved; and (c) it may have unduly given too much control to the software manufacturer by characterizing the vendor as “the master of the offer.”

(a) The Notice Element

Notice is an important requirement that is taken for granted in the ProCD decision. For example, applying the ProCD rationale as it stands, a licensor may insert unreasonable limitations into a shrinkwrap, and define the means of assent and user’s remedies without any requirement that the consumer have knowledge of how these limitations affect their right to use the software. Without explicit notice of terms that the reasonable consumer would regard as material or even of the existence of the shrinkwrap license, a consumer may be bound to terms contrary to the consumer’s reasonable expectations. Such a situation violates basic principles of contract law. 64 Furthermore, if vendors are not required to give notice of the existence of a license, they are likely to abuse their position since no disincentive exists to guard against the use of unreasonable terms. Vendors will maximize their own protection at the expense of the consumer’s ability to enter freely into a contract.

If notice is required, however, vendors will be sure to inform consumers of the existence of the license and of its terms. Failure to do so would frustrate the vendors’ purpose of protecting their intellectual property rights or even render the contract unenforceable. Furthermore, vendors will be less likely to include

63 See id. at 1450.
64 See FARNSWORTH, supra note 56, at 314-17 (explaining that requested terms without notice are not enforced because although they are part of offer they are not understood by offeree to be so). But see id. at 148 (stating that accepting offeree cannot escape liability by claiming lack of intention to be bound).
objectionable terms into their licenses, since consumers would have an opportunity to see the terms, and objectionable terms would impair the product's marketability. Thus, it follows that some form of notice requirement should be an important factor in a court's consideration of the enforceability of a shrinkwrap licensing scheme.

An argument that could be made in favor of the ProCD court's position of ignoring notice is that shrinkwraps are enforceable only to the extent they do not conflict with well-settled contract principles. Thus, if a term would be considered unconscionable in an ordinary contract, it would similarly be so in a shrinkwrap. According to this reasoning, whether the consumer has notice of the unconscionable term or not would be irrelevant, because the term would never be part of the contract. This argument, however, is flawed because it assumes that existing contract law can be applied with equal force to both tangible and intangible goods, and because it ignores the market dynamics of mass produced software.

(b) Software as an Intangible Good

Computer software is an intangible good which by its nature has properties strikingly different from those of a tangible good, such as a tractor. For example, intangible goods can exist in several places at the same time, and can be easily copied and disseminated without degrading the original. These qualities require rules distinct from those which govern tangible items. While the rules pertaining to intangibles may be similar to the rules governing non-tangible goods related transactions, they do not necessarily have to be so. For example, the particular ability of computer technology to provide mechanisms for enforcing licensing terms could allow new legal standards to be developed. These standards could reflect the specific and different nature of the contract which exists in the context of this new technology.  

65 An illustration would be if a software distributor included a term in a license which placed a time restriction on the use of the software and provided that the licensor may utilize any remedy to enforce the terms of the license. The developer may then insert an executable program which, upon checking the date and finding that the allotted time has expired, executes itself and erases the licensed software from the end-user's computer. Such a provision could almost certainly lead to abuse through overzealous self-help on the part of the licensor, yet to date there has been no judicial guidance as to whether such a term would be enforceable or not. But see U.C.C. §§ 2B-320 & 2B-620 (proposed official draft 1997) (allowing such electronic controls provided notice requirements are met). The analogy to such an action in a
For example, in the area of unconscionability there is a well-developed body of law with regard to the kinds of terms that are unconscionable in a standard contract transaction. In comparison, the law is a vacuum with regard to what kinds of terms are unconscionable in a computer context. Had the ProCD court addressed the issue of reasonable terms in a computer context, and not on general contract principles, its decision would have provided a more solid foundation to this new area of law.

(c) The Vendor as Master of the Offer

The ProCD court disregarded the fact that, in comparison to standard contracts, shrinkwrap licensing transactions are subject to an imbalance in bargaining power at contract formation. In a standard face-to-face transaction, the parties have the opportunity to negotiate terms in accordance with their expectations. However, in a shrinkwrap situation where most software is sold over-the-counter as a retail item, the purchaser has no contact at all with the software developer and therefore cannot negotiate terms. This disparity in bargaining power with respect to the opportunity to negotiate terms with the maker of the offer allows a software developer to include unreasonable, though not necessarily unconscionable terms which may frustrate the expectations of the end user. Consequently, the lack of opportunity to negotiate compounded with the lack of a notice requirement invites gross abuse of the shrinkwrap licensing system by the de-

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See U.C.C. § 2-302 (West 1996) (recognizing doctrine of unconscionability and providing courts with way to police against unconscionable terms). The U.C.C., however, does not define the term unconscionability, and provides only limited guidance as to the term's meaning. See Farnsworth, supra note 56, at 327. Case law has provided the following definition: "Unconscionability has generally been recognized to include an absence of meaningful choice on the part of one of the parties together with contract terms which are unreasonably favorable to the other party." Williams v. Walker-Thomas Furniture Co., 350 F.2d 445, 449 (D.C. Cir. 1965).

Aside from the possible procedural unconscionability of shrinkwrap licenses caused by the disparate bargaining power between the end-user and the consumer, there may be terms which are substantively unconscionable. In ProCD, neither party claimed that the terms of the license were unconscionable. ProCD, 86 F.3d at 1449. Therefore the court did not need to examine what types of terms may be troublesome.
s developer. These dynamics require that shrinkwraps be treated differently than other kinds of contracts.

2. **ProCD’s Treatment of Preemption**

   A second issue before the *ProCD* court was whether the term of the agreement limiting the database to non-commercial uses was preempted by federal copyright law. The district court held that even if state law should treat shrinkwrap licenses as valid contracts, certain terms of a contract would be preempted from state enforcement by the Federal Copyright Act. On appeal, the Seventh Circuit disagreed with the district court’s preemption analysis, and instead agreed with sister circuits in finding that the rights created by the contract terms were not equivalent to those under copyright law because “a simple two-party contract is not ‘equivalent to any of the exclusive rights within the general scope of copyright.’”

   The *ProCD* court based its conclusion on its understanding that since contracts only affect their parties, contracts do not

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63 Id. at 1447, 1453-55.
65 See id. at 1447-48. The district court in *ProCD*, though finding the contract term to be preempted, failed to adopt a sound rationale distinguishing the relevant aspects of the case at bar from cases in which the contract terms at issue were not preempted. *ProCD*, Inc., 908 F. Supp. at 655. Section 301(a) of the Copyright Act prevents state enforcement of legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103. 17 U.S.C. § 301(a) (1994).
70 The *ProCD* court noted first that several sister circuit court decisions supported the notion that rights created by contract are not equivalent and that “courts usually read preemption clauses to leave private contracts unaffected.” *ProCD*, 86 F.3d at 1454. The *ProCD* court drew its authority from three cases: *National Car Rental System, Inc. v. Computer Associates International, Inc.*, 991 F.2d 426 (8th Cir. 1993); *Taquino v. Teledyne Monarch Rubber*, 893 F.2d 1488 (5th Cir. 1990); and *Acorn Structures, Inc. v. Swantz*, 846 F.2d 923 (4th Cir. 1988).
71 *ProCD*, 86 F.3d at 1455. The *ProCD* court thought the activity to be different in kind because third party rights were not affected, and stated that “[c]ontracts ... generally affect only their parties; strangers may do as they please, so contracts do not create ‘exclusive rights.’ Someone who found a copy ... on the street would not be affected by the shrinkwrap license.” Id. at 1454. Thus the *ProCD* court considers these third party finders to be the only foreseeably affected third parties. This rationale is flawed considering the act’s far reach over all parties as well as the broad scope of the shrinkwrap license. Conceivably, the license would affect any third party attempting to use the software because, according to the license, by using the software one agrees to its terms. Thus, the reality is that the transaction is not as limited as the *ProCD* court concedes.
create “exclusive rights.” The ProCD court cited several instances in which contracts would not be preempted even though they touched upon the exclusive rights created by copyright law. For example, the court noted that trade secrets may be state enforced without being preempted by federal statute. As another example, the ProCD court noted that state laws may enforce contracts which require an individual to return a tape of a copyright protected film from a video rental store. In its analysis, the ProCD court limited the scope of the copyright protection section of the Copyright Act. The court found the scope of copyright preemption to be similar to preemption clauses present in statutes such as the federal regulations of air carriers, which prevent states from substituting their own regulatory systems for those of the federal government.

Although the ProCD court properly enforced the agreement, its treatment of preemption is wholly inadequate for providing the needed precedent on how to apply the preemption doctrine to shrinkwrap licenses, and it is an indication of the dangers of including certain terms in shrinkwrap agreements. The Federal

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72 Id. at 1454. However, the ProCD court stated that “we think it prudent to refrain from adopting a rule that anything with the label ‘contract’ is necessarily outside the preemption clause: the variations and possibilities are too numerous to foresee.” Id. at 1455.

73 See id. at 1454-55.

74 See id. at 1454. The ProCD court cited Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974), for the proposition that contracts involving trade secrets may be enforced because “they do not affect strangers’ ability to discover and use the information independently.” Id. The court went on to explain that if the 1976 amendments to section 301(a) of the Federal Copyright Act overruled Kewanee, making such contracts unenforceable, then “no one has noticed.” Id.

75 See id. at 1454.

76 See id. The Federal regulation on air carriers states that “a State ... may not enact or enforce a law, regulation, or other provision having the force and effect of law related to a price, route, or service of an air carrier.” 49 U.S.C. § 417-18(b)(1) (1997). Although the Constitution does not prohibit states from protecting intellectual property rights, state laws are preempted when Congress enacts explicit regulations intended to govern that particular aspect of commerce in its entirety. ProCD, 86 F.3d at 1455; see also Orth-O-Vision, Inc. v. Home Box Office, 474 F. Supp. 672, 683-84 (S.D.N.Y. 1979) (holding that HBO's New York State unfair competition claim was preempted by section 301(a) because it involved rights specifically protected by Federal Copyright Act).

77 It is the potential of shrinkwrap licenses to modify rights to intellectual property based on a state contractual claim that may bring state enforcement of a contract term into conflict with the federal scheme and thus trigger preemption. See Vault Corp. v. Quaid Software, Ltd., 847 F.2d 255 (5th Cir. 1988) (holding Louisiana statute which prohibited ‘reverse-engineering’ directly conflicted with Copyright Act and, therefore, was preempted); see also Carey R. Ramos & Joseph P. Verdon, Atten-
Copyright Act preempts any state law claims which arise from an attempt to enforce rights "equivalent" to copyright protection. For example, state laws that attempt to grant exclusive rights to information already within the public domain would conflict with the purposes of the federal scheme, and would therefore be preempted.

Rather than engage in a thorough preemption analysis considering the general enforcement of such adhesion contracts upon the aggregate market, the ProCD court considered only the industry viewpoint and ultimately justified limiting users' rights because it believed price discrimination to be beneficial to the software industry. While the commercial viability of shrinkwrap licenses is an important factor, this commercial concern is insufficient to supplant furnishing a legal mechanism through

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78 See 17 U.S.C. § 301 (1994) (defining scope of preemption by providing that "all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright ... are governed exclusively by" Federal Copyright Law).
79 See, e.g., Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 152 (1989). The purpose of copyright protection is not to safeguard any "natural rights of the author, but to promote free expression." See H.R. REP. No. 2222, 60th Cong., 2d Sess., pt. 1, at 7 (1909). The copyright clause of the Constitution authorizes Congress to provide for protection to promote a specific purpose. This public policy was explained in Mazer v. Stein, which stated:

The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in "Science and useful Arts." Sacrificial days devoted to such creative activities deserve rewards commensurate with the services rendered.

347 U.S. 201, 219 (1953); see also Maureen A. O'Rourke, Drawing the Boundary Between Copyright and Contract: Copyright Preemption of Software License Terms, 45 DUKE L.J. 479, 483-84 n.15 (1995) (discussing historical basis of copyright clause as primarily concerned with creating financial incentives for inventors).

Federal law may preempt a state statute if the "state law stands 'as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.'" California Fed. Sav. & Loan Ass'n v. Guerra, 479 U.S. 272, 281 (quoting Hines v. Davidowitz, 312 U.S. 52, 67 (1941)).
80 ProCD, 86 F.3d at 1449-50 ("To make price discrimination work, ... the seller must be able to control arbitrage.").
which to deal with preemption issues.81

Therefore, when considering the validity of shrinkwrap licenses, the courts should contemplate the effect of enforcing a particular term upon the entire market. In so doing, the courts should distinguish the type of subject matter to be protected in conjunction with the manner in which assent of the consumer is sought. Thus, by examining the substance of the agreement, a court may determine whether the lack of true assent, coupled with pervasive marketing of the product, attempts to create rights equivalent to the exclusive rights within the general scope of copyright. For example, terms which authorize limited use of federally granted rights are properly enforceable under state laws and may be enforceable within a shrinkwrap license assented to after purchase.82 However, those terms which attempt to limit use of public domain subject matter or subject matter not protected by copyright must be explicitly assented to at the time of purchase.83 By simply viewing the relationship as a contract between two parties, the ProCD court did not consider within its preemption analysis the effect of certain terms upon the interests of third parties and other indirect,84 yet inherent social costs.85

II. ARTICLE 2B: AN ATTEMPT AT CONSOLIDATION

In an effort to meet the demands of today's information based economy, the NCCUSL created a proposed amendment to the U.C.C. Article 2-Sales. This Article is entitled Article 2B-Licenses.86 The premise of Article 2B is that an information based economy requires different rules to govern commercial transactions than the tangible product based economy prevalent

81 Central to the Seventh Circuit's holding in ProCD is that the work at issue, a phone list database, required a substantial initial investment by ProCD Inc. to compile: it cost more than $10 million. ProCD, 86 F.3d at 1449.
82 See National Car Rental Sys. v. Computer Assocs., 991 F.2d 426 (8th Cir. 1993).
83 See supra note 71.
84 Id. But see James A. Eidelman & Carol R. Shepherd, Living Among Pirates: Practical Strategies to Protect Computer Software, 65 MICH. B.J. 284 (1986) (supporting use of shrinkwrap licenses); Kemp, supra note 1, at 111 (same).
85 The public derives certain benefits from the protection of creative works. To view shrinkwrap licenses solely as contracts would be to ignore a federally created statutorily supported distinction. See infra notes 108-12 and accompanying text.
when Article 2 was promulgated. The need for a new set of guidelines was justified by the special character of information based transactions, and their growing share of the gross national product. Article 2B proposes solutions to many of the new issues arising from electronic commerce, but one of its primary concerns is the enforceability of shrinkwrap licenses.

Under Article 2B, shrinkwraps are called mass market licenses, and their enforceability is covered by section 2B-308.

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87 See id. at 3-4 (preface to Article 2B Part 1).
88 See id. Because of the intangible nature of the product exchanged in information transactions, and the characteristic withholding of rights to certain uses of intangible products, the information industry evolved a different class of transactions to govern information transfer: the License. See id. at 5. A license is defined by section 2B-102(21) as:

[a] contract for transfer of rights in information which expressly conditions, withholds or limits the rights, whether or not the contract transfers title to a copy of the information. The term includes an access contract, data processing contract, and software contract. The term does not include a software contract that transfers ownership of the intellectual property rights in the software or the reservation or creation of a security interest in information.

Proposed Draft, supra note 86, at 43-44.

89 Software and related information technologies currently account for in excess of 4% of the gross national product.” Id. at 5 (commentary to Article 2B).

90 See id. § 2B-103 (defining how scope of Article 2B extends to licenses existing at time contract is formed, expected to come into being, or are to be discovered).

91 See Proposed Draft, supra note 86, at 23 (preface, lines 19-49).

92 Section 2B-308 provides:

(a) Except as otherwise provided in this section and Section 2B-309, a party adopts the terms of a mass-market license if the party agrees, including by manifesting assent, to the mass-market license before or in connection with the initial performance, use or access to the information.

(b) Terms adopted under subsection (a) include all of the terms of the license without regard to the knowledge or understanding of individual terms by the party assenting to the form. However, except as otherwise provided in this section, a term does not become part of the contract if the term creates an obligation or imposes a limitation that:

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

(2) conflicts with the negotiated terms of agreement.

(c) A term described under subsection (b) is part of the contract if the party that did not prepare the form manifests assent to the term.

(d) Subsection (b)(1) does not apply to a term that:

states a limit on the licensee's use of the information that would exist under intellectual property law in the absence of the contractual term; was disclosed in compliance with any federal or state regulation; or becomes part of the contract under provisions of this article.

(e) A term which is unenforceable for failure to satisfy a requirement of
This section provides that a shrinkwrap license is deemed enforceable so long as a user manifests assent to its terms. Manifestation of assent has two components under Article 2B: (1) the assenting party must have had an opportunity to review the terms of the license, and (2) the assenting party must have engaged in some affirmative conduct defined in the license as constituting assent. Section 2B-308 limits general enforceability by excluding terms which the licensor would know might cause an ordinary person to refuse the contract, or which are in contravention of prior negotiations of the parties. Subsection (c) of 2B-308 works in the other direction by providing that if a term which would otherwise be excluded is properly assented to, it becomes part of the contract. Subsection (d) operates as an exemption from the exclusion provisions of subsection (b) for terms which the licensor knows the licensee would refuse, but which

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this article, such as a provision that expressly requires use of conspicuous language or manifested assent to the term, is not part of the contract.

(f) In a mass-market transaction, unless otherwise agreed, an obligation or limitation that was reasonably disclosed, on the product packaging or otherwise, before payment of the license fee, or that was part of the product description, becomes part of the contract without manifestation of assent to a license or to a term containing the obligation or limitation.

(g) A mass-market license must be interpreted whenever reasonable as treating in a similar manner all parties situated similarly without regard to their knowledge or understanding of the terms of the record.

Id. § 2B-308.

A party can 'manifest assent' to a form or a term only if they previously had an opportunity to review it and its terms. Assent to unknowable terms is not effective. Beyond that, a party who had an opportunity to review the record and any specific terms for which assent is required, manifests assent if it engages in affirmative conduct that the record conspicuously provides will constitute acceptance of the record or of the particular term. Merely retaining the information or the record without objection is not a manifestation of assent. Also, a party's conduct does not manifest assent unless the record was called to the party's attention before the party acts. See id. at 26 (preface, lines 29-34).

See id. Section 2B-113 defines 'opportunity to review':

[the] opportunity to review a ... term [exists] if the ... term is made available in a manner to call it to the attention of the party or to enable the electronic agent to record the term: (1) before the acquisition of a copy of information; (2) before a transfer of rights; or (3) in the normal course of initial use or preparation to use the information or to receive the transfer of rights.

Id.

See id. § 2B-112 (defining 'manifestation of assent' as: "[a]fter having an opportunity to review the ... term under Section 2B-113, it: (1) authenticates ... or engages in other affirmative conduct ... and (2) had an opportunity to decline to authenticate ... after having an opportunity to review").
would nevertheless be binding under existing intellectual property law, for terms which are disclosed in compliance with state and federal regulations, and for terms which become part of the contract under other provisions of Article 2B.\(^7\) Subsection (e) excludes those terms which are unenforceable for failure to comply with any other part of Article 2B.\(^8\) Subsection (f) provides that if a term was reasonably disclosed prior to the payment of a licensing fee or was part of a product description it becomes part of the contract even if there was no manifestation of assent.\(^9\) Finally, subsection (g) provides that a mass market license must be interpreted as treating similarly situated parties in a similar manner without regard to their knowledge or understanding of the terms of the record.\(^10\)

A. Manifestation of Assent and the Notice Requirement, Section 308(a)

As is evident from subsection (a), section 2B-308 seems to adopt the ProCD rationale in enforcing shrinkwraps with one significant distinction. By incorporating the "manifesting assent" language, section 308 is characterizing the licensor as the "master of the offer" just as the ProCD court did. This is so because under section 112 of Article 2B, a person manifests assent if, after having an opportunity to review the licensing agreement, they engage in conduct which is defined by the licensor as constituting assent. Thus, by allowing the licensor to define the ultimate assenting conduct, Article 2B adopts the ProCD "master of the offer" rationale.

The Article 2B approach differs and improves the ProCD solution by incorporating a notice requirement as a prerequisite to a manifestation of assent. The effect of this requirement is to temper the power given to the vendor by requiring him to give the end-user clear notice of the terms of the license. Since the vendor knows that in order for the terms to be enforceable, the end-user must be able to see them (and the vendor must assume the end-user will see them), he is less likely to include patently objectionable terms. The provisions offer further protections by requiring otherwise objectionable terms to be conspicuously

\(^{7}\) See id. § 2B-308(d).
\(^{8}\) See id. § 2B-308(e).
\(^{9}\) See id. § 2B-308(f).
\(^{10}\) See id. § 2B-308(g).
noted and separately assented to in accordance with the manifestation of assent requirements set forth in other sections, in order to become part of the contract.

B. The Refusal Terms, Section 308(b)

Subsection (b) explicitly states that actual knowledge or understanding of the terms is irrelevant so long as an opportunity to review them existed. This is at odds with the general rule of contract law that a misunderstanding of terms precludes a finding of a manifestation of mutual assent. Typically, this situation arises when neither party had reason to know of the other’s misunderstanding or both parties shared a misunderstanding.

In the context of shrinkwrap licenses, there is no contact between the parties to permit a meeting of the minds. Thus, the developer cannot know what an end-user does or does not understand of the contract terms. It follows, therefore, that to avoid contractual obligations, an end-user could claim a misunderstanding of the terms and deny the existence of the contract for lack of mutual assent. Allowing the purchaser such an out would defeat the purpose of shrinkwrap licenses and bring the sale of intangibles outside of the scope of licensing and back into a sale-of-goods paradigm with the problematic implications of

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101 See id. § 2B-102(a)(6). Section 2B-102(a)(6) provides that:
(6) “Conspicuous” means so displayed or presented that a reasonable individual against whom or whose principal it operates ought to have noticed it or, in the case of an electronic message intended to evoke a response without the need for review by an individual, in a form that would enable a reasonably configured electronic agent to take it into account or react to it without review of the message by an individual. A term is conspicuous if it is:
(A) a heading in all capitals (e.g. NON NEGOTIABLE BILL OF LANDING) equal or greater in size to the surrounding text;
(B) language in the body or text of a record or display in larger or other contrasting type or color than other language;
(C) a term prominently referenced in the body or text of an electronic record or display that can be readily accessed from the record or display;
(D) language so positioned in a record or display that a party cannot proceed without taking some additional action with respect to the term or the reference thereto; or
(E) language readily distinguishable in another manner.
Id. § 2B-102(a)(6).


103 “The basic principle governing material misunderstanding is ... no contract is formed if neither party is at fault or if both parties are equally at fault.” Id. § 20 cmt. d.
the first sale doctrine. The purpose of the license is to define the rights retained by the vendor and those given to the end-user. Without the license agreement, the transaction is indistinguishable from a sale of goods where the consumer hands over money to a vendor, and takes home a product with full ownership rights and subject to the first sale doctrine.

For example, suppose a developer inserted a dialogue box containing a license agreement into his software. The software cannot be used without clicking on a button which says, “I agree to the terms of the license.” Embedded in the program would be a register which checks whether or not the button was clicked. If so, the program would execute; if not, the program would halt at the license agreement dialogue box. Under the existing opportunity to review rule, the agreement is binding whether or not the user actually read it. By contrast under the actual knowledge rule, the program may register that the license agreement was read, but the user may still claim lack of understanding or that he did not read the terms but just clicked through them. In order to make the contract binding, the developer would have to somehow prove that the user actually did read the agreement. This can be done in several ways: in house monitoring, witness testimony, or with as yet undeveloped technology. Notwithstanding practicality issues, the installation of a home monitoring system installed to record what is done in front of a computer screen raises significant right of privacy issues. Witnesses to events will typically be members of the user’s household or colleagues in employment. It is unlikely that either of these groups would be willing to testify to enforce an agreement against the user. Finally, the use of undeveloped technology poses equally undeveloped legal issues which cannot be resolved at this time.

tomary industry practices” requirement and become part of the agreement irrespective of whether the average licensee would object.

The other problem solved by the current version of subsection (b) is the incorporation of language regarding terms which there was no opportunity to review prior to the payment of the contract fee. The inclusion of this language clarifies the meaning of subsection (c), discussed below. Additionally, read in conjunction with subsection (c), the current version insures that a consumer is not inconvenienced by having to return a product after a substantial financial outlay because of a disagreeable term which is only disclosed after payment of the licensing fee.

C. Objectionable Terms Must be Separately Assented to, Section 308(c)

Subsection (c) allows objectionable terms to become part of a licensing agreement so long as they are separately assented to. This provision is an effective balance between the rights of vendors and end-users because it furthers the policy of freedom of contract while maintaining a safeguard against potential abuse by vendors by requiring clear disclosure and separate assent. Additionally, the present version of section 308(c) no longer contains a provision providing a “safe harbor” for terms that give no less rights than under a first sale.107 The removed provision integrated terms, which would otherwise be refusal terms, so long as they did not contravene the rights of licensees afforded under the first sale doctrine.

Section 2B-308(c) would insure that the expectations of the consumer are not frustrated by an objectionable term, and that the consumer is not burdened with having to remedy a problem that the vendor is in the best position to avoid by packaging the product in a way that conspicuously notes the term in question

107 The September 4, 1996 draft of section 2B-308(c) provided:
A term excluded under subsection (b) becomes part of the contract if: (1) the term creates rights for or restrictions on the licensee which give the licensee no fewer rights than would be given to a purchaser at a first sale under federal intellectual property law, or (2) the licensee manifests assent to the term.

U.C.C. § 2B-308(c) (Tentative Draft Sept. 4, 1996). The reasons cited for the removal of the “Safe Harbor” provision are that it was confusing, and that terms which are otherwise consistent with first sale doctrine, see supra note 104, may nonetheless be surprising terms requiring separate assent. See U.C.C. § 2B-308 Reporter’s Notes, at n.2 (Tentative Draft Sept. 4, 1996).
and allows for separate assent. It also protects the interests of vendors and manufacturers by allowing them to include terms which may be objectionable under subsection (b) so long as the consumer is given adequate notice of such terms, and manifests assent to them.

D. Federal & State Intellectual Property Law, Section 308(d)

Section 308(d) creates an exception to the general exclusion of refusal terms under subsection (b) for terms which simply restate limitations on the licensee's use of the information which already exist under intellectual property law. Thus, under subsection (d), a provision of a license which prohibits the copying of the information for commercial use by the licensee would become part of the contract, even if the provision were to be considered a "refusal term," since this limitation is akin to the one imposed by federal copyright law. Put another way, should a term of the contract that restates or modifies the exclusive rights already granted under patent or copyright laws be excluded under section 2B-308(b)(1), the otherwise excluded term would nevertheless become part of the contract under 2B-308(d)(1).\(^{108}\) Hence, subsection (d) succeeds in insulating existing federal protection from poorly drafted terms.

Unfortunately, as currently drafted, the provision's open-ended language fails to disclose that some terms may be preempted.\(^{109}\) By promoting wholesale adoption of terms without outlining the scope of terms that fall under the federal copyright scheme, the proposed revision encourages interference with the federal scheme.

Instead, section 2B-308(d) should state that only certain subject matter\(^{110}\) may be the object of limited use terms in an adhesion contract.\(^{111}\) Terms limiting use would only be valid if the

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\(^{103}\) According to the reporter's notes, this section is to "ensure that the process does not prejudice enforcement of terms that correspond to copyright or patent rights."\(^{Id.}\)

\(^{109}\) In an attempt to bring shrinkwrap licenses into conformity with federal intellectual property law, section 2-203 provides that a term becomes part of the contract where it "transfers rights or creates restrictions on the behavior of the licensee which would give the licensee no fewer rights than would be given to a purchaser at a first sale under federal intellectual property law." U.C.C. § 2-203(c)(1).

\(^{110}\) For instance, subject matter uncopyrightable or subject matter copyrightable but not falling within the public domain. See supra notes 77-85 and accompanying text.

\(^{111}\) See infra note 116 and accompanying text (illustrating scope of current ver-
subject matter is copyrighted otherwise, the term must be explicitly assented to at purchase and thereby fall within the purview of state law. Consequently, those uncopyrightable elements such as underlying ideas, procedures, processes, systems, methods of operation, concepts, principles, or discoveries which remain within the public domain once disclosed may not be protected under hidden terms of a shrinkwrap. Carefully drafted provisions could satisfy the broader public policy of encouraging innovation, without the chilling effects that restrictive terms of an adhesion contract could have. Consequently, properly designed shrinkwrap licenses could still serve a useful purpose without interfering with the federal scheme.

Subsections (d)(2) and (3) also preclude terms disclosed in compliance with state or federal regulations and terms which become part of the contract under another provision of Article 2B from being refusal terms. These exceptions serve to protect the use of conspicuous terms by manufacturers and vendors. Absent these enumerated exceptions, it may be argued that a reasonably disclosed disclaimer or limitation on damages would be a refusal term and should not come within a contract. The exclusion of such limitations could lead to potentially cataclysmic liability for manufacturers and vendors operating in the mass market. Consequently, the provisions of (d)(2) and (3) are necessary to successfully insulate manufacturers from far reaching liability.

E. Compliance With Other Provisions of Article 2B as a Condition of Incorporation, Section 308(e)

Subsection (e) of section 308 serves to exclude any term which fails to satisfy any other provision of Article 2B, such as a provision requiring use of conspicuous language or assent to a term. This subsection serves an important purpose by expressly requiring compliance with other parts of Article 2B in order for a term to be part of a contract. Without this provision, a licensor may look only to section 2B-308 to define the scope of

\[ \text{footnotes} \]

112 See infra note 116 and accompanying text (describing how U.C.C. § 2B-308(f) as currently drafted promotes terms that may restate or modify rights protected by copyright).

113 See id. § 2B-308(d).

114 See U.C.C. § 2B-308(d) Reporter's Notes, at n.10 (May 5, 1997 draft).

115 See id. § 2B-308(e).
enforceable terms without reference to other parts of Article 2B, such as definition provisions and notice requirements. This would confound the fundamental purpose of section 2B-308, which is to give reasonable notice to the licensee. The provision is therefore necessary for preservation of an equitable balance between the interests of the parties to the transaction.

**F. Terms Reasonably Disclosed Prior to Payment Become Part of the Contract, Section 308(f)**

This subsection provides that if a term or product description was reasonably disclosed to the consumer on the product packaging or otherwise prior to the consumer's payment of the license fee, such term becomes part of the contract.\(^\text{16}\) The most significant aspect of this provision is what it neglects to mention—namely, the manifestation of assent. Thus, under subsection (f), terms which are disclosed prior to the payment of a license fee do not require assent to become part of the contract. This seems to conflict with the provisions of subsection (a) which require that there be a manifestation of assent in order for a term to be included in a contract. There are several rationales which explain why subsection (f) does not occupy the field of subsection (a).

It can be said that the purchasing of the information constitutes assent to the terms reasonably disclosed on the packaging. Under this paradigm, the opportunity to review is present in the consumer's ability to examine the packaging of the product. The consumer manifests assent to the terms when he lays down his money.

A problem with this approach, however, is that it ignores the characterization of the licensor as "master of the offer." Under the "master of the offer" concept the licensor must define the conduct which constitutes a manifestation of assent. Thus, absent reasonably disclosed language stating that the purchase of the product manifests assent to the limitations and obligations contained on the packaging of the software, an argument can be made that the consumer did not actually assent to the terms but rather ignored them and purchased the item in spite of the terms.

A stronger means of reconciling subsections (a) and (f) may

\(^{16}\) See id. § 2B-308(f).
be to view them as applying to entirely different circumstances. Subsection (a) may be said to contemplate situations where the information or software is already in the possession of the consumer, but the terms and limitations were not disclosed to the consumer at time of purchase. In such circumstances it is rational to require the manufacturer to obtain the assent of the consumer before giving legal force to the terms of the manufacturer’s license since the purchaser did not have the opportunity to review the terms before purchasing the item.

By contrast, subsection (f) deals with situations where the terms of a license are disclosed prior to the tender of payment by the consumer. Thus, the consumer buys with adequate opportunity to review the terms, and is at the very least on notice of the potential liability which may arise if he chooses to violate them. It is submitted that it is less important for a manufacturer to obtain separate assent to the terms of his license if such license is disclosed on the packaging and the consumer is free to make a choice about whether or not to purchase the item and be bound by the terms of its license.

G. Interpretation of Terms of Mass Market Licenses, Section 308(g)

Subsection (g) provides that “a mass market license must be interpreted whenever reasonable as treating in a similar manner all parties situated similarly without regard to their knowledge or understanding of the terms of the record.”

The current language of this subsection replaces the language of former drafts which placed the burden of proving “customary industry practices” on the licensor. The elimination of the customary industry practices standard with respect to refusal terms, as discussed above, makes the question of who has the burden of proving industry practices moot. Instead, the current language provides a guideline for interpretation of standard forms.

III. SHRINKWRAPS UNDER ARTICLE 2B: A (MOSTLY) EFFECTIVE FRAMEWORK

Shrinkwrap licenses are an important means for the soft-
ware industry to effectively transact business in the mass-market where individual negotiation of licenses is impracticable. Article 2B closes some of the holes left open by the ProCD decision and provides much needed clarity and certainty in this area. It does so by introducing a sound notice requirement which demands an opportunity to review and some affirmative conduct manifesting assent. Additionally, it makes the notice requirement more stringent for unusual terms by requiring separate assent to such terms.

An important aspect of the Article 2B guidelines is an equitable balancing of interests among parties. Article 2B, in general, provides some guidelines relating to unconscionability. The key balance to be struck is between contractual rights and notice. Generally Article 2B provides that warranty disclaimers on mass market software are not unconscionable. Furthermore, Article 2B mandates electronic self-help in certain limited circumstances. The rules set forth by Article 2B are generally based on analogous provisions in Article 2 of the U.C.C. This “digital overlay” to existing contract law makes an effective foundation for the growth of the law in the electronic arena. Through this system, courts can address new questions of law and technology while basing their reasoning on well-settled principles of commercial law.

The scope of Article 2B, however, appears overly broad. This overbreadth may induce courts to fail to recognize that certain terms may seek copyright protection and therefore should be preempted. The one danger of the ProCD holding and the proposed U.C.C. amendments is that general acceptance of shrinkwrap licenses will promote wholesale protection in an industry where none is warranted. Copyright, patent, and trade secret laws and their associated jurisprudence are already available to offer significant legal protection for software. The broad coverage of the U.C.C. could be misinterpreted by courts which fail to

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120 See id. at 33 l. 19.
121 See id. at 30 l. 26.
122 See id. §§ 2B-320 & 2B-629. As long as there is notice to parties, use of electronic restriction, i.e. viruses, monitoring programs is allowed.
123 See id.
124 In addition, the nature of the technology provides its own form of protection.
examine whether the specific terms, when enforced in the aggregate, conflict with the federal scheme and should be preempted.

Complete protection is unwarranted as well as harmful to the public good. Due to the nature of software, the balance of rights is already tipped in favor of software manufacturers and additional protection would further exaggerate this imbalance. The ideas inherent in the software are hidden from the consumer in the form of low-level computer language which is only accessible through "reverse engineering" or "decompiling." The consumer's right to view the ideas contained in the software is made even more tenuous by courts' disagreement over the permissibility of reverse engineering under "fair use." Consequently, the disclosure of ideas to the public in exchange for granting copyright monopoly to manufacturers is minimal and access to the public domain elements of the software severely curtailed.

In fact, the wide use of these terms in mass-market licenses borders upon prohibited copyright misuse by attempting to expand the copyright holders' monopoly, and therefore should not be en-

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125 Software, by its nature, creates a unique situation in which the manufacturers are granted copyright protection but the public receives little benefit in exchange and retains few protected rights. Even normal use of the software may implicate copyright prohibitions and put consumers at risk. For example, use of the program requires a copy to be made in some form through the computer's memory. Such normal use without an additional license agreement has been held to be actionable. Even the right to adapt software to a consumer's particular use is questioned. See Marvin N. Bean & Richard J. Superfine, Section 117 - The Right to Adapt Into the Fourth Generation and the Source Code Generator's Dilemma, 12 J. MARSHALL COMPUTER & INFO. 537 (1994). The rights that consumers retain under the federal scheme are so limited that they seem only to exist where explicitly protected by the statutory exemptions of section 117, and through judicial activism. 126 See Atari Games Corp. v. Nintendo of Am., Inc., 975 F.2d 832 (Fed. Cir. 1992); Sega Enter. Ltd. v. Accolade, Inc., 977 F.2d 1510 (9th Cir. 1992); Vault Corp. v. Quaid Software Ltd., 847 F.2d 255 (5th Cir. 1988); Lotus Dev. Corp. v. Borland Int'l, Inc., 49 F.3d 807 (1st Cir. 1995), aff'd, 116 S. Ct. 804 (1996).

127 Although the copyright laws permit a near monopoly, through the protections inherent in the software industry, the retained rights and the benefits accrued to the public theoretically counterbalance the monopoly's harmful effects. However, the continued existence of monopoly power and its effect on market prices, despite the limited term of copyright protection, may be evidence that the protections garnered by the software industry are too strong. See Lemley, supra note 3, at 1274-79 ("The strength of the 'appropriate regime' established by the intellectual property laws in an industry depends on the extent to which free riding is constrained by federal law."); see also Thomas M. Jorde & David Teece, Innovation, Cooperation and Antitrust: Balancing Competition and Cooperation, 4 HIGH TECH. L.J. 1, 9 (1989). Some commentators have suggested a shorter term of protection for software patents. See Peter S. Menell, Tailoring Legal Protection for Computer Software, 47 U. PIT. L. REV. 1131 (1986).
Despite the public interest served by preventing state protection of public domain information, the ProCD court perceived the necessity of protecting software databases. While it is reasonable to protect these compilations by express contract so as not to deter such obviously useful projects, the ProCD court and Article 2B amendments fail to see how broad acceptance of such terms tend to create rights akin to copyright. In order to protect copyrightable subject matter that does not rise to the requisite level of creativity, an area expressly preempted by Congress, the appropriate remedy lies not with the courts but with the legislature.

CONCLUSION

The Article 2B amendments to the U.C.C. strike a reasonable balance among the conflicting interests with respect to shrinkwrap licenses. However, care should be taken to encourage conspicuous disclosure of non-standard terms as well as to discourage use of terms which could interfere with the Federal scheme when used in the shrinkwrap context.

*Thomas Finkelstein and Douglas C. Wyatt*

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128 Copyright in conjunction with adhesion contracts seems to be "attempting to use its copyright to obtain a patent-like monopoly over unpatented [goods]." DSC Communications Corp. v. DGI Techs., 81 F.3d 597 (5th Cir. 1996). Such copyright misuse raises antitrust issues that are beyond the scope of this paper.