The Shrinkwrap Snafu: Untangling the "Extra Element" in Breach of Contract Claims Based on Shrinkwrap Licenses

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I. INTRODUCTION

In the midst of the software boom, and with so much at stake, computer software developers scrambled to protect their products from blatant copying and unscrupulous takeoffs. Ultimately, they responded by imposing restrictive licenses (shrinkwrap licenses[1]) upon everyone who would purchase and use their computer software. The enforcement of these licenses has fueled a great debate. Courts and commentators alike have questioned whether these licenses strip federally granted rights from the public and bestow these rights upon software developers. Courts have yet to reach a consensus on whether shrinkwrap licenses, backed by state contract law, should be preempted by federal copyright law.

However, an analysis of § 301 of the Copyright Act,[2] read in light of the purposes of copyright law, shows that breach of contract claims based on shrinkwrap licenses should be preempted by copyright law. Courts denying preemption under § 301 distinguished copyright claims from contract claims by applying the "extra element" test.[3] Under this

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1. Software developers created "shrinkwrap" and "clickwrap" licenses in order to bind software users to nonnegotiable, strict terms of usage. Shrinkwrap licenses are printed on the plastic wrappers of computer software and opening the wrapper is considered assent to the contractual terms. Clickwrap licenses are disclosed during setup of computer software, and a user cannot complete installation of the software unless she agrees to the contractual terms. For purposes of this Comment, shrinkwrap and clickwrap licenses will be collectively referred to as "shrinkwrap" licenses.

Shrinkwrap licenses contain restrictions prohibiting the consumer from translating, decompiling, disassembling, or making backup copies of computer software, music, videos, or DVDs; also, the consumer may be prohibited from making the software compatible with other programs.

2. 17 U.S.C. § 301 (2000). Section 301 of the Copyright Act endows copyright law with power to preempt any other legal right that is equivalent to a right granted under copyright law. See *infra* Part III.A for an analysis of § 301.

3. The "extra element" test originated in the copyright arena in order to determine whether a right lies within the general scope of copyright law. If so, that right is preempted by § 301 of the Copyright Act. *See* Alcatel USA, Inc. v. DGI Techs., Inc., 166 F.3d 772, 787 (5th Cir. 1999). For a discussion of the extra element test, see *infra* Part III.A.

test, a contract claim is not equivalent to (and thus not preempted by) a copyright claim if the contract claim requires the accuser to prove additional elements superfluous to the copyright claim. Courts have found that shrinkwrap licenses are not preempted by improperly distinguishing the contract claim with the extra element of *bargain*—an element that is not present in shrinkwrap licenses because the consumer has no option but to accept the license or return the software to the developer. Preemption of shrinkwrap licenses is also proper because it does not leave software developers unprotected. Under the current test for fair use found in § 107 of the Copyright Act,[4] the economic interests of computer developers can be respected while allowing the public fair use of digital materials (digital fair use[5]). Further, the Digital Millennium Copyright Act[6] (DMCA) serves the interests of software developers by prohibiting the circumvention of technological measures that developers chose to employ in protecting their software.[7]

Precluding preemption of breach of contract claims based on shrinkwrap licenses presents significant problems. The copyright doctrine of fair use—which permits consumers to freely use copyrighted materials for limited personal, noncommercial purposes such as archival copying, developing interoperability, or modifying computer programs—will be eviscerated if copyright law wields no preemptive power over breach of contract claims based on shrinkwrap licenses. This problem arises because while fair uses cannot constitute copyright infringement, these same uses are not insulated against breach of contract claims.[8] Therefore, even though a particular use of copyrighted software is a fair use, this public right will not be a valid defense to a breach of contract

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4. The doctrine of fair use protects the public's right to freely use copyrighted materials "for purposes such as criticism, comment, news reporting, teaching . . . , scholarship, or research." 17 U.S.C. § 107. For example, a book critic is protected by the doctrine of fair use when she copies important passages from the book as part of her critique. Without the fair use doctrine, the author of the book would be able to hold the critic liable for copyright infringement and thereby suppress possibly negative critiques of the book.

5. It should be noted that the author uses "digital fair use" to refer only to the fair use of digital materials. These materials principally include computer software, which may be protected through encryption or some other means or may require the user to enter into a licensing agreement before installation or use.

6. Digital Millennium Copyright Act of 1998, Pub. L. No. 105-304, 112 Stat. 2860 (codified as amended in scattered sections of 17 U.S.C.), *available at* http://frwebgate.access. gpo.gov/cgi-bin/getdoc.cgi?dbname=105_cong_bills&docid=f:h2281enr.txt.pdf (last visited October 28, 2003).

7. *See* 17 U.S.C. § 1201(a).

8. *See id.*

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claim.[9] Thus, allowing breach of contract claims based on shrinkwrap licenses sets at naught the fair use doctrine and the purposes of Congress. By weighing the practical effects of the shrinkwrap licensing provisions against the purposes of copyright law, courts should be moved to invalidate such provisions.

This Comment begins by introducing the foundational principles of copyright law, including the copyright infringement standard, digital fair use, and reverse engineering, a category of fair use. Part II discusses several reasons why software developers may have been displeased with the protection available to them under copyright law, as well as the consequent advent of shrinkwrap licenses. Part III analyzes the shrinkwrap licenses under § 301 of the Copyright Act, concluding that breach of contract claims based on shrinkwrap licenses should be preempted by copyright law because these claims are substantively equivalent to copyright claims. Although some courts have distinguished breach of contract claims based on shrinkwrap licenses from copyright claims using the extra element test, these courts have inappropriately relied on the element of bargain, which is not present in shrinkwrap licenses. Part III asserts that conflict preemption is proper because shrinkwrap licenses contravene § 107 of the Copyright Act by eviscerating the fair use doctrine. Part IV argues that shrinkwrap licenses are unnecessary because copyright law, tempered by the fair use doctrine, adequately protects both the interests of the public and of the software developers. Finally, Part V concludes that preemption is not only proper under § 301 but is urged by the policy and goals of copyright law.

II. BACKGROUND

Copyright law protects copyrighted works from unscrupulous copying. Although courts and state legislatures have been very sympathetic to copyright holders, they have also placed limitations on the enforcement of copyrights, such as digital fair use. This limitation has arguably translated into rights for the public.[10] However, with the boom of the computer industry in recent decades, and a lagging judicial

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9. In a contract dispute involving copyrighted software, any resort to the doctrine of fair use is unavailing because it only provides an exception to copyright infringement claims. *See id.* § 107.

10. *See* Bateman v. Mnemonics, Inc., 79 F.3d 1532, 1542 n.22 (11th Cir. 1996).

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reaction,[11] copyright law became largely ineffective in protecting computer software.[12] Consequently, software developers and lawmakers alike sought remedies to copyright law's alleged weaknesses through state contract law (in the form of shrinkwrap licenses) and congressional action.[13] While these measures secured greater protection for computer software, they also triggered a dissolution of longstanding "rights" available to the public under the digital fair use doctrine. Part II.A introduces fundamental copyright law principles such as copyright infringement and digital fair use. Part II.B then discusses the climate surrounding copyright law in recent decades, the advent of shrinkwrap licenses, and congressional action taken to protect computer software.

A. Enforcement of a Copyright and the Fair Use Exception

With few exceptions, copyright law allows an individual to protect her copyrighted expression from unauthorized copying. Congress created such protection primarily to encourage the "Progress of Science."[14] The "Progress of Science" would be impelled by granting an exclusive right, or limited monopoly, to any individual who creates an eligible[15] and "original work[] of authorship fixed in any tangible medium of

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11. *See* Batya Goodman, Note, *Honey, I Shrink-Wrapped the Consumer: The Shrink-Wrap Agreement as an Adhesion Contract*, 21 CARDOZO L. REV. 319, 320 n.9 (1999) ("It still remains to be seen whether the law will develop to 'appropriately resolve the multitude of problems posed by the advent of computer technology.'" (quoting Thomas Finkelstein & Douglas C. Wyatt, *Shrinkwrap Licenses: Consequences of Breaking the Seal*, 71 ST. JOHN'S L. REV. 839, 839 (1977))).

12. *See* Steven Pepe, *Multimedia Computing: Copyright Law's "Last Stand,"* 12 TOURO L. REV. 143, 144 n.8 (1995), *available at* http://www.tourolaw.edu/publications/lawreview/vol12n1/pg143.html#RFn8 (last visited October 13, 2003).

13. Software developers' decision to resort to shrinkwrap licenses evidences a reliance on other areas of law in order to protect their interests. Additionally, the creation and encouragement of legislation in recent years, such as the DMCA and Uniform Computer Information Transactions Act (UCITA), evidences the interests of numerous groups to help the law catch up to the technological boom. *See infra* Part II.B.2.a.

14. Congress was given the necessary power by the Constitution to create a law that provided this incentive for copyright holders. Article I, Section 8, Clause 8 gives Congress the 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." U.S. CONST. art. I, § 8, cl. 8. In 1790, Congress exercised its power and adopted the first copyright act. 1 U.S. Stat. 124 (1790). Article I, Section 8, Clause 8 suggests that copyright law is founded in an economic rationale. *See* Maureen A. O'Rourke, *Drawing the Boundary Between Copyright and Contract: Copyright Preemption of Software License Terms*, 45 DUKE L.J. 479, 483 & n.15 (1995) (discussing the changing perspective of copyright law in America from an economic-based approach to the moralistic approach used in many foreign countries).

15. *See* O'Rourke, *supra* note 14, at 481 n.8 (enumerating the various statutory categories of copyrightable subject matter).

expression."[16] A copyright holder may find that enforcement of this limited monopoly can be very lucrative.

In enforcing a copyright, courts have developed a flexible standard which can be applied on a case-by-case basis. This standard considers the nature of the work, the allegedly infringing actions, and any possible defenses to the alleged copyright infringement. This section will discuss the standard of copyright infringement and the application of digital fair use in the infringement analysis.

1. Enforcing a copyright through an infringement claim

In order to establish a cause of action for infringement of a copyright, a copyright holder must prove several things. First, the copyright holder must prove that she complied with all applicable statutory formalities and owns a valid copyright.[17] Second, the copyright holder must show that an accused infringer actually copied "constituent elements of the work that are original."[18] However, the burden of proof on the copyright holder may be lower than showing *actual* copying because *legal* copying "typically may *be inferred* from proof of *access* to the copyrighted work and '*probative similarity*.'"[19]

Of course, the accused infringer may try to present evidence showing that the portion of the copyrighted work taken is not worthy of copyright protection because it lacks originality.[20] Additionally, the accused infringer could seek to justify the use of the copyrighted work as a fair use under 17 U.S.C. § 107, as described in the following section.

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16.   17 U.S.C. § 102(a) (2000).

17.   Feist Publ'ns, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 361 (1991). "In any judicial proceedings the certificate of a registration made before or within five years after first publication of the work shall constitute prima facie evidence of the validity of the copyright and of the facts stated in the certificate." 17 U.S.C. § 410(c).

18*.   Feist*, 499 U.S. at 361.

19.   Eng'g Dynamics, Inc. v. Structural Software, Inc., 26 F.3d 1335, 1340 (5th Cir. 1994) (emphasis added) (quoting Plains Cotton Coop. Ass'n v. Goodpasture Computer Serv., Inc., 807 F.2d 1256, 1260 (5th Cir. 1987)).

20.   The requirement for originality of copyrighted works is found in Article I, Section 8, Clause 3 of the Constitution.

2. *The advent of fair use*

Originally established in *Folsom v. Marsh*[21] in 1841, the doctrine of fair use generally provides that certain uses of a copyrighted work may not infringe if the uses create a significantly greater public benefit. This exception has been important for educational institutions, libraries, and various other individuals that use copyrighted works in areas such as teaching, comment, criticism, and scholarship.[22]

The doctrine of fair use, officially codified in 1976[23] as 17 U.S.C. § 107, sets out four factors to be considered in determining what constitutes a fair use: (1) the commercial nature, character, and purpose of the use; (2) the nature of the copyrighted work; (3) the amount and substantiality of the copyrighted work that was used; and (4) "the effect of the use upon the potential market for or value of the copyrighted work."[24] Courts use the factors set out in § 107 to determine whether or not an individual has engaged in a fair use of a copyrighted material.[25] For example, public libraries and schools may successfully invoke the

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21. 9 F. Cas. 342, 348 (C.C. Mass. 1841) (No. 4901) (establishing fair use based on the "nature and objects of the selections made, the quantity and value of the materials used, and the degree in which the use may prejudice the sale, or diminish the profits, or supersede the objects, of the original work").

22. See § 107 of the Copyright Act, which states as follows:

Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright.

17 U.S.C. § 107. Many such groups have noticed the weakening of the fair use doctrine and have called for the preservation of fair use. *See, e.g.*, CETUS, FAIR USE OF COPYRIGHTED WORKS, *available at* http://www.cetus.org/fairindex.html (last visited October 28, 2003); *see also* NOW PLAYING: YOUR PRIVACY RIGHTS, *available at* http://www.protectfairuse.org/consumers/now_playing.html (last visited October 28, 2003).

23. *See* H.R. REP. NO. 94-1476, at 66 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5658, 5679–80.

24. 17 U.S.C. § 107; *see also* FAIR USE OF COPYRIGHTED MATERIALS, *available at* http://www.utsystem.edu/ogc/intellectualproperty/copypol2.htm#test (last visited October 28, 2003) (stating that the inquiry should consist of the following four questions: "1. What is the character of the use? 2. What is the nature of the work to be used? 3. How much of the work will you use? 4. What effect would this use have on the market for the original or for permissions if the use were widespread?").

25. *See, e.g.*, Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539 (1985); Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417 (1984).

fair use defense where the character of their use is academic, educational, and noncommercial.[26]

3. Reactions to the doctrine of fair use

The digital fair use exception evokes contradictory reactions. At first blush, the thought that a purchaser may legally make archival copies of copyrighted music, software, or DVD's may be uncomfortable. Such activities present the risk of permanently impairing the value of the copyrighted material, destroying the monetary investment the material represents, and ultimately discouraging development of and investment in such materials.

Clearly, where a use in question does not qualify as a fair use, such as copying and distribution of music or software, the copyright holder can seek judicial intervention and appropriate damages proportional to the harm. Nevertheless, in cases where the copyright holder is harmed by a fair use, such as a negative book review or making a book widely available for the public in a library,[27] the judicial policy of fair use wins out. The Ninth Circuit summarized this policy by stating:

> The copyright holder has a property interest in preventing others from reaping the fruits of his labor, not in preventing the authors and thinkers of the future from making use of, or building upon, his advances. The process of creation is often an incremental one, and advances building

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26. Specific exceptions to copyright infringement are also provided for performances and displays made in an educational setting. *See* 17 U.S.C. § 110. Furthermore, on November 2, 2002, President George W. Bush signed into law the Technology, Education and Copyright Harmonization Act, which "redefines the terms and conditions on which accredited, nonprofit educational institutions throughout the U.S. may use copyright protected materials in distance education—including on websites and by other digital means—without permission from the copyright owner and without payment of royalties." Kenneth D. Crews, *New Copyright Law for Distance Education: The Meaning and Importance of the TEACH Act*, *available at* http://www.ala.org/Content/NavigationMenu/Our_Association/Offices/ALA_Washington/Issues2/Copyright1/Distance_Education_and_the_TEACH_Act/teachsummary.pdf (last visited October 28, 2003).

27. Interestingly, there are very few drawbacks presented to software developers when a valid purchaser of their software simply protects their investment by making an archival copy. While there is a great potential for harm in allowing consumers to copy or modify software, unauthorized copying, selling, or other use may be prosecuted under copyright law. Of course, software developers may simply hope that consumers would be forced to repurchase damaged or lost software; however, such a result might seem unfair, especially given the nonthreatening nature of archival copying.

on past developments are far more common than radical new concepts.[28]

After weighing the prospective harms that such fair uses may have to the value of a copyrighted material, courts and Congress agree that such uses are justifiable under this policy and other considerations.[29]

This Comment asserts that through shrinkwrap licenses, software developers are able to circumvent the fair use exception and capture federally granted rights that rightly belong to the public. The following section introduces the climate surrounding copyright law in recent decades, the advent of shrinkwrap licenses, and congressional action taken to protect computer software.

B. Shrinkwrap Licenses Were Created to Provide Greater Protection to Computer Software

1. The climate in copyright law was not amicable to broad protection of computer software

Software developers may have been disappointed by the judicial enforcement of copyright protection of computer software for several reasons. First, the judicial mood may not have been amicable to broadening copyright protection for software programs given the original intent of copyright purpose and policy. Second, with the advent of patent protection for computer programs, courts might have consciously decided that copyright law no longer provided an appropriate cause of action for violations of computer software. Finally, the advent of shrinkwrap licenses—which provide protection comparable to copyright law—might have persuaded courts that copyright protection for such software would be redundant.

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28. Atari Games Corp. v. Nintendo of Am. Inc., 975 F.2d 832, 843 (Fed. Cir. 1992) (quoting New Kids on the Block v. News Am. Publ'g, 971 F.2d 302, 307 n.6 (9th Cir. 1992)).

29. In addition, the creation of alternative products in the market may increase competition, which has long been a hallmark of the economy. For example, alternative products may impel nonprice competition through warranties, enhanced service and support, etc. Such alternatives can benefit the consumer and the economy by encouraging competition, impeding antitrust violations, and encouraging further development and refinement of the products on the market. Finally, when an individual seeks to protect the idea through a patent, such protection may be available when appropriate. While a discussion of patent law provisions that allow computer software to be patented is beyond the scope of this paper, the reader may profit from other sources. *See, e.g.*, BITLAW, SOFTWARE PATENT INDEX, *available at* http://www.bitlaw.com/software-patent/index.html (last visited October 28, 2003).

The judicial mood may have been unfavorable for an expansion of copyright protection over computer software, especially because copyright protects *expression*, not broad *ideas*.[30] Copyright protection was limited to only the *expression* in the program and could not protect "the actual processes or methods embodied in the program."[31] Thus, eager software developers struggled to protect blossoming ideas from potential competitors and corral all financial benefit for themselves.[32] In fact, the explosion of the computer industry in recent decades almost certainly caught courts unprepared, if not unwilling, to use copyright law to deal with emerging computer software technology. In 1975, representative of the judicial attitude prior to the software boom, the Supreme Court said that the Copyright Act should be construed in light of its basic purpose to enhance the public store of knowledge,[33] which meant that information surrendered to the public domain could not be retrieved and granted protection under copyright law. According to this principle, copyright law would not protect an entire computer program if it contained copyrightable and noncopyrightable elements.[34] Lawfully

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30. Patent law protects ideas and methods while copyright law protects only the *expression* of those ideas or methods. This distinction is often referred to as the idea-expression dichotomy. The idea-expression dichotomy offers a very basic explanation of what subject matter is eligible for copyright protection. As stated in 17 U.S.C. § 102(b) (2000), "In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work." For a more detailed analysis of the idea-expression dichotomy, see 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 13.03(A)(1), (B)(2)(a) (2000).

31. Computer Assocs. Int'l, Inc. v. Altai, Inc., 982 F.2d 693, 703 (2d Cir. 1992) (concluding "that the expression adopted by the programmer is the copyrightable element in a computer program, and that the actual processes or methods embodied in the program are not within the scope of copyright law" (quoting H.R. REP. NO. 94-1476, at 57 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5667)).

32. A software developer could pursue patent protection for her idea, but it was not until 1981 when the Supreme Court upheld patent protection for a computer program in *Diamond v. Diehr*, 450 U.S. 175 (1981). Since that time, an increasing number of patents have been issued for computer programs. *See* Randall M. Whitmeyer, *A Plea for Due Processes: Defining the Proper Scope of Patent Protection for Computer Software*, 85 NW. U. L. REV. 1103, 1104 (1991).

33. Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 (1975). The court stated:
   "The sole interest of the United States and the primary object in conferring the monopoly . . . lie in the general benefits derived by the public from the labors of authors." When technological change has rendered its literal terms ambiguous, the Copyright Act must be construed in light of this basic purpose.
Id. (quoting Fox Film Corp. v. Doyal, 286 U.S. 123, 127 (1932)).

34. Courts have developed several tests for copyright infringement that can be applied to computer programs. These tests help determine what, if any, of the computer program can qualify as protectable expression under copyright law. Such tests include: the idea-expression dichotomy, *see,*

then, unscrupulous competitors could decompile a copyrighted program and create a different expression thereof that performed an equivalent function.[35] Without incurring the same developmental costs as the original software developer, competitors could backdoor a copyright and produce a rival product.[36] Software developers wanted more—they wished to protect their software more broadly, but could not rely on copyright law to do so.

The advent of patent protection for software programs might also have weakened corresponding copyright protection. In 1981, the Supreme Court reversed two of its prior decisions and held that computer software programs were eligible for patent protection.[37] At this point, judicial opinion might have subtly shifted the burden of protecting computer software from copyright law to the shoulders of patent law, which could offer protection to *ideas*, not just the *expression* thereof.[38] Armed with the broader protection afforded by a patent, software developers would now be able to sue for infringement of their ideas and

e.g., Harper & Row, Publishers, Inc. v. Nation Enters., 471 U.S. 539 (1985); the ordinary observer test, *see, e.g*., Dawson v. Hinshaw Music, Inc., 905 F.2d 731 (4th Cir. 1990); look and feel, *see, e.g*., Boisson v. Banian, Ltd., 273 F.3d 262, 267–68 (2d Cir. 2001); and the merger doctrine, *see, e.g*., Mazer v. Stein, 347 U.S. 201, 217 (1954). Nevertheless, cunning software developers could effectively create programs that overcome such tests. Therefore, software developers turned to the shrinkwrap license for greater protection.

   35. In *Atari Games Corp. v. Nintendo of America Inc.*, 975 F.2d 832, 843 (Fed. Cir. 1992), the court suggests that reverse engineering is acceptable only where the accused program is a "new work" that does not free ride on another's creative efforts. "[R]everse engineering object code to discern the unprotectable ideas in a computer program is a fair use[,]" but "fair use reproductions of a computer program must not exceed what is necessary to understand the unprotected elements of the work." *Id*. Additionally, in order to invoke the fair use defense of reverse engineering, a defendant must be able show that he was in possession of an authorized copy of a literary work. *See id*.

   36. While a competitor may still be liable for *legal copying*, there are numerous advantages that can be derived through decompilation and reverse engineering of competing programs. For one, a competitor may effectively reduce the head start derived by the original developer in capturing market share for a particular software program. Especially in the software industry, a critical component of success is whether a company is able to deliver its software to market before its competitors.

   37. The previous decisions that held that computer software programs were not patentable were *Gottschalk v. Benson*, 409 U.S. 63 (1972), and *Parker v. Flook*, 437 U.S. 584 (1978), which simply followed the decision in *Gottschalk*. Later, in *Diamond v. Diehr*, 450 U.S. 175 (1981), the court found that a computer software program is patentable unless it simply performs a calculation.

   38. The author suggests that as software patents became increasingly popular in the 1980s, the courts began to see copyright law as the less-effective way for software developers to protect their software. While it seems unlikely that courts would treat certain claims preferentially, it would nevertheless be possible that the preferred means (i.e., patent protection) became the ideal means of protecting computer software in the eyes of the courts.

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methods, not just for direct copying. Thus, with patent protection now available for software programs, courts may have begun to look to patent law in order to provide the broad protection urged by software developers.

Copyright law's scope of protection for computer software may have also been weakened when courts began to approve and uphold increasingly prevalent shrinkwrap licenses. An increasing reliance on shrinkwrap license provisions may have influenced courts to look less toward copyright law for protection of computer software;[39] thus, copyright law's power to protect computer software may have faded while contract law's power increased.[40]

It appears that judicial opinion changed from an outright denial of shrinkwrap license validity[41] to a complete acknowledgement of shrinkwrap validity without allowing preemption by analogous, conflicting copyright claims.[42] As suggested above, this result may be due to the failure of copyright law to protect computer software as developers had hoped, coupled with the importance of such protection and the availability and ability of contract law to create that protection. Thus, a decreasing reliance on copyright law may have contributed to the atrophy of copyright protection for computer software.

2. The advent of shrinkwrap licenses

Software developers' intense economic interest to protect their software and reduce the costs involved in "forming idiosyncratic

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39. Although a more complete analysis of this point is beyond the scope of this Comment, the author submits it is possible that the Copyright Act could have provided the kind of protection of computer programs that the DMCA and UCITA have provided. *See infra* Part IV for a useful explanation of how digital fair use can protect the interests of worried software developers.

40. Several court decisions support this idea. The trend, evidenced by decisions of several courts, shows that courts slowly moved away from outright denial of the validity of shrinkwrap licenses toward a complete support of such licenses. Given such momentum, courts later began to find that federal copyright law did not preempt shrinkwrap licenses. While not explicit, this shift may have resulted due to the efforts of computer software developers to find protection beyond the moorings of copyright law. See *Step-Saver Data Systems, Inc. v. Wyse Technology*, 939 F.2d 91 (3d Cir. 1991) and *Arizona Retail Systems, Inc. v. Software Link, Inc.*, 831 F. Supp. 759 (D. Ariz. 1993) as examples of early cases finding shrinkwrap licenses invalid. See *ProCD, Inc. v. Zeidenburg*, 86 F.3d 1447 (7th Cir. 1996) and *Bowers v. Baystate Technologies, Inc*., 320 F.3d 1320 (Fed. Cir. 2003) as examples of the recent judicial trend towards general support of shrinkwrap licenses.

41. *See Step-Saver*, 939 F.2d 91; Vault Corp. v. Quaid Software Ltd., 847 F.2d 255 (5th Cir. 1988) (Vault II); *Ariz. Retail Sys.*, 831 F. Supp. 759.

42. *See ProCD*, 86 F.3d at 1453; Microsoft Corp. v. Harmony Computers & Elecs., 846 F. Supp. 208, 212 (E.D.N.Y. 1994).

agreements" led to the creation and enforcement of shrinkwrap licenses.[43] Without some form of additional protection for their investment,[44] developers would not likely embark upon the creation of heavily researched and highly developed programs. Therefore, in the early 1990s, computer software developers sought protection under the blanket of state contract law via shrinkwrap licenses.

Typically, a shrinkwrap license is prominently displayed on the outside of computer software packaging. In some circumstances, a consumer is unable to open the software without unwrapping the words of the licensing agreement[45]—including phrases such as "OPENING THIS SOFTWARE PACKAGE INDICATES YOUR ACCEPTANCE OF THE TERMS AND CONDITIONS STATED IN THE LICENSE AGREEMENT IN USER'S MANUAL."[46] Alternatively, while installing software, a consumer might be presented with a licensing agreement that must be accepted in order to complete installation of the software.[47] Should the consumer opt not to agree to the licensing

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43. Shrinkwrap license agreements not only provide software developers with the ability to enforce strict rights, but such licenses also decrease the costs of administering agreements with each individual consumer. *See* Daniel B. Ravicher, *Facilitating Collaborative Software Development: The Enforceability of Mass-Market Public Software Licenses*, 5 VA. J.L. & TECH. 11, 39 (2000).

44. According to the Intellectual Property Protection Act of 2002, Congress found that in 2001 alone, the software industry lost a breathtaking $1.8 billion dollars due to software piracy. *See* H.R. REP. NO. 107-5057 at 2 (2002) (providing the congressional findings regarding the costs of intellectual property infringement according to different sectors), *available at* http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=107_cong_bills&
docid=f:h5057ih.txt.pdf (last visited October 28, 2003). Additionally, the Business Software Alliance reported that software piracy cost the United States over 100,000 jobs, over $5.3 billion in wages, and over $1.4 billion in tax revenues in 2001 and again in 2002. *See* BUSINESS SOFTWARE ALLIANCE, SOFTWARE PIRACY AND THE LAW, SOFTWARE PIRACY IN THE UNITED STATES, *available at* http://www.bsa.org/resources/loader.cfm?url=/commonspot/ security/getfile.cfm&PageID=1230 (last visited October 28, 2003); BUSINESS SOFTWARE ALLIANCE, U.S. STATE SOFTWARE PIRACY STUDY, *available at* http://global.bsa.org/ statestudy/ (last visited October 28, 2003).

45. Under contract law, a shrinkwrap license must either provide all of the material terms to the contract in the words of the shrinkwrap license itself or clearly and unequivocally incorporate by reference another document wherein the terms of the license may be found. *See* RESTATEMENT (SECOND) OF CONTRACTS §§ 209–12 (1978). For a discussion of the validity of shrinkwrap licenses under contract law, see Kell Corrigan Mercer, Note, *Shrink-Wrap Licenses: Consumer Shrink-Wrap Licenses and Public Domain Materials: Copyright Preemption and Uniform Commercial Code Validity in* ProCD v. Zeidenberg, 30 CREIGHTON L. REV. 1287 (1997).

46. This phrase, used for the Statement of License of *Professor Kayton's 2002 PTO ExamWare CD-Rom, Version 3.4*, is printed on a small, narrow tape strip that seals the CD case closed. This tape strip must be broken before the user can install the software.

47. This sort of licensing agreement, performed while installing the software, is commonly referred to as a "clickwrap" agreement. Clickwrap and shrinkwrap agreements are presented at different times, but are otherwise substantially similar. *See supra* note 1.

agreement, the software often instructs the consumer to return the software for a refund.[48]

a. Shrinkwrap licenses have been heavily criticized. Shrinkwrap licenses have not only created greater protection for computer software, but have also invited intense debate.[49] Shrinkwrap licenses have been deemed good and bad for several reasons. Shrinkwrap licenses are valuable because they cut down the time otherwise required to individually contract with each consumer, provide a favorable and uniform agreement for the developer, and allow developers additional protection for their software. Nevertheless, shrinkwrap licenses have also been criticized for many reasons. First, many have questioned the validity of shrinkwrap licenses under the strictures of contract law itself, arguing that there is no assent or consideration as traditionally required for contract formation.[50] Second, shrinkwrap licenses might be contracts of adhesion because the consumer has no ability to negotiate the terms of the contract; as such, shrinkwrap licenses would be invalid.[51] Others have argued that where shrinkwrap licenses provide rights that contradict the Copyright Act, federal law should preempt the state contract claim.[52] Additionally, as this Comment contends, breach of contract claims based on shrinkwrap licenses should be preempted by federal copyright law because they do not embody an extra element of bargain and are therefore indistinguishable from the rights enumerated in § 106 of the Copyright Act.

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48. *See, e.g.*, Vault Corp. v. Quaid Software Ltd., 847 F.2d 255, 256 (5th Cir. 1988) (Vault II) (stating that the purchaser of the software should return the software for a refund if the purchaser chose not to assent to the terms of the license).

49. *See* Garry L. Founds, Note, *Shrinkwrap and Clickwrap Licenses: 2B or Not 2B?*, 52 FED. COMM. L.J. 99 (1999); Brett L. Tolman, Note, ProCD, Inc. v. Zeidenberg: *The End Does Not Justify the Means in Federal Copyright Analysis*, 1998 BYU L. REV. 303 (1998); Mercer, *supra* note 45, at 1320; Goodman, *supra* note 11.

50. *See* Founds, *supra* note 49, at 101 & n.8, 102–03.

51. *Id.*

52. *See* Tolman, *supra* note 49. Tolman's piece argues that the *ProCD* court improperly found that ProCD's state contract law claims were not preempted by federal copyright law because the ProCD agreement sought to protect unprotectable information and thus conflicted with federal copyright law. This Comment suggests that the extra element of bargain, relied on by several courts to distinguish breach of contract claims based on shrinkwrap licenses from federal copyright claims, is improper because shrinkwrap licenses are not negotiated contracts.

After a very cold reception to shrinkwrap licenses,[53] courts now find them generally enforceable.[54] Additionally, some courts have found that provisions in shrinkwrap licenses that contradict copyright law principles were not preempted by copyright law.[55] Indicative of the increasing support for shrinkwrap licenses, several groups rallied behind the Uniform Computer Information Transactions Act[56] (UCITA), later referred to as Article 2B of the Uniform Commercial Code (UCC).[57] Article 2B supports validation of "mass-market licenses" such as shrinkwrap licenses.[58] However, Article 2B's support of shrinkwrap

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53. Courts initially reacted unfavorably when considering the validity of shrinkwrap licenses. *See* Step-Saver Data Sys., Inc. v. Wyse Tech., 939 F.2d 91 (3d Cir. 1991) (finding that a box top license disclaiming all prior oral representations was invalid because it materially altered the terms of the agreement entered into over the phone); Ariz. Retail Sys., Inc. v. Software Link, Inc., 831 F. Supp. 759 (D. Ariz. 1993) (finding that a license was invalid because there was no express assent to the terms of the license).

54. Shrinkwrap licenses are now generally accepted as enforceable by courts. ProCD v. Zeidenberg, 86 F.3d 1447 (7th Cir. 1996) (finding that a shrinkwrap license forbidding commercial use of the software was enforceable); I.Lan Sys., Inc. v. Netscout Serv. Level Corp., 183 F. Supp. 2d 328, 337 (D. Mass. 2002) (holding enforceable a clickwrap license that did not create an undue hardship on the licensee or materially change the terms of previously-entered-into contracts). In *ProCD*, the Seventh Circuit focused on U.C.C. section 2-204 to support the conclusion that the offeror, as the master of the offer, can specify what type of conduct by the buyer denotes acceptance (in the case of a shrinkwrap, acceptance would be use without returning the software), and thereby incorporate the terms of the shrinkwrap license into the agreement. *See ProCD*, 86 F.3d at 1450–55.

   Ultimately, the *ProCD* ruling has created a very low bar for shrinkwrap or clickwrap licenses to pass—"the absence of a timely rejection [is] sufficient to show assent." *I.Lan Sys., Inc.*, 183 F. Supp. 2d at 337. In other words, implicit assent is sufficient to bind the purchaser. *Id.* at 338 ("If *ProCD* was correct to enforce a shrinkwrap license agreement, where any assent is implicit, then it must also be correct to enforce a clickwrap license agreement, where the assent is explicit.").

55. *See, e.g.*, Bowers v. Baystate Techs., Inc., 320 F.3d 1317 (Fed. Cir. 2003) (finding that the shrinkwrap license involved was valid and was not preempted by federal copyright law); *ProCD*, 86 F.3d at 1447 (finding that the shrinkwrap license involved was valid and was not preempted by federal copyright law).

56. *See* UCITA, *available at* http://www.law.upenn.edu/bll/ulc/ucita/UcitaFinal 100.pdf.htm (last visited October 29, 2003); *see also* MARK K. ANDERSON, NOW, UCITA . . . LATER, YOU DON'T, *available at* http://www.cnn.com/2000/TECH/computing/03/07/ ucita.idg/ (last visited October 29, 2003) (summarizing the arguments of many critics of UCITA).

57. *See* U.C.C. § 2B (Proposed Draft 1999), *available at* http://www.law.upenn.edu/ library/ulc/ucc2b/zb299,htm.

58. It is unsurprising that these changes in the law were proposed by numerous interested parties. Given the plight of the computer software industry, the writing was on the wall. According to some sources, Article 2B was heavily funded by the software industry. *See, e.g.*, CHRISTY HUDGINS-BONAFIELD, UCC 2B: THE NEW LAW OF SHRINK-WRAP, *available at* http://www.networkcomputing.com/1008/1008f1side7.html (last visited October 29, 2003); *see also* William J. Woodward, Jr., *Private Legislation in the United States—How the Uniform Commercial Code Becomes Law*, 72 TEMP. L. REV. 451, 453 (1999); JAMES S. HUGGINS, UCITA: UNIFORM COMPUTER INFORMATION TRANSACTIONS ACT, *available at*

validation is subject to the condition that a license not be unconscionable.[59] Additionally, Article 2B only supports shrinkwrap licenses insofar as they are not preempted by federal legislation.[60] Although many groups applaud the growing support for shrinkwrap licenses, such changes threaten the digital fair use doctrine.

b. Shrinkwrap licenses limit the digital fair use and first sale doctrines, thus prohibiting otherwise legal uses of a copyrighted work. Shrinkwrap licenses often conflict[61] with the doctrines of fair use, first sale, and reverse engineering,[62] a category of fair use. A normal shrinkwrap license agreement seeks to prohibit the licensee from engaging in certain activities that would otherwise be lawful under patent, copyright, or trade secret law. Representative of terms commonly

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http://www.jamesshuggins.com/h/tek1/ucita.htm (last visited October 29, 2003) (listing the proponents and opponents of UCITA).

59*. See* J. H. Reichman & Paul F. Uhlir, *Database Protection at the Crossroads: Recent Developments and Their Impact on Science and Technology*, 14 BERKELEY TECH. L.J. 793, 798 (1999).

60*. See* UCITA § 105(a) (Proposed Official Draft 2000), *available at* http://www.law. upenn.edu/bll/ulc/ucita/ucita01.pdf (last visited October 29, 2003) ("A provision of this [Act] which is preempted by federal law is unenforceable to the extent of the preemption."); *see also* Pratik A. Shah, *The Uniform Computer Information Transactions Act*, 15 BERKELEY TECH. L.J. 85, 105 (2000).

61. *See* Founds, *supra* note 49 (discussing the interaction of the then new terms of UCITA and their interplay with existing copyright law, especially regarding digital fair use, the first sale doctrine, and reverse engineering).

62. Reverse engineering may be broadly defined as the process by which an individual disassembles an invention to determine what the components are and how the components interrelate. The individual then recreates the invention in a subtly different way so that it is not an exact copy of the original. In so doing, the individual can exclude protected aspects of the original invention and thereby create a noninfringing device. Through reverse engineering, software purchasers may decompile a computer program and create a program that is functionally equivalent to the decompiled program.

The doctrine of reverse engineering is consistent with the goals of copyright law because it allows individuals to build on previous inventions, thereby promoting the progress of science. *See* Atari Games Corp. v. Nintendo of Am. Inc., 975 F.2d 832, 844 (Fed. Cir. 1992). The purpose and policy behind allowing reverse engineering as a lawful fair use (providing exemption from what could otherwise be a copyright violation), is summarized in *Atari* when the court states:

> The copyright holder has a property interest in preventing others from reaping the fruits of his labor, not in preventing the authors and thinkers of the future from making use of, or building upon, his advances. The process of creation is often an incremental one, and advances building on past developments are far more common than radical new concepts.

Id. at 843 (quoting New Kids on the Block v. News Am. Publ'g, 971 F.2d 302, 307 n.6 (9th Cir. 1992)); *see also* Lewis Galoob Toys, Inc. v. Nintendo, 964 F.2d 965 (9th Cir. 1992).

found in shrinkwrap licenses, the license in *Vault Corp. v. Quaid Software Ltd.*[63] (the Vault license) forces the user to agree not to "transfer, sublicense, rent, lease, convey, copy, modify, translate, convert to another programming language, decompile or disassemble the Licensed Software for any purpose without VAULT's prior written consent."[64] However, the fair use doctrine allows a user to copy, modify, translate, convert, decompile, or disassemble the software in certain circumstances; furthermore, under the first sale doctrine discussed below, a user can also lawfully transfer, sublicense, rent, lease, or convey the software.[65] This subsection will analyze the Vault license under these two doctrines.

Shrinkwrap licenses often prohibit several fair uses. While the Vault license forbids copying, modification, conversion, decompilation, disassembly, and translation of the software, these activities can qualify as fair uses under the fair use exception.[66] Additionally, the Vault shrinkwrap license prohibits any public performance, which may also qualify as a fair use.[67] The Vault license also expressly precludes the reverse engineering of computer software through decompilation or disassembly; this blanket prohibition against reverse engineering directly contradicts decisions set out by several courts.[68]

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63. 847 F.2d 255 (5th Cir. 1988) (Vault II).

64. *Id.* at 257 n.2.

65. *See* Mark A. Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 S. CAL. L. REV. 1239, 1247 (1995) (discussing the conflict of shrinkwrap licensing agreements with the fair use and first sale doctrines).

66. Fair use, codified in 17 U.S.C. § 107, was initially created to help protect public interests realized through use of a copyrighted work that would otherwise be illegal were it not for the nature of the use. *See Atari*, 975 F.2d at 843 ("Where the infringement is small in relation to the new work created, the fair user is profiting largely from his own creative efforts rather than free-riding on another's work. A prohibition on all copying whatsoever would stifle the free flow of ideas without serving any legitimate interest of the copyright holder." (quoting *New Kids on the Block*, 971 F.2d at 307 n.6)); Rosemont Enters., Inc. v. Random House, Inc., 366 F.2d 303, 307 (2d Cir. 1966) (considering the "public benefit" made available through unauthorized use of a copyrighted work); Folsom v. Marsh, 9 F. Cas. 342 (C.C. Mass. 1841) (No. 4901) (determining that the defendant had engaged in a "justifiable use" of the plaintiff's copyrighted work). Although courts have sought to establish a list of "fair uses," this doctrine has nevertheless been classified as "the most troublesome in the whole law of copyright." Dellar v. Samuel Goldwyn, Inc., 104 F.2d 661, 662 (2d Cir. 1939).

67. Additionally, certain public performances may be exempted from copyright infringement under § 110 of the Copyright Act. *See* 17 U.S.C. § 110 (2000).

68. The Ninth Circuit upheld the fair use defense of reverse engineering in *Sony Computer Entm't, Inc. v. Connectix Corp.*, 203 F.3d 596 (9th Cir. 2000). In that case, Connectix copied Sony's PlayStation BIOS in order to reverse engineer the PlayStation and create a noninfringing video game system that could function with PlayStation game discs. *Id*. at 598–99; *see also Atari*, 975 F.2d at 843. Indicative perhaps of the recognition of case law, some shrinkwrap licenses implicitly

Finally, shrinkwrap licenses have also been criticized for restrictions created by circumventing the first sale doctrine. Under the first sale doctrine, the "sale" of computer software transfers to the *owner* the right to transfer, resell, or otherwise dispose of the program;[69] § 117 of the Copyright Act also allows the *owner* to make copies of the software in order to properly utilize or archive the software.[70] Craftily, however, software developers are able to circumvent the first sale doctrine because the purchase of software is not a "sale"—through shrinkwrap licenses, software developers condition the use of the software upon a purchaser's acceptance of a mere *license* to the product.[71] For example, under the terms of the Vault license, the purchaser is really a *licensee*—thus, she is not allowed to rent, lease, transfer, or copy the software.

Courts and scholars continue to dispute the virtues of shrinkwrap licenses. The following part addresses the judicial debate and asserts that copyright law should preempt breach of contract claims based on shrinkwrap licenses under § 301 of the Copyright Act.

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recognize that reverse engineering may be legal under federal law. For example, the license accompanying RealNetworks' RealOne Player states: "You may not: . . . modify, translate, reverse engineer, decompile, disassemble (except to the extent that this restriction is expressly prohibited by law) . . . ." *See* REALNETWORKS, INC., END USER LICENSE AGREEMENT, *RealNetworks Products*, *available at* http:// www.ncns.com/RealNetworksLicense.html (last visited November 3, 2003).

69*. See* 17 U.S.C. § 109(a) ("Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, 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 or phonorecord."). Additionally, § 109(b) states that it is illegal for

> any person in possession of a particular copy of a computer program[,] . . . for the
> purposes of direct or indirect commercial advantage, [to] dispose of, or authorize the
> disposal of, the . . . computer program . . . by rental, lease, or lending, or by any other act
> or practice in the nature of rental, lease, or lending.

Id. § 109(b).

70. 17 U.S.C. § 117. While § 117 refers to copying a program so that it may be properly utilized, many courts have found that licensees are not "owners" under § 117, and that § 117 does not allow licensees the right of unauthorized use. *See, e.g.*, MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511, 518 n.5 (9th Cir. 1993) (distinguishing an owner of software from a licensee and finding that § 117 does not apply to licensees because the software is licensed and not sold); Advanced Computer Servs. of Mich., Inc. v. MAI Sys. Corp., 845 F. Supp. 356, 367 (E.D. Va. 1994); CMAX/Cleveland, Inc. v. UCR, Inc., 804 F. Supp. 337, 356 (M.D. Ga. 1992). Nevertheless, some courts have applied § 117 without distinguishing between licensees and owners. *See, e.g.*, Vault Corp. v. Quaid Software Ltd., 847 F.2d 255 (5th Cir. 1988) (Vault II); Foresight Res. Corp. v. Pfortmiller, 719 F. Supp. 1006, 1009–10 (D. Kan. 1989).

71. UCITA has verified that the sale of computer software will only amount to a grant of license and not of ownership. *See* Draft of the Uniform Computer Information Transactions Act, *available at* http://www.law.upenn.edu/bll/ulc/ucita/citaam99.pdf (last visited October 29, 2003).

III. THE JUDICIAL DEBATE CONTINUES: SHOULD FEDERAL COPYRIGHT LAW PREEMPT SHRINKWRAP LICENSE PROVISIONS?

The judicial and scholarly debate continues as to whether copyright law preempts breach of contract claims based on shrinkwrap licenses. Courts and scholars alike have suggested that shrinkwrap licenses are preempted through (1) express preemption under § 301 of the Copyright Act and (2) conflict preemption due to state law's conflict with federal law and the goals and purposes of federal copyright law.[72] Although shrinkwrap licenses are generally enforceable,[73] the preemption debate continues. Currently, courts disagree as to whether federal copyright law preempts breach of contract claims based on shrinkwrap licenses.[74]

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72. The Third Circuit in *Orson, Inc. v. Miramax Film Corp.* stated:

The Supreme Court has recognized three ways in which federal law may preempt, and thereby displace, state law: (1) "express preemption," (2) "field preemption" (which is also sometimes referred to as "implied preemption"), or (3) "conflict preemption." Express preemption arises when there is an explicit statutory command that state law be displaced. . . .

Under field or implied preemption principles, state law may be displaced "if federal law so thoroughly occupies a legislative field as to make reasonable the inference that Congress left no room for the States to supplement it."

Finally, state law may be displaced under conflict preemption principles if the state law in question presents a conflict with federal law in one of two situations: when it is impossible to comply with both the state and the federal law or when the state law "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress."

189 F.3d 377, 381–82 (3d Cir. 1999) (en banc) (citations omitted). Because copyright law has granted state law the right to concurrently occupy the field, only the first and third avenues for preemption are useful. Many scholars have commented on various strategies of preemption. *See* Dennis S. Karjala, *Copyright Owners' Rights and Users' Privileges on the Internet: Federal Preemption of Shrinkwrap and On-Line Licenses*, 22 DAYTON L. REV. 511 (1997); Mercer, *supra* note 45; *see, e.g.*, *Vault II*, 847 F.2d at 270 (finding that the shrinkwrap license involved was preempted by federal copyright law); ProCD v. Zeidenberg, 908 F. Supp. 640 (W.D. Wis. 1996), *rev'd*, 86 F.3d 1447 (7th Cir. 1996).

73. *See supra* notes 53–54 and accompanying text.

74. *See* Bowers v. Baystate Techs., Inc., 320 F.3d 1317 (Fed. Cir. 2003) (finding that a shrinkwrap license was not preempted by federal copyright law), *cert. denied*, 123 S. Ct. 2588 (2003); *ProCD*, 86 F.3d at 1454 (finding that the shrinkwrap license involved was valid and was not preempted by federal copyright law). *But see* Info. Handling Servs. v. LRP Publ'ns, Inc., 54 U.S.P.Q.2d (BNA) 1571 (E.D. Pa. 2000) (stating that a breach of contract claim based on a shrinkwrap license did not involve any extra element of bargain and would therefore be preempted by copyright law).

Certainly, it would not be appropriate to assume that copyright law has no preemptive power. In fact, as Judge Dyk noted in his dissent in *Bowers*, "*ProCD* and the other contract cases are also careful not to create a blanket rule that all contracts will escape preemption." *Bowers*, 320 F.3d at 1338 (Dyk, J., dissenting).

Section A argues that preemption under § 301 of the Copyright Act is proper because breach of contract claims based on shrinkwrap licenses do not embody an extra element that distinguishes them from copyright claims. Section B argues that preemption of such contract claims is supported by the conflict preemption analysis in order to preserve the important policies embodied in the digital fair use doctrine.

A. Preemption Analysis Under § 301 of the Copyright Act and the Extra Element Test in Shrinkwrap Licenses

Section 301 of the Copyright Act preempts state law when the rights created by that law are equivalent to those protected by copyright law.[75] Section 301 provides that neither common law nor state law may entitle a person to any right "*within the subject matter* of copyright as specified by sections 102 and 103" that is "*equivalent to any of the exclusive rights* within the general scope of copyright" under § 106.[76]

Therefore, in order for federal copyright law to preempt a breach of contract claim based on a shrinkwrap license agreement, the contract claim must meet a two-pronged test. First, the contract claim must involve a class of works, as defined by § 102 or § 103 of the Copyright Act, which could qualify for copyright protection.[77] Second, the contract

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75. The federal report states the following:

The evolving common law rights of "privacy," "publicity," and trade secrets, and the general laws of defamation and fraud, would remain unaffected as long as the causes of action contain elements, such as an invasion of personal rights or a breach of trust or confidentiality, that are different in kind from copyright infringement.

H.R. REP. NO. 94-1476, at 132 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5748.

76. Section 301 provides:

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

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

. . . .

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

17 U.S.C. § 301(a), (b)(3) (2000).

77. Section 102 of the Copyright Act provides that in general:

(a) Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later

claim must involve "legal or equitable rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106."[78] Courts do not normally struggle with the first prong; however, the determination of equivalency is still debated.

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developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. Works of authorship include the following categories:

(1) literary works;
(2) musical works, including any accompanying words;
(3) dramatic works, including any accompanying music;
(4) pantomimes and choreographic works;
(5) pictorial, graphic, and sculptural works;
(6) motion pictures and other audiovisual works;
(7) sound recordings; and
(8) architectural works.

(b) In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.

17 U.S.C. § 102. Section 103 provides:

(a) The subject matter of copyright as specified by section 102 includes compilations and derivative works, but protection for a work employing preexisting material in which copyright subsists does not extend to any part of the work in which such material has been used unlawfully.

(b) The copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material. The copyright in such work is independent of, and does not affect or enlarge the scope, duration, ownership, or subsistence of, any copyright protection in the preexisting material.

17 U.S.C. § 103.

78. 17 U.S.C. § 301(b)(3). Section 106 provides that:

Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
(1) to reproduce the copyrighted work in copies or phonorecords;
(2) to prepare derivative works based upon the copyrighted work;
(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and
(6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

17 U.S.C. § 106.

The debate has focused on whether the rights protected in shrinkwrap licenses are equivalent to those enumerated in § 106 of the Copyright Act. The rights prohibited by a typical shrinkwrap license include copying, modifying, reverse engineering, decompiling, transferring, or having public performance of the software. The second prong of the preemption analysis asks whether those prohibited rights are equivalent to the rights under § 106 (already vested in the copyright holder) such as copying, preparation of derivative works, distribution, public performance, and public display.[79] At first blush, the typical shrinkwrap license mentioned above is a candidate for preemption because it protects rights that are equivalent to many, if not all of the § 106 rights. Although many courts have found that copyright law can preempt conflicting breach of contract claims,[80] several courts have found that it cannot.[81] Courts concluding that copyright law could not preempt breach of contract claims based on shrinkwrap licenses have done so by distinguishing federal copyright claims from contract claims using the extra element test.[82]

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79. 17 U.S.C. § 106.

80*. See, e.g.*, Rosciszewski v. Arete Assocs., Inc., 1 F.3d 225 (4th Cir. 1993); Worth v. Universal Pictures, Inc., 5 F. Supp. 2d 816 (C.D. Cal. 1997); Dielsi v. Falk, 916 F. Supp. 985 (C.D. Cal. 1996); Wharton v. Columbia Pictures Indus., Inc., 907 F. Supp. 144 (D. Md. 1995); Patrick v. Francis, 887 F. Supp. 481 (W.D.N.Y. 1995); Artie Fields Prods. v. Channel 7 of Detroit, Inc., 32 U.S.P.Q.2d (BNA) 1539, 1994 WL 559331 (E.D. Mich. 1994); Perro v. Wemco, Inc., 32 U.S.P.Q.2d (BNA) 1475, 1994 WL 382590 (E.D. La. 1994); Aldridge v. The Gap, Inc., 866 F. Supp. 312 (N.D. Tex. 1994); Gemcraft Homes Inc. v. Sumurdy, 688 F. Supp. 289 (E.D. Tex. 1988); *see also* Vault Corp. v. Quaid Software Ltd., 847 F.2d 255, 269 (5th Cir. 1988) (Vault II) (finding that a provision in the Louisiana License Act prohibiting adaptation or decompilation of a computer program was preempted by federal copyright law because it touched upon an area of federal copyright law, the preemption of which in turn preempted the shrinkwrap license relying on the Louisiana Act).

81*. See, e.g.*, Bowers v. Baystate Techs., Inc., 320 F.3d 1320 (Fed. Cir.) (finding that a shrinkwrap license was not preempted by federal copyright law), *cert. denied*, 123 S. Ct. 2588 (2003); ProCD, Inc. v. Zeidenberg, 86 F.3d 1447 (7th Cir. 1996) (finding that the shrinkwrap license involved was valid and was not preempted by federal copyright law).

82*. See Bowers*, 320 F.3d at 1342–43 (holding that federal copyright law did not preempt a breach of contract claim based on a shrinkwrap license because the extra element of bargain distinguished the contract claim from a copyright claim); *ProCD*, 86 F.3d at 1453–54 (finding that the state contract claim based on a shrinkwrap license had an extra element and was not preempted by federal copyright law). *But see* Info. Handling Servs. v. LRP Publ'ns, Inc., 54 U.S.P.Q.2d (BNA) 1571 (E.D. Pa. 2000) (stating that a breach of contract claim based on a shrinkwrap license did not involve any extra element of bargain and therefore would be preempted by copyright law).

1. The extra element test in ProCD v. Zeidenberg,[83] Information Handling Services. v. LRP Publications, Inc.,[84] *and* Bowers v. Baystate Technologies[85]

The extra element test[86] has been employed by many courts to determine whether state rights are equivalent to, and thus preempted by, rights granted to copyright holders under § 106 of the Copyright Act.[87] Under this test, a state claim is not equivalent to a copyright claim if the contract claim requires an accuser to show an element that is superfluous to the copyright claim.[88] For example, if the state claim requires that a fiduciary relationship exist between the parties—an element not required for the copyright infringement claim—the extra element of the fiduciary relationship makes the state claim different from and not preempted by the copyright claim.[89] Thus, a "state law claim is not preempted if the

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83. *ProCD*, 86 F.3d 1447.

84. 54 U.S.P.Q.2d (BNA) 1571 (E.D. Pa. 2000).

85. 320 F.3d 1317.

86. It appears that Professor Melville Nimmer was very influential in developing the "extra element" test. *See* Factors Etc., Inc. v. Pro Arts, Inc., 496 F. Supp. 1090, 1099 (S.D.N.Y. 1980), *rev'd on other grounds*, 652 F.2d 278 (2d Cir. 1981) (citing MELVIN B. NIMMER, NIMMER ON COPYRIGHT § 1.01(B) at 1-7 n.22, 1-11 (1978)); *see also* 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 1.01(B)(1) (2003) (explaining the development of the extra element test and citing courts that coined the phrase and used the test).

87. Courts have applied the extra element test in various circumstances. *See, e.g.*, Wrench LLC v. Taco Bell Corp., 256 F.3d 446 (6th Cir. 2001) (finding that the extra element of a promise to pay for the use of the work distinguished the contract claim from a copyright claim); Samara Bros. v. Wal-Mart Stores, 165 F.3d 120 (2d Cir. 1998) (finding the extra element of "intentional deception" in distinguishing an unfair trade practice claim from a copyright claim); United States *ex rel*. Berge v. Bd. of Trs., 104 F.3d 1453 (4th Cir. 1997) (finding preemption of an intellectual property conversion claim because breach of trust in a relationship and harm received due to the alleged violation were not extra elements that distinguished the conversion claim from a copyright claim); Harolds Stores v. Dillard Dep't Stores, 82 F.3d 1533 (10th Cir. 1996) (finding that the extra element was a "restraint of trade"); Rosciszewski v. Arete Assocs., Inc., 1 F.3d 225 (4th Cir. 1993) (applying the extra element test and finding that the breach of contract claim involved was preempted by copyright law because it did not contain an extra element that distinguished it from copyright law); Nat'l Car Rental Sys., Inc. v. Computer Assocs. Int'l, Inc., 991 F.2d 426 (8th Cir. 1993) (finding that the extra element was a restriction on use of the licensed program that did not involve rights found in § 106); Valente-Kritzer Video v. Pinckney, 881 F.2d 772 (9th Cir. 1989) (finding that the extra element of fraud distinguished the state law claim from a copyright claim).

88. A successful copyright claim will typically require an accuser to show that the accused party has infringed on the accuser's exclusive rights granted to copyright holders under § 106 of the Copyright Act.

89. *See* Computer Assocs. Int'l, Inc. v. Altai, Inc., 982 F.2d 693, 716–18 (2d Cir. 1992) ("[I]f an 'extra element' is 'required instead of or in addition to the acts of reproduction, performance, distribution or display, in order to constitute a state-created cause of action, then the right does not

'extra element' changes the 'nature of the action so that it is qualitatively different from a copyright infringement claim.'"[90] Although numerous courts have turned to the extra element in relation to state claims generally,[91] only a few courts have used the extra element test in analyzing breach of contract claims involving shrinkwrap licenses.[92]

For example, in *ProCD*,[93] the Seventh Circuit held that a two-party contract based on a shrinkwrap license was not preempted by copyright law. Even though the court did not use the term "extra element," it found that the contract claim was not equivalent to the rights within the general scope of copyright because the contract required an extra element of bargain.[94] As a result, the court concluded that "a simple two-party contract is not 'equivalent to any of the exclusive rights within the general scope of copyright' and therefore may be enforced."[95] However, the court carefully "refrain[ed] from adopting a rule [establishing] that anything with the label 'contract' is necessarily outside the preemption clause."[96] The court then narrowly confined the application of the holding to "shrinkwrap licenses of the kind before us."[97]

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lie "within the general scope of copyright," and there is no preemption.'" (quoting 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 1.01(B), at 1-1415 (1991))).

90. *Computer Assocs. Int'l*, 982 F.2d at 716 (emphasis omitted) (quoting Mayer v. Josiah Wedgwood & Sons, Ltd., 601 F. Supp. 1523, 1535 (S.D.N.Y. 1985)); *see also* Harper & Row, Publishers, Inc. v. Nation Enters., 723 F.2d 195, 201 (2d Cir. 1983), *rev'd*, 471 U.S. 539 (1985).

91. *See supra* note 89.

92. *See* Bowers v. Baystate Techs., Inc., 320 F.3d 1317, 1342–43 (Fed. Cir.) (holding that federal copyright law did not preempt a breach of contract claim based on a shrinkwrap license because the extra element of bargain distinguished the contract claim from a copyright claim), *cert. denied*, 123 S. Ct. 2588 (2003); ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1453–54 (7th Cir. 1996) (finding that the breach of contract claim based on a shrinkwrap license did not create rights equivalent to those protected under copyright law and was not preempted by federal copyright law); Info. Handling Servs. v. LRP Publ'ns, Inc., 54 U.S.P.Q.2d (BNA) 1571 (E.D. Pa. 2000) (finding that a breach of contract claim based on a shrinkwrap license was qualitatively different from a copyright claim because of defendant's deceptive representations).

93. In *ProCD*, the software developer discriminated in its pricing for software based on commercial and noncommercial use. The accused purchased software designated for noncommercial purposes, which cost less and was accompanied by a shrinkwrap license that prohibited the commercial use of the software. *See ProCD*, 86 F.3d at 1449.

94. *See id.* at 1454.

95. *Id*. at 1455.

96. *Id*. The *ProCD* court also mentioned that "*National Car Rental* likewise recognizes the possibility that some applications of the law of contract could interfere with the attainment of national objectives and therefore come within the domain of § 301(a)." *Id*.

97. *Id*.

In *Bowers v. Baystate Technologies*,[98] the Federal Circuit also found that the breach of contract claim based on a shrinkwrap license was not preempted by copyright law. The court reasoned that the breach of contract claim contained the same extra element as found in *ProCD*: the shrinkwrap license was a "private contractual agreement[] supported by mutual assent and consideration."[99] The court also stated that "no evidence suggests the First Circuit would extend [the holding in *Vault Corp. v. Quaid Software Ltd.*[100] allowing preemption of conflicting state law] to include private contractual agreements supported by mutual assent and consideration."[101]

However, many disagree that bargain is actually present in shrinkwrap licenses. In his dissent in *Bowers*, Judge Dyk suggests that shrinkwrap contracts do not involve the bargain element because "[l]ike any other contract of adhesion, the only choice offered to the purchaser is to avoid making the purchase in the first place."[102] While conceding that parties are free to contract away a fair use defense if the contract is freely negotiated, Judge Dyk asserts that shrinkwrap licenses are not freely negotiated contracts.[103] Judge Dyk argues that as a result of shrinkwrap contracts, a state may inappropriately eliminate federal law by eviscerating the fair use defense.[104] Professor Nimmer also warns against this: "If copyright law is to maintain an autonomous existence, instead of becoming an adjunct to whatever lawyers can draft into shrinkwrap 'contracts,' then its delicate balance must be respected."[105]

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98. Bowers v. Baystate Techs., Inc., 320 F.3d 1317, 1321–22 (Fed. Cir.), *cert. denied*, 123 S. Ct. 2588 (2003). The defendant in *Bowers* purchased software from the plaintiff which contained a shrinkwrap license provision prohibiting reverse engineering of the software. Nevertheless, the defendant reverse engineered the software and sold a nearly identical product. *Id*.

99*. Id*. at 1325. The court's language, "mutual assent and consideration," has been simplified to the term "bargain" throughout this Comment. BLACK'S LAW DICTIONARY suggests that these two terms can be combined. "Bargain" is defined therein as, "An *agreement* between parties for the *exchange of promises or performances*." BLACK'S LAW DICTIONARY 116 (7th ed. 1999) (emphasis added). "Assent" is defined as "Agreement, approval, or permission." *Id*. at 88. "Consideration" is defined as "Something of value . . . received by a promisor from a promisee." *Id*. at 245. The combination of these terms is therefore reasonable.

100. 847 F.2d 255 (5th Cir. 1988) (Vault II) (finding that a provision in the Louisiana License Act prohibiting adaptation or decompilation of a computer program was preempted by federal copyright law because it touched upon an area of federal copyright law).

101. *Bowers*, 320 F.3d at 1325.

102*. Id*. at 1337 (Dyk, J., dissenting).

103*. Id*. at 1336–37 (Dyk, J., dissenting).

104*. Id*. (Dyk, J., dissenting).

105. 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT, § 3.04(B)(3)(a) (2003) (discussing the many arguments against the holding of *ProCD* and its practical effects).

Although several courts have relied on the extra element test to distinguish breach of contract claims based on shrinkwrap licenses from copyright claims, there are many reasons to question the logic and the result. As shown below, shrinkwrap licenses do not involve the bargain element relied on by these courts. Additionally, Congress intended § 301 to wield broad preemptive power in situations such as this, where the claims are substantively equivalent and where precluding preemption results in the dissolution of federal law.

2. Refocusing the judicial debate: The extra element test in light of the legislative purposes of § 301

Ultimately, the judicial debate regarding preemption should be refocused because § 301 contemplates *rights*, rather than *claims*, and supports preemption in borderline areas where contract law might frustrate the purposes of federal copyright law. It follows that distinguishing contract claims from copyright claims using the extra element test conflicts with § 301.[106] This is clarified by resorting to the legislative history of § 301, which courts have analyzed in determining whether § 301 supports or undermines preemption of breach of contract claims based on shrinkwrap licenses.[107] At the center of the judicial debate are the differences between the version of § 301 submitted to Congress by the United States House of Representatives and the version of § 301 submitted by the United States Senate.[108] The Senate's version of § 301 enumerated certain rights that the Copyright Act could not preempt, which enumeration included breach of contract claims.[109] However, the House's proposed version excluded breach of contract claims from the list of rights that could not be preempted by the Copyright Act. In the end, Congress adopted the House's version.[110]

One interpretation of Congress's preference for the House's version of § 301 suggests that Congress wanted § 301 to have preemptive power

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106. *See infra* Part IV for an analysis under conflict preemption of how shrinkwrap licenses contravene the purposes of copyright law.

107. *See* Architectronics, Inc. v. Control Sys., Inc., 935 F. Supp. 435, 440–41 (S.D.N.Y. 1996) (citing numerous authorities recognizing the confusing legislative history of § 301).

108. *See* H.R. CONF. REP. NO. 94-1733, at 78 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5819; Mercer, *supra* note 45, at 1305–06 (discussing the legislative history of § 301).

109. *See* H.R. CONF. REP. NO. 94-1733, at 78 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5819. This enumeration of rights is found in § 301(b)(3).

110. *See generally* 17 U.S.C. § 301 (2000).

over breach of contract claims.[111] Thus, courts would not be justified in disallowing preemption of otherwise equivalent contract claims simply because an extra element was involved.[112] A worthwhile distinction is noted in that the extra element test focuses on distinguishing breach of contract *claims* from copyright *claims* while the House report focuses on *rights*.[113] This distinction was not addressed in either *ProCD* or *Bowers*. Nevertheless, this line of reasoning, which assumes that *rights* protected by copyright law should have a broad scope of equivalence, is supported by the House report of § 301.[114]

The House report states that copyright law should preempt any state *right* that is equivalent to a *right* under copyright: "The intention of section 301 is to preempt and abolish any *rights* under the common law or statutes of a State that are equivalent to copyright."[115] The legislative history adds the following:

> The declaration of this principle in section 301 is intended to be stated in the clearest and most unequivocal language possible, so as to foreclose any conceivable misinterpretation of its unqualified intention that Congress shall act preemptively, and to avoid the development of any vague borderline areas between State and Federal protection.[116]

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111. *See id*. § 301(a), (b)(3); *see also* Tolman, *supra* note 49, at 324 (discussing the implications of the legislative history with regard to preemption of breach of contract claims).

112. While courts have found different kinds of extra elements that have distinguished state claims from copyright claims, *see supra* notes 87 and 92, this Comment asserts that the extra element of "bargain," as discussed in *Bowers* and *Information Handling Services*, is not present in breach of contract claims involving shrinkwrap licenses.

113. The implication of a distinction between "rights" and "claims" in the shrinkwrap license context may be significant. First, a "claim" may require several elements, such as the claim in *Samara Bros. v. Wal-Mart Stores*, 165 F.3d 120 (2d Cir. 1998), which required intentional deception and intentional copying. Thus, in the context of the "extra element" test, a "claim" requires an additional act, distinct and separate from an act described in § 106 of the Copyright Act. § 106 "rights" include acts of reproduction, preparing derivative works, public performance and distribution, and equivalents thereof. *See* 17 U.S.C. § 106. Importantly, § 301 refers only to "rights" (not claims) that are "within the general scope of copyright as specified by section 106 . . . ." *Id.* § 301(a). Therefore, despite the extra element required by a claim, if the claim includes a right enumerated in § 106, the House Report might suggest that this claim ought to be preempted by copyright law. While such a result would require changes in the prosecution of lawsuits, it would not eviscerate legal remedies for persons possessing copyrighted material. The full implication of a claim-right distinction beyond the context of shrinkwrap licenses is beyond the scope of this Comment. However, the author submits that this distinction is necessarily limited only to areas involving § 301 of the Copyright Act.

114. H.R. REP. NO. 94-1476, at 131 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5746–47.

115. *Id*. at 130, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5746 (emphasis added).

116. *Id*., *reprinted in* 1976 U.S.C.C.A.N. 5659, 5746.

Further, courts should assume that the rights protected by copyright law are very broad in scope:[117]

> As long as a work fits within one of the general subject matter categories of sections 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.[118]

Several courts have followed these principles in finding that copyright law preempts breach of contract claims based on shrinkwrap contracts.[119] For example, in *Vault Corp. v. Quaid Software Ltd.*,[120] the Fifth Circuit found that a provision in the Louisiana License Act prohibiting adaptation or decompilation of a computer program was preempted by federal copyright law because it "'touched upon [an] area' of federal copyright law."[121] Vault sought to enforce its shrinkwrap license, which provided that "you may not . . . copy, modify, translate, convert to another programming language, decompile, or disassemble."[122] Under the Louisiana Software License Enforcement Act, Vault was permitted to prohibit decompilation or disassembly of a

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117. Many courts have given copyright law a broad scope when determining whether state-created rights were equivalent to rights protected under copyright law and have found preemption of state law. *See, e.g.*, Rosciszewski v. Arete Assocs., Inc., 1 F.3d 225 (4th Cir. 1993); Worth v. Universal Pictures, Inc., 5 F. Supp. 2d 816 (C.D. Cal. 1997); Dielsi v. Falk, 916 F. Supp. 985 (C.D. Cal. 1996); Wharton v. Columbia Pictures Indus., Inc., 907 F. Supp. 144 (D. Md. 1995); Patrick v. Francis, 887 F. Supp. 481 (W.D.N.Y. 1995); Artie Fields Prods. v. Channel 7 of Detroit, Inc., 32 U.S.P.Q.2d (BNA) 1539, 1994 WL 559331 (E.D. Mich. 1994); Perro v. Wemco, Inc., 32 U.S.P.Q.2d (BNA) 1475, 1994 WL 382590 (E.D. La. 1994); Aldridge v. The Gap, Inc., 866 F. Supp. 312 (N.D. Tex. 1994); Gemcraft Homes Inc. v. Sumurdy, 688 F. Supp. 289 (E.D. Tex. 1988).

118. H.R. REP. NO. 94-1476, at 131 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5747.

119. For example, in *Associated Film Distribution Corp. v. Thornburgh*, the Federal District Court for the Eastern District of Pennsylvania found that a claim based on Pennsylvania law was preempted by federal copyright law because where the two are in conflict, "the Supremacy Clause is decisive." 520 F. Supp. 971, 993 (E.D. Pa. 1981), *rev'd and remanded on other grounds*, 683 F.2d 808 (3d Cir. 1982); *see also* Vault Corp. v. Quaid Software Ltd., 847 F.2d 255, 269 (5th Cir. 1988) (Vault II) (finding that a provision in the Louisiana License Act prohibiting adaptation or decompilation of a computer program was preempted by federal copyright law because it touched upon an area of federal copyright law). *But see* Info. Handling Servs. v. LRP Publ'ns, Inc., 54 U.S.P.Q.2d (BNA) 1571 (E.D. Pa. 2000) (stating that a breach of contract claim based on a shrinkwrap license would not be preempted by copyright law), *later proceeding at* 2001 U.S. Dist. LEXIS 15904 (E.D. Pa. July 25, 2001).

120. *Vault II*, 847 F.2d at 269.

121. *Id*. (quoting Vault Corp. v. Quaid Software Ltd., 655 F. Supp. 750, 763 (E.D. La. 1987) (Vault I)).

122*. Id.* at 257 n.2.

licensed computer program.[123] The court found that because the Louisiana Act "'touched upon the area' of federal copyright law, its provisions were preempted and Vault's license agreement was unenforceable."[124] The court supported its decision by noting that "the Supreme Court held that '[w]hen state law touches upon the area of [patent or copyright statutes], it is "familiar doctrine" that the federal policy "may not be set at naught, or its benefits denied" by the state law.'"[125]

Thus, the Supreme Court and others have recognized that the legislative intent was not to preclude preemption of breach of contract claims, but was in fact meant to preempt breach of contract claims that dealt with rights within the scope of those rights protected under the copyright act.[126] Although *Bowers* and *ProCD* found that between private parties,[127] the extra element of bargain allegedly distinguished the contract claim from a copyright claim, this extra element is not present in shrinkwrap licenses. Not only is this extra element absent from shrinkwrap licenses, but § 301's contemplation of rights, rather than claims, supports preemption in borderline areas where contract law might frustrate the purposes of federal copyright law.

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123. *Id*. at 269.

124. *Id.* (quoting *Vault I*, 655 F. Supp. at 763).

125. *Id*. (alterations in original) (quoting Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 229 (1964)) (citation omitted).

126. *See* Cmty. for Creative Non-Violence v. Reid, 490 U.S. 730, 740 (1989) ("Establishment of a federal rule of agency, rather than reliance on state agency law, is particularly appropriate here given the Act's express objective of creating national, uniform copyright law by broadly preempting state statutory and common-law copyright regulation."); *Sears, Roebuck & Co*., 376 U.S. at 228 (stating that federal policy cannot be set at naught). See also *Harper & Row, Publishers, Inc. v. Nation Enterprises*, wherein the court stated that allowing states to

> expand the perimeters of copyright protection to their own liking, on the theory that preemption would be no bar to state protection of material not meeting federal statutory standards . . . would run directly afoul of one of the Act's central purposes, to "avoid the development of any vague borderline areas between State and Federal protection."

723 F.2d 195, 199–200 (2d Cir. 1983) (quoting H.R. Rep. No. 94-1476, at 130 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5746.)

127. The court uses the word "private" to describe the shrinkwrap license agreement. *See* Bowers v. Baystate Techs., Inc., 320 F.3d 1317 (Fed. Cir.), *cert. denied*, 123 S. Ct. 2588 (2003). As *ProCD* mentioned, "A copyright is a right against the world. Contracts, by contrast, generally affect only their parties. . . ." ProCD v. Zeidenberg, 86 F.3d 1447, 1454 (7th Cir. 1996). This distinction is not probative because, as argued herein, where shrinkwrap licenses are unconscionable, there is no assent and no contract is formed. Nevertheless, this Comment asserts that there is no bargain, whether private or not, present in shrinkwrap licenses.

3. Distinguishing Bowers *and* ProCD*: Shrinkwrap licenses do not embody an extra element*

Even assuming, arguendo, that preemption is properly determined by applying the extra element test, breach of contract claims based on shrinkwrap license agreements do not embody the extra element of bargain as *Bowers* and *ProCD* suggest.[128] First, this extra element is absent because shrinkwrap licenses are contracts of adhesion that offer no opportunity for bargaining.[129] Second, this extra element is absent because contract claims involving shrinkwrap licenses are unconscionable. Additionally, this extra element is illusory because it is possible to tenuously construe any transaction as embodying bargain or an implied agreement. Finally, perpetuation of this extra element improperly empowers state law in a "vague borderline area" where Congress intended federal law to dominate.

Shrinkwrap licenses do not embody the extra element of bargain because they are contracts of adhesion.[130] An adhesion contract is

> a standardized contract form offered to consumers of goods and services essentially on a "take it or leave it" basis, *without affording the consumer a realistic opportunity to bargain*, and under such conditions that the consumer cannot obtain the desired product or service except by acquiescing to the form of the contract.[131]

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128. Garry L. Founds argues that such an argument is implausible; his concerns are addressed below. *See* Founds, *supra* note 49, at 108 (stating that because shrinkwrap contracts are generally enforceable as implied contracts, they should not be treated any differently than any other negotiated agreement).

129. While this argument may appear to mix state law principles with federal law principles, the extra element analysis necessarily invokes such a discussion where bargains are considered to be the extra element present in shrinkwrap licenses. It is possible to argue that shrinkwrap licenses should not be enforced solely from a contract law perspective. *See id.* (arguing that for clarity, the issues of unconscionability and lack of negotiation should be resolved by turning to basic contract law). While this is true, these contract issues are bundled into the federal arguments made in *Bowers* and *ProCD*, and thus are best responded to in that same context.

130. For a discussion of why shrinkwrap licenses should be considered contracts of adhesion, see Goodman, *supra* note 11, at 354–59. *See also Bowers*, 320 F.3d at 1336–37 (Dyk, J., dissenting); Monsanto Co. v. McFarling, 302 F.3d 1291 (Fed. Cir. 2002) (reasoning that contracts of adhesion are "form contracts that are not subject to negotiation"); W. David Slawson, *Standard Form Contracts and Democratic Control of Lawmaking Power*, 84 HARV. L. REV. 529, 566 (1971) ("[Contracts] of adhesion do not express consent.").

131. Bernstein v. GTE Directories Corp., 827 F.2d 480, 482 (9th Cir. 1987) (emphasis added); *see also* Shaffer v. Graybill, 68 Fed. Appx. 374 (3d Cir. 2003); Ting v. AT&T, 319 F.3d 1126 (9th Cir. 2003); Gray v. Am. Express Co., 743 F.2d 10 (D.C. Cir. 1984).

Adhesion contracts allow a company with tremendous bargaining power[132] to bind a consumer, without any bargaining power, to a "take it or leave it" ultimatum. Following the analysis employed by one court, a shrinkwrap license is a contract of adhesion because the license consists of standardized terms, the proffering party has far superior bargaining power, and the license is offered on a nonnegotiable "take it or leave it" basis.[133] There is no assent (and therefore no bargain) where there is a gross inequality of bargaining power together with terms that unreasonably favor the licensor.[134] Therefore, the extra element of bargain is not present in contract claims involving shrinkwrap licenses.[135]

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132. With regard to computer software, software developers enjoy a tremendous amount of bargaining power. Often, they have a monopoly on software that is compatible to specific hardware devices; upgrades and older versions of software must be compatible, etc. A consumer cannot easily "shop around" between software developers to find software that is compatible with the consumer's hardware.

133. *Guthman v. La Vida Llena*, spelled out the requirements for an adhesion contract:

> Three elements must be satisfied before an adhesion contract may be found. First, the agreement must occur in the form of a standardized contract . . . . Second, the party proffering the standardized contract must enjoy a superior bargaining position . . . . Finally, the contract must be offered to the weaker party on a take-it-or-leave-it basis, without opportunity for bargaining.

709 P.2d 675, 678 (N.M. 1985) (quoting Albuquerque Tire Co. v. Mountain States Tel. & Tel. Co., 697 P.2d 128, 131–32 (1985)); *see also* SoftMan Prods. Co. v. Adobe Sys., 171 F. Supp. 2d 1075, 1088 (C.D. Cal. 2001) ("These courts have refused to recognize a bargain in shrinkwrap license that is not signed by the party against whom it is enforced." (citing Step-Saver Data Systems, Inc. v. Wyse Technology, 939 F.2d 91 (3d Cir. 1991), and Vault Corp. v. Quaid Software Ltd., 847 F.2d 255 (5th Cir. 1988) (Vault II))).

134. This proposition is supported by the RESTATEMENT (SECOND) OF CONTRACTS § 208 cmt. d (1981):

> But gross inequality of bargaining power, together with terms unreasonably favorable to the stronger party, may confirm indications that the transaction involved elements of deception or compulsion, or may show that the weaker party had no meaningful choice, no real alternative, or did not in fact assent or appear to assent to the unfair terms.

Id. See also Alexander v. Anthony Int'l, L.P., 341 F.3d 256, 265 (3d Cir. 2003) (citing the commentary on the RESTATEMENT (SECOND) OF CONTRACTS).

135. The author limits this assertion to shrinkwrap licenses commonly used in commercial transactions. While broad, this category of licenses seeks to exclude situations wherein parties enter into contracts with prior knowledge of the contract terms, prior experience with the other party, or where both parties have in fact consummated the contract after some negotiation. For example, where a party receives license materials under contract that he will later pay for the use of the materials, the extra element is the promise to pay. *See* Wrench LLC v. Taco Bell Corp., 256 F.3d 446 (6th Cir. 2001) (finding that the extra element of a promise to pay for the use of the work distinguished the contract claim from a copyright claim). However, the author suggests that shrinkwrap licenses commonly used in commercial transactions are presented only after the payment

Nevertheless, Garry L. Founds argues that the element of bargain is inherent in all contracts, and therefore "renders contract rights innately different from copyright rights."[136] This logic invariably leads to the conclusion that every contract claim would escape preemption. Several courts have repudiated this assertion.[137] Even *ProCD* stated, "Like the Supreme Court in *Wolens*, 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."[138] The reason for this repudiation is clear: if no contract involving the rights of § 106 could ever be subjected to federal preemption, lawyers could dictate the application of copyright law through shrinkwrap licenses.[139] Copyright law cannot be deprived of the power to preempt claims bearing the name "contract" that only regulate the rights enumerated in § 106.[140]

Founds also suggests that the extra element of bargain is present in shrinkwrap licenses because they are usually enforced as implied

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is tendered, and the prospective licensee is unfamiliar with the terms of the license and unable to negotiate any of these terms.

136. *See* Founds, *supra* note 49, at 107.

137. For example, in *Wrench LLC*, the court noted:

In finding that appellants' state law contract claim is not preempted, we do not embrace the proposition that all state law contract claims survive preemption simply because they involve the additional element of promise. . . . If the promise amounts only to a promise to refrain from reproducing, performing, distributing or displaying the work, then the contract claim is preempted.

256 F.3d at 457; *see, e.g.*, ProCD v. Zeidenberg, 86 F.3d 1447, 1454 (7th Cir. 1996); Rosciszewski v. Arete Assocs., Inc, 1 F.3d 225 (4th Cir. 1993) (finding that a breach of contract claim was preempted by copyright law because it did not contain an extra element that distinguished it from copyright law); Nat'l Car Rental Sys., Inc. v. Computer Assocs. Int'l, Inc., 991 F.2d 426, 431–33 (8th Cir. 1993); *see also* Info. Handling Servs. v. LRP Publ'ns, Inc., 54 U.S.P.Q.2d (BNA) 1571 (E.D. Pa. 2000) (stating that a breach of contract claim based on a shrinkwrap license would be preempted by copyright law because it contained no extra element); *see generally Vault II*, 847 F.2d at 269 (finding that a provision in the Louisiana License Act prohibiting adaptation or decompilation of a computer program was preempted by federal copyright law because it touched upon an area of federal copyright law, the preemption of which in turn preempted the shrinkwrap license relying on the Louisiana Act).

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

139. *See* Slawson, *supra* note 130, at 529.

140. *See* 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 1.01(B)(1)(a) at 1–22 (2003) ("Although the vast majority of contract claims will presumably survive scrutiny . . . nonetheless pre-emption should continue to strike down claims that, though denominated 'contract,' nonetheless complain directly about the reproduction of expressive materials.").

agreements between the parties.[141] However, as cited by Founds, *Restatement (Second) of Contracts* section 211(3) suggests that "[w]here the other party has reason to believe that the party manifesting such assent would not do so if he knew that the writing contained a particular term, the term is not part of the agreement."[142] It is reasonable to believe that prospective licensees would not enter into shrinkwrap licenses if they understood that entering into such constituted a waiver of their federal rights.[143] Although Founds also states that there are "compelling policy arguments for the necessity of adhesion contracts," such policy arguments deal only with the importance of simplification of the procedure and cost associated with negotiated contracts.[144] While this policy is important to the purpose of "promot[ing] the Progress of Science and [the] Arts,"[145] Congress has nevertheless stated that copyright law should dominate in the "vague borderline areas between State and Federal protection."[146] A further discussion of the merits of federal policy in this area follows below.[147]

The extra element of bargain is absent because contract claims based on shrinkwrap licenses are unconscionable. While an analysis of unconscionability may seem more appropriate in the context of state contract law, it is appropriate in this discussion because the determination of unconscionability ultimately bears on an interpretation of federal copyright policy.[148] Unconscionability requires a finding of

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141. *See* Founds, *supra* note 49, at 107 (citing the RESTATEMENT (SECOND) OF CONTRACTS section 211 to support the proposition that a party may manifest assent); *see also supra* notes 53–56 and accompanying text. The court in *I.Lan Systems, Inc. v. Netscout Service Level Corp.*, 183 F. Supp. 2d 328, 337 (D. Mass. 2002), considered the issue of whether a clickwrap agreement was enforceable. The court held that the clickwrap license was enforceable as an implied agreement because of the previous relationship of the parties and similar contracts that they had formerly entered into; thus, the later contract at issue was enforceable because it did not create an undue hardship on the licensee nor materially change the terms of previously-entered-into contracts. This finding of an implied agreement relies heavily on the previous contractual agreements between two savvy companies. This case should not stand for the broad proposition that every shrinkwrap license is enforceable; certainly, there are numerous cases in which unlearned and inexperienced consumers are forced to forgo statutory rights. In such cases, a greater level of scrutiny is appropriate in determining whether or not there is actual bargain.

142. RESTATEMENT (SECOND) OF CONTRACTS § 211(3) (1981).

143. *See infra* notes 148–54 and accompanying text.

144. *See* Founds, *supra* note 49, at 107.

145. U.S. CONST. art. I, § 8, cl. 8.

146. H.R. REP. NO. 94-1476, at 130 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5746.

147. *See infra* note 158 and accompanying text.

148. Slawson, *supra* note 130, observed:

procedural and substantive unconscionability.[149] Contract claims based on shrinkwrap licenses are procedurally unconscionable as contracts of adhesion;[150] however, the aspect of substantive unconscionability is a separate determination which requires state judges to interpret federal issues. A judge must weigh the value of federal rights against state rights arguably established through nonnegotiable "contracts" between parties of extremely different bargaining power. Substantive unconscionability is a federal issue masquerading as a state law issue because it involves consideration of a contract's reasonableness, commercial impact, and other policy matters that are best answered by federal copyright law.[151]

> There being no private consent to support a contract of adhesion, its legitimacy rests entirely on its compliance with standards in the public interest. The individual who is subject to the obligations imposed by a standard form thus gains the assurance that the rules to which he is subject have received his consent either directly or through their conforming to higher public laws and standards made and enforced by the public institutions that legitimately govern him.

Id. at 566.

149. *See* Alexander v. Anthony Int'l, L.P., 341 F.3d 256, 265 (3d Cir. 2003) ("Courts have generally recognized that the doctrine of unconscionability involves both 'procedural' and 'substantive' elements."). Procedural unconscionability involves a consideration of how the contract is negotiated, inequality of bargaining power, and the way in which the terms are presented. *See* Ferguson v. Countrywide Credit Indus., 298 F.3d 778 (9th Cir. 2002). Substantive unconscionability focuses on the effects beyond the contract itself. *See* U.C.C. § 2-302 (2003) (reciting the elements considered in an unconscionability determination); *see, e.g.*, Circuit City Stores, Inc. v. Mantor, 335 F.3d 1101, 1107 (9th Cir. 2003) ("Substantive unconscionability concerns the 'terms of the agreement and whether those terms are so one-sided as to shock the conscience.'" (quoting Ingle v. Circuit City Stores, Inc., 328 F.3d 1165, 1172 (9th Cir. 2003))) (citations omitted); Harris v. Green Tree Fin. Corp., 183 F.3d 173, 181 (3d Cir. 1999) ("Substantive unconscionability refers to contractual terms that are unreasonably or grossly favorable to one side and to which the disfavored party does not assent."); Carlson v. Gen. Motors Corp., 883 F.2d 287, 296 n.12 (4th Cir. 1989) (stating that "substantive unconscionability reminds us of contracts or clauses contrary to public policy or illegal" (quoting 1 J. WHITE & R. SUMMERS, UNIFORM COMMERCIAL CODE § 4-3 (3d ed. 1988))); Raasch v. NCR Corp., 254 F. Supp. 2d 847, 860 (S.D. Ohio 2003) (reasoning that substantive unconscionability involves a determination of reasonableness and policy).

150. Because the nature of shrinkwrap licenses is the same as contracts of adhesion, such licenses are procedurally unconscionable. See *supra* Part III.A.3 for a discussion of shrinkwrap licenses as contracts of adhesion. *See, e.g.*, Ting v. AT&T, 319 F.3d 1126, 1148 (9th Cir 2002) ("A contract is procedurally unconscionable if it is a contract of adhesion, *i.e.*, a standardized contract, drafted by the party of superior bargaining strength, that relegates to the subscribing party only the opportunity to adhere to the contract or reject it."); *Ferguson*, 298 F.3d at 783 (finding that an employment contract presented on a "take it or leave it" basis was procedurally unconscionable as a contract of adhesion); Circuit City Stores v. Adams, 279 F.3d 889, 893 (9th Cir.), *cert. denied*, 535 U.S. 1112 (2002); Flores v. Transamerica HomeFirst, Inc., 113 Cal. Rptr. 2d 376, 382 (Cal. Ct. App. 2001) ("A finding of a contract of adhesion is essentially a finding of procedural unconscionability.").

151. *See supra* note 149. The author submits that the policy considerations inherent in evaluating the substantive conscionability of shrinkwrap licenses are central to the policy

The text and legislative history of § 301, as discussed above,[152] suggest that contract claims based on shrinkwrap licenses are substantively unconscionable because they seek to protect the same rights as copyright law does. Additionally, federal law should preempt shrinkwrap license provisions that seek to subdue the fair use rights granted to the public under § 117 of the Copyright Act.[153] Finally, contracts based on shrinkwrap licenses are substantively unconscionable because these would allow shrinkwrap license drafters to expand state law protections beyond the limits already established by federal law.[154] Therefore, the extra element of bargain is not present where shrinkwrap licenses are unconscionable.

The extra element of bargain appears illusory because it can be viewed as tightly bound with almost any transaction between parties, thus making it difficult to argue that it belongs solely to contract law. For example, a copyright claim incorporates bargain. The copyright owner agrees to disclose the copyrightable expression in order to further the "Progress of Science and [the] Arts,"[155] and in return, the government bestows the valuable consideration of a copyright, which allows the copyright owner to bring suit against alleged infringers;[156] thus, this transaction involves bargain. Such an interpretation is not unlike what the courts have done in parsing legal lines in order to develop a so-called extra element that distinguishes contract and shrinkwrap claims that ultimately involve equivalent rights under § 106. While many of the extra elements used by courts in the past have been significant,[157] there is no such significance when dealing with bargain. Because bargain is an extra element that can be tenuously extracted from any transaction, it

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considerations of federal copyright law, and a determination of substantive unconscionabilty must take into consideration the policy underlying federal copyright law.

152. *See supra* Part III.A.2.

153. See *infra* Part III.B.2 for a discussion of how shrinkwrap licenses conflict with the fair use doctrine.

154. This argument suggests that by drafting shrinkwrap licenses, lawyers could thereby engage in the lawmaking process. This concern was identified by W. David Slawson over thirty years ago. *See* Slawson, *supra* note 130. Slawson argues in part that because standard form contracts dominate society and involve terms that are not agreed upon, but rather imposed, lawyers are able to engage in the lawmaking process. *Id.*

155. U.S. CONST. art. I, § 8, cl. 8.

156. *See* 17 U.S.C. § 411(a) (2000) ("[N]o action for infringement of the copyright in any United States work shall be instituted until registration of the copyright claim has been made in accordance with this title.").

157. *See* listing of cases *supra* note 87.

appears nonsubstantive and arbitrary. Even in the context of copyright, it is possible to argue that any user of a copyrighted work enters into an implied agreement with the copyright owner not to infringe the § 106 rights. Clearly, it would not be proper to allow breach of contract claims based on the bargain involved in these implied agreements. Furthermore, as discussed in the following paragraph, where overlap between contract and copyright law results in vagueness, copyright law should control.

Finally, the extra element of bargain is not proper because this controversy lies in "vague borderline areas between State and Federal protection" wherein Congress intended federal law to dominate.[158] The intent of Congress was to allow § 301 to be powerful in such areas. The situation in *Bowers* was extremely sympathetic: Baystate reverse engineered and began marketing Bowers' software. This created intense competition in the marketplace and forced Bowers to bundle the software with another company's (Cadkey) software, likely suffering economically as a result. Shortly thereafter, Baystate took over Cadkey and eliminated Bowers from the Cadkey network. However, this Comment submits that even in vague borderline areas warranting sympathy from the courts, Congress has indicated that federal law should dominate.

For the foregoing reasons, courts should not rely on the extra element of bargain to deny preemption of contract claims based on shrinkwrap licenses. However, due to the threat that shrinkwrap licenses also pose to the doctrine of fair use found in § 107 of the Copyright Act, such licenses should be preempted by copyright law based on a conflict preemption analysis.

B. Conflict Preemption is Proper Where Shrinkwrap Licenses Threaten the Fair Use Doctrine

It has been argued that "[a] state is not free to eliminate the fair use defense."[159] If copyright law cannot preempt breach of contract claims based on shrinkwrap licenses, then fair use is vitiated. In other words, because the fair use doctrine only provides exceptions to copyright infringement, persons making a fair use of a copyrighted work would not be insulated from breach of contract claims.[160] Thus, allowing breach of

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158. H.R. REP. NO. 94-1476, at 130 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5746.

159. Bowers v. Baystate Techs., Inc., 320 F.3d 1317, 1336 (Fed. Cir.) (Dyk, J., dissenting), *cert. denied*, 123 S. Ct. 2588 (2003).

160*. See* 17 U.S.C. § 107.

contract claims based on shrinkwrap licenses sets at naught the fair use doctrine and the purposes of Congress.[161] This result should be avoided for two reasons. First, it is improper to not preempt shrinkwrap agreements that are "far broader [in scope] than the protection afforded by copyright law."[162] Second, the purposes and policy of copyright law support preemption of shrinkwrap licenses.

1. Shrinkwrap licenses may eliminate fair use by protecting rights that are broader than the rights protected under copyright law

Evisceration of fair use, accomplished when breach of contract claims based on shrinkwrap licenses overcome corresponding federal copyright claims, allows shrinkwrap licenses to create a form of protection greater than that available under copyright or patent law.[163] Without fair use, shrinkwrap licenses would cause copyright protection to "extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work."[164] Thus, by simply using shrinkwrap licenses on her software, a software developer would be able to create protection for her ideas akin to patent protection (much broader than copyright protection),[165] and thereby create rights that are equivalent to the separate rights protected under the Copyright and Patent Acts.[166] Because the creation of these rights is untenable and even precluded under copyright and patent law,[167] shrinkwrap licenses must be preempted.

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161. See the discussion of the purposes of Congress in enacting the Copyright Act and § 301 *supra* Part III.A.2.

162. *Bowers*, 320 F.3d at 1326.

163. To be sure, computer software protection under the copyright law is notably distinct from patent protection and protection under the DMCA. In order to obtain a patent for a computer software program, the program must meet the elevated requirements of novelty, nonobviousness, and originality. The patentee of a computer program could then successfully sue for unauthorized use of her *idea*, *process*, or *method* of operation or equivalents thereof. Copyright protection is a lesser form of protection than that of a patent. Copyright protection extends only to "original works of authorship," and a remedy under copyright law is only available when factual copying is proved, as discussed above. See §§ 102 and 103 of the Copyright Act cited *supra* note 77.

164. 17 U.S.C. § 102(b).

165. For a brief description of the difference between copyright and patent protection, see *supra* notes 37–38 and accompanying text.

166. *See* 17 U.S.C. § 301(a); 35 U.S.C. §§ 101–102.

167. Section 301(a), as discussed previously in this Comment, prohibits the creation of state rights that are equivalent to the rights protected under the Copyright Act. *See* 17 U.S.C. § 301(a).

2. Conflict preemption of shrinkwrap license terms that eviscerate the fair use doctrine is proper

Conflict preemption is appropriate where state contract law, as applied to shrinkwrap licenses, conflicts directly with the fair use doctrine of § 107 of the Copyright Act. State law may be displaced under a conflict preemption analysis[168] when that state law "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress."[169] This form of preemption has also been compared to preemption under the Supremacy Clause; that is, it is a form of preemption "that goes beyond [§] 301 to discuss whether . . . state law . . . is an 'obstacle' to the objectives of the Copyright Act."[170] This section presents the conflict between § 107 of the Copyright Act and state law, delineates some of the goals of copyright law, and shows how the evisceration of the fair use doctrine by shrinkwrap license contravenes these goals. Finally, this section submits that under the conflict preemption analysis, contract claims based on shrinkwrap contracts should be preempted by federal law in order to eliminate the conflict with § 107 and thereby protect the fair use doctrine.

As an initial matter, the conflict preemption analysis, based in policy considerations, is different from the preemption analysis under § 301. While a § 301 analysis preempts state rights that are equivalent to federal rights, conflict preemption weighs the *effect* of the state claim against the underlying policy of the Copyright Act.[171] Thus, conflict preemption arises when a state law compromises the purposes and objectives of Congress because "federal policy 'may not be set at naught, or its benefits denied' by the state law."[172]

Shrinkwrap license prohibitions often conflict with the fair use doctrine in § 107 of the Copyright Act. As detailed above,[173] the fair use doctrine is important for educational institutions, libraries, and various

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Additionally, the Patent Act prohibits the creation of patent-like rights unless obtained through a valid patent. *See* 35 U.S.C. §§ 101–102.

168. *See supra* note 72.

169. Jones v. Rath Packing Co., 430 U.S. 519, 526 (1977) (quoting Hines v. Davidowitz, 312 U.S. 52, 67 (1941)).

170. Founds, *supra* note 49, at 104 n.21 (quoting Robert P. Merges et al., Intellectual Property in the New Technologies Age 812–13 (1997)).

171. Founds, *supra* note 49, at 104.

172. Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 229 (1964) (quoting Sola Elec. Co. v. Jefferson Elec. Co., 317 U.S. 173, 176 (1942)).

173. *See supra* Part II.A.2.

other individuals who use copyrighted works in areas such as teaching, comment, criticism, and scholarship.[174] Reverse engineering is a valid fair use which encourages innovation and technological progress.[175] However, where shrinkwrap license provisions prohibit the right to access, copy, dissemble, decompile, or convert software for noncommercial purposes,[176] they conflict with federal law and an analysis under conflict preemption is appropriate.

The purposes and goals of copyright law are apparent from case law regarding the Copyright Act. The Supreme Court outlined the goals of copyright law in *Campbell v. Acuff-Rose Music*:[177] "[T]he goals of the copyright law [are] 'to stimulate the creation and publication of edifying matter'"[178] and "to promote science and the arts."[179] The Court added that "the goal of copyright, to promote science and the arts, is generally furthered by the creation of transformative works."[180] Critical to the goal of progress, the Copyright Act provides the digital fair use exception to copyright infringement that allows others to build on and benefit from the work of others.[181] Thus, shrinkwrap license provisions that nullify these federally granted rights should be preempted by copyright law under a conflict preemption analysis.

Shrinkwrap license restrictions on archival copying of copyrighted materials conflict with § 107 because archival copying is a defensible fair use. Under the fair use analysis, although archival copying is a direct and complete copy of the copyrighted work, the effect on the market and the purpose and character of use justify treating archival copying as a fair use.[182] Simply put, archival copying allows consumers to protect their investment by creating personal copies that would be used only if the original is destroyed. Thus, there is no effect on the original market.[183]

174. *See supra* notes 4, 22.

175. *See supra* note 62 and accompanying text.

176. For an example of such a license, refer to the Vault license described in Part II.B.2.b.

177. 510 U.S. 569 (1994).

178. *Id.* at 578 n.10 (quoting Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1134 (1990)).

179. *Id.* at 579.

180. *Id.*

181. 17 U.S.C. § 107 (2000); *see supra* Part II.A.2 for a discussion of the doctrine of fair use and its purposes.

182. *See* 17 U.S.C. § 107.

183. It may be argued that archival copying does create some effect on the original market because the replacement copies of the lost or destroyed software are never purchased. But if a developer only licenses the software to the consumer, then the initial purchase of the software

Backing up copyrighted works for archival storage and protection is not sinister in character. It is merely a noncommercial use that insulates the consumer. Restrictions on the fair use of archival copying found in shrinkwrap licenses should therefore be preempted under conflict preemption.

Shrinkwrap license restrictions on reverse engineering also conflict with § 107. As mentioned above, reverse engineering has been identified as a valid fair use.[184] Restrictions on reverse engineering do not "promote science and the arts" because these prohibitions stifle teaching, criticism, research, and technological progress in general.[185] The importance of reverse engineering is embodied in the statement: "Innovation is not a private act—it is seldom the product of a single individual's intellectual brilliance. Innovation is a product of the connections between individuals and their ideas. . . . It is the constant interplay of ideas, perspectives, experiences and values that spawns innovation."[186] A restriction on reverse engineering through shrinkwrap licenses slows innovation because it inhibits research and development of new ideas and technologies.[187] Shrinkwrap restrictions on the fair use of reverse engineering found in shrinkwrap licenses should therefore be preempted under conflict preemption.

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accounts for a purchased license to use the software, and a replacement purchase would amount to the purchase of a second license. Where a license has already been properly acquired, it may seem unfair to require the purchase of duplicative licenses when the original software is lost or destroyed.

184. *See supra* note 62 and accompanying text.

185. *Campbell*, 510 U.S. at 579. It is also possible to argue that restricting reverse engineering promotes the science and the arts. This argument suggests that a developer would therefore be able capitalize on her own work instead of losing profits to competitors who develop takeoffs. While this is facially convincing, it fails to consider that courts are willing to hold alleged infringers liable where the accused article is a rough equivalent of the copyrighted work. *See supra* note 62 and accompanying text. This reality should change the way reverse engineering is viewed; reverse engineering should be considered an altruistic activity that is educational and scholarly. Regardless, unscrupulous competitors who use reverse engineering to create rough equivalents will likely be held liable for the same. This reasoning is supported by the policy for allowing reverse engineering propounded in *Campbell v. Acuff Rose Music*, 510 U.S. at 578 n.10. *See supra* note 178 and accompanying text.

186. GARY HAMEL, LEADING THE REVOLUTION 280 (2000).

187. While one may argue that the reverse engineering of computer software cannot be a fair use because it may ultimately have a commercial goal (eventual creation of a competing product), such circumstances are contemplated by the purposes of copyright law. As stated in *Campbell*, the goals of copyright are furthered by the creation of transformative works. *Campbell*, 510 U.S. at 579. Furthermore, the monopoly created by copyright law serves to entice software developers to develop new and improved technologies, and such technological progression must necessarily follow a predecessor.

Shrinkwrap license restrictions on converting or translating software also contradict § 107 of the Copyright Act. These restrictions frustrate the purposes of copyright law because they create artificial barriers to information and may result in perpetual monopolies over nonprotectable information thereby suffocating innovation.[188] Typically, a software program is designed to be interoperable with only a few other programs. Under the terms of a shrinkwrap license, however, users are forbidden from adapting these programs to suit their needs.[189] This restriction creates a barrier on the fair use doctrine that would otherwise protect consumers' right to noncommercial adaptation of computer software.[190] Congress was careful to avoid such a restriction when drafting the DMCA. Although the DMCA forbids "accessing" a computer program, it carves out an exception for activities that are necessary to achieve interoperability with other programs (which is a fair use).[191] This example should serve as an archetype when courts consider the validity of shrinkwrap restrictions on fair uses. Ultimately, shrinkwrap license restrictions on the fair uses of converting or translating software for noncommercial purposes should be preempted under conflict preemption.

Several courts have already used the conflict preemption analysis to allow copyright law to preempt state claims. In *Associated Film Distribution Corp. v. Thornburg*,[192] the Federal District Court for the Eastern District of Pennsylvania found that a claim based on Pennsylvania law was preempted by federal copyright law, because where the two are in conflict, "the Supremacy Clause [i.e., federal law] is decisive."[193] Additionally, the rationale in *Vault Corp. v. Quaid Software*

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188. Some may argue that in the world of computer software a copyright is "perpetual" because the software protected thereunder would likely become obsolete prior to the end of the term of the copyright. While this might be true in some cases, the monopoly authorized by the Constitution is certainly not "limited" when uncopyrightable material is protected by a shrinkwrap license. *See* U.S. CONST. art. I, § 8, cl. 8.

189. For an example of such a license, refer to the Vault license described *supra* in Part II.B.2.b.

190. Along these same lines, the court in *Vault* found that the Louisiana License Act was preempted by federal law because it allowed software developers to prohibit adaptation and decompilation of computer programs in direct conflict with § 117 of the Copyright Act. *See* Vault Corp. v. Quaid Software Ltd., 847 F.2d 255, 269 (5th Cir. 1988) (Vault II).

191. *See* 17 U.S.C. § 1201(f) (2000).

192. 520 F. Supp. 971, 993 (E.D. Pa. 1981), *rev'd and remanded on other grounds*, 683 F.2d 808 (3d Cir. 1982).

193. *Id.*

Ltd.[194] suggests that the court based its decision, at least in part, on conflict preemption. The Fifth Circuit found that because the Louisiana License Act "'touched upon the area' of federal copyright law, its provisions were preempted and Vault's license agreement was unenforceable."[195]

In summary, conflict preemption is appropriate where contract claims based on shrinkwrap licenses conflict with the fair use doctrine of § 107 of the Copyright Act. Finding to the contrary would allow state contract law to subdue the fair use doctrine, contravening important policy considerations supporting fair use. Furthermore, as the next part demonstrates, shrinkwrap licenses are becoming increasingly unnecessary due to the sharp judicial awareness of the peculiarities of the software industry, the collective desire to protect developer interests, and the ability to do so with effective tools.

IV. SHRINKING NEED FOR SHRINKWRAPS: COPYRIGHT LAW AND THE DMCA, TEMPERED BY THE TRADITIONAL FAIR USE ANALYSIS, PROTECT THE INTERESTS OF THE PUBLIC AND OF SOFTWARE DEVELOPERS

The power of the Copyright Act makes shrinkwrap licenses unnecessary. An application of copyright law, tempered by the doctrine of fair use, can protect the interests of software developers without creating conflicts with federal law. For example, in a world without shrinkwrap licenses, where a party purchases software and later makes unauthorized commercial use of it, copyright law would ensure a fair solution. The accused infringer may assert a digital fair use defense, but a court would likely dismiss the fair use defense due to the commercial nature of the use and its effect on the product's market. Of course, in other situations where a fair use exists, a court will properly find against infringement. These equitable results can be achieved without relying on shrinkwrap licenses that subdue the fair use doctrine of § 107. Therefore, through an application of copyright law and the digital fair use doctrine, courts can protect the economic interests of computer developers.[196]

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194. *Vault II*, 847 F.2d at 269.

195. *Id.* (quoting Vault Corp. v. Quaid Software Ltd., 655 F. Supp. 750, 763 (E.D. La. 1987) (Vault I)).

196. This assertion is founded in an economic, rather than a moral-based, rationale. *See supra* note 14. Although it has been suggested that copyright law is now applied with a moralistic approach, O'Rourke, *supra* note 14, at 483 & n.15, the practical economic effect of the author's

The four prongs of the fair use analysis require the court to consider (1) the commercial nature, character, and purpose of the use; (2) the nature of the copyrighted work; (3) the amount and substantiality of the copyrighted work that was used; and (4) "the effect of the use upon the potential market for or value of the copyrighted work."[197]

The first prong requires a court to analyze "the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes."[198] In *Campbell v. Acuff Rose Music*,[199] the Court noted that this prong first determines whether the use is for criticism, teaching, comment, news reporting, or other uses found in § 107; the purpose of this inquiry is to determine whether or not the use is *transformative*.[200] In *Campbell*, the Court reversed a finding of infringement because 2 Live Crew's use of Roy Orbison's "Oh, Pretty Woman" was sufficiently transformative and would therefore not affect the original market.[201] When applying the first prong to the computer software market, a court would likely find any use that interferes with the commercial interests of a computer developer weighs against a finding of fair use. However, consumers' free use of copyrighted materials for limited personal, noncommercial purposes, such as archival copying, would not likely violate this prong. Judicial adherence to the traditional fair use analysis will ensure that infringing software users will be punished and that the public's right to make fair use of copyrighted digital materials will be protected.

The second and fourth prongs of the fair use analysis require the court to consider "the nature of the copyrighted work"[202] and "the effect of the use upon the potential market for or value of the copyrighted work."[203] In considering the effect of the use on the market, a court determines whether the allegedly infringing work is a "substitute for the original [that] usurp[s] a market that properly belongs to the copyright

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assertion that *copyright law adequately protects the economic interests of computer developers* must be considered.

    197.   17 U.S.C. § 107 (2000).

    198*. Id.* § 107(1).

    199.   510 U.S. 569 (1994).

    200*. Id*. at 578–79.

    201*. Id*. at 594. The court reasoned that the parodic rap song produced by 2 Live Crew targeted a different market than the original version of the song. Therefore, there would be no commercial effect of 2 Live Crew's use on the original market of Roy Orbison's song.

    202.   17 U.S.C. § 107(2).

    203*. Id.* § 107(4).

holder."[204] These prongs allow the courts to consider the special nature of computer software—that any unauthorized commercial use may significantly impair the value of the software for the computer developer.[205] Considering this, courts may hold allegedly infringing activities to a higher level of scrutiny. Courts may accomplish this by increasing the burden of proof of innocence placed on the accused infringer.

Finally, courts carefully weigh "the amount and substantiality of the portion used in relation to the copyrighted work as a whole,"[206] understanding that even minimal use of the heart of a computer software program can harm the software developer. It is not requisite to prove *exact* copying; a court may use its latitude to show *legal* copying, i.e., *substantial similarity*.[207] Under this prong, courts have long been able to penalize unscrupulous competitors when "substantial similarity" and "proof of access" can be shown.[208]

In the end, shrinkwrap licenses are unnecessary because the Copyright Act creates a refuge that is robust enough to protect the interests of software developers, and circumspect enough to preserve the fair use doctrine. Copyright law has not lost its power to punish those who offend the policies of the Copyright Act. Where unscrupulous competitors raise the fair use defense to a claim of infringement, courts can consider the entire landscape of the case and make appropriate decisions. By applying the traditional fair use analysis, courts are capable of protecting the interests of the public and of software developers.[209]

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204. Nunez v. Caribbean Int'l News Corp., 235 F.3d 18, 24 (1st Cir. 2000) (quoting Infinity Broad. Corp. v. Kirkwood, 150 F.3d 104, 110 (2d Cir. 1998)).

205. "Commercial use" in this context refers to a use that may affect the value of the software, whether or not the user profits from the commercial use. It is clear that sales of unauthorized copies will directly affect the market of the original work. However, a commercial use would also include instances where software is simply made available to others for pirating. Pirating invariably has an effect on the market because it steals away prospective purchasers.

206. 17 U.S.C. § 107(4).

207. Actual copying is shown where the defendant has copied portions of the copyrighted work verbatim. Legal copying is proven on a sliding scale: the plaintiff must show that the defendant's work is substantially similar to the copyrighted work and that the defendant had access to the copyrighted work.

208. *See, e.g.*, Ty, Inc. v. GMA Accessories, Inc., 132 F.3d 1167, 1169–70 (7th Cir. 1997); Atari Games Corp. v. Nintendo of Am. Inc., 975 F.2d 832, 844 (Fed. Cir. 1992) ("Even in the absence of verbatim copying, a copyright owner may show infringement 'by showing that the infringer had access to the work and that the two works are substantially similar.'" (quoting Shaw v. Lindheim, 919 F.2d 1353, 1356 (9th Cir. 1990))).

209. It is possible to argue that the interests of software developers are not served because without shrinkwrap licenses the burden on software developers would increase because causes of

V. CONCLUSION

Copyright law should preempt breach of contract claims based on shrinkwrap licenses for several reasons. First, preemption is proper under § 301 of the Copyright Act. Courts that have refused preemption under § 301 by applying the extra element test have improperly based their decision on the extra element of bargain—an element that is not present in shrinkwrap licenses because there is no other option to the consumer but to accept the license or return the software to the developer.

Second, preemption is necessary in order to preserve the digital fair use doctrine from evisceration. This doctrine should not be nullified by shrinkwrap licenses because it serves the underlying policies of copyright law, "to stimulate the creation and publication of edifying matter"[210] and "to promote science and the arts."[211] Evisceration of the fair use is problematic because it allows shrinkwrap licenses to create a form of protection greater than that available under copyright or patent law. By weighing the practical effects of the shrinkwrap licensing provisions against the purposes of copyright law, courts should be moved to invalidate such provisions.

Finally, preemption of shrinkwrap licenses is proper because it still allows protection of software developers. Copyright law, tempered by the doctrine of fair use, makes shrinkwrap licenses unnecessary by sufficiently protecting the interests of software developers and the public.

Nathan Smith

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action in copyright tempered by a four-pronged fair use test would be more expensive to litigate than causes of action based in contract. The author first notes that no comprehensive studies have been produced regarding this concern. Second, while this is a valid concern, it depends greatly on the facts of each individual case. Generally, a breach of contract claim and a copyright claim will both require the plaintiff to prove several elements; in turn, the burden of proving defenses to both claims rests squarely on the accused. Thus, it is difficult to conclude that a copyright claim would be any more expensive to litigate than a breach of contract claim.

    210. Campbell v. Acuff-Rose Music, 510 U.S. 569, 578 n.10 (1994) (quoting Leval, *supra* note 178, at 1134).

    211. *Id.* at 579.