eContracts III: Limits on Contractual Terms

**READINGS**

**Part I**

**Public Policy Limitations on Contract Terms**

While contract law is in some sense "private" law, it still exists pursuant to a background of state law enforcement procedures. Therefore, it cannot be fully separated from public policy issues.

Some public policy issues are considered important enough that courts will refuse to enforce terms that conflict with them, or state law will often specifically prohibit contracts with specified terms. For example, UCITA itself contemplates such a limitation:

**SECTION 111. UNCONSCIONABLE CONTRACT OR TERM.**

(a) If a court as a matter of law finds a contract or a term thereof to have been unconscionable at the time it was made, the court may refuse to enforce the contract, enforce the remainder of the contract without the unconscionable term, or limit the application of the unconscionable term so as to avoid an unconscionable result.

(b) If it is claimed or appears to the court that a contract or term thereof may be unconscionable, the parties must be afforded a reasonable opportunity to present evidence as to its commercial setting, purpose, and effect to aid the court in making the determination.

Much of the controversy over UCITA and other eContracts has resulted from this question: where, if anywhere, are the limits to the terms of electronic contracts?

To investigate this question, review the following:


**Part 2:**

**Federal Preemption Issues**

Contract law is, as a general matter, a creature of state -- rather than federal -- law. Where terms of a contract purport to limit or alter the action of a federal law -- copyright law, for example -- the matter of federal preemption is raised.
This issue was raised in ProCD, because the plaintiff was using the shrinkwrap agreement to give itself copyright-like protections, notwithstanding that the subject matter of the software -- a CD-ROM of phone numbers -- was not subject to copyright protection.

ProCd v Zidenberg, 86 F.3d 1447 (7th Cir 1996). [pdf, 16 kb, edited]

There are other ways, of course, that the issue of preemption can arise in a contract dispute. In his article, Beyond Preemption, Mark Lemley of Boalt Hall suggests several ways that federal preemption is implicated in eContract issues:


NOTES & QUESTIONS

1. Much of the discussion about "limits" on terms is equally applicable to "normal" as well as electronic contracts. Are there reasons to consider electronic contracts differently from real-world contracts? That is, do electronic contracts raise special issues that we might not see (or might see less often) in typical contractual relationships? Do any differences justify a special approach?

2. As a practical matter, do you think that courts are likely to impose limits on eContracts?

3. What do you think of the ProCD decision with respect to preemption? Is Judge Easterbrook right that contracts are solely "private ordering" that does not "withdraw any information from the public"? What if I proposed a contract covering a copyrightable work that stated, in relevant part, the following: "you agree not to quite, cite, or otherwise discuss this work in any manner not explicitly approved by me." Do you see any problems with this?

4. Lemley notes that there are three basic kinds of preemption: (1) "field" preemption, where Congress has stated that an entire "field" is exclusively federal; (2) "conflicts" preemption, where a state law directly conflicts with a federal statute; and (3) "implied conflicts preemption", where a state law "stands in the way" of the achievement of Congressional objectives.

Copyright law has a "field" preemption statute, 17 U.S.C. § 301, which prevents state laws that grant rights "equivalent to any of the exclusive rights" in Copyright. ProCD, as you saw above, rejected that § 301 prevented the contract at issue there. But ProCd didn't address conflicts preemption. Why do you think? Should it have? Would the result have changed?

Note that in this regard, at least one court has held, as a matter of conflicts preemption, that shrinkwrap contracts purporting to eliminate the right of an owner of computer software to "reverse engineer" improvements or interoperability are unenforceable:


Note also the approach taken by the software owner in DSC v Pulse Communications, 170 F.3d 1354 (Fed. Cir. 1999). In that case, Pulse purchased software from DSC, which Pulse bundled with hardware that it in turn sold to third parties. DSC, wanting to expand into this market,
sued to prevent Pulse from using its software. DSC sold the software under a license agreement that expressly limited the right of Pulse to further transfer the software, a provision that runs counter to § 117 of the Copyright law. However, instead of finding conflicts preemption, the court stated:

Not only do the agreements characterize the [defendants] as non-owners of copies of the software, but the restrictions imposed on the [defendants]' rights with respect to the software are consistent with that characterization. In particular, the licensing agreements severely limit the rights of the [defendants] with respect to the software in ways that are inconsistent with the rights normally enjoyed by owners of copies of software. Section 106 of the Copyright Act, 17 U.S.C. § 106, reserves for a copyright owner the following exclusive rights in the copyrighted work: the right to reproduce the work; the right to prepare derivative works; the right to distribute copies of the work; the right to perform the work publicly; and the right to display the work publicly. Those rights are expressly limited, however, by sections 107 through 120 of the Act. Of particular importance are the limitations of sections 109 and 117. As we have seen, section 117 limits the copyright owner's exclusive rights by allowing an owner of a copy of a computer program to reproduce or adapt the program if reproduction or adaptation is necessary for the program to be used in conjunction with a machine. Section 109, which embodies the "first sale" doctrine, limits the copyright owner's otherwise exclusive right of distribution by providing, in relevant part, that the owner of a particular copy . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy.

Each of the agreements limits the contracting [defendants]'s right to transfer copies of the software or to disclose the details of the software to third parties. For example, [one] agreement provides that [defendants] shall "not provide, disclose or make the Software or any portions or aspects thereof available to any person except its employees on a 'need to know' basis without the prior written consent of [DSC] . . . ." Such a restriction is plainly at odds with the section 109 right to transfer owned copies of software to third parties. The agreements also prohibit the [defendants] from using the software on hardware other than that provided by DSC. If the [defendants] were "owners of copies" of the software, section 117 would allow them to use the software on any hardware, regardless of origin. Because the agreements substantially limit the rights of the [defendants] compared to the rights they would enjoy as "owners of copies" of the software under the Copyright Act, the contents of the agreements support the characterization of the [defendants] as non-owners of the copies of the software.

In light of the restrictions [**20] on the [defendants]' rights in the copies of the POTS-DI software, we hold that it was improper for the court to conclude, as a matter of law, that the [defendants] were "owners" under section 117 of the copies of DSC's software that were in their possession. The court was therefore incorrect to rule, at the close of DSC's case, that section 117 of the Copyright Act gave the [defendants] the right to copy the POTS-DI software when using Pulsecom's POTS cards without violating DSC's copyright in the software. Accordingly, we reverse the district court's order granting judgment for Pulsecom on DSC's contributory infringement claim.

What do you think of this analysis? Why didn't the DSC v Pulse court address preemption?

5. Lemley ultimately concludes that preemption is not the "silver bullet" for those who believe that eContracts are likely to contain onerous and one-sided terms. Why does he draw this conclusion? Do you think he's right?
III Public Policy Restrictions on Information Contracts

. . . Public policy limitations on contractual freedom are fairly common in our society. Article 2B itself acknowledges one such limitation - the contract doctrine of unconscionability. n179 Certain shrinkwrap license terms - such as those featured in a recent Dilbert cartoon n180 - may well be held unconscionable. But unconscionability is rarely used, n181 and it is not well-tailored to the needs of intellectual property law. In the intellectual property context, three sets of rules may supplement contract preemption: copyright misuse, federal public policy, and state public policy. Not all of these rules will apply in every case; there will still be plenty of room for contract law to operate. But its operation will not be unfettered by intellectual property policy. In this Part, I explain these three sets of rules and consider the limits they impose on contract terms.

A. Copyright Misuse

The doctrine of copyright misuse renders a copyright unenforceable if the copyright owner has engaged in certain sorts of misconduct in licensing or enforcing the copyright. n182 Copyright misuse is of relatively recent vintage. While the somewhat analogous doctrine of patent [*152] misuse has been around for a century, n183 courts in this century generally denied the existence of a copyright misuse defense. n184 Before 1990, only a handful of district courts had granted relief based on such a defense, n185 though others had acknowledged that the defense was available in appropriate circumstances. n186 Since 1990, several cases have found plaintiffs' copyrights unenforceable for misuse. n187 The circumstances in which they have done so are instructive for contractual restrictions on the use of copyrighted works.

In the context of patent misuse, there has been a long-standing debate over whether the misuse defense should be available only in circumstances in which the patentee has violated the antitrust laws. n188 Patent misuse case law is largely, but not entirely, coextensive with antitrust doctrine; certain conduct can constitute patent misuse but does not violate the antitrust laws. n189

[*153] By contrast, copyright misuse has departed rather markedly from antitrust principles. While Goldstein refers to the "antitrust misuse defense" in copyright, n190 and a number of early cases tested copyright misuse with explicit reference to antitrust principles, n191 most of the cases that have found copyright misuse have done so by employing copyright policy, not antitrust policy, as their rationale. n192 The basis for copyright misuse seems to be that courts should not assist the expansion of a copyright beyond its statutory bounds, as they would do were they to enforce an improperly-broadened copyright. n193 This policy is particularly strong when the agreement between the parties has significant external effects; n194 indeed, virtually all of the cases finding copyright misuse have that characteristic. There are a number of cases involving [*154] licensing that find or imply misuse; n195 I discuss two of these cases in more detail below.

[*155] In Lasercomb America, Inc. v. Reynolds, n196 the plaintiff brought a copyright claim to enjoin Reynolds from copying its computer-assisted die-making software. The district court found for plaintiff and enjoined the infringement. On appeal, the Fourth Circuit found that plaintiff was not entitled to relief because it had misused its
copyright by insisting upon and enforcing a standard form licensing agreement that attempted to expand its rights beyond those granted by copyright law. n197 In particular, the court noted that the licensing agreement contained clauses precluding any licensee or employee from developing any competing software for a period of 99 years. n198 Thus, it refused to permit the plaintiff to invoke the equity power of the courts to enforce the copyright, and reversed both the grant of injunctive relief and the award of damages. Notably, the court held that plaintiff's anticompetitive licensing provisions barred enforcement of the copyright despite the fact that defendants were not parties to the standard licensing agreement. n199 Also of note is that while the contract clauses at issue in Lasercomb probably had anticompetitive effects, there was no need for the court to find that the clauses themselves violated the antitrust laws.

More recently, in DSC Communications v. DGI Technologies, n200 the Fifth Circuit expressly tied the copyright misuse doctrine to the plaintiff's attempt to expand the copyright beyond its scope and "obtain a patent-like monopoly." n201 In that case, DSC sold a microprocessor card for use on its phone switches, which ran on DSC's copyrighted operating system. DGI wanted to sell a competing microprocessor card compatible with DSC's switch. In order to build a compatible card, DGI tested its card on a DSC phone switch, which necessitated making a temporary copy of the operating system in the [*156] switch. n202 The court rejected DSC's copyright infringement claim based on such temporary copying, finding that DSC's assertion of the claim was likely to constitute copyright misuse because it effectively asserted copyright control, not merely over the operating system software, but also over the unprotected microprocessor card. n203 For a court to find likely copyright misuse here, it necessarily had to conclude that DSC's copyright argument would prove unpersuasive, an issue on which other courts have disagreed. n204 The decision also suggests, however, that a copyright owner may commit misuse by improperly attempting to extend the power of the copyright beyond the scope granted by the law. As in Lasercomb, there is no antitrust analysis in the DSC opinion, suggesting that the court did not consider proof of an antitrust violation necessary for a finding of misuse.

By contrast, copyright owners seeking to expand the monopoly on their computer operating systems to cover hardware and software maintenance n205 have for the most part withstood attack under both antitrust and copyright misuse principles. n206 But it is worth noting that, in these cases, the determinative issue seems to have been whether copyright law extends to cover computer maintenance because it requires turning on the computer (and therefore loading the copyrighted software into RAM). For courts that believe this RAM copying is within the scope of the exclusive right to copy, the misuse issue should not arise because the copyright owner is not seeking to expand the scope of the copyright beyond its legal bounds. n207 On the other hand, those who find this [*157] construction of the copyright laws implausible n208 should be inclined to find misuse in this context. n209

Copyright owners who seek to obtain by contract what copyright law will not give them will have to face these cases. Like preemption, copyright misuse won't cover the full range of potentially troubling licensing practices. For one thing, copyright misuse is a defense limited to copyright cases, and therefore of uncertain applicability in cases in which copyright law denies all protection for a work. n210 It also may be of no help in cases in which only state law rights are at issue. n211 For example, a plaintiff who truly does "opt out" of copyright in favor of contract presumably would not be bound by the limits of the copyright misuse defense. And it might not bar a contract claim even if it barred a copyright claim in the same case. Furthermore, the misuse doctrine is a defense to an infringement claim, and it therefore won't help copyright owners who complain about improper licensing agreements forced upon them by licensees.

Nonetheless, copyright misuse doctrine readily disposes of the "contracts are different" canard, because it so clearly operates (as in Lasercomb) to restrict the enforcement of anticompetitive licensing provisions. It also may be more apt than fair use doctrine in preventing some anticompetitive extension of copyright. n212 In any event, copyright misuse can't be waived by contract. Furthermore, because copyright misuse is a fact-specific doctrine tailored to the circumstances of individual cases, it may prove a better tool both for tailoring copyright [*158] incentives and for avoiding the reticence that surrounds coarser tools such as preemption. n213

B. Licensing Contracts as Creatures of Federal Law

There is no general federal common law of intellectual property licenses, n214 as there is in a few other areas of federal law. n215 Rather, federal law generally relies on state contract doctrine to support the myriad contracts that revolve around federal intellectual property rights. n216 But in some circumstances, federal law overrides state contract doctrine, not in the sense of preemption but by declaring that certain contracts will be interpreted under federal rather than state law. The occasional willingness of federal law to assume responsibility for
interpreting intellectual property licenses places a second nonpreemption limit on the ability of Article 2B to change the rules of contract law in this field. n217

[*159] A variety of federal intellectual property doctrines trump state law. In some cases, notably assignments of copyrights and patents, the federal statute itself governs the way in which transfers can be lawfully made. n218 Even where the federal statute is silent, determinations of whether an intellectual property right may be transferred in a particular circumstance tend to be decided as questions of federal law. n219 The same is true of the rules for how the transfer must be recorded. n220 and perhaps [*160] even the basic rules of contract law under which the transfer will be interpreted. n221

Similarly, a variety of patent and copyright ownership rules are determined by federal law rather than state contract law, even in circumstances in which that determination requires the court to interpret an assignment agreement. n222 Whether a copyrighted work is initially owned by the individual creator or another depends on whether it is a work made for hire; that determination is made on the basis of federal law. n223 Federal estoppel doctrines (or their opposites) may supersede state contract law interpretation, such as when assignors are precluded from [*161] challenging patent validity. n224 or licensors are permitted to do so. n225 In addition, if the interpretation of a contract requires a determination of the existence or scope of a federal right, such as a patent, that determination will be made as a matter of federal rather than state law. n226

An instructive case is S.O.S., Inc. v. Payday, Inc., n227 in which the court noted that state contract law could not be applied where it interfered with copyright law or copyright policy. n228 The district court had applied a California rule of contract construction which requires that courts interpret contracts against the drafter. The Ninth Circuit held that the California rule could not be applied to copyright license agreements because it was "contrary to [the] federal copyright policy" that licenses do not imply grant rights not expressly authorized. n229 While one can agree or disagree with the substantive result in this case - I for one don't find it terribly persuasive n230 - it is worth noting that even core canons of contract interpretation are not immune from the dictates of federal policy. n231

Other cases do not involve federal law interpretation of a contract per se, but impose federal restrictions on contract terms in order to protect important aspects of federal policy. n232 One might think of these cases as analogous to ones in which state courts invalidate contracts on grounds of public policy, but here the public policy at issue derives [*162] from federal rather than state law. n233 In a number of trademark cases, for example, federal policy restricts the enforceability of a franchise trademark licensing agreement because unrestricted licensing of a trademark is inconsistent with the goals of trademark law. n234 Another example is Fasa Corp. v. Playmates Toys, Inc., n235 where the court held that the parties to a settlement agreement could not waive all future intellectual property claims that might later arise. n236 One can readily imagine other circumstances in which federal policy might step in to preclude contract enforcement. For example, it is well-established that once an invention is patented, trade secret protection for that invention is lost. n237 If a patentee tried to require that a licensee continue to treat the patented invention as a trade secret, that agreement might well be invalid on federal public policy grounds. n238

In short, parties that would enforce contract terms cannot look only to state law in the wake of Article 2B. In some cases, such as those dealing with ownership and transfers, state law simply may not be the source [*163] of the interpretive rule. n239 While federal courts could conceivably adopt Article 2B by analogy in such cases, it is unlikely that they will so readily cede substantive control over a choice that they have already decided to make a question of federal law. Furthermore, even if Article 2B applies in contract interpretation, the contract terms are not immune from the dictates of federal policy. As seen above, in cases in which the contract threatens a significant federal interest, courts have shown no hesitation in interposing federal law as a limit on contractual freedom. As the conflict between federal policy and contract law sharpens in the wake of Article 2B, it would seem quite reasonable to expect an expanded role for federal public policy limits on contract enforcement. For example, a court might well conclude that a "no-reverse-engineering," "no-criticism," or "no-parody" clause in a contract was unenforceable as a matter of federal policy, without invoking the mechanisms of preemption.

C. State Public Policy Limits on Intellectual Property Contracts

State law and public policy also place limits on the freedom of contract afforded in state contract law. These limits are of two types. First, contract law itself typically will refuse to enforce certain types of contract terms, such as those that are unconscionable. Because these public policy restraints are internal to contract law, their continued existence depends on the way the contract statute is drafted. Article 2B contains a few such restrictions, although as noted above, it contains fewer such provisions than does its Article 2 counterpart. n240 Moreover, even though Article 2B provides
that substantively unconscionable contract terms will not be enforced. \n
Article 2 cases makes it clear that courts rarely invoke the unconscionability doctrine to strike terms. Article 2B also contains a host of procedural restraints. For example, it requires certain terms to be conspicuous, or to be separately assented to, in order to be enforceable. Article 2B includes fewer such restrictions than does existing law, and it makes its procedural protections easier to waive by changing the meaning of a "contract." \n
A second set of state law public policy restrictions on contractual freedom comes from sources external to contract law, such as state intellectual property statutes or decisions. The clearest example in the intellectual property context has to do with noncompetition agreements. Enforceability of these agreements varies from state to state, but virtually all states impose some restriction on the enforceability of noncompetition agreements as a matter of public policy, and courts have not hesitated to invalidate such agreements. Some states impose an overarching requirement of reasonableness, including limits on the permissible scope and duration of the agreement. Others refuse to enforce noncompetition agreements at all in certain circumstances, such as contracts for employment at will. Most restrictive are California and a few other states, which ban noncompetition agreements entirely in the employment context, and subject them to stringent conditions in other contexts.

The state interest in promoting these public policies can be quite strong. A California court recently took the position that a noncompetition agreement entered into in another state could not be enforced in California against the company that hired a departing employee, even though the noncompetition agreement was between two non-California parties and was valid in the jurisdiction in which it was signed. This raises the possibility that California's interest in preventing such contracts is so strong that California state courts will deny full faith and credit to the judgments of another state.

State public policy interests in limiting the enforcement of contracts are not limited to the enforceability of noncompetition agreements. States have imposed similar restrictions on "trailer clauses," which require the assignment of inventions by former employees for a certain period after they leave their job. A number of states have statutes restricting the circumstances in which employers can compel their employees to assign inventions made during the course of employment. Other states have expressed public policy interests in various aspects of trade secret law, in some cases refusing to allow the parties to preclude reverse engineering, or to extend trade secret protection beyond the time a secret is publicly disclosed. And while the issue has not been litigated, I strongly suspect that trade secret policy will declare a widely distributed computer program like Windows to have lost trade secret protection at some point, despite efforts to characterize all of the hundred million or more sales as subject to nondisclosure agreements. Contract terms ancillary to an unenforceable provision may also be struck down on public policy grounds.

Finally, states have public policy interests that come from sources other than intellectual property law, but that may also place limits on Article 2B. For example, most states have antitrust statutes, and the application of those state antitrust laws will presumably constrain the enforcement of contracts under Article 2B. Most states also consider the common law policy against restraints on alienation to be a bedrock principle of the law. Article 2B represents a direct attack on this principle, both because it will validate "contract" terms that run with the information and because some of its provisions explicitly attach to the information even after transfer. There is a real conflict between this principle and Article 2B.

State intellectual property policies are entitled to just as much deference as any other state public policy, and perhaps as much as federal policies. Certainly where the intellectual property right is created by the state itself, as in the case of trade secrets or the right of publicity, the state has a strong interest in defining the scope and limits of that right. State public policies that arise from intellectual property law should prevail in the face of Article 2B-endorsed contract terms to the contrary, just as analogous federal policies would. Whether they will do so is the subject of the next Section.

D. The Interaction of Public Policy and Article 2B

1. Doctrinal Questions

Article 2B acknowledges (as it must) that state contract law cannot override federal law. But preemption will not be the only federal limit on the enforcement of contracts in the Article 2B world. To the extent that it applies, there is no question that the copyright misuse doctrine will prevail over anticompetitive terms - at least by precluding enforcement
of the copyright in federal court, and perhaps by invalidating the term entirely. Indeed, the February Draft of Article 2B for the first time explicitly recognized copyright misuse doctrine as a potential limit on contract terms. n264 Similarly, it seems clear that federal public policy will prevail over state contract law. Federal policy interests can invalidate contractual provisions in a wide variety of contexts, from agreements to arbitrate Title VII n265 employment disputes n266 to agreements to pay fact witnesses for their testimony. n267 To hold that federal interests in intellectual property policy must be subordinated to state contract law would effectively set those interests at naught, in violation of the Supremacy Clause.

A more difficult question is presented by state public policy restrictions. Clearly there is no reason to expect that the public policies currently embedded in contract law should be enforced in the Article 2B world. Because these policies are creatures of contract law, a new contract law can change them. Thus, should the drafters of Article 2B choose to abolish such contract law protections (as they have done in [*168] allowing vendors to effectively eliminate all warranties in most contracts), n268 and should state legislatures choose to enact such a new rule, there is no barrier to their doing so.

The same may not be true, however, of public policies embedded in state intellectual property laws. As a general rule, state contract law is subject not only to its internal constraints, but also to public policies that come from other state law sources, including statutes and judicial decisions. n269 State courts will refuse to enforce contracts that violate such noncontractual public policy rules. For example, a contract to murder someone - or a contract to pay for "legal" services rendered by someone who is not a member of the bar - may be perfectly valid as a matter of contract law, but courts will still refuse to enforce them. n270 Contractual freedom is subject not only to the dictates of state law, but also to the requirements of other applicable state and federal laws. n271

Judicial refusal to enforce contract terms because of conflicting state policy should not depend on whether the contract statute was enacted before or after other state laws. State legislatures are not obliged to reenact all their laws of general applicability every time they change contract law. n272 Put another way, one should not assume that enactment of Article 2B works an implied repeal of preexisting public policy rules. The more logical approach is to require the legislature to repudiate existing law unambiguously if it really wishes to change it. Article 2B should therefore not be read to repudiate generally applicable principles of state intellectual property law without clear guidance from the legislatures.

The August Draft discusses its interaction with other state laws in some detail. n273 Section 2B-105(d) provides that conflicting state statutes and regulations prevail over Article 2B in cases in which the state law "establishes a consumer protection." n274 What a "consumer protection" is in this context is ambiguous; one might construe any number of state rules that restrict the scope of trade secrets as "consumer protections," for example.

[*169] In addition, the August Draft provides that "principles of law and equity supplement this article," and in particular that trade secret laws and unfair competition laws are "not displaced" by Article 2B. n275 This language is encouraging, because it suggests in an open-ended way that existing rules of law and equity, as well as the "fundamental public policy" grudgingly included in section 105(b), n276 all survive the enactment of Article 2B. The fact that these equitable rules "supplement" rather than supersede the provisions of Article 2B nonetheless calls for some searching judicial inquiry into the relationship between these various areas of law. It would seem just as unreasonable to supersede judicial expressions of public policy impliedly as it would to directly supersede statutory rules. After all, both statutes and the common law reflect public policy concerns that arise outside of contract law. Indeed, overriding state policy with Article 2B might be worse for common law public policy rules than for statutes. Statutes can be reenacted, but a body of common law decisions cannot easily be recreated by a legislature. It is also worth noting that prior provisions of the U.C.C. have left many such common law doctrines intact. n277

2. Normative Questions

To be sure, not everyone is happy with the idea that public policy overrides contract. Judge Easterbrook has suggested that it should do so only rarely, n278 and advocates of a strong form of private ordering often suggest that "the market" will do a better job of determining public policy than "the law." n279 Robert Gomulkiewicz derides this effort to balance between policy and freedom of contract as "over-regulating" by the government. n280 But in fact, intellectual property is a prime example of an area in which we cannot simply rely on "the agreement of the parties" to choose our public policy. This is true partially because intellectual property licenses are notoriously fallible as indicators of the "intent" of the parties; n281 as we proceed to remove all trace of assent [*170] from the notion of contract, n282 the philosophical basis for private ordering disappears as well. n283
But the problem is more fundamental than this. Intellectual property is a deliberate, government-sponsored departure from the principles of free competition, designed to subsidize creators and therefore to induce more creation. n284 This departure from the competitive model affects third parties who are not participants in the contract. n285 If I agree not to criticize, parody, reverse engineer, improve, adapt, or extend your work, I am not the only one who pays the price for that agreement. All those consumers who would have bought my new product lose value as well, and that value simply isn't accounted for in the deal between the parties. n286 It can't be, because I myself would not be able to capture the full social surplus from those people who would buy my improved product. n287 This potential surplus is accounted for by the constraints and dictates of intellectual property law - it is the very reason intellectual property provides only a limited incentive and not complete control. n288 Those intellectual property rules may not always be pretty, or easy to [*171] determine, and they certainly aren't perfect descriptions of an optimal incentive structure. n289 But they are at least an effort to arrive at the right balance of incentives - an effort that would never even be made were we to leave social ordering entirely in the hands of private parties. n290

**Conclusion**

Article 2B may well usher in a brave new world in which the predominant protection provided to intellectual property owners is based on contract rights, not on property rules. n291 But that new world will not be entirely free from the constraints of intellectual property policy. Contract terms that flagrantly conflict with federal law, or that upset the balance struck by that law, may be preempted. Even if they are not, a wide variety of state and federal public policy rules, including the doctrines of patent and copyright misuse, will limit the enforceability of contract terms that threaten federal policy.

It is worth noting that most (though by no means all) of the examples of federal policy interests I have discussed involve limits on the ability of intellectual property owners to expand protection, not limits on the ability of licensees to defeat protection. That is, most of the policy interests reflect ceilings rather than floors on the scope of protection. This is no accident. Intellectual property has always reflected a rough effort to balance the incentives of creators against the needs of particular consumers, improvers, and the public. n292 Historically, this has generally meant that the law must protect creators against the vagaries of the market; the most obvious threat to the balance came from rampant piracy, not excessive control over copyrighted works. But as Article 2B expands those intellectual property owners' power to obtain through contract law everything that intellectual property would give them and more, the role of intellectual property law must necessarily shift. Instead of being primarily a creator protection statute, intellectual property will [*172] become more and more a consumer protection law. And if Article 2B is enacted, consumers will certainly need one.

**FOOTNOTES:**


n180. In the cartoon, Dilbert inadvertently agrees to "spend the rest of my life as a towel boy in Bill Gates' new mansion" when he opens a piece of shrinkwrapped software without reading the entire agreement first (on file with author, pasted to his office door).


n183. For a history of the patent misuse doctrine, see 3 Donald S. Chisum, Chisum on Patents 19.04 (1998).

n184. See 2 Goldstein, supra note 134, at 9:35-36 (citing cases). Goldstein notes, however, that the cases expressing skepticism about the copyright misuse defense "should be taken with a grain of salt" because they are generally older cases, and the recent trend seems to be to recognize the defense. Id.
extend its control into neighboring markets, see David McGowan, Regulating Competition in the Information Age: Economic Effects, in control over a strong network market, see Mark A. Lemley & David McGowan, Legal Implications of Network notes, certain copyright licensing practices in the software context may raise antitrust concerns because they either lock misuse is limited to cases in which the antitrust laws are violated). U.S.C. 102 misuse might be appropriate to prevent a copyright owner from capturing protection for an idea in violation of (describing misuse as "an equitable defense to an infringement action" that applies where "the copyright is being used in a manner violative of the public policy embodied in the grant of a copyright"). cf. Bateman v. Mnemonics, Inc., 79 F.3d 1532, 1547 (11th Cir. 1996) (saying that copyright misuse might be appropriate to prevent a copyright owner from capturing protection for an idea in violation of 17 U.S.C. 102(b)). But see Reed-Union Corp. v. Turtle Wax, Inc., 77 F.3d 909 (7th Cir. 1996) (saying that copyright misuse is limited to cases in which the antitrust laws are violated).

Whether or not Peggy Radin is correct that one should never be held to things that one has written more than two years before, see Margaret Jane Radin, Reinterpreting Property 1 (1993), I must here confess error in this debate. I now believe that there may be circumstances in which rules peculiar to antitrust law make it appropriate to apply the misuse doctrine but do not warrant invocation of antitrust law. So too with copyright law. The application of the patent (or copyright) misuse doctrines, however, should be coupled with a reasonable mechanism to link the harm charged with the remedy administered; on that point (the thesis of my earlier paper), I am resolute. See Lemley, supra note 52, at 1614-20.

Notable on this list is extension of a patent license beyond the term of the patent. See Brulotte v. Thys Co., 379 U.S. 29, 38 n.3 (1964) (dissenting opinion). Other possible examples include non-metered royalties, grantback clauses, and resale field-of-use restrictions. See Richard Calkins, Patent Law: The Impact of the 1988 Patent Misuse Reform Act and Noerr-Pennington Doctrine on Misuse Defenses and Antitrust Counterclaims, 38 Drake L. Rev. 175, 187 n.38 (1989) (cataloguing types of patent misuse defenses). In addition, even where patent misuse covers the same conduct as antitrust law, it may be easier to prove because it does not always require proof of market power or anticompetitive effect. See Lemley, supra note 52, at 1611-13.


n188. See USM Corp. v. SPS Tech., Inc., 694 F.2d 505, 512 (7th Cir. 1982) (discussing whether patent misuse should be coextensive with antitrust law); Phillip Areeda & Louis Kaplow, Antitrust Analysis 183 (4th ed. 1987); Cohen, supra note 62, at 1191 (arguing for different rules); Lemley, supra note 52, at 1599 (arguing that the two doctrines should be coextensive, but noting that currently they are not); Robert P. Merges, Reflections on Current Legislation Affecting Patent Misuse, 70 J. Pat. & Trademark Off. Soc'y 793 (1988) (arguing for different rules).

Whether or not Peggy Radin is correct that one should never be held to things that one has written more than two years before, see Margaret Jane Radin, Reinterpreting Property 1 (1993), I must here confess error in this debate. I now believe that there may be circumstances in which rules peculiar to antitrust law make it appropriate to apply the misuse doctrine but do not warrant invocation of antitrust law. So too with copyright law. The application of the patent (or copyright) misuse doctrines, however, should be coupled with a reasonable mechanism to link the harm charged with the remedy administered; on that point (the thesis of my earlier paper), I am resolute. See Lemley, supra note 52, at 1614-20.

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2 Goldstein, supra note 134, at 9:38-1 to 9:39 and cases cited therein.

n190. See BellSouth Advertising & Pub'l'g Corp. v. Donnelley Information Publ'g, Inc., 933 F.2d 952, 961 (11th Cir. 1991) (refusing to find copyright misuse "in the context before us because there is no antitrust violation"), vacated, 977 F.2d 1435 (1992); CBS v. American Soc'y of Composers, Authors & Publishers, 562 F.2d 130, 141 n.29 (2d Cir. 1977) (finding misuse on grounds coextensive with antitrust violation), rev'd, 441 U.S. 1 (1978); 4 Nimmer on Copyright, supra note 191, at 13-284 (referring to "misuse through violation of the antitrust laws," but also noting broader readings of copyright misuse).

n191. See Practice Management Info. Corp. v. American Med. Ass'n, 121 F.3d 516, 521 (9th Cir. 1997), amended by 133 F.3d 1140 (1998) (suggesting that copyright misuse need not constitute an antitrust violation); Lasercomb Am., Inc. v. Reynolds, 911 F.2d 970, 978 (4th Cir. 1990) (describing misuse as "an equitable defense to an infringement action" that applies where "the copyright is being used in a manner violative of the public policy embodied in the grant of a copyright"); cf. Bateman v. Mnemonics, Inc., 79 F.3d 1532, 1547 (11th Cir. 1996) (suggesting that copyright misuse might be appropriate to prevent a copyright owner from capturing protection for an idea in violation of 17 U.S.C. 102(b)). But see Reed-Union Corp. v. Turtle Wax, Inc., 77 F.3d 909 (7th Cir. 1996) (suggesting that copyright misuse is limited to cases in which the antitrust laws are violated).

This is not to say that a finding of copyright misuse could never be grounded in antitrust doctrine. As McGowan notes, certain copyright licensing practices in the software context may raise antitrust concerns because they either lock in control over a strong network market, see Mark A. Lemley & David McGowan, Legal Implications of Network Economic Effects, 86 Calif. L. Rev. 479, 523-41 (1998); McGowan, supra note 145, at 69, or allow a copyright owner to extend its control into neighboring markets, see David McGowan, Regulating Competition in the Information Age:

Finally, it should be noted that while this Section focuses on the rationales courts have used to find misuse, many - indeed most - cases considering a copyright misuse claim have not found misuse. I hope my presentation of the former set of cases will not mislead anyone into thinking that defendants arguing misuse always - or even often - prevail.


n194. See Merges, supra note 1, at 1606 n.96 ("Under...[misuse] doctrines, courts refuse to enforce voluntary, bilateral contracts that presumably benefit both parties.... The only workable rationale for such a prohibition must be that the contracts, though mutually beneficial to the contracting parties, harm third parties.").

n195. See Lasercomb America, Inc. v. Reynolds, 911 F.2d 970 (4th Cir. 1990), and DSC Communications Corp. v. DGI Technologies, 81 F.3d 597 (5th Cir. 1996), which are discussed below. See also Practice Management Info. Corp. v. American Med. Ass'n, 121 F.3d 516, 520-21 (9th Cir. 1997), amended by 133 F.3d 1140 (1998) (finding that AMA license of its works to government agency on the condition that they did not use a competing work was copyright misuse, even though the clause was not enforced); PRC Realty Sys., Inc. v. National Ass'n of Realtors, No. 91-1125, 1992 U.S. App. LEXIS 18017, at *36 (4th Cir. Aug. 4, 1992) (invalidating a license agreement for copyright misuse because it precluded competition by licensees); F.E.L. Publications, Ltd. v. Catholic Bishop, 214 U.S.P.Q. 409, 413 n.9 (7th Cir. 1982) (noting in dictum that "it is copyright misuse to exact a fee for the use of a musical work which is already in the public domain"); Tamburo v. Calvin, No. 94 C 5206, 1995 U.S. Dist. LEXIS 3399, *16-18 (N.D. Ill. Mar. 17, 1995) (holding that a software license agreement that prevents the development of competing products, whether or not based in software, constituted patent misuse); qad, inc. v. ALN Assocs., 770 F. Supp. 1261, 1267-69 (N.D. Ill. 1991) (holding that wrongly asserting copyright infringement on the basis of material that in fact plaintiff copied from another was copyright misuse, and precluding plaintiff from asserting even the original portions of the copyrighted work), aff'd, 974 F.2d 834 (7th Cir. 1992); Broadcast Music, Inc. v. Moor-Law, Inc., 527 F. Supp. 758, 772 n.24 (D. Del. 1981) ("Copyright misuse and antitrust analysis in this area are not necessarily coextensive."); Vogue Ring Creations, Inc. v. Hardman, 410 F. Supp. 609, 615-16 (D.R.I. 1976) (finding that material misstatements in copyright registration form constituted copyright misuse); cf. Coleman v. ESPN, Inc., 764 F. Supp. 290, 295 (S.D.N.Y. 1991) (holding that defendant could proceed to trial on its copyright misuse defense).

Commentators are also divided on whether copyright misuse is broader than antitrust law, but lean heavily towards the view that it is. See Sean Michael Aylward, The Fourth Circuit's Extension of the Misuse Doctrine to the Area of Copyright: A Misuse of the Misuse Doctrine?, 17 U. Dayton L. Rev. 661, 692 (1992) (stating that copyright misuse doctrine is broader than antitrust law, but shouldn't be); Cohen, supra note 62 (arguing for application of misuse outside the antitrust context); Timothy H. Fine, Misuse and Antitrust Defenses to Copyright Infringement Actions, 17 Hastings L.J. 315 (1965) (arguing that misuse can occur without an antitrust violation); Marshall Leaffer, Engineering Competitive Policy and Copyright Misuse, 19 U. Dayton L. Rev. 1087, 1099-1100 (1994) ("Most courts have declared that the misuse defense does not require proof of an antitrust violation."); John G. Mills, Possible Defenses to Complaints for Copyright Infringement and Reverse Engineering of Computer Software: Implications for Antitrust and I.P. Law, 80 J. Pat. & Trademark Off. Soc'y 101, 119 (1998).
For an interesting argument that network effects in the software industry support reliance on misuse principles independent of antitrust, see White, supra note 63, at 277-80; cf. Mark A. Lemley & David McGowan, Could Java Change Everything? The Competitive Propriety of a Proprietary Standard, 43 Antitrust Bull. (forthcoming Fall 1998) (discussing the problems in applying both antitrust and intellectual property law in network industries); Lemley & McGowan, supra note 192, at 500-41 (same).

n196. 911 F.2d 970 (4th Cir. 1990).

n197. See id. at 978.

n198. See id. at 978.

n199. See id. at 979. This remedial approach is analogous to the one I have criticized in the patent misuse cases. See Lemley, supra note 52, at 1614-20. Fortunately, other courts and commentators have suggested that the copyright misuse doctrine may be more narrowly tailored than the patent misuse doctrine. See Midway Mfg. Co. v. Artic Intl, Inc, 211 U.S.P.Q. 1152, 1161 (N.D. Ill. 1981) (stating that a copyright misuse defense is allowed only when "the plaintiff's transgression...relates directly to the subject matter of the infringement action"); 2 Goldstein, supra note 134, at 9:39 (suggesting that to prevail, the defendant must show that "the alleged anticompetitive conduct relates directly to the claim of copyright infringement"). One patent misuse case has also imposed a similar requirement. See Kolene Corp. v. Motor City Metal Treating, Inc., 440 F.2d 77, 85 (6th Cir. 1971) ("The misconduct must be connected with the matter in litigation...").

n200. 81 F.3d 597 (5th Cir. 1996).

n201. Id. at 601.

n202. See id. at 599.

n203. See id. at 601.

n204. See MAI Sys. Corp. v. Peak Computing, Inc., 991 F.2d 511, 518 (9th Cir. 1993) (holding that the making of temporary copies of the operating system in a chip is copyright infringement). For a discussion of the debate over the meaning of fixation in the digital context, see Lemley, Overlapping Copyrights, supra note 15, at 550-52 (discussing cases and legislative history on both sides of the issue); Litman, Exclusive Right, supra note 63, at 40.

n205. The paradigm case is MAI Systems Corp., 991 F.2d at 518, which found copyright infringement based on such a claim.


n207. The holding in In re Independent Service Organizations, for example, is dependent on this conclusion. See 910 F. Supp. at 1543 (considering antitrust liability based on the assumption that RAM copying was copyright infringement). Indeed, the same court later concluded that whether there was copyright misuse in the case before it depended on a question of material fact: "the scope of Xerox's copyrights." In re Independent Serv. Orgs. Antitrust Litig., 964 F. Supp. 1469, 1477 (D. Kan. 1997).

n208. This group includes virtually all commentators who have considered the issue. See supra note 63 (collecting commentators).

n209. See, e.g., DSC, 81 F.3d at 601; Tricom, 902 F. Supp. at 745 (stating that a copyright owner cannot "enforce its copyright to violate the antitrust laws or indeed use it in any "manner violative of the public policy embodied in the grant of a copyright") (quoting Lasercomb America, Inc. v. Reynolds, 911 F.2d 970, 978 (4th Cir. 1990))). The Tricom court found that the plaintiff's MAI-based RAM copying claim did not preclude antitrust liability. See Tricom, 902 F. Supp. at 745; see also 4 Nimmer on Copyright, supra note 127, at 13-290 to 291 (arguing that the Independent Service Organizations cases "overly constrict" the misuse defense); cf. Independent Service Organizations, 964 F. Supp. at 1477 (appearing to condition misuse determination on copyright determination).

n210. In a case such as ProCD v. Zeidenberg, 86 F.3d 1447 (7th Cir. 1996), though, the doctrine might still be applicable because the plaintiff asserted a claim for copyright infringement despite the clear contrary authority of Feist
In re Enzo APA & Son, Inc. v. Geapag A.G., 134 F.3d 1090, 1093 (Fed. Cir. 1998) (holding that patent plaintiff lacked standing to file suit as patentee because purported exclusive license was not in writing, as federal case law requires).

cf. nonexclusive license could be implied under federal law notwithstanding contrary state rules of contract interpretation); 109 F.3d 1567, 1571 (Fed. Cir. 1996) (concluding that a claim based on breach of contract litigation...into full blown antitrust litigation.

Further, if McGowan is correct that copyright law takes a different approach to enhancing social welfare than either antitrust or contract, see McGowan, supra note 145; McGowan, Regulating Competition, supra note 192, at 773-78, applying the principles of copyright stands the best chance of correctly resolving a conflict between copyright and contract.


n216. See, e.g., Dow Chemical Co. v. Exxon Corp., 139 F.3d 1470, 1474 (Fed. Cir. 1998) (noting the "traditional domain" of state law in interpreting patent contracts); Nimmer et al., supra note 8, at 26-27.

n217. One should distinguish the application of federal law and policy from litigation in federal court. See Jim Arnold Corp. v. Hydrotech Sys., Inc., 109 F.3d 1567, 1571 (Fed. Cir. 1996) (concluding that a claim based on breach of patent license is a state law claim over which the federal courts had no jurisdiction). Federal law may apply even though the dispute is litigated in state court. Indeed, in cases such as Consolidated Kinetics Corp. v. Marshall, Neil & Pauley, Inc., 521 F.2d 1209, 1212-13 (Wash. Ct. App. 1974), and Lear Siegler, Inc. v. Sargent Industries, Inc., 374 A.2d 273, 276-77 (Del. Super. Ct. 1977), in which the state court actually determines the validity of the patent in the course of deciding a licensing dispute, there seems to be no question that federal law and policy must apply. See generally Donald Shelby Chisum, The Allocation of Jurisdiction Between State and Federal Courts in Patent Litigation, 46 Wash. L. Rev. 633 (1971) (discussing federal patent cases litigated in state court). And one case even dismissed federal jurisdiction over a copyright infringement complaint because it concluded that the copyright suit was "incidental" to a contract dispute over ownership of the copyright, and that the dispute belonged in state court. See Robinson v. Princeton Review Inc., 41 U.S.P.Q.2d 1008, 1012 (S.D.N.Y. 1996). This fact, in itself, has disturbed some commentators who worry that sensitive issues of federal law are being decided by state courts which may not fully understand them. See Mark J. Henry, State Courts Hearing Patent Cases: A Cry for Help to the Federal Circuit, 101 Dick. L. Rev. 41 (1996) (arguing that state courts are incapable of understanding complex issues of patent policy and that all patent license and assignment disputes should be decided by federal courts).

n218. See, e.g., 17 U.S.C. 204 (1994); 35 U.S.C. 261 (1994); Jacob Maxwell Inc. v. Veeck, 110 F.3d 749, 752 (11th Cir. 1997) (holding that an oral agreement to grant exclusive copyright license was invalid under federal law, but that a nonexclusive license could be implied under federal law notwithstanding contrary state rules of contract interpretation); cf. Enzo APA & Son, Inc. v. Geapag A.G., 134 F.3d 1090, 1093 (Fed. Cir. 1998) (holding that patent plaintiff lacked standing to file suit as patentee because purported exclusive license was not in writing, as federal case law requires).

This is not to say that courts necessarily agree on how section 204 is to be interpreted. Compare Konigsberg Int’l Inc. v. Rice, 16 F.3d 355, 357 (9th Cir. 1994) (holding that section 204 requires a negotiated agreement to prevent...

n219. See, e.g., Everex Co. v. Cadtrak Corp., 89 F.3d 673, 679 (9th Cir. 1996) (holding that assignability of nonexclusive patent license was a question of federal, not state, law); S.O.S., Inc. v. Payday, Inc., 886 F.2d 1081, 1088 (9th Cir. 1989) ("The license must be construed in accordance with the purposes underlying federal copyright law. [State contract law can be enforced] only to the extent such rules do not interfere with federal copyright law or policy."); Harris v. Emus Records Corp., 734 F.2d 1329, 1333 (9th Cir. 1985) (holding that federal law governs transferability of nonexclusive copyright licenses); PPG Indus., Inc. v. Guardian Indus. Corp., 597 F.2d 1090, 1093 (6th Cir. 1979) (holding that assignability of nonexclusive patent license was a question of federal rather than state law); Unarco Indus., Inc. v. Kelley Co., 465 F.2d 1303, 1306 (7th Cir. 1972) (same); Tasini v. New York Times Co., 972 F. Supp. 804, 807 (S.D.N.Y. 1997) (holding that attempt by publishers to license electronic reprint rights from authors by including a legend on the royalty check was ineffective under federal law); In re Patient Education Media, Inc., 210 B.R. 237, 240 (Bankr. S.D.N.Y. 1997) (holding that debtor cannot assign nonexclusive license without consent of copyright owner). But cf. Yount v. Acuff Rose-Opryland, 103 F.3d 830, 835 (9th Cir. 1996) (holding that a contract assigning royalty interests in copyright, but not the copyright itself, is construed under state law); Farmland Irrigation Co., Inc. v. Dopplmaier, 308 P.2d 732, 737-39 (Cal. 1957) (stating that no federal patent policy "requires a uniform federal rule of construction of license contracts to determine their assignability").

Jessica Litman points out that a rule of nontransferability of nonexclusive licenses makes little sense in the copyright context. See Litman, supra note 4, at 2 n.4. Nonetheless, the case law does exist, and it is unquestionably federal case law.

n220. See 17 U.S.C. 205 (1994) (providing for a certain set of priority rules between conflicting claimants to copyright ownership). As Paul Heald notes, however, section 205 does not exhaust the issues that come up when intellectual property is used as collateral, and therefore does not necessarily preempt all state regulation in the area. See Heald, supra note 142, at 140.

Even so, courts have applied federal law to many of these interstices. For example, a number of courts have held that security interests in copyrights must be registered with the Copyright Office, not with state offices (as Article 9 of the U.C.C. would otherwise provide). See U.C.C. 9-101 (1997); In re AEG Acquisition Corp., 127 B.R. 34, 40 (Bankr. C.D. Cal. 1991), aff'd, 161 B.R. 50 (9th Cir. B.A.P. 1993); In re Peregrine Entertainment Ltd., 116 B.R. 194, 199 (C.D. Cal. 1990); see also Shubha Ghosh, The Morphing of Property Rules and Liability Rules: An Intellectual Property Optimist Examines Article 9 and Bankruptcy, 8 Fordham Intell. Prop. Media & Ent. L.J. 99 (1997); Shawn K. Baldwin, Comment, "To Promote the Progress of Science and Useful Arts": A Role for Federal Regulation of Intellectual Property as Collateral, 143 U. Pa. L. Rev. 1701, 1731 (1995) (endorsing the federal approach). For criticism of this approach, see Haemmerli, supra note 14, at 1600-95; Aimee A. Watterberg, Comment, Perfecting a Security Interest in Computer Software Copyrights: Getting It Right, 15 J. Marshall J. Computer & Info. L. 855, 867 (1997) (endorsing a federal approach, but arguing that the current system needs significant clarification). Haemmerli also notes the potentially contrary rule in patent cases. See Haemmerli, supra note 14 at 1697-98. For further discussion of the intellectual property recording rules, see Ronald J. Mann, The Role of the U.C.C. in Facilitating the Financing of Software Licenses 12 (1998) (unpublished manuscript, on file with author).

n221. The Nimmer treatise suggests that a transfer of copyright ownership does not require consideration, despite the fact that consideration is ubiquitous in state contract doctrine. See 3 Nimmer on Copyright, supra note 127, at 10.03[A][8].

n222. See, e.g., 35 U.S.C. 118 (1952) (allowing for "involuntary assignment," permitting rightful patent owner to file for a patent without the permission of the actual inventor, if the inventor had an obligation to assign the invention); Stark v. Advanced Magnetics Inc., 119 F.3d 1551, 1554 (Fed. Cir. 1997) (holding that determination of inventorship under 35 U.S.C. 256 is a matter of federal patent law). Note that it does not follow that state law is entirely preempted in these circumstances; a fraud claim may still lie, for example, against someone who steals an invention and patents it in his name. See University of Colo. Found., Inc. v. Am. Cyanamid Co., 974 F. Supp. 1339, 1353 (D. Colo. 1997). But the determination of ownership of the patent itself is a matter of patent law, not contract law.

An instructive case is Schering Corp. v. Roussel-UCLAF SA, 104 F.3d 341 (Fed. Cir. 1997). There, the Federal Circuit held that where two parties co-owned a patent, either one was free to license the work to third parties. See id. at 344. However, the licensor could not prevent his co-owner from suing the licensee for past acts of patent infringement
because the licensor did not have the power to grant a release of past liability to the co-owner. See id. at 345. This is a rule of federal law interpreting the meaning of a license agreement, not a result of the terms of the agreement itself.

n223. See 17 U.S.C. 101 (1994) (defining "work made for hire"). Ginsburg notes that Article 2B will not cover most agreements designating works as made for hire, because they are not licenses but are rather outright assignments of all intellectual property interests. See Ginsburg, supra note 4. Article 2B will still apply, however, to the extent that the agreement on assignment or work for hire status constitutes a "software contract" or an "access contract." See U.C.C. 2B-103(a)(1) (Draft, Aug. 1, 1998).

n224. See, e.g., Carroll Touch, Inc. v. Electro Mechanical Sys., Inc., 3 F.3d 404 (Fed. Cir. 1993) (holding that an inventor is estopped from challenging the validity of his own patent - later assigned to another - when the patent application was based on his representations to the Patent and Trademark Office); Diamond Scientific Co. v. Ambico, Inc., 848 F.2d 1220, 1224 (Fed. Cir. 1988) (finding that assignor estoppel prevents inventor from challenging patent validity).


n226. See Dow Chemical Co. v. Exxon Corp., 139 F.3d 1470, 1475 n.4 (Fed. Cir. 1998).

n227. 886 F.2d 1081 (9th Cir. 1989).

n228. See id. at 1088.

n229. Id.

n230. The conclusion that the terms of a form license agreement must always be construed to grant only what the license itself states seems at odds with a number of other decisions, including a subsequent decision by the Ninth Circuit that granted an implied license to use a copyrighted work. See Effects Assoc., Inc. v. Cohen, 908 F.2d 555, 558 (9th Cir. 1990); see also Jacob Maxwell Inc. v. Veeck, 110 F.3d 749, 751 (11th Cir. 1997); I.A.E., Inc. v. Shaver, 74 F.3d 768, 774 (7th Cir. 1996).

n231. See Fantastic Fakes, Inc. v. Pickwick Intl', Inc., 661 F.2d 479, 483 (5th Cir. 1981) (noting that "it is possible to hypothesize situations where application of particular state rules of construction would so alter rights granted by the copyright statutes as to invade the scope of copyright law or violate its policies," but concluding this was not such a case).


n233. Many of the cases discussed above that apply federal law to an entire area of licensing do so because of important federal policies, and so might be thought to fit in this category as well. For a good example, see Everex Systems, Inc. v. Cadtrak Corp., 89 F.3d 673, 679 (9th Cir. 1996), in which the court discusses the important federal policies that support allowing the patentee to govern assignability of nonexclusive licenses. But see Dreyfuss, supra note 4, at 227-29 (suggesting that Everex may be wrong about federal policy in this area); Daniel A. Wilson, Note, Patent License Assignment: Preemption, Gap Filling, and Default Rules, 77 B.U. L. Rev. 895 (1997) (same).

Another possible area of federal policy interest is in rights of indemnification and contribution against intellectual property infringement claims. For an excellent discussion of the labyrinthine federal and state rules in this area, see David Hricik, Remedies of the Infringer: The Use by the Infringer of Implied and Common Law Federal Rights, State Law Claims, and Contract to Shift Liability for Infringement of Patents, Copyrights, and Trademarks, 28 Tex. Tech L. Rev. 1027 (1997).

n234. See 15 U.S.C. 1060 (1994) (providing that a trademark may be assigned along with the goodwill of a business); American Steel Foundries v. Robertson, 269 U.S. 372, 380 (1926) (assignment in gross); Stanfield v. Osborne Indus., Inc., 52 F.3d 867, 871 (10th Cir. 1995) (holding trademark rights lost due to unsupervised license); Marinello v. Shell Oil Co., 511 F.2d 853, 858 (3d Cir. 1975) (precluding trademark registration due to naked licensing); Pepsico,
Inc. v. Grapette Co., Inc., 416 F.2d 285, 288 (8th Cir. 1969) (holding assignment in gross invalid); Dawn Donut Co., Inc. v. Hart's Food Stores, Inc., 267 F.2d 358 (2d Cir. 1959); 2 McCarthy on Trademarks, supra note 95, at 18.01; Merges et al., supra note 43, at 698-99 (discussing the assignments in gross rule).


n236. Id. at 1066. But cf. National Presto Indus. Inc. v. Dazey Corp., 107 F.3d 1576, 1580-82 (Fed. Cir. 1997) (stating that federal courts do not have continuing jurisdiction to enforce settlement agreement in a patent case).

n237. See, e.g., Ferroline Corp. v. General Aniline & Film Corp., 207 F.2d 912, 919 (7th Cir. 1953).

n238. Indeed, patentees occasionally have been subject to antitrust attack for attempting to patent an invention and then claiming the same invention as a trade secret after the patent expired. See United States v. Pilkington PLC, No. 94-345 (D. Ariz. Dec. 22, 1994).

The attempt to get such dual protection for a single invention should be distinguished from Aronson v. Quick Point Pencil Co., 440 U.S. 257, 263-64 (1979), in which the Supreme Court held that a patent applicant could enforce a royalty agreement that continued to claim as a secret an invention that did not qualify for patent protection.

n239. In some cases, a federal court will look to analogous cases for guidance in interpreting a particular term in a federal statute. See, e.g., Community for Creative Non-Violence v. Reid, 490 U.S. 730, 731 (1989) (applying common law agency principles to determine whether plaintiff was an "employee" for purposes of the works made for hire doctrine); De Sylva v. Ballentine, 351 U.S. 570, 580 (1956) (noting that the meaning of "children" in the Copyright Act could be determined by reference to state law). The use of state or common law principles in these cases, however, does not change the essentially federal nature of the inquiry. For example, a state could not change the meaning of the Copyright Act by adopting a new definition of "employee" or "children."

n240. See supra notes 23-32 and accompanying text.


n242. See supra note 181 and accompanying text (noting paucity of decisions).

n243. See U.C.C. 2B-111(b) (Draft, Aug. 1, 1998) (establishing rules governing assent to particular terms); id. 2B-112(a)(1) (defining opportunity to review contract terms); id. 2B-406(b)(6) (providing that disclaimers of implied warranties in mass-market licenses must be conspicuous).

n244. See supra notes 19-32 and accompanying text.

n245. See generally American Home Assurance Co. v. Stephens, 130 F.3d 123, 126 (5th Cir. 1997) ("Expressions of public policy are found in a state's constitution, statutes and judicial decisions.").

n246. This need not be entirely a state policy issue. Arguably the federal antitrust laws embody the common law's historic aversion to contractual restraints on trade and employment. See Herbert Hovenkamp, Enterprise and American Law 1836-1937, at 268-95 (1991); McGowan, supra note 145.

n247. Many cases have invalidated covenants not to compete. See, e.g., Hi-Line Elec. Co. v. Dowco Elec. Prods., 765 F.2d 1359 (5th Cir. 1985); NCH Corp. v. Broyles, 749 F.2d 247 (5th Cir. 1984); Diodes, Inc. v. Franzen, 67 Cal. Rptr. 19 (Cal. Ct. App. 1968); Renal Treatment Ctrs. v. Braxton, 945 S.W.2d 557 (Mo. 1997); Reed Roberts Assoc., Inc. v. Strauman, 353 N.E.2d 590 (N.Y. 1976); Light v. Centel Cellular Co., 883 S.W.2d 642 (Tex. 1994).

n248. See, e.g., Comprehensive Techs. Intl, Inc. v. Software Artisans, Inc., 3 F.3d 730, 738 (4th Cir. 1993) (applying Virginia law); Holloway v. Faw, Casson & Co., 572 A.2d 510, 515 (Md. 1990); Strauman, 353 N.E.2d at 679 (applying New York law); cf. Renal, 945 S.W.2d at 557 (finding under Texas law that the noncompetition agreement was ancillary to sale of a business, but that the buyer had no legitimate interest in preventing solicitation of patients).

n249. See, e.g., Light v. Centel Cellular Co., 883 S.W.2d 642, 647 (Tex. 1994); cf. Central Adjustment Bureau, Inc. v. Ingram, 678 S.W.2d 28, 33 (Tenn. 1984) (finding noncompetition agreement enforceable where continuous long-term employment constituted consideration). But cf. Tatge v. Chambers & Owen, Inc., 579 N.W.2d 217 (Wis. 1998) (holding that an employee can be fired for refusing to sign a noncompetition agreement, even if the agreement would be unenforceable).

n251. See Application Group, Inc. v. Hunter Group, Inc., 72 Cal. Rptr. 2d 73, 88 (Cal. Ct. App. 1998). The court emphasized the strength of California's interest in voiding such agreements, particularly the policies in favor of free employee mobility. See id. at 89. On the strength of California's interest, see also Hollingsworth Solderless Terminal Co. v. Turley, 622 F.2d 1324, 1338-39 (9th Cir. 1980) (concluding that California courts would not enforce covenants violative of section 16600 even if such covenants would be enforceable under the laws of the state chosen by the contract itself); KGB, Inc. v. Giannoulas, 164 Cal. Rptr. 571, 578 (Cal. Ct. App. 1980); Frame v. Merrill, Lynch, Pierce, Fenner & Smith Inc., 97 Cal. Rptr. 811 (Cal. Ct. App. 1971).

n252. The Application Group court concluded that California's interests in precluding enforcement were "materially stronger" than Maryland's interests in allowing it. See 72 Cal. Rptr. 2d at 86.


n254. Of particular note is section 2870 of the California Labor Code, which provides that contracts may not require assignment of an "invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information" unless the invention relates to the employer's current or demonstrably anticipatable business. Cal. Lab. Code 2870 (Deering 1991). Other states have similar statutes. See Minn. Stat. Ann. 181.78 (West 1993); N.C. Gen. Stat. 66-57.1 to 57.2 (1996); Wash. Rev. Code Ann. 49.44.140 (West 1990).


n256. Courts have taken inconsistent positions on whether the parties to a nondisclosure agreement may agree to require protection of a trade secret (and the payment of royalties) beyond the time the secret is disclosed and statutory protection is lost. Compare Warner-Lambert Pharm. Co. v. John J. Reynolds, Inc., 178 F. Supp. 655, 665-66 (S.D.N.Y. 1959) (holding a contract to pay royalties enforceable even after secret has been disclosed), aff'd, 280 F.2d 197 (2d Cir. 1960), with Restatement (Third) of Unfair Competition 39 cmt. d, 41 cmt. d (1993) (suggesting that public policy may render agreements purporting to protect information in the public domain unenforceable); Sarkes Tarzian, Inc. v. Audio Devices, Inc., 166 F. Supp. 250, 265-66 (S.D. Cal. 1958) (same), aff'd, 283 F.2d 695 (9th Cir. 1960), and Gary Van Zeeland Talent, Inc. v. Sandas, 267 N.W.2d 242 (Wis. 1978) (same). Cf. Pitney Bowes, Inc. v. Mestre, 701 F.2d 1365, 1371 (11th Cir. 1983) (holding that when a patent and related know-how are licensed together, the obligation to pay royalties on both expires when the patent does); St. Regis Paper Co. v. Royal Indus., 552 F.2d 309, 315 (9th Cir. 1979) (same).


n258. For example, in Application Group, the court held that a contractual choice of law provision was "contrary to this state's fundamental policy" because it facilitated the enforcement of a contractual term deemed void under California law. Application Group, Inc. v. Hunter Group, Inc., 72 Cal. Rptr. 2d 73, 83 (Cal. Ct. App. 1998); accord Nedlloyd Lines B.V. v. Superior Court, 834 P.2d 1148 (Cal. 1992); Frame v. Merrill, Lynch, Pierce, Fenner & Smith Inc., 97 Cal. Rptr. 811 (Cal. Ct. App. 1971).

n260. See, e.g., John D. Park & Sons Co. v. Hartman, 153 F. 2d, 39 (6th Cir. 1907) ("The right of alienation is one of the essential incidents of a right of general property in movables, and restraints upon alienation have been generally regarded as obnoxious to public policy....").

n261. See, e.g., U.C.C. 2B-507(b) (Draft, Aug. 1, 1998).

n262. While Jerry Reichman and Jonathan Franklin suggest that a doctrine of "public interest unconscionability" be added to Article 2B, Reichman & Franklin, supra note 8, at 30-32, such a concept is perhaps better located in state intellectual property policy itself, rather than in contract law.


n268. Sections 2B-406 and 2B-401(d) of Article 2B together permit vendors to disclaim all express and implied warranties simply by including appropriate language in a shrinkwrap license or other form contract. See U.C.C. 2B-401(d), 2B-406 (Draft, Aug. 1, 1998).

n269. See American Home Assurance Co. v. Stephens, 130 F.3d 123, 126 (5th Cir. 1997).

n270. See, e.g., Birbrower, Montalbano, Condon & Frank, P.C. v. Superior Court, 949 P.2d 1 (Cal. 1998) (holding that contract requiring payment for services that constituted unauthorized practice of law was void as contrary to public policy).

n271. See Fisher, supra note 171 (cataloguing public policy restrictions on freedom of contract).

n272. Article 2B seems both to acknowledge this and to dispute it, providing that some state statutes (but presumably not others) in force at the time the final draft is enacted will continue to apply. See U.C.C. 2B-105(d) (Draft, Aug. 1, 1998). State laws enacted after Article 2B, of course, would be free to modify it.

n273. See id. 2B-105.

n274. Id. 2B-105(d).

n275. Id. 2B-105(c).

n276. Id. 2B-105(b).


n278. See Cange v. Stotler & Co., Inc., 826 F.2d 581, 596 (7th Cir. 1987) (stating that "contracts rarely defeat the function of a statute so utterly that they may be set aside" as violative of public policy).

n279. See Bell, supra note 11, at 591; Hardy, supra note 11, at 218-19.

n280. Gomulkiewicz, supra note 4, at 3.

n281. See Lemley, Economics of Improvement, supra note 10, at 1042-72 (explaining in detail the problems with the assumption of efficient intellectual property licensing).


n283. Even if one is convinced that contract terms to which two parties agreed necessarily reflect the optimal allocation of resources between them, the same assumption cannot be made in a case like Hill, in which the "terms" to
which the parties supposedly agreed were not even available to one of the parties at the time the contract was made. See Hill, 105 F.3d at 1199.

n284. See Lemley, Economics of Improvement, supra note 10, at 993-1000 and sources cited therein. Indeed, if intellectual property rights did not allow copyright and patent owners to price above marginal cost, they would have failed in their essential purpose. See Allan N. Litman, Monopoly, Competition and Other Factors in Determining Patent Infringement Damages, 38 IDEA 1, 11 (1997) (acknowledging that using the term "monopoly" to describe intellectual property rights is currently in disfavor, but arguing that "[a] patent does grant a legal monopoly over the making, using and selling of the patented article or method. To deny that is to tilt at windmills.").

At the very least, Julie Cohen is surely correct to note that we don't have sufficient information across the range of creative works to conclude definitively that they exhibit a high degree of substitutability in spite of intellectual property law. See Cohen, supra note 11, at 60.


n286. See Andreas A. Papandreou, Externality and Institutions 225 (1994) ("Institutional change does not require efficiency gains to be initiated, it requires gains to the initiators of change, which may or may not coincide with an overall increase in wealth...."); cf. Wendy J. Gordon, Asymmetric Market Failure and Prisoner's Dilemma in Intellectual Property, 17 U. Dayton L. Rev. 853, 857 (1992) (arguing that intellectual property protection cannot be justified if users will face market failure).

n287. Julie Cohen makes this point as well. See Cohen, supra note 11, at 86-87. For a similar argument made in terms of political theory, see Philip E. Agre, Mixed Metaphors: Inscribing Social Visions in Networked Computers (1997) (unpublished manuscript, on file with author) (suggesting that "externalities" are in fact central rather than peripheral in an information economy).

n288. See Lessig, supra note 38, at 638.

n289. On some of the flaws with the process, see Jessica Litman, Copyright Legislation and Technological Change, 68 Or. L. Rev. 275 (1989); Jessica D. Litman, Copyright, Compromise, and Legislative History, 72 Cornell L. Rev. 857 (1987).

n290. See Cohen, supra note 11; Lemley, Economics of Improvement, supra note 10, at 1083; McGowan, supra note 145, at 56.

It is worth noting that even advocates of default rules as a norm endorse immutable rules when "unregulated contracting would be socially deleterious because parties internal or external to the contract cannot adequately protect themselves." Ayres & Gertner, supra note 23, at 88; see also Robert C. Ellickson, Property in Land, 102 Yale L.J. 1315, 1367 (1993) ("Group-imposed restraints on alienation are defensible when they bar a transfer that would harm others more than it benefits the parties to the transaction.").

n291. A number of scholars have made this argument. See Bell, supra note 11, at 612; Elkin-Koren, Contracts in Cyberspace, supra note 11; Fisher, supra note 171.

n292. See supra note 34.
III

The district court held that, even if Wisconsin treats shrinkwrap licenses as contracts, 17 U.S.C. § 301(a), prevents their enforcement. 908 F. Supp. at 656-59. The relevant part of § 301(a) preempts any "legal or equitable rights [under state law] 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". ProCD's software and data are "fixed in a tangible medium of expression", and the district judge held that they are "within the subject matter of copyright". The latter conclusion is plainly right for the copyrighted application program, and the judge thought that the data likewise are "within the subject matter of copyright" even if, after Feist, they are not sufficiently original to be copyrighted. 908 F. Supp. at 656-57. Baltimore Orioles, Inc. v. Major League Baseball Players Ass'n, 805 F.2d 663, 676 (7th Cir. 1986), supports that conclusion, with which commentators agree. E.g., Paul Goldstein, III Copyright 15.2.3 (2d ed. 1996); Melville B. Nimmer & David Nimmer, Nimmer on Copyright 152.3 (2d ed. 1996); William F. Patry, II Copyright Law and Practice 1108-09 (1994). One function of § 301(a) is to prevent states from giving special protection to works of authorship that Congress has decided should be in the public domain, which it can accomplish only if "subject matter of copyright" includes all works of a type covered by sections 102 and 103, even if federal law does not afford protection to them. Cf. Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 103 L. Ed. 2d 118, 109 S. Ct. 971 (1989) (same principle under patent laws).

[*1454] But are rights created by contract "equivalent to any of the exclusive rights within the general scope of copyright"? Three courts of appeals have answered "no." National Car Rental Systems, Inc. v. Computer Associates International, Inc., 991 F.2d 426, 433 (8th Cir. 1993); Taquino v. Teledyne Monarch Rubber, 893 F.2d 1488, 1501 (5th Cir. 1990); Acorn Structures, Inc. v. Swantz, 846 F.2d 923, 926 (4th Cir. 1988). The district court disagreed [**21] with these decisions, 908 F. Supp. at 658, but we think them sound. Rights "equivalent to any of the exclusive rights within the general scope of copyright" are rights established by law--rights that restrict the options of persons who are strangers to the author. Copyright law forbids duplication, public performance, and so on, unless the person wishing to copy or perform the work gets permission; silence means a ban on copying. A copyright is a right against the world. Contracts, by contrast, generally affect only their parties; strangers may do as they please, so contracts do not create "exclusive rights." Someone who found a copy of SelectPhone (trademark) on the street would not be affected by the shrinkwrap license--though the federal copyright laws of their own force would limit the finder's ability to copy or transmit the application program.

Think for a moment about trade secrets. One common trade secret is a customer list. After Feist, a simple alphabetical list of a firm's customers, with address and telephone numbers, could not be protected by copyright. Yet Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 40 L. Ed. 2d 315, 94 S. Ct. 1879 (1974), holds that contracts about trade secrets may be [**22] enforced--precisely because they do not affect strangers' ability to discover and use the information
independently. If the amendment of § 301(a) in 1976 overruled Kewanee and abolished consensual protection of those trade secrets that cannot be copyrighted, no one has noticed--though abolition is a logical consequence of the district court's approach. Think, too, about everyday transactions in intellectual property. A customer visits a video store and rents a copy of Night of the Lepus. The customer's contract with the store limits use of the tape to home viewing and requires its return in two days. May the customer keep the tape, on the ground that § 301(a) makes the promise unenforceable?

A law student uses the LEXIS database, containing public-domain documents, under a contract limiting the results to educational endeavors; may the student resell his access to this database to a law firm from which LEXIS seeks to collect a much higher hourly rate? Suppose ProCD hires a firm to scour the nation for telephone directories, promising to pay $100 for each that ProCD does not already have. The firm locates 100 new directories, which it sends to ProCD with an invoice for $10,000. ProCD incorporates the directories into its database; does it have to pay the bill? Surely yes; Aronson v. Quick Point Pencil Co., 440 U.S. 257, 59 L. Ed. 2d 296, 99 S. Ct. 1096 (1979), holds that promises to pay for intellectual property may be enforced even though federal law (in Aronson, the patent law) offers no protection against third-party uses of that property. See also Kennedy v. Wright, 851 F.2d 963 (7th Cir. 1988). But these illustrations are what our case is about. ProCD offers software and data for two prices: one for personal use, a higher price for commercial use. Zeidenberg wants to use the data without paying the seller's price; if the law student and Quick Point Pencil Co. could not do that, neither can Zeidenberg.

Although Congress possesses power to preempt even the enforcement of contracts about intellectual property--or railroads, on which see Norfolk & Western Ry. v. Train Dispatchers, 499 U.S. 117, 111 S. Ct. 1156, 113 L. Ed. 2d 95 (1991)--courts usually read preemption clauses to leave private contracts unaffected. American Airlines, Inc. v. Wolens, 130 L. Ed. 2d 715, 115 S. Ct. 817 (1995), provides a nice illustration. A federal statute preempts any state "law, rule, regulation, standard, or other provision ... relating [§24] to rates, routes, or services of any air carrier." 49 U.S.C. App. § 1305(a)(1). Does such a law preempt the law of contracts--so that, for example, an air carrier need not honor a quoted price (or a contract to reduce the price by the value of frequent flyer miles)? The Court allowed that it is possible to read the statute that [*1455] broadly but thought such an interpretation would make little sense. Terms and conditions offered by contract reflect private ordering, essential to the efficient functioning of markets. 115 S. Ct. at 824-25. Although some principles that carry the name of contract law are designed to defeat rather than implement consensual transactions, id. at 826 n.8, the rules that respect private choice are not preempted by a clause such as § 1305(a)(1). Section 301(a) plays a role similar to § 1301(a)(1): it prevents states from substituting their own regulatory systems for those of the national government. Just as § 301(a) does not itself interfere with private transactions in intellectual property, so it does not prevent states from respecting those transactions. Like the Supreme Court in Wolens, we think it prudent to refrain from adopting a rule that anything [*23] with the label "contract" is necessarily outside the preemption clause: the variations and possibilities are too numerous to foresee. 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). But general enforcement of shrinkwrap licenses of the kind before us does not create such interference.

Aronson emphasized that enforcement of the contract between Aronson and Quick Point Pencil Company would not withdraw any information from the public domain. That is equally true of the contract between ProCD and Zeidenberg. Everyone remains free to copy and disseminate all 3,000 telephone books that have been incorporated into ProCD's database. Anyone can add sic codes and zip codes. ProCD's rivals have done so. Enforcement of the shrinkwrap license may even make information more readily available, by reducing the price ProCD charges to consumer buyers. To the extent licenses facilitate distribution of object code while concealing the source code (the point of a clause forbidding disassembly), they serve the same procompetitive functions [*26] as does the law of trade secrets. Rockwell Graphic Systems, Inc. v. DEV Industries, Inc., 925 F.2d 174, 180 (7th Cir. 1991). Licenses may have other benefits for consumers: many licenses permit users to make extra copies, to use the software on multiple computers, even to incorporate the software into the user's products. But whether a particular license is generous or restrictive, 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.

REVERSED AND REMANDED
Introduction

Proposed Uniform Commercial Code Article 2B (Article 2B) would remake the law of software and intellectual property licensing in a radical way. Some of the more dramatic changes are apparent, at least to those who have invested the time in reading the rapid succession of 200-plus page drafts. But lurking behind the changes Article 2B would impose on the state law of transactions in information is another, more fundamental, shift that is larger than the debate over Article 2B itself. Article 2B creates a fundamental conflict between the goals of federal and state intellectual property law and the contract law that will govern intellectual property licenses. Under an Article 2B regime, litigation won't be about what the parties agreed to do with intellectual property. It won't even be about the scope or limits of intellectual property law itself. Rather, litigation will be about the limits that intellectual property law and policy impose on state enforcement of contracts that contravene, distort, or ignore that law. To paraphrase Whit Diffie, it will be about the transformation of copyright law from a creator's rights statute to a consumer protection statute.

* * *

B. Potential Conflicts with Intellectual Property Law

Article 2B's expansion of contractual power sets up the potential for numerous conflicts between intellectual property and contract law. Intellectual property law is designed to provide creators with a limited set of rights over ideas and inventions in order to serve the instrumental purpose of encouraging more creation. For many good reasons, the law does not grant intellectual property owners boundless control over their creations. First, granting exclusive rights raises the cost of new works to the public, and in some cases means that the public won't get access to the works at all. Second, granting property rights to original creators allows them to prevent subsequent creators from building on their works, which means that a law designed to encourage the creation of first-generation works may actually risk stifling second-generation creative works. Third, the goal of intellectual property is only to provide the "optimal incentive," not the largest incentive possible. Past a certain point, it would be inefficient to withhold works from the public domain in order to provide ever-decreasing "incentives" to their creators. As Larry Lessig has observed, "while we protect real property to protect the owner from harm, we protect intellectual property to provide the owner sufficient incentive to produce such property. "Sufficient incentive,' however, is something less than "perfect control."

* * *
Giving the parties unlimited power under contract law to vary the rules of intellectual property creates considerable tension with this balanced incentive structure. And permitting the parties to alter intellectual property law with a standard-form, unsigned "shrinkwrap license," in which even the fiction of "agreement" is stretched to the vanishing point, exalts the (standard) form of contract law over the substance of intellectual property.

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2. Copyright Law

Copyright law contains a number of compromises between the desires of authors and those of the consuming public. It is therefore not surprising that contracts written by a copyright owner often claim to give the licensor greater rights than are granted by copyright law. Similarly, contracts written by an assignee or licensee sometimes seek to take away rights that the copyright law grants exclusively to authors. Several examples follow.

First, some contracts provide that the licensee may not make any copies of the licensed work. If the copyrighted work is a computer program, such a license term conflicts directly with section 117 of the Copyright Act, which gives owners of a copy of a program the right to make both archival copies and copies necessary to run the program. In some cases, the license term may also run afoul of the right to make "fair use" of the copyrighted work. Indeed, it is not very hard to find contractual provisions that claim to preclude any copying by the user, whether or not the copying would be fair use. And one can certainly imagine copyright owners including "no-parody" provisions in their licenses, if courts would enforce them. But fair use is designed precisely to allow nonconsensual uses, and "contracting around" fair use thus presents a conflict with the goals of the doctrine.

Second, many software contracts purport to prohibit reverse engineering of the licensed software. These terms may conflict with a user's apparent right under copyright law to reverse engineer copyrighted works for certain purposes. This is perhaps the most common example in the software industry of a conflict between contractual terms and copyright policy.

Third, software and digital information contract terms often seek to prohibit the licensee from moving a program to an upgraded computer or from altering, upgrading, or "debugging" the program. Such requirements may conflict with at least the spirit, and arguably the letter, of section 117, which gives users the right to copy and adapt the program to the extent necessary to run it on a particular machine. In particular, section 117 was intended to give users the right to upgrade programs themselves, and to transfer software programs to newer hardware or operating systems, even if the transfer requires translation of the code.

Fourth, contract terms commonly prohibit licensees from transferring or assigning their particular copy of a work. Such provisions may conflict with the "first sale" doctrine in copyright law, which gives the owner of a particular copy of a copyrighted work the right to dispose of that copy without the permission of the copyright owner. Whether this is actually a conflict depends on whether the copyright owner "sold" or "licensed" the copy in question; the first sale doctrine does not prevent restrictions on the transfer of licensed items.

Fifth, contractual provisions may seek to prevent the user of a copyrighted work from performing or displaying the program to the public under any circumstances. Such a license provision would conflict with section 110 of the Copyright Act, which expressly immunizes certain performances. Similarly, limitations on certain uses of some types of works may run afoul of other specific exceptions in the
Copyright Act, such as the right of libraries to make certain copies, the right of cable and satellite systems to engage in secondary transmission and simultaneous copying subject to compulsory licenses, the rights to make photographic reproductions of some types of copyrighted works without authorization, and the right to play music in jukeboxes subject to an arbitrated compulsory license.

Sixth, copyright owners are granted certain rights that they cannot waive, assign, or license. Most notable here is the right of authors to terminate transfers of rights in the work between thirty-five and forty years after the work was created. This right is effective "notwithstanding any agreement to the contrary." Similarly, the limited moral rights of a visual artist may not be transferred by the author, even if the copyright is assigned; any waivers of the artist's moral rights are strictly limited by statute. Contractual provisions that purport to transfer rights in violation of these provisions present obvious conflicts with the Copyright Act.

Seventh, the Copyright Act specifically defines works "made for hire," and therefore the terms of initial ownership of copyrighted works. It also governs the way in which transfers of copyright ownership may be made, and precludes oral assignment agreements. An agreement that purports to assign a copyright, but that does not comply with the terms of section 204, conflicts with the Copyright Act. Contract law rules that are inconsistent with section 205(d) also set up a conflict, as would contracts that purported to create "works made for hire" but do not fall within the definition of that term in the statute.

Finally, a contract may "shrink the public domain" by withdrawing from public use certain works that are not subject to intellectual property protection. This is what happened in the ProCD case, in which the plaintiffs were allowed to protect by shrinkwrap license the very material that the Supreme Court had said could not be protected by copyright.

Whether this is really a "conflict" in any given case is a complex question. Some uncopyrightable materials can be protected under other laws. For example, uncopyrightable information may be patentable, capable of trade secret protection, or protected by common law copyright. The Supreme Court in Goldstein v. California observed that the central question is whether the work was denied protection because of a federal determination that it should be unprotected, or whether the federal statute simply did not extend to such a work. Only in the latter case can states "remove" works from the public domain. In cases in which contracts purport to protect information in spite of a federal determination that such information should be unprotected, they will conflict with federal policy.

3. Trade Secret Law

Protection for trade secrets is largely provided by state statutes or common law, supplemented by federal law. These legal rules often conflict with the desires of licensors. The most common conflicts involve contractual terms drafted by licensors that prohibit reverse engineering or obviate the need for secrecy. Reverse engineering of a trade secret is explicitly allowed by the Uniform Trade Secrets Act, which means that the Act conflicts with contract law if the contract provides that a licensee may not reverse engineer the licensed product. Similarly, license terms that prevent the licensee from challenging the status of software as a trade secret are in apparent conflict with the legal requirement that a trade secret must in fact be secret to be protectable.

Trade secrets law in most states also places limitations on the enforceability of employee noncompetition agreements and "trailer clauses." At a minimum, states impose an overarching requirement of "reasonableness" on such agreements, viewing them with disfavor and requiring that they be limited in scope and duration and not violative of other public policies. Other states refuse to enforce employee noncompetition agreements at all, or limit their enforcement to long-term rather than at-will employment contracts. Obviously, all of these public-policy limitations are in tension with the contractual terms they restrict.
4. Trademark Law

Federal trademark law is designed to prevent consumer confusion in the marketplace by encouraging competitors to use distinctive marks to identify their goods, which allows consumers to distinguish those goods from a competitor's. In order to prevent trademarks from becoming an instrument of consumer confusion, United States trademark law places significant restrictions on a trademark owner's ability to sell or license the mark. These restrictions take two basic forms. First, trademarks cannot be assigned "in gross" - that is, without the goodwill and other assets accompanying the line of business the trademark represents. Second, if a trademark owner licenses the right to produce or sell trademarked goods to another, the owner must supervise the licensee to make sure that the goods produced or sold under the trademark are of comparable quality to existing trademarked products. Failure to comply with these rules can invalidate the trademark altogether.

Correspondingly, garden-variety breach of contract disputes in trademark license cases may have overtones of federal policy. For example, the right to sell goods produced pursuant to a contract in mitigation of breach is an ordinary part of Uniform Commercial Code Article 2. But if the rejected goods contain the licensor's trademark, reselling them can do significant damage to the principles of trademark law, and may be forbidden under federal law. These policy-based contract limitations set up a conflict with the free alienability that is normally a part of state contract law, although given the current scope of the Article 2B (which does not extend to trademark licenses), it is not a problem for the August Draft.

5. Remedies

By and large, intellectual property law provides for strong property entitlements while contract law does not. The parties to an intellectual property license can agree to fix remedies within the bounds of the intellectual property right. For example, Robert Merges has discussed a number of examples of what he calls "contracting into liability rules," in which parties agree to forego their entitlement to injunctive relief in a licensing transaction. Presumably they are free to do this without any constraint from intellectual property law.

But Article 2B allows intellectual property owners to do the reverse as well - to specify property-rule remedies for breach of contract. Furthermore, Article 2B provides that breach of a license by the licensee may give rise not only to a cause of action for breach of contract, but also for copyright or patent infringement. While there is no direct conflict with federal law here, there is some tension. If a license term that goes further than federal intellectual property law can be enforced by a suit for infringement or its equivalent, the federal law has been expanded just as effectively as if the statute were rewritten.

C. Conclusions

Intellectual property law provides a set of rules to define and limit the rights it creates. Some of those rules are designed to be altered by contract, but others are not. Article 2B would superimpose a rule that all statutory provisions could be waived by contract - and indeed by a form shrinkwrap license that the licensee could not even read, much less agree to, before entering into the transaction. Creating such a contract regime threatens the integrity of the federal structure in a variety of ways; federal law must therefore deal with the tensions Article 2B will create. In the next two Parts, I discuss how federal law and policy might respond to Article 2B.

II Preemption as a Partial Solution

Two extreme solutions are available to reconcile the conflict between freedom of contract and intellectual property policy. First, one might simply say that state enforcement of any contractual provision that is
at odds with an intellectual property rule is preempted by intellectual property law. Alternatively, one might say that contracts are not affected by intellectual property policy, and that parties are therefore free to alter intellectual property rules at will. Neither approach is particularly satisfactory. Contract law and intellectual property law both serve important goals, and when those goals come into conflict, we need some less arbitrary means of reconciling them. In this Part, I consider the extent to which federal preemption law succeeds in resolving the intellectual property-contract conflict. First, I discuss the nature of intellectual property preemption. I then consider the limits of preemption doctrine. I ultimately argue that while preemption has an important role to play in resolving the conflicts that Article 2B will create, it cannot and will not solve the problem alone.

A. The Nature of Intellectual Property Preemption

The issue of preemption is clouded by three factors. First, while all preemption is based on a conflict between a federal statutory scheme and a state law, courts in practice have developed different types of preemption doctrines, each of which has different standards. Second, there are different federal intellectual property statutes at issue, each of which has developed its own unique set of rules for applying preemption doctrine. Third, the issue is not the relatively simple one of whether to preempt a particular state statute, but the more complex one of whether and how to preempt certain parts of contract law without bringing down the whole edifice.

1. The Basic Nature of Preemption

While all federal preemption ultimately is based on the Supremacy Clause and the nature of federal law, several different types of general federal preemption exist. First, Congress may "preempt the field" by declaring that only federal law will govern a certain area. It is well-established that Congress has the power to do this in areas in which it is authorized to legislate. Second, a state statute may simply conflict directly with a federal statute. In such a case, preemption on the basis of the Supremacy Clause is also straightforward and well-accepted. Finally, federal law may preempt a state statute with which it does not directly conflict if "the state law stands "as an obstacle to the accomplishment...of the full purposes and objectives of Congress," whether or not Congress intended to preempt the field. I will refer to these preemption doctrines as "field preemption," "express conflicts preemption," and "implied conflicts preemption" respectively.

2. Intellectual Property Preemption

Application of these general preemption rules has proven troublesome in the intellectual property context. Part of the problem is that the different federal intellectual property statutes have different purposes, and their preemptive scope has been interpreted differently. In this Section, I attempt to parse the rules for intellectual property preemption.

* * *

b. Copyright Law

There are two basic sets of copyright preemption doctrines. One is based on an express statutory provision partially preempting the field; the other is based on express and implied conflicts preemption. The field preemption statute is 17 U.S.C. 301, which provides that "all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright...are governed exclusively by" federal copyright law. Only state laws that protect subject matter outside the scope of copyright and laws granting "rights that are not equivalent to" copyright are saved from this general field preemption. Thus, the structure of copyright preemption differs from patent preemption. Uncopyrightable works
may generally be protected by state law, but copyrightable works normally cannot be unless the state law right differs significantly from copyright.

Courts interpreting section 301 have added even more subtlety. For example, it is generally accepted that because of the peculiar vagaries of the legislative history of section 301, copyright law does not automatically preempt either trade secrets law or contract law. Rather, those state laws are evaluated on a case-by-case basis to determine whether they impermissibly operate in any given situation to create a state right "equivalent" to copyright. Furthermore, courts seem to have created a nonstatutory safe harbor under section 301 for state laws adding an "extra element" not explicitly present in the copyright laws. Contracts have such an "extra element" - the agreement of the parties. Consequently, some courts have held that contracts that limit the user's rights in the purchased copy of the work (for example, by allowing only certain uses of a copyrighted computer program) are not preempted by section 301.

[*141] The fact that section 301 does not seem to preempt most contractual provisions does not, of course, mean that copyright law never preempts state contract rules. Copyright preemption might also occur because of a conflict between copyright law or policy and state enforcement of a contract. Sometimes, such a conflict will result from the express terms of the statute. For example, section 203 provides the author with a nonwaivable right to terminate a transfer. A contractual term that purports to waive this right is simply inconsistent with the statute; even if state contract law would otherwise enforce it, federal law will preempt such enforcement. By contrast, some provisions of the Copyright Act expressly provide that they may be waived or altered by contract. For these provisions, there presumably would be no conflict between copyright law and the contractual term.

Unfortunately, most copyright provisions offer no guidance in either direction. For these provisions, courts must define the parameters of implied conflicts preemption. This involves an attempt to figure out whether each particular provision in the Copyright Act is merely a default rule that the parties are free to ignore, or whether it instead reflects a part of the balance of interests in federal policy that should not be upset. Copyright is not a system of absolute property rights. It is "a scheme of carefully balanced property rights that give authors and their publishers sufficient inducements to produce and disseminate original creative works and, at the same time, allow others to draw on these works in their own creative and educational activities."

[*143] c. Applying Preemption to Contract Law

Courts considering Supremacy Clause preemption of contract terms have reached different results in different cases. A number of courts have preempted contracts under both patent law and copyright law. Other courts have refused to preempt contract terms asserted to be at odds with the copyright or patent statutes. And one recent decision even ignored the question of conflicts preemption entirely, although it was clearly necessary to the resolution of the dispute before it!

Commentators can try to construct general algorithms for explaining these decisions and determining when a contract term will be preempted. For example, one might perhaps draw a reasonable distinction between cases in which a copyright owner licenses less than her entire bundle of rights to a licensee under terms consistent with the copyright laws, and in which the copyright owner licenses some or all rights to a licensee only on the condition that the licensee give up other rights granted him by the copyright laws. More likely, though, courts in the post-Article 2B world will muddle through, and consider contract preemption on a case-by-case basis.
contracts governing intellectual property rights are entirely preempted by federal intellectual property law. The field is too broad, and the role of state contract law in interpreting licensing agreements is too well accepted. On the other hand, enforcement of certain contracts will continue to be preempted, and I suspect that preemption will occur with greater frequency as Article 2B increases the power and scope of contracts.

B. The Limits of Preemption

Preemption analysis is an important and integral part of federal intellectual property law. Indeed, it is likely to become much more important as the growth of state intellectual property rights continues. But there are a number of reasons why preemption, although necessary, is not sufficient to protect the interests of intellectual property law in the indifferent world of contract. In this Section, I offer several such reasons.

1. Preemption Lacks Nuance

Using preemption doctrine against contracts is something like swinging a sledgehammer at a gnat: you are likely to hit the target, but you may do some serious damage to the things around it. More likely though, and of more immediate concern for my purposes, you might decide not to swing the hammer at all, for fear of hitting the wrong thing. Field preemption doctrine (of the sort evident in section 301 of the Copyright Act) has failed utterly to deal with contract law, and for precisely this reason: courts don't want to preempt the entire field of licensing contracts, and preemption doctrine does not always give them tools fine enough for the delicate legal surgery they must perform. Conflicts preemption holds more promise because it can be directed at the state enforcement of particular contract terms. But it still seems like an awfully big hammer. And indeed there are courts that have refused to apply preemption at all to contract law for this reason, even when the federal policies seem to point strongly in favor of preemption. This lack of nuance will render preemption ineffective if it causes courts to shy away from applying it altogether.

2. Intellectual Property Rules Aren't Always Statutory

The case for conflicts preemption seems quite clear when a contract term contravenes a federal statute. If the parties agree to do something that the federal statute says they simply can't do - such as transfer moral rights or preclude termination of an initial copyright transfer - it is quite easy to conclude that the contract can't be enforced. The case is a little tougher if the federal statute establishes a clear federal policy, but doesn't discuss the possibility of contracting around its rule. For example, a contract term that says "licensee agrees never to make fair use of the licensed work" clearly contradicts a federal statute, but courts might struggle a bit with whether the contract ought to be preempted or whether the parties are merely agreeing to opt out of a default rule. Courts might struggle even more when the federal policy is nowhere expressed in the statute but is implied from the general "balance between the artist's right...and the public's need for access." There may be strong economic and policy reasons to conclude that a particular doctrine is not merely a default rule, as there are in the case of fair use. But the detailed policy evaluation such a case would require may be ill-suited to the traditional outlines of preemption, which are based on general concepts of legislative intent. Courts may be reluctant to preempt contract terms except in the clearest cases of conflict, further reducing the effectiveness of preemption.

3. Intellectual Property Rules Aren't Always Federal

One very important limitation of federal preemption is that it is federal. Because it is based on the core notion that state law can't override federal law, preemption simply will not protect state intellectual property rules against intrusion by contract. Thus, if state trade secrets law seeks to limit or void contractual provisions, we must look elsewhere for the grounds.
But this is not just a problem for trade secrets law. Common law copyright, idea protection, right of publicity, artists' moral rights, and trademark dilution are all state intellectual property doctrines that contain their own particular set of policy choices. These policies may also be avoided or set at naught by Article 2B's contract regime. n152 Preemption can't address these issues.

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4.

"Contracts Are Different"

A few courts and commentators have taken the position that federal preemption simply shouldn't apply to contract terms - or at least that it shouldn't apply in the same way - because contracts are different than state statutes. n153 The basic argument here (adopted by Article 2B's drafters) is usually that "as both a practical and a conceptual matter, copyright (or patent) do not generally preempt contract law....A contract defines rights between parties to the agreement, while a property right creates rights against all the world. They are not equivalent." n154 Judge Easterbrook's decision in ProCD v. Zeidenberg seems to accept this view, n155 and some courts have taken this logic so far as to conclude that contracts simply can't be preempted by copyright law. n156

There are a number of problems with the "contracts are different" idea. First, the reference to "equivalence" seems to direct the analysis only at copyright field preemption under section 301, and thus to ignore both copyright conflicts preemption and any form of patent preemption. n157 Even if contract and copyright are not equivalent, it simply does not follow that federal law places no limits on the enforceability of contracts. Courts that take this position should also be troubled by the [*148] significant number of cases that do apply intellectual property rules to preempt contracts. n158

Second, the viability of the distinction between private contracts and public legislation is diminishing day by day. One of the main changes Article 2B would make in current law would be to render enforceable contract "terms" to which the parties did not agree in the classic sense, and indeed of which one party may be entirely unaware. n159 Article 2B would also enable the enforcement of such contract terms "downstream" - that is, against whomever later acquires the software n160 - despite the fact that a first sale under both patent and copyright law would free the purchaser from upstream contractual restrictions. Technology facilitates this change by allowing a vendor to interpose contract terms even in a downstream transaction that would not ordinarily be thought to demonstrate privity between the "contracting" parties. n161 And Congress has just enacted federal legislation that may lock in these contractual terms, making it a crime to alter or remove them. n162

In other words, Article 2B promises to usher in an era of "private legislation," in which parties who are in a position to write contracts can jointly impose uniform terms that no one can escape. n163 Some might think this a good thing; n164 but good or bad, it looks as much like the creation of "rights against the world" as it does an agreement between two private parties. n165 Indeed, since one must necessarily have access to a [*149] work to make any use of it, a contract premised on access could presumably be imposed in every case. If a boatmaker wants to get the same rights the Florida boat hull statute would have provided in Bonito Boats, n166 all she needs to do is affix a copy of the statute to the boat hull itself. Under Article 2B, the statute will become an enforceable contract if the contract provides that use or analysis of the hull constitutes acceptance. n167 Why this should be more palatable to the Court than the statute itself is not clear.

Third, even truly "private" contracts affect third parties who haven't agreed to the contract terms. Many contracts have significant negative externalities. n168 While Tom Bell correctly observes that we don't refuse to enforce all contracts just because they may have effects on others, n169 neither should we ignore these external effects. Various contractual provisions may be held invalid on a variety of public policy
grounds, even under state law. n170 Indeed, Terry Fisher has called such public policy restrictions on contractual freedom "ubiquitous." n171 And with respect to at least some intellectual property contracts, there are strong public policy reasons to limit the freedom to contract. n172

Even if the difference between contracts and public law proves illusory, one might perhaps substantiate the difference by allowing copyright owners to "opt out" of copyright entirely, relying solely on [*150] contractual protection. Tom Bell has argued for this approach. n173 Until recently, copyright owners would probably have found this an unattractive alternative, precisely because there were some types of conduct that copyright could reach but contract could not, and because the remedies for copyright infringement were so much stronger. The proposed expansion of contract in Article 2B to allow it to reach third parties not in privity with the vendor in any meaningful sense, coupled with the ability of vendors to write almost any remedy they wish into the contract, may make those differences disappear. Indeed, the possibility that intellectual property owners can get consequential and punitive damages, injunctive relief, extrajudicial self-help, and technological protection without having to meet any of the substantive requirements of intellectual property law, simply by contracting for it, might prove quite attractive to them.

The very fact that contract law will be augmented by Article 2B to give it the character and power of public legislation suggests that even in an "opt-out" scheme, contracts are not really "different" for preemption purposes. But in fact the problem with Article 2B is worse. Article 2B is not an opt-out statute. Rather, it permits intellectual property owners to pick and choose a combination of copyright and contractual rules and remedies. By adding its contract-enforcement regime to existing federal intellectual property rights, Article 2B distorts the balance that exists with contract alone. n174

In short, there are a number of problems with assuming that contracts are different than public law. Courts that adopt this approach may be in error. Nonetheless, the fact that some courts labor under this misapprehension further limits the effectiveness of federal preemption law because it inclines those courts to assume that intellectual property preemption doesn't apply to contracts. n175

FOOTNOTES:

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n5. See Whit Diffie, Address at the American Committee for Interoperable Systems Meeting (Feb. 18, 1998). Glynn Lunney has made a similar point. See Glynn Lunney, Protecting Digital Works: Copyright or Contract? (1998) (unpublished manuscript at 3-4, on file with author) ("For preemption to become not only a part of copyright, but in some sense the central part, would require a radical reconception of copyright. We would have to view copyright, not as a means for providing protection, but as a means for limiting the protection permitted.").

Jane Ginsburg has objected to this development, and indeed charged that the entire concept of "user rights" in copyright is loaded and largely undesirable. See Jane C. Ginsburg, Authors and Users in Copyright, 45 J. Copyright Soc'y (USA) 1, 2-3 (1997). Ginsburg makes her argument in part by redefining "user rights" to include only rights to make superseding and not transformative copies. See id. at 3-4. I think that this distinction is unreasonable because it seems both to restrict the concept of "users" of copyrighted works to only the subclass of consumers and to ignore the wholesale elimination of consumer and improver rights that is occurring across the board in copyright today.

* * *

n37. Arguably we have reached this point already. Congress recently extended copyright protection from its current term of life plus fifty years to life plus seventy years. See H.R. 604, 105th Cong. (1997). I have
never met anyone who seriously argued that the additional incentive provided by the reward to great-grandchildren in the additional twenty years would actually make the difference in encouraging the creation of any new works.

n38. Lawrence Lessig, Intellectual Property and Code, 11 St. John's J. Legal Comment. 635, 638 (1996); see also Dreyfuss, supra note 4, at 198 ("[A] core premise of federal innovation policy...[is] that information leaks: That is, knowledge flows inevitably into the domain of the public, where innovators can use what others have learned and improve upon what they have done.").

n39. Jane Ginsburg notes that contract "may provide more effective protection than copyright" for some works. Jane C. Ginsburg, Copyright, Common Law, and Sui Generis Protection of Databases in the United States and Abroad, 66 U. Cin. L. Rev. 151, 151 (1997) [hereinafter Ginsburg, Common Law]. She generally views this as a good thing, because she thinks that copyright provides inadequate incentives for protection. See id. at 171. But good or bad, this is still an acknowledgment that contract law changes the existing balance.

Elsewhere, Ginsburg challenges the very idea of a conflict of interests between authors and users. See Ginsburg, supra note 5, at 4 (calling "specious" the definition of the author's interests that holds that they are at odds with the public's). If her point is that authors and consumers should not always be at odds in copyright law, because consumers depend on what authors produce, I agree. But this does not mean that there is no tension between the interests of authors and those of consumers. Surely there is, just as there is tension between labor and management, or between buyers and sellers in any market arrangement. A law favoring management over labor may or may not be in the "public interest," defined in social terms, but it is unlikely to be in labor's interest.

Perhaps Ginsburg's point is that the "public interest" is an amalgam of the interests of everyone in society with a stake in the outcome, and cannot be identified solely by reference to consumers, or even by reference to users more broadly defined. Again, I would agree. But I know of no one who has suggested that the public interest in copyright law should be defined only by reference to consumers. Indeed, the opposite danger seems far greater; in setting copyright policy, Congress today seems inclined to think only of the interests of publishers, and even then, only of current and not future publishers. See, e.g., S. 2037, 105th Cong. (1998). 
"Agnostics and atheists" may be turning up among copyright lawyers and academics, as Ginsburg suggests, see Ginsburg, supra note 5, at 9, but the property rights priesthood is firmly in control of the lawmaking process.

n40. See Lemley, Shrinkwrap Licenses, supra note 10, at 1264-69 (discussing the tension between particular intellectual property rules and common shrinkwrap license terms).

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n56. 17 U.S.C. 117 (1994); see also Vault Corp. v. Quaid Software Ltd., 847 F.2d 255, 270 (5th Cir. 1988) (holding that section 117 authorized defendant to make a copy that was necessary to analyze and defeat a copyrighted "anticopying" program); Foresight Resources Corp. v. Pfornmiller, 719 F. Supp. 1006, 1009-10 (D. Kan. 1989); John Conley & Vance Brown, Revisiting 117 of the Copyright Act: An Economic Approach, Computer L., Nov. 1990, at 1. The term "owners of a copy," which snuck into section 117 for reasons no one has been able to determine, has caused some courts to focus on whether the user is really an "owner" or a "licensee." See MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511, 519 n.5 (9th Cir. 1993) (finding that section 117 does not apply to software that is licensed, not sold, since the user of such software is not the "owner" of a copy, and concluding that the customer could not hire a third party to install or debug purchased program). But see DSC Communications Corp. v. Pulse Communications Inc., 976 F. Supp. 359, 362 (E.D. Va. 1997) (holding that whether defendant "owns" a copy under section 117 is determined by the economic realities of the transaction, not by whether it is characterized as a "license").
n57. See 17 U.S.C. 107 (1994). "Fair use" is an amorphous concept, so generalizations are difficult. But possible fair use copies of computer programs may include: (1) reverse engineering the work in order to view and use uncopyrighted elements, see infra note 62; (2) copying a program into RAM memory in order to use it; (3) copying part or all of the work for the purpose of instruction in a computer science class; (4) copying part or all of the work for the purpose of academic research; and (5) working copies of portions of electronic or print instruction manuals.


n58. See, e.g., Rick Feinberg, Peculiar Patents at iv (1994) ("No part of this book may be reproduced in any form, except by a newspaper or magazine reviewer who wishes to quote brief passages in connection with a review.").

n59. See, e.g., William W. Fisher III, Reconstructing the Fair Use Doctrine, 101 Harv. L. Rev. 1659, 1687 (1988); Gideon Parchomovsky, Fair Use, Efficiency, and Corrective Justice, 3 Legal Theory 347, 359-60 (1997); cf. Merges, supra note 1, at 1610 (suggesting that as transaction costs disappear, the primary role for fair use will be to privilege certain nonconsensual uses).

Wendy Gordon has suggested that fair use is best conceived as directed at "market failure." See Wendy J. Gordon, Fair Use As Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors, 82 Colum. L. Rev. 1600 (1982). If market failure is construed broadly enough to encompass situations in which socially efficient licensing does not occur, I agree. See Lemley, Economics of Improvement, supra note 10, at 1077-83. But it seems obvious that fair use must offer users something more than simply the "implied consent" of the copyright owner in circumstances in which it is not worth the cost to bargain over a license. Were that all that the fair use doctrine protected, it would not cover true "nonconsensual" uses. But it does. See, e.g., Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569 (1994) (finding parody protected by fair use).

n60. See Neil Weinstock Netanel, Copyright and a Democratic Civil Society, 106 Yale L.J. 283, 362 (1996) ("The imposition of limits [on copyright] must be seen as a vital and integral part of copyright's structural function.").

n61. Reverse engineering of software - also called "decompilation" - involves working backwards from object code to produce a simulacrum of the original source code. See Andrew Johnson-Laird, Software Reverse Engineering in the Real World, 19 U. Dayton L. Rev. 843 (1994).


n65. See CONTU Report, supra note 64, at 25 ("[A] right to make those changes necessary to enable the use for which [the software] was both sold and purchased should be provided. The conversion of a program from one higher-level language to another to facilitate use would fall within this right.").

n66. See 17 U.S.C. 109(a) (1994). Section 109(b)(1)(A) contains an exception prohibiting the purchasers of computer software from renting that software for profit, but does allow purchasers to sell the copy or give it away. Id. 109(b)(1)(A).
See H.R. 94-1476, 94th Cong. (1976) (providing that the parties may contract around the first sale doctrine in 17 U.S.C. 109(a), but limiting the copyright owner to contract rather than copyright remedies if they do so).

For example, movies rented by a video store commonly provide that they are "licensed for home use only" and not for public performance.


See generally id. 111, 112, 119 (setting out the provisions of the cable and satellite compulsory licenses).

See id. 113(c) (useful articles), 120 (architectural works).

See id. 116.

See id. 203(a)(3); see also id. 304(c)(3) (providing a similar right for older works).

Id. 203(a)(5), 304(c)(5).

See id. 106A(e)(1).

See id. 101(2).

See id. 205(d).

See id. 204.

See id. 106A(e)(1).

See id. 101(2).

See id. 205(d).

See id. 204.

Minassian, supra note 20, at 593.

ProCD, Inc. v. Zeidenberg, 86 F.3d 1447 (7th Cir. 1996).


On the limits of common law copyright, see Estate of Hemingway v. Random House, Inc., 244 N.E.2d 250, 255-56 (N.Y. 1968), in which the court held that Ernest Hemingway's oral statements could not be protected by common law copyright.


Id. at 559.

For example, in Saturday Evening Post v. Rumbleseat Press, 86 F.2d 1191 (7th Cir. 1987), Judge Posner held unenforceable an express agreement by a licensee not to challenge the copyrightability of the licensed work.


order to comply with United States treaty obligations to South Korea); see also General Agreement on
Tariffs and Trade, Dec. 15, 1993, art. 39(1) [hereinafter GATT TRIPS] (requiring member nations to provide
minimum levels of trade secret protection); North American Free Trade Agreement art. 1711 (1994) (same).

n88. See Uniform Trade Secrets Act 1 commissioners' cmt. (1985); Restatement of Torts, 757 cmt. f
(1937).

n89. See Uniform Trade Secrets Act 1(4). Whether contract law can provide protection for a trade secret
owner after the secret has been publicly disclosed is a hotly debated question. Compare Warner-Lambert
royalties enforceable even after secret has been disclosed), with Restatement (Third) of Unfair Competition
39 cmt. d; 41, cmt. d (1993) (suggesting that public policy may render agreements purporting to protect
250, 279-80 (S.D. Cal. 1958), aff'd, 283 F.2d 695 (9th Cir. 1960) (same), and Gary Van Zeeland Talent, Inc.
(1979) (finding that a contract obligated the licensee to continue paying royalties on an invention even after
patent application was rejected; but the application may still have been a trade secret).

n90. A "trailer clause" is a contractual provision that requires employees to assign their rights not only in
inventions made during the period of employment, but also for a certain time after the employment ends. See Merges et al., supra note 43, at 99-100.

n91. See, e.g., Comprehensive Techs. Int'l, Inc. v. Software Artisans, Inc., 3 F.3d 730, 737 (4th Cir.
LEXIS 28601, at *1 (4th Cir. Sept. 30, 1993); Reed, Roberts Assoc., Inc. v. Strauman, 353 N.E.2d 590, 677
(N.Y. 1976).

n92. California is most notable here. See Cal. Bus. & Prof. Code 16600 (Deering 1992); Monogram
Indus., Inc. v. SAR Indus., Inc., 143 Cal. Rptr. 714, 718 (Cal. Ct. App. 1976) ("In California with certain
limited exceptions [not relevant here] a contract under which a person is prevented from engaging in a
profession, trade or business is void."). For arguments that California's rule against enforcing noncompetition
agreements has encouraged innovation in Silicon Valley, see Annalee Saxenian, Regional Advantage 128
(1994); Alan Hyde, How Silicon Valley Has Eliminated Trade Secrets (And Why This Is Efficient) (1997)

n93. See Light v. Centel Cellular Co. of Tex., 883 S.W.2d 642, 644-45 (Tex. 1994); cf. Central
Adjustment Bureau, Inc. v. Ingram, 678 S.W.2d 28, 33 (Tenn. 1984) (finding noncompetition agreement
enforceable where continuous long-term employment constituted consideration).

n94. See Merges et al., supra note 43, at 523-30.

n95. The Lanham Act phrases this as an affirmative power - the trademark owner can assign the mark
with accompanying goodwill. See 15 U.S.C. 1060 (1994). But the effect is the same as a prohibition. See 2 J.
Thomas McCarthy, McCarthy on Trademarks and Unfair Competition 18.1 (1997) [hereinafter McCarthy on
Trademarks]; Merges et al., supra note 43, at 698-99 (discussing the assignments in gross rule). It is worth
noting that the rule outside the United States permits assignments in gross, see GATT TRIPS, supra note 87,
at art. 21, and that the rule in the United States has been relaxed somewhat in recent years, see In re Roman
Cleanser Co., 802 F.2d 207, 208-09 (6th Cir. 1986).


n97. See, e.g., American Steel Foundries v. Robertson, Comm'r, 269 U.S. 372, 380 (1926) (discussing
assignment in gross rule); Stanfield v. Osborne Indus., Inc., 52 F.3d 867, 871-72 (10th Cir. 1995) (finding
trademark rights lost due to unsupervised license); Pepsico, Inc. v. Grapette Co., Inc., 416 F.2d 285, 289-90
(8th Cir. 1969) (invalidating assignment in gross).
n98. See U.C.C. 2-703 (1994).


n100. See U.C.C. 2B-104(2) (Draft, Aug. 1, 1998).

n101. See Merges et al., supra note 43, at 297.


n103. Article 2B provides that the parties can contract for specific performance of any obligation, including a personal service obligation, see U.C.C. 2B-711(a)(1) (Draft, Aug. 1, 1998), provided that it will not create an administrative burden for the court, see id. 2B-711, reporter's note 1. That personal service obligations will be enforced if the parties so agree is clear from the plain language of the section, though a reporter's note suggests otherwise. See id. 2B-711, reporter's note 2 ("Specific performance cannot be ordered for a "personal services contract."). More generally, section 2B-703(a) provides that the parties can agree to whatever remedies they like. Id. 2B-703(a). Indeed, the reporter's notes indicate that Article 2B expressly permits cumulative remedies, and that Article 2B "rejects any concept of election of remedies." Id. 2B-701, reporter's note 2.


n105. See Merges, supra note 1, at 1604 ("Courts must not allow a licensor who has bargained into a private liability rule to reimpose unilaterally the strong property rule by dint of an all-encompassing termination right."). On the interaction between intellectual property and contract remedies generally, see Maureen A. O'Rourke, Rethinking Remedies at the Intersection of Intellectual Property and Contract: Toward a Unified Body of Law, 82 Iowa L. Rev. 1137 (1997).


n107. Portions of this Section are adapted from Lemley, Shrinkwrap Licenses, supra note 10, at 1270-74.

n108. Strictly speaking, federal law preempts state law, not particular private contracts. However, because private contracts are enforced through state law, federal law can and does preempt the enforcement of contracts in appropriate circumstances. For convenience, I will sometimes refer to this as "preemption of contracts," but the reader should be aware that it is really the state enforcement of a contract that is being preempted.


Stephen Gardbaum has argued that courts and commentators should distinguish between conflict preemption, which he considers a simple matter of applying Article VI of the United States Constitution, and federal "preemption of the field," which he considers illegitimate. See Stephen A. Gardbaum, The Nature of Preemption, 79 Cornell L. Rev. 767, 811 (1994). Courts have distinguished clearly between these two types of preemption but have not been receptive to Gardbaum's argument against field preemption. See, e.g., English v. General Elec. Co., 496 U.S. 72, 77 (1990).
n110. See, e.g., Guerra, 479 U.S. at 281 (1987) (stating that preemption occurs where it is "physically impossible" for a party to comply with both statutes); Florida Lime & Avocado Growers, Inc. v. Paul, 373 U.S. 132, 143 (1963) (same).

n111. Guerra, 479 U.S. at 281 (quoting Hines v. Davidowitz, 312 U.S. 52, 66-67 (1941)).

n112. See Dreyfuss, supra note 4, at 238-39 (noting the confusion in federal preemption doctrine).

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n123. Id. 301(b)(3).

n124. The exception occurs when a work falls within the subject matter of copyright but is refused protection because it does not meet the requirements of copyright. The obvious example is works of authorship that don't meet the threshold standard of "originality." See ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1453-55 (7th Cir. 1996); Baltimore Orioles, Inc. v. Major League Baseball Players Ass'n, 805 F.2d 663, 668 (7th Cir. 1986).

n125. See H.R. 1476, 94th Cong. 301 (1976). The legislative history of section 301 is a puzzle. See Architectronics, Inc. v. Control Sys., Inc., 935 F. Supp. 425, 440 (S.D.N.Y. 1996) (stating that the legislative history of section 301 "is puzzling and unreliable"); Abrams, supra note 6, at 545 ("Neither Congress nor the Copyright Office seems to have had any conception of what they were doing."). For more detail on the legislative history of 301, see Rice, supra note 7, at 602-04.

n126. See, e.g., S.O.S., Inc. v. Payday, Inc., 886 F.2d 1081, 1088 (9th Cir. 1989); Rice, supra note 7, at 604 and cases cited therein; cf. Acorn Structures v. Swantz, 846 F.2d 923 (4th Cir. 1988) (suggesting that breach of promise alone is not necessarily an "extra element" for purposes of section 301).

n127. See 1 Melville B. Nimmer & David Nimmer, Nimmer on Copyright 1.01[B], at 1-14, 1-15 (1963) [hereinafter Nimmer on Copyright], and cases cited therein.


n129. See ProCD, 86 F.3d at 1454; National Car Rental Sys., Inc. v. Computer Assocs. Int'l, Inc., 991 F.2d 426, 431 (8th Cir. 1993); Frontline Test Equip., Inc. v. Greenleaf Software, Inc., No. 97-00139-C, 1998 U.S. Dist. LEXIS 8259 (W.D. Va. June 3, 1998); Expediters Int'l, Inc. v. Direct Line Cargo Management Servs., Inc., 995 F. Supp. 468, 480-81 (D.N.J. 1998); Architectronics, 935 F. Supp. at 439. This conclusion certainly seems consistent with the "extra element" cases, if not necessarily with the statutory language itself. See Ginsburg, Common Law, supra note 39, at 166. One might argue, though, that for courts that redefine "contract" to include standard terms for which there really is no assent, the "extra element" of agreement of the parties thins to the vanishing point. This is almost certainly true of a case like Hill v. Gateway 2000, Inc., 105 F.3d 1147 (7th Cir. 1997), cert. denied, 118 S. Ct. 47 (1997), in which Judge Easterbrook's analysis effectively read the assent requirement out of contract law entirely. Thus, it would be plausible to argue (contrary to ProCD) that while contracts in general are not preempted by section 301, shrinkwrap licenses
ought to be. Cf. Vault Corp. v. Quaid Software Ltd., 847 F.2d 255, 270 (5th Cir. 1988) (preempting a state statute validating particular contractual provisions in shrinkwrap licenses).

It is also somewhat troubling that the rationale of ProCD means that contract terms should never be preempted, since they will always contain the "extra element" of agreement between the parties. But the ProCD court itself was unwilling to follow its reasoning that far. See ProCD, 86 F.3d at 1454 (refusing to hold that contracts could never be preempted by copyright).

n130. As Maureen O'Rourke says,

In addition to statutory preemption, preemption under the Supremacy Clause of the Constitution must be examined. Even if a particular cause of action survives a 301 preemption analysis...it still may be preempted if it "stands as an obstacle to the accomplishment of the full purposes and objectives of Congress."

O'Rourke, supra note 62, at 534; see also Maureen A. O'Rourke, Fencing Cyberspace: Drawing Borders in a Virtual World, 82 Minn. L. Rev. 609, 694 (1998) [hereinafter O'Rourke, Fencing Cyberspace]; Cohen, supra note 11, at 23. For the fundamental statement of Supremacy Clause copyright preemption, see Goldstein v. California, 412 U.S. 546, 559 (1973). In Goldstein, the Court distinguished three types of situations: (1) areas in which federal law mandated protection; (2) areas in which federal law mandated no protection; and (3) areas in which federal law was silent. See id. Only in the last category of cases was state law free to operate:

Where the need for free and unrestricted distribution of a writing is thought to be required by the national interest, the Copyright Clause and the Commerce Clause would allow Congress to eschew all protection. In such cases, a conflict would develop if a State attempted to protect that which Congress intended to be free from restraint or to free that which Congress had protected.

Id. One might perhaps object that the existence of partial field preemption in section 301 necessarily means that state law outside the reach of section 301 is not preempted. Cf. Cipollone v. Liggett Group, Inc., 505 U.S. 504, 517 (1992) (drawing such an inference in another statute). More recently, the Court has wisely rejected Cipollone's interpretive canon, at least as an absolute rule. See Freightliner Corp. v. Myrick, 514 U.S. 280 (1995) (finding that preemption can be based on implied conflicts even in cases in which there is both express partial field preemption and a "savings clause" protecting state law).

A moment's reflection will demonstrate that section 301 cannot be all there is to copyright preemption. Section 301 is an extremely narrow "field preemption" statute; in particular, it would not preempt state laws that run directly counter to the federal statute because they would not be "equivalent" to copyright. For example, suppose California passed a law stating that the copyright laws could not be enforced against any citizen of California. Section 301 would not preempt such a law because it isn't "equivalent" to copyright. But the Supremacy Clause surely would preempt the law because it conflicts with the federal scheme.

n131. See 17 U.S.C. 203(a)(3), (5) (1994); see also id. 304(c)(5) (providing a similar right during the extended term of works created before 1978).


n133. See 17 U.S.C. 113(d) (1994) (providing for one set of rules regarding moral rights if the author consents in writing to alteration, and another if the author does not); see also H.R. 94-1476, 94th Cong. (1976) (providing that the parties may contract around the first sale doctrine in 17 U.S.C. 109(a) (1994), but limiting the copyright owner to contract rather than copyright remedies if they do so). The first sale-contract question appears to be more difficult than the legislative history suggests. In Bobbs-Merrill Co. v. Straus, 210 U.S. 339, 349-51 (1908), the Court held that a publisher could not include terms on a book and thereby
bind subsequent purchasers and resellers to those terms. The Court viewed the question as purely one of construing the Copyright Act, which did not give the copyright owner control over subsequent sales of the book. See id. at 350. The Court expressly reserved the question of whether a contract directly between the copyright owner and the subsequent purchaser would be effective - though the Court clearly did not consider the legend on the book as enough to create such a contract. See id.

Ninety years later, in Quality King Distributors v. L'Anza Research International, 118 S. Ct. 1125, 1130 (1998), the Court held that the copyright first sale doctrine permitted purchasers of a product made in the United States for shipment abroad to reimport it and resell it in the United States. The Court relied on Bobbs-Merrill to reach this result. See id. at 1128-30. But in so doing, it noted "the critical distinction between statutory rights and contract rights." Id. at 1129. While the Court did not elaborate, one might infer that the Court would have permitted a breach of contract action to proceed in these circumstances even though the statute did not support an action for copyright infringement.

n134. 1 Paul Goldstein, Copyright 1:40 (2d ed. 1998).


n138. See ProCD, Inc. v. Zeidenberg, 86 F.3d 1447 (7th Cir. 1996) (considering preemption only under section 301). There is simply no arguable justification for the court's refusal even to discuss conflicts preemption in the case before it. The issue was briefed, and because the court enforced the contract, it must necessarily have concluded that enforcement of the contract was not preempted.
In the interest of full disclosure, I should note that I authored an amicus brief in the ProCD case on behalf of the American Committee for Interoperable Systems - on the issue of conflicts preemption, no less. See Brief of Amicus Curiae of American Committee for Interoperable Systems in support of Appellees (visited Oct. 26, 1998) <http://www.complaw.com/lawlibrary/brief.html>. Since I did it pro bono, however, I can be accused at most of sour grapes, not actual bias, in criticizing Judge Easterbrook's decision.

n139. For some efforts at doing so, see Ginsburg, Common Law, supra note 39, at 168-71; Karjala, supra note 7, at 521-25 (distinguishing between commercialized and uncommercialized works); O'Rourke, Copyright Preemption, supra note 9, at 53 (applying a hypothetical fair use inquiry). O'Rourke's other work can be read as generally rejecting preemption even in fair use cases with certain very narrow exceptions. See O'Rourke, Fencing Cyberspace, supra note 62, at 479.

n140. This would arguably encompass National Car Rental Sys., Inc. v. Computer Assoc. Int'l, Inc., 991 F.2d 426, 429-30 (8th Cir. 1993), in which the copyright owner licensed the program only for in-house use). For an argument in favor of a similar distinction, see Covotta & Sergeef, supra note 20, at 50-51.

n141. This encompasses cases such as Vault, 847 F.2d 255 (5th Cir. 1988), and Brulotte, 379 U.S. 29 (1964), in which intellectual property owners unsuccessfully attempted by contract to "opt out" of rights granted by statute to their licensees.

n142. See Paul Heald, Resolving Priority Disputes in Intellectual Property Collateral, 1 J. Intell. Prop. L. 135, 136 (1993) ("The key [to preemption analysis] is not to examine preemption questions in the abstract, but to identify the precise disputes that federal law settles and leave for state law the disputes for which federal law provides no answer.").

n143. As an aside, the reader will note that this phrase is necessarily imprecise. Even determining what contracts are within the "field" of intellectual property is a Herculean task. The field could be as narrow as "licenses of intellectual property rights," a term which is itself open to interpretation but which may not include many shrinkwrap licenses or collateral agreements such as the one in Aronson. Or it may be as broad as to include all contracts relating to ideas, intangibles, or intellectual property, encompassing confidentiality agreements, employment agreements, and numerous contracts for the sale of physical goods. Not incidentally, a similar problem has dogged the scope, or coverage, provisions of Article 2B. See supra note 12; cf. Dreyfuss, supra note 4, at 209-12 (discussing the coverage provisions of Article 2B).

n144. The right of publicity, a state law which grants individuals control over the use of their name or likeness for commercial purposes, is one obvious example of a state law that presents potential conflicts with federal intellectual property policy. See White v. Samsung Elecs. Am., Inc., 989 F.2d 1512 (9th Cir. 1993) (Kozinski, J., dissenting from denial of rehearing en banc) (discussing conflicts between federal law and the right of publicity); Paul J. Heald, Filling Two Gaps in the Restatement (Third) of Unfair Competition: Mixed-Use Trademarks and the Problem with Vanna, 47 S.C. L. Rev. 783, 804-08 (1996). Dilution is another. See Heald, Unfair Competition, supra note 6, at 1413-14, 1436; David S. Welkowitz, Preemption, Extraterritoriality, and the Problem of State Antidilution Laws, 67 Tul. L. Rev. 1, 7-45 (1992).

n145. See Reichman & Franklin, supra note 8, at 28 ("The preemption doctrine tends naturally to paint with a broad brush that validates or invalidates whole classes of contracts."). David Rice notes that preemption challenges "are to be avoided, not tempted." Rice, supra note 7, at 648; see also O'Rourke, supra note 62, at 541 (recommending "a more nuanced analysis that places the Copyright Act within the context of other federal law..."). O'Rourke's specific proposal is to expand the treatment of antitrust law rather than to rely on preemption doctrine. See O'Rourke, supra note 62, at 545. One can question whether antitrust really is more nuanced than copyright policy for this purpose. See, e.g., David McGowan, Free Contracting, Fair Competition, and Draft Article 2B: Some Reflections on Federal Competition Policy, Information Transactions, and "Aggressive Neutrality," 13 Berkeley Tech. L.J. (forthcoming Dec. 1998) (manuscript at 49, on file with author).
n146. See Vault Corp. v. Quaid Software Ltd., 847 F.2d 255, 270 (5th Cir. 1988) (invalidating provisions in a licensing agreement that prohibited decompilation of a computer program and preempts state law that endorsed such provisions).

n147. See infra notes 154-156 and accompanying text.

n148. See supra notes 74-75 and accompanying text.


n151. See, e.g., Karjala, supra note 7, at 520; Lemley, Economics of Improvement, supra note 10, at 1042-83; Litman, supra note 4; Rice, supra note 7, at 556–70.

n152. Of particular note here are state artists' moral rights statutes that preclude waiver or transfer of the right. See, e.g., N.Y. Arts & Cult. Aff. Law 14.03 (McKinney 1998); Morseburg v. Balyon, 621 F.2d 972, 978 (9th Cir. 1980) (interpreting the California Resale Royalty Act).


n153. See infra notes 154-156 and accompanying text.


n155. See ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1455 (7th Cir. 1996) ("Whether a particular license is generous or restrictive, 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.") (quoting 17 U.S.C. 301); accord Lattie v. Murdach, 42 U.S.P.Q.2d 1240, 1244 (N.D. Cal. 1997); see also Warlick, supra note 4, at 168-69 (noting but criticizing this approach).

n156. See Architectronics, Inc. v. Control Sys., Inc., 935 F. Supp. 425, 438-41 (S.D.N.Y. 1996). But see Jaccard, supra note 20, at 647. Though sympathetic to this argument, Jaccard notes that the rights conveyed by contract may be "equivalent" to copyright even though contract law has different elements. See id.

The district court in P.C. Films Corp. v. Turner Entertainment Co., 954 F. Supp. 711, 715 (S.D.N.Y. 1997), concluded that an agreement to bind a licensee beyond the expiration of the copyright was enforceable because it was "merely a contract between two private parties." The Second Circuit rejected this approach in dictum, though it concluded it did not need to resolve the issue of whether restrictions on licensees could survive the expiration of copyright. See P.C. Films Corp. v. MGM/UA Home Video Inc., 138 F.3d 453, 458 (2d Cir. 1998) ("We are not convinced that this analysis gives sufficient weight to federal copyright law and the constitutional principle that a grant of copyright rights can be for "limited Times' only.").

n157. As noted above, the decision in ProCD is certainly guilty of this error. See supra note 138 and accompanying text.

n158. See supra note 136 (collecting cases).
n159. See, e.g., U.C.C. 2B-208 (Draft, Aug. 1, 1998); see also Lemley, Shrinkwrap Licenses, supra note 10, at 1262-63 (noting and criticizing this change).

n160. See U.C.C. 2B-507(a)(2) (Draft, Aug. 1, 1998) (providing that transferees take subject to the terms of the license); id. 2B-502(2) (providing that transfers of a license that violate the contractual terms are ineffective). For a discussion of these provisions, see Dreyfuss, supra note 4, at 226-32.

n161. For a discussion of some of these technological developments, see Cohen, supra note 4; Julie E. Cohen, A Right to Read Anonymously: A Closer Look at Copyright Management in Cyberspace, 28 Conn. L. Rev. 981 (1996); Elkin-Koren, Copyright Policy, supra note 11, at 104.


n163. Robert Merges has noted this phenomenon and suggested that shrinkwrap license terms should be preempted when there is sufficient uniformity in the industry that the terms in effect amount to "private legislation" by software vendors. See Merges, supra note 1, at 1612. Merges relies on Professor Kessler's earlier work, which suggests that when contracts of adhesion were standardized throughout an industry, depriving consumers of meaningful choice, freedom of contract had in effect been replaced with private legislation. See Friedrich Kessler, Contracts of Adhesion - Some Thoughts About Freedom of Contract, 43 Colum. L. Rev. 629 (1943); Merges, supra note 1, at 1611-12; see also Elkin-Koren, Contracts in Cyberspace, supra note 11, at 40 (suggesting that uniform contractual terms are of concern even when they do not confer market power); Mark Gimbel, Note, Some Thoughts on the Implications of Trusted Systems for Intellectual Property Law, 50 Stan. L. Rev. 1671, 1683-84 (1998).


n165. See Elkin-Koren, Copyright Policy, supra note 11, at 103-04; O'Rourke, Fencing Cyberspace, supra note 130, at 693 (noting that on-line agreements would bind all comers, and therefore look more like property rights held against the world). Ginsburg acknowledges this point: "In a world of mass-market, click-on licenses, there are few strangers to the contract. The classic distinction between a contract right inter partes and a property right erga omnes dissolves...." Ginsburg, Common Law, supra note 39, at 167.


n168. The most thorough development of this point to date is Cohen, supra note 11. See also Elkin-Koren, Copyright Policy, supra note 11, at 107-13; Lemley, Economics of Improvement, supra note 10, at 1057-58; Lydia Pallas Loren, Redefining the Market Failure Approach to Fair Use in an Era of Copyright Permission Systems, 5 J. Intell. Prop. L. 1, 6 (1997); McGowan, supra note 145. Even some commentators who generally would enforce shrinkwrap licenses are troubled by ProCD's failure to acknowledge these external effects. See O'Rourke, Copyright Preemption, supra note 9, at 83-84; Finkelstein & Wyatt, supra note 20, at 856.

n169. Bell, supra note 11, at 588 n.156 (responding to my argument that contract terms create externalities).

n170. See infra Part III.B.

n171. See William W. Fisher III, Compulsory Terms in Internet-Related Contracts, 73 Chi.-Kent L. Rev. (forthcoming 1998) (listing implied warranties of merchantability, implied warranties of habitability in residential leaseholds, rent control, minimum wage laws, maximum hours legislation, bans on child labor, compulsory terms in insurance policies, manufacturers' strict liability, protection for mortgagees and the occupants of migrant labor camps as examples of legal restrictions on contractual freedom); see also Michael
J. Trebilcock, The Limits of Freedom of Contract 58 (1993) ("The problem of third-party effects from exchange relationships is pervasive and not abberational.").

n172. See infra Part III.B; see also Lemley, Economics of Improvement, supra note 10, at 1057-58 (discussing the externalities imposed by contractual restrictions on potential reusers of a work).

n173. See Bell, supra note 11, at 615-16. Ray Nimmer also suggests that "copyright law will recede in importance," displaced in part by contract. Nimmer, supra note 4, at 1.

n174. See McManis, supra note 14, at 176; Nimmer et al., supra note 8, at 22-23.

n175. See Nimmer et al., supra note 8, at 22-23 ("Although attempts at altering the delicate balance struck by copyright law should fail under the doctrine of preemption,...courts sometimes fail to appreciate the preemptive force of copyright [in contract cases.]").
Vault Corporation, Plaintiff-Appellant, v. Quaid Software Limited, Defendant-Appellee

No. 87-3516

UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT


June 20, 1988

REAVLEY, Circuit Judge:

* * *

Vault produces computer diskettes under the registered trademark "PROLOK" which are designed to prevent the unauthorized duplication of programs placed on them by software computer companies, Vault's customers. Floppy diskettes serve as a medium upon which computer companies place their software programs. To use a program, a purchaser loads the diskette into the **2** disk drive of a computer, thereby allowing the computer to read the program into its memory. The purchaser can then remove the diskette from the disk drive and operate the program from the computer's memory. This process is repeated each time a program is used.

The protective device placed on a PROLOK diskette by Vault is comprised of two parts: a "fingerprint" and a software program ("Vault's program"). n1 The "fingerprint" is a small mark physically placed on the magnetic surface of each PROLOK diskette which contains certain information that cannot be altered or erased. Vault's program is a set of instructions to the computer which interact with the "fingerprint" to prevent the computer from operating the program recorded on a PROLOK diskette (by one of Vault's customers) unless the computer verifies that the original PROLOK diskette, as identified by the "fingerprint", is in the computer's disk drive. While a purchaser can copy a PROLOK protected program onto another diskette, the computer will not read the program into its memory from the copy unless the original PROLOK diskette is also in one of the computer's disk drives. The fact that a fully functional copy of a program (**3** cannot be made from a PROLOK diskette prevents purchasers from buying [*257] a single program and making unauthorized copies for distribution to others.

n1 A PROLOK diskette contains two programs, the program placed on the diskette by a software company (e.g., word processing) and the program placed on the diskette by Vault which interacts with the "fingerprint" to prevent the unauthorized duplication of the software company's program. We use the term "software program" or "program" to refer to the program placed on the diskette by Vault's customers (a computer company) and "Vault's program" to refer to the program placed on the diskette by Vault as part of the protective device. We collectively refer to the "fingerprint" and Vault's program as the "protective device."

... Each version of PROLOK has been copyrighted (**4**) and Vault includes a license agreement with every PROLOK package that specifically prohibits the copying, modification, translation, decompilation or disassembly of Vault's program. n2 Beginning with version 2.0 in September 1985, Vault's license agreement contained a choice of law clause adopting Louisiana law. n3

n2 The license agreement refers to the program placed on the diskette by Vault, not the software program placed on the diskette by Vault's customers. See supra note 1 for terminology. The companies that place their software programs on PROLOK diskettes, not Vault, own the copyright to their programs and may include a license agreement covering their programs in the package for sale to the public.

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

1. This copy of the PROLOK Software Protection System and this PROLOK Software Protection Diskette (the "Licensed Software") are licensed to you, the end-user, for your own internal use. Title to the Licensed Software and all copyrights and proprietary rights in the Licensed Software shall remain with VAULT. You may not transfer, 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.

2. THE LICENSED SOFTWARE IS PROVIDED "AS-IS". VAULT DISCLAIMS ALL WARRANTIES AND REPRESENTATIONS OF ANY KIND WITH REGARD TO THE LICENSED SOFTWARE, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. UNDER NO CIRCUMSTANCES WILL VAULT BE LIABLE FOR ANY CONSEQUENTIAL, INCIDENTAL, SPECIAL OR EXEMPLARY DAMAGES EVEN IF VAULT IS APPRISED OF THE LIKELIHOOD OF SUCH DAMAGES OCCURRING. SOME STATES DO NOT ALLOW THE LIMITATION OR EXCLUSION OF LIABILITY FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES, SO THE ABOVE LIMITATION OR EXCLUSION MAY NOT APPLY TO YOU.

Quaid's product, a diskette called "CopyWrite," contains a feature called "RAMKEY" which unlocks the PROLOK protective device and facilitates the creation of a fully functional copy of a program placed on a PROLOK diskette. The process is performed simply by copying the contents of the PROLOK diskette onto the CopyWrite diskette which can then be used to run the software program without the original PROLOK diskette in a computer disk drive. RAMKEY interacts with Vault's program to make it appear to the computer that the CopyWrite diskette contains the "fingerprint," thereby making the computer function as if the original PROLOK diskette is in its disk drive. A copy of a program placed on a CopyWrite diskette can be used without the original, and an unlimited number of fully functional copies can be made in this manner from the program originally placed on the PROLOK diskette.

Quaid first developed RAMKEY in September 1983 in response to PROLOK version 1.0. In order to develop this version of RAMKEY, Quaid copied Vault's program into the memory of its computer and analyzed the manner in which the program operated. When Vault developed version 1.07, Quaid adapted RAMKEY in 1984 to defeat this new version. The adapted version of RAMKEY contained a sequence of approximately 30 characters found in Vault's program and was discontinued in July 1984. Quaid then developed the current version of RAMKEY which also operates to defeat PROLOK version 1.07, but does not contain the sequence of characters used in the discontinued version. Quaid has not yet modified RAMKEY to defeat PROLOK version 2.0, and has agreed not to modify RAMKEY pending the outcome of this suit. Robert McQuaid, the sole owner of Quaid, testified in his deposition that while a CopyWrite diskette can be used to duplicate programs placed on all diskettes, whether copy-protected or not, the only purpose served by RAMKEY is to facilitate the duplication of programs placed on copy-protected diskettes. He also stated that without the RAMKEY feature, CopyWrite would have no commercial value.

IV. Vault's Louisiana Claims

Seeking preliminary and permanent injunctions and damages, Vault's original complaint alleged that Quaid breached its license agreement by decompiling or disassembling Vault's program in violation of the Louisiana Software License Enforcement Act (the "License Act"), La.Rev.Stat.Ann. § 51:1961 et seq. (West 1987), and that Quaid misappropriated Vault's program

n26 While the district court held that the Louisiana Uniform Trade Secrets Act, La.Rev.Stat.Ann. ß 51:1431 et seq., was not preempted by the Copyright Act, the court held that the process of ascertaining information by "reverse engineering," used by Quaid to analyze the operation of Vault's program, did not constitute a violation of the Louisiana Trade Secrets Act. Vault, 655 F. Supp. at 761. This holding is not challenged on appeal.

n27 Beginning with PROLOK version 2.0, Vault's license agreement contained a choice of law clause adopting Louisiana law. See supra note 3.

Louisiana's License Act permits a software producer to impose a number of contractual terms upon software purchasers provided that the terms are set forth in a license agreement which comports with La.Rev.Stat.Ann. ß ß 51:1963 & 1965, and that this license agreement accompanies the producer's software. Enforceable terms include the prohibition of: (1) any copying of the program for any purpose; and (2) modifying and/or adapting the program in any way, including adaptation by reverse engineering, decompiling or disassembly. La.Rev.Stat.Ann. ß 51:1964. n28 The terms "reverse engineering, decompiling or disassembling" are defined as "any process by which computer software is converted from one form to another form which is more readily understandable to human beings, including without limitation any decoding or decrypting of any computer program which has been encoded or encrypted in any manner." La.Rev.Stat.Ann. ß 51:1962(3).

n28 Section 51:1964 reads, in full:

Terms of which shall be deemed to have been accepted under R.S. 51:1963, if included in an accompanying license agreement which conforms to the provisions of R.S. 51:1965, may include any or all of the following:

(1) Provisions for the retention by the licensor of title to the copy of the computer software.
(2) If title to the copy of computer software has been retained by the licensor, provisions for the prohibition of any copying of the copy of computer software for any purpose and/or limitations on the purposes for which copies of the computer software can be made and/or limitations on the number of copies of the computer software which can be made.
(3) If title to the copy of computer software has been retained by the licensor, provisions for prohibitions or limitation of rights to modify and/or adapt the copy of the computer software in any way, including without limitation prohibitions on translating, reverse engineering, decompiling, disassembling, and/or creating derivative works based on the computer software.
(4) If title to the copy of computer software has been retained by the licensor, provisions for further transfer, assignment, rental, sale, or other disposition of that copy or any other copies made from that copy of the computer software, provided that terms which prohibit the transfer of a copy of computer software in connection with the sale or transfer by operation of law of all or substantially all of the operating assets of a licensee's business shall to that extent only not be deemed to have been accepted under R.S. 51:1963.
(5) Provisions for the automatic termination without notice of the license agreement if any provisions of the license agreement are breached by the licensee.

n29 See supra, note 2.

The district court held that Vault's license agreement was "a contract of adhesion which could only be
enforceable if the [Louisiana License Act] is a valid and enforceable statute." Vault, 655 F. Supp. at 761. The court noted numerous conflicts between Louisiana's License Act and the Copyright Act, including: (1) while the License Act authorizes a total prohibition on copying, the Copyright Act allows archival copies and copies made as an essential step in the utilization of a computer program, 17 U.S.C. § 117; (2) while the License Act authorizes a perpetual bar against copying, the Copyright Act grants protection against unauthorized copying only for the life of the author plus fifty years, 17 U.S.C. § 302(a); [**43] (3) while the License Act places no restrictions on programs which may be protected, under the Copyright Act, only "original works of authorship" can be protected, 17 U.S.C. § 102. Vault, 655 F. Supp. at 762-63. The court concluded that, because Louisiana's License Act "touched upon the area" of federal copyright law, its provisions were preempted and Vault's license agreement was unenforceable. Id. at 763.

In Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 84 S. Ct. 784, 11 L. Ed. 2d 661 (1964), the Supreme Court held that "when 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." Id. at 229, 84 S. Ct. at 787 (quoting Sola Elec. Co. v. Jefferson Elec. Co., 317 U.S. 173, 176, 63 S. Ct. 172, 173, 87 L. Ed. 165 (1942)); See Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234, 84 S. Ct. 779, 11 L. Ed. 2d 669 (1964); see also Mitchell v. Penton/Indus. Publishing [*270] Co., 486 F. Supp. 22 (N.D. Ohio 1979) (holding that common law unfair competition claim preempted by the Copyright Act); Triangle Publications, Inc. v. Sports Eye, Inc., [**44] 415 F. Supp. 682, 686-87 (E.D.Penn. 1976) (holding that state regulation of unfair competition preempted as to matters falling within broad confines of the Copyright Act). Section 117 of the Copyright Act permits an owner of a computer program to make an adaptation of that program provided that the adaptation is either "created as an essential step in the utilization of the computer program in conjunction with a machine," § 117(1), or "is for archival purpose only," § 117(2). n30 The provision in Louisiana's License Act, which permits a software producer to prohibit the adaptation of its licensed computer program by decompilation or disassembly, conflicts with the rights of computer program owners under § 117 and clearly "touches upon an area" of federal copyright law. For this reason, and the reasons set forth by the district court, we hold that at least this provision of Louisiana's License Act is preempted by federal law, and thus that the restriction in Vault's license agreement against decompilation or disassembly is unenforceable.

n30 See supra note 11.

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