Enforceability of State Shrink-Wrap License Statutes in Light of Vault Corp v. Quaid Software Ltd.

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THE ENFORCEABILITY OF STATE "SHRINK-WRAP" LICENSE STATUTES IN LIGHT OF *VAULT CORP. v. QUAID SOFTWARE, LTD.*

Software piracy represents an important loss of business to the computer software[1] industry.[2] The software industry contends that rental companies that loan copyrighted software for a limited time period to users for a fee promote software piracy because some renters make unauthorized copies of the software before returning the original.[3] Such unauthorized copying violates the federal Copyright Act of 1976 (the "Copyright Act")[4] which subjects those who make unauthorized copies of computer software to federal civil and criminal penalties.[5]

However, copyright owners find it difficult to enforce their rights under the Copyright Act against individuals who make unauthorized copies of copyrighted software.[6] In response to this difficulty, Illinois and Louisiana recently enacted statutes[7] designed to protect a copyright holders' intellectual property rights in computer software.[8] These statutes purport to standardize and enforce "shrink-wrap"[9] licensing agreements for mass market computer

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[1]   The term "computer software" means "computer program," defined by the Copyright Act of 1976 as "a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result." Copyright Act of 1976, 17 U.S.C. § 101 (1982). "Computer software" thus includes both operating systems, compilers, interpreters, and application programs.

[2]   *See, e.g.*, Einhorn, *The Enforceability of "Tear-Me-Open" Software License Agreements*, 67 J. PAT. & TRADEMARK OFF. SOC'Y 509, 510 (1985) ("According to industry estimates there may exist anywhere between 2 and 10 'unauthorized' copies for every copy of mass marketed software purchased from the publisher [resulting in] lost profits for the computer industry in the range of $500 million to $2.5 billion annually."); Note, *The Protection of Computer Software Through Shrink-Wrap License Agreements*, 42 WASH. & LEE L. REV. 1347, 1348 n.2 (1985) (authored by Karen Puhala) ("approximately 50% of existing software in the personal computer marketplace is pirated").

[3]   Stern, *Shrink-wrap Licenses of Mass Marketed Software: Enforceable Contracts or Whistling in the Dark?*, 11 RUTGERS COMPUTER & TECH. L.J. 51, 57 (1985) (Software marketers legitimately complain that "software 'rental' is generally merely a euphemism for 'software piracy' . . . .").

[4]   17 U.S.C. § 106.

[5]   17 U.S.C. §§ 501-510.

[6]   *See infra* notes 22-25 and accompanying text.

[7]   ILL. REV. STAT. ch. 29, para. 801-808 (1986); LA. REV. STAT. ANN. §§ 51:1961-1966 (West 1987).

[8]   This note deals exclusively with intellectual property owners' rights in computer software under federal and state law when there is no dispute over the validity or enforceability of the copyright under federal law.

[9]   The term "shrink-wrap" refers to the clear plastic wrapping that seals the software box and through which buyers can read the license agreement.

software packages.[10] These agreements offer to the "purchaser"[11] a license to use the software, which the "purchaser" legally accepts when he tears open the shrink-wrap.

State "shrink-wrap" laws attempt to protect software publishers' property interest[12] in their software by making "shrink-wrap" license agreements enforceable.[13] The copyright owner gains several advantages from licensing software rather than selling it. For example, the Copyright Act limits the copyright owner's ability to restrict the actions of someone who has purchased a copy of the software,[14] while a licensor of the same software can restrict the activities of his licensee.

This note concludes that state "shrink-wrap" laws are invalid and unenforceable because they fall within the preemption provisions of the Copyright Act.[15] Section II of this note examines the effectiveness of the Copyright Act in protecting computer software and the case law defining the scope of the rights protected under the Copyright Act. Section III discusses the purpose and provisions of "shrink-wrap" license agreements and their enforceability in the absence of state "shrink-wrap" laws. Section IV examines the scope and effectiveness of the Louisiana and Illinois "shrink-wrap" stat-

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10 "Mass marketed computer software packages" refers to computer software produced for the general public and not individually designed to meet the needs of a particular customer.

11 When dealing with "shrink-wrap" license agreements, an inherent difficulty exists in labeling the two parties to the transaction as either "sellers" and "purchasers" on the one hand or "licensors" and "licensees" on the other. This note uses both sets of labels and the particular context of the discussion determines the meaning of these terms. Ultimately, this note concludes that all "shrink-wrap" licensees are actually purchasers, so in this context the terms are interchangeable.

12 Federal copyright law does not protect ideas but it does protect a particular *expression* of ideas. Software developers must therefore rely on state trade secret law to protect the ideas in their programs. *See, e.g.,* Kemp, *Trade Secret and Copyright Protection for Mass Marketed Computer Programs,* 90 COM. L.J. 625 (1985).

13 "Shrink-wrap" license agreements typically provide that the licensor retains title in the copy. They also restrict the licensee's right to copy, modify, adapt, reverse engineer, dissemble, create derivative works based on the software (Section 101 of the Copyright Act defines a "derivative work" as "a work based upon one or more preexisting works." 17 U.S.C. § 101) or further transfer, assign, rent, or sell the licensed copy. "Reverse engineering" and "dissembling" refer to the conversion of software which is in machine-readable form into a human-readable form. By reverse engineering or disassembling, a programmer can discover how a program works, make changes, or take the ideas used by the original programmer and apply them in his own program.

14 The "first sale" doctrine, embodied in section 109 of the Copyright Act, provides that "the owner of a particular copy . . . made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy. . . ." 17 U.S.C. § 109(a). *See infra* note 49 and accompanying text.

15 The preemption provides that all rights equivalent to the exclusive rights granted by the Copyright Act are governed exclusively by the Copyright Act and cannot be granted by common law or state statutes. 17 U.S.C. § 301.

utes. Section V discusses *Vault Corp. v. Quaid Software Ltd,*[16] in which the Court of Appeals for the Fifth Circuit held that several provisions of the Louisiana "shrink-wrap" statute are unenforceable. Finally, section VI examines the enforceability of those provisions of the "shrink-wrap" statutes not addressed by the *Vault* decision. This note concludes that these state "shrink-wrap" statutes are invalid and unenforceable because they purport to grant rights that are either equivalent to or in direct conflict with rights granted under the Copyright Act.

I

COPYRIGHT ACT OF 1976

Owners of intellectual property rights in computer software can protect their interests through five means:[17] (1) federal patent law,[18] (2) federal copyright law,[19] (3) state trade secret law,[20] (4) contract,[21] and (5) "copy protection."[22] Traditionally, trade secret law and individual contracts have been the most important means of protection but with the increasing economic importance and preva-

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16 655 F. Supp. 750 (E.D. La. 1987), *aff'd*, 847 F.2d 255 (5th Cir. 1988).

17 For discussion of general means of protection of rights in software, see Hyde, *Legal Protection of Computer Software*, 59 CONN. B.J. 298 (1985) and Syrowik, *Intellectual Property Rights in Software—A Look at the Basics*, 65 MICH. B.J. 292 (1986).

18 Computer software is not generally considered to be patentable subject matter under the federal patent statute. 35 U.S.C. §§ 1-376 (1982). However, in Daimond v. Diehr, 450 U.S. 175 (1981), the Supreme Court held that an industrial process which utilized a computer program for control purposes was patentable subject matter. Nevertheless, patent protection remains unavailable for software out of such applied contexts.

19 The 1980 Computer Software Act, 17 U.S.C. §§ 101-117 (1982), which amended the Copyright Act of 1976, explicitly extended federal copyright protection to cover computer software.

20 Protection under state trade secret law generally requires a showing that the computer program is novel, that it represents value to its owner, and that the owner intended to keep the contents of the program secret. Intent to maintain secrecy presents the greatest problem to developers of mass-market software because purchasers can easily discover the contents of the program and nothing legally hinders them from doing so. Software developers therefore use licensing as a way to require users to use the software only for its intended purpose and to prevent the appropriation of its trade secrets. *See, e.g.*, Kemp, *supra* note 12; Note, *supra* note 2, at 1356.

21 Direct contracting between the parties in a transfer of software allows the transferor to structure the transfer as a license, rather than a sale, and thus "bind the user to restrictions on the use of the program and promises of confidentiality by contract." Eidelman & Shepherd, *Living Among Pirates: Practical Strategies to Protect Computer Software*, 65 MICH. B.J. 284, 287 (1986).

22 "Copy protection" involves the marketing of software on "copy-protected" media, such as floppy disks. Copy protection prevents or frustrates attempts by unauthorized end users or other parties to copy the software contained on the protected disk. Although making unauthorized copying impossible is clearly the best means of securing for the copyright owner the sole right to make copies of the software, copy protection schemes can be "broken." They also have the disadvantage of preventing end users from making legitimate back-up copies which makes copy protection unpopular with users. *Id.* at 285. *See also infra* note 29.

lence of packaged mass market software, federal copyright law and "copy protection" have gained in importance.[23] The interaction between federal copyright law and state contract law, in the form of the "shrink-wrap" statutes, has also gained in importance as software developers attempt to use "shrink-wrap" license agreements to broaden the protection offered under the Copyright Act.

The primary economic concern of software developers and publishers is to receive a profitable return on their investment of time, capital, and effort through the sale of their product to the consuming public. The copyright owner of computer software has the exclusive right to make and distribute copies of that software.[24] However, given the high price of software development, the correspondingly high retail price charged to the consumer, and the ease and inexpense with which software can be illegally copied, "pirates" of computer software have an incentive to circumvent the copyright owner's exclusive right.[25]

While the Copyright Act provides civil and criminal remedies against this unauthorized appropriation,[26] enforcement of the copyright owner's exclusive rights against individual end-user infringers is extremely difficult, given the inherent problems and expense of investigation, proof, and prosecution.[27] Copyright suits are more effective against producers and distributors of unauthorized copies of copyrighted software than against the thousands of individual users who may pass an unauthorized copy on to a friend. Suing numerous individuals who have each made only one unauthorized copy of a piece of software is not a cost-effective means of protecting intellectual property rights, notwithstanding the option of suing for statutory damages under the Copyright Act.[28] Thus, the software industry has turned to alternative means of protection.

Other means of protecting intellectual property interests in software include: (1) state trade secret law protection, which can be

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[23]   The traditional market for software was among large industrial and commercial users whose applications require specialized and custom-designed software. With such transactions, the software developers could easily resort to contract to secure their property interest in the software. Stern, *supra* note 3, at 51.

[24]   17 U.S.C. § 106(1), (3).

[25]   *See* Stern, *supra* note 3, at 51 ("The price of software is quite high relative to the cost of its duplication, which is relatively easy and undetectable. The business setting, therefore, is ideal for 'piracy.' ").

[26]   17 U.S.C. §§ 504-509.

[27]   Stern, *supra* note 3, at 52 ("Detecting piracy in individual or corporate end user contexts is extremely difficult, and detection rarely occurs.").

[28]   Statutory damages consist of an award of not less than $250 or more than $10,000 for all infringements involved in one action with respect to one copyrighted work. If however, the plaintiff can prove the infringement was willfully committed, the damage award may be increased to as much as $50,000 per cause of action. 17 U.S.C. § 504(c).

used to protect the ideas embodied in software, (2) an enforceable contract between the owner of the intellectual property and the party that will use it, by which the copyright owner licenses the software to the user with restrictions on use, transfer, reverse engineering, and promises of secrecy and, (3) physical means such as "copy protection" of computer floppy disks.[29]

Each of these alternative methods represents an advantage over protection under copyright alone. While copyright protects only the author's expression,[30] state trade secret law protects the ideas behind that expression.[31] Furthermore, while selling a copy of a copyrighted work ends the copyright owner's control over subsequent transfers of and modifications to the copy,[32] the copyright owner can maintain control over an individual copy of the software through a licensing contract.[33] Finally, "copy-protection" makes unauthorized copying or modification of copyrighted software physically difficult or impossible, thereby enabling the copyright owner to avoid or diminish the possibility of the need for future legal protection.[34]

All of these advantages point to deficiencies in the protection offered software under the Copyright Act. But the mere existence of devices and schemes to increase intellectual property protection beyond that offered through federal copyright does not ensure their legal availability, for they may conflict with the preemption provision of the Copyright Act.[35]

A. Protection of Copyrighted Works

The Copyright Act establishes copyright protection in "original works of authorship fixed in any tangible medium of expression,"[36]

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29 "Copy protection" is a means of defeating the disk copying utility of the computer's operating system. If a disk containing software is copy protected, the user will be unable to make a copy of its contents unless he obtains and uses another utility specially designed to defeat the copy protection scheme. *See supra* note 22.

30 17 U.S.C. § 102. *See infra* note 50 and accompanying text.

31 Note, *supra* note 2, at 1356-57 (noting that, while trade secret law can protect ideas, it is generally unavailable for mass market software).

32 17 U.S.C. § 109(a) ("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").

33 *See* Note, *supra* note 2, at 1350 (noting that courts have generally upheld the use of licensing agreements to protect intellectual property interests in computer software).

34 Eidelman & Shepherd, *supra* note 21, at 284 ("Physical protection of the program should always come first—if it is never stolen in the first place [the copyright owner] doesn't have to spend expensive dollars litigating to protect it.").

35 17 U.S.C. § 301. *See infra* note 43 and accompanying text.

36 17 U.S.C. § 102. By giving specifically enumerated exclusive rights to the owner of the copyright in a work, the Copyright Act seeks to promote the production of creative work through the creation of limited monopolies in the copyright owner. Sony

and grants certain exclusive rights to copyright owners.

Section 106 of the Copyright Act establishes that the copyright owner[37] has the exclusive right to carry out or to authorize (1) the reproduction of the copyrighted work,[38] (2) the preparation of derivative works based on the copyrighted work,[39] (3) the distribution of copies of the copyrighted work by sale, rental, lease, or lending,[40] (4) the public performance,[41] or (5) public display[42] of the copyrighted work.

The present Copyright Act preempts all state laws that (1) affect rights "equivalent" to the exclusive rights enumerated in the Copyright Act, (2) concern works that fall within the subject matter requirements of the Copyright Act, and (3) involve causes of action arising after 1978.[43] The Copyright Act's preemption provision is relevant to the validity of the state "shrink-wrap" laws because these state statutes purport to grant rights to copyright owners which may be within the exclusive domain of the Copyright Act.

The subject matter of federal copyright protection[44] includes such traditional forms of authorship as literary, musical, dramatic,

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Corp. v. Universal City Studios, Inc., 464 U.S. 417, 477 (1984) ("The monopoly created by copyright . . . rewards the individual author in order to benefit the public.").

   37   "Copyright owner" means the owner of "any one of the exclusive rights [enumerated in section 106] comprised in a copyright." 17 U.S.C. § 101.

   38   17 U.S.C. § 106(1).

   39   17 U.S.C. § 106(2).

   40   17 U.S.C. § 106(3).

   41   17 U.S.C. § 106(4).

   42   17 U.S.C. § 106(5).

   43   17 U.S.C. § 301(b). Prior to 1978, two copyright regimes existed in the United States: the federal Copyright Act of 1909, Copyright Act of 1909, ch. 320, §§ 1-64, 35 Stat. 1075 (current version at 17 U.S.C. §§ 1-215) which protected published works, and state common-law copyright which protected unpublished works. "Publication" is defined in the Copyright Act of 1976 as "the distribution of copies . . . of a work to the public by sale or other transfer of ownership, or by rental, lease, or lending." 17 U.S.C. § 101. Congress rationalized the federal copyright regime's exclusivity by claiming it enhanced the effectiveness of the protection afforded copyrighted works in the United States.

   The House Report, commenting on the version of the bill which would become the Act, states:

> By substituting a single Federal system for the present anachronistic, uncertain, impractical, and highly complicated dual system [of federal statutory copyright protection for published works and state common law copyright protection for unpublished works], the bill would greatly improve the operation of the copyright law and would be much more effective in carrying out the basic constitutional aims of uniformity and the promotion of writing and scholarship.

H.R. REP. No. 1476, 94th Cong., 2d Sess. 129, *reprinted in* 1976 U.S. CODE CONG. & ADMIN. NEWS 5659.

   44   17 U.S.C. § 102(a) ("original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.").

pictorial, and audiovisual works.[45] The 1980 Computer Software Act,[46] an amendment to the Copyright Act, explicitly extended federal copyright protection to computer software.

B. Limitations on the Enumerated Rights

Although the Copyright Act protects intellectual property rights by granting copyright owners monopolies over the reproduction, distribution, and preparation of derivative works of their copyrighted software, it also imposes important limitations on the scope and effectiveness of copyright protection. For example, section 117 of the Copyright Act gives those who purchase a copy[47] of copyrighted computer software the right to make another copy of the software if the user creates the new copy either as an essential step in using the software or for archival purposes.[48] This statutory exception poses potential problems for enforcing "shrink-wrap" license agreements that purport to do away with the users' ability to make any copies or modifications to the licensed software.

The "first sale" doctrine of section 109 of the Copyright Act also significantly limits the copyright owners' exclusive rights over their copyrighted works. Section 109(a), which establishes the "first sale" doctrine, provides that once the copyright owner sells an authorized copy of a copyrighted work, the copyright owner can no longer control its disposition or further transfer.[49] Under the "first sale" doctrine, therefore, a consumer who buys a copy of a computer software package at a retail store can lend it to his friends, even for consideration, or sell it to a third party, despite the potential for copyright infringement inherent in such transfers.

The exclusive rights of the copyright owner are further limited because the Copyright Act does not protect the underlying ideas or algorithms of computer software but only the author's particularized expression of an idea.[50] The Copyright Act thus does not pro-

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45   17 U.S.C. § 102.
46   17 U.S.C. §§ 101, 117.
47   "Copies" are defined by the Copyright Act as "material objects . . . in which a work is fixed by any method . . . and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device." 17 U.S.C. § 101.
48   17 U.S.C. § 117. *See also* Hyde, *supra* note 17, at 311.
49   Section 109(a) reads:
   Notwithstanding the provisions of section 106(3) [which gives the copyright owner the exclusive right to distribute copies of the copyrighted work to the public], the owner of a particular copy . . . lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy.
17 U.S.C. § 109(a).
50   Section 102 of the Copyright Act provides that "Copyright protection subsists

hibit third parties from decompiling or disassembling a computer program, discovering the idea expressed in it, and then writing their own program using different instructions and organization, but producing the same or similar result.[51] While state trade secret laws have traditionally protected underlying ideas that the author effectively kept secret,[52] mass market sellers generally cannot obtain state trade secret law protection.[53]

Finally, the limited monopoly granted the copyright owner under the Copyright Act does not last forever. Section 302(a) states the general rule that copyright protection "endures for a term consisting of the life of the author and fifty years after the author's death."[54] This length of time is typically much greater than the economic life of any piece of computer software. Limited copyright life is therefore relevant only when license agreements purport to prohibit copying by licensees for a period of time longer than the copyright term. In such instances, these license provisions conflict with the Copyright Act.[55]

C. The Scope of "Equivalent" Rights

Section 301 of the Copyright Act preempts state law protection of the intellectual property rights granted in section 106. Section

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... in original works of authorship fixed in any tangible medium of expression. . . . In no case does copyright protection extend to any idea. . . ." 17 U.S.C. § 102.

51 *See* Note, *supra* note 2, at 1353 ("The always ambiguous line between copying an idea and borrowing the expression is especially uncertain in the context of computer software.").

52 State trade secret law requires proof that the owner of the ideas made an effort to keep them secret and that the party against whom the action is brought misappropriated it. Protection under trade secret law is usually limited to situations in which the proprietary owner has required all those who will come into contact with the secret to enter into a contract of confidentiality. It is difficult to enter such contracts in the mass-market context, which lacks face-to-face bargaining. Mass-market sellers therefore cannot generally obtain state trade secret protection. Consequently, software developers have turned to "shrink-wrap" licensing as a means of protecting their secrets by attempting to eliminate purchasers' rights to make duplicate copies of their software. Testerman, *Legal Protection of Computers: Trade Secrets, Copyright and Newly Enacted Louisiana Statutes*, 32 LA. BUS. J. 290, 291 (1985).

53 *See* Note, *supra* note 2, at 1356-57.

54 17 U.S.C. § 302(a).

55 The "fair use" doctrine, embodied in section 107 of the Copyright Act is another important exception to the copyright owner's exclusive rights. The "fair use" exception acts as a limitation on the copyright owner's section 106 exclusive rights and permits the reproduction of a copyrighted work for scholarship or research, weighing factors such as the use to be made of the copy, the nature of the copyrighted work, the amount and importance of the portion used, and the effect of the use upon the potential market for the copyrighted work. The existence of this exception to the copyright owner's exclusive right of reproduction calls into question the validity of provisions for the absolute prohibition of duplication of copyrighted software, such as those that exist in typical "shrink-wrap" license agreements.

301(a) states that "no person is entitled to any such right [as those set out in section 106] or equivalent right . . . under the common law or statutes of any State."[56] Section 301(b) provides that the Copyright Act does not preempt state law from addressing (1) subject matter that does not come within the scope of the Act's protection,[57] (2) causes of action arising before the effective date of the statute,[58] and (3) rights "that are not equivalent to any of the exclusive rights" of the Act.[59] The enforceability and validity of state "shrink-wrap" laws thus depend on the meaning of "equivalent rights" and the resulting applicability or non-applicability of section 301.

Courts and commentators have struggled to define the scope and meaning of the section 301(a) preemption provision in the computer software context.[60] Courts have developed two distinct tests to determine whether section 301 preempts a state law—the "extra element" test and the federal policy test.[61]

Harper & Row, Publishers, Inc. v. Nation Enterprises [62] established the "extra element" test. In deciding whether section 301(a) preempted the plaintiff's state law claims, the *Harper & Row* court compared the rights the plaintiff sought to protect under the state and

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56   17 U.S.C. § 301(a).

57   The subject matter of the Copyright Act is set out in 17 U.S.C. §§ 102, 103.

58   The effective date of the Copyright Act is January 1, 1978. 17 U.S.C. § 301(a).

59   17 U.S.C. § 301(b).

60   The Copyright Act does not preempt state trade secret law. Warrington Assoc., Inc. v. Real-Time Eng'g Sys., Inc., 522 F. Supp. 367 (N.D. Ill. 1981) is a typical example of the judicial treatment in this area which involved the alleged misappropriation of trade secrets in computer software. The district court found that because copyright law only protects expressions and not the underlying ideas that are the subject of state trade secret protection, there is no overlap between federal copyright law and state trade secret law. 522 F. Supp. at 368. Relying on reasoning in Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974), in which the Supreme Court "found nothing incompatible between the law of trade secrets and federal patent statutes," *id.* at 493, the district court held that the plaintiff's state law claim was not preempted by the Copyright Act. 522 F. Supp. at 369. In a recent district court case, Southern Mississippi Planning & Dev. Dist., Inc. v. Robertson, 660 F. Supp. 1057 (S.D. Miss. 1986), the court followed *Warrington Assoc.* and held that "an analysis of the interest secured by copyright and trade secret law demonstrates that the claims are not 'equivalent' as intended by Congress." 660 F. Supp. at 1061.

61   In his treatise on copyright, Nimmer states the test for preemption:

> [A] right which is "equivalent to copyright" is one which is infringed by the mere act of reproduction [or] distribution. . . . If under state law the act of reproduction [or] distribution . . . will *in itself* infringe the state created right, then such right is preempted. But if other elements are required, in addition to or instead of, the acts of reproduction [or] distribution . . . in order to constitute a state created cause of action, then the right does not lie "within the general scope of copyright," and there is no preemption.

1 M. NIMMER, THE LAW OF COPYRIGHT § 1.01[B], at 1-11 to 1-12 (1987).

62   501 F. Supp. 848 (S.D.N.Y. 1980), *aff'd*, 723 F.2d 195 (2d Cir. 1983), *rev'd on other grounds*, 471 U.S. 539 (1985).

federal laws.[63] The court stated that "[t]he state cause of action must protect rights . . . which are *qualitatively* different from the rights of reproduction, performance, distribution, or display."[64] According to the *Harper & Row* court, it is not dispositive whether a state claim contains a different number of elements of proof than a federal copyright claim.[65] Although the court implied in dicta that a valid state cause of action must contain an extra element to distinguish it from a copyright action, the court stated that additional elements do not preclude a finding of preemption.[66]

Elaborating on the "extra element" test, the district court in *Mayer v. Josiah Wedgwood & Sons, Ltd.*[67] examined the Copyright Act's legislative history and judicial interpretation to determine whether plaintiff's state law claims "protect[ed] rights that are 'equivalent' to those protected by federal copyright."[68] The court concluded that the federal statutes preempted state misappropriation law whenever the subject matter fell within the scope of federal protection.[69] The court noted the need to examine the particular facts of each case when making a preemption determination, rather than relying on superficial differences between state and federal claims in the plaintiff's pleadings.[70] The *Wedgwood* court concluded that the "extra element" of plaintiff's cause of action must be such that it "changes the nature of the action so that it is *qualitatively* different from a copyright infringement claim."[71]

In *Rand McNally & Co. v. Fleet Management Sys., Inc.*,[72] the district court determined that the scope of the state-created right is irrelevant in determining equivalence with rights under the federal statute.[73] The plaintiff alleged that the defendant had copied and placed on the market substantial and important portions of its roadway mileage guide.[74] The court held that the Copyright Act would

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63   *Id.* at 852.
64   *Id.*
65   *Id.*
66   *Id.* at 853.
67   601 F. Supp. 1523 (S.D.N.Y. 1985).
68   *Id.* at 1533.
69   *Id.* at 1534.
70   *Id.*
71   *Id.* at 1535. (Pointing out that additional elements such as requirements of awareness or intent only alter the action's scope, not its nature, and thus do not satisfy the test.). *See, e.g.*, Roulo v. Russ Berrie & Co., Inc., No. 82C 2668 (N.D. Ill. Apr. 11, 1986) (federal copyright law does not preempt state law unfair competition claims); *and* Brignoli v. Balch Hardy and Scheinman, Inc., 645 F. Supp. 1201, 1205 (S.D.N.Y. 1986) (plaintiff's claim involved "extra element of misrepresentation," which made his claim "qualitatively different" from a copyright claim).
72   591 F. Supp. 726 (N.D. Ill. 1983).
73   *Id.* at 739.
74   *Id.* at 728.

preempt plaintiff's state law claim of misappropriation only if the rights created under the state law were equivalent to those created under the Copyright Act.[75] The court found this test satisfied, "regardless of whether the state-created protection is narrower or broader than federal protection."[76]

The district court in *Videotronics, Inc. v. Bend Electronics*[77] created a second test for determining whether the Copyright Act preempts a state law by using "federal policy" considerations. That court relied on what is known as the *Sears-Compco* doctrine:[78] "[I]n certain instances, an intellectual property which falls outside the protection of either federal copyright or patent law may still be found to not be entitled protection under state law regardless of theory because federal policy favors preemption of the area in question."[79] The *Videotronics* court applied this doctrine to the plaintiff's misappropriation of trade secrets claim and denied relief under state law. The court held that the Copyright Act protected plaintiff's property interest in his software and that federal policy established a unitary and exclusive regime of statutory copyright protection which cannot be supplemented by state law protection.[80]

Section 301 of the Copyright Act prohibits states from granting rights equivalent to those provided by the Copyright Act. Courts have developed two tests for determining whether the rights are equivalent. For a state "shrink-wrap" law to be valid and enforceable[81] under the "extra-element" test, it must prohibit actions additional to and qualitatively different from actions that violate the Copyright Act's exclusive rights, such as reproduction or distribution. Under the "federal policy" test, the Copyright Act preempts certain areas of protection, even if they do not now receive federal protection, because state protection of these areas violates federal policy.

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75   *Id.* at 739. *See also* Universal City Studios, Inc. v. Nintendo Co., 615 F. Supp. 838, 856-57 (S.D.N.Y. 1985) (citing the same two part preemption test from *Harper & Row*).

76   591 F. Supp. at 739.

77   564 F. Supp. 1471 (D. Nev. 1983).

78   The *Sears-Compco* doctrine is based on the holdings of two Supreme Court patent cases, Sears, Roebuck & Co. v. Stiffel, Co., 376 U.S. 225 (1964), and Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964). *See, e.g.*, Factors Etc., Inc. v. Pro Arts, Inc., 496 F. Supp. 1090 (S.D.N.Y. 1980) (treating section 301 of the Copyright Act as a codification of the *Sears-Compco* doctrine).

79   564 F. Supp. at 1476.

80   *Id.* at 1477.

81   Invalidity and non-enforceability in this context rest solely on the premise that the state statute conflicts with federal law, thus violating the Supremacy Clause, U.S. CONST. art. I, § 8.

II
COMPUTER SOFTWARE LICENSE AGREEMENTS

"Shrink-wrap" license agreements are identifiable by their means of acceptance. The purchaser indicates acceptance of the terms of the license by tearing open the plastic wrapper enclosing the software package.[82] In all such license agreements, the copyright owner intends to retain title of the transferred copy, without obtaining the licensee's signature. The licensee typically pays for the software under a perpetual[83] exclusive license agreement which permits him to keep the software for his personal use with certain limitations on his right to transfer, copy, use, or modify the software.

A. Use of Traditional Licensing Agreements

Licensing became the primary means for a developer to transfer computer software to the intended user while protecting trade secrets.[84] Under state trade secret law, causes of action arise only when one party misappropriates the trade secret subject matter of another party through a breach of confidentiality.[85] Confidentiality can only be established through physical protection or through contracts with those who will come in contact with the trade secret. When the computer program containing the trade secret is sold to the public in the absence of a confidentiality arrangement, the secret is disseminated and no cause of action under state trade secret law can be maintained.[86]

Before the growth of the microcomputer market, developers custom designed software for individual corporate customers who

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82   *See, e.g.,* Stern, *supra* note 3, quoting from a typical license agreement:
    You agree to the terms of this agreement by the act of opening the sealed
    package. . . . Do not open the sealed package without first reading, un-
    derstanding, and agreeing to the terms and conditions of this Agreement.
    You may return the software for a full refund before opening the sealed
    package.
Id. at 53.
83   Most "shrink-wrap" licenses confer a perpetual right in the licensee to use the software under the license terms. However, recognizing that a court might view such a transaction as a sale rather than a license, a sample license agreement in Eidelman & Shepherd, *supra* note 21, limits the term of the agreement to 50 years. This sample reads: "This gives the user the right to use the program for more than [its] useful life . . . at the same time, the user is not given a perpetual license . . . which a court may construe to have the effect of a sale passing permanent title to the . . . copy." *Id.* at 289.
84   Syrowick, *supra* note 17, at 294. ("Unlike a sale or assignment, which results in a transfer of all [trade secret] rights, a license is a transfer of less than the whole trade secret, and permits the owner to retain control of the use of the trade secret.").
85   Trade secret protection does not extend to information or ideas gained from computer software through "legal" means such as reverse engineering or independent invention. *See* Hyde, *supra* note 17, at 318-19.
86   Syrowick, *supra* note 17, at 294.

signed contracts binding them to protect the subject matter of the trade secret.[87] With the proliferation of mass-marketed, generic software "packages," this face-to-face bargaining between software developer and user has become impossible.[88] Rather than abandon the advantages of licensing software to users, developers resorted to unilateral "shrink-wrap" license agreements to maintain control over the copy after transfer to the user.

B. Purposes of Mass Market License Agreements

Software developers seek to combat the perceived problems of software rental by using license agreements for mass-marketed software. Software manufacturers rely on "shrink-wrap" license agreements to protect their property rights in copyrighted software, and thus avoid the difficulty of proving copyright infringement on a case-by-case basis. Under the Copyright Act, rental store operators may be contributory infringers[89] of the copyright if their customers made unauthorized copies of rented copyrighted software, and the rental store operator knew of the offending activity. The copyright owner could then bring contributory infringement actions against rental stores, but he must first prove infringement on the part of the rentee. Rather than pursue this indirect means of reaching rental stores, the software developer can "license" his software with prohibitions on subsequent transfer, including rental, and sue the rental store directly for breach of contract if the software is ever rented. The software developer thus hopes to end the rental market for his software by driving the suppliers out of business, and diminishing rentees' unauthorized copying.

In addition to controlling the rental market for his software, the software developer uses the "shrink-wrap" license agreement to configure the transfer of possession of the copy as a "license" rather

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87 *See* Note, *Commercial Law—The Enforceability of Computer "Box-top" License Agreements under the U.C.C.*, 7 WHITTIER L. REV. 881, 883 (1985) (authored by James T. Peys) ("Historically, software publishers have required an end-user to sign a license agreement at the time of the transaction.").

88 Mass-market computer software is purchased by consumers in retail stores or through mail-order retailers. In most instances, the buyer has no contact with the producer of the software package. *See, e.g.*, Raysman & Brown, *New Developments in "Shrink-wrap" License Agreements*, 194 N.Y.L.J., Oct. 9, 1985, at 1, col. 1 ("Direct transactions between the software developer and the end user seldom occur . . . [and] [d]irect negotiations with signed contracts have become impractical due to the volume of sales."); Note, *supra* note 2, at 1359 ("Although the mainframe software industry's usage of license agreements is well established, the microcomputer software industry faces special difficulties in licensing software.").

89 *See, e.g.*, Gershwin Pub. Corp. v. Columbia Artists Mgt., Inc., 443 F.2d 1159, 1162 (2d Cir. 1971) ("[O]ne who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a 'contributory' infringer.").

than a "sale" thereby depriving the end-user of his rights under the "first sale" doctrine of the Copyright Act.[90] If the software developer were to sell, rather than license, his software, the "first sale" doctrine of section 109 of the Copyright Act would apply and eliminate his ability to restrict subsequent transfers of the copy. Therefore, the software developer must license the software to avoid triggering the "first sale" doctrine.

C.   Enforceability Without Validating State Legislation

The debate surrounding the enforceability of "shrink-wrap" license agreements centers on whether the seller's original offer includes the license agreement's terms,[91] or whether the seller imposes these terms unilaterally on the buyer after the sale.[92] Commentators have characterized the "shrink-wrap" license agreement as an unconscionable, and therefore unenforceable, adhesion contract because the license agreement's terms deprive the purchaser of important rights which he has not relinquished voluntarily.[93] It is possible, or in some cases even certain,[94] that the buyer does not know the license agreement's terms when he pays for the software. Under the adhesion contract theory, such terms, because they are not part of any agreement that the buyer has willingly or knowingly entered into, are therefore not binding.

Furthermore, several commentators have concluded that the Uniform Commercial Code ("U.C.C.") applies to this type of transaction,[95] even though article 2 of the U.C.C. typically only applies to sales[96] of goods[97] and not to licenses. Courts apply the U.C.C. to

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90   See infra notes 32, 33 and accompanying text.
91   The terms "seller" and "buyer" are misnomers if the transaction is a lease rather than a sale. However, given the uncertain nature of the ultimate transaction, I have used these terms for simplicity.
92   See, e.g., Einhorn, supra note 2, at 513 (identifying three possible interpretations of "shrink-wrap" license terms: "as imposing conditions subsequent to sale; as terms of a reverse unilateral contract between publisher and end user; and as imposing conditions precedent to sale.").
93   Stern, supra note 3, at 55 n.24 ("such a contract might be held unconscionable in a consumer transaction under U.C.C. § 2-301."); Note, supra note 87, at 908-10 (concluding, after discussion of unconscionability under section 2-302 of the U.C.C., that "the terms [of box-top licenses] eliminate the consumers' opportunity and ability to protect their legal rights.").
94   See Einhorn, supra note 2, at 514 (mail-order purchasers are unable to read or agree to terms of the agreement until after they have paid for the software).
95   Rodau, Computer Software: Does Article 2 of the Uniform Commercial Code Apply?, 35 EMORY L.J. 853 (1986); Note, supra note 87.
96   Rodau, supra note 95, at 887 ("Although general agreement exists that the sale of goods is subject to article 2, disagreement exists about whether transactions other than pure sales are within the scope of article 2.").
97   See Note, supra note 2, at 1367 ("Packaged software . . . probably constitutes a good within the scope of the UCC.").

licensing transactions that have all the attributes of sales of goods despite the terminology used in the contract. Courts will therefore apply the U.C.C. if the "licensee" pays all consideration at the inception of the "license" period and receives a perpetual right of possession from the "licensor."[98]

If a court finds the transaction to be a "sale" under the U.C.C., the Copyright Act's "first sale" doctrine invalidates the copyright owner's attempt to restrict subsequent transfers of the copy. Model license agreements typically include a limited duration license term in order to make the transaction look less like a sale and thus avoid the "first sale" doctrine.[99] Since the law considers these transactions sales rather than licenses, it seems unlikely that such "shrink-wrap" license agreements are enforceable under the existing law of most states.

III
STATE "SHRINK-WRAP" LAWS

Only Illinois and Louisiana currently have enacted "shrink-wrap" license legislation. Both statutes are titled the "Software License Enforcement Act" and both are based upon a model bill drafted by a computer software developer.[100] These statutes address the possible application of the U.C.C. and, by setting out requirements for enforceability, attempt to standardize mass-market licensing agreements and ensure their validity. The two state statutes treat the enforceability of license terms against purchasers in substantially the same way. The two statutes differ primarily in that the Illinois statute contains an additional section on copyright rights.[101]

Both statutes first set out the requirements that "shrink-wrap" licenses must meet in order to be enforceable.[102] The software packaging must include a conspicuously visible notice[103] stating that

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98   *See* Rodau, *supra* note 95, at 907 (licensing of software has many of the characteristics of a sale); Note, *supra* note 2, at 1368 ("If the real economic effect of a transaction is a direct sale, courts often will treat the transaction as a sale and apply the UCC, despite what the transaction purports to be.").

99   Eidelman & Shepherd, *supra*, note 21, at 289.

100   Einhorn, *supra* note 2, at 518-19. The model bill was drafted by Vault Corporation, *see infra* notes 113-26 and accompanying text.

101   *See infra* notes 135-39 and accompanying text.

102   ILL. REV. STAT. ch. 29, para. 803; LA. REV. STAT. ANN. § 51:1963 ("Any person who acquires computer software . . . shall be conclusively deemed to have accepted and agreed to all the terms of the license agreement.").

103   ILL. REV. STAT. ch. 29, para. 803, § 3(1); LA. REV. STAT. ANN. § 51:1963(1) ("A written legend or notice is affixed to or packaged with the software . . . in such a manner that the . . . notice is clearly and conspicuously visible upon cursory examination of the software and related packaging.").

use of the software or opening of the sealed package will constitute acceptance of the terms of the accompanying license agreement.[104] The purchaser must have the option not to accept the terms of the agreement and to return the unopened or unused package for a full refund of the purchase price.[105] The statutes provide that, if the purchaser accepts the terms by the means indicated, he "shall be conclusively deemed to have accepted and agreed to all the terms of the license agreement for such software."[106]

The subsequent sections of both statutes enumerate specific provisions of conforming license agreements that are enforceable. First, the licensor may retain title in the copy.[107] If the licensor retains title, purchasers are conclusively presumed to accept license terms such as: (1) prohibition on any copying, limits on the purposes for which copies can be made, or limits on the number of copies which can be made,[108] (2) prohibition or limitation of the right to modify, adopt, translate, reverse engineer, decompile, disassemble, or create derivative works from the software,[109] (3) prohibition on subsequent transfer, assignment, rental, sale, or other disposition of the copy,[110] and, in the case of the Illinois statute (4) prohibition on use of the software by more than one computer or by more than one user at the same time.[111]

The most striking difference between the Illinois and Louisiana

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[104]   ILL. REV. STAT. ch. 29, para. 803, § 3(1); LA. REV. STAT. ANN. 51:1963(3) ("Any use of the software . . . or . . . [a]ny opening of a sealed package, envelope, or container in which the software . . . is contained will constitute acceptance of the terms of the accompanying license agreement.").

[105]   ILL. REV. STAT. ch. 29, para. 803, § 3(4); LA. REV. STAT. ANN. § 51:1963(4) ("anyone who receives the software . . . and does not accept and agree to the terms of the accompanying license agreement may, within a reasonable time, return the unused, unopened software . . . for a full refund.").

[106]   LA. REV. STAT. ANN. § 51:1963. *See also* ILL. REV. STAT. ch. 29, para. 803, § 3 ("A person who acquires a copy of computer software will be conclusively deemed to have accepted and agreed to [the] provisions of the license agreement.").

[107]   ILL. REV. STAT. ch. 29, para. 804, § 4(1); LA. REV. STAT. ANN. § 51:1964(1) ("Provisions for the retention by the licensor of title to the copy.").

[108]   ILL. REV. STAT. ch. 29, para. 804, § 4(2); LA. REV. STAT. ANN. § 51:1964(2) ("provisions for the prohibition of any copying of the copy . . . for any purpose and/or limitations on the purposes for which copies . . . can be made and/or limitations on the number of copies . . . which can be made.").

[109]   ILL. REV. STAT. ch. 29, para. 804, § 4(3); LA. REV. STAT. ANN. § 51:1964(3) ("provisions for the prohibition or limitation of rights to modify and/or adapt the copy . . . in any way, including without limitation prohibitions on translating, reverse engineering, decompiling, disassembling, and/or creating derivative works based on the computer software.").

[110]   ILL. REV. STAT. ch. 29, para. 804, § 4(4); LA. REV. STAT. ANN. § 51:1964(4) ("provisions for prohibitions on further transfer, assignment, rental, sale, or other disposition of that copy or any other copies made from that copy.").

[111]   ILL. REV. STAT. ch. 29, para. 804, § 4(5) ("provisions for prohibition on the use of the copy . . . on more than one computer . . . or . . . by more than one individual user at the same time.").

statutes is a provision in the Illinois Software License Enforcement Act purporting to give "shrink-wrap" licensees the same rights they would enjoy under the Copyright Act if they had bought the software instead of licensing it.[112] The drafters apparently hoped that this provision would avoid conflicts between the provisions of software license agreements and the rights granted under the Copyright Act.

IV
VAULT CORP. V. QUAID SOFTWARE LTD.

Vault Corp. v. Quaid Software Ltd.,[113] the only case to examine either of the state "shrink-wrap" license statutes, tests the validity of specific "shrink-wrap" legislation, as well as the ultimate enforceability of licensing transactions. Although the *Vault* court only addressed a few of the enumerated license terms and their corresponding statutory provisions, the court's reasoning suggests that the entire "shrink-wrap" licensing system is unenforceable.

Vault Corporation ("Vault") manufacturers "copy protection" software which it encodes onto floppy disks and sells to other software developers who, in turn, use the encoded disks to sell their software to consumers.[114] Vault's software contains a security system which frustrates attempts by third parties to copy the software Vault's customers have placed on the disk.[115] Vault included a "shrink-wrap" license agreement on the packaging of its software[116] which met the notice requirements of the Louisiana "shrink-wrap" statute.[117] Quaid Software Ltd. ("Quaid") purchased such a disk from Vault and developed a software utility which enables users to make copies of Vault's "copy protected" disks, thereby defeating the security system developed to prevent unauthorized copying of

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112   ILL. REV. STAT. ch. 29, para. 807, § 7. This section states:

> Nothing in this Act shall be construed to affect or alter any existing individual or business rights granted by the copyright laws of the United States [the Copyright Act], as now or hereafter amended, that such individual or business would have *were such individual or business a purchaser* of a copy of the computer software that is the subject of the license agreement.

Id. (emphasis added)

113   655 F. Supp. 750 (E.D. La. 1987), *aff'd* 847 F.2d 255 (5th Cir. 1988).

114   *Id.* at 753-54.

115   *Id.* at 754.

116   *Id.* at 753.

117   Its terms provided that title of the copy would remain with Vault, that the copy was licensed to the end-user for "internal use," and that the user could not "transfer, sub-license, rent, lease, convey, copy, modify, translate, convert to another programming language, decompile or disassemble" the software without Vault's prior consent. *Id.* at 755.

software.[118]

Vault brought a diversity action under the Software License Enforcement Act[119] and state trade secret law, seeking a preliminary injunction to prevent Quaid from violating its "shrink-wrap" license agreement.[120] Vault alleged that Quaid had assented to the licensing agreement by opening and using the software. Vault further alleged that, in developing its copy utility, Quaid improperly violated the accepted licensing agreement terms by disassembling and decompiling Vault's program and that Vault was therefore entitled to bring a state law claim for misappropriation of its trade secret.[121]

The district court held that the license agreement was an adhesion contract because one party imposed its terms on the other after the transaction was complete. The court would enforce the license agreement only if the Software License Enforcement Act was valid and enforceable and did not conflict with the Copyright Act.[122] The court held that several provisions of the Louisiana "shrink-wrap" law violated the exclusivity of the Copyright Act and therefore the corresponding provisions of the Vault licensing agreement were unenforceable. In invalidating three provisions of the state "shrink-wrap" statute that conflicted with the Copyright Act, the *Vault* court held that: (1) the statutory provision allowing the licensor to prohibit copying by the licensee "for any purpose" violated section 117,[123] (2) the statutory provision granting the licensor the right to prepare derivative works was an "equivalent right" to the exclusive right of section 106(2),[124] and (3) the statutory provision creating a perpetual bar on copying of the licensor's software violated the duration of copyright established in section 302(a).[125]

The court held that those terms of the Vault license agreement which were based on the invalid provisions of the Louisiana statute were unenforceable as "contrary to the policies of the federal Copyright Act."[126] The court denied Vault's motion for a preliminary injunction holding that Quaid's disassembly and decompilation did not violate an enforceable license agreement and therefore could not sustain a claim of trade secret misappropriation.

Vault appealed to the Fifth Circuit, which affirmed the district

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118   *Id.*
119   LA. REV. STAT. ANN. § 51:1961-1966.
120   655 F. Supp. at 752.
121   *Id.*
122   *Id.* at 761-62.
123   *Id.* at 762.
124   *Id.* at 762-63.
125   *Id.* at 763.
126   *Id.*

court decision.[127] Citing *Sears, Roebuck & Co. v. Stiffel Co.*,[128] the Court of Appeals affirmed the district court's holding that the provision of Vault's license agreement prohibiting decompilation or diassembly of its program was unenforceable because it "clearly 'touches upon an area' of federal copyright law."[129] The court suggested further that the Copyright Act might also preempt other provisions of Louisiana's License Act not at issue in this case.[130]

V

THE STATE OF "SHRINK-WRAP" LICENSES AFTER *VAULT*

A. Evaluation of the *Vault* Holding

The *Vault* court correctly concluded that three provisions of the Louisiana "shrink-wrap" statute were invalid. The court held that the Copyright Act preempted these provisions because they protected rights equivalent to or in direct conflict with the rights established under the Copyright Act. If the court had enforced the restrictive provisions of Vault's "shrink-wrap" license agreement, Vault would have gained an extended protection of its intellectual property rights unavailable under the federal copyright statute.

The state law prohibition on copying duplicates section 106 (1)[131] of the Copyright Act. Under the Louisiana act, a licensor who includes a term prohibiting copying would have both a federal and a state cause of action against a purchaser who made unauthorized copies of the software and sold them. This is an "equivalent right" and is preempted by section 301 of the Copyright Act. Similarly, if under the same license agreement the purchaser made an archival copy of the software, or made a copy as required by the operation of the software, he would be in violation of the license term, and the licensor would have a state cause of action. This right conflicts with section 117[132] of the Copyright Act and is therefore invalid.

The state law prohibition on copying also enlarges the protection offered under section 302(a)[133] of the Copyright Act. The licensor's attempt to extend his right to prohibit unauthorized copying beyond the life of the copyright contradicts the federal statute. If the license term purports to give the licensor the right to

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127   Vault Corp. v. Quaid Software Ltd., 847 F.2d 255 (5th Cir. 1988).
128   376 U.S. 225 (1964).
129   847 F.2d at 270.
130   "[W]e hold that *at least* this provision of Louisiana's License Act is preempted by federal law. . . ." *Id.* (emphasis added).
131   "[T]he owner of copyright under this title has the exclusive rights to . . . reproduce the copyrighted work in copies . . ." 17 U.S.C. § 106(1). *See infra* note 38 and accompanying text.
132   *See infra* note 19.
133   *See infra* note 54 and accompanying text.

prohibit certain types of copying for a term equal to or shorter than that of the Copyright Act, the term would be preempted as an equivalent right under section 301(a). Regardless of the exact wording of the license term or the scope of the protection offered under the state statute, state law cannot grant rights to copyright owners protecting them from unauthorized copying of their software.

Finally, license provisions that prohibit licensees from preparing derivative works are equivalent in their effect to the exclusive right to prepare derivative works vested in the copyright owner by section 106(2)[134] of the Copyright Act. By creating a derivative work from copyrighted software, an infringer cannot give rise to both a state and a federal cause of action. The Copyright Act preempts any state statute which purports to give such a right.

B. Validity of Other "Shrink-wrap" License Terms

In addition to the license and statutory provisions that the *Vault* court held invalid, other aspects of the Louisiana and Illinois statutes conflict with federal copyright law. License terms that limit both the number of copies and the purposes for which they can be made conflict with and improperly enlarge the copyright owner's rights under the Copyright Act. The Copyright Act gives the owner of a copy of copyrighted software the right to make one copy for archival purposes and to make a copy or adaptation as required for using the software.[135] A license agreement that explicitly provides for these same rights would essentially grant rights equivalent to those established by the Copyright Act. On the other hand, a license agreement that restricts the user's right to make such copies or adaptations would conflict with the rights granted under the Copyright Act. In either case, a license term purporting to affect the purchaser's right to make archival copies, or to make copies or adaptations required for the utilization of the software is invalid and unenforceable because it either grants an equivalent right or conflicts with rights granted under the Copyright Act.

Enforcing prohibitions on a licensee's further transfer of a copy of software presents a problem for the software industry itself. If enforced by the courts, this "anti-rental" provision would end the software rental business. Potential consumers of expensive software packages would therefore have little opportunity to test and evaluate products before purchasing them. Although software developers legitimately are concerned with copyright violations that result

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[134] *See infra* note 39 and accompanying text.
[135] 17 U.S.C. § 117.

from the availability of inexpensive rental software, consumer opinion may turn against developers who routinely sue software rental businesses for violation of "shrink-wrap" contracts. A similar phenomenon occurred when software developers resorted to "copy protection" schemes to protect their proprietary interest in software.[136] Consumer demand for software that was not copy protected, and protests against protected software, led many software manufacturers to abandon this practice.

The "first sale" doctrine presents particular problems for "anti-rental" provisions of software license agreements because, if the transfer of software is viewed as a sale rather than a license or bailment, the copyright owner cannot enforce anti-rental prohibitions or subsequent transfers. A court triggers the "first sale" doctrine of section 109 when it finds that the transfer under a "shrink-wrap" license is a sale under article 2 of the U.C.C. Section 109(a) reflects a policy that gives consumers "unfettered use" of copyrighted goods for which they have paid consideration to the copyright owner.[137] By validating anti-rental license terms the Software License Enforcement Acts directly oppose the free alienation policy that the Copyright Act provides under section 109.

Section 7 of the Illinois statute presents a two-fold problem. First, this section impermissibly intrudes into the Copyright Act's exclusive domain by expanding the copyright protection covering sales to include licenses.[138] Although the Copyright Act gives certain specific rights to purchasers of copyrighted software, it gives no rights to licensees. Congress sought to maintain the distinction between a sale and a license by allowing the copyright owner to retain certain rights under a license that he would lose if he sold a copy of the copyrighted work. For example, under an enforceable license, the copyright owner retains the right to restrict subsequent transfers of the licensed copy, while he does not retain this right if he sells the copy. Software developers' interest in "shrink-wrap" licensing rests upon this different treatment. Section 301 of the Copyright Act invalidates section 7 of the Illinois statute because section 7 denies the operation of this distinction by granting licensees equivalent rights to those enjoyed by purchasers. It also defeats the licensing agreement's purpose by limiting the ability of licensors to control the disposition of the licensed copy.

Additionally, section 7 conflicts with other sections of the Illinois statute itself. By stating that "Nothing in the Act shall be construed to affect or alter any existing . . . rights granted by the

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[136] Eidelman & Shepherd, *supra* note 21, at 285.
[137] Stern, *supra* note 3, at 62.
[138] ILL. REV. STAT. ch. 29, para. 807, § 7.

copyright laws,"[139] and then granting those very rights to licensees, this section directly contradicts section 4 of the Illinois statute. Section 4 enforces license provisions that deny licensees the rights given to purchasers by the Copyright Act. Although the Copyright Act does not prevent license agreements from limiting the rights of licensees as compared with purchasers, section 7 purports to give licensees the same rights purchasers enjoy under the Copyright Act. The Illinois statute is therefore internally inconsistent. If licensees enjoy the same rights as purchasers under section 7, then section 4, which enforces license provisions restricting those rights, is invalid. In either case, section 7 is invalid; the Copyright Act preempts it, and section 4 of the Illinois act contradicts it.

C. Conclusion

Although the object of the state Software License Enforcement Acts is to clarify the enforceability of certain terms in "shrink-wrap" license agreements, the *Vault* court held several provisions of the Louisiana statute invalid. An extension of the *Vault* reasoning suggests that the Copyright Act also preempts the remaining provisions of the Louisiana and Illinois statutes. While courts have not settled the issue of preemption under section 301 of the Copyright Act, a strong argument exists that computer software developers are trying to expand impermissibly the Copyright Act's protection by using mass market "licensing" agreements to curtail pirating of their software; this expansion is impermissible because the Copyright Act preempts "shrink-wrap" license statutes.

Software developers must therefore turn to alternative means to protect their intellectual property interests in software. Developers must rely on the rights and remedies provided under the Copyright Act to protect their exclusive right to make copies of their software. Although the remedies available under federal law may not sufficiently discourage unauthorized and illegal copying of copyrighted software, copyright owners cannot seek to create equivalent rights under state law. The software industry could bring a series of statutory damage suits against individual copyright infringers to send a message to the public that the industry will not tolerate unauthorized copying of copyrighted software, but this approach is likely to be expensive and ineffective. Without the benefit of federal statutory change, copyright owners will have to accept conditions as they exist today.

The Copyright Act, although a relatively young statute, is subject to amendment. The protection offered to copyright owners of

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139 *Id.*

computer software has been extended since the original enactment of the Copyright Act. Thus, rather than pursue further efforts at securing state "shrink-wrap" legislation that the Copyright Act preempts, the software industry should concentrate their efforts on the reform of the Copyright Act. However, such reform may significantly alter the balance of rights currently enjoyed by the copyright owner and the purchaser of a copy of the copyrighted software. Nevertheless, the ease with which software can be copied presents problems of controlling copying which do not exist in other copyrighted media. The Copyright Act is therefore the framework within which reform must be made. Attempts to circumvent its limitations are fruitless.

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