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Protecting Digital Works: Copyright or Contract?

Glynn Lunney

Since at least 1586, proponents of copyright have pointed to the tremendous ease with which competitors can copy works of authorship as the central justification for copyright protection. Because such works can be easily copied, a competitor could, in the absence of copyright, copy a work, and thereby avoid a large part of the original author’s expense. This copying would allow competitors to undercut the original author’s price for the work, and would deprive the original author of a fair wage for the labor and creativity she invested in the work. Faced with the threat of such competition, many would-be authors might forego authorship altogether, leading to an underproduction of such works. At first glance, the advent of rapid, inexpensive, and widely dispersed digital duplication and transmission tools would seem to enhance the copying risks associated with such works, and to suggest a continuing, perhaps enhanced, need for copyright protection as the digital era matures.

However, before embracing this first impression, consider that behind the relative ease-of-copying justification for copyright lies a necessary, but often unspoken, assumption: A public law remedy, such as copyright, is necessary only because transaction costs render a private law solution, such as contracts, impracticable. Traditionally, this assumption was left unspoken because of the obvious difficulties involved in reaching a contractual understanding with everyone who purchased or otherwise obtained access to a mass-marketed work. With the Internet and its likely successors, we cannot accept this assumption as readily. The Internet is not simply a faster, less expensive means of publishing information; it is interactive as well. As a consequence, the transaction costs associated with obtaining each purchaser’s consent to the terms of an agreement which would detail the permitted and prohibited uses of a work for the typical consumer (a “use agreement”) are likely to fall substantially. By reducing such transaction costs, interactive digital communications will make such use agreements an increasingly practical and effective private law means for protecting works of authorship. As a result, rather than increase the need for copyright protection, as we first thought, the interactive nature of digital communication technologies may well reduce and eventually eliminate the need for copyright, at least as a means for protecting digitally distributed materials.
This essay examines these issues, considering whether contract can and should replace copyright as the principal mechanism for protecting creativity found in digital works. Concluding that, despite a few potential stumbling blocks, interactive digital communications will make contracts increasingly available as an effective and desirable form of protection, the question becomes what role copyright should play in this digital future. As more works shift to an interactive distribution medium, private law mechanisms will gradually assume much of copyright's traditional role of protecting the creativity found in works of authorship. If copyright continues to focus on providing a means of protecting such works, it will be increasingly marginalized, relegated to protecting those increasingly rare works distributed outside the Internet, or to serving as an inefficient set of default rules against which contracting can occur. While it may be some time yet before we reach such a point, if copyright is to maintain its relevance and importance in the interactive digital era, we should begin considering now how copyright fits into the new interactive distribution paradigm.

One role copyright could play in cyberspace would be to limit digital authors' ability to impose excessive and undesirable restrictions on the use, reuse, and copying of the creativity found in such works. Although a reasonably competitive market may preclude authors from seeking excessive or otherwise inappropriate contractual protection for their work in many cases, both reality and theory suggest that, in some cases, use agreements will contain anticompetitive or otherwise inappropriate restraints on the use of, or access to, an author's work. Thus, courts will need some means to identify such improper terms, and some legal basis for refusing to enforce them. Copyright can satisfy both these needs. It represents, or at least is supposed to, an appropriate balance between the interests of author, competitor, and consumers. Copyright could therefore serve as a means for identifying those contract terms that go too far. In addition, through its preemption doctrine, copyright could provide the necessary legal basis for refusing to enforce such terms.

Indeed, copyright already serves this role of limiting excessive state law protection to some extent, but preemption has been little more than a sidelight to copyright's central role of protecting works of authorship. A radical reconception copyright would be required for preemption to become the central part of copyright. We would have to view copyright, not as a means for providing protection, but as a means for limiting the protection permitted. Copyright would become a ceiling on, rather than the floor for, protection, and would turn from serving authors' need for protection to the public's need for a limit on that protection.

While such an evolution in copyright's focus has already begun, given the increasingly important role that preemption has played in recent years, it is not clear that judges and copyright scholars will be able to embrace copyright's transition from means of, to restraint on, protection. Even with the ten to thirty years it will likely take interactive digital distribution to displace our current distribution systems, some may have too strong an emotional or intellectual attachment to copyright's history and traditions to
recognize, accept, or act on the need for such fundamental change. Should that prove to be the case, copyright will likely whither, and courts will need to look to some other doctrine, such as the common law prohibition on agreements in restraint of trade or unconscionability, to limit those contractual restrictions that go too far. Such a result would likely prove unfortunate. Such a result would relegate a glorious and celebrated aspect of our law to the history books. Moreover, courts would essentially have to recreate copyright’s balance between author, competitor, and consumer under some more general common law doctrine in order to determine which contractual restrictions go too far.

This essay explores these issues in turn, beginning with the question of whether contracts can effectively control the use, reuse, and copying of the creativity in mass-market works. Before addressing these issues, however, one point deserves mention. Many use the word "license" to identify such use agreements. This is unfortunate and seriously misleading. In its ordinary and legal sense, a license is a grant of permission to do that which the law otherwise prohibits. Given this definition, the word "license" appropriately describes a situation where an author grants another the right to perform publicly or to reproduce her copyrighted work. Copyright prohibits such uses, if unfair, absent the copyright owner’s permission, and the word "license" is an accurate and appropriate name for a grant of permission to undertake such otherwise prohibited uses. When we move beyond such a grant of permission to agreements that would restrict a use that copyright would permit, the word "license" is simply inaccurate. Where a use is otherwise legally permitted, permission from the author/seller to undertake the use is unnecessary. Hence, no license is involved. Rather, to control such uses, the author/seller needs a promise from the consumer that she will not undertake the otherwise lawful use. Unlike a license, which an author can grant unilaterally, such a promise requires the consumer’s consent. When a party labels a set of terms "license," the other side is fully justified in believing the label accurate, and could reasonably believe that the "license" contains a unilateral grant of permission to undertake action not otherwise lawful. In many cases, a consumer seeing the "license" label would be surprised to learn that the so-called license was actually a bilateral agreed restriction, just as a consumer would be surprised to learn that a provision labeled "Warranty" was actually a warranty limitation or disclaimer. In consequence, use of the term license to describe a bilateral agreement that restricts an otherwise lawful use is inappropriate and misleading, and may justifiably be considered unconscionable on its face. \[5\]

I. CAN CONTRACTS REPLACE COPYRIGHT?

Efforts to control the use, reuse, and copying of the creativity and effort contained in a work of authorship through contractual agreements are not new. Authors and publishers have long sought to impose contractual restrictions on their customers
that would control the uses that may be made of their work, the prices at which the copies of the work were (re)sold, and a variety of other issues. In a variety of contexts, courts have routinely given these agreements effect, particularly where the parties have specifically negotiated and expressly agreed to terms that would govern the use of a work. Yet, such use agreements have not fared as well when authors have sought to use them to protect mass-marketed works.

Two aspects of contract law, in particular, have served to limit the practical availability and effectiveness of enforceable use agreements in the mass-market context. First, courts have refused to enforce use agreements where an author did not inform the consumer of the agreement terms and obtain her consent to them at or before the time at which the consumer purchased a copy of the work (the "consent" issue). Second, even where the initial purchaser's consent can be established, this consent would typically establish privity of contract with, and bind, only the initial purchaser. The initial purchaser's consent would not typically establish privity of contract with those who succeed to the initial purchaser's interest (the "successor" issue).

A. Consent

As a general rule, consent is the foundation of contractual liability. Without it, there can be no contract, and no contract-based liability. Consequently, an author who seeks to enforce the terms of a use agreement must first establish that the purchaser has consented to the use agreement. For mass-marketed works, establishing such consent has proven difficult because transaction costs have historically prevented authors from obtaining an express statement of consent from each consumer who purchases a copy of a work. Lacking such consent, courts have usually refused to enforce an author's use agreement.

At the turn of the century, for example, many publishers sought to restrict the use, reuse, and resale of particular copies of a copyrighted work through notice provisions placed on the inside cover of their books. They argued that by purchasing and accepting a copy that contained such a notice, the purchaser had effectively consented to the notice terms. Courts were not, however, receptive to this argument. They worried that "the ordinary purchaser of a book over the counter is not bound to anticipate or look for a restriction or notice of this kind," making it "rather more probable that [the purchaser] would not himself discover a notice of this character than that he would." Because of these concerns, the mere purchase and acceptance of a copy containing such notice did not establish the purchaser's consent to the notice terms. Consent, the courts explained, required something more, some affirmative indication that the notice was "distinctly declared and deliberately accepted by the purchaser."
However, transaction costs made it difficult to obtain a distinct and deliberate acceptance by the purchaser. Contractual protection was therefore seldom available for mass-market works. Authors and publishers relied almost entirely on copyright to protect their mass-marketed works. With the advent of mass-marketed computer programs beginning in the early 1980s, however, the availability of contractual protection once again became an issue. Software producers felt that contractual protections were essential in order to address certain holes that they perceived in the protection copyright afforded their works. In particular, when mass-market distribution of software began in the early 1980s, copyright's first-sale doctrine allowed individuals to lend or lease copies of a work, including copies of copyrighted computer programs, that the individual had purchased.\(^\text{[11]}\) Relying on this doctrine, certain individuals opened software rental stores, where, like video rental stores today, individuals could come and rent a copy of a computer program. Such rentals were typically available at a fraction of an authorized copy's price. While it is likely that many such rental consumers simply used the software during the rental period and then returned it, at least some rental consumers would copy the rented software onto their own computer's hard-drive, before returning it. By doing so, these rental consumers could obtain their "own" copy of the software at a fraction of its retail price.

Of course, such copying may have amounted to copyright infringement for which the individual copiers would have been liable. But both transaction costs and political concerns rendered enforcement of the copyright statute against these individual consumers impractical. The rental stores, on the other hand, were a far more convenient target for suits seeking to stop such copying. But, at the time, the first sale doctrine protected the owner of the software rental store from direct or vicarious liability for this copying.\(^\text{[12]}\)

Software producers feared that such stores would substantially reduce consumer demand for authorized copies of computer programs, and therefore sought alternative ways to shut down the rental stores. Lacking an effective copyright remedy against software rental stores, software producers turned to state contract law to control such rentals. Specifically, they included with their products, either on the external packaging or within the package, a set of "license"\(^\text{[13]}\) terms that they intended to govern the use of each copy of the software. These use agreements would typically prohibit the resale, rental, and lending of the associated copy of the program, and would state that the consumer was not purchasing the copy, but simply obtaining a license to use it.\(^\text{[14]}\) Through the first provision, software producers hoped to establish the rental stores' liability under state contract law. Through the second, they sought to establish the rental stores' copyright liability by avoiding the reach of the first-sale doctrine.

The second approach is obviously problematic. The so-called license effected no change in the substance of the deal. Typically, transactions remained a one-time
payment for physical possession of a copy of the program, with no real obligation to return the copy or make additional payments in the future. Even the most sympathetic courts have recognized that software producers were simply trying to rename the ownership interest involved in order to avoid the reach of copyright's first sale doctrine. \[^{15}\] They have therefore been justifiably hesitant to accept such recharacterization.

Whether the first approach would prove effective turned on whether the software producers could establish a consumer's consent to the use agreement. When these use agreements were first introduced, software producers distributed copies of their works through mass-market channels similar to those used historically for more traditional forms of authorship. As a result, software producers faced the same transaction costs that had historically faced other authors, and were no more able to obtain each consumer's express consent at or before the time of sale than the authors of traditional works had been. Presumably, simply including a notice setting forth the desired terms would have been no more effective for software producers than it had been for earlier authors. In an attempt to establish the distinct and deliberate acceptance by purchasers that courts required for effective consent, software producers took two approaches. First, they would typically list in the use agreement certain post-sale actions and state that a consumer, by so acting, had consented to the agreement. Second, they would typically offer a refund for those consumers dissatisfied with the use agreement. Software producers hoped that the refund offer would create at least the appearance of free choice.

For the most part, software producers seldom sought enforcement of their use agreements, apparently relying on the use agreement's \textit{in terrorem} effect to constrain consumer behavior. Moreover, Congress amended the first-sale doctrine in 1990 to prohibit for-profit lending or rental of copies of copyrighted programs. \[^{16}\] This effectively shut down the for-profit software rental stores, and thereby eliminated much of the underlying need for such agreements. \[^{17}\] Nevertheless, whether through simple inertia or for some more substantive reason, software producers continued to include use agreements with their products even after Congress had redressed the rental concern. Eventually, software producers did seek legal enforcement of their use agreements, and the legal question whether a consumer, either by taking the identified post-sale actions or by refusing to accept the refund offer, had legally consented to the agreement was squarely presented.

In addressing this issue, most courts have ruled that neither use of the software, nor failing to take advantage of the refund offer established legally-binding consent. \[^{18}\] The reasoning was straightforward, and entirely consistent with well-established principles of contract law. Typically, the use agreements that the software producers sought to enforce would have bound the consumer to terms quite different from those that would otherwise have arisen under the (largely implied) purchase agreement that a consumer would create simply by selecting the software and paying
Moreover, the post-sale actions that the producers identified as establishing a consumer's consent to the license were usually actions that a consumer would necessarily take in order to use the software, and would be entitled to take under the original purchase agreement. Courts were clearly uncomfortable with finding that such token, post-sale activity would establish a consumer's consent to an often substantial, retroactive restructuring of the original sales agreement. For these courts, rewriting the contract terms after the consumer had seemingly purchased the software was closely akin to, and posed the same risks as, classic bait-and-switch tactics that the law had long prohibited. The seller seemed to be offering one set of terms, but after the consumer had committed herself to the transaction, in her mind and through her actions, the seller changed the deal. Moreover, the post-sale actions were, at best, ambiguous as to whether the consumer was accepting the proposed modifications contained in the use agreement. Because the consumer typically had the legal right to undertake the specified post-sale actions under the original purchase agreement, taking such actions provided no indication that the consumer was accepting the use agreement, rather than simply affirming the terms of the original purchase agreement. The actions were fully consistent with either intention and therefore did not evince the unambiguous intent necessary to establish the consumer's consent to the modifications contained in the use agreement. The refund offer raises similar concerns. Most courts have refused to enforce such use agreements, unless the software producer could show that the consumer was aware of the agreement's terms before she purchased the software.

For example, in the leading case, *Step-Saver Data Systems, Inc. v. Wyse Technology*, Judge Wisdom held that a lack of pre-purchase consent rendered a warranty disclaimer clause in a box-top use agreement unenforceable. In *Step-Saver*, the plaintiff ordered copies of the defendant's software over the telephone on several occasions. After taking each order, the defendant would ship the requested copies, and the plaintiff would accept delivery and pay for them. No mention was made during the telephone conversations, or on associated purchase orders and invoices that the parties exchanged to confirm their oral contracts, of any warranty disclaimers. Nevertheless, when a dispute developed over the performance of the software, the defendant argued that a warranty disclaimer included in its box-top use agreement effectively precluded Step-Saver from recovering for breach of any express or implied warranties.

The Third Circuit articulated the question of enforceability in terms of consent: Had the plaintiff effectively consented to the terms of the box-top use agreement, either as a writing embodying the terms of the parties' final agreement concerning the software, or as a modification to the parties' original oral purchase agreement, or otherwise? Emphasizing that it was "following the well-established distinction between conspicuous disclaimers made available before the contract is formed and disclaimers made available only after the contract is formed," the court held that the
plaintiff had not consented to the use agreement terms simply by using the software. The refund offer was similarly rejected as a basis for finding consent. The court therefore refused to enforce the use agreement, including its warranty disclaimer.

The court found unpersuasive the course of dealing argument that Step-Saver was bound to the terms of the use agreement because the terms had been incorporated into the contract by means of their repeated expression. True, the court noted, the software producer repeatedly included its desired use agreement with its products. However, the court also found that the consumer routinely ignored and violated the terms of the box-top license. The court suggested that if trade practice and usage reflect the actual commercial understanding of the parties with respect to their agreement, the actions of both sides, seller and consumer, should be assessed; not merely what one side says. When the court applied this analysis, it found that the parties' actual conduct bore almost no relationship to the terms contained in the use agreement. The court therefore rejected the argument that the form constituted a trade practice and usage understood and accepted by both sides as a term of their agreements.

As this decision and others suggest, simply including the terms of a use agreement within a work's packaging will seldom establish a binding contractual relationship. While the consent doctrine leaves room for authors to create enforceable use agreements, for example, by making the consumer aware of the agreement before the consumer purchases the work, obtaining such pre-purchase consent remains a difficult proposition in most cases. Despite Judge Easterbrook's startling effort to rewrite the law on these issues in ProCD, Inc. v. Zeidenberg, the inability to obtain legally effective consent to the terms of a use agreement has remained a major stumbling block for creating enforceable use agreements for works distributed through traditional mass-market media.

This consent issue should not, however, prove a serious problem for an author distributing her work through the Internet. On the 'Net, and with interactive digital communications more generally, obtaining a consumer's express assent to a specific use agreement the consumer downloads the work should present little difficulty in terms of the transaction costs entailed. Indeed, many 'Net authors already require a user to agree to certain terms concerning liability, reuse, and copying prior to viewing or downloading the author's materials. By enabling 'Net authors to obtain such pre-purchase consent to her use agreement, interactive digital communication technologies should allow authors to satisfy contract's consent requirement, at least for those who purchase a work directly from the author.

Thus, the availability of interactive digital distribution media should solve the first problem facing authors seeking effective contractual protection for their mass-marketed works. In many cases, particularly where the initial consumer is also the end user of the work, this will be the only problem an author will need to overcome.
to ensure "sufficient" protection for her work. However, in some cases, binding the initial consumer may not be enough. For example, Adam may purchase a copy of a work and enter into a binding use agreement with the work's author. The author may then control Adam's potential misuse of his copy through the use agreement. If Adam transfers his copy to Brenda, however, the author may need to bind not only the initial purchaser, Adam, but also Adam's successor, Brenda. An author can attempt to address this issue by including a provision in the use agreement by which Adam agrees not to transfer his copy. A possible second strategy would be to include a term in the agreement with Adam that would require him to obtain the consent of any would-be successor to the use agreement before he transfers his copy. By using either of these approaches, Brenda would be bound directly if Adam obtained Brenda's consent to the use agreement; or Adam would be liable for the foreseeable damages caused by Brenda's actions, if Adam failed to obtain Brenda's consent or sold in violation of the non-transfer provision. Either of these approaches would provide an author with some protection against actions by Adam's successors-in-interest. However, if Adam is effectively judgment-proof, because of insufficient wealth to cover a damages award or for some other reason, these approaches may not suffice to protect an author against the harm that an unbound successor-in-interest such as Brenda could cause. In such a case, effective protection may require that an author be able to enforce the use agreement against Brenda directly, even though Brenda did not expressly consent to the use agreement when she obtained Adam's copy. The following section explores whether, and under what circumstances, successor liability would be appropriate under existing law.

### B. Successor Liability

§25 In a variety of contexts, an individual who succeeds to another's interest may be bound to restrictions in, or limitations on, the other's interest where the successor was or should have been aware of the restrictions beforehand. By tying successor liability to notice, courts have struck a balance between two competing principles. The first is that an individual may not sell something she does not own, or transfer a title more complete than her own. The second is that a purchaser for value should not be bound to title restrictions of which she was actually and constructively unaware. Although there remains considerable tension between these two principles remains, the general development of the law has been to rely increasingly on notice as the basis for determining successor liability. In the area of real property, for example, courts have long ruled that a successor may be bound to an easement, covenant, servitude or other title restriction where the successor had actual or constructive notice of the restriction, but not otherwise. A similar notice requirement prevails in cases dealing with trade secrets.
When we turn to successor liability with respect to goods or chattels, some have expressed doubt whether similar restrictions can inhere in the title to personal property. Moreover, because authors and publishers have relied so heavily on copyright to protect their works, legal authority with respect to a successor's liability under a use agreement is scarce. Yet, both the Uniform Commercial Code and the common law appear to recognize that successors may be bound to their predecessor's use agreements. For example, in *Murphy v. Christian Press Ass'n Publishing Co.*, Murphy purchased a set of plates for printing a copyrighted work from Christian Press's predecessor-in-interest, Christian Publication Society Company. As part of the purchase agreement, Murphy was given permission to reproduce and publish the work using the plates it had purchased with the understanding that Christian Publication would retain another set of plates that it would be using to print and publish a different version of the work. As part of the purchase agreement, both agreed "that the retail price of plainly-bound copies shall be one dollar and twenty-five cents," subject to certain discounts. Several years later, Christian Publication was dissolved and a receiver appointed. The receiver sold Christian Publication's set of plates and the copyrights on the work to Christian Press, and Christian Press began printing copies of the work and selling them for less than the "agreed" price. Murphy sued Christian Press for violating the terms of his agreement with Christian Publication.

Although the court recognized that the agreement between Murphy and Christian Publication was "technically a personal one," the court likened the restriction to a negative easement, and held that the restriction "incumbered the property in the hands of any party who [took with notice of the restriction.]" Because Christian Press "had full notice of the agreement," the court enjoined Christian Press from using the plates in a manner that would violate the agreement to which its predecessor-in-interest had consented.

Other courts have reached similar conclusions and have held a successor liable where the successor was shown to have had notice of the predecessor's agreement. However, not all courts have accepted the notion of such successor liability, nor have they recognized the enforceability of restrictions analogous to negative easements with respect to chattel. Behind the resistance to such liability we find two strands of reasoning. First, the Supreme Court has, until recently, treated efforts by a manufacturer to control an article's "destiny or the conditions of its resale" after he "parts with dominion over [it] or transfers risk of loss to another" as an unreasonable restraint of trade and "a *per se* violation of the Sherman Act." Second, certain courts have rejected the notion of transferable restrictions on the use or resale of chattels on the grounds that such restrictions would "offend against the ordinary and usual freedom of traffic in chattels or articles which pass by mere delivery." The fear has been that such restrictions would substantially impair the marketability of articles generally, both by forbidding or conditioning expressly the resale or alienation of particular articles, and more generally by surprising consumers who were used to taking such articles free of restriction or encumbrance.
While both of these concerns may limit the enforceability of particular restrictions in particular cases even today, time and the progress of the law, if we may call it that, have substantially undermined either as an adequate ground for rejecting across the board contractual restrictions that will bind subsequent possessors of personal property. In the antitrust field, the Supreme Court has rejected per se treatment of non-price vertical agreements between a manufacturer and its distributors concerning distribution of the manufacturer’s products. While certain agreements pertaining to the price at which the products will be sold or resold remain illegal per se under the Sherman Act, the Court has ruled that a manufacturer may impose, by agreement, reasonable controls on the resale of its products under the Sherman Act, even after it has parted with dominion over the products. Although post-sale contractual controls that do, in fact, unreasonably restrain trade may still violate the Sherman Act, the Court’s elimination of per se treatment for such post-sale restrictions should ensure authors ample room to protect their legitimate interests through use agreements.

Similarly, the notion that transferable restrictions on the use of personal articles are simply inappropriate, or somehow inconsistent with typical expectations concerning ownership rights in personal property is also not persuasive. These concerns, when expressed with respect to transferable use restrictions on personal property, closely parallel concerns courts initially expressed over allowing retained security interests in personal property. In both cases, the concern has been that allowing such "hidden" interests to attach to, and follow, an article of personal property would hinder the market for such articles and surprise subsequent possessors, by altering the set of rights customarily associated with "ownership" of a chattel. In the case of security interests, for example, the law initially allowed an individual to pledge a chattel as security for a loan only by physically delivering the chattel to the lender. A security interest in personal property where the property remained in the borrower’s possession was not legally recognized until the early nineteenth century. Such security agreements, by permitting the borrower to retain possession of the chattel promised as collateral, created the risk that the borrower would sell the chattel as if it were unencumbered. And many buyers, given that such security interests had not been in common use, would not realize the need to check for a security interest in the chattel, and so would not learn of the interest even when it had been properly recorded. Allowing a lender to enforce the security interest and to repossess the chattel once it had passed from the hands of the borrower would, therefore, catch many unsuspecting successors by surprise. For that reason, courts initially refused to enforce such security interests, and narrowly construed those statutes that expressly created such interests. Gradually, however, as more and more of our nation’s wealth became tied up in goods, inventory, and other forms of personal property, courts and legislatures began to recognize the need to allow individuals to offer their personal property as collateral for loans, without requiring physical delivery of the chattel to the lender. Although the path was not always direct, eventually, these statutory and common law developments culminated in Article 9 of the Uniform Commercial Code, which consolidated the variety of common law and statutory security devices that had cropped up, and provided a uniform procedure for the creation and
enforcement of security interests in personal property. [71]

¶31 Under Article 9 today, as under the various common law and statutory security devices of the nineteenth and early twentieth centuries, an individual may create a security interest in personal property that will follow the article, and be enforceable against a third party who comes into possession of the article. To ensure that the enforcement of such security interests did not create an undue risk of surprise and fraud for subsequent possessors, Article 9, like the chattel mortgage and real property statutes before it, relies on a system of filing to provide notice of the security interest to otherwise unsuspecting successors. This system of notice is then tied into the concept of the good faith purchaser in the ordinary course of trade more generally to balance the competing interests of creditor and subsequent possessor.

¶32 The history of security interests in personal property suggests that transferable use restrictions on personal property need not remain unrecognized, even if such interests were once inappropriate or inconsistent with the accepted meaning of ownership. Legal needs change, as society and technology change, and to the extent that transferable use restrictions on personal property become a desirable means of protecting creativity and intellectual labors, [72] the law should recognize such interests. In doing so, however, the law must be careful to strike an appropriate balance between the conflicting interests of the restriction holder, potentially unsuspecting successors, and the public generally. [73]

¶33 In striking this balance with respect to successor liability under the terms of a use agreement attached to a particular copy of a digital work, the principles reflected in the Uniform Commercial Code's good faith buyer in the ordinary course of trade appear to provide a sensible starting point. [74] The notice requirement implicit in the Code's definition of "good faith buyer" would limit a successor's liability to cases where she was actually or constructively aware of the restriction before she obtained the associated article. It would therefore protect unsuspecting successors from surprise, yet ensure that the restriction holder could reach Brenda or other successors where they had received notice of the use agreement. [75] At the same time, the entrustment and shelter doctrines implicit in the notion of "ordinary course of trade" would allow consumers to purchase articles without conducting expensive and time-consuming searches for associated use agreements in most common transactions. These doctrines would thereby tend to ensure that use agreements would not unduly burden commerce in their associated articles. [76]

¶34 If authors feel that such an approach on its own would not effectively protect their interests, [77] authors could establish a filing system for their works and associated use agreements analogous to those already in place for real property and under Article 9. The filing system need not be maintained by public authorities, but should be publicly available, and permit individuals to search for works by title, author, ISBN or other index designation, and substance, in order to determine if a use agreement was attached to publicly distributed copies of the work. Moreover, by taking advantage of available interactive digital technology, such a depository would likely be far more accessible than
many of the public records that form the basis for successor liability today. Although any approach that extends liability based upon constructive, as well as actual, notice embodies some potential for catching successors unaware, such an approach would at least require that a successor have a reasonable opportunity to learn of the use agreement before holding a successor to its terms. In that sense, such an approach is far more fair to successors than copyright, where a successor can be liable even if she was actually and reasonably unaware of the underlying facts establishing her liability.

C. Other Issues

This analysis suggests that contracts can provide an additional or alternative means for protecting the creativity and labor embodied in mass-marketed digital works. Indeed, although there remain some lingering questions concerning the transferability of use agreements, contractual protection represents a realistic alternative to copyright, at least for those works distributed through a media, such as the Internet, where the transaction costs of obtaining pre-sale consent to a use agreement are minimal. While there are differences between contract and copyright that may cause some concern, particularly with respect to forum selection issues and remedies, these differences are not likely to present any serious threat to the viability of a contractual protection regime. As more works are distributed through interactive digital media, and such contractual protection becomes increasingly available, the principal issue will no longer be whether contractual protection is available, but what the availability of such protection means for copyright.

II. SHOULD CONTRACTS REPLACE COPYRIGHT?

A. Pro

There are a number of reasons to believe that contractual protection for digital works will likely prove more reasonable and appropriate than the protection copyright presently affords works of authorship. As a starting point, competitive marketplace pressures may prove better able to limit excessive protection for digital works than the political arena. In the political arena, entities that are otherwise competitors may join together to petition the government to enact favorable legislation. By concentrating their voice, such entities can more effectively present their position to government, and will often sway Congress to their point of view, often in spite of weaknesses in their position’s underlying merits. The history of copyright illustrates the consequences of such interest group pressure. Over the last two hundred years, members of copyright’s propertied class have banded
together and repeatedly persuaded Congress to adopt ever-broader copyright protection. In consequence, copyright today both protects far more creative efforts, and protects them far more broadly and for a much longer period of time than it did when first enacted in 1790. Advances in technology may justify some aspects of this expansion, but by far, the majority of the expansion represents nothing more than interest group windfall generated at consumers’ expense. Given the political realm’s near-abject failure to provide any restraint on copyright’s ever-expanding scope, the marketplace could hardly do worse. Moreover, potential antitrust liability may limit the ability of would-be competitors to agree jointly on use agreement terms, and the resulting competition on such terms may effectively bar individual competitors from adopting unduly restrictive terms.  

¶37 In addition, a contractual system of protection will require authors to state expressly the protections sought, and restrictions imposed. Consumers will therefore have a clearer understanding of what they are purchasing, than they have under copyright’s present system of unspoken restrictions.  

¶38 Finally, contracts may also adjust more rapidly than copyright as technology advances, and adapt more readily to the changing face of the marketplace. For example, section 117 retains the same language as it did when first adopted in 1980, and remains unclear as to whether it authorizes the owner of a copy of a copyrighted program to make multiple copies of the program to the extent such copies are necessary to use the program in a machine. At the time it was enacted, one copy was typically all that was required; hard-drives were rare for personal computers, and many programs ran from diskette. Today, however, a single desktop computer will make multiple copies of a program in the process of running it. In addition to copies in the computer’s hard-drive and random access memory, copies of substantial parts of the program will also be found on the cache memories associated with the computer’s hard-drive and random access memory, and in the memory of the computer’s video card, sound card, and associated printer. These multiple copies are almost certainly authorized by section 117, but the rapid pace of technological change makes application of section 117 uncertain. In contrast, use agreements, because they are updated regularly, can specifically address such issues. As a result, they will usually prove clearer and more directly relevant than copyright with respect to questions a consumer may have about what she can do with her purchased software.
B. Con

On the other hand, despite its excesses, copyright retains, at least, some limits on the protection it affords works of authorship. In particular, through the idea-expression dichotomy and the fair use doctrine, copyright allows others to copy some aspects of a copyrighted work in order to create new works or simply to make more productive use of existing works. Such copying is often essential to a variety of educational, entertaining, and otherwise productive endeavors, and as others have recognized, contractual protection, should it become pervasive, may place such copying at risk. The risks to such copying from contractual protection schemes fall broadly into five categories: (1) undue transaction costs; (2) improper commodification; (3) anticompetitive restraints; (4) monopolistic character of market for digital works; and (5) limited rationality.

1. Undue Transaction Costs

Although interactive digital communications have reduced the transaction costs associated with obtaining express consent from mass-market consumers to a form use agreement, transaction costs will likely remain high for individual users who wish some variation in the agreement's uniform terms. A professor who wants to use a segment of a work in class, or an author who wants to reproduce a portion in her own work, would face substantial negotiation costs if permission were required for such uses. In many cases, the transaction costs would exceed the potential gains available from trade and would foreclose mutually desired exchanges. Such a party could, of course, proceed with the use, and hope that the original publisher would not object, but such a course places at risk any investment made in the use and opens the door to selective and perhaps discriminatory enforcement. In consequence, a perfect contractual regime, where all desirable exchanges are consummated, remains unachievable and some slippage must remain in the system of protection to provide for such cases.

2. Improper Commodification

There are some things whose value cannot be measured by their market price, and they should not be treated as simply another market commodity. We live and work not merely in an economic marketplace, but in a community. And in many places within this community, importing the marketplace's ethic would not merely limit, but would ultimately corrupt and destroy that part of the community. For example, some forms of speech, such as parody, satire, and critical commentary, have value, yet could not flourish in a regime where permission from the target was first required. The right to
undertake such speech is simply not appropriate for commodification. However the right is initially assigned, there it will remain.\textsuperscript{1901} Because the right will not be traded once assigned, it makes little sense to allow individuals to commodify the right and then pretend that marketplace competition will ensure its efficient allocation.

\textsuperscript{¶42} Similarly, growth in science and knowledge is often organic and serendipitous, with connections springing up unexpected and unforeseen. A strict system of negotiated payment for use might marginally increase the incentive to create/discover new information, but by forcing near-constant cost-benefit analysis on each potential avenue of research and by raising the cost of research generally, such a system will limit research to those avenues which offer near-term profit potential.\textsuperscript{1911} Even if the benefits of such an approach, in the form of potentially improved research results, exceed its direct costs, in the form of higher prices for access to research materials, such a system will destroy the spontaneity that lies at the heart of much scientific advancement.

\textsuperscript{¶43} In addition to these areas, section 110 of the Copyright Act identifies a number of additional areas in our community where activity is fundamentally non-market, such as educational, religious, and charitable activities. To be sure, each of these activities must function to some extent as an economic actor simply to survive in our society. But much of their function cannot be understood in terms of "market price." Again, copyright provides the slippage necessary for these activities to flourish, and that slippage might be threatened in a strict system of negotiated payment for each use.

\section*{3. Anticompetitive Restrictions}

\textsuperscript{¶44} If we relied on coincidence alone to create competition, we would have very little competition. Indeed, the basis of competitive theory -- that others will recognize markets where producers are earning supracompetitive rents, enter those markets, and thereby drive prices and profits to a reasonable level -- requires such copying. Despite the copying it entails, such competition is thought to ensure active, evolving markets where competition presses improvements, suppresses prices, and leads to an optimal allocation of our scarce resources. So long as the cost savings available to a copying competitor are not excessive, lead-time and other advantages that typically accrue to the first-comer will usually ensure that successful originators and innovators will, despite such copying, earn a sufficient return on their efforts to justify their efforts.\textsuperscript{1921} In consequence, competition, and the copying it requires, are the normal and accepted rule for the marketplace. Copyright represents an exception to this rule, justified by the exceptional ease with which competitors could otherwise copy works of authorship. Yet, it is a limited exception, prohibiting only that wholesale copying that goes too far, and expressly allowing that copying necessary to ensure effective competition in a market.\textsuperscript{1931}
Yet, it is far from clear that such copying would remain permissible under a system of contractual protection. Certainly, if we look to what authors have claimed as their property in copyright lawsuits, many have claimed that copying was improper, and have spent millions of dollars attempting to stop it, only to have the court rule that the copying was lawful. Others have attempted to use a copyright on a work of authorship in order to control a complementary market, such as repairs. These efforts to foreclose such copying would likely increase were authors and publishers free to craft their own schemes of protection. Contractual protection, therefore, may pose a serious threat to our competitive marketplace, particularly as use agreements become pervasive.

4. Monopolistic Character of Markets for Digital Works

It is also not clear that the market for digital works is sufficiently competitive to limit effectively inappropriate and unduly restrictive use agreement terms. We need look no further than the pervasiveness of price discrimination schemes through which such works are marketed to recognize that the market for digital works is predominantly monopolistic, and the industry for creating such works is predominantly oligopolistic. Such extensive price discrimination schemes could not exist in a perfectly competitive market, nor would they prove economically sensible in a reasonably competitive market. Whether this monopolistic character derives from the popularity of individual authors, from network effects arising from popularity, retraining costs, or compatibility concerns, or from some other factor is ultimately irrelevant. The resulting lack of competition suggests that the market will not impose much in the way of discipline on authors and publishers, particularly market leaders, should they decide to incorporate excessive and unduly restrictive terms into their use agreements.

5. Limited Rationality

The assumption that consumers read, understand, and react rationally to written contract proposals is a convenient one, but we should not forget that it is only an assumption. Particular in this context, where enforcement of use agreements has been rare and, at best, sporadic, consumers will often have a somewhat inaccurate understanding of use agreement terms and the likelihood of their enforcement. This lack of information is exacerbated by the historically common and misleading practices of referring to a bilateral agreement restricting use of the work as a license, and of informing the consumer of the agreement's terms only after the consumer has committed to the deal.

Moreover, even if some consumers understand a use agreement perfectly and can value varying terms within such agreements accurately, we cannot leap to the conclusion that the market will protect less perfectly informed consumers on that basis alone. Such
perfectly informed consumers will protect less perfectly informed consumers only if they are the relevant segment of the market that drives producers' decisions with respect to pricing and terms. Whether they will be the relevant segment depends on, among other factors, the relative number of perfectly informed and imperfectly informed consumers, the relative degree and proportions of imperfect information present, and the relative value and cost of the imperfect information and associated use agreement provisions. So long as the vast bulk of consumers remains uninformed with respect to use agreement terms, the chances that perfectly informed consumers will drive producers' marketing decisions are slim.

Finally, as a general rule, the invisible hand of the marketplace works most efficiently when consumers are comparing the available prices for identical goods. Even here, the market does not work perfectly, but is likely to prove clearly superior to the alternative of government intervention. However, as we move further from this paradigm case, the assumption that individual buying decisions will generate efficient outcomes becomes increasingly problematic. With use agreements, the costs of an unduly restrictive use agreement may not be immediately evident, and will often arise through limited product variety and increased product price over time. The law has historically restricted the enforceability of contract provisions, such as express conditions, liquidated damages provisions, and employee covenants not to compete, that create similar, initially indefinite, future costs. Although this may appear paternalistic to some, the law's treatment of such provisions simply recognizes that there are limits to the assumption of consumer rationality and limits to the market's ability to generate efficient contract terms. When we reach the question of efficient use agreement terms, the value potentially added by changes in a use agreement will, for most typical consumers, be substantially overshadowed by other aspects of the purchase. In consequence, the variations in volume and price that reflect individual consumers' expressed preferences for alternative use agreement terms will often be indistinguishable from the background noise of the market. As a result, individual buying decisions will not necessarily lead producers to an efficient set of terms.

C. Conclusion: Copyright or Contract

Although there is, therefore, plenty of reason to believe that the market will not necessarily generate an efficient set of terms governing the use, copying, and transfer of particular digital works, a contract-based system of protection does offer certain advantages over copyright. Consumers will receive a clearer understanding of what they are acquiring. Authors and publishers can draft their own schemes of protection, and also protect digital works that, for one reason or another, fall outside of copyright. We should, therefore, expect to see an increasing reliance on use agreements to protect digital works. As this occurs, our analysis also suggests a need for some means to constrain those use agreement provisions that go too far. Properly interpreted, copyright's preemption doctrine can provide such a means.
III. WHAT ROLE COPYRIGHT?

§51 As contractual schemes become increasingly important as a means for protecting digital works, copyright will become correspondingly less important as a means for protecting such works, and correspondingly more important as a means for setting the permissible limits for such contractual protection. Other public policy considerations may also serve to limit the scope of such contractual protection, and may prove more appropriate than copyright on particular issues. The three to five years of post-employment protection courts have allowed for covenants not to compete, for example, seems, on its face, much closer to an appropriate limit on the duration of post-sale restrictions on the use, copying, and transfer of digital works, than copyright's absurdly long seventy-five years. On several key issues, however, such as the extent of competitive and non-competitive copying permissible, the balance copyright has struck in its idea-expression dichotomy and fair use doctrines appears to provide a readily applicable and appropriate limit on the protection a digital author may demand in her use agreement.

§52 Courts have disagreed, however, over whether copyright may preempt inconsistent contractual provisions. At least two have held that copyright preemption did not apply to the use agreements before them because they believed that the contractual rights at issue were not equivalent to the property rights copyright creates. Use agreements "generally affect only their parties; strangers may do as they please, so contracts do not create 'exclusive rights.'" Such difference between copyright's protection and that available from a use agreement may readily exist, particularly where the use agreement was individually negotiated. However, where a digital author requires acceptance of a form use agreement before allowing others to obtain access to her work, and also arranges for the use agreement to "run" with the work, such a scheme of protection resembles a property right far more closely than it does a contractual understanding. Of course, even such a far-reaching use agreement may not bind a true stranger to the work. But then again, neither does copyright. Like use agreements, copyright does not prohibit a true stranger from creating independently even an identical work, but requires proof of a defendant's access to a work before its panoply of exclusive rights comes into play. Copyright is, in that sense, not a true property right, binding against all the world, but a more limited right that binds only those who have had access to a work. For that reason, the protection available from a use agreement that runs with a copy can mimic almost exactly the protection available under copyright law, and is therefore properly considered "equivalent" to copyright within the meaning of section 301. To the extent that such a use agreement contravened the balance between competitor, consumer, and author that copyright has established, preemption would be available and appropriate.

§53 Of course, converting copyright from a means of providing protection to a means of limiting the protection available will not be as simple as that. Converting a floor into a
ceiling is never an easy task. But given the likely need for an extra-market limit on use agreement provisions, and copyright's seeming suitability for such role, copyright's rebirth as a limitation on excessive private, state law protections is, if not inevitable, at least a natural evolution. Limiting excessive contractual restrictions in order to ensure access to digital works is also entirely consistent with copyright's constitutional mandate to ensure the Progress of Science. Indeed, as difficult as acceptance of this rebirth may prove today, scholars two hundred years from now will likely look back and see that copyright far more effectively served the Progress of Science during its second two hundred years when it worked principally to ensure access to digital works, than it did in its first two hundred when it worked principally to limit such access.

[11] Edward Arber, ed., 2 A Transcript of the Registers of the Company of Stationers of London: 1554-1640 A.D. 805 (1875) (1586 Petition to the Star Chamber) ("And further if privileges [that is, copyright] be revoked no books at all should be printed, within [a] short time, for commonly the first printer is at charge for the Author's pains, and some other such like extraordinary cost, where an other that will print it after him, come[s] to the Copy gratis, and so may he sell better cheaper than the first printer, and then the first printer shall never utter [that is, sell] his books."); See also Glynn S. Lunney, Jr., Reexamining Copyright's Incentives-Access Paradigm, 49 Vand. L. Rev. 483, 492-94 (1996).

[12] As I have explained elsewhere, it is not that works of authorship are easy to copy, but that they are easier to copy than the final products of other creative efforts. See Glynn S. Lunney, Jr., Lotus v. Borland: Copyright and Computer Programs, 70 Tul. L. Rev. 2397, 2426-27 (1996).

[13] Despite the advent of rapid and inexpensive communications, the transaction costs associated with individually negotiated licenses are likely to remain high.


[15] See Bobbs-Merrill Co. v. Strauss, 147 F. 15, 27 (2d Cir. 1906) (questioning whether language stating that "No dealer is licensed to sell [this book] at [less than one dollar retail]" was sufficient to establish a party's contractual liability for selling the book at less than one dollar), aff'd on other grounds, 210 U.S. 339 (1908); See also Henningsen v. Bloomfield Motors, 161 A.2d 69, 92 (N.J. 1960) (language in warranty that creates appearance of extending remedies, when it, in fact, limits a consumer's remedies is misleading and therefore unconscionable).


[18] Authors & Newspapers Ass'n, 147 F. at 620.

[19] See id. at 619, 620; See also The Majestic, 166 U.S. 375, 385-86 (1897); Bobbs-Merrill Co. v. Strauss, 147 F. 15, 27 (2d Cir. 1907) (questioning whether inclusion of notice inside book cover was sufficient to establish contractual liability), aff'd on other grounds, 210 U.S. 339 (1908).

[20] Authors & Newspapers Ass'n, 147 F. at 619, 620 ("[A]ffirmative proof of communication, additional to that afforded by the mere fact that a notice is in the book, is essential to show that the purchaser agreed."). Similar results have been reached in cases seeking to enforce contractual provisions contained in the notices printed on parking lot...
and cloakroom receipts. See, e.g., McAshan v. Cavitt, 229 S.W.2d 1016 (Tex. 1950); See generally E. ALLAN

111] Much of this discussion is taken from note 7 of the Step-Saver decision. See Step-Saver Data Sys., Inc. v. Wyse
Tech., 939 F.2d 91, 96 n.7 (3d Cir. 1991).

112] See Step-Saver Data Sys., Inc., 939 F.2d at 96 n.7; See also H.R. Rep. No. 735, 101st Cong., 2d Sess. 7-10,

113] Although software producers typically used the term license to describe these agreements, that term is
inappropriate and misleading for the reasons previously explained. See text accompanying note 5 supra.

114] See, e.g., Step-Saver Data Sys., Inc. v. Wyse Tech., 939 F.2d 91, 96-97 (3d Cir. 1991) (noting that "license"
characterized transaction as a license).

115] See, e.g., ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1450 (7th Cir. 1996) (treating "licenses" as contracts
accompanying sale of goods); Step-Saver Data Sys., Inc., 939 F.2d at 96 n.7, 100 (same); See also Strauss v. Victor
Talking Mach. Co., 243 U.S. 490, 500 (1917) (same); Bauer v. O'Donnell, 229 U.S. 1, 16 (1913) (On similar facts,
Court stated that "it is a perversion of terms to call the transaction in any sense a license to use the invention."). But
"licenses" as different from "first sale").

amended at 17 U.S.C. § 109(b)).

117] See Step-Saver Data Sys., Inc., 939 F.2d at 96-97, 105-06 & n.7.

118] See Id. at 102-04 (refusing to find consent); Morgan Labs., Inc. v. Micro Data Base Sys., Inc., 1997 U.S. Dist.
LEXIS 1193, at *10-11 (N.D. 1997) (refusing to find consent); Arizona Retail Sys., Inc. v. Software Link, Inc., 831
F. Supp. 759, 764 (D. Ariz. 1993) (same); See also Mark A. Lemley, Intellectual Property and Shrinkwrap Licenses,

119] See, e.g., Step-Saver Data Sys., Inc., 939 F.2d at 96 n.7.

120] For cases illustrating the law's prohibition of bait-and-switch advertising, see, for example: United States v.
Peterman, 841 F.2d 1474, 1477-78 (10th Cir. 1988); Brunh's Freezer Meats of Chicago, Inc. v. U.S.D.A., 438 F.2d
1332 (8th Cir. 1971); In re Seekonk Freezer Meats, Inc., 82 F.T.C. 1025, 1055 (1973); Federal Trade Commission

121] Indeed, the retroactive rewriting associated with such licenses is arguably more unfair and deceptive than classic
bait-and-switch advertising. In bait-and-switch advertising, the seller advertises a particular product at a particular
price, but when the consumer arrives at the seller's place of business looking for the advertised product, the seller
professes an inability to fulfill the advertisement's terms, and offers a substitute product (that has a higher profit
margin) in its place. See, e.g., Peterman, 841 F.2d at 1477-78. With bait-and-switch advertising, the consumer thus
becomes aware of the substitution at the seller's business before the consumer actually purchases the substituted
product, and the consumer remains, in theory, free to reject the proffered substitute. Despite this, Congress, the
Federal Trade Commission, and courts have universally concluded that such advertising is improper and illegal.
Haven't mentally committed to making a purchase based upon the advertisement, and having expended the time and
energy to go to the seller's business for the purchase (possibly foreclosing the opportunity to pursue other
purchases), many consumers will go ahead and purchase the substituted product. Consumers do this even though
they would not have made that purchase but-for the deceptive advertising and even though they remain, in theory,
free to refuse the substituted product. The software license context is arguably worse because the consumer often
does not become aware of the substituted terms until she has paid her money for the product, returned home, and

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sought to use the product. Her commitment to the purchase, both psychologically and otherwise, is likely to be all that much stronger than in the case of bait-and-switch advertising, with the result that an even larger number of consumers will agree to license terms to which they would not otherwise have agreed. Moreover, most licenses typically offer consumers an opportunity to return the product for a refund. This allows the consumer the theoretical ability to reject the license terms, and is likely to have no more (and probably far less) practical effect here than the theoretical ability of the consumer to reject the switched product in the bait-and-switch context.

[22] The classic case standing for the proposition that ambiguous conduct cannot establish consent is White v. Corlies & Tifl, 46 N.Y. 467 (1871). See also First Texas Sav. Ass'n v. Jergins, 705 S.W.2d 390 (Tex. App. 1986).

[23] Both approaches take advantages of inertia to create the appearance of consent, by pretending that a consumer's decision merely to continue with a certain course of conduct previously decided upon is sufficient to establish consent to a modified set of duties. They seek to shift the burden on the consumer to reject expressly the proposed modifications, rather than place that burden of obtaining consent on the party seeking the proposed modifications. Both the common law and Article Two have a strong presumption that the party seeking changes must bear that burden, reflected in a variety of doctrines, but particularly in the principle under both that silence alone does not constitute acceptance. See, e.g., Karl Llewellyn, Our Case-Law of Contract: Offer and Acceptance (pt. 2), 48 YALE L.J. 779, 801 & n.35 (1939).


[26] Id. at 95-96.

[27] Id.

[28] Id.

[29] Id. at 97.

[30] Id. at 98 ("Although UCC § 2-202 permits the parties to reduce an oral agreement to writing, and UCC § 2-209 permits the parties to modify an existing contract without additional consideration, a writing will be a final expression of, or a binding modification to, an earlier agreement only if the parties so intend.").

[31] Id. at 102-03.

[32] Id. at 104-05.

[33] Id. at 103-04.

[34] Id. at 103.

[35] Id. at 104.

[36] Id. at 104.

[37] See Arizona Retail Sys., Inc., 831 F. Supp. at 764 (where seen before contract formed, terms can become part of the contract). Although I have considered the issue, See Letter from Glynn Lunney to Richard Speidel, Oct. 18, 1995 (on reserve with TIPS journal), this essay will not address whether the repeated sending of a form can amount to a course of performance, or constructive notice of the form's terms, sufficient to establish consent to the form. Compare Step-Saver Data Sys., Inc., 939 F.2d at 104 (repeated sending of form containing additional or different
terms does not establish receiving party's consent to those additional or different terms); with Waukesha Foundry,
Inc. v. Industrial Engineering, Inc., 91 F.3d 1002, 1009 (7th Cir. 1996) (repeated sending of form containing
additional or different terms does establish receiving party's consent to those additional or different terms).

138] 86 F.3d 1447 (7th Cir. 1996). Judge Easterbrook’s opinion merits sharp criticism in at least five respects. First,
his attempt to distinguish prior cases that have addressed the contractual enforceability of shrinkwrap licenses
borders on intellectual dishonesty. See ProCD, Inc., 86 F.3d at 1452. Second, he ignores long-standing principles of
contract formation and distorts precedent in order to rationalize his outcome. See ProCD, Inc., 86 F.3d at 1451
(citing Carnival Cruise Lines, Inc. v. Shute, 499 U.S. 585 (1991) for the proposition that terms received after the
contract was formed routinely become part of the contract, when the Carnival Cruise Lines Court itself was careful
to note that the other party had pre-contract notice of the terms). Third, his analysis is terribly unrealistic and leads
to patently absurd results. For example, he suggests that "[this] is not a case where a consumer opens a package to
find an insert saying 'you owe us an extra $10,000," and suggests that in such a case, a consumer "finding such a
demand [could] prevent formation of the contract by returning the package." ProCD, Inc., 86 F.3d at 1452. But what
about the consumer, and there would undoubtedly be many, who decided to ignore such notice, either because she
believed quite sensibly that she had already purchased the product and therefore had the full right to use it without
any further payment, or for some other reason. Judge Easterbrook would apparently require all such consumers to
pay the $10,000 should the seller file suit to collect. Such a result is outrageous, and flaunts the law's historic
prohibition of such bait-and-switch tactics. See note 21 supra. Fourth, Judge Easterbrook’s efforts to rewrite the law
seem driven by his determination to approve and enforce ProCD's price discrimination schemes. Id. at 1449-50.
While I realize that present-day economists, particularly those associated with the Chicago school, such as Judge
Easterbrook, hold the opinion that price discrimination is desirable, writing his opinions on that subject into law is
strikingly inappropriate given that Congress has codified the contrary position in section 2(a) of the Robinson-
Patman Act. Moreover, price discrimination cannot exist in a perfectly competitive market. See, e.g., Joan Robinson,
The Economics of Imperfect Competition 179 (1933). For ProCD to attempt such a price discrimination scheme, it
must have some degree of monopoly in the market for telephone listings. Given such monopoly, there is little reason
to expect the market to constrain effectively ProCD's attempt to impose improper and inefficient terms in the use
agreement. See Schwartz & Wilde, supra note 4, at 659-62. Fifth, the inappropriateness of the decision is only
heightened when one considers that Judge Easterbrook, a federal judge, is rewriting the substantive law of contracts,
a law that Erie assigns to the state, and fails to cite any Wisconsin authority that even superficially supports either
his analysis, his reasoning, or his conclusion.

139] The National Conference of Commissioners on Uniform State Laws is considering a new Uniform Commercial
Code provision, § 2B-308, as part of draft Article 2B that would expressly validate standard-form user "licenses." See
National Conference of Commissioners on Uniform State Laws, Uniform Commercial Code, Article 2B,
Licenses (May 5, 1997 Draft). Of course, by the time these two bodies manage to agree on final language for Article
2B, and persuade the various states to adopt it, technology may have rendered this provision unnecessary.

Licenses?, 13 COMPUTER LAWYER 1, 1 (1996); Carey R. Ramos & Joseph P. Verdon, Shrinkwrap and Click-On

141] This is not to say that the provisions of a use agreement will be fully enforceable. Many consumers will continue
to make copies in the privacy of their home, either for time-shifting purposes, or for sharing with a friend or family
member. This practice continues even when such copying technically violates the terms of the use agreement.
Nevertheless, the transaction costs enforcement would entail and the political consequences likely involved in
attemping to ensure perfect compliance will likely preclude legal action to stop this sort of copying, and other
small-scale breaches of a use agreement, whether through contract law or copyright law.


143] For other difficulties that may arise with such approaches, See Chafee, supra note 42, at 952-53.
Although this is the rule, we should keep in mind that courts have on occasion stretched the meaning of notice to achieve a certain result. See, e.g., Sanborn v. McLean, 206 N.W. 496, 498 (Mich. 1925) (inquiry notice of residential use only restriction found based upon "the strictly uniform residence character given the [other] lots by the expensive dwellings thereon.").

See, e.g., Commercial Credit Corp. v. Stan Cross Buick, Inc., 180 N.E.2d 88, 92 & n.2 (Mass. 1962) (prior to effective date of Uniform Commercial Code, court relies on common law principles to deny title to good faith purchaser for value).

See, e.g., Metallurgical Indus., Inc. v. Fourtek, Inc., 790 F.2d 1195, 1204 (5th Cir. 1986) (party who obtains access to trade secrets through another is liable if party has notice that information was a secret and that other breached duty of confidence when she disclosed secret).


Id. at 597.

Id.

Id.

Id. at 598.

Id. at 598-99.

Id. at 598.

Id.

Id.

In its opinion, the court ruled that the restriction attached both to the plates and to the copyrights that Christian Press received from Christian Publication. See Murphy v. Christian Press Ass'n Publishing Co., 56 N.Y.S. 597, 598 (N.Y. App. Div. 1899) ("The agreement on the part of the defendant's predecessor in title, though technically a personal one, related to the use of its property, the copyrights, and the plates, and obligated all who might acquire that property with notice of the agreement."). The Court's decision in Bobbs-Merrill Co. v. Straus, 210 U.S. 339 (1908) casts some doubt on whether notice of such a restriction would limit Christian Press's rights under copyright law, but did not address whether such a restriction might be enforceable under state contract law. See Bobbs-Merrill Co., 210 U.S. at 343, 350; See also Scribner v. Straus, 210 U.S. 352, 354-55 (1908) (where no diversity of citizenship, nor amount in controversy in excess of jurisdictional amount, Court would not address whether accepting works with notice of restriction would support contractual cause of action for breach of notice terms).

See Capitol Records, Inc. v. Mercury Records Corp., 221 F.2d 657, 662-63 (2d Cir. 1955) (holding that successor was bound to use restrictions agreed to by predecessor where successor had notice of such restrictions); In re Waterson, Berlin & Snyder Co., 48 F.2d 704, 708 (2d Cir. 1931) (same); Great Lakes & St. Lawrence Trans. Co. v. Scranton Coal Co., 239 F. 603, 609 (7th Cir. 1917) (same); P. Lorillard Co. v. Weingarten, 280 F. 238, 240 (W.D.N.Y. 1922) (same); Authors & Newspapers Ass'n v. O'Gorman Co., 147 F. 616, 620-21 (D.R.I. 1906) (same); Nadell & Co. v. Grasso, 346 P.2d 505, 511-12 (Cal. Ct. App. 1959) (same); New York Bank Note Co. v. Hamilton Bank-Note & Printing Co., 31 N.Y.S. 1060, 1063 (N.Y. App. Div. 1895). See also Gonzales v. Kentucky Derby Co., 189 N.Y.S. 783, 281-82 (N.Y. App. Div. 1921) (finding successor liable with notice under theory that successor tortiously induced predecessor to breach agreement).

See United States v. Arnold, Schwinn & Co., 388 U.S. 365, 379 (1967); Dr. Miles Medical Co., 220 U.S. 373, 404-05 (1911); See also Boston Store v. American Graphophone Co., 246 U.S. 8, 24-27 (1918) (holding that patent act does not grant patentee right to control resale price of patented article once article was sold); Strauss v. Victor Talking Mach. Co., 243 U.S. 490, 500-01 (1917) (same).


See John D. Park & Sons Co., 153 F.2d at 39 (describing the right of alienation as "one of the essential incidents of a right of general property in movables"); See also Dr. Miles Medical Co., 220 U.S. at 404-05; Strauss v. Victor Talking Mach. Co., 243 U.S. at 500-01.

See Strauss v. Victor Talking Mach. Co., 243 U.S. at 501 ("if given effect, [these use restrictions] would work great and widespread injustice to innocent purchasers, for it must be recognized that not one purchaser in many would read such a notice, and that not one in a much greater number, if he did read it, could understand its involved and intricate phraseology, which bears many evidences of being framed to conceal rather than to make clear its real meaning and purpose."); See also Authors & Newspapers Ass'n v. O'Gorman Co., 147 F. 616, 619-20 (D.R.I. 1906) (suggesting that articles sold in ordinary course of trade carry usual connotation of absolute sale and requiring seller to "bring[] the restriction of authority to the purchaser's attention in such positive manner as to overcome the strong presumption of authority arising from the usual course of business").

See State Oil Co. v. Khan, 118 S. Ct. 275 (1997) (ruling that vertical agreements pertaining to the maximum price at which a product will be sold are to be evaluated under the Rule of Reason, but leaving intact the per se rule for other forms of vertical price-fixing agreements, such as agreements with respect to the minimum price); Business Electronics Corp. v. Sharp Electronics Corp., 485 U.S. 717, 724, 735-36 (1988). For a history of the Miller-Tydings Act and associated state laws that validated resale price maintenance agreements, and the eventual repeal of the Miller-Tydings Act; See also Coming Glass Works v. Ann & Hope, Inc., 294 N.E.2d 354, 412-15 (Mass. 1973).


See Grant Gilmore, 1 Security Interests In Personal Property 24 (1965); See also Restatement of Security § 1 & cmt. a (1941).

See id.

See id. at 24-294.

See id. at 295-97.
Surprisingly, the National Conference of Commissioners on Uniform State Laws and the American Law Institute fail to address the issue of successor liability altogether in its Article 2B. Under § 2B-502(b), they simply assert "a transfer . . . is ineffective unless the transfer is subject to the terms of the license." See National Conference of Commissioners on Uniform State Laws, Uniform Commercial Code, § 2B-502(b) (May 5, 1997 Draft). But they fail to address specifically the circumstances in which a subsequent possessor is bound to the terms of the license.

Two alternative starting points warrant brief mention. First, we might argue that a copy made in violation of a restrictive use agreement is analogous to a stolen copy. See H.R. Rep. No. 1476, 76th Cong., 2d Sess. 162, reprinted in 1976 U.S.C.C.A.N. 5659, 5785 (identifying copies made without authorization of copyright owner as "piratical"). If we accept such analogy, then the transfer of such a copy would create no ownership rights in the transferee, even under the Uniform Commercial Code. See U.C.C. § 2-403(1) & cmt. 2 (limiting transfer of title to cases where transferor held voidable title). However, whatever the utility of such an analogy for persuading Congress to expand copyright's scope, the analogy is simply false. It confuses the private good, the copy, which is not stolen, with the public good, the work of authorship, which is not susceptible of theft. Second, and alternatively, we might argue that someone who possesses a copy of a work is not really an owner of the copy, but is simply a licensee entitled to possession of such copy. Such an approach is based on similarly false analogies, and tries to turn the license into a type of possessory interest, which it has never been under the common law. See also text accompanying notes [72]-[74] supra.

Notice of the restrictions to be effective must have been received before acquisition of the article for reasons similar to those discussed with respect to consent above. See text accompanying notes [72]-[75] supra.

For an example of the entrustment and shelter doctrines at work, see Independent News Co. v. Williams , 293 F.2d 510, 511-12 (3d Cir. 1961) (holding that publisher by entrusting copies to wholesaler fell within the scope of section 2-403(2); wholesaler could therefore convey unrestricted title to waste paper dealers who lacked notice of restrictions; and waste paper dealers could, in turn, convey that unrestricted title, under shelter doctrine, to second-hand book dealer, even though such dealer was aware of pertinent restriction). More generally, the Code grants a good faith purchaser for value an unrestricted title, even though her predecessor-in-interest did not have such title, in two situations. First, under section 2-403(1), a good faith purchaser for value will receive an unrestricted title, even though her predecessor held only a voidable title. See Uniform Commercial Code, § 2-403(1); See also James J. White & Robert S. Summers, 1 Uniform Commercial Code 184-90 (4th ed. 1995). Second, a good faith purchaser for value will receive an unrestricted title, if she purchases from a merchant who deals in such goods and the merchant had been entrusted with those goods by their owner. See U.C.C. § 2-403(2); See also White & Summers, supra, at 190-96.


Indeed, as the technology advances, it may provide alternate methods of ensuring that a successor receives timely notice of the use agreement that would render a searchable depository approach unnecessary. See Mark Stefik, Shifting the Possible: How Trusted Systems and Digital Property Rights Challenge Us to Rethink Digital Publishing, 12 HIGH TECH. L.J. 137 (1997); Julie E. Cohen, Some Reflections on Copyright Management Systems and Laws Designed to Protect Them, 12 HIGH TECH. L.J. 161 (1997).

must she purchase another authorized copy of the program for each of her computers? Section 117 can be read either

own several. Can an individual make the requisite copies to use a copyrighted program on each of her computers, or
rarely owned more than one personal computer when section 117 was enacted in 1984. Today, many individuals
like the first sale doctrine before

the owner issues without regard to the cost of discovering, organizing, and presenting such information has,

 Rules, inefficient.

with respect to the ownership issue, and may, therefore, lead to an inefficient resolution of that issue. It is, therefore,

are likely to have the information necessary to understand their agreement, it inhibits the parties' ability to bargain

favors the newspaper. Yet, because the newspaper and authors generally are repeat players, they are more likely to

assignment is inefficient for two reasons. First, it is contrary to the results the parties would likely have agreed to

hires the newspaper to create the advertisement, the newspaper will own the copyright in the advertisement. See

possession of a copy as a license, rather than a sale, in order to avoid the reach of the first sale doctrine. See text accompanying notes [74]-[76] supra. In many cases, the transfer looks like a sale, i.e. a single payment, transfer of possession, no (or no enforced) requirement that copy be returned at some point, and it is unclear whether courts will look to the substance of the transfer or the name the copyright owner seeks to attach. Yet, a successor's liability might turn on how a court treats the initial transfer. See MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511, 518 n.5 (9th Cir. 1993) (loading of computer program into memory constitutes infringing reproduction and section 117 is not available because MAI licensed, rather than sold, its programs to its customers).

For example, copyright generally presumes that injunctive relief is appropriate once infringement is shown, and
compensates a prevailing party for her reasonable attorney's fees. In contrast, contract law presumes that damages
are the appropriate remedy, and does not compensate a prevailing party for her attorney's fees. These differences are
not, however, as substantial as they seem. In Campbell v. Acuff-Rose Music, the Court suggested that copyright
should relax its knee-jerk preference for injunctive relief, and expand the cases where only damages were awarded.
See 510 U.S. 569, 578 n.10 (1994). On the other hand, while contract law presumes that damages are a sufficient
remedy in most cases, it also readily recognizes in analogous cases, such as covenants not to compete, that damages
may not prove an effective remedy and award injunctive relief almost as a matter of course. See Ferrero v.
Associated Materials, Inc., 923 F.2d 1441, 1449 (11th Cir. 1991); DBA Enters., Inc. v. Findlay, 923 P.2d 298, 302
(Colo. App. 1996). Similarly, while contract law does not provide, of itself, for an award of attorney's fees,
atorney's fees may be awarded where the contract expressly provides for them. Thus, the differences between the
remedies available under copyright and contract law are not as substantial as they may first appear.

This is clearly Judge Easterbrook's belief. See ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1453 (7th Cir. 1996)
("Competition among vendors, not judicial review of a package's contents, is how consumers are protected in a
market economy.").

For example, under present copyright law, if a business wants to run an advertisement in a local newspaper, and
hires the newspaper to create the advertisement, the newspaper will own the copyright in the advertisement. See
Brunswick Beacon, Inc. v. Schock-Hupchas Pubfg Co., 810 F.2d 410, 413 (4th Cir. 1987). Such an ownership
assignment is inefficient for two reasons. First, it is contrary to the results the parties would likely have agreed to
had they negotiated given that the business may want to use the advertisement again. Second, by assigning
ownership to the newspaper as a default, i.e. in the absence of a writing otherwise, copyright crafts a default rule that
favors the newspaper. Yet, because the newspaper and authors generally are repeat players, they are more likely to
be aware of the applicable default rule. Such a default rule fails to ensure that the other party will have the
information necessary to understand what it has purchased. Because this default rule fails to ensure that both parties
are likely to have the information necessary to understand their agreement, it inhibits the parties' ability to bargain
with respect to the ownership issue, and may, therefore, lead to an inefficient resolution of that issue. It is, therefore,

factual information without regard to the cost of discovering, organizing, and presenting such information has,
like the first sale doctrine before it, driven much of the recent interest in contractual schemes of protection.

In addition to changing technology, the market for personal computers has also changed. Private individuals
rarely owned more than one personal computer when section 117 was enacted in 1984. Today, many individuals
own several. Can an individual make the requisite copies to use a copyrighted program on each of her computers, or
must she purchase another authorized copy of the program for each of her computers? Section 117 can be read either
way. If the individual is a corporation, or works on a network, does the same interpretation of section 117 apply? Certainly, the language is the same, but perhaps policy concerns would dictate a different result.

[86] For example, Netscape’s agreement accompanying its Netscape 3.0 Browser provides that a consumer may "use the Software on any single computer," and may "use the Software on a second computer so long as only one copy is used at a time." Netscape End User License Agreement, pt. III. Not all such use agreements are necessarily more clear, however. For example, Microsoft’s agreement accompanying its Microsoft Office for Windows 95, Standard Edition v. 7.0, provides that a consumer "may install and use one copy of the SOFTWARE PRODUCT . . . on a single computer." End-User License Agreement for Microsoft Software. Presumably, the ambiguity created by the conflict between the right to use and the right to install one copy would be resolved against the drafter, and allow the user to make as many copies as necessary to use the software on a single computer.


[88] See Merges, supra note [48], at 116 (noting that negotiation costs for individualized agreements will remain high).


[90] If, for example, we assigned the target the right to prohibit such speech absent her permission, she would simply refuse to sell that permission. If, on the other hand, we assigned the right to the authors of such speech, the target could not afford to purchase that right from them. In consequence, assignment of the right presents an extreme example of the offer-asking problem, and the notion of an efficient market in the right simply does not apply. See Campbell, 510 U.S. at 592.

[91] The Second Circuit’s ruling in American Geophysical Union v. Texaco, Inc., 37 F.3d 881 (2d Cir. 1994), as modified, 60 F.3d 913 (2d Cir. 1995), provides one example of excessive copyright protection that will likely slow the “Progress of Science.” In American Geophysical Union, the Second Circuit’s ruled that Texaco Research, Inc. ("TRI") must pay a licensing fee for each copy it makes of articles from copyrighted scientific journals. Presumably, this means that the total fee paid to the publishers of such journals will increase, by perfecting the ability of such journals to price discriminate. However, this additional revenue will come from entities devoted to research, such as TRI. These additional fees will most likely come from other parts of TRI’s budget, either in lower salaries for its researchers, fewer researchers and staff, or reduced expenditures on other necessary supplies. It is almost impossible to see this shift in expenditure from researchers to publishers of research journals will serve “the Progress of Science,” given that the expenditures on researchers are the source of such progress. If these additional fees were to pass through directly to the authors of the research articles, there is, at least, an argument that increased fees may lead to the Progress of Science. In such a case, one might argue that research entities that are more productive will receive a greater cut of these increased fees, and may actually come out ahead, while inefficient research entities must pay to support the more productive research entities whose work they use. But without this connection, the additional fees simply flow from the ones creating the science to the ones publishing their discoveries. Even here, there might be a plausible argument that the fees will promote the Progress of Science if it could be shown that there was a substantial body of research that was available and appropriate for publication, yet was not being published under the preexisting fee structure. But there is no indication that such a backlog of meritorious work exists. In consequence, the most likely result of the Second Circuit’s ruling is increased costs for research, and likely reduced research output, with no offsetting benefits to Science.

[92] See Lunney, supra note 2, at 2432-33.

[93] See Sega Enter. Ltd. v. Accolade, Inc., 977 F.2d 1510, 1520-27 (9th Cir. 1992) (holding that disassembly of object code of a copyrighted computer program in order to obtain access to program’s unprotected elements was non-infringing, fair use); Lunney, supra note 1, at 517-25.

See MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511, 513-14 (9th Cir. 1993) (relying on copyright's prohibition on copying to shut down a competing entity in the after-market for service and repairs).

See Robinson, supra note [38], at 179.

Or their expectations at the time of purchase may be entirely accurate, but circumstances may then change making enforcement more likely.

See text accompanying notes [18]-[22] supra.

See Schwartz & Wilde, supra note [4], at 660-61.


When comparing competing brands, consumers may, for example, rely on price as the principal evidence of quality, and thereby generate upward pressures on pricing. See, e.g., FTC v. Mary Carter Paint Co., 382 U.S. 46 (1965); see also Robert Pitofsky, Beyond Nader: Consumer Protection and the Regulation of Advertising, 90 HARV. L. REV. 661, 687-89 (1977).

See Thomas M. S. Hennes, Restraints on Alienation, Equitable Servitudes, and the Feudal Nature of Computer Software Licensing, 71 DENV. U. L. REV. 577 (1994) (suggesting that property law notions restricting restraints on alienation and limiting the reach of equitable servitudes may assist courts in determining which use agreement provisions should be enforceable).


ProCD, Inc., 86 F.3d at 1454.


Moreover, the test is whether the state-law rights are "equivalent," not whether they are identical. As a result, even if "[s]omeone who found a copy of [the work] on the street would not be [bound] by the shrinkwrap license," ProCD, Inc., 86 F.3d at 1454, while they would be bound by copyright law, such difference is trivial given how seldom copyright claims have been brought against such finders.
Even if preemption applies, many use agreement provisions will be entirely consistent with, or at least not plainly inconsistent with, copyright's scheme of access. For example, provisions, such as those in ProCD's use agreement, intended to enable differentiation of business and personal use do not contravene any express provision of the Copyright Act, and are analogous to copyright's differentiation of public and non-public performances. Such provisions might, therefore, survive a preemption analysis.

See Vault Corp. v. Quaid Software, Ltd., 847 F.2d 255, 269 (5th Cir. 1988) (preempting use agreement provisions attempting to limit copying and reverse engineering).