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COPYRIGHT LAW

Clickwrap Agreements

By Lewis R. Clayton

ANYONE WHO HAS bought software is familiar with the routine—to use the program, you will have to click a box that indicates you "agree" to be bound by what the manufacturer calls a "license agreement." And there's no negotiating with the machine—no click, no installation. Undoubtedly, only a tiny fraction of users ever takes the time to read the agreement. Those who do may find a "license" that prevents users from selling or transferring the software, limits the number of computers that may connect to a machine running the program, prohibits certain uses (such as reverse engineering) and strictly limits warranties. While the typical user believes he or she has bought the software, the license will deny that, providing that it "is licensed, not sold."

These "clickwrap" agreements—cousins to "shrinkwrap" agreements, where assent supposedly is shown by ripping the shrinkwrapping on a product package—are likely to become even more important, and more restrictive, as distributors of software, movies, music and books attempt to control the use and distribution of their intellectual property. Their increasing use has generated criticism that clickwraps nullify rights traditionally granted to consumers under the copyright laws—such as the "first sale" doctrine, codified in § 109 of the Copyright Act, which allows "owners" of copyrighted materials to sell or lend those items, and "fair use" under § 107.

Are these significant restrictions, imposed without bargaining, actually enforceable? So far, the courts have been favorable to clickwraps, although the issue is far from settled. At least three challenges to clickwrap agreements have to be considered: whether the agreements are valid as a matter of contract law, whether they are pre-empted by the Copyright Act and whether they may constitute "misuse" of copyright.

Clickwraps are 'appropriate way to form contracts'

The most basic challenge to clickwraps—that merely clicking the box is not "acceptance" of an "offer" to enter into an agreement—does not seem to be a promising line of attack. While some early cases took a skeptical view of this issue (see *Step-Saver Data Systems Inc. v. Wyse Technology*, 939 F.2d 91 (3d Cir. 1991)), the trend is now the other way. For example, in January, the court in *i.Lan Systems Inc. v. Netscout Service Level Corp.*, 183 F. Supp. 2d 328 (D. Mass. 2002), held that "clickwrap license agreements are an appropriate way to form contracts." The court held that, if it is "correct to enforce a shrinkwrap license agreement, where any assent is implicit, then it must also be correct to enforce a clickwrap license agreement, where the assent is explicit." Id. at 338.

i.Lan is consistent with the approach of the proposed Uniform Computer Information Transactions Act (available at www.nccusl.org), which explicitly recognizes clickwraps, as long as a consumer has the opportunity to review the proposed license. The act has been enacted only in Maryland and Virginia; legislation to adopt it has been introduced in seven other states and the District of Columbia.

While this issue appears settled, there is uncertainty over when an agreement will be deemed a license, or instead a sale, of copyrighted goods. The distinction is significant because a licensee may be prohibited from reselling, while an owner, protected by the first-sale doctrine, is free to do so. Two conflicting cases from California federal courts, involving the same party, illustrate the debate.

In *Softman Products Co. LLC v. Adobe Systems Inc.*, 171 F. Supp. 2d 1075 (C.D. Calif. 2001), a software vendor bought package sets of Adobe products, which sell at a discount, and then, in violation of Adobe license agreements with its distributors, resold the individual components. The court found that Adobe had sold, rather than licensed, its products to distributors, so that the vendor was entitled to resell under the first-sale doctrine. The court looked to "the economic realities of the exchange" and stressed that "the purchaser commonly obtains a single copy of the software, with documentation, for a single price," which "constitutes the entire payment for the 'license.' The license runs for an indefinite term without provisions for renewal." Id. at 1084. The same is likely to be true of a clickwrap "license" offered to a consumer.

On the other hand, the *Softman* court also noted that Adobe's distributors bore the risk of loss, and the risk that they will be unable to resell the product in the secondary market—factors that would not apply to a consumer license. *Softman* refused to follow

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an earlier case finding that an Adobe distribution agreement was indeed a license. *Adobe Systems Inc. v. One Stop Micro Inc.*, 84 F. Supp. 2d 1086 (N.D. Calif. 2000). That court brushed aside the claim that an Adobe distribution agreement was a sale, relying on expert testimony about the extensive use of licenses in the software industry, and concluding that the significant restrictions in the agreement themselves made it clear that the parties had agreed to a license. These restrictions, the court said, "indicate a license rather than a sale because they undeniably interfere with the reseller's ability to further distribute the software." Id. at 1091.

Even a valid license agreement may be unenforceable if it is pre-empted by the Copyright Act. Sec. 301 of the act broadly pre-empts "all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106" of the act, the section that grants copyright owners exclusive rights including reproduction, distribution and preparation of derivative works. In determining whether a claim is pre-empted, many courts focus on whether the right in question is infringed by the mere act of reproduction or distribution, in which case it is pre-empted, or whether an "extra element" beyond that act is required to establish the claim.

The most sweeping decision on the pre-emption issue is Judge Frank Easterbrook's opinion in *ProCD Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996). The plaintiff in *ProCD* produced a CD-ROM including data from more than 3,000 phone books. In doing so, it took advantage of *Feist Publications Inc. v. Rural Telephone Service Co. Inc.*, 499 U.S. 340 (1991), which held that a phone directory could not be copyrighted. To try to prevent others from turning the tables and reselling its work, ProCD created a shrinkwrap license forbidding noncommercial use of the product. Defendant Matthew Zeidenberg ignored the license and made the database available on the Internet, for a fee.

The 7th Circuit rejected Zeidenberg's defense that the shrinkwrap was pre-empted by the Copyright Act. It reasoned that rights created by contract are by nature not "equivalent" to rights "established by law." "A copyright is a right against the world. Contracts, by contrast, generally affect only their parties; strangers may do as they please, so contracts do not create 'exclusive rights.' Someone who found a copy of [ProCD's product] on the street would not be affected by the shrinkwrap license—though the federal copyright laws of their own force would limit the finder's ability to copy or transmit the application program." 86 F.3d at 1454. While the court did not establish a firm rule that no contract claims can be pre-empted, its logic supports that result, and has been read that way by some courts. See *Architectronics Inc. v. Control Systems Inc.*, 935 F. Supp. 425 (S.D.N.Y. 1996).

There is still uncertainty over when a clickwrap agreement will be deemed a license, or instead a sale, of copyrighted goods.

Most courts, however, have declined to "embrace the proposition that all state law contract claims survive pre-emption simply because they involve the additional element of promise." *Wrench LLC v. Taco Bell Corp.*, 256 F.3d 446, 457 (6th Cir. 2001). Instead, pre-emption is limited to contracts that do no more than protect exclusive rights granted under the copyright laws. "If the promise amounts only to a promise to refrain from reproducing, performing, distributing or displaying the work, then the contract claim is pre-empted." Id. Most provisions of software clickwrap agreements should survive that test. No court yet has ruled that contracts that prohibit the exercise of rights granted under the copyright laws are pre-empted. How would a court react to an announcement displayed on a television screen that a viewer who proceeds to watch has consented to a "license" that bars home taping of a TV show?

Copyright misuse is another possible defense

The still-evolving doctrine of copyright misuse—which was given impetus by the 4th U.S. Circuit Court of Appeals' decision in *Lasercomb America Inc. v. Reynolds*, 911 F.2d 970, 978 (4th Cir. 1990), provides a defense to copyright infringement when a copyright "is being used in a manner violative of the public policy embodied in the grant of a copyright." While misuse is most clear when restrictions in a copyright license accomplish an antitrust violation, that is not necessary. For example, in *Practice Management Information Corp. v. American Medical Ass'n*, 121 F.3d 516 (7th Cir. 1997), the court found misuse without proof of an antitrust violation when the American Medical Association licensed a coding system to a government agency for free, on the condition that the agency agree not to use any other system on Medicare and Medicaid claim forms. Therefore, it is difficult to predict how the doctrine will apply.

Moreover, it may be invoked by a defendant in a copyright action, even though that party is not affected by the "misuse." Until the misuse is "purged"—presumably, by removing the offending provisions from the license agreement—the copyright is unenforceable. For those reasons, and because of its unpredictability, the doctrine may pose a danger to copyright holders. While it has yet to be applied to clickwrap agreements, it may well operate as a limit on the restrictions copyright owners can impose, particularly when those restrictions can be expected to have an impact on competition or market conditions.

As the copying and distribution of creative material over the Internet becomes more widespread, copyright owners will continue to use clickwraps to attempt to control use of their products, and courts will continue to define the grounds on which they may be challenged.