Preemption of the Louisiana Software Enforcement Act by Copyright Law (Or Suffocation by Shrink-Wrap)

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I

Introduction

Protection of intellectual property rights in computer software, including prevention of unauthorized “home copy-

1. “Software” as used in this note refers to “packaged” or “canned” computer programs which can be purchased by the general public for use primarily in the home. Such purchases can be made over the retail counter, by mail or through any of the newer distribution methods such as vending machines or electronic delivery. The term “software” is often used interchangeably with the term “computer program.” Section 101 of the 1980 Amendment to the 1976 Copyright Act defines a computer program as “a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result.” Copyright Revision Act of 1976 § 101, 17 U.S.C. § 101 (1982).

The software referred to in this note consists of general interest application programs.

Computer programs can be categorized by function as either application programs or operating system programs. Application programs usually per-
ing” of programs, is of critical importance to software “authors” as the software market expands. Advances in technology have made unauthorized copying a feasible and economical option for consumers. Historically, the ability of the copyright owner to control the reproduction and distribution of his or her work has provided an opportunity for economic gain. Any erosion of this control, whether by technology or by form a specific task for the computer user, such as word processing, check-book balancing, or playing a game. In contrast, operating systems programs generally manage the internal functions of the computer or facilitate use of application programs.


2. “Home copying” is a puzzling term. Distinctions have been made between “commercial” and “noncommercial” sale or use of copies. Goldstein v. California, 412 U.S. 546 (1979). See supra notes 200, 312 and accompanying text. The term “home” implies a noncommercial use. Yet this distinction may not be valid with reference to software copying. Copyright law does not define “home” but it does explain “publicly” in conjunction with the exclusive right to perform. A work is performed “publicly” if it is done “at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered.” Copyright Revision Act of 1976 § 101, 17 U.S.C. § 101 (1982). This distinction is important in relation to the copyright owner’s exclusive right to perform the copyrighted work “publicly.” Section 106(4) does not grant the copyright owner protection against private performances such as “sing[ing] a copyrighted lyric in the shower.” Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 155 (1975).

It is critical to note that there is no use of the term “publicly” in section 106(1) which grants the exclusive right to reproduce the work in copies. It therefore seems improper to attempt to determine whether a given instance of copying is an infringement because of where it is done. This point is confusing in light of the popular view that video tapes, records, and computer software all seem to be in a similar generic “hi-tech” consumer product classification. Each of these “hi-tech” products have a different history in the copyright law and have each received very different treatment by the statute as well as judicial interpretation. See generally Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417 (1984). This unresolved issue will continue to play havoc with attempts to control unauthorized software copying as long as legislation only refers to “commercial” copying. There have been four ‘noncommercial’ software infringement cases to date. Lotus Development Corp. of Boston has filed and settled 3 cases in which it alleged that companies were making copies of Lotus 1-2-3 for in-house use. The Association of Data Processing Service Organizations, Inc. (ADAPSO) and MicroPro International, Inc., one of its members, have negotiated a settlement with American Brands and one of its subsidiaries over alleged copying of software for internal use. ADAPSO et. al. v. Wilson Jones Co., No. 85-C-0400 (N.D.Ill., Eastern Div.).

3. A software “author” as used in this note, is “one who produces, by his own intellectual labor applied to the materials of his composition, an arrangement or compilation new in itself.” BLACK’S LAW DICTIONARY 121 (5th ed. 1979). For the purposes of this note, it should be assumed that, unless otherwise stated, the software author is the copyright owner and that the licenses granted are nonexclusive. It should be recognized that the chain of distribution between the software author and the public may involve countless intermediaries and commercial and contractual agreements. See supra note 141 for a historical appraisal of the distribution chain.

4. The First Congress passed the first copyright statute which was entitled “An
a lack of appropriate protective legislation, directly impacts the copyright owner’s ability to make a profit.\textsuperscript{5}

Federal copyright law provides a major source of protection for software. However, software developers feel that copyright law is inadequate due to the rapidly changing nature of both software and the software market. Frustrated by the perceived inadequacy of licensing agreements used on software sold in the retail mass market, software developers are asking states for additional protection for software at the state level.

This commentary will examine a recent state statute which purports to answer the software developer’s inquiry in the affirmative. The Software Enforcement License Act\textsuperscript{6} embodies a recent attempt by the State of Louisiana to remedy the problems faced by software authors in the mass market. First, the dimensions of the current retail software market and the increasingly diversified methods of distribution will be ex-
amined. Against this background, the copyright law will be reviewed as a current form of protection available for software and its production. This commentary will then examine the Louisiana statute and the mechanism by which it seeks to protect software. The susceptibility of the Louisiana statute to preemption by federal copyright law will be analyzed in light of section 301 of the Copyright Act and recent case law. In conclusion, an alternative federal scheme of protection will be suggested.

A. The Origin of the Right to Reproduction

The copyright owner's exclusive right of reproduction originated in the processes of mechanical sound reproduction pioneered by the music industry.\textsuperscript{7} Music boxes, piano rolls and acoustic phonographs utilized the movement of mechanical parts to reproduce sound.\textsuperscript{8} This so called "mechanical right" was "the ability of the copyright owner to exercise effective control over the storage of a copy of a work in any form which allows it to be later reproduced."\textsuperscript{9} Although technology has changed the form of storage from piano rolls to tapes, records, video cassettes, and "compact discs,"\textsuperscript{10} the right to receive eco-

\begin{itemize}
\item \textsuperscript{7} Peer, \textit{supra} note 4, at 411.
\item \textsuperscript{8} \textit{Id}.
\item \textsuperscript{9} \textit{Id}.
\item \textsuperscript{10} Compact discs are among the most recent technological advances. As one commentator has explained:

Compact discs are a marvelous technological development. The great step forward here lies not so much in their staggering frequency range and signal-to-noise ratio, nor in their indestructibility, nor in their laser pick-up technique—although all of these are indeed impressive—as in the fact that they store music in digitalized form. With this technique the sound being recorded is sampled thousands of times each second and at each sampling a set of characteristics is noted, such as relative loudness and "pitch." The information with respect to each sampling is consequently stored in a set of instructions that take the form of bits of information. One of the main characteristics of digitally stored music is that it can be transferred to other storage media in an almost infinite chain without the loss of fidelity.

Transmitting and storing data in bits is exactly the technique used by modern digital computers for the storage of programs and databases. Except for the relative amount of information stored, there is no reason why digital music could not be placed in any of the memory devices used by computers.

Peer, \textit{supra} note 4, at 423. Software, a young industry, currently is suffering from some of the same piracy problems as the sound recording industry suffered during its development and may thus benefit from protective legislation patterned after that developed for sound recordings. As can be seen from this brief description of compact discs, the distinction between a sound recording and computer data is being eroded. In the future, sound recordings may in turn benefit from legislation devised for com-
nomic consideration remains the primary incentive for creating and selling copyrighted works. Despite technological advances, there is still concern that when the software "author" loses control of the dissemination of the "storage containers," he has effectively lost control of the economic rewards. Realistically, as the methods of software distribution expand to include delivery by phone lines, cable connection and satellite, the idea of "control" may be stretched beyond its limits. Software authors "welcome the possibilities new technology present[s] to disseminate their works to an even larger audience, but need assurance that this new use is not immune to the principles of copyright." 11

B. Divergent Views

As the software industry enters the era of mass marketing and retail sales, it is experiencing problems which closely parallel the unauthorized copying and distribution encountered during the early development of the record and tape industry. Software authors and consumers have opposing views regarding copying and other rights claimed by the authors.

Software developers are concerned with preventing unauthorized duplication and distribution of computer software and are seeking solutions to problems arising from software rental, resale of software, unauthorized copying by consumers and "pirates," "swapping" and the use of "dumb networks." 12 They contend that the current protection available under the federal copyright law and state trade secrecy laws is inadequate. It is estimated that $700 million is lost each year as a result of software piracy. 13 According to one spokesman, "[w]e're seeing

puter software as digitally stored and transmitted music falls prey to the copyright problems associated with software.

11. Peer, supra note 4, at 414.
12. Dumb networks are devices which
connect a terminal without microprocessors, memory, or peripherals to a personal computer that acts [as] a host device. The boards essentially make . . .
[the personal computer] into the functional equivalent of a timesharing minicomputer system. The . . . [personal computer] acts as a host computer, running programs and handling the transfer of information between computer, disk drives, printer, and the four or more terminals connected to it at the same time.

the maturation of an industry that's been riddled by bandits."

The prevailing consumer attitude is that the industry has not lived up to its responsibilities. Consumers disbelieve the industry estimates that there are five or more bootleg copies for every legitimate one sold, and are unsympathetic toward industry claims of economic duress. Consumers want to be able to "test drive" the software before they buy because of the expense involved in purchasing software and the youth of the industry. Consumers blame the "licensing" practices of some software companies for actually encouraging copying.

Software users feel that "swapping" among friends is harmless and can actually lead to a sale once the consumer is convinced of the usefulness of the program and the benefits of updates and documentation. In light of the fact that consumers feel that there are useful reasons for copying, the attitude by software companies that all copying is immoral has just added fuel to the fire. "Software owners and users abuse one another, and each side is using the excesses of the other as an excuse for irresponsible behavior." Consumers "have no respect for the disclaimers, disregard the license agreements, and pirate companies' work all over the place. The ethic among too many users is that only the naive pay their own way." Students are exposed to a "copying ethic" in school systems where the inability of the school budget to cope with the cost of multiple copies of software has resulted in illicit copying as the only "feasible" means of obtaining materials.

C. The Changing Nature of Software and the Software Market

Software, which originated as a service performed by pro-

\begin{footnotes}
14. Id. (quoting Dixon Smith, Vault Corporation's Senior Vice-President).
16. Id.
17. Id.
18. Id.
19. Id. Prudent users insist on using a backup copy for critical software and feel justified in circumventing any copy-protected scheme or copying prohibition in the license which prevents archival copies.
21. Id.
\end{footnotes}
grammers on a customized basis or "bundled" in with the purchase price of a computer, has changed in nature. Some types of software are now fungible products available in the mass market. Advances in technology and expansion of the computer market into the home have brought both personal computers and the realm of copying into the consumer's living room. In response, technological innovations have been developed to protect software from unauthorized copying, but programs have been designed which "nibble" away the protection and allow copying.

The nature of the mass market has also "nibbled" away some of the protection previously afforded by federal copyright law. By necessity, software distribution originally involved a face-to-face relationship which took the form of contracting for pro-

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23. In the past, the term "software" referred to "'support'—that is advice, assistance, counseling, and sometimes even expert engineering help furnished by the vendor in loading the machine for a certain program such as inventory control or preparation of payroll." Honeywell, Inc. v. Lithonia Lighting, Inc., 317 F. Supp. 406, 408 (N.D.Ga. 1970). The changing nature of software has been explained as follows:

The evolution of relative independence for software was hastened by the introduction of third generation hardware (built around integrated circuits) which had the capability of performing multiple tasks simultaneously. This dynamic development intensified the pressure on equipment manufacturers to offer systems software that could optimize the hardware capability. The most important boost forward, however, came from the development of higher level programming languages which permitted "machine independence, or at least, . . . ease of transferability from one computer to another."

These languages expanded the effectivity of programming efforts in that programs, formerly written on an individual basis for a particular computer, could now be utilized on many computers—both those within the manufacturer's 'family' and those made by competing manufacturers—with minimum modification. In concert, these two developments ushered in the beginning of a software industry. It was now possible for those systems and applications programmers with an entrepreneurial bent to establish themselves in business without being irrevocably tied to one manufacturer's hardware.


24. Davidson, Protecting Computer Software: A Comprehensive Analysis, 23 JURIMETRICS J. 413 (1983). An example of such software is CopyWrite marketed by Quaid Software Ltd., a Canadian corporation. CopyWrite is software designed to circumvent the PROLOK program produced by Vault Corp. PROLOK diskettes contain a unique fingerprint which must be matched in order for the program on the diskette to run. The purpose of the PROLOK system is to prevent copying of whatever program is on the diskette. CopyWrite avoids the PROLOK protection and allows copying. Vault Corp. has filed suit against Quaid on a number of different theories involving both federal copyright claims and state law claims under the Louisiana Software Enforcement Act. Vault et al. v. Quaid Software, Ltd., Civil Action No. 85-2283 (E.D.La. 1985).
It was possible for the software author to choose the level of control he wanted to retain and to profit without selling a copy of the software. Of course such transactions were time consuming and therefore limited the possible number of such transactions and ultimately the profitability of the program. In contrast, the current retail software market provides an efficient system and opportunities for broad dissemination. The author can charge less per customer and compensate by dealing with more customers. The retail transaction involves a single price instead of the periodic rental or lease payments which were a common feature of custom programming contracts. By distributing the software through the mass market, the software author has chosen a retail transaction and all of its associated legal baggage as the means of realizing economic gain.

A controversy has arisen over the nature of these retail software transactions. Software authors claim to offer the buyer a "license" but the buyer labels the transaction a "sale." The critical distinction between the terms is that a transaction in the character of a sale triggers the first sale doctrine of federal copyright law while a "license" does not. Under the first sale doctrine, the owner of a copy can "sell or otherwise dispose of the possession of that copy . . ." The significance of stepping over the first sale "line" is that persons who purchase the copy may rent or resell that copy. In and of itself, such a possibility does not pose any more threat to the author than the rental or resale of a used book, painting or any other form of intellectual property which commonly enters the secondhand retail or rental market. However, unlike many other copyrighted retail products, the nature of software lends itself to "home copying," and rental and resale offer individuals economically reasonable access to a copy for the purpose of unauthorized copying.

Accordingly, the dilemma faced by the software author is whether to take the time and expense to form binding agreements that do not result in "sales" in order to avoid the "first

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25. Software was in the form of programming and was supplied exclusively by the hardware manufacturers. S. Mandell, Computers, Data Processing, and the Law 4 (1984).
27. Id.
28. Id.
sale," or to take advantage of the economic benefits of the rapidly expanding retail software market and accept the loss of control triggered by the first sale. Of course, software authors would prefer to take advantage of the lucrative retail market and prevent copying induced by rental and resale. The question is, can they?

II
The Software Market

Appropriate legal protection for retail software needs to be formulated with the understanding that the identity of the software market and the means of distribution are rapidly changing. A good starting place, however, is an examination of the current market's identity and dynamics.

A. The Current Software Market Profile

The relative youth of the software industry makes predictions of future trends particularly difficult. However, indications are that, because of pure economics, more companies will be consolidating via acquisitions and mergers. 29

A software author's decision to enter the mass market means interacting with a new breed of customer, selling more copies at a lower price per copy and ultimately losing control of the copy. 30 It also means venturing into an uncharted area where the product life cycles of software have not yet been deter-

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29. Gantz, Heebie-Jeebies in Software Land, INFOWORLD, Aug. 27, 1984, at 18, col. 2. The "number one" software firm "may ship 40,000 packages per month which, after deducting dealer and middleman cuts, may hypothetically bring in $100 a package- $4 million a month, $48 million a year." Id. The number twenty software firm may ship 4000 packages per month. Id.

Until recently the market was a "cottage industry." Id. In 1983, the top seven companies only accounted for 38% of the industry revenues. The leading software firm only held 7% of the market. Eleven companies earned $10 million or more in 1983. Id. According to one source, "there wasn't an industry to speak of until VisiCalc was introduced four years ago and kicked open the door to a complex exciting consumer market that had to blend the elements of bigtime marketing strategies with technical excellence." Caruso, Software Gambles: Company Strategies Boomerang, INFOWORLD, Apr. 2, 1984, at 80, col. 2.

30. When the industry got started, nobody really knew anything about how to run a software company: there had never been any companies quite like these. Before personal computers, a software hit used to run 1,000 units or so and retail for $50,000 or $60,000. Now, with products like VisiCalc, WordStar, dBase II, Bank Street Writer and Pinball Construction Set, companies could sell hundreds of thousands of units for prices ranging from $50 to $700.

Id.
mined with any degree of accuracy. Such information is just now being gleened. Another consideration is the relationship between the retail software market and the retail computer market. "The fact of life for software companies is that they are volume driven; therefore, their products have to run on machines that have sold in large numbers and will be around for a long time."

B. The Economics of Information

The software market is basically an information market.  

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31. "VisiCalc is the first successful software product to have gone through a complete life cycle, from conception in 1978 to introduction in 1979 to peak success in 1982 to decline in 1983 to a probable death, according to industry insiders, in 1984." Id. at 81, col. 1.

32. "[C]ompanies haven't paid enough attention to deciding which machines their programs would make the most money on. In other cases, companies have directed their attention to hot new product categories and failed to maintain the viability of their original products." Id.

33. Id. The software industry has been faced with both good and bad news lately. The bad news has been that some software firms are being reorganized under bankruptcy laws, while others are cutting back operations and laying off employees. Id. at 80, col. 2. It is rumored that some of the larger firms have run out of cash for their operations and are searching for new money. Id. Unfortunately, "virtually every respected venture capitalist and institutional investor says that they (sic) now refuse to invest in software companies." Id.

The good news is that some companies are doing exceptionally well and market researchers call for "fabulous growth for the micro software industry." Gantz, supra note 29, at 18, col. 1. "During 1983," says International Data Corp. (IDC), "microcomputer software sales topped $1 billion for the first time, with the independents (nonhardware vendors) selling $880 million." Growth was up 76% from 1982 for the independents. Id. The top software firm in 1983 had sales figures totaling $60 million. Caruso, supra note 29, at 80 (chart).

As a whole, industry forecasts show an increase from 110.5 thousand units at $207.6 million in 1984 up to 881.9 thousand units at $982.0 million in the newly evolving "vertical market." Chin, Vertical-Market Writers Find the Going Tough, InfoWORLD, Jan. 30, 1984, at 35 (chart). The "vertical market" is made up of specialized software which appeals to a limited market. Such software is usually priced above $1000. More extensive customer support is provided, as well as training sessions and pre-installation planning sessions. The prices may range from $6000-9000 for property management software up to $15,000 for a bank budget planning package. Bergheim, High Priced Programs Sell, InfoWORLD, July 30, 1984, at 35, col. 1.

[O]ne analyst estimates that there are nearly 9,000 potential vertical markets. So far, vertical-market packages have been most successful in the medical and legal professions, relatively lucrative fields whose practitioners are eager to automate paperwork. Also in high demand are packages designed for construction, farming and wholesale distributors. The common thread in programs designed for these markets is the automation of record keeping or billing.

Chin, supra, at 34, col. 2.

34. The software market is therefore subject to some basic assumptions regarding
Information is a unique commodity in that, unlike material goods, the use of knowledge does not diminish the supply for other potential users.\textsuperscript{35} There is "little or no cost to society from use of available information, once it has been created."\textsuperscript{36} The initial set-up costs may be high, but reproduction will reduce the cost per consumer.\textsuperscript{37} This characteristic is the basis for the current concern over unauthorized copying.

The software producer has to charge a price that will recover both the initial cost and the cost of producing and disseminating each copy.\textsuperscript{38} Because of technological advances, unauthorized copies can be made at a fraction of the retail price and can displace potential sales.\textsuperscript{39} The non-exclusivity or appropriability of software as an information commodity makes it difficult for the producer to ensure that the benefits of the software will be restricted to consumers who purchased the product at the full retail price.\textsuperscript{40} Inability to command the

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\textsuperscript{35} Analysis, supra note 34, at 141.
\textsuperscript{36} Id. From an economic standpoint, information has value, part of which is attributable to the cost of production, storage, retrieval, processing and transmittal. Id. Specifically, the setup costs in the production of software include accumulation and categorization of data, analysis and programming. Id. at 143.
\textsuperscript{37} Id. at 141-42.
\textsuperscript{38} Id. at 144.
\textsuperscript{39} Id.
\textsuperscript{40} Id.
short run marginal cost detracts from the guarantee that the product will provide satisfactory economic incentives.\textsuperscript{41}

C. The Distribution of Software

Originally, software was distributed with computers as part of a "bundled" system.\textsuperscript{42} The price for the application programs for a particular computer was included in the computer's total cost without being identified as a separate expense.\textsuperscript{43} Antitrust laws now require that the software be priced separately and be available as a separate product.\textsuperscript{44} Not until software pricing was unbundled was its true value recognized. Previously, the expense of procuring a computer and software was attributed in most part to the cost of the hardware. Subsequent advances in technology have brought prices down in the hardware market, while prices in a diversifying software market remain stable.\textsuperscript{45} While the cost of general-interest software is predicted to decline, the cost of vertical software is expected to be higher than average.\textsuperscript{46}

\textsuperscript{41} Id. But "there is a strong presumption that, however much the copyright holder receives, it is no more than what his/her ideas are worth to society." \textit{Id.} at 138.

\textsuperscript{42} IBM played a large role in the unbundling of the previously "bundled" hardware and software systems:

The start of the development of software as a distinct entity can be traced to 1969 when IBM announced a comprehensive plan for the separation of prices for its computers and related services including certain types of software. Prior to that time it was standard industry practice to price only the data processing equipment itself (the hardware) and to include, at no additional cost, 'a variety of services.' Such services, furnished free by the manufacturer, normally included customer engineering—the adaption of the data processing system to the user's environment both physically, in terms of computer room layout and requirements, and conceptually, in terms of meeting the user's application needs. Maintenance of the equipment and training of the user's personnel were also included in the equipment price. Most importantly, however, both systems and applications software were furnished at no cost. This packaged price policy became known within the industry as 'bundled' pricing. Hence, after the 1969 IBM announcement, the price separation of hardware from software and services became known as 'unbundling.'

Note, \textit{supra} note 23, at 123.

\textsuperscript{43} Id. See also Schmedel, \textit{IBM Discloses Plan for Separating Its Computer and Service Prices}, Wall St. J., June 24, 1969, at 38, col. 3.

\textsuperscript{44} S. Mandell, \textit{supra} note 25, at 4.

\textsuperscript{45} See Berghel, \textit{supra} note 33, at 35, col. 1.

\textsuperscript{46} Id. Vertical software packages "are expected to be the next hot sellers." Bartimo, \textit{Mainframes Deliver Software}, \textit{INFOWORLD}, Sept. 24, 1984, at 29, col. 30. The term "vertical software" refers to specialized programs with limited markets. Examples include software written for medical, legal, construction and wholesale distribution applications. See Chin, \textit{supra} note 33, at 34.
The means of distributing software appear to be limited only by the imagination. The following discussion is intended to provide a representative sample of the diversity of distribution methods already on the horizon of the software market. Any solution to the home copying problem must consider the infinite means of accessing software currently existing in the market.

1. Retail Sales

Although software was originally purchased from hardware dealers, usually in conjunction with a hardware purchase, independent software suppliers now lead the market.47 Currently, the consumer’s most common means of access to programs is by purchasing copies at a retail store.48

Most software sold at retail has a licensing agreement on the package which purports to detail the consumer's rights. These

47. In 1983, hardware manufacturers supplied software to the tune of $570 million in revenues. Independent suppliers took in $880 million in revenues, while system houses were responsible for $145 million in revenues worldwide. Gantz, supra note 29, at 18 (chart).

48. Software developers depend heavily upon retail outlets for sales. Marketing strategies are being developed around the retail concept, such as point of purchase displays and colorful packaging. Bartimo, supra note 46, at 30, col. 1. Advertising budgets are growing as the battle for the consumer's attention accelerates. Software firms spent an estimated $22 million on advertising in the fourth quarter of 1984. Jones, Competition is Fierce in the Fast Paced Computer Age, Sunday Star Ledger, Feb. 3, 1985, § 10, at 17, col. 5.

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licensing agreements are commonly called "box-top" or "shrink-wrap" licenses. Although these licenses have been utilized since the infancy of the retail software market, even the attorneys for the software companies have been concerned as to whether these agreements would actually hold up in court. Many of these agreements attempt to retain title to the copy in order to avoid the consequences of the first sale doctrine.

2. Mail Order Rental and Sale of Computer Software

Mail order has been part of the software industry for some time. It provides consumers an opportunity to buy name brand software and hardware at discount prices.

The singular aspect of the mail-order market which has caused a major uproar in the software industry is software rental. This is the kind of operation that software developers

49. Watt, supra note 13, at 14, col. 2.
50. Id. The legal questions have centered on the “user’s rights to a backup copy, limiting a single program to one processor, problems of software rental and the legality of an unsigned license.” Id.
51. Although there have been widely publicized mail order scandals which have caused buyers to think twice, there are reputable firms. Engel, Mail-Order is OK, INFOWORLD, July 2, 1984, at 7, col. 1. Mail order firms are in competition with the retail outlets since they get their products from the same manufacturers and distributors that supply retail stores. Id. Mail-order houses are concerned because it is predicted that the customer base will start to erode as retail stores and chains stock a wider range of products. Chin, Buying Mail Order, INFOWORLD, July 2, 1984, at 23, col. 1. “In 1983, the mail-order business lured customers from 20 percent of the home, 15 percent of the business, and 5 percent of the school markets . . .” Id. at 22, col. 1.

Additionally, “[c]orporate customers are bypassing the middleman and dealing directly with the manufacturer. Lotus, notorious for refusing to sell to mail-order firms, is selling its 1-2-3 to corporate users who buy in volume . . .” Id. at 23, col. 1. In response, some of the mail-order firms now offer “services such as technical support, quarterly newsletters, in-house servicing and same-day service.” Id. at 22, col. 1.

52. IBM has initiated a distribution experiment involving mail-order. Howitt, IBM Pushes Mail-Order Software, INFOWORLD, Sept. 24, 1984, at 11, col. 1. The programs are described in a catalog and customers are encouraged “to place orders through the toll-free number using a credit card or to send back an order blank with payment.” Id. “About half of the new programs fall into the entertainment and education categories, at prices from $15 to $45. The others, ranging in price from $15 to $150, are classified as either productivity or business programs.” Id. IBM’s intent is “to create a new line of affordable software that doesn’t require a lot of support.” Id. “Unlike most consumer mail-order catalogs in other fields, ‘The Directory’ contains no guarantee of satisfaction, nor a return policy. It warrants the software for 90 days to be ‘free from defects in materials and workmanship,’ the standard guarantee in the industry.” Id.

53. “Software developers shriek if a prospective buyer borrows a friend’s copy of their latest package, and they aren’t any happier with rental agencies that purport
feel promotes copying.\textsuperscript{54} They question the propriety of allowing the consumer to try out a program for thirty days.\textsuperscript{55}

For example, one company charges a one-time membership fee and lets the consumer rent the program complete with documentation for thirty days.\textsuperscript{56} “If you become enamored of a certain program during rental, you can apply the rental fee toward its purchase. If you want to return a program, you pay the return postage and select new programs, which the company ships free.”\textsuperscript{57} The conclusion reached by software developers is that the principle motivation for rental is to copy the program despite any protective anti-copying technology incorporated into the program.\textsuperscript{58} Consumers advocate this sort of “test driving” because so many programs do not have the “bugs” worked out yet.\textsuperscript{59}

\begin{footnotes}

55. \textit{Id.} at 128.

56. “Documentation” includes all of the user manuals and associated materials which augment the actual software. Such materials should have a separate copyright.


Another variation on software rental is illustrated in the Consent Judgment and Decree of Permanent Injunction at 5-6, \textit{MicroPro International Corp. v. United Computer Corp.}, Civil No. C 83-3019 WWS (Cal. Dist. Ct. App., filed May 25, 1984). The plaintiff alleged that the software rental company was acquiring the software, opening the shrink-wrap package, removing the license, repackaging and renting the software to the public. The software rental company’s advertising proposed an opportunity to evaluate “original unrestricted software programs (complete with manuals in original manufacturers’ packages)” during a seven day rental period. The plaintiff alleged that the rental fee was only 15-25 \% of the suggested retail price and customers could easily unlawfully copy the software. Since the software rental company would make little profit if the customer should decide to purchase the software package, the plaintiff alleged that the commercial success of the operation was predicated on the multiple rental and unlawful copying of the plaintiff’s software. \textit{Id.}

58. Note, \textit{supra} note 54, at 125.

59. Another alternative to the “try before you buy” idea is more palpable to software authors. It involves the use of demonstration software samplers provided by software developers for hands-on shopping. Some demos are free samples while others are priced low enough, nine to twelve dollars, to encourage impulse buying. The samples are a reduced version of the software which usually can create a limited number of records. The developers encourage copying of the samples since that practice introduces the product to more consumers. Watt, \textit{supra} note 53, at 42, col. 1. The popularity of the software samplers is attributed to the fact that “people are being more careful about their purchasing, and it’s a more sophisticated market. They’re looking for specific capabilities and features.” \textit{Id.} See also \textit{Miranker, ‘Software Samplers’ Latest Trend in Publishing}, San Francisco Examiner, Jan. 15, 1984, at D1, col. 2.
\end{footnotes}
3. **Software Vending Machines**

One of the more innovative distribution methods is the vending machine. Some of these revolutionary systems transfer software over a phone line from a host computer to a "dumb" terminal in the computer store. Other systems contain a master copy of software that is reproduced onto the consumer's blank cartridge. Such terminals have the benefit of avoiding phone lines (and therefore access by hackers) but face theft from a different source. A serious threat is posed by the possibility that one of the terminals would be physically stolen, containing hundreds of master programs. The copying opportunities through either scheme will be very tempting to software pirates. The theory behind software vending machines is wider distri-

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61. See supra note 12 (explaining "dumb networks").
62. Mace, supra note 60, at 80, col. 2.
63. The legal issues of license agreements become more complex as they become entwined in such mechanisms. Since the cartridges that the software will be dumped onto will be reusable for many different types of software produced by various software developers, it appears that if any sort of license agreement is used, it will need to be within the program itself. On the one hand, such a system may enable the software author to "directly" distribute the software to the consumer and therefore strengthen the argument that a contract is formed directly with the user. On the other hand, the software may be coming in from phone lines controlled by a middleman or may be copied off of master copies in the machine, which raises all the contract formation issues presently implicated in retail sales.

A license agreement which appears on the user's screen would certainly give the user notice of its terms. One problem is that the user would not get the notice until the software is already purchased and loaded into the computer, after both opening the package and "use." If the program required the user to "sign" his name to show acceptance, before the program would operate, issues of validity of an electronic "signature" would be brought into play. On the practical side, what user wants to get home from a shopping trip and have to deal with such an option? And if he doesn't plan to accept the terms, the burden of returning the software to the store falls on the consumer. The question is whether the product more closely resembles a retail item that the consumer should have an opportunity to "try on for fit" or one that he must take home before deciding he "does not like it." An interest in customer satisfaction cuts in favor of allowing the consumer to "test drive" the software at the store.

The concept of placing restrictions on the use of a program (by retention of title to the copy of the retail software) is stretched as software increasingly resembles fungible goods. Consumers are in the habit of purchasing fungible goods without restrictions. Their experience with purchasing mass-marketed products containing intellectual property rights is commonly limited to books and records which do not spell out restrictions on use. Consumers who are well educated as to copyright law
bution through self-service, resulting in increased sales for the software developers and lower prices for the public.\textsuperscript{64} The typical vending machine scenario would go as follows:

The buyer will place the cartridge in the appropriate slot of the machine and peruse the index to see what software is available. The large video screen continually runs random "attract sequences" to lure customers. Upon request, it will run 20-segment action sequences from any of the available games so that the customer can see what he's buying.

When the customer makes a selection, the machine tells him the cost. The customer inserts money into the two paper money slots (one for $1 bills and one for $5 bills). In less than a second, the software is transferred to the cartridge.

The customer removes the cartridge, and the machine then prints instructions for the software, a receipt and some promotional literature about what programs will be featured the following week.\textsuperscript{65}

The cost to purchase the software that is reproduced onto cartridges ranges from seven to nine dollars.\textsuperscript{66} Many software developers are outraged and claim that vending machines will "cheapen the entire software industry."\textsuperscript{67} They express concern that software will resemble "commodities" and fear giving up "control in terms of the quality of it and the uniqueness of the presentation of it at retail."\textsuperscript{68}

Software developers who approve of the systems are still con-...
cerned that the systems be uncrackable "to prevent unscrupulous dealers or hackers from making unlimited, unaccounted-for copies of software." There is also concern that store employees might figure out a way to get past the vending machine's accounting and billing system.

4. Software Distribution Via Telephone Lines

Plans are being made by software producers to bypass both distributors and retail stores by selling software directly, over telephone lines to consumers in their homes. Similar plans are being developed by start-up software distribution companies. Under this approach, the home user dials a number to

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69. Mace, supra note 60, at 80, col. 1.
70. Id. at 80, col. 2.
71. Electronic distribution has been around for years in the form of bulletin boards and on-line databases which have offered public domain software (freeware) and documentation without cost to users with modems. Bartimo, supra note 46, at 32, col. 3. Alternatively, user-supported software carries a message within the program asking for a donation ranging from $10 to $190. Watt, Software For A Donation, IN-FOWORLD, June 11, 1984, at 36, col. 1. Both freeware and user-supported software are based on the philosophy of "swap and trade" which is contrary to the retail market viewpoint of volume and profits.

The desire to swap and trade software had its origin early in the development of programs:

Prior to 1969, when the industry was in its developmental stages, hardware occupied the center of attention, while software was relegated to an incidental service supplied by the computer manufacturer in support of the hardware. . . . [I]n this early period, computer users, as a group apart, were noticeably 'clubby' in that they formed associations oriented towards a particular manufacturer's equipment in order to share experiences and discuss problems. A natural offshoot of these associations was the free interchange of computer programs so that the other fellow would not have to 'reinvent the wheel.' This milieu was in large part due to the fact that the earliest computer applications were in the educational and scientific sectors of the market, which are generally characterized by full and free disclosure and immediate publication.

Note, supra note 23, at 123.

A successful user-supported software author, Jim Button, "says that 50,000 copies of his PC-File program are running on IBMs and compatibles across the country, and from each satisfied user he asks $45. He gets about $1000 in checks a day and sometimes twice that, though he didn't get paid for all 50,000 copies." Watt, supra at 36, col. 3. He estimates his copying to profit ratio to be 10 free copies to one profit-earning copy.

72. The same sort of distribution scheme is being applied to retailers by Softyme of San Francisco. The retailer downloads software for the customer to pick up at the store. Abbreviated documentation is contained in a text file and full documentation will be mailed to the user by next-day delivery. The store's receiving device will download and store the software at up to 9,600 bits per second so that the disk is ready in 20 minutes as compared to two hours for a user to download a similar program at 300 to 1200 bits per second. Bartimo, supra note 46, at 30, col. 3.
reach a recorded message which tells her what to do next. Only the users with the special modem can connect to the host computer because the company uses "a nonstandard communications protocol and will even vary the speed at which it transmits, depending on the quality of the phone line." The host computer also sends an encryption key that changes from call to call so that hackers who tap into the phone line with a tape recorder cannot decrypt the key. Obviously, this system of distribution will cause even further licensing headaches as it enters the realm of "home copying." Because the purchased software is "packageless," any licensing agreements will need to be presented via the initial recorded message or contained within the transmitted program. Intriguing legal issues regarding offer and acceptance, terms of the license and ownership of the copy are raised when the transmission blurs some of the traditional commercial and contract indicia. This note discusses such issues in the less nebulous mass-marketed retail software context.

5. Software Distribution Via Cable TV

Currently, at least one cable TV network enables consumers to receive up to 90 software programs and plans to eventually offer up to 500 programs. "The company uses satellite tech-

73. Mace, supra note 60, at 80, col. 3.
74. Id. Another company, Control Video Corporation, is promoting a subscriber service for video games. A $10 monthly fee enables the user to rent a Master Module modem and download as many games as desired. Chin, supra note 68, at 21, col. 3.
75. Id.
76. "Encryption" is a process by which a program is encoded and information is changed from one form to another to prevent easy access. "Decryption" is the process of decoding.
77. The system is the Nabu Home Computer Network of Alexandria, Virginia, near Washington, D.C. The company started with 380 subscribing families but expects 150,000 to sign up within two years. The business is an offshoot of a Canadian company that solicited 2000 subscribers within its first year of operation. Nabu subscribers pay $27.95 per month for the service. Meyers, Software via Cable TV, INFOWORLD, Aug. 20, 1984, at 30, col. 1. The system works as follows:

A digital signal representing the Nabu programs goes from a minicomputer to a modulator for conversion to an FM signal. That signal is relayed to a satellite, which beams it back to cable TV operators. Nabu equipment at the cable transmission station remodulates the signal into OQPSK (Offset Quad-
nology that allows it to transmit more than 6.3 million bits of computer information per second to cable operators.\textsuperscript{78} The existence of such a system raises the issue of home copying as well as an inquiry into whether licensing agreements and retention of title are feasible in such transactions.

III

The Federal Copyright Law

Federal copyright law is the primary means of protection for mass-marketed software. An examination of the scope of copyright law protection as well as its limitations under the first sale doctrine provides valuable background for an analysis of the possible role of state protection of software.

Copyright law stems from the grant of power in the Constitution “to Promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”\textsuperscript{79} The purpose of the Copyright Act is to effect a balance between competing forces.\textsuperscript{80} While the creator of the computer program

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\textsuperscript{78} The signal was originally from Ottawa via Telesat Canada’s Anik I satellite. As of mid 1984, negotiations were underway for use of the Galaxy I or Satcom II satellites to originate the signal from Alexandria. \textit{Id.} at 30, col. 2.

\textsuperscript{79} U.S. CONST. art. I, § 8, cl. 8. The current protection is a result of the Copyright Revision Act of 1976, 90 Stat. 2541 (1976) (codified as 17 U.S.C. §§ 101-801 (1982)). The copyright owner has both the right to reproduce and distribute the copyrighted work and may grant those privileges to others. N. Boorstyn, Copyright Law § 1:1 (1981). \textit{See also} 17 U.S.C. § 106 (1982). The policy rationale is that without such protection, unauthorized copying would undermine the economic incentive for the author. This would ultimately lead to the creation of fewer new works. N. Boorstyn, \textit{supra} § 1:2. Although copyright does not protect ideas, it protects the various \textit{expressions} of ideas.

\textsuperscript{80} Although the term “balance” has been used by the Supreme Court to describe the responsibility of Congress in defining the scope of the limited copyright monopoly, the method actually applied resembles a benefit maximization approach. Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984) [hereinafter \textit{Sony}]. The term “balancing” implies the weighing of competing conflicting interests or rights. In contrast, “‘rights’ of parties involve judgments which are difficult to define on any objective criterion, let alone [sic] to quantify. A still more difficult question than ‘What rights exist?’ is ‘What rights should exist for each of the parties?’” \textit{Analysis, supra} note 34, at 151. This “Conflict-of-Rights” model assumes the existence of “rights on both sides, and weighs the awards in favor of the side with the greatest rights. Viewing the issue as a conflict of rights has drawbacks. The major drawback is the normative nature of the approach, and the inherent, subjective nature of any resolution of the conflict.” \textit{Id.} at 150. In contrast, the Supreme Court’s approach is ori-
has an interest in controlling and exploiting the economic potential of the software, society has a "competing interest in the free flow of ideas, information and commerce." As a reward and incentive, the creator is given a limited monopoly. However,

[the monopoly privileges that Congress may authorize are neither unlimited nor primarily designed to provide a special private benefit. Rather, the limited grant is a means by which an important public purpose may be achieved. It is intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired.]

The focus of the monopoly granted by the copyright statute is on "the general benefits derived by the public from the labors of authors." Contrary to the copyright owner's perspective, the owner's monetary reward is a "secondary consideration" to the public's interest in enrichment via a wide dissemination of information. Although seeking profit may be the primary factor motivating the copyright owner, it falls outside of the purpose of the copyright law where it ceases to be a means and becomes a goal unto itself.

Analysis, supra note 34, at 150. The Analysis report favored the Benefit model because "benefits may be more easily defined than rights" and are based on more objective criteria than rights. Id. The report concluded that "the optimal amount of protection of copyrighted work is that which [is] necessary in order to maximize benefits for the public . . . ." Id. A recognition of the Supreme Court's use of the Benefit model can prove to be a useful analytical tool in examining current copyright issues.

81. Sony, 464 U.S. at 429.
82. "In economic policy—certainly within any form of market system—there is always a presumption against the granting or extension of monopoly power: the burden of proof is on him who would see monopoly expanded." Analysis, supra note 34, at 117.
83. Sony, 464 U.S. at 429.
84. Fox Film Corp. v. Royal, 286 U.S. 123, 127 (1975).
86. The Supreme Court warned of this in a footnote:
Lord Mansfield's statement of the problem almost 200 years ago in Sayre v.
A. The Nature of Copyright Protection

The copyright monopoly is limited in both its scope and duration. The protection given extends only to "original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device."\(^{87}\) The list of works of authorship in section 102 of the 1976 Copyright Act includes a category for "literary works."\(^{88}\) A computer program is a "literary work," protected from unauthorized copying,\(^{89}\) whether in source or object form.\(^{90}\) Even though the legislative history of

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Moore, quoted in a footnote to Cary v. Longman, 1 East 358, 362n(b), 102 Eng Rep 138, 140n(b) (1801), bears repeating:

[We must take care to guard against two extremes equally prejudicial; the one, that men of ability, who have employed their time for the service of the community, may not be deprived of their just merits, and the reward of their ingenuity and labour; the other, that the world may not be deprived of improvements, nor the progress of the arts be retarded.

Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 n.6 (1975).

87. Copyright Revision Act of 1976 § 102, 17 U.S.C. § 102 (1982). "A work is fixed in a tangible medium of expression when its embodiment in a copy . . . is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration." 17 U.S.C. § 101 (1982).


90. Canned consumer software is distributed in object code form. The terms "source" and "object" refer to phases of a computer program:

The first phase is the development of a flow chart which is a schematic representation of the program's logic. It sets forth the logical steps in solving a given problem. The second phase is the development of a 'source program' which is a translation of the flow chart into computer programming language, such as FORTRAN or COBOL. Source programs may be punched on decks of cards or imprinted on discs, tapes or drums. The third phase is the development of an 'assembly program' which is a translation of the programming language into machine language, i.e., mechanically readable computer language. Unlike source programs, which are readable by trained programmers, assembly programs are virtually unintelligible except by the computer itself. Finally, the fourth phase is the development of an 'object program' which is a conversion of the machine language into a device commanding a series of electrical impulses. Object programs, which enter into the mechanical process itself, cannot be read without the aid of special equipment and cannot be understood by even the most highly trained programmers. J. BROWN & R. WORKMAN, HOW A COMPUTER SYSTEM WORKS 149-75 (1976); Keplinger, Computer Intellectual Property Claims: Computer Software & Data Base Protection, WASH. U.L.Q. 461, 464 (1977); M. Pope & P. Pope, Protection of Proprietary Interests in Computer Software, 30 ALA. L. REV. 527, 530-31 (1979).

the 1976 Copyright Act expresses the view that computer programs are copyrightable subject matter, the National Commission on New Technological Uses of Copyrighted Works (CONTU) recommended that the statute be amended “to make it explicit that computer programs, to the extent that they embody an author’s original creation, are proper subject matter of copyright.” The 1980 amendment to the 1976 Copyright Act defines “computer program” in section 101 and grants special rights pertaining to archival copies and adaptations to owners of a copy of a program under section 117.

The copyright monopoly does not give the software author complete control over every conceivable use of the software. The monopoly is limited to the five exclusive rights extended to

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- § 101. Definitions . . . A computer program is a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result.

- § 117. Notwithstanding the provisions of Section 106 it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided:

  1. That such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner, or

  2. That such new copy or adaptation is for archival purposes only and that all archival copies are to be destroyed in the event the continued possession of the program should cease to be rightful.

Any exact copies prepared in accordance with the provisions of this Section may be leased, sold, or otherwise transferred, along with the copy from which such copies were prepared, only as part of the lease, sale or other transfer of all right in the program. Adaptations so prepared may be transferred only with the authorization of the copyright owner.


94. It is important to note the distinction between copyright ownership and the ownership of a copy:

Ownership of a copyright, or of any of the exclusive rights under a copyright is distinct from ownership of any material object in which the work is embodied. Transfer of ownership of any material object . . . does not itself convey any rights in the copyrighted work embodied in the object; nor, in the absence of an agreement, does transfer of ownership of a copyright or of any
the copyright owner by section 106. These exclusive rights include the right to reproduce copies; the right to prepare derivative works; the right to distribute copies by sale, other transfer of ownership, or rental, lease or lending; the right to perform; and the right to display.

The copyright monopoly does not extend for an unlimited time period. The Constitution requires that copyright be for "limited Times." Under the 1976 Copyright Act, the protection arises automatically on the creation of the work and lasts the life of the author plus fifty years. Additionally, the exclusive rights may be limited in duration by the operation of other sections of the statute.

B. The First Sale Doctrine

The exclusive right to distribute a particular copy of the copyrighted work endures only until the first sale of the copy. This principle, known as the "first sale doctrine," is central to the purpose of copyright law. The copyright law

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17 U.S.C. § 202 (1982). This concept continues the distinction expressed in section 27 of the 1909 Copyright Act. Congress acknowledged the basis for this distinction when it noted "the multitude of material objects in which it [the original work] can be embodied." House Report, supra note 91, at 53.

96. Id.
99. Section 106 "sets forth the copyright owner's exclusive rights in broad terms . . . and then . . . provide(s) various limitations, qualifications or exemptions in the 12 sections that follow." House Report, supra note 91, at 61. The five exclusive rights are "subject to sections 107 through 118." 17 U.S.C. § 106 (1982). The provisions most relevant to this note are sections 109 and 117, which go into effect after the first sale grants ownership of the specific copy to the purchaser. Section 109 cuts off the copyright owner's exclusive right of distribution as to the specific copy. Section 117 negates the copyright owner's exclusive right of reproduction as to an archival copy made from the specific copy. It also negates the copyright owner's exclusive right to prepare derivative works as to a specific copy used as an "essential step."
100. Section 107 allows some exception to this under the "fair use" doctrine. 17 U.S.C. § 107 (1982).
101. Section 109 limits exclusive rights. The effect of transfer of a particular copy or phonorecord is as follows:
(a) Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any other person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.
(b) Notwithstanding the provisions of section 106(5), the owner of a particu-
contemplates that if the author is given an economic reward, he will allow the public access to his copyrighted work. However, the scope of the public's access to any given work is inversely proportional to the exclusive rights that the copyright owner maintains in the work. The five exclusive rights which comprise the "bundle of rights" given under the copyright law may be owned and enforced separately and it is not until after the expiration of all of the rights that the work enters the public domain. A work that is in the public domain may be copied freely.

A distinction must be made between the right to distribute copies and the right to transfer a copy after the first sale. The right to distribute copies remains in the copyright owner until the expiration of the copyright fifty years after the death of the creator of the work. However, the copyright owner's exclusive right to distribute a particular copy ends after the first sale. Although the public enjoys greatest access to the work as a whole after the expiration of the entire copyright, access to a particular copy is enhanced after the first sale because the copy can be freely alienated by the owner of the copy. The public

102. "It is said that reward to the author or artist serves to induce release to the public of the products of his creative genius." United States v. Paramount Pictures, Inc., 334 U.S. 131, 158 (1947). Under the current copyright statute, the author has a choice of distributing the work to the public by "sale or other transfer of ownership by rental, lease, or lending." 17 U.S.C. § 106(3)(1982). "The immediate effect of our copyright law is to secure a fair return for an 'author's' creative labor. But the ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good." Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 (1975).

103. House Report, supra note 91, at 61. The exclusive rights may be "subdivided indefinitely." Id.

104. Evidence of the growing second-hand market in software can be seen by reading the classified ads in the newspaper. The used computer market is also growing. It is estimated that 3% of all computer sales are used machines and that figure is expected to grow as "innovation in new machines drops off." Bartimo, Used Computers Are Selling, INFOWORLD, June 18, 1984, at 58, col. 1. One dealer estimates that used computers will take a 50% share of the market in three to five years. Id. It should be noted that transfer of a given program in the secondary market will only continue as long as the software has market value. It seems doubtful that much software will have market value by the time its copyright term expires. The market life of software
does not enjoy any of the other exclusive rights after the first sale, but it can be said that the ability to alienate the copy results in wider dissemination of information and greater public access.

The copyright law uses the incentive of monetary gain both as a means to encourage the author to disseminate the work to the public and as a cut-off point for the author's control over the particular copy. Once a copy is sold and the copyright owner has reaped his economic benefit, the new owner of the copy may dispose of the copy without the consent of the copyright owner. In other words, once the economic incentive has triggered the desired behavior by the copyright owner (distribution of the work), the purpose of the statute has been satisfied and "it would be most unwise to permit the copyright proprietor to exercise any control whatever over the article which is the subject of copyright after said proprietor has made the first-sale."

Although the copyright law ensures that the copyright owner will only have the benefit of the statutory monopoly for a limited number of years, without encouragement to the copyright owner to actively perform, display and distribute the work, such a grant would only benefit the public after the expiration of the lengthy monopoly. It is the purpose of encouraging the ongoing access to the work by the public that the right to distribution facilitates and the first sale accomplishes. The statute grants a monopoly no broader than is necessary to accomplish the purpose of copyright law.

The purpose behind the first sale doctrine was illustrated by...
the Supreme Court in *Bobbs-Merrill Co. v. Straus.* The Court reasoned as follows:

What does the statute mean in granting "the sole right of vending the same?" Was it intended to create a right which would permit the holder of the copyright to fasten by notice in a book or upon one of the articles mentioned within the statute, a restriction upon the subsequent alienation of the subject-matter of copyright after the owner had parted with the title to one who had acquired full dominion over it and had given a satisfactory price for it? It is not denied that one who has sold a copyrighted article, without restriction, has parted with all right to control the sale of it. The purchaser of a book, once sold by authority of the owner of the copyright, may sell it again, although he could not publish a new edition of it.

It is important to note that the copyright owner still retains the exclusive right of distribution as to the copyright even though the distribution right has been cut off as to the specific copy. Ownership of the copy in no way affects ownership of the copyright.

C. The Historical and Policy Perspectives of the First Sale Doctrine

An understanding of the policies to be effectuated by the first sale doctrine requires an inquiry into the origin of the doctrine and its original scope. The reference in *Bobbs-Merrill* to "vending the same" is to an early version of the copyright statute which the Court quoted as follows:

> Any citizen of the United States or resident therein, who shall be the author, inventor, designer, or proprietor of any book,

It is good that authors should be remunerated; and the least exceptional way of remunerating them is by a monopoly. Yet monopoly is an evil. For the sake of the good we must submit to the evil; but the evil ought not to last a day longer than is necessary for the purpose of securing the good.

Cohen, *Duration*, 24 U.C.L.A. L. Rev. 1180, 1186 (1977) (quoting 8 *The Works of Lord Macauley* 195, 197-99 (1866)). Lord Macauley espoused this viewpoint in his speeches against the proposed amendment of British Copyright from 28 years after publication to 60 years after death of the author (a term closely resembling our current copyright duration under the 1976 Act). *Id.* at 1185. Although Macauley was addressing the statutory duration of the entire copyright as a single bundle, the same principle encompasses all aspects of duration under the current divisible copyright, including the duration of each exclusive right up until the point at which it is cut off by the first sale. *Id.*

109. *Id.* at 349-50 (emphasis added).
map, chart, dramatic or musical composition, engraving, cut, print or photograph or negative thereof, or of a painting, drawing, chromo, statue, statuary, and of models or designs intended to be perfected as works of the fine arts, and the executors, administrators, or assigns of any such person, shall, upon complying with the provisions of this chapter, have the sole liberty of printing, reprinting, publishing, completing, copying, executing, finishing and vending the same.\textsuperscript{111}

This passage gives insight into the original nature of the "right to vend."

The first sale doctrine arose as a judicial interpretation which limited the "right to vend.\textsuperscript{112} The Supreme Court sought to effectuate the legislative intent behind copyright in the following passage from \textit{Bobbs-Merrill}:

\begin{quote}
The owner of the copyright in this case did sell copies of the book in quantities and at a price satisfactory to it. It has exercised the right to vend. What the complainant contends for embraces not only the right to sell the copies, but to qualify the title of a future purchaser by the reservation of the right to have the remedies of the statute against the infringer because of the printed notice of its purpose so to do unless the purchaser sells at a price fixed in the notice. To add to the right of exclusive sale the authority to control all future retail sales, by a notice that such sales must be made at a fixed sum, would give a right not included in the terms of the statute, and, in our view, extend its operation, by construction, beyond its meaning, when interpreted with a view to ascertaining the legislative intent in its enactment.\textsuperscript{113}
\end{quote}

The 1909 revision of the copyright law continued the first sale doctrine in section 27 which provided:

\begin{quote}
The copyright is distinct from the property in the material object copyrighted, and the sale or conveyance, by gift or otherwise, of the material object shall not of itself constitute a transfer of the copyright, nor shall the assignment of the copyright constitute a transfer of the title to the material object; but nothing in this title shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work, the possession of which has lawfully been obtained.\textsuperscript{114}
\end{quote}

The imprecise phrase, "the possession of which has been law-

\textsuperscript{111} Bobbs-Merrill Co. v. Straus, 210 U.S. at 348.
\textsuperscript{112} The first sale doctrine was first codified in 17 U.S.C. § 27 (repealed 1976). The first sale doctrine is currently codified at 17 U.S.C. § 109 (1982).
\textsuperscript{113} Bobbs-Merrill Co. v. Straus, 210 U.S. at 351.
\textsuperscript{114} 17 U.S.C. § 27 (repealed 1976).
fully obtained,” was troublesome because it implied that the copyright holder could lose protection merely by bailment, which is a form of lawful possession. The Second Circuit addressed the problem in *Platt and Munk Co. v. Republic Graphics, Inc.* by concluding that the legislative history of the 1909 act required a first sale, not mere possession, to divest the exclusive right to vend the particular copy.115 The 1909 House Report stated:

Section [27] is not intended to change in any way existing law, but simply to recognize the distinction, long established, between the material object and the right to produce copies thereof. The concluding clause in the section, that “nothing in this act shall be deemed to forbid, prevent or restrict the transfer of any copy of a work copyrighted under this act the possession of which has been lawfully obtained,” is inserted in order to make it clear that there is no intention to enlarge in any way the construction to be given to the word “vend” in the first section of the bill. Your committee feels that it would be most unwise to permit the copyright proprietor to exercise any control whatever over the article which is the subject of copyright after said proprietor has made the first sale.116

Sections 109 and 202 of the 1976 Copyright Act embody the first sale doctrine.117 The House Report addresses the need for a full transfer of ownership in order to trigger the first sale and emphasizes that section 109(a)

restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy or phonorecord of a work, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or by any other means. Under this principle, which has been established by court decisions and section 27 of the present law, the copyright owner’s exclusive right of public distribution would have no effect upon anyone who owns a particular copy or phonorecord lawfully made under this title and who wishes to transfer it to someone else or to destroy it.118

Under the 1976 Copyright Act, the key to the first sale doc-

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117. *See supra* notes 101 and 94 respectively.
trine is "ownership." Thus, authority to sell the particular copy is a privilege that is not extended to persons who acquire possession by rental, lease or loan.

From the copyright owner's perspective, rental provides a restricted opportunity for economic gain, which is more beneficial than not distributing the copies at all, but not quite so lucrative as a retail sale. The economic reward from rental is spread out over time in the form of monthly payments. In contrast, in a sale, the copyright owner sells the work in quantities and gets a one time "satisfactory price" while the consumer gets "full dominion."

D. The Software Transaction

Under an analysis placing form over substance, the rights of the parties in a software transaction are defined by the label that is put on the transfer. If the transaction is labeled a "sale," the consumer becomes the owner of the copy and the copyright owner's exclusive right to distribution is cut off as to that copy. The copyright owner thus gives up the control of the copy in exchange for a "satisfactory price." If the transaction is labeled a rental, lease or bailment, then the copyright owner retains the exclusive right of distribution as to the copy and the consumer has only the ordinary incidents of possession which are spelled out in the contractual agreement. Under this scenario, while the copyright owner gives up some control over the copy in return for payments over time, the first sale doctrine is not triggered. The copyright owner can rent, lease or lend the copy or keep it to himself because there is no requirement that there be a first sale.

If the statutory copyright monopoly encouraged the copyright owner to keep the work to himself, the public interest in dissemination would not be advanced. As the copyright law is written, if the author has any desire to make a profit, he must decide how much control over the copy to relinquish. While a sale will force the author to give up all rights as to distribution, rental and lease rights provide some continuing control for the copyright owner. By taking the time to form

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120. Id.
122. Id.
124. Both rental and lease denote periodic payments over a period of time, for the
contractual relationships with each lessee, the copyright owner gets pecuniary reward over time instead of a one time payment, avoids the first sale doctrine, and thereby maintains some degree of control. The nature of a rental is such that the author must consider the return of all the copies distributed at the end of the rental term. It is possible that the returned copies will have little or no market value. The costs of remarketing and storage could prove to be unprofitable. The consumer, on the other hand, benefits from a rental or lease arrangement by obtaining the copy for a limited period of time and under conditions of restricted use, yet has the burden of returning the copy to the copyright owner.

In contrast to the rental or lease arrangement, an outright sale features a one time price, the possibility of distribution through the mass market and no requirement that the object be returned. In such a case, the purchasing public has the ability to alienate the copy without limitation.

A problem arises when the transaction "looks like a sale and acts like a sale" but is labeled "Agreement." In such a transaction the copyright owner seeks to receive a "satisfactory price" and to retain control of the copy. Therefore, the legal effect is neither that of a sale nor a lease, rental or bailment. The copyright owner, who is in the best position to structure the transaction, creates this "sale in bailment's clothing" by licensing the copy to the consumer. This situation closely resembles the type of activity disapproved by the Supreme Court in *Bobbs-Merrill Co v. Straus.*

A license is "the permission by competent authority to do an act which, without such permission, would be illegal, a trespass or a tort." It has also been defined as a privilege to do what the general public is prohibited from doing. The use of the term license implies that the copyright owner has rights which

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right to use or possess the software. The general definition of a lease of tangible personal property is "a contract by which one owning such property grants to another the right to possess, use and enjoy it for a specified period of time in exchange for periodic payment of a stipulated price, referred to as rent." *BLACK'S LAW DICTIONARY* 800 (5th ed. 1979). Rent is "the compensation or fee paid, usually periodically, for the use of any property, land, buildings, equipment, etc." *Id.* at 1166.

125. 210 U.S. 339, 349-50 (1907). The Supreme Court disapproved of an owner's attempt to restrict subsequent alienation by one who had acquired full dominion and given a satisfactory price for a book. *Id.* See supra text accompanying note 109.


the consumer does not. Under section 106, the copyright owner has the exclusive right to authorize persons to reproduce, distribute, adapt, display and perform the copyrighted work. Licensing these rights to the consumer is a positive authorization for the consumer to exercise one or more of the exclusive rights listed under section 106. However, when a consumer engages in a section 106 activity without copyright owner authorization, it is a copyright infringement unless the consumer inherently\textsuperscript{128} has statutory authorization under sections 109 or 117.\textsuperscript{129} Conversely, any activity which the consumer engages in which is not a section 106 activity is not a copyright infringement because the copyright owner's authorization is not needed. Conceivably, consumers can contract away rights that they inherently have when engaging in a sales transaction with the copyright owner. However, such an agreement is not a license because the consumer inherently holds those rights and is not receiving positive authorization. Instead, the consumer is agreeing to restrict or narrow the rights granted to him by the copyright statute at the moment of sale.

The rights that the consumer can obtain by license are determined by the transaction in which the consumer gains access to the software. If it is a sale, the consumer needs a license to make unlimited copies but not to make an archival copy.\textsuperscript{130} The consumer also needs a license to sell copies made under a license to reproduce, but does not need a license to sell the copy purchased. However, if the transaction is a lease or rental, the consumer needs a license to make any copies including the archival copy.

License agreements attached to retail software often flatly prohibit future sales of the copy. In theory, such a restraint against alienation is a contract term which is not valid in the face of the copyright law's first sale doctrine. The consumer has the right under copyright law to sell the copy purchased because that copy is withdrawn from the protection of the copyright owner's exclusive right of distribution under the first sale doctrine. However, a copyright owner can contract with a con-

\textsuperscript{128} The term "inherently" is used to emphasize the fact that because the consumer is specifically given the right by statute, permission by the copyright owner is frivolous.

\textsuperscript{129} See supra note 101 (quoting the text of section 109, the first sale doctrine, which permits redistribution of the copy); supra note 93 (quoting the text of section 117 which permits the making of archival copies and adaptations).

sumer regarding the conditions under which the future disposition of an original copy or copies will take place in spite of the fact that the initial transaction may represent a sale. The conditions under which the future disposition of the copy may occur can be the subject of a contract which will limit the consumer’s right to freely alienate the particular copy. By contract, the consumer could agree to dispose of the copy by rental only; if he violates the terms of this agreement and sells the purchased copy outright, his action would be a breach of contract, not a copyright infringement because copyright law does not forbid the sale or distribution of a purchased copy after the first sale. If the initial transaction between the copyright owner and the first purchaser is in actuality a sale, the copy can legitimately be further disseminated, either by a subsequent outright sale without contractual restraints, or by a transaction subjecting the second purchaser to some restrictions, not necessarily enforceable against the third purchaser.

A consumer who rents or leases a copy is subject to terms restricting disposition. An outright sale by the lessee of the original copy leased would certainly violate the original transaction entered into between the copyright owner and the consumer. The lessee could be licensed to distribute the original copy or to make copies under the copyright owner’s exclusive rights of distribution and reproduction. The lessee would need this license because, as a lessee, he has no statutory right to distribute or reproduce the copy. The use of the term “license” in this situation is appropriate because the copyright owner is giving positive permission to the lessee to do something which he otherwise has no right to do under copyright law.

The license does not define or control the original transaction in which the commercial relationships of the parties as seller/buyer or lessor/lessee were determined; it only defines what can be done with the copy after the relationship between the parties has been established by the original transaction. There is a significant difference between the terms “contract” or “license” as applied to a transaction which has crossed the threshold of a first sale. A license grants a privilege where there previously was none, and is therefore not applicable to copy owners who already have limited rights to dispose of the copy

132. Id.
and to make archival copies under sections 109 and 117. Contractual restrictions, on the other hand, may be effective in restraining those section 109 and 117 rights which the consumer obtains as a result of the sale, but may be enforced only in a breach of contract action and not in an action for copyright infringement.  

To determine whether or not a copyright has been infringed, it is helpful to ask: (1) does the party inherently have the right to do this activity under the federal copyright law? (2) if not, is the activity a section 106 activity? and (3) if so, has the party been authorized by the copyright owner? Thus, under a federal copyright analysis, distribution not in accordance with the terms of the agreement is not authorized and therefore infringes the copyright. At the same time, copyright law contemplates that exclusive rights will be exercised pursuant to state contract law principles since the statute uses the word "authorize." However, a state law contract claim which seeks to protect section 106 rights is redundant and is subject to pre-emption by the 1976 Copyright Act which abolishes state rights under common law or statute that are equivalent to section 106 rights. Under the same reasoning, copyright law contemplates that the rights of the copyright owner and the party on the other side of the transaction will be contingent on state commercial law principles which define whether or not a sale has occurred and thus the roles of the parties. An expansion of the role of the copyright owner necessarily expands the scope of section 106 rights.

133. The landmark case of Harrison v. Maynard, Merrill & Co., 61 F. 689 (2d Cir. 1894) discusses this point:

[T]he right to restrain the sale of a particular copy of the book by virtue of the copyright statutes has gone when the owner of the copyright and of that copy parted with all his title to it, and has conferred an absolute title to the copy upon a purchaser, although with an agreement for a restricted use. The exclusive right to vend the particular copy no longer remains in the owner of the copyright by the copyright statutes. The new purchaser cannot reprint the copy. He cannot print or publish a new edition of the book; but, the copy having been absolutely sold to him, the ordinary incidents of ownership in personal property, among which is the right to alienation, attach to it. If he has agreed that he will not sell it for certain purposes or to certain persons, and violated his agreement, and sells to an innocent purchaser, he can be punished for a violation of his agreement; but neither is guilty, under the copyright statutes, of an infringement.

Id. at 691. See infra note 355 and accompanying text.


It is important to recognize that a state statute permitting a copyright owner to enforce restrictions in a transaction, which appears to be the economic equivalent of a sale, by means of a declaration that no ownership was transferred, extends the limited copyright monopoly beyond its intended bounds. Such an expansion of section 106 rights under state law should be preempted. Because of the strong congressional prohibition against parallel state legislation, state statutes which deal with copyrightable subject matter are suspect as attempts to manipulate and redistribute privileges equivalent to section 106 rights. Since the Louisiana Software Enforcement Act deals with the subject matter of software, its provisions must be examined to determine whether it will be preempted by federal copyright law.

IV
The Louisiana Software Enforcement Act

Software licensing agreements originally contemplated "the grant of the right to make, use, or sell the copyrighted work." Such licenses were used by the copyright owner to "authorize" others to reproduce, adapt or distribute the program. The agreements licensed the copyright rights, not the copy. The copy is the material object in which the copyrighted work is

138. Attempts to license the mass-marketred copy closely resemble the old scenarios involving restrictions on chattels such as safety razor blades. Notices on safety razors stating that they were not to be resharpened were attempts to restrict use. Although the major benefit to the producer was an increase in profits due to increased razor sales, the procedure was offered in the guise of a consumer satisfaction approach. The argument was that such an admonition was necessary to preserve the manufacturer's business reputation as a source of sharp blades.

The razor blade restriction is similar to an equitable servitude involving the "imposition of restrictions on land in the original recorded deed, of which later purchasers are bound to take notice." Note, Equitable Servitudes on Chattels, 41 HARV. L. REV. 946, 953 (1928) [hereinafter Equitable Servitudes]. The licenses placed on software resemble the notice placed "on the chattel or its container, specifying the restriction which was to bind all later owners and in this way, anyone who acquired the article, no matter how numerous the intervening sales, was prevented from being a purchaser without notice of the restriction." Id.

Restrictions on use limit freedom of alienation, "which is regarded as an essential incident of ownership of chattels." Id. at 982. An attempt to restrict future purchasers by retention of title and acceptance of labelled goods is not new. Such attempts have failed, primarily because assent is necessary to a contract. Id. at 984 (citing Garst v. Wissler, 21 Pa. Super. 532 (1902)). Attempts to impose equitable servitudes by no-
fixed.\textsuperscript{139} It is not clear exactly what effect licenses have on retail software.\textsuperscript{140} The term "license" is especially vague in a retail context have been rejected by the Supreme Court in statutory monopoly cases. Equitable Servitudes, supra at 955 n.25.

A distinction between patent and copyright cases should be noted. A patent allows restrictions on the right to make, use and sell the article. \textit{Id.} at 1000. Copyright allows restrictions on making, adapting, selling, displaying and performing the copyrighted work, but not on use. 17 U.S.C. § 106 (1982). Any use restrictions constructed in the nature of an equitable servitude must arise in contract and require legally cognizable assent.

\textsuperscript{139} 17 U.S.C. § 101 (1982).

\textsuperscript{140} Theoretically, the copyright owner is capable of licensing his section 106 rights by granting a privilege to the consumer which she would not otherwise be allowed to enjoy under the Copyright Act. Technically, the consumer does not need permission to do any act which is inherent in ownership of a chattel or which the Copyright Act permits, such as the rights under sections 109 (the right to distribute the particular copy) and 117 (the right to make an archival copy). The confusion occurs when the license uses language that sounds like the granting of a privilege but is actually restricting rights which the consumer would inherently have if the initial transaction was a sale. Even though the license claims that there was no sale, often in the face of contrary economic realities, it often contains redundant language which seeks to restrict actions which the copyright law inherently forbids if the consumer does not have the status of owner of the copy. The following examples offer a glimpse into the wide spectrum of language found in such "licenses":

MicroComputer Consultants Single Processor End User Software License Agreement:

MC grants CUSTOMER a non-exclusive right to use this serialized copy of the SOFTWARE on a single COMPUTER at a single location so long as CUSTOMER complies with the terms of this LICENSE Agreement... CUSTOMER owns the diskette(s) on which the SOFTWARE is recorded, but under the terms of this LICENSE MC shall continue to own all copies of the SOFTWARE regardless of the form in which they may exist.

Digital Research End User Program License Agreement:

You may: a) use the program on a single machine; b) copy the program into any machine readable or printed form for backup or modification purposes in support of your use of the program on a single machine.

Office Solutions, Inc. Program License Agreement:

The enclosed software program is licensed by Office Solutions, Inc... to one customer for his/her use only on the terms set forth below... You have a non-exclusive right to use the enclosed program.

Micro Focus Software License Agreement:

Micro Focus... licenses the person identified below ("Licensee") to use the computer programs... subject to the following terms and conditions... Micro Focus grants the Licensee a non-exclusive, nontransferrable license to use the Software in object code form on the single computing machine owned or leased by Licensee... for Licensee's own programs... Micro Focus and its suppliers have and will retain all ownership rights in the Software, including all patent rights, copyrights, trade secrets, trademarks, service marks, related goodwill and confidential and proprietary information. Licensee will have no rights in the Software except as explicitly stated in the Agreement.

IBM Program License Agreement (Florida):

Terms and Conditions of Sale-If you do not agree with these terms and conditions, please do not purchase products from this catalog [The Directory]...
Some insight into the motivation behind the use of software licenses in a retail setting can be gained by reviewing the analysis put forth by one commentator. Although written in another era, it focuses on the timeless goal of producers that "standardized goods should pass to the ultimate consumers through well regulated channels, and often times that they should be used by the consumers in such a manner as to aid in the maintenance of a complex marketing system." *Equitable Servitudes, supra* note 138, at 946. The reasoning is as follows:

To put the matter in another way, the strictly legal situation corresponds inadequately with the practical situation. Actually, the manufacturer by his advertising and other commercial devices has brought the consumers into a direct relation with himself. He is trying to make them buy his product. Legally, it ceased to be owned by him some time before it reaches them, for he

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IBM provides this program and licenses its use in the United States and Puerto Rico. . . . You May: a) use the program on a single machine; b) copy the program into any machine readable or printed form for modification purposes in support of your use of the program on the single machine . . . .

Agreement for IBM Licensed Programs (NY):

IBM will . . . 3) grant to Customer a non-transferable and non-exclusive license to use licensed program materials . . . . The term 'use' in this Agreement shall mean copying any portion of the licensed program materials into a machine and/or transmitting them to a machine for processing of the machine instructions or statements contained in such materials.

Honeywell License for Program Products: Honeywell grants to the customer a non-exclusive, nontransferable license to use, perform, execute or copy such program product in machine readable form . . . .

Peachtree Software Incorporated Limited Use License Agreement:

PSI provides the computer software program contained on the medium in the package . . . . You are granted a personal, non-transferable and non-exclusive license to use the Program under the terms stated in the Agreement. Title and ownership of the Program and documentation remain in PSI.

Lifeboat Associates, Terms and Conditions of Sale: 1) All sales are final. 2) The sale of each proprietary software package conveys a license for use on one computer system . . . . All software is sold subject to a license agreement.

Mark Williams Company Software License Agreement:

MWC grants you a license to: a) use the software on a single machine; b) copy the software . . . . We grant you the right to include portions of the MWC Runtime Library (as defined below) in software programs that you develop, called Composite Programs, and to use, distribute and license Composite Programs to third parties without payment of any further license fee.

AT&T Information Systems, Limited Use Software License Agreement:

In the event that you disagree with any of the terms of this Agreement, return your sales receipt and the SOFTWARE with the seal unbroken to the location where you obtained the SOFTWARE and your money will be refunded. . . . 1. TITLE AND LICENSE GRANT: Notice is hereby given that the SOFTWARE contains copyrighted and/or proprietary information protected by the laws of the United States. All SOFTWARE will remain the sole property of AT&T-IS. AT&T-IS hereby grants you a personal, non-transferable and non-exclusive right to use, in the United States, all SOFTWARE, in whatever form recorded, which is furnished to you under or in contemplation of this Agreement.

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141. Some insight into the motivation behind the use of software licenses in a retail setting can be gained by reviewing the analysis put forth by one commentator. Although written in another era, it focuses on the timeless goal of producers that "standardized goods should pass to the ultimate consumers through well regulated channels, and often times that they should be used by the consumers in such a manner as to aid in the maintenance of a complex marketing system." *Equitable Servitudes, supra* note 138, at 946. The reasoning is as follows:

To put the matter in another way, the strictly legal situation corresponds inadequately with the practical situation. Actually, the manufacturer by his advertising and other commercial devices has brought the consumers into a direct relation with himself. He is trying to make them buy his product. Legally, it ceased to be owned by him some time before it reaches them, for he
In order to resolve such an ambiguity, Louisiana became the first state to enact a "shrink-wrap" licensing law with the passage of Act No. 744 on July 13, 1984.142 Under the statute, anyone who either uses software or opens a sealed software package is deemed to have accepted all the terms of the license agreement, provided the statutory notice provisions are met.143

is separated from them by a succession of sales through wholesalers and retailers. These intervening passages of title have their importance for some purposes. For example, the risk of insolvency, the methods of credit, the manufacturer's power to control the management of his dealer's stores, his liability on warranties, might all be very different if he was selling to the public through agents of his own. But for the purpose of maintaining the reputation of his product, the existence of these intermediaries has very little significance. Consequently, what he wants is a new legal (or equitable) device which will enable him to throw a bridge across to the consumers over the heads of these intervening dealers, so that he can be sure that his product as it reaches the public will correspond in all its aspects with the product he has led them to expect. He wants to make the intermediary transfers of title legally immaterial to his scheme, and to be able to treat the entire process of marketing his goods from the factory to the consumer as a unified transaction, in which the successive sales are merely incidental breaks serving only a limited purpose which does not affect the reputation of his goods. Furthermore, he desires that his dealers, though not agents, shall be interrelated members of a unified selling organization, which will run much less smoothly and steadily if they are constantly differing with each other or with him as to the margin of profit and other details. He wishes to restrict the effects of the transfers of title to the purposes which lead him to reject an agency system; and to create a legal (or equitable) unity, both vertically to the public and horizontally among his dealers, which shall be coextensive with the unity of his business plan (citation omitted).

Id. at 947-48.


Louisiana is pioneering this legislation despite the fact that it is a "state without a computer industry." Id. Louisiana state representative Al Ater recognizes the irony in a "smokestack industry" state being an early advocate of copyright protection specifically for computer software. "But we want to show this industry we are aware of the problems they face and invite them to locate here," says Ater. Id., col. 3. A number of states including Illinois, Hawaii, Washington, Arizona and Georgia have considered such legislation.

The statute seeks to avoid the classic contract issues raised by "box-top" licenses by providing for clear and legible notice of the terms under § 1955. LA. REV. STAT. ANN. § 1955 (West Supp. 1985).

143. Any person who acquires computer software or a copy thereof shall be conclusively deemed to have accepted and agreed to all the terms of the license agreement for such software or copy thereof, including any applicable provisions contained in R.S. 51:1954, if:

(1) A written legend or notice is affixed to or packaged with the software or copy thereof in such a manner that the legend or notice is clearly and
The statute defines the terms "computer software," "license agreement," "reverse engineering," "decompiling" and "disassembling." It further imposes requirements that must be met before terms of the license agreement can be enforced. For instance, software must have a notice affixed that is "clearly and conspicuously visible upon cursory examination" and which is printed in capital letters in "language which is readily understandable to a person of 'average literacy.'" Furthermore, the notice must state that opening or using the software will constitute acceptance and explain that if a party

conspicuously visible upon cursory examination of the software and related packaging; and

(2) The legend or notice is prominently displayed in all capital letters and in language which is readily understandable to a person of average literacy; and

(3) The legend or notice states clearly that: (a) any use of the software or copy thereof will constitute acceptance of the terms of the accompanying license agreements; or, (b) any opening of a sealed package, envelope, or container in which the software or copy thereof is contained will constitute acceptance of the terms of the accompanying license agreement; and

(4) The legend or notice states clearly that anyone who receives the software or a copy thereof and does not accept and agree to the terms of the accompanying license agreement may, within a reasonable time, return the unused, unopened software or copy thereof to the party from whom it was acquired, or to some other identified party, for a full refund of any consideration paid; and

(5) The person acquiring the software or copy thereof takes such action as is stated in the legend or notice to constitute acceptance of and agreement to the terms of the accompanying license agreement.

LA. REV. STAT. ANN. § 1953 (West Supp. 1985)

144. For purposes of this Chapter the following terms shall have the meanings set forth herein:

(1) "Computer software" means a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result, in any form in which such statements or instructions may be fixed, by any method now known or hereafter developed, regardless of whether such statements or instructions are capable of being perceived by or communicated to humans, together with any associated documentation and materials.

(2) "License agreement" means any written document on which the word "license," either alone or in combination with other words, appears prominently at or near the top of such document in such a position of prominence so as to be readily noticeable to a person of average literacy viewing such document.

(3) "Reverse engineering, decompiling or disassembling" means any process by which computer software is converted from one form to another form which is more readily understandable to human beings, including without limitation any decoding or decrypting of any computer program which has been encoded or encrypted in any manner.


"receives" the software and does not accept the terms, he may return the unopened, unused software "for a full refund of any consideration paid."¹⁴⁷

A. Circumvention of the First Sale Doctrine

The heart of the Software Enforcement Act (Software Act) is found in section 1954 which designates the contractual terms deemed accepted when a software package is opened or software is used.¹⁴⁸ A license agreement may contain any or all of the terms listed by the statute.¹⁴⁹ The most critical licensing term which is deemed to be accepted, if included, is the one that provides for "retention by the licensor of title to the copy of computer software."¹⁵⁰ The obvious purpose of enforcing such a term in a license agreement is to nullify the effect of the actual retail transaction, in order to eliminate the first sale. The theory is that if the owner of the copyright retains title to the copy, then the retail purchaser of the mass-marketed software

¹⁴⁸. Terms of which shall be deemed to have been accepted under R.S. 51:1953, if included in an accompanying license agreement which conforms to the provisions of R.S. 51:1955, may include any or all of the following:

1. Provisions for the retention by the licensor of title to the copy of the computer software.

2. If title to the copy of computer software has been retained by the licensor, provisions for the prohibition of any copying of the copy of computer software for any purpose and/or limitations on the purposes for which copies of the computer software can be made and/or limitations on the number of copies of the computer software which can be made.

3. If title to the copy of computer software has been retained by the licensor, provisions for the prohibition or limitation of rights to modify and/or adapt the copy of the computer software in any way, including without limitation prohibitions on translating, reverse engineering, decompiling, disassembling, and/or creating derivative works based on the computer software.

4. If title to the copy of computer software has been retained by the licensor, provisions for prohibitions of further transfer, assignment, rental, sale, or other disposition of that copy or any other copies made from that copy of the computer software, provided that terms which prohibit the transfer of a copy of computer software in connection with the sale or transfer by operation of law of all or substantially all of the operating assets of a licensee's business shall to that extent only not be deemed to have been accepted under R.S. 51:1953.

5. Provisions for the automatic termination without notice of the license agreement if any provisions of the license agreement are breached by the licensee.

¹⁵⁰. Id.
cannot become the "owner" of the copy.\textsuperscript{151}

If the Software Act prevents a consumer from becoming the owner of the copy, the normal incidents of ownership, such as the right to alienate, do not attach.\textsuperscript{152} The resulting effect is to enlarge the scope of the copyright owner's exclusive right of distribution beyond the intended cut-off point of the first sale.\textsuperscript{153} Thus, under the Software Act, the copyright owner can receive economic reward which is \textit{equivalent to that of a sale} without facing the limitation imposed by the first sale doctrine.\textsuperscript{154} This approach conflicts with copyright case law which emphasizes that economic reward is not the primary purpose of the copyright law but only the means used to achieve the end which is "the free flow of ideas, information and commerce."\textsuperscript{155}

If the "ultimate question under the 'first sale' doctrine is whether or not there has been such a disposition of the copyrighted article that it may fairly be said that the copyright pro-

\begin{footnotesize}
\begin{enumerate}
\item[151.] See Davidson, \textit{supra} note 24, at 384.
\item[152.] A broad disapproval of the running of restrictions on chattels was espoused in Park v. Hartman, 153 F. 24 (6th Cir. 1907). In that case, the manufacturer of medicines sought to bind sub-purchasers by contract, in order to fix the price at which the wholesale and retail druggists would resell the medicine. The court declared:

A prime objection to the enforcibility of such a system of restraint upon sales and prices is that they offend against the ordinary and usual freedom of traffic in chattels or articles which pass by mere delivery.

The right of alienation is one of the essential incidents of a right of general property in movables, and restraints on alienation have been generally regarded as obnoxious to public policy, which is best subserved by great freedom of traffic in such things as pass from hand to hand. General restraint in the alienation of articles, things, chattels, except when a very special kind of property is involved, such as a slave or an heirloom, have been generally held void. 'If a man,' says Lord Coke, in Coke on Littleton § 360, 'be possessed of a horse or any other chattel real or personal, and give his whole interest or property therein, upon condition that the donee or vendee shall not alien the same, the same is void, because his whole interest and property is out of him so as he hath no possibility of reverter; and it is against trade and traffic and bargaining and contracting between man and man.' It is also a general rule of the common law that a contract so restricting the use or controlling sub-sales cannot be annexed to a chattel so as to follow the article and obligate the subpurchaser by operation of notice . . . . A conveyance which may be valid and run with land will not run with or attach itself to a mere chattel.

\textit{Id.} See also Dr. Miles Medical Co. v. Park, 220 U.S. 373, 404 (1911), \textit{aff} 164 F. 803 (6th Cir. 1908).

\item[153.] Not only is it extended beyond the cut-off point, it is extended as a perpetual right. Thus, if the copyright owner attempted to sue the consumer for a copyright infringement based on the exclusive right of distribution, he would be attempting to enforce a perpetual right under federal law. The Constitution mandates that protection be for "limited Times." \textit{U.S. CONST.} art. I, § 8.

\item[154.] See \textit{supra} text accompanying note 112.

\item[155.] \textit{Sony}, 464 U.S. at 429.
\end{enumerate}
\end{footnotesize}
priestor has received his reward for its use,156 then it would seem that in a mass market transaction involving a consumer who pays a one time "satisfactory price" and "acquires full dominion" over the fungible copy of software, there has indeed been a first sale.157 The Software Act seeks to avoid this result by using semantics to redefine the transaction after it has occurred under other existing state commercial law.158 The Act thus transmutes both the state commercial law and copyright law when the consumer either opens or uses the software.

B. Retention of Title

Retention of title, as permitted by the Software Act, is the foundation of the other four contractual terms that may be deemed accepted under the statute. Subsection 2 of section 1954 allows provisions in agreements that prohibit "any copying of the copy of computer software for any purpose," as well as "limitations on the purposes for which copies of the computer software can be made" and the numbers of copies made.159 This subsection permits the copyright owner to override the provisions in section 117 of the 1976 Copyright Act which grant rights to the copy owner to make archival copies.160

This subsection contains circular provisions. In order to be able to enforce terms in an agreement which limit the consumer as described in the subsection, the statute requires that title must have been reserved by the copyright owner.161 If the copyright owner retained title, and if that effectively prevents the consumer from qualifying as the owner of the copy, then it is immaterial whether the consumer is forbidden by the Software Act to do the activities described by the subsections since retention of title continues the prohibition of the activity under federal copyright law.162 In other words, the terms in the license merely echo the words of the copyright law and restrict the consumer in the same way that he is already restricted by the copyright law from the moment of fixation of

158. The result is that a "sale" of software is to be treated differently than any other retail transaction under state commercial law.
159. See supra note 148.
160. See supra note 93.
the work. If the retention of title by the Act is legally effective, there is no need to proscribe the activities described in the subsection since, without ownership of the copy, the consumer has no federal statutory right to make an archival copy.

The only time that the consumer would have any rights for subsection 2 to restrict would be if the consumer was the owner of a copy. Section 117 of the 1976 Copyright Act allows the copy owner the right to make an archival copy and thus limits the copyright owner's exclusive right of reproduction. However, if the consumer is at any given moment the copy owner, the license agreement dissolves that status, as previously established by the first sale, either when the package is opened or when the software is used. The circular legal path is as follows: The state's commercial law designates the transaction as a sale and the consumer as a copy owner; simultaneously, federal copyright law is triggered and grants the copy owner the right to make an archival copy; finally, the Software Act removes the right the copyright law granted under the first sale.

Unfortunately, subsection 3 follows the same circular reasoning as subsection 2. Subsection 3 relies on the retention of title in order to permit "prohibition or limitation of rights to modify and/or adapt the computer software in any way, including without limitation prohibitions on translating, reverse engineering, decompiling, disassembling, and/or creating derivative works based on the computer software." This subsection seeks to nullify the language of section 117 which allows the owner of a copy to make an adaptation of the computer program as long as it is an "essential step in the utilization of the computer program" or is for "archival purposes only." The privilege granted to the copy owner by section 117 also acts as a

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163. The impact that the change from publication to fixation as the "trigger for federal copyright protection has on such an analysis is pervasive. No longer is there uncopyrighted, copyrightable subject matter. Subject matter falls either inside or outside of federal copyright upon creation. 17 U.S.C. § 302 (1982). The effect is to severely limit state protection to "unfixed" works.

164. 17 U.S.C. § 117 (1982). By attempting to limit the rights of the consumer, the statute implies that there are rights to be limited. If the copyright owner contractually limits rights that the Copyright Act gives to the consumer, can the consumer look to those rights as a defense in a breach of contract claim?

165. To finish this circular reasoning, if the consumer were a copy owner, he would also be within his rights if he made copies under section 117 of the Copyright Act.


167. Id. See also supra note 148.

limitation of the copyright owner's otherwise exclusive right to prepare derivative works.\textsuperscript{169}

The policy reasons behind allowing adaptations and reverse engineering\textsuperscript{170} revolve around a recognition that consumers may want access to the structure and logic of a program that is mass-marketed because the program is developed for a general use and does not meet their particular needs.\textsuperscript{171} The software may not be compatible with the consumer's hardware or operating system or may have "bugs" in it.\textsuperscript{172} Prohibition of reverse engineering effectively prohibits access to the structure and logic of the software and thus protects the underlying ideas.\textsuperscript{173} This is contrary to the purpose of copyright law which seeks to protect the expression and leave ideas in the public domain.\textsuperscript{174}

It should be noted that the restrictions that subsection 3 seeks to impose are already imposed by the copyright law on persons who are not copy owners because no one but the copyright owner has the exclusive right to prepare derivative works.\textsuperscript{175} The exception is the copy owner, but if the Software Act permits the license agreement to prevent the consumer

\begin{footnotesize}
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\item See supra note 93.
\item For an informative discussion of reverse engineering, see Laurie & Everett, Protection of Trade Secrets in Object Form Software: The Case for Reverse Engineering, 6 THE COMPUTER LAWYER 1, 2 (1984). See also Grogan, Decompilation and Disassembling: Undoing Software Protection, 1 THE COMPUTER LAWYER 1 (1984).
\item Laurie & Everett, supra note 170, at 2. The authors conclude:
Under both the idea/expression and the fair use doctrines, an act of decompilation or disassembly performed in order to gain access to the internal structure and logic of object form software is not copyright infringement. The structure and logic of software are ideas that are available for use, according to the balance struck between the public policies of promoting creativity and providing free access to ideas. Decompilation or disassembly is an essential step in reverse engineering object form software in order to gain access to the structure and logic of the software, and is, therefore, not copyright infringement. In addition, any trade secret cause of action based on decompilation or disassembly is preempted by section 301 of the Copyright Act, in the absence of a contractual or confidential relationship.

Such a result is fair to all concerned. Innovation through investment in software development is encouraged. The software producer is protected against pirates. The software user is permitted to debug and adapt the software and to learn from the programming techniques used therein. The software competitor is permitted to develop and sell compatible software. The computer industry benefits from increased competition and exchange of knowledge, while avoiding unproductive constraints.

Id. at 10-11.
\item Id. at 2.
\item Id. at 7.
\item Id. at 5.
\end{enumerate}
\end{footnotesize}
from becoming a copy owner, then the consumer is restricted under the copyright law and the provision in subsection 3 is redundant.\textsuperscript{176}

The fourth subsection of section 1954 also relies on the retention of title to prohibit "transfer, assignment, rental, sale or any other disposition of the copy."\textsuperscript{177} It seems logical that if the consumer is not the owner of the copy, under a basic property law analysis, she would not be permitted to alienate the copy.\textsuperscript{178} However, such a result is already dictated under the copyright law since only the copyright owner has the exclusive right to distribute copies.\textsuperscript{179} The Software Act seeks to restrict distribution by use of contract terms which are redundant when examined next to the copyright law. If there is a first sale and the Software Act removes the consumer from the status of copy owner at the moment when the copy is opened or used, then the copyright law will not allow the consumer to alienate the copy and there is no need for the subsection 4 prohibition.\textsuperscript{180} Subsection 4 seeks to take away the copy owner's right to alien-

\textsuperscript{176} Instead of contractually abrogating the consumer's rights under section 117 of the Copyright Act, the Software Act contractually restricts the consumer's right to be an owner under state commercial law and thereby controls the result under copyright law. The consumer, defined as "not the owner" under state commercial law, is thus restricted directly by copyright law and, indirectly, by the contract. Under this analysis, the copyright owner is contractually getting access to copyright remedies. The question is whether, in the absence of the license agreement, the person would have been a copy owner under commercial law. If so, the copyright owner is extending his monopoly by contract. There is a difference between seeking a \textit{contract remedy} for something for which the copyright law doesn't provide a remedy and \textit{contractually seeking a copyright remedy} for something the copyright law doesn't otherwise encompass.

\textsuperscript{177} \textsc{La. Rev. Stat. Ann.} § 1954(4) (West Supp. 1985). \textit{See supra} note 148. Note that an exception is made where the software is transferred "in connection with the sale or transfer by operation of law of all or substantially all of the operating assets of a licensee's business." \textsc{La. Rev. Stat. Ann.} § 1954(4) (West Supp. 1985). What about the individual who wants to sell her entire computer and upgrade to a new system? Why should she be unable to sell the software with it? As used computers take over a larger share of the market, such a restraint would not seem reasonable. \textit{See supra} note 104.

\textsuperscript{178} \textit{See supra} note 152.

\textsuperscript{179} 17 U.S.C. § 106(3) (1982).

\textsuperscript{180} Again, the statute is being used to manipulate the result so that the limitations on the consumer fall under the scope of the copyright law instead of state contract law. However, it must be kept in mind that seeking a remedy under copyright law means that the perpetual license protection is being enforced under federal law, despite the mandate of the Constitution that such protection must be for "limited Times." U.S. Const. art. I, § 8. Previous cases, reasoning that contractual perpetual protection for unpublished materials was acceptable under state copyright law, were based on the fact that federal law did not cover the area prior to January 1, 1978.
ate the copy after the first sale doctrine has already been triggered under section 109 of the Copyright Act. This expands the copyright owner's exclusive right in a situation that is the economical equivalent of a first sale and thereby extends the monopoly indefinitely.

Subsection 5 provides for "automatic termination without notice" if any provisions of the license agreement are breached. While the implications of this subsection are beyond the scope of this commentary, it should be recognized that the license seeks to contractually effect a termination of rights granted under sections 109 and 117 of the copyright law. The breach of any of the terms, if found enforceable, apparently would result in damages for breach of contract but would not be labeled an infringement since they are created by a state statutory gloss on the federal section 106 rights. The distinction between damages for breach of these contractual terms and federal copyright law's statutory damages is significant if the damage done can be ascertained in the first instance.

C. The Effect of the Software Enforcement Act

An analysis of the legal impact of the Software Act is difficult without applying the statutory terms to a given factual licensing situation. It is clear, however, that the statute is intended to make certain terms, which mirror those described in section 1954, "enforceable" when used on software packages. The use of the section 1954(1) retention of title term in an agreement resembles the effect of a condition subsequent. The consumer has already paid for the retail software and appears to be the owner of the copy when the acceptance by opening or using occurs. The acceptance signifies an agreement to give up the rights which attach to an owner of a copy. If the software is received in the retail transaction in exchange for money, there is no evidence of any further consideration given to the consumer in return for giving up his rights as owner of the copy. This interpretation causes a forfeiture of the con-

182. See supra note 180.
186. Id.
sumer's rights and is not a preferable construction of the Software Act.187

Another factor which will affect the analysis of the Software Act is whether the consumer is seen as contracting with the retailer or the software author directly.188 If the consumer is contracting directly with the retail seller and the notice on the package is adequate, the consumer could be seen as giving money and a promise to read the terms of the agreement as consideration for the software.189 Then, opening the package or use would be seen as a condition of the sale.190 Under this interpretation, the software author would be a third party beneficiary of the agreement.191 The software author would have to weigh the advantages and disadvantages of becoming a third party beneficiary. Application of the first sale doctrine would complicate matters if the software author had "sold" the copies to the retailer, who in turn sold the copies to the public.192 The restraints that the software author places on the retailer would only be enforceable, if at all, against the retailer.193 Any attempt to control the copy beyond the first sale would fail.194

At first glance the Uniform Commercial Code seems to offer a good argument for the successful formation of an agreement utilizing the terms of the Software Act.195 An offer to make a contract is construed as inviting acceptance in any manner or by any means reasonable under the circumstances.196 A contract for sale of goods may be made in any manner sufficient to show agreement even though the moment of its making is undetermined.197 Inviting acceptance by opening a shrink-wrap package or using the software seems reasonable.198 A determi-

187. Id. (citing State v. Allen, 625 P.2d 844 (1981)).
188. See supra note 141.
189. Davidson, supra note 185, at 10.
190. Id.
191. Id.
192. See Equitable Servitudes, supra note 138, at 951-52.
193. See id.
194. The failure may go beyond that of a legal argument. The benefits to be gained by contractually restricting the first purchaser may not be worth the time and effort if the amount at stake is low. Another consideration is the negative effect that such attempts may have on the marketing and promotional scheme. See supra text accompanying notes 15-22.
195. Davidson, supra note 185, at 10-11.
198. The argument would be that consumers who buy software are familiar with such procedures and that the custom is industry wide. However, just because every-
nation under the UCC, however, that there was indeed a sale of goods in such a situation, would not be thwarted by an attempt to retain title and would most likely invoke the first sale doctrine despite the language of the license. If the consumer is the owner of the copy under commercial law before opening the software or using it, the license should not discharge the rights of the consumer.

The treatment of the transaction as a sale elevates substance over form. From a substantive standpoint, the software author appears to have divested himself of substantial rights by placing the software into the retail chain of distribution. The use of the word "title" in the license is formalistic and contrary to current commercial law. Further confusion would result from an attempt to avoid the first sale through retention of "title" since the concept of title has been set aside by the UCC for most purposes. To reinstate such a concept for application in the modern retail software market would not be productive. The retention of title in goods shipped and delivered is limited in effect to reservation of a security interest under UCC section 2-401. The preface to UCC section 2-401 states that the provi-

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199. A sale is "the passing of title from the seller to the buyer for a price," U.C.C. § 2-106 (1981) (emphasis added). In the context of a self service store, a transaction in goods for a one time payment to the cashier resembles what a reasonable person would consider to be a "sale."

200. Davidson, supra note 185, at 11.

201. Id.


The official comment to section 2-401 states that the section deals with the "issues between seller and buyer in terms of step by step performance or nonperformance under the contract for sale and not in terms of whether or not 'title' to the goods has passed." The purpose is to "avoid making practical issues between practical men turn upon the location of an intangible something, the passing of which no man can prove by evidence and to substitute for such abstractions proof of words and actions of a tangible character."

Consideration should be given to the effect of placing computer software into a retail market situation. Obtaining a program from a self-service retail store is a stark contrast to negotiating with a hardware dealer and consummating the deal with a signed contract. Although the software licensing can be called part of the custom and usage of the trade which historically originated with programming as a service under a contract, there is also a strong history in the retail field which labels a transaction for a one-time, up-front payment as a sale. The question is, when these two "histories" collide, as software is sold in retail stores, which custom and usage should prevail? There is merit to the argument that when a business person who is familiar with
the software industry buys software, he knows that he is only obtaining the copy under a license to use and does not own the copy. Conversely, the home user is accustomed to purchasing products and owning them. It is obvious that trying to categorize a purchaser by who he is would be difficult since all types of purchasers can come into a retail store. If on the other hand, the line was drawn by the type of marketing scheme used to make the “sale,” it is easier to agree that the custom and usage of retail should apply to all customers of a retail store.

In a typical retail transaction such as the sale of soft drinks in a self-service grocery store, courts have found that the evidence was sufficient to show that the placing of the bottles on the retailer’s shelf with the price stamped on them manifested an intent to offer them for sale. Fender v. Colonial Stores, Inc., 138 Ga. App. 31, 225 S.E. 2d 691 (1976). The court construed the terms of the offer to be that title would pass to the customer when the goods were taken to the checkout counter and paid for. Id. at 33, 225 S.E.2d at 693. The court concluded that the customer’s act of taking physical possession of the goods with an intent to purchase them manifested an intent to accept the offer and a promise to take them to the checkout and pay for them. Id. at 33, 225 S.E.2d at 693-94. In the court’s view, acceptance could occur in three ways: by delivering the goods to the checkout counter and paying for them; by the promise to pay for the goods, as evidenced by the physical delivery to the checkout counter; and by the promise to deliver the goods to the checkout counter and to pay for them there, as evidenced by taking physical possession of the goods by their removal from the shelf. Id. at 33-34, 225 S.E.2d at 694. The court stated that a reasonable person would conclude that the customer’s taking physical possession with the intent to pay for them was a reasonable mode of acceptance. Id. at 34, 225 S.E. 2d at 694. The court found the taking of possession and delivery to the checkout as a promise to pay the stated price and found that promise to be sufficient consideration to support the contract. Id. Although the line of cases using this type of reasoning could be labeled “result oriented” since the court saw the need to protect a consumer who was physically injured when the soft drink bottles blew up in the store, the reasoning is appealing. The analogy is helpful if it is used as insight into the custom and usage of retail as a marketing scheme, as previously discussed. If the comparison is made on the product level, one thing soft drinks and software have in common is that they both might contain trade secrets, yet there is no attempt to license the use of the soft drink to the consumer!

Actually, it could be argued that software is a consumer product. A consumer product is:

any article, or component part thereof, produced and distributed (i) for sale to a consumer for use in or around a permanent or temporary household or residence, a school, in recreation, or otherwise, or (ii) for the personal use, consumption or enjoyment of a consumer in or around a permanent or temporary household or residence, a school, in recreation, or otherwise.


Software is used by consumers in their homes and schools, for business, education or recreation. A finding that retail software is a consumer product lends credence to the argument that the transaction should be examined based on what (a consumer product) is purchased and perhaps by whom but not where it is purchased. If this is the logical approach to take, a consumer transaction for a product to be used at home or for school appears to be a “sale.” An attempt to label it anything but a sale might tend to erode the positive image that the software producers are trying to create through advertising and marketing plans. A counter argument is that the definition of consumer product only encompasses the media (the floppy disc) and not the intangible “contents.”
dies of the seller, buyer, purchaser, or third party apply irrespective of title of the goods unless the provision notes otherwise. In recognition of the careful balance created by Congress between the copyright owner and the public, the provisions of the copyright law which govern the rights in software should not be readjusted on the basis of the form of the transaction.\textsuperscript{203}

The overall impact of the terms in section 1954 on a retail transaction is to avoid the first sale in a situation which is the economic equivalent of a sale. Although contractual agreements can avoid a first sale by structuring the transaction as a rental or lease, the burden of arranging such a relationship between the parties is much greater than the alternative of allowing the retail market to create copy owners through first sales. Traditionally, creating a transaction which avoids a first sale requires a one-on-one transaction, signatures, time and cooperation at the point of sale by the retailer and consumer.\textsuperscript{204} Such an approach may serve to inhibit effective mass-marketing techniques.\textsuperscript{205}

In light of such considerations, many copyright owners prefer to forego the formalities and give up control in order to obtain the benefits and volume of mass-marketing. Such a trade-off is a decision which is up to the copyright owner to make by balancing greater economic rewards against loss of control. Mass-marketing can be a valuable tool for furthering the goal of copyright law by allowing increased financial incentives to copyright owners while giving increased access to the public.

The Software Act goes against this reasoning and the goals of copyright law and seeks to allow the copyright owner to retain total control of the copy while receiving the economic rewards

\textsuperscript{203} See supra text accompanying notes 80-86. See also Atari Inc. v. JS&A Group Inc., 597 F. Supp. 5, 9 (N.D. Ill. 1983) (interpreting "owner of a copy" to mean "rightful possessor of a copy" in the context of archival copies.)

\textsuperscript{204} Retail sales personnel may have little interest in aiding in the process. The alternative of relying on the consumer to sign paperwork and send it in may not be successful. The failure of consumers to cooperate may be a good indication of an intent on the part of reasonable consumers not to subjectively accept such restrictive terms.

\textsuperscript{205} Other attempts to control the consumer through the technology of copy protection have created friction between the consumer and software firms. Customers interpret the protection as an implication that they are "crooks." Dvorak, \textit{Uselessness of Copy Protection}, San Francisco Examiner, Feb. 3, 1985, at D12, col. 1. Additionally, copy protection can be "just a slight road block for the bootleggers and a terrible inconvenience for the legitimate users." Id. at col. 4-5.
of mass-marketing. The purpose of copyright is to motivate creative activity of authors by providing financial gain through a limited period of exclusive control. This state statute reverses these priorities and makes the reward to the author the primary objective. Although the mass-marketing of software has the potential to alter the environment in which the copyright law functions, copyright must still be construed in light of its basic purpose. Thus, a statute which allows a copyright owner to interact in the mass-market, as though no sale occurred and without the burden of forming such agreements as would preclude a sale, has extended the exclusive rights granted by the copyright law and altered the crucial balance. The critical question, however, is whether the state statute, in redistributing the rights between consumers and copyright owners, has created rights which are “equivalent” to section 106 rights. If so, the statute is preempted by the 1976 Copyright Act.

V
Preemption of the Louisiana Software Enforcement Act by Federal Copyright Law

The preemption doctrine ultimately determines whether the Louisiana Software Act may be enjoined. This doctrine stems from the supremacy clause of the Constitution which declares federal law to be the “supreme law of the land.” The preemption doctrine requires that state legislation which conflicts with federal law be overridden by the federal law. Congress may specifically prohibit parallel state legislation as well by de-

207. Sony, 464 U.S. at 429.
208. See supra text accompanying notes 79-86.
209. The supremacy clause states:

This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.

U.S. CONST. art. VI, cl. 2.
claring an intent to "occupy the field."\textsuperscript{211}

Problems arise when Congress enacts legislation that invades areas which were traditionally protected by state laws. The courts must discern the congressional intent in enacting such legislation and will invalidate state laws which "impair federal superintendence of the field" and stand "as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress."\textsuperscript{212} Despite the development of judicial standards to measure Congress's preemptive intent,\textsuperscript{213} the diversity of the preemption conflicts which arise under the various federal statutes suggests that "there can be no one crystal clear distinctly marked formula."\textsuperscript{214}

Congress, of course, can avoid the need for judicial interpretation of intent to preempt by explicitly stating that the federal statute preempts state law. Even then, judicial interpretation may be necessary to refine the explicit legislation in order to apply it to multifarious situations. The preemptive effect of the 1976 Copyright Act is no exception.

A. Preemption Under the Copyright Act of 1909

Under the Copyright Act of 1909, publication determined whether and when federal copyright attached.\textsuperscript{215} Until January 1, 1978, when section 301 of the 1976 Copyright Act became effective, publication divested the application of state common

\textsuperscript{211} Hines v. Davidowitz, 312 U.S. 52 (1941).

\textsuperscript{212} Id. at 67.

\textsuperscript{213} Id.

\textsuperscript{214} Chief Justice Warren presented the analysis as a three pronged inquiry which looked at the following elements: the pervasiveness of the federal regulatory scheme, federal occupation of the field as necessitated by the goal of national uniformity, and the danger of conflict between state laws and the administration of the federal program. Pennsylvania v. Nelson, 350 U.S. 497, 502-05 (1956).

law copyright. Because federal preemption occurred only after the release of the copyrighted work to the public, publication was the legal act which triggered federal preemption of state copyright law. Thus, once released to the public, the copyrighted work was protected only by federal law. The copyright owner had to comply with the federal standards in order to acquire copyright protection for his work. The question of what constituted publication raised complex issues which often obscured the dividing line between state and federal copyright protection. The issue of publication no longer serves as the trigger for federal copyright protection and has thus been removed as the focus of controversy. New section 301 contains the preemptive nucleus of federal copyright law.

B. Preemption Under the 1976 Copyright Act

Under the 1976 Copyright Act, state law is no longer needed to protect a work prior to publication because federal copyright protection attaches the moment the work is first fixed in a tangible medium. Section 301 expressly preempts "all legal and

217. See supra note 163.
220. Section 301 reads as follows:
(a) On and after January 1, 1978, 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 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103, whether created before or after that date and whether published or unpublished, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.
(b) Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any State with respect to—
(1) subject matter that does not come within the subject matter of copyright as specified by sections 102 and 103, including works of authorship not fixed in any tangible medium of expression; or
(2) any cause of action arising from undertakings commenced before January 1, 1978; or
(3) activities violating legal or equitable rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106.
221. 17 U.S.C. § 302(a) (1982). "Copyright in a work created on or after January 1, 1978 subsists from its creation." Id. "A work is fixed in a tangible medium of expres-
equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106." Congress intended to abolish not only common law copyright but also to "preempt and abolish any rights under common law or statutes of a state that are equivalent to copyright and that extend to works coming within the scope of federal copyright law." The purpose of creating a single system was to eliminate the "anachronistic, uncertain, impractical and highly complicated dual system" under the 1909 Copyright Act.

Although Congress intended to articulate the preemptive power of section 301 "in the clearest and most unequivocal language possible, so as to foreclose any conceivable misinterpretation of its unqualified intention that Congress shall act preemptively, and to avoid the development of any vague borderline areas between State and Federal protection," there exists some uncertainty as to just what rights are "equivalent."

During the legislative proceedings resulting in the formulation of current section 301, four main arguments in favor of a single federal system of copyright were presented. They are as follows:

1. One of the fundamental purposes behind the copyright clause of the Constitution, as shown in Madison's comments in the Federalist, was to promote national uniformity and to avoid the practical difficulties of determining and enforcing an author's rights under the differing laws and in the separate courts of the various States. Today, when the methods for dissemination of an author's work are incomparably broader and faster than they were in 1789, national uniformity in copyright protection is even more essential than it was then to carry out the constitutional intent.

2. "Publication," perhaps the most important single concept under the present law [the 1909 copyright statute], also represents its most serious defect. Although at one time when...
works were disseminated almost exclusively through printed copies, "publication" could serve as a practical dividing line between common law and statutory protection, this is no longer true. With the development of the 20th century communications revolution, the concept of publication has become increasingly artificial and obscure. To cope with the legal consequences of an established concept that has lost much of its meaning and justification, the courts have given "publication" a number of diverse interpretations, some of them radically different. Not unexpectedly, the results in individual cases have become unpredicatable and often unfair. A single federal system would help to clear up this chaotic situation.

3. Enactment of section 301 would also implement the "limited times" provision of the Constitution [Const. art. 1, § 8, cl. 8], which has become distorted under the traditional concept of "publication." Common law protection in "unpublished" works is now perpetual, no matter how widely they may be disseminated by means other than "publication;" the bill would place a time limit on the duration of exclusive rights in them. The provision would also aid scholarship and the dissemination of historical materials by making unpublished undisseminated manuscripts available for publication after a reasonable period.

4. Adoption of a uniform national copyright system would greatly improve international dealings in copyrighted material. No other country has anything like our present dual system. In an era when copyrighted works can be disseminated instantaneously to every country on the globe, the need for effective international copyright relations, and the concomitant need for national uniformity, assume ever greater importance.

This summary must be considered when construing the preemptive effect of section 301. Section 301 embraces a two-pronged analysis to determine whether preemption is present. The subject matter analysis under the first prong is relatively straightforward. The equivalent rights analysis is more complex and requires some understanding of both congressional intent and the development of case law.

1. Subject Matter Analysis Under Section 301

The first prong of the section 301 analysis examines whether the work is within the subject matter of copyright. Section 102 extends copyright protection to "original works of authorship
fixed in any tangible medium of expression." If a work fits within the subject matter of copyright, a state is thus precluded from protecting it if the rights granted by the state are found to be "equivalent" to the exclusive rights granted by federal copyright law.

2. Equivalent Rights Analysis Under Section 301

The second prong of the preemption analysis addresses whether the state law rights to be enforced are "equivalent to any of the exclusive rights in the general scope of copyright as specified in Section 106 . . . ." These exclusive rights include the rights to reproduce copies, prepare derivative works, and distribute copies, all of which impact computer software.

In order to ascertain the intent of Congress and determine the appropriate meaning of the term "equivalent," it is necessary to examine the legislative history of section 301. The history of the revision of the copyright law is long and convoluted. Moreover, the specific portions which may have aided in interpreting the final consensus behind the term "equivalent" in section 301 were subject to some events which have left the meaning uncertain. Because there were numerous drafts and revisions, only the highlights of the process will be presented in an effort to illuminate the origin and meaning of the term "equivalent."

The original need for a preemption provision was generated by the "publication" provision in the 1909 act. Initially, the Copyright Office contemplated replacing "publication" as the

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228. "[A] computer program, whether in object code or source code is a literary work and is protected from unauthorized copying, whether from its object or source code version." Apple Computer, Inc. v. Franklin Computer Corp., 714 F.2d 1240, 1249 (3rd Cir. 1983).
232. In the mid-1950's, the Copyright Office began the task of revision by commissioning studies of the various aspects of Copyright law and orchestrating panels to discuss specific problems. The process resulted in a draft bill introduced in Congress in 1964. Preliminary Draft for Revised U.S. Copyright Law, 88th Cong., 1st Sess. (1964) (Judiciary Committee Print) reprinted in REGISTER OF COPYRIGHTS, COPYRIGHT LAW REVISION, Pt. 3 (1964), [hereinafter Preliminary Draft].
trigger for federal protection with the concept of "public dissemination." This would have retained the dual system of copyright governed by both state and federal laws. As a response to sharp criticism regarding the continuation of the dual system, the 1964 preliminary draft presented a unified system. The proposed system provided that "all rights in the nature of copyright in works for which copyright protection is available . . . whether published or unpublished shall be governed exclusively by this title" and established that "no person shall be entitled to copyright, to literary or intellectual property rights, or to any equivalent legal or equitable right in any such work under the common law or statute of any state."

The preliminary draft noted that rights or remedies with respect to "breaches of trust, invasion of privacy, or deceptive trade practices including passing-off and false representation" would not be annulled by the copyright law. Section 19(a) of the 1964 Revision Bill contained similar language but added "breaches of contract" and "defamation" to the list of state rights permitted. Section 19(a) defined the list of causes of action as illustrative examples only, not as a comprehensive list of permissible state rights as had been done in the preliminary draft.

The same illustrative listing language was repeated in section 301 of the 1965 Bill. The 1975 Senate Bill expanded the illus-

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234. Id. at 43.
235. Id.
236. Preliminary Draft, supra note 232, at 18. See also Supplementary Report, infra note 240, at 82.
237. Id.
239. Id. The preliminary draft had stated in section 19(b) that "[n]othing in this title shall annul or limit any rights or remedies under the law of any state . . . [w]ith respect to activities constituting breaches of trust, invasion of privacy, or deceptive trade practices including passing off and false representation." The 1964 Revision Bill stated in section 19(b) that "[n]othing in this title annuls or limits any rights or remedies under the law of any state with respect to . . . activities violating rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by section 5, including breaches of contract . . . ."

While the third clause of section 301(b) is not intended to represent an exhaustive listing, its purpose is to illustrate rights and remedies that are
trative list in (b)(3) (the counterpart of former 19(a) of the 1964 Revision Bill) to include "misappropriation not equivalent to any of such exclusive rights," "trespass," and "conversion."241 The Bill also changed "all rights in the nature of copyright" to "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 . . . ."242 That language was incorporated into the 1976 Copyright Act.243

3. A Question Of Congressional Intent

The major difficulties in interpreting what rights are "equivalent" stem from a deletion without clear explanation of the illustrative examples of nonequivalent rights just prior to the passage of the final version of the 1976 Copyright Act.244 It is not clear what effect the deletion has on the interpretation of equivalent rights.

The deletion came about because the Justice Department disagreed with the final 1975 Senate Bill wording of section 301(b)(3).245 The Department felt that language which would allow state protection under the theory of misappropriation and other language which would decrease the preemptive ef-

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different in nature from copyright and that are preserved under state common law or statute. Some examples might include, depending upon the particular circumstances in the case: "The unauthorized exploitation of a person's name or photograph for commercial advertising;
The unauthorized use of the title of a work in such a way as to constitute passing off a fraud;
The unauthorized disclosure and exploitation of a trade secret."
The language of clause (3) has been worded very carefully in an effort to avoid saying too much or too little.

242. Id.
244. 122 CONG. REC. H10,910 (1976). The House and Senate Judiciary Committees took no action in response to the Justice Department's disapproval of the illustrative examples. The full House removed the list from its version of the bill via a floor amendment by Congressman Seiberling. The lack of objection by the bill's sponsors can be attributed to the desire to insure passage since the 94th Congress was nearing its end. The House amendment was adopted by the Senate and House Conference Committee. Conference Report, supra note 91, at 79.
ffect on sound recordings had anti-competitive implications.\textsuperscript{246} These concerns were addressed in a letter to Representative Kastenmeir, the chairman of the subcommittee which had considered the bill.\textsuperscript{247} Although the thrust of the argument was aimed at misappropriation as a cause of action, viewing the text of the Justice Department letter as impetus for deletion of the illustrative list is helpful in determining appropriate treatment for breach of contract causes of action which might be raised under the Software Act.\textsuperscript{248}

In explaining its opposition to the misappropriation doctrine, the Justice Department stated:

The 'misappropriation' theory is vague and uncertain. The 'misappropriation' provision of section 301 does not indicate what it is that is not to be appropriated. It may extend beyond an appropriation of the forms or styles of ordinary merchandise to include an appropriation of mere ideas, or technology or other know-how long in the public domain. Neither the INS case,\textsuperscript{249} other cases, nor proposed paragraph (3) adequately defines the conduct prohibited, or establishes any standard for distinguishing improper, as opposed to proper, copying.\textsuperscript{250}

The concern expressed, that it is not clear "what" should not be appropriated, parallels the potential dilemma raised by a breach of contract as to "what" is the subject of the contract. Contracts are formed by parties as "private law," between two individuals, to protect a virtually unlimited range of duties. What if the contract in question prohibits copying or selling or renting the copy which are the substance of the section 106 rights? The Justice Department letter did not specifically focus on breach of contract but one passage touched on this issue as raised by the inclusion of breach of contract in the illustrative list. The letter stated:

Apparently what is meant is that, for example, one may sue

\begin{footnotesize}
\textsuperscript{246} Letter to Sen. Kastenmeir, \textit{supra} note 245, at 644.
\textsuperscript{247} Id.
\textsuperscript{248} Commentators have come to differing conclusions regarding the significance of the deletions. Professor Nimmer chose to dismiss the proposed draft and focus on whether the state cause of action required any element other than the mere act of reproduction, distribution, adaptation, performance or display. 1 M. \textsc{Nimmer}, \textsc{nimmer on copyright} \textsection 1.01[B] 1-11 (1980). On the other hand, Mr. Milgram states that because there was no change in the operative provisions of the statute, there was no change in the substantive effect. \textsc{Milgram, trade secrets}, \textsc{12 business organizations} \textsection 2.06[A][5], at 2-72.14 n.67 (1980).
\textsuperscript{250} Letter to Sen. Kastenmeir, \textit{supra} note 245, at 645.
\end{footnotesize}
to enjoin reproduction of an uncopyrighted book if there is a contract between the parties prohibiting the defendant from reproducing it. Thus reproducing the literary expression itself may be prohibited under a cause of action for breach of contract.\textsuperscript{251}

The letter does not address the implications of a contract which forbids the copying of a copyrighted book,\textsuperscript{252} but the letter goes on to compare the result in the previous breach of contract example to another cause of action included in the illustrative list, misappropriation. According to the letter:

This apparently would permit states to prohibit the reproduction of the literary expression itself under a 'misappropriation' theory. 'Misappropriation' would stand in the place of breach of contract as a cause of action in the book example above. Any copying of copyrightable subject matter that has not been federally protected could be prohibited under the amorphous theory of 'misappropriation.'\textsuperscript{253}

This comparison of the prohibition of reproduction under the theories of misappropriation and breach of contract demonstrates that the same right can be protected under different labels. The letter continues:

The Senate Report states that reproduction of 'the literary expression' itself should be preempted and should not be able to be prohibited under the 'misappropriation' theory; yet that is what inclusion of the term 'misappropriation' in paragraph (3) would prohibit. The preemption sought by the omnibus Copyright Act revision bill would be nullified by paragraph (3).\textsuperscript{254}

Assuming that the prohibition of reproduction of the literary expression under a misappropriation theory is to be preempted, the inquiry is whether a contract cause of action that attempts to prohibit reproduction of the literary expression should also be preempted.\textsuperscript{255} Touching on this issue, the letter concluded:

\begin{flushright}
\textsuperscript{251} \textit{Id.}
\end{flushright}

\begin{flushright}
\textsuperscript{252} This example reflects the old distinction between a published and unpublished book and the availability of federal copyright protection.
\end{flushright}

\begin{flushright}
\textsuperscript{253} Letter to Sen. Kastenmeir, \textit{supra} note 245, at 645.
\end{flushright}

\begin{flushright}
\textsuperscript{254} \textit{Id.}
\end{flushright}

\begin{flushright}
\textsuperscript{255} The implication is that if a copyright owner wanted to simply sue for a breach of contract and obtain damages, but not an injunction or any of the copyright remedies, that cause of action might be construed as seeking to assert one of the five exclusive rights. The question is when a copyright owner would prefer to sue in contract rather than in copyright. The author might not want to register the copyright because of potential disclosure of trade secrets if the source code would need to be deposited on registration. Under this scenario, a suit under the contract would be a safer alter-
While ‘misappropriation’ is almost certain to nullify preemption, any of the causes of action (emphasis added) listed in paragraph (3) following the phrase ‘as specified by section 106’ may be construed to have the same effect (emphasis added).

For example, a court could construe the copying of an uncopyrighted published book to be an invasion of the author’s right to privacy, i.e., the right to keep control of the publication of his book privately to himself.\footnote{256}

The warning that any of the causes of action in the illustrative list may be construed to nullify preemption should be considered when analyzing whether a right sought to be enforced is “equivalent” to one of the exclusive rights under copyright. The purpose of a state right or statute may not be to abrogate preemption, but if the effect would be to do so under a particular set of facts or a specific state statute, the state right should not be permitted to interfere with the scheme of copyright protection.

C. Preemption Under Section 301 in the Courts

Court decisions since the passage of the 1976 Copyright Act have struggled with the determination of just exactly what is meant by an “equivalent” right. Some of the cases have wrestled with the same concerns that the Justice Department letter foreshadowed. An examination of some of the cases involving the relationship of preemption under section 301 to causes of action such as misappropriation, conversion, tortious interference with contract and unjust enrichment will prove helpful in analyzing the effect of section 301 on breaches of contract.
Such causes of action are representative of the various types of interests which state common law and statutes have traditionally sought to protect. The judicial reasoning behind the decisions to preempt or not to preempt under section 301 can be applied by analogy to the breach of contract cause of action.

1. The "Different in Kind" and "Elements" Test

In Harper & Row Publishers v. Nation Enterprises, one publisher sued another publisher for violation of the Copyright Act and for both conversion and tortious interference with contract.257 The state law claims were found to be equivalent to the exclusive section 106 rights to produce and distribute for sale and thus were preempted by the copyright law.258 On appeal, the Second Circuit held that Harper & Row could not prevail on either state law claim.259


259. Harper & Row II, 723 F.2d at 201. The Second Circuit exposed the attempt to rephrase the copyright claim as a state conversion claim:

With regard to the issue of conversion, [Harper & Row and Reader's Digest] seem unable to decide how to plead the factual elements supporting their claim. Their amended complaint asserted conversion based on the unauthorized publication of The Nation article. In this court they propound a theory which rests the tort upon the unlawful possession of the physical property of the Ford manuscript. In doing so, they have placed themselves neatly upon the horns of a dilemma. If unauthorized publication is the gravaman of their claim, then it is clear that the right they seek to protect is coextensive with an exclusive right already safeguarded by the Act—namely, control over reproduction and derivative use of copyrighted material. As such, their conversion claim is necessarily preempted.

Id. The court went on to note that alternatively the claim would not stand as one for conversion because the elements of exercise of unauthorized dominion and control and complete exclusion of the rightful possession were not present. Id.

As to the claim of tortious interference with contractual relations, the court found an "infirmity" on the face of the complaint which alleged the commission of a tort "by destroying the exclusive right of an author and his licensed publishers to exercise and enjoy the benefit of the pre-book publication serialization rights." Id. The court reasoned as follows:

If there is a qualitative difference between the asserted right and the exclusive right under the Act of preparing derivative works based on copyrighted work, we are unable to discern it. In both cases it is the act of unauthorized publication which causes the violation. The enjoyment of benefits from derivative use is so intimately bound up with the right itself that it could not possibly be deemed a separate element.

Id. The court noted that the attempt to plead the additional elements of awareness and intentional interference which are not part of a copyright infringement claim
The district court advised that, in determining whether a state cause of action is equivalent to a federal section 106 right, the rights to be protected under the state and federal laws must be compared. The court noted that in making this comparison "the fact that the state cause of action is composed of fewer elements of proof than a copyright infringement claim is not in itself dispositive."

The court reviewed that part of the legislative history which commented on some of the "evolving common law rights" which had been contained in the deleted illustrative list. Congress had stated that such rights would "remain unaffected as long as the cause of action contains elements, such as invasion of personal rights or a breach of trust or confidentiality, that are different in kind from copyright infringement." According to the court, the question to be asked was whether the state cause of action protects rights under the facts of the case that are different in kind or qualitatively different from exclusive section 106 rights such as reproduction, distribution and adaptation protected by the copyright statute. This approach created judicial standards against which the various state causes of action can be applied in a preemption analysis. If the causes of action do not meet the Harper & Row standards, they will be deemed to be equivalent.

The court looked at the essence of the plaintiff's conversion claim. The claim stated that the defendants had obtained a copy of the unpublished manuscript, copied portions in an article which they published and, by such unauthorized use, deprived the plaintiff of the profits under its contract with a third publisher to reproduce the manuscript. The court stated that "goes merely to the scope of the right; it does not establish qualitatively different conduct on the part of the infringing party, nor a fundamental nonequivalence between the state and federal rights implicated." 

261. Id. Section 501(a) of the Copyright Act of 1976, 17 U.S.C. § 501(a) (1982) provides that anyone who violates any of the exclusive rights of the copyright owner, as provided in section 106, is an infringer of the copyright. In order to establish copyright infringement, a plaintiff must prove his ownership of a copyright and that the defendant "copied" the plaintiff's work. Ferguson v. National Broadcasting Co., Inc., 584 F.2d 111, 113 (5th Cir. 1978) (citing 3 M. Nimmer, Nimmer on Copyright §§ 13.01, 13.02(A) (1978)).
263. Id. See also House Report, supra note 91, at 132.
265. Id.
266. Id.
this conversion claim did not address the right to physical possession of the manuscript but instead sought to protect the exclusive rights to reproduce and distribute the manuscript and was therefore preempted by section 301.\textsuperscript{267} The court of appeals also found that "the right they seek to protect is co-extensive with an exclusive right already safeguarded by the Act."\textsuperscript{268}

The court next examined the claim for tortious interference with contract.\textsuperscript{269} The claim alleged that the defendants were aware of the plaintiff's contract with the third publisher and intentionally interfered when they published their article.\textsuperscript{270} The court found this claim to be closely analogous to the exclusive right to prepare derivative works and to distribute by sale or other transfer of ownership.\textsuperscript{271} The court of appeals concluded that it was the unauthorized publication which caused the violation in both instances; thus the appellate court could discern no qualitative difference between them.\textsuperscript{272}

This claim contained the same factual allegations as the conversion claim, as well as the additional elements of awareness (knowledge) and intentional interference (intent).\textsuperscript{273} The lower court noted that the tortious interference claim was redundant because the two additional elements required by state law did not afford the plaintiffs rights that were different in kind from the exclusive rights protected by the copyright law;\textsuperscript{274} a state law claim may require elements not required by a copyright claim, but if the rights sought to be protected by the

\begin{itemize}
  \item \textsuperscript{267} Id.
  \item \textsuperscript{268} Harper & Row II, 723 F.2d at 201. See supra note 259.
  \item \textsuperscript{269} Harper & Row I, 501 F. Supp. at 852.
  \item \textsuperscript{270} "To be liable for interference with contractual relations, one must be aware of the existence of the contract . . . and additionally must know or be substantially certain that one's acts will cause a breach of contract or diminution in the value of contractual rights." Id. at n.12 (citations omitted).
  \item \textsuperscript{271} Id. at 853.
  \item \textsuperscript{272} Harper & Row II, 723 F.2d at 201. See supra note 259.
  \item \textsuperscript{273} Harper & Row I, 501 F. Supp. at 853.
  \item \textsuperscript{274} Harper & Row I, 501 F. Supp. at 854. The court noted that the additional elements were not pleaded under the copyright claim because they are not required under the copyright law and that the mere presence of additional elements would not preclude a finding of preemption. Id. The careful analysis shown by the court was reduced to a shorthand version in Kamakazi Music Corp. v. Robbins Music Corp., 522 F. Supp. 125 (S.D.N.Y. 1981). The Kamakazi court's treatment of the section 301 issue consisted of a statement that "the tortious interference with contract claim is based on the same factual allegations as the copyright infringement claims, that it does not afford plaintiffs rights 'different in kind' from those protected by the copyright laws and thus that it is preempted under the Copyright Act, 17 U.S.C. § 301." Id. at 137 (citing Harper & Row I, 501 F. Supp. 848).
\end{itemize}
two claims are not different in kind, the claim will be preempted.\textsuperscript{275} In support of this view, the Harper & Row court relied on an excerpt from the 1976 House Report which stated that "[n]othing in the bill derogates from the rights of parties to contract with each other and to sue for breaches of contract, however, to the extent that the unfair competition concept known as 'interference with contract relations' is merely the equivalent of copyright protection, it would be preempted."\textsuperscript{276}

As a final step in the preemption analysis, the court examined the measure of recovery under the copyright act as compared to that available under state tort law and found it to be equivalent.\textsuperscript{277} In a copyright infringement action, the copyright owner can recover "[t]he actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages."\textsuperscript{278} The court noted that "[b]ecause copyright infringement is 'in the nature of a tort'" the term "'actual damages' is given the same meaning as with other torts."\textsuperscript{279} The court concluded that the tortious interference claim provided the same measure of recovery as a copyright infringement claim; therefore, the tort rights and remedies would be equivalent to those available under copyright law.\textsuperscript{280}

\begin{itemize}
\item \textsuperscript{275} Harper & Row I, 501 F. Supp. at 853-54.
\item \textsuperscript{276} House Report, supra note 91, at 132.
\item \textsuperscript{277} Harper & Row I, 501 F. Supp. at 853. Support for this approach can be found in the 1976 House Report which states that "the examples in clause (3), while not exhaustive are intended to illustrate rights and remedies (emphasis added) that are different in nature from the rights comprised in a copyright and that may continue to be protected under state common law or statute." House Report, supra note 91, at 132.
\item \textsuperscript{278} 17 U.S.C. § 504(b) (1982).
\item \textsuperscript{279} Harper & Row I, 501 F. Supp. at 853, n.15 (citing Screen Gems Columbia Music Inc. v. Metlis and Lebow Corp., 453 F.2d 554 (2d Cir. 1972) (referring to copyright infringement as in the nature of a tort); Aladdin Mfg. Co. v. Mantle Lamp Co. of America, 116 F.2d 708, 716 (7th Cir. 1941) (referring to actual damages under the trademark laws)).
\item \textsuperscript{280} Id. at 853. The court concluded its examination of the remedies issue in a footnote as follows:
\end{itemize}

Thus, damage to contractual relations caused by a tort, measured by the lost profits that would have accrued to plaintiffs, are recoverable in tort actions. Sperry Rand Corp. v. ATO, Inc., 447 F.2d 1387, 1394 n.4 (4th Cir. 1971), cert. denied, 405 U.S. 1017 (1972). Lost profits are available as a measure of damages both in copyright infringement cases and in interference with contract cases. Compare 3 M. Nimmer, NIMMER ON COPYRIGHT § 14.02 at 14-7 (1979) with Lurie v. New Amsterdam Casualty Co., 70 N.Y. 375, 382, 1 N.E.2d 472, 473 (1938) (attorney's damages for inducement by insurance company of breach of retainer agreement by client is contractually agreed contingent
The Harper & Row analysis was taken a step further in Schuchart & Associates v. Solo Serve Corp. The district court applied the Harper & Row "different in kind" and "qualitatively different" standards and then went on to discuss the rationale for preemption under an additional independent basis.

The case involved actions charging a conspiracy to infringe copyright, infringement of copyright, unfair competition and unjust enrichment (quantum meruit). The plaintiffs, architectural and engineering firms, alleged the unauthorized use of copyrighted architectural and mechanical drawings and specifications previously prepared for a different shopping center project.

The court initially outlined the elements of the unfair competition cause of action for misappropriation and applied the "different in kind" and "qualitatively different" standards of Harper & Row. The court asserted that the plaintiff must prove that the defendant copied the work in order to be able to establish copyright infringement and that the same facts must be established in the misappropriation action. The court concluded that just because "the cause of action for misappropriation percentage of client's eventual recovery); Simon v. Royal Business Funds Corp., 34 App. Div. 2d 758, 760, 310 N.Y.S. 2d 409, 411 (1st Dept. 1970), aff'd 29 N.Y.2d 692, 275 N.E.2d 21, 325 N.Y.S.2d 649 (1971); Anthony v. George T. Bye, Inc., 243 App. Div. 390, 277 N.Y.S. 222 (1st Dept. 1935) (damages are limited to full payment for services performed by plaintiff under contract and are not recoverable if he has been paid); Restatement (Second) of Torts § 766, comment t (1979).

Id. at 833 n.15.
282. Id. at 946.
283. Id. at 934.
284. The elements outlined by the court are:
   (1) the Plaintiff created his product through extensive time, labor, skill or money;
   (2) the Defendant used Plaintiff's product in competition with Plaintiff, gaining a special advantage (a free ride) because the Defendant bore little or no burden of the expense of development; and
   (3) that Defendant's use of Plaintiff's product caused commercial damage to Plaintiff.

Id. at 943-44 (citing Synercom Technology, Inc. v. University Computing Co., 474 F. Supp. 37, 29 [sic 39] (N.D.Tex. 1979)). The "different in kind" and "qualitatively different" standards are found in Harper & Row I, 501 F. Supp. at 852; see supra text accompanying notes 257-64.

285. This redundancy concept was used in Mitchell v. Penton, 486 F. Supp. 22 (N.D. Ohio 1979). The Mitchell court also analyzed the potential problem with allowing a misappropriation cause of action even if the copyright claim failed:
tion also includes the element of Defendants' use of Plaintiffs' product in competition with Plaintiffs to the commercial damage of Plaintiffs, does not render 'different in kind' the rights under state and federal law.\textsuperscript{286} The court noted that the plaintiffs had charged that "[d]efendants did not independently create, produce, or distribute said architectural and engineering drawings and specifications."\textsuperscript{287} In the court's view, this language implicated the same conduct (copying) which was the basis of the copyright infringement action and therefore, despite possible additional elements, the cause of action for misappropriation was preempted.\textsuperscript{288}

The court stressed that the comparison of the elements of the causes of action must be in the context of the specific facts in the case at bar. The argument that the same state cause of action might, under a different set of facts, protect different rights "does not answer the directive of Section 301."\textsuperscript{289} In other words, the preemption analysis must be based on a case by case examination and "not hypothetical rights that might truly differ from the exclusive rights of copyright."\textsuperscript{290}

However, should plaintiff Mitchell fail to prove infringement or if infringed, defendant should show that the copyrights are invalid, then Sears and Compco come into play. These cases hold that once patent protection (similarly copyright protection) is denied, the alleged infringer has "every right to" copy the patented product or copyrighted work of authorship. Plaintiff alleges "misappropriation by Penton of 'many of the factual recitations contained within Records Retention.'" If proved, such a claim asserts in effect, if not in substance, what Stiffel and Sun-Brite unsuccessfully claimed in Sears and Compco.

\textit{Id.} at 26.


\begin{quote}
More specifically, plaintiff alleges that Newsweek copied from his book without giving him proper attribution and that failure to do so damaged him monetarily. Plaintiff says that failure to attribute constitutes an additional element, separate from the act of reproduction and outside the general scope of copyright, and therefore there is no preemption. See 1 \textsc{nimmer}, \textsc{nimmer on copyright} § 1.01(B) at 1-11 (1979). This argument must fail because plaintiff does not cite, and this court has been unable to locate, any case recognizing a common-law action for failure to attribute or misappropriation without attribution. Certainly a non-existent doctrine cannot supply the additional element needed to save a common-law action from preemption.
\end{quote}

\textit{Id.} at 149.

\textsuperscript{287} Schuchart, 540 F. Supp. at 944.

\textsuperscript{288} \textit{Id.}

\textsuperscript{289} \textit{Id.}

\textsuperscript{290} \textit{Id.} at 944 n.12.
Next, the court applied the *Harper & Row* "different in kind" and "qualitatively different" standards to the action for unjust enrichment or quantum meruit.\(^{291}\) The court concluded that the cause of action for unjust enrichment or quantum meruit did not involve rights within the scope of copyright.\(^{292}\) The court outlined the elements for recovery under quantum meruit and declared that the recovery was based "upon the promise implied by law to pay for beneficial services rendered and knowingly accepted."\(^{293}\) The court characterized the services as the "architectural and mechanical services rendered by defendant’s acceptance and use of the plaintiff's drawings and specifications."\(^{294}\) According to the court, the rights sought to be enforced under quantum meruit were the rights to recover the value of services rendered and not the exclusive rights to copy and distribute the plaintiff architectural and engineering firms' plans and drawings.\(^{295}\) The court examined the measure of recovery sought by the plaintiff and found that there was no attempt to recover damages analogous to the actual damages available under section 504(b) of the copyright statute.\(^{296}\) The court concluded that the cause of action for unjust enrichment was not preempted.\(^{297}\)

\(^{291}\) "The cause of action for quantum meruit 'is founded upon the principle that it is inequitable for one to refuse to pay for benefits received or work performed and accepted with his knowledge and consent by a person who should expect remuneration therefore from him.'" *Id.* at 945 (citing Simon v. L.D. Brinkman & Co., 449 S.W.2d 90, 92 (Tex. Civ. App.—Waco 1969), rev'd on other grounds, 459 S.W.2d 190 (Tex. 1970)).

\(^{292}\) *Schuchart*, 540 F. Supp. at 945.

\(^{293}\) *Id.* According to the court, the elements required for recovering under quantum meruit are as follows:

1. valuable services were rendered or materials furnished,
2. to the person sought to be charged,
3. which services and materials were accepted by the person sought to be charged, used and enjoyed by him,
4. under such circumstances as reasonably notified the person sought to be charged that the Plaintiff, in performing such services was expecting to be paid by the person sought to be charged.

*Id.* (citing Montes v. Naismith and Trevino Construction Co., 459 S.W.2d 691, 694 (Tex. Civ. App.—Corpus Christi 1970, writ ref'd n. r. e.)).

\(^{294}\) *Schuchart*, 540 F. Supp. at 945. The plans were to be utilized to construct the structure depicted in the drawings. *Id.* at 933-34.

\(^{295}\) *Id.* at 945.

\(^{296}\) 17 U.S.C. § 504(b) (1982). See *supra* notes 266-69 and accompanying text.

\(^{297}\) *Schuchart*, 540 F. Supp. at 945.
2. An Independent Basis for Preemption

The Schuchart court did not end its examination of the unjust enrichment claim with an analysis under section 301 and the Harper & Row standards. To further buttress its finding that the claim was not preempted, the court reviewed Supreme Court preemption cases and looked at the purpose of copyright law.298

The court initially referred to the Supreme Court’s holding in Sears, Roebuck & Co. v. Stiffel Co.299 that “state laws are preempted when their scheme of protection ‘clashes with the objectives of the federal patent [or copyright] laws’” as “an independent basis for preemption.”300 The court then looked to the Supreme Court’s language in two opinions, Sears and Compco v. Day-Brite Lighting,301 and stressed that “[t]he Court held in both cases that state law could not be used to extend patent protection where such protection would interfere with the system of laws passed by Congress to balance the promotion of invention and authorship while preserving free

298. Id. at 946. It is interesting to note the point at which the court enters into this “independent basis” analysis. The court did not utilize this test after finding the misappropriation cause of action preempted. Rather, the independent basis was examined after the court had found the unjust enrichment cause was not preempted. The court regarded this second step of general preemption analysis to be necessary only if no preemption is found first under section 301 and the Harper & Row standards. By this analysis, the court implies that, although a cause of action may be preempted by the statutory section 301 standard, it may still fall prey to the underlying principles of preemption which were in effect prior to the enactment of section 301. See id.


300. Schuchart, 540 F. Supp. at 946 (citing Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 231 (1964)). In both Sears and Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964), the issue was “whether a state could, under principles of a state unfair competition law, preclude the copying of mechanical configurations which did not possess the qualities required for the granting of a federal design or mechanical patent.” Goldstein v. California, 412 U.S. 546, 569 (1973). The Sears opinion contained the following reasoning:

[T]he patent system is one in which uniform federal standards are carefully used to promote invention while at the same time preserving free competition. Obviously, a state could not, consistently with the Supremacy Clause of the Constitution, extend the life of a patent beyond its expiration date or give a patent on an article which lacked the level of invention required for federal patents. To do either would run counter to the policy of Congress of granting patents only to true inventions, and then only for a limited time. Just as a State cannot encroach upon the federal patent laws directly, it cannot, under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws.

Sears, 376 U.S. at 230-31 (footnotes omitted).

competition.”

The Schuchart court also examined Kewanee Oil Co. v. Bi-cron Corp. in which the Supreme Court concluded that state trade secret law is not preempted by patent law. In Kewanee the preemption analysis was extended to examine the objectives of the federal and state laws in order to determine what effect enforcement of state law would have on the purposes of the federal law. The Supreme Court determined that “the patent policy of encouraging invention is not disturbed by the existence of another form of incentive to invention.” Potential conflict was found to exist for patentable inventions, but the Court felt that the broader protection of patent law would make such conflict minimal or unlikely.

The Supreme Court declared the two purposes underlying the patent laws: “[t]o promote the Progress of Science and useful Arts” by offering a limited period of exclusion as incentive, and to insure full and adequate disclosure so that the public could benefit after the patent expired. It was stated that the function of the preemption inquiry was to determine whether, under the circumstances of the particular case, the state law “stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.” The Schuchart court viewed this statement by the Court as a rephrasing of the preemption question.

302. Schuchart, 540 F. Supp. at 946. The Schuchart court stated that “the section has not entirely superceded the analysis of prior case law.” Schuchart, 540 F. Supp. at 946. The court saw section 301 as expressly preempting redundant state claims while prior case law preempted only state laws which clashed with copyright law objectives. Id.

303. 416 U.S. 470 (1974). The case involved the development of a seventeen inch crystal used in detecting ionizing radiation which was not sufficiently novel to fall within the constructs of patent law. Id.

304. Kewanee, 416 U.S. at 493.

305. Id. at 479-93.

306. Id. at 484.

307. Id. at 491.

308. Id. at 480-81.

309. Id. at 479 (citing Hines v. Davidowitz, 312 U.S. 52, 67 (1941)).

310. Schuchart, 540 F. Supp. at 947. The Kewanee Court saw trade secret law as a weaker form of protection and reasoned:

The interest of the public is that the bargain of 17 years of exclusive use in return for disclosure be accepted. If a state, through a system of protection, were to cause a substantial risk that holders of patentable inventions would not seek patents, but rather would rely on the state protection, we would be compelled to hold that such a system could not constitutionally continue to exist. In the case of trade secret law no reasonable risk of deterrence from
The purpose of the copyright was also examined. In ascertaining the purpose of the copyright law in relation to preemption, the Schuchart court looked to Goldstein v. California and quoted as follows:

The objective [of copyright law] is to promote the progress of science and the arts. . . . To accomplish [this] purpose, Congress may grant to authors the exclusive right to the fruits of their respective works. . . . In other words, to encourage people to devote themselves to intellectual and artistic creation, Congress may guarantee to authors and inventors a reward in the form of control over the sale or commercial use of copies of their works.

The holding in Goldstein, however, was that states were free to protect and encourage the works of their residents when the Congress had failed to do so adequately.

Finally, the Schuchart court decided that allowing an unjust enrichment claim would not "conflict unacceptably with federal copyright policy." The court asserted a Kewanee Oil argument that "[t]o the extent that the state law of unjust enrichment protects and promotes intellectual endeavor, en-

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*Kewanee*, 416 U.S. at 489.

Thus, the question to be asked with software protection appears to be whether or not the mass-marketed software license provides weaker protection for software than copyright law. By purporting to retain title, the licenses allow the imposition of all contract terms, perpetually, and attempt to provide access to copyright remedies for breach of the terms.

311. 412 U.S. 546 (1973) (addressing the states' ability to protect music recordings which were not the subject of copyright law).

312. *Schuchart*, 540 F. Supp. at 947. In *Goldstein*, the Court decided that Sears and Compco did not apply to the preemption analysis because Congress had not explicitly determined that recordings were not entitled to protection. *Goldstein*, 412 U.S. at 570-71. The court appears to be following a suggestion that in resolving the issues raised by section 301, "courts should look to the analytical techniques of Goldstein and Kewanee for practical guidelines" because "their spirit as well as their method will properly form the touchstone for administration of section 301." *Goldstein*, *Preempted State Doctrines, Involuntary Transfers and Compulsory Licenses: Testing the Limits of Copyright*, 24 U.C.L.A. L. REV. 1107, 1121-23 (1977). The article suggested:

[For any state doctrine in dispute, some factually grounded questions [need] be asked. Does the state law doctrine offer protection as rigorous as that offered by the copyright law? Is the state law likely to divert investment away from the objectives and limits set by copyright and toward those set by other, conflicting systems? To be sure, answers will be hard to come by. But at least the inquiry will have some grounding in the purposes of copyright.]

Id. at 1123.

313. *Goldstein*, 412 U.S. at 571.

forcement of the action does not conflict with the congressional purpose of encouraging intellectual and artistic creation.\textsuperscript{315} The court concluded that the action for quantum meruit does not conflict with the policy of copyright law to protect only expression and not ideas.\textsuperscript{316}

D. State Contract Law and Section 301 in the Courts

The Software Act purports to set out the contract terms which may be deemed accepted in software transactions.\textsuperscript{317} An overview of cases which have grappled with the contract law/copyright law preemption issues will bring the Software Act issues more clearly into focus.

In \textit{Fantastic Fakes, Inc. v. Pickwick Intern. Inc.},\textsuperscript{318} the U.S. Court of Appeals for the Fifth Circuit addressed the relationship between Georgia rules of contract construction and federal copyright law.\textsuperscript{319} The copyright owner had brought an action for copyright infringement and breach of the license agreement.\textsuperscript{320} The defendant allegedly had breached a term of his contract to distribute copies by failing to affix proper copyright notice.\textsuperscript{321} Because the parties had stipulated in the licensing agreement that the contract was to be “construed and enforced in accordance with the laws of the state of Georgia,”\textsuperscript{322} the court was initially required to determine the extent to which Georgia law would apply.\textsuperscript{323}

The court recognized that the rights and obligations created by the copyright law could not be superseded simply by the use of a contract clause designating a choice of law.\textsuperscript{324} In support of

\textsuperscript{315} \textit{Id.}

\textsuperscript{316} \textit{Id.} In Werlin v. Reader's Digest Association, Inc., 528 F. Supp. 451 (S.D.N.Y. 1981), the court upheld a claim for unjust enrichment on the basis that the elements of a quasi-contract claim are significantly different and the rights protected are qualitatively different than those protected by copyright. The author had been encouraged to submit materials and ideas for articles over an extended period of time to a publisher. One of the ideas was developed into a new article by a staff writer and published. The preemption analysis was cursory and the court did not choose to examine the claim under the independent basis test as was later done by the Schuchart court in 1982.

\textsuperscript{317} \textit{See supra} note 143.

\textsuperscript{318} 661 F.2d 479 (5th Cir. 1981).

\textsuperscript{319} \textit{Id.} at 482-83.

\textsuperscript{320} \textit{Id.} at 481.

\textsuperscript{321} \textit{Id.}

\textsuperscript{322} \textit{Id.} at 482.

\textsuperscript{323} \textit{Id.}

\textsuperscript{324} \textit{Id.} at 483.
this proposition, the court quoted the Supreme Court's opinion in *Sears, Roebuck & Co. v. Stiffel Co.*\(^{325}\) wherein

the Court stated that federal patent and copyright law, "like other laws of the United States enacted pursuant to constitutional authority, are the supreme law of the land. . . . When state law touches upon the area of these federal statutes, it is 'familiar doctrine' that the federal policy 'may not be set at naught, or its benefits denied' by the state law."\(^{326}\)

In the court's view, the choice of law provision in the contract "merely designates the state whose law is to be applied to the extent its use is not preempted or contrary to the policies of the 1909 and 1976 Copyright Acts."\(^{327}\) Acknowledging that "the context of the Copyright law in which the agreement exists cannot be overlooked . . .," the court concluded that "application of Georgia's rules to determine *contractual intent*" (emphasis added) is not preempted nor violative of federal policy.\(^{328}\) The court cited three cases, two pre-1978 copyright cases and a Supreme Court patent case, to support this assertion.\(^{329}\)

The first case cited, *Kingsrow Enterprises, Inc. v. Metromedia, Inc.*,\(^{330}\) does not provide helpful reasoning to support the *Fantastic* court's "contractual intent" conclusion. *Kingsrow* was simply a district court opinion which briefly and incorrectly summarized an earlier Second Circuit opinion as "[b]uilding upon the broadly undisputed proposition that the validity of a transfer of a copyright is to be determined by state law."\(^{331}\) The *Kingsrow* suit was filed to determine whether the defendant acquired the copyright to 26 one-hour episodes of "The Judy Garland Show" at a sheriff's sale.\(^{332}\) Thus, the circuit court case cited was not critical to the outcome of the *Kingsrow* case just as the *Kingsrow* case was not strong authority for the result in the *Fantastic* case.

The second case cited by the Fifth Circuit in *Fantastic*, and much more on point, was the same Second Circuit case dis-
cussed in *Kingsrow, Bartsch v. Metro-Goldwyn Mayer, Inc.*

In *Bartsch*, the copyright owner attempted to enjoin an assignee of motion picture rights from permitting a televised version to be broadcast. The *Bartsch* court was required to interpret the language of the licensing agreements and to determine whether the disputed rights were included within the terms of the license. In deciding whether these issues should be controlled by state or federal law, the court stated that "[t]he development of a ‘federal common law’ of contracts is justified only when required by a distinctive national policy and . . . the general interest that copyrights, like all other forms of property, should be enjoyed by their true owners is not enough to meet this . . . test.”

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333. 391 F.2d 150 (1968).
334. Id. at 151.
335. “[D]ecision turns rather on whether a broad assignment of the right ‘to copyright, vend, license and exhibit such motion picture photoplays throughout the world’ includes the right to ‘license’ a broadcaster to ‘exhibit’ the copyrighted motion picture by a telecast without a further grant by the copyright owner.” Id. at 153.
336. Id. (citations omitted). The use of the term “owners” with regard to software is such a situation. It is not a question of who the true owner is but rather whether a certain person is an owner for the purposes of access to the rights provided to such owners under the copyright law.

The issue of whether or not the status of copy owner is determined under state law or federal law is similar to the issue examined by the Fifth Circuit when the need for a “federal common law of contracts” was dismissed.

On some issues in private federal question cases, there may be compelling reasons for ignoring state law and following an independent federal rule, as where Congress has clearly indicated a substantive policy it wishes to have followed, or there are indications of a leaning toward uniformity and there is no significant state interest to be served by absorption of the state law as the rule of decision. In other cases application of the state law may seem the wiser choice. De Sylva v. Ballentine [351 U.S. 570 (1956)] was such a case. The issue there was whether the illegitimate son of a copyright owner is one of the “children” of the owner within the meaning of the copyright statute. The Court recognized that the meaning of the word in the statute is a federal question, but since there is no federal law of domestic relations, and this is primarily a matter of state concern, the Court thought it best to draw on “the ready-made body of state law” to define what Congress meant by “children.” The case shows, however, the greater flexibility that a court has when state law is absorbed, as compared to the Erie-type situations where it is controlling of its own force. The court said that a state would not be entitled to use the word “children” in an *entirely strange to its ordinary usage*, and that only to the extent that there are permissible variations in the ordinary concept of “children” would the state definition be adopted. It also indicated that the federal court is free to decide for itself which state’s law is applicable—as it would not be if the Erie doctrine applied—although only one state was involved in the De Sylva case and there was no need to make a conflict of laws decision.

The only language in Bartsch which even remotely resembles the glib summary offered in the Kingsrow case was the statement by the court that "the fact that plaintiff is seeking a remedy granted by Congress to copyright owners removes any problem of federal jurisdiction but does not mean that federal principles must govern the disposition of every aspect of her claim." This language must be subjected to a tortured interpretation to reach the assertion that "the validity of a transfer of a copyright is to be determined by state law."  

The Bartsch court recognized that because (1) the assignor and original grantor of the copyright were dead and (2) the lawyer who drafted the license had no recollection of the negotiations forty years ago, reconstructing the actual intent of the parties was impossible. According to the court, the irony of the situation was that "unfortunately, when we turn to state law, we find that it offers little assistance." The court concluded that "[i]n the end, [the] decision must turn, as Professor Nimmer has suggested, . . . on a choice between two basic approaches more than on an attempt to distill decisive meaning out of language that very likely had none." The court was forced to choose between a narrow interpretation that "a license of rights in a given medium . . . includes only such uses as fall within the unambiguous core meaning of the term" or a broader interpretation under which "the licensee may properly pursue any uses which may reasonably be said to fall within the medium as described in the license." The court opted for the broader approach which permitted the licensee to pursue a new use involving the broadcasting of a televised version.

The third case cited by the Fifth Circuit in Fantastic was Aronson v. Quick Point Pencil Co. The case involved an agreement by a novelty manufacturer to pay a five percent royalty in return for the exclusive right to make and sell a key holder on

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337. Bartsch, 391 F.2d at 154.
339. Bartsch, 391 F.2d at 155.
340. Id. at 154.
341. Id. at 155 (citation omitted).
342. Id.
343. Id.
which a patent was pending. The royalty was to be reduced to two and one-half percent if the patent was not granted within five years. The manufacturer sought to have the agreement declared unenforceable, on the ground that "state law which might otherwise make the contract enforceable was preempted by federal patent law."

The Aronson court determined that state law should apply because the contract expressly stated an alternative obligation should the patent not issue. According to the court,

[commercial agreements traditionally are the domain of state law. State law is not displaced merely because the contract related to intellectual property which may or may not be patentable; the states are free to regulate the use of such intellectual property in any manner not inconsistent with federal law.]

The court found that the key holder had entered the public domain on its manufacture and that the contract did not forbid the copying of the idea by the public. The court stated that the contract "merely requires Quick Point to pay the consideration which it promised in return for the use of a novel device which enabled it to pre-empt the market." After concluding that application of Georgia rules to determine contractual intent was not preempted, on the basis of Kingsrow, Bartsch and Aronson, the Fantastic court commented that:

It is possible to hypothesize situations where applications of particular state rules of construction would so alter rights granted by the copyright statutes as to invade the scope of copyright law or violate its policies. We need not, however, set forth these extreme situations for it is clear that the application of Georgia rules of construction in the case at bar is not one of them.

The Fifth Circuit concluded that under Georgia law, the promise to place a copyright notice on each copy was a covenant of performance and not a condition precedent. The distinction is important because "if a breach of a condition precedent is found then the authority to manufacture and distribute copy-

345. Id. at 259.
346. Id.
347. Id. at 260.
348. Id. at 262.
349. Id.
350. Id. at 264.
351. Id.
352. Fantastic, 661 F.2d at 483.
353. Id. at 484.
righted material granted in the licensing agreement did not vest."³⁵⁴ If so, the manufacture of the copies was without authority of the copyright owner and thus an infringement. The court recognized that a "mere breach of covenant may support a claim of damages for breach of contract but will not disturb the remaining rights and obligations under the license including the authority to use the copyrighted material."³⁵⁵

The Fifth Circuit apparently viewed the aspect of contract law with which it dealt as mere rules of construction. Conflicts arise, however, when the state law which is considered goes beyond rules of construction and a determination of the intent of the parties. If the statute addresses the subject matter of copyright and equivalent rights, then it is preempted by the copyright law.³⁵⁶ It can be argued that state commercial law and contract common law are not preempted because they are not specifically tailored to address only the subject matter of copyright, and, although they may affect the outcome, they deal with the relationship between the parties and not the exclusive rights of the copyright owner. As recognized by the Fantastic court, "[a]lthough the parties stipulated in the licensing agreement that Georgia law would govern the construction and enforcement of their contractual obligations, this does not mean that all rights and obligations created by the copyright acts are superseded by Georgia law."³⁵⁷

The courts have encountered problems when the parties to a suit have labeled their rights as being contractual in order to avoid equivalent rights preemption analysis.³⁵⁸ An example of such an attempt by a plaintiff can be found in Smith v. Weinstein,³⁵⁹ where a comedy writer alleged that a motion picture company had used the writer's ideas and expression without authorization.³⁶⁰ The writer brought claims for copyright infringement, unfair competition, breach of contract (to pay for ideas) and breach of confidential relationship.³⁶¹

³⁵⁴. Id. at 483.
³⁵⁵. Id. at 483-84 (citing 3A CORBIN ON CONTRACTS §§ 633, 635 (1960)).
³⁵⁷. Fantastic, 661 F.2d at 482-83. See supra note 312.
³⁵⁸. Editorial Photocolor v. Granger Collection, 474 N.Y.2d 964, 967, 463 N.E.2d 365, 368 (1984) ("Plaintiffs could not, by miscasting their causes of action, secure the equivalent of copyright protection under guise of state law").
³⁶⁰. Id.
³⁶¹. Id. The court granted summary judgment on the plaintiff's copyright infringement claim. Id. at 1308. The copyright claim was dismissed on the pleadings
Addressing the breach of contract claim, the court stated:

To the extent plaintiff rests his contract claim not on breach of the terms of the contract but on Weinstein's having copied his property, the KKK script in making "Stir Crazy," it is of course preempted. Plaintiff cannot merely rephrase the same claim citing contract law and thereby obtain relief equivalent to that which he has failed to obtain under copyright law.\(^3\)

The court believed that the parties could contract to pay for ideas because the rights contracted for are qualitatively different from copyright claims and no monopoly is created in the ideas.\(^6\)

The court defined the breach of confidence claim as an obli-

and the state contract claims were dismissed as well because they were not appropriate for retention under pendent jurisdiction. \textit{Id.} at 1304 (citing United Mine Workers of Am. v. Gibbs, 383 U.S. 715, 727 (1966)). The court applied the rationale of \textit{Gibbs} which held that pendent jurisdiction exists whenever the state and federal claims "derive from a common nucleus of operative fact" and are such that a plaintiff "would ordinarily be expected to try them all in one judicial proceeding." \textit{Gibbs}, 383 U.S. at 725. The \textit{Weinstein} court viewed the contract to pay for ideas as turning on "evidence and legal principles that are largely different from and irrelevant to the federal claim." \textit{Id.} at 1305.

The Second Circuit has indicated that if the federal claims "could be disposed of on summary judgment under F.R.Civ.P. 56, the courts should refrain from exercising pendent jurisdiction absent exceptional circumstances." \textit{Kavit v. A.L. Stamm}, 491 F.2d 1176, 1180 (2d Cir. 1974). In \textit{Walker v. Time Life Films}, 615 F. Supp. 430 (S.D.N.Y. 1985), the court found such a set of "exceptional circumstances." The court stated that because the state court had already had an opportunity to adjudicate the issue of dismissal without prejudice as to the misappropriation, unfair competition and trade practices, breach of confidence and judiciary relationships claims, the District Court was not "usurping the state court’s role in deciding the state law claims." \textit{Id.} at 440. After dismissal of the federal claim, the question of whether the court should exercise its discretion and dismiss the state court claim is especially interesting in light of the ability of copyright owners to assert software copying claims under the Software Enforcement Act. If the copyright infringement claim fails because the consumer is found to be the owner of the copy, should the breach of the license agreement be dismissed? The answer is dependent on whether the contract claim rests on violation of a section 106 right such as copying the software. If so, it does stem from the "common nucleus of operative fact" and the court could retain pendent jurisdiction as a matter of discretion. However, it is interesting to note that the judicial tests that determine whether state claims are pendent and should be retained (\textit{i.e.}, "derive from a common nucleus of operative fact") appear to mirror the "equivalent to any of the exclusive rights" test of section 301. If so, the "common nucleus" test should enable the cause of action to be pendent and the "equivalent" test will then preempt the claim.

The federal court would be the appropriate forum to hear the preemption issue. "The federal preemption issue is one which seems peculiarly appropriate for a federal court to consider so as to ensure that Congress’ purposes are not undermined by state-law causes of action." \textit{Weinstein}, 578 F. Supp. at 1305.

\(^3\) \textit{Weinstein}, 578 F. Supp. at 1307.

\(^6\) \textit{Id.}
gation not to disclose to third parties, and found that this obligation differs from section 106 copyright rights.\textsuperscript{364} The court noted that the obligation is imposed only on the party that accepts the relationship; therefore, no monopoly results.\textsuperscript{365} The

\textsuperscript{364} Id.

\textsuperscript{365} Id. Contrast this reasoning with the actual effect of licensing agreements, which purport to form a valid contract which is mass-marketed to the public. Is the obligation only imposed on those who accept it, or is it imposed on the public at large based on an inequality of bargaining positions? The effect of mass-marketing a license agreement is to take "private law," which is by definition that law administered between citizen and citizen, such as the contractual expectations of the parties, and enforce them against the public at large. The ability of software authors to create these "mass contracts" resembles the legislation of a private monopoly that rivals the statutory monopoly granted by copyright law. Can this private monopoly prove to be more beneficial to the author and thus replace copyright?

Contracts of adhesion are not necessarily bad. In fact, with mass-marketing they are one of the only reasonable methods of contracting available.

Through advance knowledge on the part of the enterprise offering the contract that its relationship with each individual consumer or offeree will be uniform, standard and fixed, the device of form contracts introduces a degree of efficiency, simplicity, and stability. When such contracts are used widely, the savings in cost and energy can be substantial. An additional benefit is that the goods and services which are covered by these contracts are put within the reach of the general public, whose sheer size might prohibit widespread distribution if the necessary contractual relationships had to be individualized. Transactional costs, and therefore the possible prices of these goods and services, are reduced.

In short, form contracts appear to be a necessary concomitant of a sophisticated, mass-consumption economy. They have social and economic utility. Sybert, \textit{Adhesion Theory in California: A Suggested Redefinition and Its Applicability to Banking}, 11 LOY. L.A. L. REV. 297, 298 (1978). The use of form contracts will enable software producers to reach a broader market of consumers with general application products, such as word processing or game software, while reducing the transaction costs. This will benefit the consumer if the reduction in marketing expense increases the income to the producer and thus provides economic incentives.

On the other hand, in the case of the shrink-wrap license agreements, because there is no individual negotiation and the acceptance is not by a signature, it is important to scrutinize just what the Louisiana statute is doing to the rights of consumers. Although the term "unconscionability" is generally associated with the phrase "shocking to the conscience," it has been applied to everyday business transactions involving business persons. A&M Produce Co. v. FMC Corp., 135 Cal. App. 473 (4th Dist. 1982) (a contract between a diversified corporation and a small farming company). The court reasoned as follows:

[C]ourts have begun to realize that experienced but legally unsophisticated businessmen may be unfairly suprised by unconscionable contract terms... and that even large business entities may have relatively little bargaining power, depending on the identity of the other contracting party and the commercial circumstances surrounding the agreement... This recognition rests on the conviction that the social benefits associated with freedom of contract are severely skewed where it appears that had the party actually been aware of the term to which he "agreed" or had he any real choice in the matter, he would never have assented to inclusion of the term...
court concluded its analysis by stating that "[i]n short, these claims, narrowly read, focus on the relationship between individual parties and make actionable breaches of agreements between parties, or breaches of the trust they place in each other because of the nature of their relationship."^{366}

A final example of a case where the party argued that the rights to be enforced were "equivalent to contract," can be found in *Crow v. Wainwright.*^{367} The State of Florida attempted to prosecute the defendant for selling bootleg eight-track tapes under a statute prohibiting dealing in stolen property.^{368} The defendant had "pirated" the recording and sold it without paying royalties to the copyright owner.^{369} The state characterized the stolen property rights as "contract rights," in order to keep them out of the scope of the exclusive rights in section 106.^{370} The court pointed out that the only contract involved was the one between the present copyright owner and the singer who made the tape.^{371} The court reasoned that the state, as a third party to the contract, could not maintain such an action since not even the copyright holder, a party to the contract, could sue under state contract law because the defendant was not a party to the contract.^{372}

In its analysis, the *Crow* court compared the elements of copyright infringement to the elements of the crime of dealing in stolen property and concluded that:

Despite the name given the offense, the elements essential to establish a violation of the Florida statute in this case correspond almost exactly to those of the tort of copyright infringement. The state criminal statute differs only in that it requires the prosecution to establish scienter, which is not an element of an infringement claim, on the part of the defendant. This distinction alone does not render the elements of the crime different in a meaningful way. . . . The additional element of sci-

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135 Cal. App. at 489-90.
367. 720 F.2d at 1224 (11th Cir. 1983).
368. Id. at 1225.
369. Id.
370. Id. at 1226. The state argued that the rights "belong to various performers, not under federal copyright law but under various private contracts." Id. (citing Brief for Appellee at 4 (citing *Crow v. State*, 392 So.2d 919, 920 (Fla. Dist. Ct. App. 1980))).
372. Id. Additionally, the court stated that "[a]lthough state contract law could constitutionally supply the rule of decision should Wynette sue CBS for breach of contract, . . . state contract law both could not and would not allow CBS to prohibit Crow from selling recordings of 'Golden Ring.'" Id. at 1226 (citations omitted).
enter traditionally necessary to establish a criminal case merely narrows the applicability of the statute. The prohibited act—wrongfully distributing a copyrighted work—remains the same.\textsuperscript{373}

In summary, the courts are interested in looking beyond the labels and rephrasings by the parties to ascertain whether the parties are in actuality seeking relief based on one of the exclusive rights of copyright. The courts will seek to determine whether the right being protected by state law is equivalent to a section 106 right by applying the Harper & Row “different in kind” and “qualitatively different” standards.\textsuperscript{374} It makes no difference if greater or fewer elements are required by the state claim than are necessary for the copyright cause of action if the rights protected are in essence equivalent.\textsuperscript{375} The courts will look to the effect of the state law to see whether it “clashes with the objectives” of federal law\textsuperscript{376} or is an “obstacle” to accomplishment of the purposes of Congress.\textsuperscript{377} This independent basis will be used to buttress the finding of “equivalence” under the section 301 analysis. The approach will be case by case,\textsuperscript{378} and rephrasing of the claim in contract terms in order to obtain relief\textsuperscript{379} analogous to copyright damages\textsuperscript{380} will not be tolerated. State contract rules of construction can be applied to determine contractual intent but not to alter substantive rights.\textsuperscript{381} Keeping these factors in mind, the Software Act will be examined.

\section{VI

Preemption Analysis of the Louisiana Software Enforcement Act

An analysis of whether the Software Act is preempted by federal copyright law must begin with the language of the preemption provision, section 301.\textsuperscript{382} As outlined previously, the preemption analysis has two prongs—the first addresses the

\begin{itemize}
\item \textsuperscript{373} \textit{Id.} (footnotes and citations omitted).
\item \textsuperscript{374} \textit{Harper & Row I}, 501 F. Supp. at 852.
\item \textsuperscript{375} \textit{Id.} at 852-54.
\item \textsuperscript{376} \textit{Schuchart}, 540 F. Supp. at 946.
\item \textsuperscript{377} \textit{Goldstein}, 412 U.S. at 561.
\item \textsuperscript{378} \textit{Schuchart}, 540 F. Supp. at 944 n.12.
\item \textsuperscript{379} \textit{Weinstein}, 578 F. Supp. at 1087.
\item \textsuperscript{380} \textit{Harper & Row I}, 501 F. Supp. at 853 n.15.
\item \textsuperscript{381} \textit{Fantastic}, 661 F.2d at 483.
\item \textsuperscript{382} See supra note 220.
\end{itemize}
subject matter of copyright and the second examines "equivalent" rights.

A. Subject Matter Analysis

The first prong questions whether the subject matter addressed is within the scope of copyright.\textsuperscript{383} The title, "Software Enforcement Act," confirms that it is intended to apply to software; it is reasonable to assume that parties who would invoke the aid of the statute would be litigating matters involving software. Since computer software does fall within the subject matter of copyright, the first prong of section 301 is met.

B. Equivalent Rights Analysis

The second prong asks whether the rights sought to be enforced are "equivalent to any of the exclusive rights within the general scope of . . . section 106."\textsuperscript{384} The first step under this prong requires examination of the provisions of the statute and a determination of whether the rights addressed resemble, on their face, the exclusive rights of the copyright law.\textsuperscript{385}

Section 1954(2) refers to "prohibition of any copying of the copy of computer software for any purpose and/or limitations on the purposes for which copies of the computer software can be made and/or limitations on the number of copies of the computer software which can be made."\textsuperscript{386} This language is similar to the exclusive right of reproduction embodied in section 106 of the Copyright Act.

Similarly, the section 106 exclusive right to prepare derivative works is reflected in the language of section 1954(3) which speaks of "prohibition or limitation of rights to modify and/or adapt the copy of the computer software in any way, including without limitation prohibitions on translating, reverse engi-

\textsuperscript{383} 17 U.S.C. § 301 (1982).
\textsuperscript{384} Id.
\textsuperscript{385} It can be argued that the Software Act essentially sets up the relationship between the copyright owner and the consumer by retention of title in the copyright owner and nothing more. Such an approach fails to explain the purpose of the specific terms laid out in section 1954(2), (3), and (4) of the Louisiana Act, La. Rev. Stat. Ann. §§ 1954(2)-(4) (West Supp. 1985). If the terms in section 1954(1) retain title in the copyright owner, then (2), (3) and (4) are not necessary because the consumer is not the owner of the copy and therefore has no rights under the copyright law. If section 1954(1) fails, then (2), (3) and (4) are attempting to contractually remove the rights that a copy owner gets under copyright law, 17 U.S.C. §§ 109, 117 (1982), as the copy owner.
\textsuperscript{386} See supra note 148.
neering, decompiling, disassembling, and/or creating derivative works based on the computer software.”387

Finally, the section 106 exclusive right of distribution is addressed by the language of section 1954(4) which refers to “prohibitions on further transfer, assignment, rental, sale or other disposition of that copy or any other copies made from that copy of the computer software.”388

On their face, the Software Act provisions appear to address exclusive rights and in theory are equivalent. It is not enough, however, to examine the provisions in a vacuum. It is important to apply the provisions to factual situations in order to assess their effect. It is not possible to predict all of the factual situations which might arise under the Software Act, and, as the Schuchart court warned, the comparison of the elements of the causes of action must be in the context of the specific facts in the case at bar.389 However, the Schuchart case encompassed claims brought under theories of state law which could conceivably accommodate unlimited fact patterns. On the contrary, the fact patterns under the Software Act may vary only within the parameters of the language of the terms which will be enforced as delineated by the statute.390 Therefore, the rights protected, the subsequent effect of the statute’s application and the nature of the damages available to the parties must conform to the outline of the statutory terms.

1. The Harper & Row “Different in Kind” and “Elements” Test

After examining the individual words and the provisions of the Software Act on their face, the preemption analysis should apply the statute as a whole to a factual situation in order to see its effect. The starting point is the Harper & Row analysis which questions whether the state causes of action are “different in kind” or “qualitatively different” from a claim for copyright infringement.391

387. Id.
388. Id.
389. See supra text accompanying notes 285-86.
390. On the one hand, section 1954 encompasses the specific terms that will be enforced. See supra note 148. On the other hand, the introduction to section 1953 states that the consumer will “be conclusively deemed to have accepted and agreed to all the terms of the license agreement.” See supra note 143. At any rate, the statute does appear to impose a structure onto the terms which will appear in the license.
391. See supra text accompanying notes 263-64.
A scenario can easily be imagined whereby a consumer purchases software which contains a license agreement stating that no copies may be made by the consumer. If the consumer makes one copy, she has breached the terms of the license agreement. In a suit against the consumer, it is reasonable to expect that the claim for breach of contract would require proof of copying as would a claim for copyright infringement. The act prohibited under both the breach of contract and the copyright infringement causes of action is copying. The elements in the two claims do not appear to be different in kind or qualitatively different.

An interesting aspect of the scenario is that the Software Act enables the copyright owner to bring a breach of contract suit. It is likely that without the aid of the statute, no enforceable contract would have been formed under the license agreement since the consumer would appear to be the owner of the copy under the usual commercial law applications. To prevail, the copyright owner would have to prove that the consumer had accepted the terms of the license agreement and that under the statute, the subsequent opening of the package or use of the software divested the consumer of the rights of ownership.

More importantly, without the aid of the statute, the copyright owner's only claim against the defendant would be a suit for copyright infringement. The irony of this situation is that under the copyright law, the consumer would not be liable for

392. The difficulty would be in knowing when such an infringement occurs, especially when the copying occurs at home. Copying also goes on in big corporations, but software companies have hopes of educating such companies to be ethical. Bulkeley, Software Firms Urge Big Buyers to Curb Illegal Copying of Programs by Employees, Wall St. J., October 23, 1984, at 31, col. 4.

393. The duty that the consumer breached would be under section 1954(2) which allows "provisions for the prohibition of any copying of computer software for any purpose . . . ." The feasibility of such a suit may be called into question when the damages to be gained are weighed against the cost and expense of a lawsuit and the adverse publicity from suing a user.

394. See LA. REV. STAT. ANN. § 1956 (West Supp. 1985). With the ability to sue in contract instead of under copyright, the suit could be brought in state court. It is possible that some parties might feel that a suit in state court would be advantageous if the license contained a particularly favorable liquidated damages clause. The question is, in such a situation, isn't the state suit replacing the role of the copyright statute? Such a result is not acceptable. Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 489 (1974).

395. See supra note 336.

396. See supra text accompanying note 150.
copyright infringement. Section 117 allows the copy owner to make a copy of the software for archival purposes.\textsuperscript{397} If the consumer steps outside of the language of section 117, he would be liable for the act of copying.\textsuperscript{398} Similarly, if the consumer violates the terms of a license agreement by making more copies than the license terms allowed, he would likewise be liable for the act of copying.\textsuperscript{399} Under either approach, the rights sought to be vindicated are redundant.\textsuperscript{400}

In \textit{Harper & Row}, the court looked at the essence of the claim.\textsuperscript{401} It seems that the essence of the claims that could be brought under the Software Act would be limited to the contract terms which the statute deems to be accepted. A suit against the consumer would therefore charge the party with a breach of contract; the act prohibited would be necessarily defined by the terms of the statute, which in their very wording appear to be equivalent to the exclusive rights of reproduction, distribution and the making of derivative works.\textsuperscript{402} As expressed by the court in \textit{Harper & Row}, because both the copyright action and the breach of contract action would contain the same factual allegations, the claims would clearly be redundant.\textsuperscript{403}

\section*{2. An Independent Basis for Preemption}

To further buttress any finding of preemption, or to find an independent basis for preemption where the cause of action is not clearly preempted by section 301, the analysis should address the scheme of protection under the state statute to determine whether it clashes with the objectives of the copyright law.\textsuperscript{404} The functioning of the Software Act is dependent on the mechanism of retaining title of the retail software.\textsuperscript{405} The structure of the statute is such that the contract terms to be enforced in subsections 2 through 5 can only be effective if title

\begin{itemize}
\item \textsuperscript{397} See supra text accompanying note 160.
\item \textsuperscript{398} See supra note 93.
\item \textsuperscript{399} This is because the consumer did something that only the copyright owner can authorize.
\item \textsuperscript{400} In such an instance, by doing the single act, the consumer has both breached a contract and done something that only the copyright owner can authorize.
\item \textsuperscript{401} See supra note 257 and text accompanying notes 265-80.
\item \textsuperscript{402} See supra text accompanying notes 267-72.
\item \textsuperscript{403} See supra note 274.
\item \textsuperscript{404} See supra text accompanying notes 311-12.
\item \textsuperscript{405} See supra note 148.
\end{itemize}
is retained as permitted by subsection 1.\textsuperscript{406} Both the purpose and effect of subsection 1 is to nullify any provisions of the copyright law which protect the rights of copy owners. Of major concern are the provisions of section 109 which are triggered by the first sale and the rights under section 117 which allow the making of adaptations or archival copies of software.\textsuperscript{407} The structure of the Software Act prohibits actions which are likewise prohibited by copyright law and even more broadly those actions which are specifically allowed under the copyright law.

The scheme of protection under the Software Act is much broader than that of the Copyright Act. The Copyright Act only prohibits the exercise of five exclusive rights by anyone who does not have the authorization from the copyright owner and endures for a period of the author's lifetime plus fifty years.\textsuperscript{408} The Software Act prohibits the activities described in "terms deemed accepted," and incorporated into the license, by anyone, perpetually.\textsuperscript{409} This aspect of the statute may encourage the software author to bring a breach of contract claim without alleging copyright infringement if a copyright claim would fail because copyright law would permit the activities that the contract restricts.

The Software Act expands the copyright owner's limited monopoly with respect to the rights protected, the duration and the parties.\textsuperscript{410} The duration of the rights has been expanded because the rights secured under the license can be perpetual.\textsuperscript{411} Even if the copyright runs out fifty years after the death of the author, the license is not based on the copyright and therefore may continue. This goes against the policy of the copyright statute which intends to offer a limited monopoly as incentive.\textsuperscript{412} It also contradicts the principle set out in \textit{Brulotte v. Thys Co.}, where the Supreme Court emphasized that the monopoly granted under a patent could not lawfully be used to

\begin{thebibliography}{99}
\bibitem{406} Id.
\bibitem{407} Section 109 is examined \textit{supra} note 101. Section 117 is presented \textit{supra} note 93. \textit{See also supra} note 148.
\bibitem{409} \textit{See supra} note 148.
\bibitem{410} The 1976 Copyright Act only prohibits the exercise of five exclusive rights by anyone who does not have the authorization of the copyright owner for a period of the author's lifetime plus fifty years. The Software Act prohibits the activities described in "terms deemed accepted," (as they appear in the license) by anyone, \textit{perpetually}.
\bibitem{411} \textit{See supra} note 148.
\bibitem{412} \textit{See supra} notes 80-84 and accompanying text.
\end{thebibliography}
“negotiate with the leverage of that monopoly.”\textsuperscript{413} The Court’s concern was that “to use that leverage to protect those royalty payments beyond the life of the patent is analogous to an effort to enlarge the monopoly of the patent. . . .”\textsuperscript{414} It is clear that use of a license agreement to allow the copyright owner to walk away with more rights than he had before the contract, in a situation which is the economic equivalent of a sale, thus enlarges the monopoly of the copyright owner.\textsuperscript{415}

The licensing procedures embodied in the Software Act differ from the traditional copyright license agreements which grant a privilege to the user, thereby permitting activities which, in the absence of the license, the copyright law would forbid.\textsuperscript{416} Such traditional licenses granted the user some of the rights found in the “bundle of rights” possessed by the copyright owner and either left the bundle intact, via nonexclusive licenses, or decreased the bundle, but never added to the exclusive rights.\textsuperscript{417}

Although an argument can be made that contractual obligations do not create or expand a monopoly because they are enforceable only as to the party to the contract, in the mass market, a shrink-wrap “mass” contract has an effect which parallels a legislatively granted statutory monopoly.\textsuperscript{418} A mass market license distorts “private law” and thereby abrogates and replaces copyright law.\textsuperscript{419} The discussion in this commentary has been limited to software transactions in a retail or mass market setting, but the problems examined here can easily be applied to any of the other diverse methods of distribution discussed at the beginning of the commentary.\textsuperscript{420}

Software is a national, and indeed, an international prod-

\begin{itemize}
\item \textsuperscript{413} Brulotte v. Thys Co., 379 U.S. 29, 33 (1964).
\item \textsuperscript{414} Id.
\item \textsuperscript{415} From one perspective it seems that the copyright owner is taking advantage of the rights afforded by copyright and seeking to extend them by contract. From another, it seems that the copyright owner might not need copyright protection at all and therefore, is enlarging his rights by use of the statute.
\item \textsuperscript{416} Such licenses utilize the language of section 106 which allows the copyright owner to “authorize” any of the exclusive rights.
\item \textsuperscript{417} Terms on a software package which limit a consumer’s rights add to the copyright owner’s rights. Seeking to limit rights is very different from granting a privilege under the copyright law.
\item \textsuperscript{418} See supra notes 364-65.
\item \textsuperscript{419} Id. Private law envisions undertakings between individuals, not legislative mandates that bind the public at large.
\item \textsuperscript{420} See supra text accompanying notes 41-78.
\end{itemize}
uct. The legislative history of section 301 reflects the aims of the 1976 Copyright Act. The history expresses a desire to (1) promote national uniformity, (2) develop a system in tune with the 20th century communications revolution, (3) avoid distortion of the "limited times" provision of the Constitution and (4) improve international dealings in copyrighted material. If the Software Act obstructs these purposes, it fails under what the Schuchart court recognized as an independent basis for preemption.

Proponents of the Software Act will argue that the statute deals only with the relationship between and intent of the parties. As expressed by the Fifth Circuit in Fantastic, "the federal policy 'may not be set at naught, or its benefits denied' by the state law." There is already an existing body of state law available in Louisiana as well as other states to which federal courts can look to determine the intent of the parties and to provide a basis for contract interpretation and construction. The statute potentially eliminates the status of the copy owner from the state of Louisiana with respect to retail transactions, and thereby removes an ever growing number of consumers from the protection of copyright law. While it is expected that from state to state there will always be permissible variations of the concept of a sale, the Software Act enforces a result which is far from the ordinary usage of the word. Despite attempts to characterize the rights as state contract rights, the prohibited acts violate rights which are equivalent to the exclusive rights under the 1976 Copyright Act. Even assuming that a particular cause of action did not obstruct the purpose of copyright law or protect a right equivalent to that of a copyright, a violation of the state law would not be copyright infringement.

421. One of the arguments in favor of a single federal copyright system was improved international dealings. See supra text accompanying note 224. See generally, Davidson, supra note 23, at 414-15.
422. See supra text accompanying note 81.
423. See supra note 240 and accompanying text.
424. See supra note 240.
425. See supra text accompanying notes 282-90.
426. See supra text accompanying notes 327-64.
427. Fantastic, 661 F.2d at 483 (citing Sears, 376 U.S. at 229). See supra note 326 and accompanying text.
428. See supra note 326.
but rather a breach of contract over which the court would not retain pendent jurisdiction. Thus, the Software Act and similar statutes should be found to be preempted on the basis that the terms in the statute which the state guarantees to enforce are equivalent to the rights either already protected by copyright law or delegated to the copyowner. The effect of enforcement of the statutory terms is to alter the balance between the copyright owner and the public and to obstruct the purposes of copyright law.

The Software Act was conceived as a solution to diverse problems confronting the present software market. If a viable solution cannot be found in such a statute, where can the industry turn?

VII
An Alternative Solution

A. The Record Rental Amendment as a Model

The record industry has been plagued by the same problems which have affected the software industry, including home copying and record rentals and resales. The record industry has benefited from legislation passed on September 21, 1984, which is intended to indirectly curb the losses from home taping by controlling record rentals. Similar legislation may be helpful to the software industry.

The purpose of the Record Rental Amendment of 1984 is to require owners of phonorecords to have authorization from the copyright holder before renting, leasing or lending the record for direct or indirect commercial advantage. The problems experienced by the record industry parallel those which the software producers are experiencing or predicting. The focus is

429. Record Rental Amendment of 1984, H.R. REP. NO. 5938, 98th Cong., 2d Sess. 987 (to amend 17 U.S.C. with respect to the rental, lease or lending of sound recordings).

430. [U]nless authorized by the owners of copyright in the sound recording and in the musical works embodied therein, the owner of a particular phonorecord may not, for the purposes of direct or indirect commercial advantage, dispose of, or authorize the disposal of, the possession of that phonorecord by rental, lease, or lending, or by any other act or practice in the nature of rental, lease, or lending. Nothing in the preceding sentences shall apply to the rental, lease or lending of a phonorecord for non-profit purposes by a nonprofit library or nonprofit educational institution.

Id. at § 2 (amending 17 U.S.C. § 109) (emphasis added).
on the first sale doctrine which divests the copyright owner of any ability to control subsequent transfers of the record, despite a retention of the copyright. Prior to the enactment of the new amendment, it was perfectly legal for the record owner to dispose of the copy by rental, lease, lending or destruction. According to the Senate Congressional Record:

Congress originally adopted the doctrine to codify the common law rule against restraints on the alienation of tangible property. It focused on contract and commercial law, not on copyright law. It worked well until technology changed the record industry, and widespread home taping threatened to sap its strength by undermining its coin of the realm—copyright.

The Amendment specifically states that it is intended to address "commercial" transactions. It is not intended to encompass the swapping and borrowing that occurs among friends. This commercial-noncommercial distinction has previously been made by the Supreme Court in Goldstein v. California. The Court stated that in order to encourage individuals to "devote themselves to intellectual and artistic creation, Congress may guarantee to authors and inventors a reward in the form of control over the sale or commercial use of copies of their works." One consideration for maintaining such a distinction is the enforcement problems involved in restricting private individuals. The task could be overwhelming and could violate privacy rights.

As viewed by the Congress, the problem to be solved by the Record Rental Amendment was as follows:

Record rental shops rent popular albums for 1 or 2 days for a dollar or two. This practice, which copyright owners can not prevent under the first sale doctrine, displaces sales since the customers go home and tape the records on their tape recorders. The industry's sales losses from home taping are estimated at 1 billion a year.

There are only 250 or so record rental stores in our country. But in Japan, where record rental originated in 1980, there are over 1,700 rental outlets—20 percent of the entire record retail industry. Conventional record sales in Japan in the vicinity of

432. Id.
434. See supra note 423.
436. Id. at 555.
rental outlets have fallen by over 30 percent.\textsuperscript{437} The Congress concluded that the detriment caused to copyright owners by record rentals far outweighs any public good.\textsuperscript{438} The Senate record concluded that "subsequent taping is clearly the motive behind the rental."\textsuperscript{439} The fact that some record stores include a blank tape in the deal supports such a finding.\textsuperscript{440}

A similar amendment will solve the software rental dilemma.\textsuperscript{441} A software rental bill, S. 3074, was introduced by Senator Mathias on October 5, 1984. The bill stated that unless authorized by a copyright owner, the owner of a particular computer program may not, for purposes of direct or indirect commercial advantage, dispose of or authorize the disposal of, the possession of that copy by rent, lease, or lending or any other activity in the nature of rental, lease or lending.\textsuperscript{442}

After the demise of S. 3074, another software rental bill, H.R. 4949, was introduced by Representative Patricia Schroeder of Colorado. The bill would amend the first sale doctrine to require an express grant of permission from the software owner prior to subsequent rental of the program.\textsuperscript{443} Such an amendment would be harmonious with the goals expressed for the 1976 Copyright Act.\textsuperscript{444} Additionally, it could mimic the Record Rental Amendment provision which requires royalties to be paid to those copyright owners who do give permission for rentals to occur.\textsuperscript{445}

Even with the enactment of software statutes patterned after the Record Rental Amendment, the continuing problem of home copying is only indirectly addressed. Consumers need to be educated as to the legitimacy of copying under copyright law.\textsuperscript{446} Schools are the focus of much of the current contro-

\textsuperscript{437} 129 CONG. REC. S9375 (daily ed. June 28, 1983).
\textsuperscript{438} Congress concluded that "the rented record clearly displaces a potential sale."
\textsuperscript{439} Id.
\textsuperscript{440} Id.
\textsuperscript{441} 130 CONG. REC. S13707 (daily ed. Oct. 5, 1985).
\textsuperscript{442} Id.
\textsuperscript{443} 130 CONG. REC. H3437 (daily ed. June 5, 1986).
\textsuperscript{444} See supra text accompanying note 80.
\textsuperscript{445} In addition to any royalty payable under clause (2) and chapter 8 of this title, a royalty shall be payable by the compulsory licensee for every act of distribution of a phonorecord by or in the nature of rental, lease, or lending, by or under the authority of the compulsory licensee.
\textsuperscript{446} H.R. REP NO. 5938, 98th Cong., 2d Sess. 987, § 3 (amending 17 U.S.C. § 115(c)).
versy involving copying because of limited school budgets and the high cost of obtaining adequate copies for classroom use.\textsuperscript{447} It is important that students do not inadvertently learn that copying is the solution to the software market’s refusal to recognize their needs.\textsuperscript{448} Corporations are another source of a copying mindset when they do not keep close inventory on original and backup copies.\textsuperscript{449} Corporations should arrange for multicopy licenses at a discount and educate their employees as to the parameters of copyright law.

\textbf{VIII}

\textbf{Conclusion}

The enactment of the 1976 Copyright Act and the 1981 amendments attempted to foresee potential problems which would develop as a result of rapidly advancing technology.\textsuperscript{450} The copyright law should be looked to as the source of solutions to new infringements and, if found inadequate, should be amended. Consolidation of protection for copyright under federal law offers the benefits of uniformity and predictability to both national and international transactions involving intellectual property rights. Allowing states to protect such rights will lead to a piecemeal and ineffective system in a field which is critical to the future of the United States under both an economic and quality of life analysis. Software is part of a world market and efficient transactions are dependent on federal protection. The states can retain their traditional roles as left intact by the 1976 Act but should not attempt to resolve dilemmas which involve the section 106 rights via state legislation. Their proper role is as proponents of change to the federal copyright law.

By entering the mass market, the software industry has opened itself up to all the benefits of the retail system as well as to the purchasing whims of the fickle, trend-oriented public. In a race to keep up with technology, Congress must not lose

\begin{itemize}
\item\textsuperscript{447} Letters, \textit{Give Schools a Break}, INFOWORLD, July 30, 1984, at 6, col 1.
\item\textsuperscript{448} Editorial, \textit{Software Licensing}, INFOWORLD, July 2, 1984, at 5, col. 2.
\item\textsuperscript{449} Id.
\item\textsuperscript{450} See \textit{supra} notes 5 and 10.
\end{itemize}
sight of the difficult balance demanded by the Constitution.\textsuperscript{451} As it has so aptly been put, "[h]owever tired Congress may be of the intricacies of copyright law and the importunings of copyright lobbyists, it has probably not seen the end of copyright revision in this decade."\textsuperscript{452}

\textsuperscript{451} See supra text accompanying note 80.