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Mountain Web Services, Inc. 83 F.3d 1447 (7th Cir.
1996)

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ProCD, Inc. v. Matthew Zeidenberg & Silken Mountain Web Services, Inc.

83 F.3d 1447 (7th Cir. 1996)

INTRODUCTION

ProCD filed suit seeking an injunction to prevent Matthew Zeidenberg (“Zeidenberg”) from further disseminating the information contained in ProCD’s SelectPhone database, alleging that the dissemination exceeded the rights specified in ProCD’s software licenses. The district court held the licenses ineffective because their terms do not appear on the outside of the packages, but rather on the inside, and therefore the licenses are not legally enforceable. The district court also claimed that even if the licenses were considered contracts, federal law forbids enforcement. The United States Court of Appeals for the Seventh Circuit reversed, holding that shrinkwrap licenses should be treated as legally enforceable contracts.

FACTS

ProCD compiled information from more than 3000 telephone directories into a computer database.¹ ProCD sold a version of the database, called SelectPhone, on CD-ROM discs.² The database in SelectPhone cost more than \$10 million to compile and is expensive to keep current.³ It is much more valuable to some users than to others. The combination of names, addresses, and computer codes enabled manufacturers to compile lists of potential customers.⁴ Manufacturers and retailers pay high prices to specialized information intermediaries for such mailing lists, and ProCD offered a potentially cheaper alternative.⁵ Additionally, the general public could use the database as a substitute for calling long distance information, or as a way of looking up old friends who have moved to unknown towns, or just as an electronic substitute for the local phone book.⁶

SelectPhone is a program that has a copyright, and like all other software packages available to the public, has an exclusive license for copyright purposes.⁷ Some vendors of retail software packages have what is commonly referred to as a “shrinkwrap license.” The “shrinkwrap license” refers to the retail software packages that are covered in plastic or cellophane “shrinkwrap.”⁸

As a general policy, ProCD does not charge as much to their private consumer

1. ProCD, Inc. v. Matthew Zeidenberg & Silken Mountain Web Service, Inc., 86 F.3d 1447, 1449 (7th Cir. 1996).

2. *Id.*

3. *Id.*

4. *Id.*

5. *Id.*

6. *Id.* at 1450.

7. *Id.*

8. *Id.*

audience as it does to their commercial and business consumer audience.⁹ To control its pricing between private consumers and businesses, ProCD relied on a contract contained within each program it sells.¹⁰ Every box containing its consumer product states that the software inside comes with restrictions based on an enclosed license.¹¹ This license, which appears on the user's screen every time the software runs, restricts use of the application program and listings to noncommercial purposes only.¹²

In 1994, Zeidenberg bought a consumer package of SelectPhone from a retail outlet in Madison, Wisconsin.¹³ Zeidenberg ignored the license terms that appeared on the screen when he ran the program and decided to resell the information contained in the program at a lower price by forming Silken Mountain Web Services, Inc ("Silken").¹⁴ Silken made the database available on the Internet for a lower price than what ProCD charged its commercial customers. Zeidenberg also purchased two additional SelectPhone packages, each with an updated version of the database, and sold these packages over the World Wide Web through Silken.¹⁵ Upon learning of this service offered by Silken, ProCD brought suit for an injunction to prevent Zeidenberg from further disseminating the information contained in ProCD's SelectPhone database.¹⁶ The district court ruled against ProCD's request for an injunction, and ProCD appealed.¹⁷

LEGAL ANALYSIS

The issue presented before the court was whether the placement of the package of software on the shelf constitutes an "offer" which the customer "accepts" by paying the asking price and leaving the store with the goods.¹⁸ Zeidenberg argued, and the district court held that the contract was effective, thereby rendering moot whether there were any additional license agreements that were contained within the box or within the actual computer discs.¹⁹ The court analyzed three different factors to arrive at their holding: (1) public policy; (2) the Uniform Commercial Code ("UCC"); and (3) the Federal Copyright Act.²⁰

The court began its analysis by recognizing that transactions in which the exchange of money precedes the communications of detailed terms are common. For instance, the court considered the purchase of an airline ticket.²¹ A traveler calls the airline

9. *Id.*

10. *Id.*

11. *Id.*

12. *Id.* at 1447 (citing *Peters v. State*, 142 N.W. 181 (Wis. 1913)).

13. *ProCD, Inc.*, 86 F.3d at 1447.

14. *Id.*

15. *Id.*

16. *Id.*

17. *Id.*

18. *Id.*

19. *Id.* at 1449.

20. *Id.*

21. *Id.* at 1451 (citing *Carnival Cruise Lines, Inc. v. Shute*, 499 U.S. 585 (1991)).

carrier or an agent, is quoted a price, reserves a seat, pays the ticket price, and ultimately receives a ticket, in that order. The ticket contains elaborate terms which the traveler can reject by canceling the reservation. As the court noted, to use the ticket is to accept the terms, even terms that in retrospect are disadvantageous.²² Consumer goods work in a similar way. One who wants to buy a radio set visits a store, pays for the item, and walks out with a box. Inside the box is a leaflet containing some terms, the most important of which is usually the warranty. Zeidenberg argued that the warranty in the box is, in effect, irrelevant because every consumer gets the standard warranty implied by the UCC in the event the contract is silent regarding warranty terms.²³ Courts, however, have never disregarded warranties furnished with consumer products.²⁴

The court also considered the logistics behind the software industry when weighing the policy issues present concerning licenses.²⁵ In the software industry, only a minority of sales take place over the counter, where a consumer can actually see the box with the licensing terms.²⁶ More frequently, a customer may place an order by phone in response to a line item in a catalog or a review in a magazine. Much of the software is ordered over the Internet by purchasers who have never seen the software packaging or the license terms; and increasingly, software packages arrive by wire where there is only an application program, instructions, and a serial number purchased by the user to activate the program.²⁷

The second approach the court used in deciding that Zeidenberg violated ProCD's license agreement was to examine sections of the UCC.²⁸ The court examined UCC §2-204(1) which states: "A contract for sale of goods may be made in any manner sufficient to show agreement, including conduct by both parties which recognizes the existence of such a contract."²⁹ The court reasoned that a vendor, as master of the offer, may invite acceptance by conduct, and may propose limitations on the kind of conduct that constitutes acceptance.³⁰ According to the court, this turn of events is exactly what transpired in the present case.³¹ The court reasoned that ProCD proposed a contract that a buyer would accept by using the software after having an opportunity to read the license. Zeidenberg, the court reasoned, had no choice but to read and accept the license because the software presented the license across the screen and would not allow him to proceed without indicating acceptance. The court found that although the district judge was correct to hold that a contract can be, and often is, formed simply by paying the price and walking out of the store, the UCC permits

22. *ProCD, Inc.*, 86 F.3d at 1451.

23. *Id.*

24. *Id.*

25. *Id.*

26. *Id.*

27. *Id.*

28. *Id.* at 1451.

29. *Id.* at 1452.

30. *Id.*

31. *Id.* at 1452-53.

contracts to be formed in other ways.³² ProCD proposed such a different way, and without protest, Zeidenberg agreed.³³

An additional section of the UCC, § 2-606(1)(b), was discussed briefly to point out the opportunity a consumer has to return goods with which he or she is not satisfied.³⁴ Under UCC § 2-206, a buyer accepts goods when, after an opportunity to inspect, he fails to make an effective rejection under § 2-602(1).³⁵ The court found that ProCD extended an opportunity to the buyer to reject if the buyer should find the license terms unsatisfactory; Zeidenberg inspected the package, tried the software, learned about the license and its restrictions, and did not reject the goods.³⁶

The last issue discussed by the court were the legal differences between copyrights and contracts.³⁷ The court turned to the relevant language of § 301(a) which preempts any “legal or equitable rights [under state law] that are equivalent to any of the exclusive rights within the general scope of copyright as specified by § 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 § 102 and § 103.”³⁸ Furthermore, the court agreed with the district court’s holding that ProCD’s software and data are fixed points that occur in a tangible medium used for expression, and that they are within the subject matter of copyright.³⁹

However, when determining whether rights created by contract are “equivalent to any of the exclusive rights within the general scope of copyright,” the appellate court took a different approach and analysis by holding that they were not.⁴⁰ The court explained that rights “equivalent to any of the exclusive rights within the general scope of copyright” are rights established by law, rights that restrict the options of persons who are strangers to the author.⁴¹ The court stressed the fact that copyright law forbids duplication unless the person wishing to copy or perform the work gets permission before any such action is taken. Silence by the owner of the work cannot be interpreted as permission to copy.⁴² For instance, if the party attempting to copy the work faxes a letter requesting permission to use the work and does not hear back from the owner, this silence is interpreted as a ban on copying.⁴³

According to the court, contracts, by contrast, generally affect only the parties involved. Other persons not immediately involved in the transaction or agreement may

32. *Id.* at 1453.

33. *Id.*

34. *Id.*

35. *Id.*

36. *Id.*

37. *Id.* at 1447 (citing *National Car Rental Systems, Inc. v. Computer Associates International, Inc.*, 991 F.2d 426, 433 (8th Cir. 1993)).

38. *ProCD, Inc.*, 86 F.3d at 1453.

39. *Id.*

40. *Id.* at 1447.

41. *Id.* at 1454.

42. *Id.*

43. *Id.*

do as they please, and as the result, contracts do not create “exclusive rights.”⁴⁴ For example, someone who found a copy of SelectPhone on the street would not be affected by the shrinkwrap license on the outside of the box--though the federal copyright laws on their own force would serve to limit the individual’s ability to copy or transmit the application program.⁴⁵ As a result, the court held that contracts do not create “exclusive rights.”⁴⁶ By distinguishing legal implications of contracts and copyrights, the court held that a two-party contract, such as the one involved between Zeidenberg and ProCD, is not “equivalent to any of the exclusive rights within the general scope of copyright” and may therefore be enforced.⁴⁷

CONCLUSION

The Court of Appeals for the Seventh Circuit reversed the district court’s holding that buyers of computer software do not need to obey the terms of shrinkwrap licenses. The appellate court found that shrinkwrap licenses are enforceable unless their terms are objectionable on grounds applicable to contracts in general. As master of the offer, ProCD can invite acceptance by conduct, and may propose limitations on the type of conduct that constitutes acceptance. ProCD took such action, and Zeidenberg accepted the product on the terms presented. By doing so, he also agreed to ProCD’s license conditions, and was therefore bound by the language and restrictions contained in the contract.

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44. *Id.*

45. *Id.*

46. *Id.* at 1455.

47. *Id.* at 1447.

