

## COPYRIGHT SURVIVES: RETHINKING THE COPYRIGHT-CONTRACTS CONFLICT

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*Twenty years ago, copyright died. More accurately, it was killed. In 1996, in ProCD v. Zeidenberg, Judge Easterbrook, writing for the Seventh Circuit, held that a contract that restricted the use of factual information was not preempted by the Copyright Act and therefore enforceable. The reaction among copyright scholars was swift and passionate. In dozens of articles and books, spreading over two decades, scholars cautioned that if the ProCD approach is broadly adopted, the results would be dire. Through contracts, the rights of copyright owners would run amok, expand, and in doing so they would invade, shrink, and possibly destroy the public domain. Contracts, we were repeatedly warned throughout the years, would kill copyright law.*

*This Article challenges this scholarly consensus by studying all the court opinions that have dealt with the copyright-contract conflict over the past four decades. This examination reveals surprising facts: Notwithstanding the scholars' warnings, ProCD's approach won the day and was embraced by most federal circuit courts. However, the doomsday scenarios scholars warned against did not materialize. The overall effect of contracts on the size and scope of the public domain, or over copyright law as a whole, seems minimal. The Article explains this discrepancy and shows that contracts are an ineffective tool to control information because they are too weak of a device to threaten or replace copyright law. Indeed, to paraphrase Mark Twain, the reports of the death of copyright were greatly exaggerated.*

*The Article concludes by placing this analysis in context, as part of a broader ongoing discussion on the desirability and enforceability of standard-form agreements.*

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## TABLE OF CONTENTS

Introduction .....	2
Part I: The Contract-Copyright Conflict.....	9
A. The Copyright-Contracts Interactions.....	9
B. Copyright Preemption of Contracts.....	14
Part II: The Failure of the Partial-Preemption Approach .....	22
A. The Broad Adoption of the No-Preemption Approach .....	23
B. Explaining the Partial-Preemption Approach Failure .....	34
C. Modifying the Partial-Preemption Approach .....	39
Part III: Coming to Terms with the No-Preemption Approach.....	42
A. Introducing Conflict Preemption .....	42
B. The Discrepancy between the Scholarly Predictions and Litigated Contracts. ....	44
C. Limitations and Caveats .....	50
D. Explaining the Discrepancy .....	52
Part IV: Normative Implications .....	60
A. Copyright Preemption of Contracts over Information Goods.....	60
B. The Enforceability of Standard-Form Agreements .....	62
Conclusions .....	64

## INTRODUCTION

There is a built-in tension between copyright law and contract law. Ruth buys an eBook. Copyright law governs Ruth’s rights in the eBook. Certain actions, such as commercial copying and public performance, are prohibited by copyright law.<sup>1</sup> Other actions, such as reading the eBook, writing a review thereof, and copying the ideas expressed therein, are permitted by copyright law.<sup>2</sup> Enters contract law. What if, as part of the purchasing process of the eBook, Ruth agrees to a standard-form agreement that limits her rights in the eBook? For example, what if the standard-form agreement states that the buyer promises not to copy the ideas expressed in the work? Can Ruth be liable if she copies these ideas? Under copyright law the answer is, of course, no. But can Ruth be liable for a breach of contract? More generally, is contract law free to set legal norms over information goods? This possibility, and the tension it creates between copyright and contracts, has been troubling many scholars.<sup>3</sup>

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<sup>1</sup> 17 U.S.C. § 106 (2012).

<sup>2</sup> 17 U.S.C. § 102(b) (“in no case does copyright protection for an original work of authorship extend to any idea”); § 107 (providing fair use protection to certain usages including minimal copying); *Arnstein v. Porter*, 154 F.2d 464, 472 (2d Cir. 1946) (“[T]here can be permissible copying, copying which is not illicit.”).

<sup>3</sup> Dozens of authors have commented on this phenomenon. *See, e.g.*, MARGARET JANE RADIN,

The copyright-contract tension is typically discussed under the auspice of copyright preemption doctrine. It is frequently argued that because copyright law is part of federal law and contract law is mostly a creation of the states, contracts over certain information goods, such as software, books, and sound recordings, might be preempted by the Copyright Act. Part I of this Article presents this issue.

Since the passage of the Copyright Act of 1976, such a preemption argument has been discussed in 288 opinions. A review of those opinions reveals a broad consensus among judges regarding certain aspects of the preemption analysis but also a broad disagreement regarding other aspects. With minor exceptions,<sup>4</sup> courts approach the possible conflict between contracts and copyright law by using copyright express preemption doctrine, set forth in Section 301(a) of the Copyright Act. This Section states that “all ... rights that are equivalent to any of the exclusive rights within the general scope of copyright ... are governed exclusively by this title.” The difficult question courts have been struggling with is whether and when contractual rights are “equivalent” to “the exclusive rights” under copyright law.

Close examination of the caselaw shows that two main approaches have emerged with respect to the equivalency requirement. The first approach—which is referred to herein as “the partial-preemption approach”—suggests that while many contracts over information goods should be enforced, some should not. The court must consider whether the contract regulates an activity that is an exclusive right, such as reproduction or distribution.<sup>5</sup> If it does, then it creates a right that is equivalent to copyright and is therefore expressly preempted by the Copyright Act.<sup>6</sup> This approach is inspired by a well-established narrative in copyright law discourse—the delicate-balance narrative.<sup>7</sup> This narrative perceives copyright law

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BOILERPLATE: THE FINE PRINT, VANISHING RIGHTS, AND THE RULE OF LAW 39-50, 169-76 (2013); Yochai Benkler, *Free As the Air to Common Use: First Amendment Constraints on Enclosure of the Public Domain*, 74 N.Y.U. L. REV. 354 (1999); Julie E. Cohen, *Copyright and the Perfect Curve*, 53 VAND. L. REV. 1799 (2000); Richard A. Epstein, *The Disintegration of Intellectual Property? A Classical Liberal Response to a Premature Obituary*, 62 STAN. L. REV. 455 (2010); Wendy J. Gordon, *Intellectual Property As Price Discrimination: Implications for Contract*, 73 CHI.-KENT L. REV. 1367 (1998); Michael E. Kenneally, *Commandeering Copyright*, 87 NOTRE DAME L. REV. 1179 (2012); Mark A. Lemley, *Terms of Use*, 91 MINN. L. REV. 459 (2006); Orly Lobel, *Enforceability Tbd: From Status to Contract in Intellectual Property Law*, 96 B.U. L. REV. 869 (2016); David Nimmer et al., *The Metamorphosis of Contract into Expand*, 87 CAL. L. REV. 17 (1999); Guy A. Rub, *Contracting Around Copyright: The Uneasy Case for Unbundling of Rights in Creative Works*, 78 U. CHI. L. REV. 257 (2011).

<sup>4</sup> See *infra* notes 217-221 and accompanying text.

<sup>5</sup> See, e.g., *Wrench LLC v. Taco Bell Corp.*, 256 F.3d 446, 456 (6th Cir. 2001).

<sup>6</sup> *Ritchie v. Williams*, 395 F.3d 283, 287-88 (6th Cir. 2005).

<sup>7</sup> See, e.g., *Kirtsaeng v. John Wiley & Sons, Inc.*, 136 S. Ct. 1979, 1982 (2016) (explaining that the Copyright Act strikes “a balance between encouraging and rewarding authors' creations and enabling others to build on that work”); *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 430 (1984) (suggesting that in enacting the Copyright Act “Congress ... task involves a difficult balance between the interests of authors ... and society's competing interest”); *infra* notes

as creating a delicate balance between competing interests: those of authors, distributors, and users. This delicate balance, the argument goes, should be protected against easy alteration by contracts.

The competing approach—which is referred to herein as “the no-preemption approach”—suggests that contracts, as such, are not preempted by the Copyright Act’s express preemption provision.<sup>8</sup> Courts that subscribe to this view hold that because contractual rights—unlike copyright—are *in personam* and because those rights—again unlike copyright—are contingent on the defendant’s promise, they are different from copyright and therefore not preempted.<sup>9</sup> This approach is also inspired by a well-known narrative within copyright law discourse: the perception of copyright as property.<sup>10</sup> Property rights are typically transferable and they are the basis of trade.<sup>11</sup> This narrative seems to also be closely related to the libertarian viewpoint and the approach of several law and economics scholars.

The no-preemption approach originated in 1990<sup>12</sup> but became recognized with and is commonly attributed to one of the most cited federal circuit court opinions—the 1996 decision of the Seventh Circuit in *ProCD v. Zeidenberg*.<sup>13</sup> In this decision, Judge Frank Easterbrook concluded that an agreement that limits the use of factual information, which is not protected by copyright,<sup>14</sup> is not preempted and fully enforceable.

The reaction to *ProCD* among most copyright scholars and commentators was swift, passionate, and, for the most part, exceptionally negative.<sup>15</sup> The scholarly consensus cautioned that if the *ProCD* approach is broadly adopted, the results would be dire. Using contractual arrangements, the rights of providers of information goods would run amok, expand, and in doing so they would invade, shrink, and possibly destroy the public domain. A world in which *ProCD* is the law of the land—the consensus suggests—will look very different from a world in which *ProCD* is rejected. Contracts, we were repeatedly warned throughout the years, would kill copyright law.<sup>16</sup>

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110-111.

<sup>8</sup> See, e.g., *Real Estate Innovations, Inc. v. Houston Ass'n of Realtors, Inc.*, 422 F. App'x 344, 349 (5th Cir. 2011); *Utopia Provider Sys., Inc. v. Pro-Med Clinical Sys., LLC*, 596 F.3d 1313, 1326 (11th Cir. 2010).

<sup>9</sup> See *infra* Section I.B.

<sup>10</sup> See, e.g., Henry E. Smith, *Intellectual Property as Property: Delineating Entitlements in Information*, 116 YALE L. J. 1742 (2007); *infra* text accompanying notes 95-97.

<sup>11</sup> See, e.g., *Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U.S. 373, 383 (1911) (“The right of alienation is one of the essential incidents of a right of general property in movables.”).

<sup>12</sup> *Taquino v. Teledyne Monarch Rubber*, 893 F.2d 1488, 1501 (5th Cir. 1990).

<sup>13</sup> 86 F.3d 1447, 1453 (7th Cir.1996).

<sup>14</sup> *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 344-45 (1991).

<sup>15</sup> See *supra* note 3; *infra* notes 140-149 and accompanying text.

<sup>16</sup> See, e.g., Nimmer et al., *supra* note 3, at 20 (discussing how contracts may lead to “the death of copyright”).

Part II of this Article suggests that notwithstanding those warnings, *ProCD* won the day. In the last twenty years since Judge Easterbrook's *ProCD* opinion, the no-preemption approach has gradually become more popular among courts while the competing partial-preemption approach lost ground. While the caselaw is not always perfectly clear, it seems that the no-preemption approach is now the law in the Fifth, Seventh, Ninth, Eleventh, and the Federal Circuit.<sup>17</sup> In contrast, only the Sixth Circuit has explicitly adopted the competing partial-preemption approach.<sup>18</sup> The caselaw in other federal appellate courts, including the Second, Fourth, and Eighth Circuits, is murkier and does not indicate a clear preference for one approach over the other.<sup>19</sup> Since *ProCD*, federal appellate courts decided fifteen cases in which a party argued that a contract is preempted by copyright law, but only in one of those cases, the Sixth Circuit decision in *Ritchie*,<sup>20</sup> the preemption claim was accepted.

Part II also provides several possible explanations for the failure of the partial-preemption approach. First, the approach might be less attractive than the competing no-preemption approach because it is difficult to apply. It rejects a bright-line rule and requires courts to analyze contracts and compare them to copyright policies. Second, and more critically, the partial-preemption approach failed to come up with a test that separates contracts that should be enforced from those that should not. The test that proponents of this approach have come up with is sometimes overly narrow and sometimes overly broad.<sup>21</sup> Indeed, the partial-preemption approach creates a set of formalistic rules that, at times, make little sense, are arbitrary, and can lead to absurd results.<sup>22</sup> It is therefore not surprising that despite the scholarly warnings against the adoption of the no-preemption rule, so many courts flat-out rejected the partial-preemption approach.

Part III examines the effect of the judicial adoption of *ProCD*'s no-preemption approach. Surprisingly, a close examination of the caselaw suggests that the doomsday scenarios many scholars predicted did not come to fruition. Indeed, there is a clear discrepancy between the parade of horrors that commentators warned against and the actual reality, as reflected in the caselaw.

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<sup>17</sup> See, e.g., *Montz v. Pilgrim Films & Television, Inc.*, 649 F.3d 975 (9th Cir. 2011) (en banc); *Real Estate Innovations, Inc. v. Houston Ass'n of Realtors, Inc.*, 422 F. App'x 344 (5th Cir. 2011); *Utopia Provider Sys., Inc. v. Pro-Med Clinical Sys.*, 596 F.3d 1313 (11th Cir. 2010); *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317 (Fed. Cir. 2003); *ProCD*, 86 F.3d 1447; *infra* notes 150-159 and accompanying text.

<sup>18</sup> *Wrench LLC v. Taco Bell Corp.*, 256 F.3d 446, 456 (6th Cir. 2001).

<sup>19</sup> See, e.g., *Forest Park Pictures v. Universal Television Network, Inc.*, 683 F.3d 424 (2d Cir. 2012); *Davidson & Assocs. v. Jung*, 422 F.3d 630 (8th Cir. 2005); *Acorn Structures, Inc. v. Swantz*, 846 F.2d 923 (4th Cir. 1988); *infra* notes 163-176.

<sup>20</sup> *Ritchie v. Williams*, 395 F.3d 283 (6th Cir. 2005).

<sup>21</sup> See *infra* Section II.B.

<sup>22</sup> See *infra* Section II.B.

The vast majority of the contracts that were litigated since *ProCD* embody commercially reasonable transactions that do not seem to pose any real threat to the goals or policies of federal copyright law. The most common of such contracts includes a promise by the defendant to pay the plaintiff if the defendant decides to use a creative idea pitched by the plaintiff, such as an idea for a movie script or an advertising campaign.<sup>23</sup> Although this contract regulates the use of ideas, it does not stand in the way of copyright policy and therefore there is little reason to find it preempted. Other typical arrangements that have been litigated, such as obligations to pay for certain usages, or a promise to refrain from copyright infringement, are also commercially reasonable and should not be preempted.<sup>24</sup>

The study of the caselaw also indicates that the contracts subject to preemption litigation were entered into by sophisticated parties or, at least, in situations where the parties have likely read, or should have read, the contract prior to its acceptance.<sup>25</sup> In other words, the contracts that have been litigated are typically not the type of standard-form agreements that commonly raise serious policy concerns: click-wraps, browser-wraps, shrink-wraps, and other form documents which are routinely accepted without being read and usually without much thought. The type of contracts that commentators warned about—for example, a bulk of long and complicated standard-form agreements that would force users, without reading or noticing, to promise not to criticize the underlying work, parody it, or use the idea expressed therein—are nowhere to be found among the litigated contracts.

Indeed, the horror scenarios that envisioned contractual arrangements running amok and trumping copyright law as we know it, did not materialize. Part III considers the limitations in relying on litigated contracts. It acknowledges that it is theoretically possible that focusing on litigated cases can create a distorted impression, but concludes that this possibility is unlikely. It is doubtful that contracts do, in fact, affect users' behavior in a way that disturbs the arrangements set by copyright law without leaving a trace, in the caselaw or elsewhere. In other words, it is implausible that users routinely refrain from creating parodies or use ideas because of never-litigated contractual limitations.

What explains this discrepancy? Why, if many courts are willing to enforce contracts over information goods, don't distributors of those goods routinely use contract law to fundamentally restrict the rights of their users? Why did the parade of horrors not materialize? Part III suggests that the main reason is that contracts

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<sup>23</sup> These types of claims are typically called "Desny claims" because the legal theory on which they are based was established in *Desny v. Wilder*, 299 P.2d 257 (Cal. 1956). In that famous case, the Supreme Court of California found that the renowned screenwriter Billy Wilder had made an implicit contractual promise to pay Victor Desny if Wilder would use an idea for a movie that Desny pitched. *Id.* at 273. The court held that Wilder breached this implied-in-fact contract when he created the movie *Ace in the Hole* without paying Desny. *Id.* at 277.

<sup>24</sup> See *infra* text accompanying notes 235-244.

<sup>25</sup> See *infra* text accompanying notes 224-234.

are not an efficient tool to control mass use of information and information goods, and they are certainly inferior to other tools, such as copyright law and encryption.

On one hand, a plaintiff in a contractual dispute must prove privity: that the defendant accepted the contract.<sup>26</sup> On the other hand, information wants to be free.<sup>27</sup> It tends to spill over. Controlling it, and preventing third parties from gaining access to it, is challenging. Ideas, in particular, tend to escape control. Establishing contract privity over information is thus difficult. Moreover, contract law lacks doctrines to effectively prevent mass violation of the law, such as generous remedies or secondary liability, both existing under copyright law.<sup>28</sup> Finally, even without preemption, contracts are subject to legal and non-legal restrictions. Legal restrictions include a set of doctrines, such as unconscionability and public policy that are designed to limit extremely offensive contracting practices.<sup>29</sup> Non-legal restrictions include market pressure and reputation concerns that also limit the publishers' abilities to use over-offensive terms and practices.<sup>30</sup> Those factors make contracts ineffective in controlling information goods. Contracts simply do not allow publishers to exercise the kind of extreme control that scholars were concerned about in the aftermath of *ProCD*.

Part IV considers the normative implications of those findings. The study of the litigated contracts and the analysis thereof seem to support *ProCD*'s no-preemption approach. Contracts do not seem to pose a significant risk to copyright policy. Creating a complex set of rules to correctly identify very rare situations, if they exist at all, in which contracts do pose such a risk—an endeavor which so far has failed—will offer very limited benefits. Such an approach will also likely cause social harm, as it will introduce additional complexity and uncertainty. Judges will struggle to implement those complex rules, spend resources, and, unavoidably, make mistakes. Type I errors, false positives, where judges find contracts preempted when they should not, are especially likely.<sup>31</sup> For those reasons, the partial-preemption approach, or a variation thereof, seems undesirable and its rejection by most courts seems socially beneficial.

Copyright law is not the only area of the law affected by contracts and in particular standard-form agreements. Copyright scholars are not the only scholars

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<sup>26</sup> RESTATEMENT (SECOND) OF CONTRACTS § 17 (1981) (“[T]he formation of a contract requires ... a manifestation of mutual assent.”).

<sup>27</sup> See, e.g., Benkler, *supra* note 3, at 433-35; Brett M. Frischmann & Mark A. Lemley, *Spillovers*, 107 COLUM. L. REV. 257 (2007); R. Polk Wagner, *Information Wants to Be Free: Intellectual Property and the Mythologies of Control*, 103 COLUM. L. REV. 995 (2003).

<sup>28</sup> See *infra* text accompanying notes 265-271.

<sup>29</sup> See *infra* text accompanying notes 277-282.

<sup>30</sup> See, e.g., Lucian A. Bebchuk & Richard A. Posner, *One-Sided Contracts in Competitive Consumer Markets*, 104 MICH. L. REV. 827, 829-31 (2006); *infra* text accompanying notes 283-286.

<sup>31</sup> See *infra* Section IV.A.

who are concerned that contract law will trump carefully created legal balances.<sup>32</sup> Margaret Radin, in an important recent work, called such contracts “rights deletion schemes” and explored their effects on various legal doctrines.<sup>33</sup> Part IV concludes by examining whether the result of this study on contracts over information goods can be generalized and applicable to other areas of the law.

Generalization is tempting. If standard-form agreements turn out to be less harmful to copyright policy than many have predicted, and if the underlying copyright policy seems resilient to changes by contracts, it might be tempting to suggest that the standard-form agreements problem is overstated.<sup>34</sup> To a degree, this argument is correct. This Article demonstrates that there might be a real gap between the text of standard-form agreements and the ways in which they are enforced. Therefore, studying the text might create a distorted impression. This Article also points to the inability of contracts to replace certain underlying statutory regimes, which might also be true in other contexts.

At the same time, Part IV also explains that this argument should not be taken to the extreme. Various standard-form agreement provisions may be subject to conditions and constraints that are quite different from contracts over information goods. Specifically, certain features of information, such as its tendency to spill over, are lacking in other markets. Some standard-form provisions, such as mandatory arbitration, allow companies to avoid significant liability, and therefore those companies are likely to use them as a shield.<sup>35</sup> Future research will be able to look more carefully into those provisions and those markets and explore to what degree they present some of the same features of the markets for information and information goods.

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<sup>32</sup> Dozens of scholars have noted this phenomenon. *See, e.g.*, Friedrich Kessler, *Contracts of Adhesion—Some Thoughts About Freedom of Contract*, 43 COLUM. L. REV. 629 (1943); Todd D. Rakoff, *Contracts of Adhesion: An Essay in Reconstruction*, 96 HARV. L. REV. 1173 (1983); Judith Resnik, *Diffusing Disputes: The Public in the Private of Arbitration, the Private in Courts, and the Erasure of Rights*, 124 YALE L.J. 2804 (2015); Daniel Schwarcz, *A Products Liability Theory for the Judicial Regulation of Insurance Policies*, 48 WM. & MARY L. REV. 1389 (2007); W. David Slawson, *Standard Form Contracts and Democratic Control of Lawmaking Power*, 84 HARV. L. REV. 529 (1971).

<sup>33</sup> RADIN, *supra* note 3, at 16-18.

<sup>34</sup> Some have made that claim, at least in certain contexts. *See, e.g.*, Douglas G. Baird, *The Boilerplate Puzzle*, 104 MICH. L. REV. 933 (2006); Randy E. Barnett, *A Consent Theory of Contract*, 86 COLUM. L. REV. 269 (1986); Omri Ben-Shahar, *Regulation Through Boilerplate: An Apologia*, 112 MICH. L. REV. 883 (2014); Florencia Marotta-Wurgler, *Are “Pay Now, Terms Later” Contracts Worse for Buyers? Evidence from Software License Agreements*, 38 J. LEGAL STUD. 309 (2009).

<sup>35</sup> *See, e.g.*, AT&T Mobility LLC v. Concepcion, 563 U.S. 333 (2011) (denying a class action claim because a mandatory arbitration provision was included in a standard-form agreement).



## PART I: THE CONTRACT-COPYRIGHT CONFLICT

A. *The Copyright-Contracts Interactions*

Copyright law consists of legal norms that govern certain actions with respect to creative works fixed in a tangible medium of expression.<sup>36</sup> Contracts allow individuals to create legal norms with respect to creative (and non-creative) works that are fixed (and those that are not fixed) in a tangible medium of expression. This Part explains how contracts can help promote the goals of copyright policy but also, how this potential overlap in legal norms can create tension between the two.

In many respects, copyright and contracts complete one another. While in theory copyright law can operate without contracts—copyright is created upon fixation and immediately protects authors against unauthorized reproduction and distribution—in practice, copyright law cannot achieve its goals without trade, and trade cannot efficiently operate without contracts.<sup>37</sup> As the main goal of copyright law, at least in the United States, is to provide incentives to engage in creative activities, achieving this goal requires creators to trade the products of their creative labor for compensation. Contracts are therefore common at all stages of the creative process. They, for example, can set the legal relationship between contributors to the work,<sup>38</sup> and between them and their publishers,<sup>39</sup> establish a work-made-for-hire status,<sup>40</sup> form arrangements between publishers, distributors, and retailers, and be the source of certain norms between copyright owners and the consumers of copyrighted goods.

Consider, for example, the complex relationship between copyright owners and users of copyrighted good. Copyright law already includes detailed rules that define the rights that buyers (or licensees) of copyrighted goods have with respect to copies of copyrighted goods they purchase (or license). When Alice writes a book and sells a copy of it to Bob copyright law dictates that Bob is able, inter alia, to read the book, resell it,<sup>41</sup> and dispose of it, but he cannot, subject to certain exceptions such as fair use,<sup>42</sup> create copies of the book, read it out loud in public, or

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<sup>36</sup> 17 U.S.C. § 102(a) (2012).

<sup>37</sup> Cass R. Sunstein, *Incommensurability and Valuation in Law*, 92 MICH. L. REV. 779, 825-26 (1994) (“Markets are of course a function of the law of property, contract, and tort, without which voluntary agreements would not be possible”).

<sup>38</sup> See, e.g., *Childress v. Taylor*, 945 F.2d 500, 507 (2d Cir. 1991).

<sup>39</sup> Guy A. Rub, *Stronger Than Kryptonite? Inalienable Profit-Sharing Schemes in Copyright Law*, 27 HARV. J.L. & TECH. 49, 115-24 (2013) (discussing profit sharing arrangements between creators and publishers).

<sup>40</sup> 17 U.S.C. § 101; e.g., *Warren v. Fox Family Worldwide, Inc.*, 328 F.3d 1136, 1141 (9th Cir. 2003) (enforcing an “explicit ... contract that establishes [the work] as ‘works made for hire.’”).

<sup>41</sup> 17 U.S.C. § 109(a) (2012); see also William W. Fisher III, *Property and Contract on the Internet*, 73 CHI.-KENT L. REV. 1203, 1204-06 (1998) (discussing the initial allocation of rights as set by copyright law).

<sup>42</sup> 17 U.S.C. § 107.

write a sequel.<sup>43</sup> These prohibited actions are called exclusive rights.

This is the starting point of the journey. The difficult question that this Article addresses is to what extent the parties are allowed to deviate from these arrangements. Some deviations seem unproblematic. The Copyright Act expressly states that the copyright owner is free to authorize a user or a licensee to take any action which is part of that owner's exclusive rights.<sup>44</sup> Thus, a copyright owner can allow buyers or licensees to make copies of the work, translate it into another language, or display it in public.

However, the other kinds of deviations, in which the buyer or licensee promises to refrain from an activity that copyright law does not prohibit, are more troubling and have been the source of significant controversy.<sup>45</sup>

The typical case in which copyright policy and freedom of contracts might conflict is simple to grasp. The plaintiff—typically a distributor—sells a copy of a certain information good, which can be copyrighted or not, to the defendant. As part of that transaction the defendant promises to refrain from an act that might not be prohibited by copyright law or to take an action that might not be required by copyright law. After the promise is breached, the plaintiff brings a claim for breach of contract<sup>46</sup> and the defendant argues that the enforcement of such a promise is inconsistent with copyright policy and preempted.

In theory, contractual promises can conflict with copyright law in several ways. Some promises might create legal norms that seem broader than the legal norms of copyright law, and, in the aggregate, they arguably might cause contract law to substitute, at least to a degree, copyright law. Contractual promises can be inconsistent with various aspect of copyright law: with the subject matters of copyright law, with the limited nature of the exclusive rights under copyright law, with the defenses to copyright infringement claims, and with the procedural aspects of copyright law infringement claims. The next paragraphs describe some of those situations.

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<sup>43</sup> 17 U.S.C. §§ 106 (1), 106(2), 106(4).

<sup>44</sup> 17 U.S.C. § 106 (“[T]he owner of copyright ... has the exclusive rights to do and to authorize and of the following...”).

<sup>45</sup> See *infra* Sections I.B and II.A.

<sup>46</sup> While a breach of a contractual obligation, such as a promise to pay, is typically not in itself an infringement of copyright, in some cases it can indirectly lead to liability under copyright law. For example, when a publisher-licensee breaches a condition in a publishing agreement and continues to distribute copies of a copyrighted protected work, the distribution is an infringement.

In the context of software and digital content the line between a breach of contract and copyright infringement is fine. Software cannot be used without being copied to the computer's internal memory. Because copying is an exclusive right, 17 U.S.C. § 106(1), under (controversial) Ninth Circuit precedence, every user of software must have a license that would permit her to create temporary copies as part of the standard usage. It follows that a breach of almost any condition in a software license agreement is likely to result in copyright liability. See *MDY Indus., LLC v. Blizzard Entm't, Inc.*, 629 F.3d 928 (9th Cir. 2010).

**Inconsistencies with the subject matter of Copyright:** Copyright law does not protect all kinds of information goods. A work must fall within the subject matter of copyright in order to be protected. In particular, copyright law does not protect ideas.<sup>47</sup> Contracts, by contrast, can—and often do—regulate rights in ideas. Common examples are *Desny* claims.<sup>48</sup> A *Desny* claim arises after the plaintiff pitches **an idea** for a creative endeavor—a movie,<sup>49</sup> a TV or radio show,<sup>50</sup> or a commercial campaign<sup>51</sup>—to the defendant, who rejects the pitched endeavor but later uses the idea. Contract law, in many states, holds that an implied-in-fact contract<sup>52</sup> exists in such a case and that this contract includes a promise by the

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<sup>47</sup> 17 U.S.C. § 102(b) (2012) (“in no case does copyright protection ... extend to any idea”). The Supreme Court held that this principle has a Constitutional aspect as it balances Congress’ power to enact copyright legislation and the principles of freedom of speech under the First Amendment. *Golan v. Holder*, 132 S. Ct. 873, 890 (2012); *Eldred v. Ashcroft*, 537 U.S. 186, 219 (2003).

<sup>48</sup> See *supra* note 23.

<sup>49</sup> See, e.g., *Smith v. Weinstein*, 578 F. Supp. 1297 (S.D.N.Y. 1984), *aff’d*, 738 F.2d 419 (2d Cir. 1984) (enforcing an implied-in-fact contract over an idea that was later used in the screenplay of the movie “Stir Crazy”); *Desny v. Wilder*, 299 P.2d 257, 277 (Cal. 1956) (finding an idea to produce a movie was used in the production of “Ace in the Hole”; copyright preemption was not considered in this case).

<sup>50</sup> See, e.g., *Forest Park Pictures v. Universal Television Network, Inc.*, 683 F.3d 424 (2d Cir. 2012) (enforcing an implied-in-fact contract over an idea for a TV show that was later used in the production of the show “Royal Pains”); *Montz v. Pilgrim Films & Television, Inc.*, 649 F.3d 975 (9th Cir. 2011) (en banc) (enforcing an implied-in-fact contract over the idea for a television show that later turned into the show *Ghost Hunters*); *Trenton v. Infinity Broad. Corp.*, 865 F. Supp. 1416 (C.D. Cal. 1994) (enforcing an implied-in-fact contract over the idea to produce a new format of a radio show which was later used in the production of the mega-popular show “Loveline”).

<sup>51</sup> See, e.g., *Wrench LLC v. Taco Bell Corp.*, 256 F.3d 446, 456 (6th Cir. 2001) (enforcing an implied-in-fact contract over an idea to run a campaign for Taco Bell starring a Chihuahua that was later used by Taco Bell); *Garrido v. Burger King Corp.*, 558 So. 2d 79, 83 (Fla. Dist. Ct. App. 1990) (enforcing an implied-in-fact contract over an idea for a campaign for Burger King).

<sup>52</sup> An implied-in-fact contract is “founded upon a meeting of minds, which, although not embodied in an express contract, is inferred, as a fact, from conduct of the parties showing, in the light of the surrounding circumstances, their tacit understanding.” *Baltimore & O.R. Co. v. United States*, 261 U.S. 592, 597 (1923). It is crucial to distinguish implied-in-fact contracts, such as those discussed in a *Desny* claim, from implied-in-law contracts (also called quasi contracts). The former are based on legal obligations that, like any other contractual claim, are founded on the parties’ consent, while the latter are not contracts at all as the legal obligations are not the result of the defendant’s promise but on the defendant’s unjust enrichment. The copyright preemption analysis for implied-in-law agreements, or unjust enrichment, which is beyond the scope of this Article, is dramatically different from the analysis of preemption of contractual, including implied-in-fact, claims. *But see*, *Worth v. Universal Pictures, Inc.*, 5 F. Supp. 2d 816, 822 (C.D. Cal. 1997) (holding that a *Desny* like claim is preempted by the Copyright Act because “a breach of an implied contract is a species of quasi contract,” thus clearly confusing implied-in-fact and implied-in-law claims); *Fischer v. Viacom Int’l, Inc.*, 115 F. Supp. 2d 535, 541-42 (D. Md. 2000) (discussing preemption while erroneously lumping together previous decisions that discuss implied-in-fact claims and implied-in-law claims).

defendant to pay for the fair value of their pitched idea, if it is later used. In this way, contracts allow creators to regulate the use of ideas, which are not protected by copyright.<sup>53</sup>

Factual information is also not within the scope of copyright subject matters. In *Feist v. Rural*, the Supreme Court held that because facts lack creativity Congress is not authorized to protect them by copyright.<sup>54</sup> Contracts, however, can regulate the use of factual information. In *ProCD v. Zeidenberg*,<sup>55</sup> which will be discussed at length below, the defendant was successfully sued for breaching a contractual promise to refrain from commercial use of an uncopyrightable database. In another case, the defendant was successfully sued for breaching a contract that prohibited the reproduction of statistical information regarding jury decisions.<sup>56</sup>

**Inconsistency with copyright exclusive rights:** Copyright law prohibits buyers of copyrighted works from taking certain actions with their purchased goods. Subject to the general defenses to copyright liability, discussed below, buyers are not allowed to reproduce the copyrighted good, to create a derivative work thereof, distribute it, or to publicly display or perform it.<sup>57</sup> Buyers, however, are free to use the work in any way that does not include reproduction, adaptation, distribution, or public performance or display. Contracts, on the other hand, might include promises that limit other actions that can be taken with respect to the work. For example, in one famous case, a promise not to use certain copyrighted architectural plans to build a building was enforced.<sup>58</sup> In another well-known case, a promise to use software for the exclusive benefits of the promisor and not third parties was enforced.<sup>59</sup>

**Inconsistency with copyright defenses:** Many activities that include copying, adaptation, distribution, or public performance or display of copyrighted protected materials are shielded by one of the dozens of defenses that copyright law provides.<sup>60</sup> In contrast, liability for breach of contract is obviously not limited by the defenses to copyright infringement. Therefore, a contract may include a promise to refrain from taking actions that are explicitly shielded by a statutory defense for copyright infringement.

For example, the fair use defense—arguably the most important defense under

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<sup>53</sup> *Cf.*, Benkler, *supra* note 3, at 434 (arguing that the distribution of ideas should be free from most legal restrictions).

<sup>54</sup> *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340 (1991).

<sup>55</sup> *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1453 (7th Cir. 1996).

<sup>56</sup> *Lipscher v LRP Publ'ns*, 266 F.3d 1305 (11th Cir. 2001).

<sup>57</sup> 17 U.S.C. § 106 (2012).

<sup>58</sup> *Acorn Structures, Inc. v. Swantz*, 846 F.2d 923 (4th Cir. 1988).

<sup>59</sup> *Nat'l Car Rental Sys., Inc. v. Comput. Assocs. Int'l, Inc.*, 991 F.2d 426 (8th Cir. 1993).

<sup>60</sup> Most copyright liability defenses are found in sections 107 through 122 of the Copyright Act. 17 U.S.C. §§ 107-22 (2012).

copyright law<sup>61</sup>—provides a multi-factor test to identify certain actions which are considered fair and thus non-infringing. Contracts can, however, regulate those actions. Reverse engineering of software—the process of extracting certain design information from computer programs, typically for interoperability purposes—was held by some court to be fair use.<sup>62</sup> Software companies, however, may include in their End User License Agreements (EULAs) a contractual promise not to reverse engineer their products.<sup>63</sup> Such provisions provide a contractual cause of action when a defense bars liability for copyright infringement.<sup>64</sup>

**Inconsistencies with the procedures of copyright infringement lawsuits.** The rules of copyright law are not limited to substantial norms such as those controlling the scope of the exclusive rights and their limitations. The Copyright Act also sets certain procedures for bringing and adjudicating copyright claims. For example, section 411 requires registration of the copyright prior to filing a lawsuit, section 501(b) provides that only copyright owners and exclusive licensees may initiate a

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<sup>61</sup> See *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 575 (1994) (“From the infancy of copyright protection, some opportunity for fair use of copyrighted materials has been thought necessary to fulfill copyright’s very purpose.”).

<sup>62</sup> *Sony Comput. Entm’t, Inc. v. Connectix Corp.*, 203 F.3d 596 (9th Cir. 2000); *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510 (9th Cir. 1992).

<sup>63</sup> *Davidson & Assocs. v. Jung*, 422 F.3d 630 (8th Cir. 2005); *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317 (Fed. Cir. 2003). See also *infra* note 247.

<sup>64</sup> Contractual promises can be inconsistent with other, and typically narrower, copyright defenses. For example, under section 113(c) of the Copyright Act, including an image of a useful article in an advertisement is shielded from copyright liability. However, in *Major v. Sony Music Entertainment, Inc.*, No. 92 Civ. 2826, 1992 WL 210115 (S.D.N.Y. Aug. 17, 1992) the court considered, although eventually found preempted, a contractual promise that prohibited the inclusion of a DVD cover in any advertisement.

A more important defense, the first sale doctrine, deserves a separate discussion. Under this defense the owner of a lawfully made copy “is entitled ... to sell or otherwise dispose of the possession of that copy.” 17 U.S.C. § 109(a) (2012). Can copyright owners try to control downstream distribution through a breach of contract claim when the first sale doctrine bars copyright liability? In theory the answer is yes, but in practice they probably don’t need to do so.

The first sale doctrine is available only to owners of copyrighted goods and not to licensees. Therefore, if copyright owners are able to license and not sell the copies of their work, they can control distribution without relying on a contractual cause of action. See Clark D. Asay, *Kirtsaeng and the First-Sale Doctrine’s Digital Problem*, 66 STAN. L. REV. ONLINE 17 (2013); Guy A. Rub, *Rebalancing Copyright Exhaustion*, 64 EMORY L. J. 741, 812-15 (2015). Under Ninth Circuit precedent a transaction is a license and not a sale if the contract states so, *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010). While other circuits’ precedent might be inconsistent with that of the Ninth Circuit, see, for example, *Krause v. Titleserv, Inc.*, 402 F.3d 119 (2d Cir. 2005), the Ninth Circuit dealt with this issue more than any other court in the country. Therefore, in practice, most copyright owners who have contracts with their buyers can use copyright law to control the downstream distribution of their work without resorting to a contractual cause of action. Cf., Nimmer et al., *supra* note 3, at 55 (warning that the “logic of ProCD” can bar buyers “from passing [a] purchased [book] on to a friend”).

copyright lawsuit, and section 507(b) fixes the statute of limitations for copyright infringement claims to three years. Contractual claims are subject to a different—typically a lighter—set of procedural limitations. For example, every party to a contract as well as third party beneficiaries can bring a contractual claim. Similarly, the statute of limitations for contract claims is typically set to four or more years.<sup>65</sup> Therefore, a contractual cause action may be available when a copyright infringement claim is not. In those situations, a contractual promise to refrain from copyright infringement might look redundant and unneeded at first but can provide valuable rights to the promisee. In other words, while most plaintiffs will prefer a copyright infringement claim, primarily because copyright remedies are more generous than contractual ones,<sup>66</sup> in some unusual cases, for procedural reasons, the plaintiff might bring a contractual claim even if the defendant’s actions seem to infringe copyright.<sup>67</sup>

## B. Copyright Preemption of Contracts

### 1. Copyright Expressed Preemption

Courts address the potential tension between contracts and copyright policy mainly through the doctrine of federal preemption.<sup>68</sup> The Supremacy Clause of the Constitution states that “the Laws of the United States shall be the supreme law of the land.”<sup>69</sup> From this Clause emerged the federal preemption doctrine under which “state laws that conflict with federal law are without effect.”<sup>70</sup>

The last major case in which the Supreme Court addressed copyright preemption was *Goldstein v. California*, which was decided prior to the enactment of the Copyright Act of 1976.<sup>71</sup> In that case, the Court held that the Constitution does not preclude states from creating their own copyright-like mechanisms, and

<sup>65</sup> A statute of limitations in contracts for the sale of goods is four years. U.C.C. § 2-725 (2012). With respect to other contracts the statute of limitations varies across jurisdictions. It can be as short as three years, for example, MD. CODE ANN., CTS. & JUD. PROC. § 5-102 (West 2014), or as long as ten years, for example, 735 ILL. COMP. STAT. 5/13-206 (2016), although, it seems that in many jurisdictions it is set to six years, for example, N.Y. CIV. PRAC. L. & R. § 213 (2015).

<sup>66</sup> See *infra* text accompanying notes 265-268.

<sup>67</sup> See, e.g., *Ritchie v. Williams*, 395 F.3d 283 (6th Cir. 2005) (discussing a contractual claim after the statute of limitations had run on a parallel copyright claim); *Wolff v. Inst. of Elec. and Elecs. Eng’rs, Inc.*, 768 F. Supp. 66 (S.D.N.Y. 1991).

<sup>68</sup> This is of course not the only possible doctrinal venue to address this conflict although it is by far the most common one. Other doctrines might be found both in federal law, for example in copyright misuse doctrine, *Apple Inc. v. Psystar Corp.*, 658 F.3d 1150 (9th Cir. 2011), and in state contract law, for example, public policy and unconscionability, RESTATEMENT (SECOND) OF CONTRACTS §§ 178, 208 (1981). See *infra* Section III.D.4.

<sup>69</sup> U.S. CONST. art. VI, cl. 2.

<sup>70</sup> *Altria Grp., Inc. v. Good*, 555 U.S. 70, 76 (2008).

<sup>71</sup> *Goldstein v. California*, 412 U.S. 546 (1973). The Court addressed copyright preemption again, almost in passing, in *Capital Cities Cable, Inc. v. Crisp*, 467 U.S. 691 (1984).

that Congress did not intend to “occupy the field,” and therefore states are free to grant exclusive rights to authors.<sup>72</sup> The Court then examined whether the specific state law at bar conflicted with the purpose and objectives of the Copyright Act, as was effective at the time, and concluded that it did not.<sup>73</sup> The Supreme Court also stated that Congress has the power to dictate national policy in the protection or the lack of protection of certain types of “writings.”<sup>74</sup> In 1976, when Congress revised the Copyright Act, it did just that.

In 1976, Congress used its express preemption power and enacted section 301(a) of the Copyright Act of 1976. It reads:

*[A]ll 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 ... 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.*

Since the passage of the Copyright Act, copyright preemption of contracts was discussed almost exclusively under the auspice of Section 301(a), whereas other forms of preemption, and in particular conflict preemption, which will be discussed below,<sup>75</sup> received very little attention.

The Supreme Court never interpreted Section 301(a). Lower courts, however, adopted a two-part test for applying it:

*First, the work of authorship in which rights are claimed must fall within the “subject matter of copyright” as defined in §§ 102 and 103 of the [Copyright] Act. [Second,] [t]he statute also requires that a state law create[s] ‘legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified in section 106’ if it is to be preempted.*<sup>76</sup>

Thus, the first prong of the test required the court to determine if the work in question is “within the subject matter of copyright.” Courts agree that this prong must be broadly applied and it must not be limited to copyright protected works.

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<sup>72</sup> *Goldstein*, 412 U.S. at 560.

<sup>73</sup> More specifically, the Court, by a five-Justices majority, decided that California may prohibit the copying of sound recordings that were not protected by the Copyright Act at the time because Congress “has left the area unattended, and no reason exists why the State should not be free to act.” *Id.* at 570.

<sup>74</sup> *Id.* at 559.

<sup>75</sup> *See infra* Section III.A.

<sup>76</sup> *Harper & Row Publishers, Inc. v. Nation Enters.*, 723 F.2d 195, 199-200 (2d Cir. 1983), *rev'd on other grounds*, 471 U.S. 539 (1985).

Otherwise, states would be free to protect non-protected elements, including facts and ideas, without taking into account the federal policy embodied in the Copyright Act.<sup>77</sup> The Sixth Circuit summarized this dominant approach by stating that “the scope of protection afforded under copyright law is not the same as the scope of preemption. Rather ... the shadow actually cast by the Copyright Act's preemption is notably broader than the wing of its protection.”<sup>78</sup>

As applied to contract law, there is a broad consensus that contracts over “writings,” whether protected by copyright or not, fall under this first part of the test.<sup>79</sup> Therefore, their preemption or lack thereof depends on the scope of the second part of the test: the equivalency prong.

The second prong requires courts to determine whether state law creates “legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified in section 106.”<sup>80</sup> The rights specified in section 106 are the exclusive rights: reproduction, adaptation, distribution, and public display and performance.<sup>81</sup> Thus, in the second stage of the analysis, the court must decide if the rights created by state law are equivalent to the exclusive rights.

Courts uniformly use the extra element test to decide the question of equivalency. Under this test:

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<sup>77</sup> See Ariel Katz, Aaron Perzanowski & Guy A. Rub, *The Interaction of Exhaustion and the General Law: A Reply to Duffy and Hynes*, 102 VA. L. REV ONLINE 8, 22-23 (2016).

<sup>78</sup> *Wrench LLC v. Taco Bell Corp.*, 256 F.3d 446, 454 (6th Cir. 2001); see also *Spear Mktg., Inc. v. BancorpSouth Bank*, 791 F.3d 586, 594-96 (5th Cir. 2015) (summarizing the approaches for applying the first prong).

<sup>79</sup> There is probably only two decisions in which a court held that a contract claim was not preempted just because the “[plaintiff’s] cause of action is based upon . . . [an] implicit provision of the contract which does not arise out of the subject matter of copyright.” *Acorn Structures Inc. v. Swantz*, 846 F.2d 923, 926 (4th Cir. 1988). This decision consisted of an exceptionally short discussion on preemption (174 words, reversing a long—2221 words—and thorough decision of the district court) that future courts struggled with. See, e.g., *ProCD, Inc. v. Zeidenberg*, 908 F. Supp. 640, 657 (W.D. Wis. 1996), *remanded*, 86 F.3d 1447 (7th Cir. 1996) (suggesting, incorrectly, that in *Acorn* the Fourth Circuit held that copyright cause of action is not “equivalent” to copyright infringement); see also *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1454 (7th Cir. 1996) (same); *Frontline Test Equip., Inc. v. Greenleaf Software, Inc.*, 10 F. Supp. 2d 583, 593 (W.D. Va. 1998) (suggesting, incorrectly, that “[t]he Fourth Circuit’s careful analysis . . . in the *Acorn* [*sic*] claim seems . . . more in agreement with Professors Melville and David Nimmer, who state persuasively, . . . [that] preemption should continue to strike down claims that . . . complain directly about the reproduction of expressive materials.”). The only other decision that suggests that contracts over information goods are not within the subject matter of copyright for Section 301(a) purposes is an older and rarely cited opinion in *Whitfield v. Lear*, 582 F. Supp. 1186, 1188-89 (E.D.N.Y. 1984), *rev’d on other grounds*, 751 F.2d 90 (2d Cir. 1984); see also *infra* text accompanying notes 118-121.

<sup>80</sup> 17 U.S.C. § 301(a) (2012).

<sup>81</sup> 17 U.S.C. § 106.



*When a right defined by state law may be abridged by an act which, in and of itself, would infringe one of the exclusive rights, the state law in question must be deemed preempted. Conversely, when a state law violation is predicated upon an act incorporating elements beyond mere reproduction or the like, the rights involved are not equivalent and preemption will not occur.*<sup>82</sup>

Courts agree that not every extra element will suffice to save state law from preemption, but instead “the ‘extra element’ [must] change[] the ‘nature of the action so that it is qualitatively different from a copyright infringement claim.’”<sup>83</sup> Indeed, practically every state cause of action will be somewhat different from a copyright cause of action and therefore, if every minor difference would preclude preemption then section 301(a) would be meaningless.<sup>84</sup>

The analysis of tortious interference with contractual relations in *Harper & Row Publishers, Inc. v. Nation Enterprises*<sup>85</sup> is an often cited example of applying Section 301(a) framework. In that case, the defendant published parts of President Ford’s memoirs, of which the plaintiff was the copyright owner. Consequently, the plaintiff lost potential income from a licensing agreement with a third party. The plaintiff sued for both copyright infringement and tortious interference with contractual relations. The Second Circuit rejected the copyright infringement claim because the defendant’s actions were shielded by the fair use defense.<sup>86</sup>

The tortious interference with contractual relations claim was held to be preempted by section 301(a). The Second Circuit held that there is significant similarity between that claim and a copyright infringement claim. Indeed, it is quite common that copyright infringer will interfere with the relationship of copyright owners and third parties. The court noted that the elements of tortious interference are not identical to those of copyright claim because tortious interference requires the plaintiff to prove that the defendant knew about the contractual relations and copyright law does not require the plaintiff to prove any knowledge by the defendant.<sup>87</sup> However, the court held that this difference is too insignificant and insufficient to prevent preemption.

While courts typically agree on the general framework for applying copyright

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<sup>82</sup> *Harper & Row Publishers, Inc. v. Nation Enters.*, 723 F.2d 195, 199-200 (2d Cir. 1983), *rev’d on other groups*, 471 U.S. 539 (1985) (emphasis added).

<sup>83</sup> *Comput. Assocs. Int’l, Inc. v. Altai, Inc.*, 982 F.2d 693, 716 (2d Cir. 1992).

<sup>84</sup> Christina Bohannon, *Copyright Preemption of Contracts*, 67 MD. L. REV. 616, 654 (2008).

<sup>85</sup> *Harper & Row Publishers*, 723 F.2d 195.

<sup>86</sup> This part of the Second Circuit decision was later reversed by the Supreme Court. *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539 (1985). The Supreme Court did not address copyright preemption.

<sup>87</sup> Lack of knowledge is not a defense for copyright infringement. In fact, copyright infringement can be subconscious. *ABKCO Music, Inc. v. Harrisongs Music, Ltd.*, 722 F.2d 988 (2d Cir. 1983).

express preemption and on the effects of the doctrine on many states' causes of action, such as tortious interference with contractual relations, as the next Section explores, applying this test to breach-of-contract claims turned out to be challenging and difficult.

## 2. Express Preemption's Extra Element Test and Contractual Promises

Applying the extra element test to breach of contractual disputes is not trivial. While preemption analysis typically addresses an alleged conflict between a statutory or regulatory scheme of a state and that of the federal government, contracts are the result of private ordering.

There are, nevertheless, 288 reported decisions that applied preemption analysis to contractual promises, and all but a handful of them used the extra element test.<sup>88</sup> While those opinions include numerous examples of problematic reasoning including decisions that deviated—typically without notice—from binding circuit precedents, a careful examination of those decisions points to two main approaches to the extra element test. This Article refers to one as the no-preemption approach or the *ProCD* approach and to the other as the partial-preemption approach.

### a. The No-Preemption Approach

The no-preemption approach suggests that the contractual promise is the extra element that saves contracts from preemption. In other words, because liability under the Copyright Act does not depend on the defendant's promise (or consent) and liability for breach of contract does, the two are not equivalent. This approach was first suggested in *Taquino v. Teledyne Monarch Rubber*,<sup>89</sup> in which the Fifth Circuit enforced a promise of a former employee to refrain from using certain promotion materials of his former employer. The court held that “action for breach

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<sup>88</sup> Those 288 cases were located on Westlaw using the following method: First, Westlaw indicated that there are 1,766 cases—from federal and state courts—that cite to section 301. 329 of them that do not include the words contract or agreement (in their singular or plural forms) were ignored. The other 1,437 decisions were reviewed to locate those decisions that address a preemption claim with respect to a breach of contract cause of action. All the 235 decisions from circuit courts or the Supreme Court citing section 301, whether mentioning the word “contract” or “agreement” or not were also reviewed. An additional search was conducted to try and find the (relatively rare) opinions that did not explicitly cite to section 301 (although many of them apply the express preemption test). The search was for cases that meet this: (“preempt!” /p copyright) and (contract! or agreement!) % 301” which yield 979, of them 913 were decided after the effective day of the Copyright Act of 1976 (January 1, 1978). These decisions were also reviewed.

<sup>89</sup> *Taquino v. Teledyne Monarch Rubber*, 893 F.2d 1488 (5th Cir. 1990). In this decision the court cited two earlier authorities (*Smith v. Weinstein*, 578 F. Supp. 1297 (S.D.N.Y. 1984), *aff'd*, 738 F.2d 419 (2d Cir. 1984) and a section from NIMMER ON COPYRIGHT), but those authorities actually did not clearly suggest that contractual promises are “extra element.” There are district court decisions predating *Taquino* implying that contracts are never preempted by section 301(a) but their problematic reasoning did not survive the test of time. *See infra* Section II.A.1.

of contract involves an element in addition to mere reproduction, distribution or display: the contract promise made by [the defendant] ... therefore, it is not preempted.”<sup>90</sup>

A promise is always a required element in a contractual cause of action.<sup>91</sup> Therefore, if the promise is sufficient, by itself, to be an extra element under the second prong of the express preemption analysis, then the decision in *Taquino* implies that contracts will **never** be expressly preempted by the Copyright Act.

A similar rationale<sup>92</sup> suggests that contracts are not preempted because “[a] copyright is a right against the world. Contracts, by contrast, generally affect only their parties ... so contracts do not create ‘exclusive rights.’”<sup>93</sup> This reasoning was first suggested in probably the most famous decision on copyright preemption: *ProCD v. Zeidenberg*.<sup>94</sup>

The no-preemption approach is supported by a well-established narrative in copyright law discourse: one that describes copyright law as a legal system that creates property rights in certain intangible goods.<sup>95</sup> This narrative—which can be traced back many decades<sup>96</sup>—focuses on the copyright owners and the rights they

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<sup>90</sup> *Taquino*, 893 F.2d at 1501.

<sup>91</sup> RESTATEMENT (SECOND) OF CONTRACTS § 17 (1981) (“A contract is a promise or a set of promises...”).

<sup>92</sup> While the two forms of reasoning discussed in these paragraphs are phrased differently, they are actually “the same side of the same coin.” The extra element under the *Taquino* reasoning—the contractual promise—is the thing that makes contractual rights inapplicable against the world, which, pursuant to the *ProCD* reasoning, makes them non-exclusive and shielded from preemption.

It should be noted that in *ProCD* the Seventh Circuit stated that “we think it prudent to refrain from adopting a rule that anything with the label ‘contract’ is necessarily outside the preemption clause: the variations and possibilities are too numerous to foresee,” *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1453 (7th Cir. 1996), but, as others have pointed out, because contracts always create rights in personam, the reasoning of *ProCD* necessarily leads to the conclusion that all contracts survive preemption. The Seventh Circuit might have meant, although it did not state so explicitly, that a claim that is labeled “contractual” but is actually something else, for example an unjust enrichment claim, entails a different analysis.

<sup>93</sup> *ProCD*, 86 F.3d at 1454.

<sup>94</sup> *Id.*

<sup>95</sup> See Trotter Hardy, *Property (and Copyright) in Cyberspace*, 1996 U. CHI. LEGAL F. 217 (1996) (discussing how the conflict between copyright and contracts goes to the heart of copyright law); Maureen A. O'Rourke, *Drawing the Boundary Between Copyright and Contract: Copyright Preemption of Software License Terms*, 45 DUKE L.J. 479 (1995) (same).

<sup>96</sup> See, e.g., *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 347 (1908) (“to secure the author the right to multiply copies of his work may be said to have been the main purpose of the copyright statutes”); see also *Am. Tobacco Co. v. Werckmeister*, 207 U.S. 284, 298-99 (1907); *Stephens v. Cady*, 55 U.S. 528, 530 (1852) (“The copy-right is an exclusive right ... for the benefit of the author or his assigns ... a property in notion.” (internal quotation marks omitted)); Justin Hughes, *Copyright and Incomplete Historiographies: Of Piracy, Propertization, and Thomas Jefferson*, 79 S. CAL. L. REV. 993, 1008 (2006) (exploring three centuries of referring to copyright law as property in England and later in the United States).

have against the world as a way to incentivize creation. Property rights are generally transferable and so are intellectual property rights, which are transferable and licensable.<sup>97</sup> In fact, transferability lies at the heart of the theoretical justification for copyright: because society provides intellectual property rights to encourage authors to invest the resources needed to create the work, it is necessary to allow them to trade those rights and receive compensation.

This property-based narrative fits well with libertarian economic ideology, which advocates greater reliance on property and contract law as a tool to facilitate market transactions and thus constrain the role of the government.<sup>98</sup> The Coase Theorem, which is at the core of the economic analysis of law movement, in its very simple form, can support a similar approach as it suggests that as long as transaction costs are low enough, and given well-defined property rights, individuals will re-allocate their initial rights in a way that will maximize social welfare.<sup>99</sup> Thus, because contracts improve the contracting parties' utility, without externalities, they improve social welfare and should be enforced.<sup>100</sup>

The implication of these narratives to the enforceability of contracts over information goods is clear. If the purpose of copyright law is to create a property regime that rewards authors for their work, then trade should be encouraged. Therefore, creative contracting over copyrighted goods, which allows authors to form specific income-maximizing arrangements, is socially desirable as promoting the goals of copyright law.<sup>101</sup> In fact, in a 2005 article defending his *ProCD* ruling, Judge Easterbrook explicitly relied on the Coase Theorem and argued that "Patent law, copyright law, trademark law, and the law of contracts ...create or employ property rights in information."<sup>102</sup> He went on and explained that "although one can

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<sup>97</sup> See generally 17 U.S.C. § 201(d)(1) (2012) ("The ownership of a copyright may be transferred in whole or in part by any means of conveyance or by operation of law."); *Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U.S. 373, 383 (1911) ("The right of alienation is one of the essential incidents of a right of general property in movables."); 2 WILLIAM BLACKSTONE, COMMENTARIES ON THE LAWS OF ENGLAND 10 n.2 (Edward Christian ed. 12th ed. 1794) ("Upon whatever principle the right of property is founded, the power of giving and transferring seems to follow as a natural consequence."); See also Peter S. Menell & David Nimmer, *Judicial Resistance to Copyright Law's Inalienable Right to Terminate Transfers*, 33 COLUM. J.L. & ARTS 227 (2010) (explaining how courts are reluctant to limit alienability of copyright even in those rare cases in which the copyright act instructs them to do so).

<sup>98</sup> This position can also be traced back centuries. See, e.g., *Printing and Numerical Registering Co. v. Sampson*, L. R. 19 Eq. 462, 465 (1875) ("[M]en of full age and competent understanding shall have the utmost liberty of contracting, and that their contracts when entered into freely and voluntarily shall be held sacred and shall be enforced by courts of justice.").

<sup>99</sup> Ronald H. Coase, *The Problem of Social Cost*, 3 J.L. & ECON. 1, 2-8 (1960).

<sup>100</sup> See Epstein, *supra* note 3, at 502 ("Finding a systematic negative externality generated by these restrictions [on contractual freedom] is needed for justifying their imposition.").

<sup>101</sup> See Molly Shaffer Van Houweling, *The New Servitudes*, 96 GEO. L.J. 885, 891 (2008).

<sup>102</sup> Frank H. Easterbrook, *Contract and Copyright*, 42 HOUS. L. REV. 953, 962 (2005).

say that property rights in information are social constructs, so are property rights in cattle. **They set the stage for contracts; they do not prevent contracts.**<sup>103</sup>

b. The Partial-Preemption Approach

In contrast with the no-contract-preemption approach, some courts have held that the contractual promise by itself does not “change the nature of the action so that it is qualitatively different from a copyright infringement claim”<sup>104</sup> and therefore it cannot be, by itself, the extra element that precludes the finding of preemption. Instead, under this approach, the court should examine the contract and explore if it is “qualitatively different” from copyright infringement claim.

Under this approach, supported by *NIMMER ON COPYRIGHT*,<sup>105</sup> the court should examine whether the promise only regulates an action that is part of the exclusive rights: reproduction, adaptation, distribution, or public performance or display of the work. If it does, it is preempted.<sup>106</sup>

Two Sixth Circuit decisions demonstrate this approach. In *Wrench v. Taco Bell*,<sup>107</sup> the court analyzed the preemption of a *Desny* claim. Specifically, the court considered whether an implied-in-fact contract that allegedly required the defendant to pay the plaintiff if the defendant would use the plaintiff’s ideas for an advertising campaign was preempted. The Sixth Circuit expressly rejected the *ProCD* reasoning and the no-preemption approach and instead examined the contractual promise itself. The Court concluded that because the promise was a promise to pay, because payment (or the right to be paid) is not an exclusive right, and because the promise “change[d] the nature of the action so that it is qualitatively different from a copyright infringement claim”<sup>108</sup> then it is not preempted.

In contrast, in *Ritchie v. Williams*,<sup>109</sup> the defendant allegedly breached a promise to assign certain copyrighted songs to the plaintiff by assigning them to a third party. The Sixth Circuit held that because the contract regulates the distribution and public performance of copyrighted works, and because those are exclusive rights under the Copyright Act, the plaintiff’s contractual claim was preempted.

The partial-preemption approach is also supported by a well-established

<sup>103</sup> *Id.* at 964 (emphasis added).

<sup>104</sup> *Wrench LLC v. Taco Bell Corp.*, 256 F.3d 446, 456 (6th Cir. 2001).

<sup>105</sup> MELVILLE B. NIMMER & DAVID NIMMER, 1 NIMMER ON COPYRIGHT § 1.01[B] 1–13 (2017).

<sup>106</sup> *Wrench*, 256 F.3d at 457 (“If the promise amounts only to a promise to refrain from reproducing, performing, distributing or displaying the work, then the contract claim is preempted.”); *Nimmer et al.*, *supra* note 3, at 48 (“[W]hen a breach of contract cause of action ... is used as a subterfuge to control nothing other than the reproduction, adaptation, public distribution, etc., of works within the subject matter of copyright, then it too should be deemed preempted.”).

<sup>107</sup> *Wrench*, 256 F.3d 446.

<sup>108</sup> *Id.* at 456.

<sup>109</sup> *Ritchie v. Williams*, 395 F.3d 283 (6th Cir. 2005).

narrative in copyright law discourse: the delicate-balance narrative. This narrative, which also traces back many decades,<sup>110</sup> perceives copyright law as a system that creates a "delicate balance" between the competing interests of authors and publishers, who might seek stronger market power, and users, who seek affordable easy access to protected works.<sup>111</sup>

The influence of the delicate-balance narrative on the partial-preemption approach is apparent. If copyright law reflects a delicate balance, courts should be hesitant to allow the parties to deviate from these arrangements. Perceiving this balance as nothing more than default rules seems undesirable. Moreover, because copyright owners draft many of the contracts that deviate from the norms of copyright law, these contracts seem to reflect a systematic departure from this delicate balance. It is therefore not surprising that the delicate-balance narrative was commonly used by proponents of the partial-preemption approach.<sup>112</sup>

## PART II: THE FAILURE OF THE PARTIAL-PREEMPTION APPROACH

Courts currently use one of two main approaches—the partial-preemption approach or the no-preemption approach—to resolve disputes over copyright

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<sup>110</sup> See, e.g., *Kirtsaeng v. John Wiley & Sons, Inc.*, 136 S. Ct. 1979, 1982 (2016) (“[T]he well-settled objectives of the Copyright Act [] are to enrich the general public through access to creative works by striking a balance between encouraging and rewarding authors' creations and enabling others to build on that work.” (internal citations omitted)); *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 430 (1984) (“Congress['] ... task involves a difficult balance between the interests of authors ... in the control and exploitation of their writings and discoveries on the one hand, and society's competing interest in the free flow of ideas, information, and commerce on the other hand ... .”); *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932) (“The limited scope of the copyright holder's statutory monopoly ... reflects a balance of competing claims upon the public interest: Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts.”); *Cary v. Longman*, 1 East \*358, 362 n; (b), 102 Eng. Rep. 138, 140 n. (b) (1801) (explaining the law should balance between the need to give author proper compensation but also guarantee public access to the work); Robert A. Gorman, *Copyright Protection for the Collection and Representation of Facts*, 76 HARV. L. REV. 1569, 1571 (1963) (“[C]opyright law represents a balance of the individual's interest in reaping the fruits of his intellectual efforts and the public's interest in having his works disseminated.”).

<sup>111</sup> The narrative does not only suggest that copyright law, as a whole, creates “a delicate balance” but that specific doctrines within copyright law reflect that balance too. For example, in one case, the Supreme Court suggested that the detailed statutory rules regarding public performance as well as the rules regarding the length of copyright protection reflect this balance. *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975). In another case, the Second Circuit held that the tests regarding substantial similarity, which were all set by judicial precedents, reflect this “delicate balance.” *Warner Bros. Inc. v. Am. Broad. Cos., Inc.*, 720 F.2d 231, 245 (2d Cir. 1983).

<sup>112</sup> See, e.g., Viva R. Moffat, *Super-Copyright: Contracts, Preemption, and the Structure of Copyright Policymaking*, 41 U.C. DAVIS L. REV. 45, 95 (2007); Nimmer et al., *supra* note 3, at 19-23.

preemption of contracts. Close examination, however, reveals that since the Seventh Circuit decision in *ProCD* in 1996 the no-preemption approach has been gradually gaining grounds, becoming the dominant approach among federal courts. This Part first describes the historic developments in the caselaw. It explains the significance of the *ProCD* decision focusing on the harsh criticism it received from commentators. It then explores the development in the last twenty years, in which *ProCD*'s no-preemption approach was gradually adopted, sometimes explicitly and sometimes implicitly, in more jurisdictions. Finally, this part explains why the partial-preemption approach failed, suggesting that it offered courts a cumbersome, complex, and inaccurate way to identify troubling contracts.

#### A. *The Broad Adoption of the No-Preemption Approach*

This Section explores the historic developments in copyright preemption of contracts analysis. It suggests that prior to the mid-1990s the caselaw was murky with contradictory decisions. Then, in the mid-1990s, and especially in connection with the Seventh Circuit 1996 decision in *ProCD*, the lines have been drawn and the two main approaches—the no-preemption approach and the partial-preemption approach—were more clearly articulated by courts. Scholars have noted that phenomenon and the vast majority of them harshly criticized the no-preemption approach and cautioned about the potentially catastrophic results that might result to copyright policy if courts broadly adopt it. This, some of them warned, would be the death of copyright. Nevertheless, in the last twenty years courts seem to have largely ignored those warnings. Indeed, a full examination of the current state of the law in multiple jurisdictions seems to suggest that the no-preemption approach is currently the dominant one.

##### 1. Pre-*ProCD* Caselaw

One can trace the no-preemption and the partial-preemption approaches decades in the past. However, prior to 1996, the caselaw was exceptionally murky, and it often relied on problematic analysis, and, at times, far-reaching statements.

In *Rachel v. Banana Republic*, for example, the North District of California considered a “contract [that] essentially replicate[d] certain protections provided under federal copyright law.”<sup>113</sup> The court relied on the House Report that addressed Section 301 and concluded that “Congress apparently did not intend by the above statute [section 301] to bar parties from seeking enforcement of such a contract.”<sup>114</sup> Relying on that House Report is problematic, however, because the version of section 301 before the House at the time was significantly different from

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<sup>113</sup> *Rachel v. Banana Republic, Inc.*, No. C-85-3786-MPH, 1985 WL 26030, at \*6 (N.D. Cal. Nov. 26, 1985), *aff'd in part, rev'd in part*, 831 F.2d 1503 (9th Cir. 1987).

<sup>114</sup> *Id.* at \*7.

the version that was eventually enacted and expressly stated that contracts should not be preempted. Nevertheless, *Rachel*, as well as some of the other decisions from that era, seems to imply that contracts are not subject to preemption.<sup>115</sup>

The analysis by courts that did find contracts preempted was also typically lacking. For example, in *Acorn Structures v. Swantz*, the West District of Virginia held that an implied-in-fact contract over the use of architectural plans was preempted because contracts over the use of ideas are always preempted,<sup>116</sup> which is likely an overreaching statement. Other courts found contracts preempted because they did not include extra elements that were “qualitatively different” from copyright law, typically without much explanation as to what makes a provision “qualitatively different” or not.<sup>117</sup>

The four decisions from that period by federal circuit courts, while providing more guidance, were still at times unclear. The Fourth Circuit delivered two conflicting and challenging decisions in that era. In 1988, in *Acorn Structures v. Swantz*,<sup>118</sup> the court held that a contract was not preempted because contracts are not within the subject matter of copyright law, an unusual position that was never followed by other courts.<sup>119</sup> This implies that contracts are never preempted. However, in 1993, in *Takeall v. Pepsico*,<sup>120</sup> the Fourth Circuit held that a *Desny* claim is preempted because “the rights sought to be vindicated are equivalent to any right encompassed by copyright,”<sup>121</sup> thus adopting the partial-preemption approach. The reasoning in both opinions was exceptionally short—one sentence each. The second of those opinions, *Takeall*, did not even notice the tension with the *Acorn Structures* precedent and it did not cite it.

As noted above, the 1990 Fifth Circuit decision in *Taquino v. Teledyne Monarch Rubber*<sup>122</sup> was the first decision that clearly laid down the no-preemption approach, suggesting that a contractual promise is an extra element for purpose of section 301(a) analysis, which de-facto means that contracts are never to be preempted by section 301(a).<sup>123</sup>

The last pre-ProCD federal appellate court decision was, and still is, a source of

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<sup>115</sup> See, e.g., *Ronald Litoff, Ltd. v. Am. Exp. Co.*, 621 F. Supp. 981, 986 (S.D.N.Y. 1985); *Nobel v. Bangor Hydro-Elec. Co.*, 584 A.2d 57, 58-59 (Me. 1990); *Meyers v. Waverly Fabrics, Div. of F. Schumacher & Co.*, 479 N.E.2d 236, 237-38 (N.Y. 1985).

<sup>116</sup> *Acorn Structures, Inc. v. Swantz*, 657 F. Supp. 70, 74-75 (W.D. Va. 1987), *rev'd*, 846 F.2d 923, 926 (4th Cir. 1988).

<sup>117</sup> See, e.g., *Pytka v. Van Alen*, CIV. A. 92-1610, 1992 WL 129632 (E.D. Pa. June 8, 1992); *Wolff v. Inst. of Elec. and Elecs. Eng'rs, Inc.*, 768 F. Supp. 66, 69 (S.D.N.Y. 1991).

<sup>118</sup> 46 F.2d 923 (4th Cir. 1988).

<sup>119</sup> See *supra* note 79.

<sup>120</sup> 1993 WL 509876 (4th Cir. Dec. 8, 1993).

<sup>121</sup> *Id.* at \*7.

<sup>122</sup> 893 F.2d 1488 (5th Cir. 1990).

<sup>123</sup> See *supra* text accompanying notes 89-91.



great confusion. In *National Car Rental System v. Computer Associates Intern*,<sup>124</sup> the contract provided that the buyer of commercial software will use it for processing its data but not the data of third parties. The district court used a reasoning that is similar to the modern partial-preemption approach and held that the contract was preempted as it controlled the distribution of copyrighted goods.<sup>125</sup> The Eighth Circuit reversed, holding that the contractual limitation is different from a limitation on distribution and therefore the contract was not preempted.<sup>126</sup> In other words, the Eighth Circuit did not hold that all contracts are shielded from preemption, but that the one at bar was. The process of doing so, and especially the court's implicit acceptance of the rule used by the district court (but not its application), suggests that the court accepted that contracts can sometimes be preempted by copyright. This early decision thus implicitly adopted the partial-contract preemption approach. Unfortunately, over time, courts have focused on the result of the decision—no preemption—and not its reasoning, and it is often erroneously cited as one supporting the no-contract preemption approach.<sup>127</sup>

## 2. The 1996 Caselaw: *ProCD* and the Reactions thereto

1996, at least in hindsight, was an important year in the development of contract preemption caselaw. Several significant decisions that would influence the development of the law for years to come were delivered weeks apart. Those include, on top of *ProCD*, two highly cited decisions of the Southern District of New York.

In April 1996, Judge Allen Schwartz delivered his opinion in *Am. Movie Classics v. Turner Ent. Co.*<sup>128</sup> on the preemption of a contractual promise to refrain from publically displaying certain films. The court examined the legislative history, identified the two possible approaches, and held that “[a] contract is preempted if it is merely based on allegations that the defendant did something that the copyright laws reserve exclusively to the plaintiff (such as unauthorized reproduction,

<sup>124</sup> 991 F.2d 426 (8th Cir. 1993).

<sup>125</sup> *Nat'l Car Rental Sys., Inc. v. Comput. Assocs. Int'l, Inc.*, No. 3-91-321, 1992 WL 5959, at \*4 (D. Minn. Jan. 17, 1992), *rev'd*, 991 F.2d 426 (8th Cir. 1993).

<sup>126</sup> *Nat'l Car Rental Sys., Inc. v. Comput. Assocs. Int'l, Inc.*, 991 F.2d 426, 431-33 (8th Cir. 1993).

<sup>127</sup> This mistake probably resulted from *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1454 (7th Cir.1996) (“[A]re rights created by contract ‘equivalent to any of the exclusive rights within the general scope of copyright’? Three courts of appeals have answered ‘no.’ *National Car Rental System...*”). It became common in the following years. *See, e.g.*, *MDY Indus., LLC v. Blizzard Entm't, Inc.*, 629 F.3d 928, 957 (9th Cir. 2010); *Altera Corp. v. Clear Logic, Inc.*, 424 F.3d 1079, 1089 (9th Cir. 2005); *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317, 1324 (Fed. Cir. 2003); *Micro Focus (US), Inc. v. Genesys Software Sys., Inc.*, Civ. No. 14-14049-NMG, 2015 WL 1523606, at \*3 (D. Mass. Apr. 3, 2015); *but see, e.g.*, *Issaenko v. Univ. of Minn.*, 57 F. Supp. 3d 985, 1028 (D. Minn. 2014) (noting that *Nat'l Car Rental* dictates that some contracts should be preempted).

<sup>128</sup> 922 F. Supp. 926 (S.D.N.Y. 1996).

performance, distribution, or display).”<sup>129</sup> This decision is often cited by proponents of the partial-contract preemption approach.<sup>130</sup>

A few months later, in August that year, Judge Michael Mukasey delivered his opinion in *Architectronics v. Control Systems*,<sup>131</sup> on the preemption of a contractual promise regarding the development of derivative works and their distribution. The court, in a long and detailed opinion, held that a “breach of contract ... is not equivalent to copyright protection because a contract claim requires an ‘extra element’ that renders the claim qualitatively different from a claim for copyright infringement: a promise by the defendant.”<sup>132</sup> This decision is also widely cited, especially by those who adopt the no-contract preemption approach.<sup>133</sup>

In June 1996, in between those two decisions, the Seventh Circuit released its renowned decision in *ProCD v. Zeidenberg*,<sup>134</sup> holding that contracts are not preempted by the Copyright Act. As the discussion above suggests, *ProCD* was not the first decision to hold that contracts are shielded from preemption, but it turned out to be one of the most influential opinions by a federal circuit court. It was cited thousands of times, including by more than 1,200 law review articles.

There could be many reasons for the attention that *ProCD* received throughout the years and especially at the end of the 1990s. It might be attributed to Judge Frank Easterbrook’s fandom, his clear framing of the broad no-preemption approach, his extensive use of policy analysis and especially law and economics reasoning within his opinion, or the novelty of the opinion with respect to contract acceptance.<sup>135</sup> However, the historic context might provide the best explanation.

*ProCD* was decided at a time of larger-than-usual uncertainty over the scope of copyright law and related doctrines. Some at the time thought that the rising of the digital age would cause massive harm to copyright industries while others believed that the digital age, and especially the reaction of the copyright industries and legislators to that age, could significantly shrink the public domain. This Article cannot explore all the events, reactions, and debates around the scope of copyright

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<sup>129</sup> *Id.* at 931.

<sup>130</sup> See, e.g., *BanxCorp v. Costco Wholesale Corp.*, 723 F. Supp. 2d 596, 614-17 (S.D.N.Y. 2010); *eScholar, LLC v. Otis Educ. Sys., Inc.*, 387 F. Supp. 2d 329, 332-33 (S.D.N.Y. 2005); *Wrench LLC v. Taco Bell Corp.*, 51 F. Supp. 2d 840, 848-53 (W.D. Mich. 1999).

<sup>131</sup> 935 F. Supp. 425 (S.D.N.Y. 1996).

<sup>132</sup> *Id.* at 438.

<sup>133</sup> See, e.g., *Frontline Test Equip., Inc. v. Greenleaf Software, Inc.*, 10 F. Supp. 2d 583, 592-93 (W.D. Va. 1998); *Expeditors Intern. of Washington, Inc. v. Direct Line Cargo Mgt. Servs, Inc.*, 995 F. Supp. 468, 483-84 (D.N.J. 1998).

<sup>134</sup> 86 F.3d 1447 (7th Cir.1996).

<sup>135</sup> In a part of the *ProCD* opinion, which is not the focus of this Article, Judge Easterbrook held that buyers are bound by contractual terms that are inside the box of a product they purchase, even if those terms are not available at time of payment, so long as the product can be returned. This part of the opinion was and still is controversial. See, e.g., Marotta-Wurgler, *supra* note 34, at 315-17 (describing the various positions of courts and scholars on this issue).

protection, licenses, encryption, and related state law doctrines on the late 1990s, but it might be worth just mentioning just a few of the important developments of those days.

The spread of the Internet in the 1990s caused a sudden leap in access to and ability to share information globally. Some of the milestones of the era included the release of successful Internet browsers, starting with Mosaic in 1993 and Netscape in 1995, the improvement in the delivery methods of digital information goods, such as the invention of the MP3 algorithm in the early 1990s and the introduction of portable media player in 1998, and the introduction of Napster in 1999. Copyright law—a legal system that centers on the ability of right-holders to control, at least partly, the distribution of information goods—was naturally affected by those developments. Some of the important legal developments of the era included the failed attempt to add Article 2B to the Uniform Commercial Code and later to enact the Uniform Computer Information Transactions Act (UCITA),<sup>136</sup> the passage of the Digital Millennium Copyright Act (DMCA) in 1998,<sup>137</sup> and the passage of the Copyright Term Extension Act (CTEA) in 1998.<sup>138</sup>

ProCD was, therefore, a decision that might have seemed to be part of a greater enclosure movement threatening the public domain.<sup>139</sup> Whether or not *ProCD* was

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<sup>136</sup> Article 2B of the Uniform Commercial Code was proposed by the American Law Institute (ALI) and the National Conference of Commissioners on Uniform State Laws (NCCUSL) in 1997, after years of negotiation to “deal[] with transaction in information [] focus[ing] on transactions relating to copyright industries”. The proposal was controversial, partly because it allegedly provided too strong of a protection to the interests of service providers and too weak of a protection to information users. Deborah Tussey, *Ucita, Copyright, and Capture*, 21 *Cardozo Arts & Ent. L.J.* 319, 324 (2003). In 1999 ALI withdrew its support from this project which led NCCUSL “rename[] former Article 2B as the Uniform Computer Information Act [UCITA] and release[] it for adoption by the states as a freestanding uniform act.” *Id.* That attempt also failed as only two states—Maryland and Virginia—adopted UCITA, which, in 2003, led NCCUSL to abandon its efforts to promote the act.

<sup>137</sup> The Copyright Office described this act “the foundation of an effort by Congress to implement United States treaty obligations and to move the nation’s copyright law into the digital age.” The DMCA includes five main reforms including the enactment of sections 1201, which prohibits the circumvention of technological protection measures, and 512, which provides important safe harbors for Internet Service Providers.

<sup>138</sup> The Act, also known as the Sony Bono Act and the Mickey Mouse Act extended the term of copyright protection, for new as well as existing protected works, by 20 years. For several reasons CTEA was very controversial: the extension was not required by international law, it was heavily lobbied for by the copyright industries and especially the Walt Disney Corporation, and its enactment process included statements about the need to make copyright protection perpetual. For some, the passage of CTEA symbolizes the capture of Congress by the copyright industries and a march toward perpetual copyright. The Supreme Court rejected a challenge as to the constitutionality of CTEA. *Eldred v. Ashcroft*, 537 U.S. 186 (2003).

<sup>139</sup> See James Boyle, *The Second Enclosure Movement and the Construction of the Public Domain*, 66 *LAW & CONTEMP. PROBS.* 33 (2003) (describing how certain legal developments of the time, including the enactment of the DMCA and CTEA, threaten the public domain. Boyle did not

perceived in this way, most commentators, including some of the most prominent copyright scholars at the time, harshly criticized *ProCD* and warned courts of the dire consequences of broadly adopting it.

David Nimmer, the author of the influential treatise *NIMMER ON COPYRIGHT* and his co-authors argued that “[a]ttempts to alter the ‘delicate balance’ through contract should fail under the doctrine of preemption.”<sup>140</sup> They cautioned of “the death of copyright” by providing “a short, cautionary tale.”<sup>141</sup> The tale pictured a dystopian future, taking place in the year 2010 (!), in which every act of consumption of any information good is controlled by a big-brother-like technology. This system contractually binds the user to a set of limitations “designed to magnify the rights of proprietors.”<sup>142</sup> Nimmer and his co-authors concluded that under the Seventh Circuit approach “virtually every other court decision ever to rule in a defendant's favor,” and in particular every fair use decision, can be nullified.<sup>143</sup>

Wendy Gordon suggested that “[i]n contract's march to conquer copyright, *ProCD* constitutes a victory for contract so complete that it threatens copyright's very ability to mount a defense.”<sup>144</sup> Mark Lemley warned about the ubiquity of standard-form agreements as a way to substitute or replace copyright law.<sup>145</sup> He listed eight categories of contracts that, if not preempted, would be inconsistent with copyright policy, such as contracting around fair use including “no-parody” provisions and contracts that prevent users from upgrading their computers.<sup>146</sup>

Nimmer, Gordon, and Lemley are of course not alone. In a mass of articles and books, starting shortly after the *ProCD* opinion and continuing to present day, dozens of commentators criticized the decision and pointed to the potential harm it entails to copyright policy.<sup>147</sup> One leading copyright law casebook noted that “[t]he

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specifically addressed *ProCD*).

<sup>140</sup> Nimmer et al., *supra* note 3, at 19.

<sup>141</sup> *Id.* at 20.

<sup>142</sup> *Id.* at 20.

<sup>143</sup> *Id.* at 55-56.

<sup>144</sup> Gordon, *supra* note 3, at 1378.

<sup>145</sup> Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 CALIF. L. REV. 111, 148-49 (1999) (“[S]ince one must necessarily have access to a work to make any use of it, a contract premised on access could presumably be imposed in every case.”).

<sup>146</sup> *Id.* at 128-32.

<sup>147</sup> There are a few dozens of law review articles and books that made such claims and I cannot, of course, list them all. A partial list includes RADIN, *supra* note 3, at 172 (suggesting that if contracts over copyrighted goods are always enforceable a “copyright holder can market its works with a clause cancelling fair use and other user rights. This capability destroys, or at least destabilizes, the commitment enacted in legislation that is meant to secure a solution to the original problem ... user rights should be treated as at least partially market-inalienable.”); Joseph P. Bauer, *Addressing the Incoherency of the Preemption Provision of the Copyright Act of 1976*, 10 VAND. J.

majority of commentators disagreed vehemently with both ProCD's contract and copyright law holdings."<sup>148</sup> Randal Picker concluded that "ProCD is the opinion that the copyright casebooks love to hate."<sup>149</sup>

### 3. Modern Post-ProCD Caselaw: Courts Ignore the Scenarios of Doom

Professor Picker is probably right in noting that that "ProCD is the opinion that the copyright casebooks love to hate," but *ProCD* is also an opinion that most courts, especially circuit courts, love to love. Indeed, in the last twenty years, the clear majority of courts, and almost all federal courts of appeal, chose the no-preemption rule over the partial-preemption one. This section explores the current state of the law in the various circuit courts and shows that ProCD's no-preemption approach is currently the dominant one.

#### a. Five Appellate Courts Adopted the No-Preemption Approach

In the last twenty years, the no-preemption rule was repeatedly adopted by the Fifth,<sup>150</sup> Seventh,<sup>151</sup> Eleventh,<sup>152</sup> and the Federal Circuit.<sup>153</sup>

ENT. & TECH. L. 1, 62-63 (2007) (criticizing the ProCD's analysis is "incomplete" because it afford "a cause of action that the Copyright Act affirmatively withheld"); Benkler, *supra* note 3, at 429-35 ("The practical effect of the decision to enforce mass market information licenses is that more uses of information will be prohibited to more people"); Bohannon, *supra* note 84, at 635 (criticizing ProCD's "categorical notion that contracts affect only their parties" and argue that "[t]his one-size-fits-all approach to preemption is inconsistent with preemption doctrine"); Cohen, *supra* note 3, at 1812 (criticizing *ProCD* as skewing the incentives for creation); Michael J. Madison, *Legal-Ware: Contract and Copyright in the Digital Age*, 67 FORDHAM L. REV. 1025, 1030-31 (1998) ("shrinkwrap licenses and similar form restrictions ... generally approved by ProCD, are shaping our conventional understandings regarding copyright and information rights. Those conventions increasingly mean that no open space exists save that which information producers choose explicitly to provide.").

<sup>148</sup> Julie E. Cohen, et al, COPYRIGHT IN A GLOBAL INFORMATION ECONOMY 755 (3rd ed 2010).

<sup>149</sup> Randal C. Picker, *Easterbrook on Copyright*, 77 U. CHI. L. REV. 1165, 1178 (2010).

<sup>150</sup> As already noted in Section I.B.2, the no-preemption approach was adopted by the Fifth Circuit six years prior to *ProCD*. *Taquino v. Teledyne Monarch Rubber*, 893 F.2d 1488 (5th Cir. 1990) (suggesting that promise is an extra element). The court reiterated this position a few years ago in *Real Estate Innovations, Inc. v. Houston Ass'n of Realtors, Inc.*, 422 F. App'x 344 (5th Cir. 2011).

<sup>151</sup> *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1454 (7th Cir. 1996) (suggesting that contractual rights are not exclusive and thus not preempted).

<sup>152</sup> *Utopia Provider Sys., Inc. v. Pro-Med Clinical Sys., LLC*, 596 F.3d 1313, 1326 (11th Cir. 2010) ("To succeed on its breach of contract claims, [the plaintiff] must prove a valid license agreement, which constitutes an 'extra element'"); *Lipscher v. LRP Publ'ns*, 266 F.3d 1305, 1318 (11th Cir. 2001) (citing *ProCD* and noting that "As the Seventh Circuit has stated, claims involving two-party contracts are not preempted because contracts do not create exclusive rights, but rather affect only their parties ... We find the Seventh Circuit's reasoning to be persuasive.").

<sup>153</sup> *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317, 1325 (Fed. Cir. 2003) ("This court believes that the First Circuit would follow the reasoning of *ProCD* and the majority of other courts to

The precedents of the Ninth Circuit—which is considered, together with the Second Circuit, the leading circuit court in developing copyright law<sup>154</sup>—seem to support the no-preemption approach, although its caselaw is, at times, vague. In *Montz v. Pilgrim Films & Television, Inc.*,<sup>155</sup> an en banc panel of the Ninth Circuit held that a promise to pay for an idea (in a *Desny* claim) as well as a promise not to use an idea are not preempted. The court used a broad language and suggested that in the case at bar the promises themselves are the extra elements. While the decision favorably quoted the Seventh Circuit’s *ProCD* opinion and stressed that a contractual promise “is a personal one, between the parties... [t]hus [the contract] is unlike a copyright that is a public monopoly,”<sup>156</sup> it did not **expressly** state that **every** contractual promise will be an extra element.

Other decisions of the Ninth Circuit similarly rejected the preemption claim of defendants while tending to stress the private nature of the contractual promises. However, those decisions did not expressly and clearly adopt the no-preemption approach, as other appellate courts did.<sup>157</sup> Unfortunately, some Ninth Circuit decisions favorably cite older decisions from other circuits that adopted the no-preemption approach, as well as decisions that adopted the partial-preemption approach, typically without noticing those differences.<sup>158</sup> In other cases, the Ninth

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consider this issue. This court, therefore, holds that the Copyright Act does not preempt Mr. Bowers’ contract claims.”). The Federal Circuit in such circumstances applies the precedents of the circuit from which the case emerged and in *Bower* it was the First Circuit. However, the First Circuit never addressed the topic.

<sup>154</sup> HOWARD B. ABRAMS, 2 THE LAW OF COPYRIGHT § 15:59 (2016).

<sup>155</sup> 649 F.3d 975 (9th Cir. 2011) (en banc).

<sup>156</sup> *Id.* at 980.

<sup>157</sup> See, for example, the latest decision from the Ninth Circuit on this matter in *Ryan v. Editions Ltd. West, Inc.*, 786 F.3d 754 (9th Cir. 2015). In discussing preemption the court stated that “a contractually-based claim generally possesses the extra element necessary to remove it from the ambit of the Copyright Act’s express preemption provision,” *id.* at 761, thus reflecting the no-preemption approach but tainting it with the adjective “generally” which might suggest that there may be cases in which contracts will be preempted, which seems inconsistent with the en banc decision in *Montz*. The court did not address that issue and therefore it is hard to place significant weight on its use of the word “generally.” See also, *Benay v. Warner Bros. Entm’t, Inc.*, 607 F.3d 620 (9th Cir. 2010) (rejecting a preemption claim but not explicitly holding that all contracts are shielded from preemption); *Grosso v. Miramax Film Corp.*, 383 F.3d 965 (9th Cir. 2004) (same).

<sup>158</sup> For example, in *Altera Corp. v. Clear Logic, Inc.*, 424 F.3d 1079, 1089 (9th Cir. 2005), the Ninth Circuit stated that “[m]ost courts have held that the Copyright Act does not preempt the enforcement of contractual rights ... We find the logic of these cases persuasive here.” On one hand, this seems to be a full unqualified adopting of the no-preemption approach as held by the Seventh Circuit in *ProCD*, to which the Ninth Circuit referred to. On the other hand, one of the decisions that the Ninth Circuit cited in that passage was the Eighth Circuit’s decision in *National Car Rental Systems, Inc. v. Computer Associates. International, Inc.*, 991 F.2d 426 (8th Cir. 1993), which actually used an early version of the partial-preemption approach. While this is not the only decision to suggest, erroneously, that *National Car Rental Systems* adopted the no-preemption approach, the Ninth Circuit conclusion—“we find the logic of these cases persuasive”—is somewhat ambiguous.

Circuit inappropriately mingled decisions that discussed a breach of contract cause of action with tortious interference with contractual relations, although the two are fundamentally different.<sup>159</sup> Nevertheless, and while the caselaw in the Ninth Circuit could have been much clearer than it is, a Ninth Circuit panel had never held a contract preempted by the Copyright Act, nor did a panel even analyze the nuances of the contract itself in order to reject a preemption claim. Therefore, it seems reasonable to conclude that, at least implicitly, the Ninth Circuit adopted the no-preemption approach.

b. The Six Circuit Adopts the Partial-Preemption Approach

The Sixth Circuit is the only federal Appellate Court that **expressly** rejected *ProCD*'s no-preemption approach and adopted the partial-preemption approach.<sup>160</sup> The nuances of the Sixth Circuit caselaw were already explored in Section I.B.<sup>161</sup> The crux of the Sixth Circuit approach is that the contractual promise cannot, by itself, be the extra element. Under this approach, a contract within the subject matter of copyright that regulates an action that is one of the exclusive rights, such as copying or distribution, is preempted. The Sixth Circuit is the **only** federal appellate court in the post-*ProCD* era to find a contract preempted by the Copyright Act.<sup>162</sup>

c. Courts that Did not Choose which Approach to Adopt

Several appellate courts—such as the Third Circuit and the Tenth Circuit—have never ruled on the preemption of contracts by the Copyright Act. Other federal appellate courts have ruled on the issue but still refrained from choosing the no-preemption or the partial-preemption approach.

The most striking example is the Second Circuit, which is considered, together with the Ninth Circuit, the leading appellate court in developing copyright law.<sup>163</sup> The lack of a leading precedent in the Second Circuit is especially surprising because copyright preemption of contracts was discussed by the Southern District

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There was more than one “logic” in “these cases.”

<sup>159</sup> In *Altera Corp, id.*, the court discussed the preemption of contracts, citing several decisions on this matter, although the cause of action before it was actually tortious interference with contracts. In *MDY Industry, LLC v. Blizzard Entertainment, Inc.*, 629 F.3d 928, 957-58 (9th Cir. 2010), the Ninth Circuit decided a preemption of tortious interference claim using a preemption of contracts caselaw.

<sup>160</sup> *Wrench LLC v. Taco Bell Corp.*, 256 F.3d 446, 456 (6th Cir. 2001); *see also* *Lynn v. Sure-Fire Music Co., Inc.*, 237 Fed. App'x. 49, 54 (6th Cir. 2007); *Ritchie v. Williams*, 395 F.3d 283 (6th Cir. 2005).

<sup>161</sup> *Supra* text accompanying notes 107-109.

<sup>162</sup> *Ritchie*, 395 F.3d 283. The only other circuit court opinion that found a contract preempted is by the Copyright Act predated *ProCD*. *See* *Takeall v. Pepsico*, No. 93-1237, 1993 WL 509876 (4th Cir. Dec. 8, 1993); *supra* text accompanying note 120.

<sup>163</sup> *Supra* note 154.

of New York, which is subject to the appellate jurisdiction of the Second Circuit, more than 30 times—more than any other court in the country. The numerous decisions in the Southern District of New York are almost evenly split between the two approaches. In fact, as already mentioned,<sup>164</sup> the two most important and highly-cited decisions of Southern District of New York on this topic were delivered just a few months apart in 1996.<sup>165</sup>

Considering the prominence of the Southern District of New York and how often and yet inconsistently it rules on the issue, it is truly remarkable that the Second Circuit did not yet deliver a binding precedent. There are only two cases that were decided by the Second Circuit on this issue. In 1984, in *Smith v. Weinstein*,<sup>166</sup> the Southern District of New York held that a *Desny* claim—an implied-in-fact promise to pay for an idea for the script of the movie “Stir Crazy”—was not preempted because “[a] party may by contract agree to pay for ideas ... Rights under such an agreement are qualitatively different from copyright claims, and their recognition creates no monopoly in the ideas involved.”<sup>167</sup> The Second Circuit affirmed without an opinion. It is, however, unclear if the Southern District’s decision suggested that a promise to pay for an idea is not preempted or that it stands for the proposition that contracts as such are not preempted because they “create no monopoly.”

It took the Second Circuit twenty-eight years to address the issue again. In 2012, in *Forest Park Pictures v. Universal Television Network, Inc.*<sup>168</sup> the court addressed another *Desny* type claim and held it not preempted. The court reasoned that preemption is not warranted because the implied-in-fact contracts did not limit an action that is an exclusive right, because contracts do not create rights against the world, and because the court found an extra element in the promise to pay, which is not an exclusive right. Thus, this reasoning adopted both approaches. The Second Circuit noticed that other circuit courts adopted either the no-preemption or the partial-preemption approach. However, it found that regardless of the approach it would choose, the *Desny* claim at bar would not be preempted. It, therefore, did not adopt either of these two approaches, and did not resolve the inconsistency and split of authorities in the Southern District of New York. However, in most of the decisions of the Southern District of New York that relied on and cited *Forest Park Pictures*, the preemption claim was rejected, sometime after adopting the broad no-preemption approach.<sup>169</sup>

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<sup>164</sup> *Supra* text accompanying notes 128-133.

<sup>165</sup> *Cf.*, *Am. Movie Classics v. Turner Entm’t. Co.*, 922 F. Supp. 926 (S.D.N.Y. 1996) (adopting the partial-preemption approach); *Architectronics v. Control Sys.*, 935 F. Supp. 425 (S.D.N.Y. 1996) (adopting the no-preemption approach).

<sup>166</sup> 578 F. Supp. 1297 (S.D.N.Y. 1984), *aff’d*, 738 F.2d 419 (2d Cir. 1984).

<sup>167</sup> *Id.* at 1307.

<sup>168</sup> 683 F.3d 424 (2d Cir. 2012).

<sup>169</sup> *See, e.g.*, *Einiger v. Citigroup, Inc.*, No. 1:14-cv-4570-GHW, 2014 WL 4494139, at \*5



The caselaw in two other appellate courts—the Fourth Circuit and the Eighth Circuit—is murkier, probably because it was formed in the pre-*ProCD* era.

The conflicting caselaw in the Fourth Circuit was discussed above.<sup>170</sup> In 1998 the Fourth Circuit succinctly held that a contract is not preempted because contracts are not within the subject matter of copyright law, which implies that contracts are never preempted. In 1993, the court preempted a contract because “the rights [it] sought to be vindicated are equivalent to any right encompassed by copyright,”<sup>171</sup> thus adopting the partial-preemption approach. It is therefore not surprising that district courts within the Fourth Circuit jurisdiction are split on this issue, as one state court have recently noticed: “there is no bright line test as to contract claims in the Fourth Circuit.”<sup>172</sup>

The leading precedent in the Eighth Circuit, *National Car Rental Systems, Inc. v. Computer Associates Int'l*, is a source of great uncertainty. As noted above, this early pre-*ProCD* case seems to adopt the partial-preemption approach although through the years it had been sometimes cited as supporting the no-preemption approach.<sup>173</sup> The Eighth Circuit addressed copyright preemption of contracts only once since then, in *Davidson & Associates v. Jung*.<sup>174</sup> The defendants in this case argued that their promise not to reverse engineer the plaintiff product is preempted by the Copyright Act under the conflict preemption doctrine. The Eighth Circuit rejected the claim holding that the defendants “contractually accepted restrictions on their ability to reverse engineer.”<sup>175</sup> It cited the Federal Circuit decision in *Bower v. Baystate*, in which a similar preemption claim was rejected and concluded that “[w]hile Bowers and Nat'l Car Rental were express preemption cases rather than conflict preemption, their reasoning applies here with equal force.”<sup>176</sup> The difficulty with this reasoning is that *Bowers* adopted *ProCD*'s the no-preemption

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(S.D.N.Y. Sept. 12, 2014) (holding that a contractual duty to pay is not preempted); *BanxCorp v. Costco Wholesale Corp.*, 978 F. Supp. 2d 280, 315-16 (S.D.N.Y. 2013) (holding that a contractual limitation on distribution is not preempted while implying the *Forest Park Pictures* support the no-preemption approach); *Paramount Pictures Corp. v. Puzo*, No. 12 Civ. 1268(AJN), 2012 WL 4465574, at \*6-7 (S.D.N.Y. Sept. 26, 2012) (adopting the no-preemption approach partly in reliance on *Forest Park Pictures*); *but see We Shall Overcome Found. v. Richmond Org., Inc.*, No. 16CV2725(DLC), 2016 WL 6871427, at \*11 (S.D.N.Y. Nov. 21, 2016) (holding, without reference to *Forest Park Pictures*, a contract claim preempted because it “reframes” a copyright infringement claim); *Miller v. Loibl*, 2013 WL 967760, at \*4 (S.D.N.Y. Mar. 13, 2013) (holding a contract preempted without addressing or citing *Forest Park Pictures*).

<sup>170</sup> *Supra* text accompanying notes 118-121.

<sup>171</sup> *Takeall v. Pepsico*, No. 93-1237, 1993 WL 509876, at \*7 (4th Cir. Dec. 8, 1993).

<sup>172</sup> *Out of the Box Developers, LLC v. LogicBit Corp.*, No. 10 CVS 8327, 2012 WL 5356282, at \*8 (N.C. Super. Ct. Oct. 30, 2012).

<sup>173</sup> *See supra* text accompanying notes 124-127.

<sup>174</sup> 422 F.3d 630 (8th Cir. 2005).

<sup>175</sup> *Id.* at 639.

<sup>176</sup> *Id.*

approach while *National Car Rental Systems* adopted the partial-preemption approach, so suggesting that “their reasoning applies” is an ambiguous statement of the law.

### B. Explaining the Failure of the Partial-Preemption Approach

The consensus among scholars was, and probably still is, that *ProCD* was not just erroneously decided but, more importantly, that its no-preemption approach is inconsistent with the statute, the Constitution, and sound policy, and that it might lead to disastrous results. Still, in the twenty years since *ProCD*, the Sixth Circuit is the only federal appellate court that seems to be convinced by these arguments and it thus adopted the partial-preemption approach. Every other circuit court, unless avoided the question altogether, have adopted *ProCD*'s no-preemption approach.<sup>177</sup> This Section asks “why.” Why do federal circuit courts prefer *ProCD*'s no-preemption approach over the competing partial-preemption approach? The analysis suggests that the partial-preemption approach fails to provide a test that is manageable and reasonable to effectively separate those contracts that should be enforced from those that should be preempted.

The partial-contract-preemption approach relies on the delicate-balance narrative and suggests that enforcing all contracts is inconsistent with robust copyright policy. This is, however, only part of the argument. If one believes that some aspects of this delicate balance cannot be contractually altered, then some rule should be offered to distinguish those components within copyright law that can and cannot be contracted around. In other words, because, as explained above,<sup>178</sup> contracts serve an important function in copyright industries, then in most cases contracting over copyrighted goods should be desirable and enforceable.<sup>179</sup> Some guidance should be therefore provided as to how to identify those unusual contractual promises that should be preempted.

This is where the partial-preemption approach fails.<sup>180</sup> The test that the partial-

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<sup>177</sup> When district courts are considered, the picture is more complex and conflicting approaches are found, especially in those jurisdictions in which the relevant circuit court still did not adopt either the no-preemption approach or the partial-preemption approach. Maybe surprisingly, one can even find decisions in which district courts have ignored and deviated from a clear binding circuit precedent on this matter. *See, e.g., Precision Drone, LLC v. Channel Masters, LLC*, No. 1:15-cv-00476-LJM-TAB, 2015 WL 3886124 (S.D. Ind., June 23, 2015) (holding a contract preempted by Section 301(a), while ignoring the Seventh Circuit precedent in *ProCD*); *WorkSTEPS, Inc. v. ErgoScience, Inc.*, 88 F.Supp.3d 732 (W.D. Tex. 2015) (holding a contract preempted while misconstruing the Fifth Circuit's precedents on the matter).

<sup>178</sup> *Infra* Section I.A.

<sup>179</sup> *See* Nimmer et al., *supra* note 3, at 24-29.

<sup>180</sup> *Cf., Bauer, supra* note 147, at 2 (“there are literally hundreds of federal and state decisions interpreting this provision [301-G.R.], which can charitably be described as inconsistent and even incoherent ... it would not be an overstatement to describe this important provision in the Copyright

preemption approach provides does not adequately separate promises that should be preempted from those that should not. The rule that is commonly used by the proponents of this approach states that contractual promises that regulate an action that is an exclusive right, such as reproduction or adaptation, should be preempted.<sup>181</sup> This rule is problematic. Not only is it difficult to administer and at times cumbersome and arbitrary, but, more importantly, in many cases, it is overbroad—leading to the preemption of contracts that are reasonable and common. In other cases it is overly narrow—allowing contracts, even those that the proponents of the approach criticize, to easily circumvent the preemption doctrine.

### 1. Randomness and Over-Narrowness

The partial-preemption approach test leads to the preemption of contracts that regulates five specific actions with respect to information goods within the subject matter of copyright—copying, adaptation, distribution, public performance, and public display. The focus of the test is therefore on the **actions** that are being regulated. It says nothing about any other actions and other ways in which contracts can regulate information goods. Those five specific actions, the exclusive rights, do not include other activities such as mere usage or payment, and therefore the test is narrow and allows easy circumventing. For example, a contract that might limit how many times a user can read a book, while criticized by proponents of the partial-preemption approach,<sup>182</sup> seems to survive this test as it regulates an activity—reading—that is not an exclusive right.

Moreover, drawing a distinction between actions that are part of the exclusive rights and those that are not is cumbersome, somewhat arbitrary, and easy to circumvent. The dispute between National Car Rental Systems and Computer Associates demonstrates this point. Computer Associate (“CA”) sold data-processing software to National Car Rental Systems (“National”) under a contract that prohibited National from allowing third parties to use the software. National processed data of affiliated companies and, when sued by CA, argued that its promise not to do so was preempted by the Copyright Act and therefore unenforceable. The Minnesota District Court agreed and held that the promise prevented National from transferring the copy it had purchased to others and thus it regulated the distribution of information goods and preempted. In other words, the District Court perceived the contractual promise as a prohibition on lending and because distribution is an exclusive right (that is limited by the first sale doctrine)<sup>183</sup>

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Act as a 'legislative failure.'”).

<sup>181</sup> See *supra* Section III.B.

<sup>182</sup> Nimmer et al., *supra* note 3, at 55.

<sup>183</sup> 17 U.S.C. § 109(a) (2012). This doctrine *inter alia* permits the owner of a copy of copyrighted good to lend it to others.

it held that the contract was preempted.<sup>184</sup> The Eighth Circuit reversed, reasoning that the contract also prohibited National from processing third parties' data on its own computer, which had nothing to do with distribution.<sup>185</sup> Therefore, the Eighth Circuit ruled, the contract allowed CA to control an activity that is not an exclusive right—usage. Consequently, the contract was saved from preemption because it was broader than a mere limitation on transferability and expanded the rights of the copyright owner.

This result is absurd. Indeed, the difference between the ways that the district court and the Eighth Circuit characterized the contract seems both arbitrary and counterintuitive. It makes little sense that the further the contract expands the rights of the copyright owner, the more likely it is to escape preemption.<sup>186</sup> However, that reasoning is common among courts that adopt the partial-preemption approach.<sup>187</sup>

Preempting contractual obligations only when they regulate actions that are exclusive rights is not just arbitrary, but it also offers an easy way for contract drafters to circumvent the rule and avoid preemption. This is most evident with respect to the duty to pay. Paying (or getting paid) is not an exclusive right and therefore any promise by a user to pay seems to automatically escape preemption.<sup>188</sup> It is, however, quite easy to characterize most contractual obligations, especially of buyers, in terms of a duty to pay.<sup>189</sup>

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<sup>184</sup> Nat'l Car Rental Sys., Inc. v. Comput. Assocs. Int'l, Inc., No. 3-91-321, 1992 WL 5959 (D. Minn. Jan. 17, 1992), *rev'd*, 991 F.2d 426 (8th Cir. 1993).

<sup>185</sup> Nat'l Car Rental Sys., Inc. v. Comput. Assocs. Int'l, Inc., 991 F.2d 426 (8th Cir. 1993).

<sup>186</sup> It should be noted that under modern caselaw the court could have considered other arguments—unfortunately, those arguments are probably as arbitrary and random. When National used the software to process the data of third parties it created a copy of it on its computer's random access memory (RAM). This copy, at least under a well-established line of cases from the Ninth Circuit, the leading court in software related cases, infringed on CA's reproduction rights, unless its creation was permitted by a license. *See, e.g.*, MAI Systems Corp. v. Peak Computer, Inc., 991 F.2d 511 (9th Cir. 1993). Thus, if the prohibition on usage for the benefits of third parties is drafted as a condition for National's license, this usage is not just a breach of the contract but also an infringement of CA's copyright. *See also* note 46. This proposition provides yet another demonstration as to the randomness of the partial-preemption approach's test. Does a restriction on the **use** of software escape preemption because use is not an exclusive right or does the fact that use involves copying, which is an exclusive right, make the contractual claim preempted?

<sup>187</sup> *See, e.g.*, Wrench LLC v. Taco Bell Corp., 256 F.3d 446, 456 (6th Cir. 2001); Sparrow Sys., Inc. v. Private Diagnostic Clinic, PLLC, No. 14 CVS 1025, 2014 WL 7592501 (N.C. Super. Ct. Dec. 24, 2014); eScholar, LLC v. Otis Educ. Sys., Inc., 387 F. Supp. 2d 329, 332-33 (S.D.N.Y. 2005); Firoozye v. Earthlink Network, 153 F. Supp. 2d 1115, 1126 (N.D. Cal. 2001).

<sup>188</sup> This argument—that a duty to pay is not an exclusive right—is broadly used in the caselaw to justify the enforcement of questionable contracts. This is, for example, a common argument for enforcing a *Desny* claim. *See* Forest Park Pictures v. Universal Television Network, Inc., 683 F.3d 424 (2d Cir. 2012); *supra* text accompanying notes 107-108.

<sup>189</sup> *See, e.g.*, Bill Diodato Photography LLC v. Avon Prods., Inc., No. 12 Civ. 847(RWS), 2012 WL 4335164, at \*7 (S.D.N.Y. Sept. 21, 2012) (framing an obligation to use a work for no more than a year as a duty to pay for longer use, which, under Second Circuit precedent, *Forest Park Pictures*,

Take, for example, the facts of *ProCD*, public enemy number one of the proponents of the partial-preemption approach. As explored above,<sup>190</sup> in this decision, the Seventh Circuit enforced a contract that prohibited the defendant from “commercially using” a database. Under the partial-preemption approach’s test, a court would need to decide whether “commercial use” is tangled with reproduction or distribution, which are exclusive rights, which would make the contract preempted. This is a difficult question in itself that might or might not lead to the enforcement of the contract. However, even if a promise to refrain from commercial use is preempted, it seems that a simple change would circumvent that rule and would make an equivalent contract enforceable. If *ProCD*’s contract would have included a promise to pay the fair market value of any commercial use, then even if the Seventh Circuit would have adopted the partial-preemption approach, preemption would have been avoided. The value of commercial use was probably in the millions and thus such a contract would probably have created the same effect as the heavily criticized contract in *ProCD*—preventing the defendant Mathew Zeidenberg from free riding *ProCD*’s massive investment in collecting factual information. The value of a rule that in many cases can be easily circumvented is questionable.

Indeed, the partial-contract preemption test allows far reaching contracts to escape preemption. In fact, the contracts that are the most likely to fail the partial-preemption test are those “redundancy contracts” that were discussed in Section I.A:<sup>191</sup> those contracts that prohibit the defendant from taking an action that is already copyright infringement. In many of those cases the plaintiff had a valid copyright infringement claim, which offered superior remedies,<sup>192</sup> and thus the preemption ruling might have little practical effect.<sup>193</sup>

## 2. Overbreadth

The partial-preemption test is sometimes overbroad. It seems to imply that copyright law has a monopoly over the regulation of reproduction, adaptation, distribution, and public display and performance of certain information goods. This is, however, inconsistent with the traditional and reasonable role that contracts and other legal doctrines play with respect to information goods.

Information, whether fixed or not, whether creative or not, is quite often subject to human interaction that has little to do with copyright law. It is therefore not surprising that other legal norms, outside of intellectual property law, regulate information goods. Applying the partial-preemption test may lead to preemption of

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*id.*, is not preempted).

<sup>190</sup> See *supra* text accompanying notes 55-56.

<sup>191</sup> See *supra* text accompanying notes 65-67.

<sup>192</sup> See *infra* text accompanying notes 265-268.

<sup>193</sup> See, e.g., *Wolff v. Inst. of Elec. and Elecs. Eng’rs, Inc.*, 768 F. Supp. 66 (S.D.N.Y. 1991).

those legal norms.

Confidentiality and exclusivity arrangements provide clear examples of this claim. Reporters might pay their sources in return for an exclusive story. In this interaction the sources promise, in consideration of payment, not to distribute their stories to other reporters prior to publication. Similarly, my research assistants collected and distributed factual information that I used in writing this Article. They (implicitly) promised to provide this information exclusively to me. Inventors who have brilliant ideas present them to venture capital companies but require these companies to sign a non-disclosure agreement. Company A would like to acquire company B and so it must conduct due diligence. Company B would share its confidential information only subject to company A's promise not to disclose it to others. All those contractual promises are common, reasonable, and are required for the operation of various businesses. However, all these promises regulate the distribution, and, in many cases, the reproduction, of information goods, which might or might not be protected by copyright. These promises, therefore, fail the partial-contract preemption test, and yet, it would be preposterous not to enforce them because they allegedly create rights that are equivalent to the exclusive rights under the Copyright Act.<sup>194</sup> In fact, the entire legal field of trade secrets is based on legal obligations to refrain from distributing certain information.<sup>195</sup>

Indeed, historically, copyright law was perceived as just one non-exclusive way to control the reproduction and distribution of information goods. Consider, for example, the events that followed the Supreme Court decision in *Feist v. Rural*.<sup>196</sup> In that decision, the Supreme Court held that factual information is not protected by copyright even when its collection was labor-intensive. This decision sparked a debate over the protection of databases in the United States. Some have suggested that Congress should use its Commerce Clause power to provide protection to databases, possibly similar to the protection afforded by the European Union's Directive on the Legal Protection for Databases (Database Directive), adopted in 1996.<sup>197</sup> Congress has never passed such legislation. The main argument against

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<sup>194</sup> Contractual confidentiality provisions are, of course, routinely enforced by courts. *See, e.g.*, *Snepp v. United States*, 444 U.S. 507 (1980) (enforcing a contractual promise not to publish information about the activities of the FBI without the agency's authorization); Alan E. Garfield, *Promises of Silence: Contract Law and Freedom of Speech*, 83 CORNELL L. REV. 261 (1998) (exploring contracts that limit public disclosure and suggesting they should be regulated more closely, primarily because they raise public policy concerns); *see also* Consumer Review Fairness Act of 2016 (making the use of clauses in form agreements that restrict the ability of a consumer to criticize a service provide unenforceable and illegal under federal law).

<sup>195</sup> *See* Easterbrook, *supra* note 102, at 963. It should be noted that much of trade secret law was lifted to the federal level with the passage of the Defend Trade Secrets Act of 2016. Consequently, any right that flows from the federal act is automatically shielded from federal preemption. A full analysis of the implication of that change is well beyond the scope of this Article.

<sup>196</sup> 499 U.S. 340 (1991).

<sup>197</sup> *See e.g.*, Database Investment and Intellectual Property Antipiracy Act of 1996, H.R. 3531,

these initiatives was that additional legislation is not needed because other legal norms provide sufficient incentive to create databases. Professor Miriam Bitton, for example, explored how certain norms of, inter alia, criminal law, trade secret, trademark, unfair competition, tort, and, yes, contract law, allow creators to prevent some forms of free riding and thus collect a reasonable return on their investment in collecting data.<sup>198</sup> This suggests that copyright law was never perceived and probably should not be perceived to have an absolute monopoly over legal norms that limit distribution of information goods.

### C. *Modifying the Partial-Preemption Approach*

Some have suggested various tests for distinguishing between contracts that should be preempted from those that should not under the expressed preemption doctrine. This part explores a few of those suggestions and argues that they are lacking.

One prominent suggestion is that instead of focusing on whether the contractual promises regulate an action that is an exclusive action, courts should ask whether the contract was negotiated or not. Contracts that were negotiated, the argument goes, are different from copyright and therefore escape preemption. In contrast, contracts that were not negotiated—i.e., standard-form agreements—should be preempted.

In *Bowers v. Baystate Technologies*, Judge Dyk, in dissent, argued that contracts that limit reverse engineering should be enforced as long as they are the results of the parties' negotiation.<sup>199</sup> However, continued Judge Dyk, the right to reverse engineer cannot be waived in a standard-form agreement. The form agreement should, therefore, be preempted. Because standard-form agreements are agreed upon with so many users, the argument goes, the rights they create are *in rem* (against the world) in nature and therefore, if they include norms that are inconsistent with copyright law, they should be preempted as equivalent to copyright.

There are several weaknesses in this argument. First, from a policy perspective, it is doubtful that all standard-form agreements over information goods are

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104th Cong. (1996); see also Jane C. Ginsburg, *No "Sweat"? Copyright and Other Protection of Works of Information After Feist v. Rural Telephone*, 92 COLUM. L. REV. 338 (1992); L. Ray Patterson, *Copyright Overextended: A Preliminary Inquiry Into the Need for a Federal Statute of Unfair Competition*, 17 U. DAYTON L. REV. 385, 410 (1992).

<sup>198</sup> Miriam Bitton, *A New Outlook on the Economic Dimension of the Database Protection Debate*, 47 IDEA 93, 147-66 (2006); See also Gordon, *supra* note 3, at 1385 ("many published reports suggest the [database] industry experienced no significant difficulties in the wake of the Feist decision" but noting that "I must admit, however, that some of the continuity in database revenues may have been due to the presumed availability of contract enforcement.").

<sup>199</sup> *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1335-38 (Fed. Cir. 2003) (Dyk, J., concurring in part, dissenting in part).

undesirable. The importance of this point depends on the way in which the preemption-of-form-agreements rule will be applied. The rule can, therefore, be too narrow or too broad. If the preemption-of-form-agreements rule applies only when the form agreement regulates one of the exclusive rights, then this rule cannot solve the over-narrowness problem. A standard-form agreement that would include a duty to pay for any usage will avoid preemption. The over-broadness problem will not be resolved either. After all, most will agree that some standard-form confidentiality agreements, while regulating the distribution of information goods, are desirable and should not be preempted. Similarly, in another place, I showed that enforcement of a standard-form agreement that limits the transferability of students' version software might be socially desirable.<sup>200</sup> If, on the other hand, the preemption-of-form-agreements rule applies independently of the regulation of the exclusive rights or lack thereof, then it will be greatly overbroad. Such a rule will preempt not only most confidentiality and exclusivity agreements but also most End-User-License-Agreements and Term-Of-Service contracts that are the backbone of our digital environment.<sup>201</sup>

Second, the theoretical foundations of this argument are weak. Standard-form agreements are treated as enforceable contracts in practically all other areas of the law and therefore it is unclear why they should be unenforceable just when touching upon information goods.<sup>202</sup> Indeed, courts nowadays enforce standard-form agreements that disturb "delicate balances" in many areas of the law. These agreements routinely limit the consumers' remedies, restrict their rights to freely use the goods they purchase, set harsh penalties for a breach by consumers, prevent consumers from filing certain claims, and more.<sup>203</sup> Take, for example, the Supreme Court decision in *American Express Co. v. Italian Colors Restaurant*.<sup>204</sup> In that case, the Court enforced a mandatory arbitration provision in a standard-form agreement in which consumers explicitly waived the right to class action and for class arbitration. Doesn't this rule disturb the delicate balance that civil procedure law creates<sup>205</sup> between the right of class action plaintiffs and defendants? Why should such a delicate balance be granted a weaker protection against contractual alteration than the right to reverse engineer or to resell software?

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<sup>200</sup> Rub, *supra* note 64, at 811.

<sup>201</sup> Another practical obstacle in applying this preemption-of-form-agreements rule is the definition of form-agreements. As further explained below, *supra* note 226, there is no clear consensus as to what constitutes a form-agreement.

<sup>202</sup> See, e.g., RESTATEMENT (SECOND) OF CONTRACTS § 211 (1981) (suggesting that standard-form agreements are enforceable and interpreted "without regard to their knowledge or understanding").

<sup>203</sup> See RADIN, *supra* note 3.

<sup>204</sup> 133 S. Ct. 2304 (2013).

<sup>205</sup> See, e.g., FED. R. CIV. P. 23 (setting the condition for "[o]ne or more members of a class [to] sue ... as representative parties on behalf of all members").



The intuition of those who want a stronger preemption rule when standard-form agreements are involved is obvious. If the concern is that contracts will allow copyright owners to rewrite copyright law, then standard-form agreements allow such rewriting on a much larger scale. However, the proponent of the approach that seeks to preempt standard-form agreements failed to develop an argument that points to the unique effects of standard-form agreements on information goods. Moreover, as further explore in Section III.D below, it is seriously doubtful that even standard-form agreements can actually meaningfully displace copyright law.

A different suggestion for identifying contracts that should be preempted was made by Christina Bohannon.<sup>206</sup> Her approach is more nuanced and factual and it relies on the existing tests for waivers of statutory rights. The core of the test Bohannon suggested is that waivers of rights that “protect individual rather than public interests” should be enforced.<sup>207</sup> In other words, if a norm of copyright law that is contracted around protects the public interest, the contract is preempted. The problem is that such a distinction will be very difficult to implement and it might lead to circularity. In some respects, this test kicks the can down the road: instead of asking “what contracts should be preempted” the inquiry is “what contracts protect a public interest,” which seems as difficult of a question.

The examples that Bohannon provides makes this distinction tricky and the line blurry. For example, Bohannon suggests that a promise not to resell an item is private and therefore “should not be preempted” while “a contractual promise not to use public domain material... affects copyright policy intended for protection of the public“ and so it should be preempted.<sup>208</sup> But those results seem almost arbitrary. When buyers promise not to resell their goods, it affects the prices in the market and the public.<sup>209</sup> On the other hand, it does not seem reasonable to suggest that all confidentiality agreements over factual information, which limit the distribution of information to the public, be preempted because they affect “copyright policy intended to protect the public.” Therefore, it seems that this attempt to divide the possible contracts into smaller and somewhat predictable subcategories did not work, and, in my mind, did not produce desirable results.

Another possible way to modify the partial-preemption approach is to stop relying on Section 301(a) and the expressed preemption doctrine altogether. Instead, maybe a case-by-case approach under the conflict preemption doctrine can provide a better route to regulate contracts over information goods. In the next Part, the Article considers, and eventually rejects, such an approach.

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<sup>206</sup> Bohannon, *supra* note 84.

<sup>207</sup> *Id.* at 650.

<sup>208</sup> *Id.* at 620.

<sup>209</sup> See e.g., Anthony Reese, *The First Sale Doctrine in the Era of Digital Networks*, 44 B.C. L. REV. 577, 585-86 (2003); Rub, *supra* note 64, at 766-73.

## PART III: COMING TO TERMS WITH THE NO-PREEMPTION APPROACH

Part I explains that two approaches have emerged in the caselaw on the preemption of contracts by copyright law. The previous Part suggests that the partial-preemption failed to come up with a successful test for distinguishing contracts that should be preempted from those that should not and that it gradually lose ground to the no-preemption approach. This Part explores whether a new approach should replace the partial-preemption approach—maybe one that is based on conflict preemption doctrine—in identifying contracts that should be preempted. It answers this question in the negative. Close to four decades of litigation under the Copyright Act of 1976, including twenty years since *ProCD*, suggests that expanding preemption is likely not needed and that the current direction of the caselaw is not as troubling as some have predicted.

*A. Introducing Conflict Preemption*

Some have suggested that it is a mistake to focus on the Copyright Act's express preemption—Section 301(a). Instead, the argument goes, the focus should be on applying a conflict preemption doctrine to contractual promises.<sup>210</sup>

There is some appeal in this suggestion. Intuitively, the problem with some contracts is not that they create rights that are “equivalent” to copyright, as required by Section 301(a). The problem might be that they interfere with the scheme of copyright law. Asking if the contractual promise is “equivalent” to copyright might miss the point.

Preemption is not limited to express preemption. The Supreme Court held that Congress' preemption power “may be either expressed or implied.”<sup>211</sup> Implied preemption can be found “when Congress intends federal law to ‘occupy the field’,”<sup>212</sup> a situation called field preemption, and “to the extent of any conflict with a federal statute,”<sup>213</sup> a situation called conflict preemption. As part of the conflict preemption doctrine, state law is preempted if it is an obstacle to the purpose and goals of federal legislation.<sup>214</sup> The Supreme Court held that the existence of an express preemption provision in a federal act should not, in itself, prevent courts

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<sup>210</sup> See, e.g., Bohannon, *supra* note 84; Lemley, *supra* note 145, at 145-46; see also Guy A. Rub, *A Less Formalistic Copyright Preemption*, 24 J. INTEL. PROP. L. (forthcoming 2017) (arguing for applying conflict preemption in copying preemption disputes).

<sup>211</sup> *Gade v. Nat'l Solid Wastes Mgmt. Ass'n*, 505 U.S. 88, 98 (1992).

<sup>212</sup> *Crosby v. Nat'l Foreign Trade Council*, 530 U.S. 363, 372 (2000).

<sup>213</sup> *Id.*

<sup>214</sup> Another form of conflict preemption is found “[W]here compliance with both federal and state regulations is a physical impossibility.” *Arizona v. United States*, 132 S. Ct. 2492, 2501 (2012). This form of preemption, sometimes referred to as actual conflict preemption, rarely comes up when contractual promises are considered.

from applying the principles of expressed preemption.<sup>215</sup> Therefore, maybe, instead of asking if a contract is equivalent to copyright, the better question is whether enforcing the contract “stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress”<sup>216</sup> in enacting certain copyright norms.

Very few decisions have applied such an approach. In *Davidson & Associates v. Jung*,<sup>217</sup> the defendant argued that a contractual promise to refrain from reverse engineering is preempted under the conflict preemption doctrine. The court rejected this claim. In doing so it relied on cases on express preemption and noted that while those cases “were express preemption cases rather than conflict preemption, their reasoning applies here with equal force.”<sup>218</sup> Recently, in *Ryan v. Editions Ltd. West, Inc.*,<sup>219</sup> the defendant argued that a contractual provision that provides that the losing side in every future legal dispute will pay the legal expenses of the winning side was preempted. The Ninth Circuit rejected the express preemption claim and went on to hold that even under the conflict preemption doctrine the contractual provision is enforceable. The defendant argued that the Copyright Act provides a similar provision for the payment of legal fees, which is contingent on registration of the work with the copyright office,<sup>220</sup> and therefore, because the plaintiff’s work in that case was not registered, recovery of legal fees under a contractual cause of action was in conflict with Congress’ goals. The Ninth Circuit rejected this argument explaining that making the payment of legal fees contingent on registration makes sense between strangers but it is irrelevant when it comes to the relationship between parties to a contract.<sup>221</sup>

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<sup>215</sup> *Geier v. American Honda Motor Company*, 529 U.S. 861 (2000). *See also*, Rub, *supra* note 210 (applying the rule set forth in *Geier* to the Copyright Act and concluding that courts are free to apply conflict preemption in copyright-related disputed).

<sup>216</sup> *Hines v. Davidowitz*, 312 U.S. 52, 67 (1941).

<sup>217</sup> 422 F.3d 630, 638-39 (8th Cir. 2005).

<sup>218</sup> *Id.* at 639.

<sup>219</sup> 786 F.3d 754 (9th Cir. 2015).

<sup>220</sup> 17 U.S.C. § 412 (2012).

<sup>221</sup> *Ryan*, 786 F.3d at 762. Another case that could have been mentioned in this context is *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255 (5th Cir. 1988). However, this decision actually did not discuss a preemption of a specific contract, but the preemption of the Louisiana Software License Enforcement Act, which permitted a software producer to impose certain terms upon purchasers, including prohibiting reverse engineering. The Fifth Circuit found that the Louisiana Act was preempted because “The provision in Louisiana’s License Act, which permits a software producer to prohibit the adaptation of its licensed computer program by decompilation or disassembly, conflicts with the rights of computer program owners under § 117 and clearly ‘touches upon an area’ of federal copyright law.” *Id.* at 269. The Fifth Circuit, unlike the district court in the same case, reached this conclusion without referring to section 301(a), but instead by relying on Supreme Court precedent regarding the conflict preemption in connection with the Patent Act. This is likely a unique decision because the Louisiana Act might have allowed enforcement of provisions that were not contractually accepted (“[the] license agreement was a contract of adhesion which could only be

Assuming that courts are free to use conflict preemption,<sup>222</sup> the next natural question is should they do it when it comes to contractual claims, and when. The next Section focuses on the type of contracts that have been litigated in the last four decades and suggests that they probably should not.

*B. The Discrepancy between the Scholarly Predictions and Litigated Contracts*

*ProCD* is the opinion that many copyright scholars love to hate.<sup>223</sup> They warned that wide adoption of *ProCD*'s no-preemption approach would allow contracts to run amok and to subvert and possibly replace copyright law and thus fundamentally undermine copyright policy. Nevertheless, in the last twenty years, *ProCD*'s no-preemption approach was widely adopted. Interestingly, reviewing the 288 court opinions on this topic—those will be hereunder referred to as the “Preemption Decisions”—creates a different impression. There seems to be a significant gap between what those scholars were concerned with and what actually happened. Indeed, in those decisions, there is no evidence of a significant subvention or replacement of copyright law, or of meaningful harm to core copyright policies. This Section describes the type of contracts that are part of the Preemption Decisions. The next Section discusses the limitations in using such a sample.

The vast majority of contracts that were litigated in the Preemption Decisions represent transactions that seem commercially reasonable. Those contracts are quite different from the parade of horrors that so many commentators warned about.

Take, for example, the warnings about the destructive power of consumers' standard-form agreements. While being engaged in what seems to be a standard online interaction, a user is asked to “click ‘I agree’ ... after being shown lists of fine-print terms that [he did not] read.”<sup>224</sup> Those click-wraps can include any provision the drafter chose, including provisions that regulate the use of information goods.<sup>225</sup> While this surely happens, those standard-form agreements

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enforceable if the [Louisiana License Act] is a valid and enforceable statute.” *Id.* at 269). Later Fifth Circuit opinions probably also considered the decision in *Vault* to be a unique case, limited to its facts and the Louisiana statute. This explains why the Fifth Circuit, only three years later, and without even mentioning its decision in *Vault*, held that contracts, as such, are not preempted by copyright. *Taquino v. Teledyne Monarch Rubber*, 893 F.2d 1488 (5th Cir. 1990). The *Taquino* precedent was followed in *Real Estate Innovations, Inc. v. Houston Ass'n of Realtors, Inc.*, 422 F. App'x 344 (5th Cir. 2011), also without even mentioning the decision in *Vault*. See also *Neon Enter. Software, LLC v. Int'l Bus. Machines Corp.*, No. A-09-CA-896 AWA, 2011 WL 2036674, at \*1 (W.D. Tex. May 24, 2011) (similarly holding that “The Fifth Circuit's holding in *Vault* involves federal preemption of a specific Louisiana statute, not federal preemption of private contractual agreements touching on copyright law”).

<sup>222</sup> See *supra* note 215 and accompanying text.

<sup>223</sup> See *supra* text accompanying note 149.

<sup>224</sup> RADIN, *supra* note 3, at 8.

<sup>225</sup> See, e.g., Kenneally, *supra* note 3 (warning about this scenario); Lemley, *supra* note 145 (same); Nimmer et al., *supra* note 3 (same).

are not subject to preemption litigation. To be clear, a small subset of the contracts that have been litigated as part of the Preemption Decisions might be considered “standard form,”<sup>226</sup> as they might have been drafted by one party to be used on multiple occasions. The contract in question in *ProCD* might be the most famous of them. However, the paradigmatic consumers in standard-form agreement transactions—those consumers who rationally do not read the terms to which they agree and are unaware of their content and sometimes to their existence—are nowhere to be found among the Preemption Decisions. The few standard-form agreements that are discussed in the Preemption Decisions were typically agreed upon between two businesses or professionals.

Take, for example, the facts of *Berkla v. Corel Corp.* Corel inquired about including Berkla’s image database in its software products. Berkla, as a condition for granting full access to its database, required Corel to sign “a boilerplate NDA [non-disclosure agreement],”<sup>227</sup> which Corel allegedly later breached when it included certain images in its software products. Or consider the facts of *Info. Handling Servs., Inc. v. LRP Publications*. The plaintiff distributed a database of decisions of the Equal Employment Opportunity Commission on CD-ROMs that included a shirk-wrap that limited the distribution of the database. The defendant, a direct competitor, purchased the CD-ROM and allegedly copied and distributed parts of the database.<sup>228</sup> Next, consider the facts of *Express Lien, Inc. v. Nationwide Notice, Inc.*, where the defendant allegedly copied forms, possibly protected by copyright, from the website of his competitor—the plaintiff—in breach of the plaintiff’s browser-wrap agreement.<sup>229</sup> Finally, consider the agreement litigated in *Angel Music, Inc. v. ABC Sports*: A standard agreement, issued by BMI, that allowed ABC to only perform a copyright protected work and that was allegedly breached when ABC Sports edited and revised the work in question.<sup>230</sup> Although the agreements in all those cases were standard-form agreements and not subject to negotiation, it was still reasonable to expect the defendants to be aware of the terms of those agreements before commercially broadly use the information they covered.

It would be very difficult, maybe impossible, to verify that each party in each

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<sup>226</sup> Defining “standard form agreement” is far from trivial. Todd Rakoff, for example, famously offered seven characteristics of such contracts including that they were drafted by one party to be used numerous times. Rakoff, *supra* note 32, at 1177. Others offered different definitions. *E.g.*, Robert A. Hillman & Jeffrey J. Rachlinski, *Standard-Form Contracting in the Electronic Age*, 77 N.Y.U. L. REV. 429, 435-36 (2002). Those distinctions are not crucial to the point made in this Section.

<sup>227</sup> *Berkla v. Corel Corp.*, 66 F. Supp. 2d 1129, 1149-50 (E.D. Cal. 1999).

<sup>228</sup> *Info. Handling Servs., Inc. v. LRP Publ’ Inc.*, No. CivA. 00-1859, 2000 WL 1468535, at \*1 (E.D. Pa. Sept. 20, 2000).

<sup>229</sup> *Express Lien, Inc. v. Nationwide Notice, Inc.*, No. CV 16-2926, 2016 WL 7097382, at \*5 (E.D. La. Dec. 5, 2016).

<sup>230</sup> *Angel Music, Inc. v. ABC Sports, Inc.*, 632 F. Supp 429, 434-35 (S.D.N.Y. 1986).

Preemption Decision was actually familiar with the terms of the contract in question. However, there seem to be a fundamental difference between contracts between Google or Apple and their users and an agreement between two businesses or professionals such as a partnership agreement among co-creators, an agreement between a small publisher and an author,<sup>231</sup> an agreement that limits a competitor's behavior,<sup>232</sup> or an agreement between a photographer and a small business that hired his services.<sup>233</sup> In other words, I was unable to find a preemption case in which the contract in question was clearly the type of consumer standard-form agreement that is the main source of concern—those that parties enter quickly and with no rational reason to read or understand.<sup>234</sup> The analysis of the Preemption Decisions thus suggests that the doomsday scenario of countless standard-form agreements that would be attached to commonly used copies of information goods—such as books or music files—and would significantly restrict users' rights, did not materialize.

What kinds of contracts were litigated as part of the Preemption Decisions? The most common contracts litigated are *Desny* claims. As explained above,<sup>235</sup> a *Desny* claim arises after the plaintiff pitches an idea for some creative endeavor (such as a movie or a commercial campaign) to the defendant, who rejects the pitched endeavor but later uses the idea. Contract law, in many states, holds that an implied-in-fact contract exists in such a case and that this contract includes a promise by the defendant to pay the fair value of the pitched idea that was later used. Another version of that cause of action goes a step further and holds that the implied contract prohibits the use of the idea without compensation.<sup>236</sup>

It is doubtful that either the narrow version or the broad version of the *Desny* claim is problematic from copyright policy perspective or should be preempted.<sup>237</sup>

<sup>231</sup> *Ryan v. Editions Ltd. W., Inc.*, 786 F.3d 754 (9th Cir. 2015).

<sup>232</sup> *Pollstar, v. Gigmania LTD.*, No. CIV-F-00-5671 REC SMS, 2000 WL 34016436 (E.D. Cal. Sept. 1, 2000) (prohibiting the commercial use of factual information regarding concerts); *Info. Handling Servs.*, 2000 WL 1468535.

<sup>233</sup> *Wieczorek v. Nat'l Catholic Prayer Breakfast*, Civ. No. MJG-15-02599, 2016 WL 54798 (D. Md. May 1, 2016).

<sup>234</sup> See Omri Ben-Shahar, *The Myth of 'Opportunity to Read' in Contract Law*, 5 EUR. REV. CONT. L. 1 (2009) (explaining how irrational it is for most users to read and understand standard-form agreements).

<sup>235</sup> *Supra* text accompanying notes 48-53.

<sup>236</sup> Both versions of this claim were at issue at *Montz v. Pilgrim Films & Television, Inc.*, 649 F.3d 975 (9th Cir. 2011) (en banc).

<sup>237</sup> That is not to say that idea-submission cases do not involve difficult questions. One of the court's main tasks in a *Desny*-like dispute is to determine whether the parties' behavior indicates that they indeed reached an implied-in-fact contract or not. See Lionel S. Sobel, *The Law of Ideas, Revisited*, 1 UCLA ENT. L. REV. 9, 37-47 (1994) (discussing the circumstances that led court to find implied-in-fact contacts). The answer to this question is beyond the scope of this Article. The claim I make here is simpler: this is a question that is rooted in contract law and copyright law should not

This implied contract attempts to solve a real problem: how to encourage those who have creative ideas, which are of course not protected by copyright, disclose them. Accepting this form of legal regulation of ideas is not inconsistent with copyright policy. In fact, the availability of this cause of action might encourage the flow of information, allow the creation of new works, and it, therefore, seems consistent with the goals of copyright law.

Another very common type of litigated contract included a promise to refrain from an act that is a copyright infringement, such as copying or distribution of a work. Those contracts, which in some cases imitate parts of the Copyright Act, can be referred to as “redundancy agreements.” As mentioned above, those are the most commonly preempted contract under the partial-preemption approach.<sup>238</sup>

Does the enforcement of redundancy contracts subvert the goals of copyright law? Probably not. First, in most cases, the promisee in a redundancy contract will not try to enforce it because copyright law offers superior remedies.<sup>239</sup> Therefore, if a defendant actions are both copyright infringement and a breach of contract, most plaintiffs will choose to file a copyright claim. Redundancy contracts are more significant when the copyright claim is barred, typically for a procedural reason. For example, in *Ryan*, the contractual promise in question was for the payment of legal fees to the winning party.<sup>240</sup> Copyright law already provides such a remedy but it is contingent on registering the work with the U.S. copyright office.<sup>241</sup> Because the work in *Ryan* was not registered this remedy was unavailable under copyright law. Was providing it under contract law inconsistent with copyright goals? The Ninth Circuit correctly held this is was not. Registration is designed to reduce search cost among strangers, but among contracting parties those costs are minimal.

A similar reasoning is applicable to another type of litigated agreement: a redundancy contract when the copyright claim is barred by section 507(b)—the three years statute of limitations under the Copyright Act.<sup>242</sup> Is it an obstacle to the goals of copyright policy to enforce a redundancy contract after more than three years? I believe the answer is no. The statute of limitations under copyright law assures creators and users of information goods that they can be subject to copyright claims from any copyright owner for only three years thereafter. Because the risk of litigation is “against the world,” minimizing it, for example, by setting a short limitation period, likely increases certainty and encourages creation and

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prevent and bar contract law from resolving it.

<sup>238</sup> *Supra* text accompanying notes 170-172.

<sup>239</sup> *See infra* text accompanying notes 266-269.

<sup>240</sup> *Ryan v. Editions Ltd. West, Inc.*, 786 F.3d 754 (9th Cir. 2015).

<sup>241</sup> 17 U.S.C. § 412 (2012).

<sup>242</sup> This was the case in *Ritchie v. Williams*, 395 F.3d 283 (6th Cir. 2005). The Sixth Circuit famously held the contract in that case preempted.

usage.<sup>243</sup> But the situation is quite different when the parties entered a contract. Now the creators or users know that they are subject to a very specific litigation threat from specific promisees, and therefore the increased uncertainty or the harm to creativity is minimal.

Consider another type of agreement: contracts over the use of databases. These contracts are actually not common among the Preemption Decisions but they received much attention from commentators, probably because that was the contract that was litigated in *ProCD*. It is hard to perceive even that contract as an obstacle to the goals of copyright policy. The actions that ProCD, and similarly situated companies, took did not shrink the public domain or increase the costs of creation to others. ProCD spent millions in collecting phone numbers and contractually limited their usage. Before and after ProCD has done so everyone was free to do the same thing: collect information and use or distribute it. Mathew Ziedenberg, the defendant, was certainly free to do so. Instead, he chose to free ride on ProCD's efforts. Contractually limiting him from doing so does not seem inconsistent with copyright policy.<sup>244</sup>

This part cannot explore every contract in the Preemption Decision, but the overall impression is clear. The most common contracts litigated, and the most common contracts preempted, do not seem to raise significant copyright policy concerns. More troubling contracts—such as standard-form agreements that prohibit the creation of parodies, the use of ideas in subsequent work, short citations, or criticism—are nowhere to be found within the Preemption Decision.

Consider, for example, the important work of Viva Moffat regarding contracting around fair use, a phenomenon she called “super-copyright provisions.” Moffat warned that those super-copyright provisions “are nearly universal. If you have surfed the web, bought a computer, done online banking ... downloaded software, listened to music on iTunes, or watched a video on YouTube, you have entered into a contract and agreed not to make fair use of the material you encountered.”<sup>245</sup>

However, a reader of the Preemption Decisions will get a very different sense. Contracts in which a party promised to refrain from an activity that is fair use are very rarely litigated. And when they are, they do not affect the core of the fair use

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<sup>243</sup> *But see* *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 134 S. Ct. 1962 (2014) (allowing a copyright holder claim to proceed although it was based on an alleged infringement that started 18 years earlier because the continued distribution of the infringing work provides a new base for an infringement claim and because laches, as an equitable defense, cannot bar the lawsuit).

<sup>244</sup> This conclusion is supported by the difficulty in controlling the flow of information and information goods, as discussed below. *See infra* Section III.D.1. In other words, that discussion shows that *ProCD* is unable to actually monopolize facts, which makes the *ProCD* contract less troubling. *See also supra* text accompanying notes 196-198 (discussing how contractual control over databases encourages their creation).

<sup>245</sup> Moffat, *supra* note 112, at 48.



defense—the type of concerns that Moffat and others<sup>246</sup> were raising. Instead, those contracts touch on the outskirts of fair use, and in particular, on restrictions on reverse engineering.<sup>247</sup> None of those contracts affected, even indirectly, one of the activities that are explicitly listed as presumably fair within the Copyright Act—criticism, commentary, news reporting, teaching, scholarship, or research.<sup>248</sup> All of

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<sup>246</sup> E.g., Nimmer et al., *supra* note 3, at 55 (describing how publisher can use “the logic of *ProCD*” to prohibit “that the fair use doctrine would otherwise permit”).

<sup>247</sup> Creating temporary copies as part of reverse engineering in order to achieve interoperability is typically considered fair use. *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510 (9th Cir. 1992); Matthew Sag, *God in the Machine: A New Structural Analysis of the Fair Use Doctrine in Copyright Law*, 11 MICH. TELECOMM. & TECH. L. REV. 381, 426-27 (2005); Pamela Samuelson, *Unbundling Fair Uses*, 77 FORDHAM L. REV. 2537, 2606-09 (2009). But in two decisions circuit courts held that a promise to refrain from reverse engineering is not preempted by the Copyright Act. It is, however, important to note that in both cases the defendants actions went beyond the mere temporary copying that, under *Sega*, constitute fair use. In *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317 (Fed. Cir. 2003) the court held that the defendants’ actions not only breached the standard contract with the plaintiff but also constituted copyright infringement. In *Davidson & Assocs. v. Jung*, 422 F.3d 630 (8th Cir. 2005) the defendants operated an online gaming server for games created by the plaintiff which, unlike the plaintiff’s server, provided online gaming capabilities to pirated copies as well. That was the main reason that the defendants were found to not only breach the End User License Agreement but also the Anti-circumvention provisions of the Digital Millennium Copyright Act, 17 U.S.C. § 1201. That provision allowed “for the sole purpose of identifying and analyzing those elements of the program that are necessary to achieve interoperability,” *id.* at 1201(f), but the court ruled that the defendant actions went beyond that limited scope of that defense.

More generally, the social desirability of contractual promises that prohibits reverse engineering is a complex question. See Pamela Samuelson, *Possible Futures of Fair Use*, 90 WASH. L. REV. 815, 859–60 (2015) (“As part of a confidentiality agreement between a startup and a big firm, for example, the startup’s insistence on a contractual restriction on reverse engineering ... would very likely be respected. The same restrictions in a mass-market license agreement for software might be treated quite differently.”). If one believes that enforcing those arrangements is undesirable, or at least sometimes undesirable, a separate question is whether they should be regulated by copyright preemption doctrine, patent preemption doctrine, antitrust law, copyright misuse, or another legal tool altogether. The European Union, for example, directly addresses this issue as part of its DIRECTIVE 2009/24/EC ON THE LEGAL PROTECTION OF COMPUTER PROGRAMS. Article 6 of the Directive permits copying of parts of software if that is “indispensable to obtain the information necessary to achieve the interoperability of an independently created computer program with other programs.” Article 8 states that “[a]ny contractual provisions contrary to Article 6 shall be null and void.” It might be advisable to provide a similar mechanism under U.S. law. However, Article 6 is limited and it is therefore unclear is the defendants in either *Bowers* or *Davidson* would have been able to use it. For example, one may doubt if allowing pirated copies to use an online gaming server, as the *Davidson* defendants did, doesn’t “unreasonably prejudices the rightholder’s legitimate interests or conflicts with a normal exploitation of the computer program,” which is not allowed under Article 6. A full analysis of those questions is beyond the scope of this Article.

<sup>248</sup> Those are the six activities that are listed in the preamble to section 107 of the Copyright Act. 17 U.S.C. § 107 (2012) (“[T]he fair use of a copyrighted work... for purposes such as criticism, comment, news reporting, teaching ... scholarship, or research, is not an infringement of

those disputes were between sophisticated businesses, typically competitors.<sup>249</sup>

### C. Limitations and Caveats

The previous Section suggests that there is a significant discrepancy between the predictions of many commentators and the reality, as reflected in the Preemption Decisions. The doomsday scenarios that were expected if courts adopt the no-preemption approach did not come to fruition. Most courts did adopt *ProCD*'s no-preemption approach and yet, the Preemption Decisions do not seem to cast a shadow or endanger the core principles of copyright policies. Before continuing to the discussion on the explanations to and the implications of this observation, the limitations of the sample should be considered.

Reviewing court decisions can provide valuable information about the type of disputes that get litigated to their conclusion. It can tell us less about cases that settled before completion. And it can tell us even less about disputes that settled outside of court, for example through arbitration or just by complying with a "cease and desist" letter. And of course, it provides weak indications about the behavior of

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copyright."). Those activities are typically presumed fair, although they are not always fair, nor is fair use limited to just those activities. See Barton Beebe, *An Empirical Study of U.S. Copyright Fair Use Opinions, 1978-2005*, 156 U. PA. L. REV. 549, 609-10 (2008).

<sup>249</sup> Except for the reverse engineering cases, see *supra* note 247, other reference in the Preemption Decisions to fair use, or to activities that are considered fair use, are sporadic and rare. In one such case, for example, the defendant allegedly made copies of the plaintiff copyrighted publications and distributed them in breach of the parties' subscription agreement. The court held that the contract was not preempted because "the unique terms of the parties' express contract here essentially establishes a private law governing fair use of the copyrighted works inter parties." *Lowry's Reports, Inc. v. Legg Mason, Inc.*, 186 F. Supp. 2d 592, 594-95 (D. Md. 2002). The court however later held that the use in this case was not fair. *Lowry's Reports, Inc. v. Legg Mason, Inc.*, 271 F. Supp. 2d 737, 748-49 (D. Md. 2003). Because the defendant actions in that case were copyright infringement and it is doubtful that contract law provided any remedy in that case that was not already available under copyright law. Another example of a preemption case that touches on fair use was the recent decision delivered as part of the long ongoing dispute between TV broadcasters and DISH Network. DISH was sued for providing its consumers with advance services, including Hopper Transfer, which allowed users to watch recorded content everywhere using the Internet. One of the parties' agreements provided that, subject to certain detailed restrictions, DISH will not authorize retransmission of the signals it receives from the broadcaster. The court analyzed DISH's offering and compared it to the parties' contract, focusing on those negotiated restrictions, and concluded that DISH breached the contract. It then went on and explained that "fair use is not a defense to a breach of contract claim" and that the fact that the contract included curve-out that were different from the fair use doctrine makes the contract different enough from copyright, and thus not preempted. *Fox Broad. Co. v. Dish Network LLC*, No. CV 12-4529 DMG (SHx), 2015 WL 1137593, at \*30 (C.D. Cal. Jan. 20, 2015).

In addition, in some of the Preempted Decisions the contract in question prohibited copying without specifying that copying that is fair use is allowed. See *also supra* text accompanying notes 239-242. While those can be seen as contracting around fair use, in those disputes, the actions for which the defendants were sued for were not fair use.

those who just choose to comply with the contractual terms. Therefore, one cannot rule out, for example, that pure consumers' standard-form agreements that include "no parody," "no use of ideas," or "no criticism" provisions not only exist but they have a de facto effect on individuals' behavior and their creativity output. Maybe the beneficiaries (i.e., the promisees) of those theoretically possible "no parody" provisions routinely threaten those who create parodies, and those threats cause the potential parody authors to refrain from creating more parodies or to withhold them from the public, which is likely socially harmful?!

While I cannot rule out the existence of such a practice—after all, proving the negative is rarely feasible—I find it implausible that it exists in large numbers. It is unlikely that such contracts will be routinely performed but never litigated. The legal enforceability of such agreements is less than obvious. While *ProCD* was broadly adopted by federal circuit courts, it is not universally acceptable and so it is unlikely that litigated disputes over the preemption of such contracts will never arise, especially in those jurisdictions that have not adopted the no-preemption approach, or those that reject it altogether.

Moreover, beyond preemption, one can think of many other defenses to a "no parody" breach of contract claim, including unconscionability, public policy, and more.<sup>250</sup> Similarly, while mandatory arbitration provisions are common and typically enforceable, many agreements do not include them and even those that do are subject to legal challenges that would be reflected in the caselaw.<sup>251</sup> And while the existence of a contract might provide legitimacy in the eyes of some<sup>252</sup> and might deter others from challenging its terms, it is inconceivable that it will deter all. After all, parties routinely challenge the enforceability of arbitration agreements, non-disclosure provisions, non-compete promises, and exculpatory clauses.<sup>253</sup> Is it really probable that parties will never challenge, but still obey, a

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<sup>250</sup> See also *infra* text accompanying notes 276-282.

<sup>251</sup> See, e.g., *Martina Hernandez v. DMSI Staffing, LLC*, 2017 WL 631692 (9th Cir. Feb. 16, 2017) (refusing to enforce an arbitration agreement as against public policy); *Mohamed v. Uber Techs., Inc.*, 848 F.3d 1201 (9th Cir. 2016) (holding the certain elements in an arbitration agreement were not unconscionable but that other provisions in the agreement were unenforceable and that the dispute with some parties was not subject to arbitration).

<sup>252</sup> See, e.g., Tess Wilkinson-Ryan, *The Behavioral Paradox of Boilerplate*, CORNELL L. REV. (forthcoming 2017) (claiming that parties perceive terms in a standard-form agreements that did not read more legitimate, morally and legally, than terms that are not part of their contract).

<sup>253</sup> *Zachry Const. Corp. v. Port of Houston Auth. of Harris Cty.*, 449 S.W.3d 98, 116 (Tex. 2014) (holding a pre-breach release from liability for breach of contract is unenforceable as against public policy); *Tayar v. Camelback Ski Corp.*, 616 Pa. 385 (2012) (holding that a release of liability for reckless conduct is unenforceable as against public policy); *Murfreesboro Med. Clinic, P.A. v. Udom*, 166 S.W.3d 674 (Tenn. 2005) (holding a non-compete provision unenforceable); *Weaver v. American Oil Co.*, 276 N.E.2d 144 (Ind. 1971) (holding an exculpatory clause and an indemnification clause unenforceable due to unconscionability); *Eagle v. Fred Martin Motor Co.*, 157 Ohio App. 3d 150 (2004) (holding an arbitration provision and a non-disclosure provision in a

contractual provision that prevents them from creating a parody or using an idea?

I therefore believe that it is unlikely that even with the dominance of *ProCD*'s no-preemption approach no defendant will ever choose to fight those contractual claims in court. Those contractual claims are so offensive that one might imagine pro-bono lawyers and certain users' rights groups and creators' organizations that will be more than willing to challenge them in court.

The potential saliency of such incidences, if they indeed happen, would make it unlikely that they would go unnoticed. In other words, it is hard to imagine that promisees, on a large scale, try to enforce "no parody," "no use of ideas," or similar contractual provisions and that this practice goes unnoticed. The fact that such disputes are not found in the caselaw and are not routinely discussed in the copyright or contract literature suggests that they probably do not exist, at least not in significant numbers. The next Section provides another reason for the unlikelihood of those practices: contract law is just an inefficient legal tool to achieve such a level of control over users, even if creators are inclined to have that control. To that argument, this Article now turns.

#### *D. Explaining the Discrepancy*

The previous sections describe a discrepancy between the meaningful ways in which contract law was expected to affect and disturb copyright policy and the modest impact, if at all, that it so far seems to have had. This Section provides several explanations as to why that is the case. In other words, the question is why the Preemption Decisions don't include more aggressive practices, such as standard-form agreements with "no parody," "no criticism" and "no usage of ideas" clauses?

I believe that the main reason for the nonexistence of those litigated contracts, and the main phenomenon that this absence demonstrates, is that contracts are not an effective tool to exercise tight control on a large scale over information and information goods. Those creators and distributors who want to exercise this tight control will find contract law to be an inferior tool in comparison to many other legal and non-legal mechanisms, including copyright law.

##### 1. Contractual Privity and Control over Information

The requirement of contractual privity is simple yet powerful. "Putting aside the special cases of intended third-party beneficiaries and defective product warranties, in order for some party (A) to sue another party (C) for breach of contract, A and C must have entered into an agreement at some point."<sup>254</sup> Proving privity, however,

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consumer form-agreement unenforceable due to unconscionability); *infra* note 251.

<sup>254</sup> Robert P. Merges, *The End of Friction? Property Rights and Contract in the "Newtonian" World of on-Line Commerce*, 12 BERKELEY TECH. L.J. 115, 119 (1997).

can be challenging when a distributor tries to contractually control the use of information and information goods. As a result, it might be difficult for creators of information goods to contractually control the ways in which consumers use their products, even if such use is done publically.<sup>255</sup>

Let's assume, for example, that J.K. Rowling tries to contractually limit the ways in which users use *Harry Potter and the Sorcerer's Stone*. She includes a shrink-wrap agreement with every copy of the book that provides that the users are prohibited from copying (i) the ideas expressed in the book, and (ii) the ways in which these ideas are expressed in the book, including any part of the text. Let's further assume that a few years after the book is published and becomes a tremendous success Rowling discovers that Alice published a book about a school for teenage magicians. At the same time, Rowling also discovers that Bob published a book about a school for teenage magicians, with a protagonist who is an 11-year-old child who grew up unaware of his magic powers, but that actually encountered and killed a powerful villain as a baby, an incident that left a scar on his forehead. As the protagonist in Bob's story is learning to be a magician, the antagonist—that villain—is coming back from the dead. Rowling believes that Alice and Bob copied the ideas of her book and that Bob also copied some of their expressions.

Copyright law might allow Rowling to successfully sue Bob and in such a case she will only need to prove that Bob, in fact, copied a substantial amount of the expressions of ideas in her book. Copyright law, of course, does not provide a remedy for the copying of ideas and so Rowling will have no cause of action under copyright law against Alice.

Can contract law assist Rowling? The first problem that Rowling will encounter in any contractual dispute against Alice or Bob is proving privity—proving that she entered a contract with any of them. Proving the existence of the shrink-wrap would not suffice because shrink-wraps are accepted by opening the product (tearing up the wrap).<sup>256</sup> Even if one believes that Bob accessed Rowling's work there are numerous ways for him to gain that access without accepting the contract: He could have purchased a used book, watched the movie, heard others speak about it, and so on.<sup>257</sup> Proving privity with respect to Alice is even more challenging because Alice

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<sup>255</sup> Limitation on private use creates a host of difficulties. On one hand, in recent decades courts have showed increasing willingness to allow copyright to regulate private use. See Jessica Litman, *Lawful Personal Use*, 85 TEX. L. REV. 1871 (2007). However, on the other hand, monitoring private use remains taxing because it can be difficult to know when user copy information privately. Contract law does not seem to improve the right-holders' abilities to monitor private use. A full analysis of control over private use is beyond the scope of this Article.

<sup>256</sup> *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1449 (7th Cir.1996).

<sup>257</sup> It should be noted that copyright law also requires the plaintiff to prove a certain relationship to the defendant—that of access. Rowling will need to prove that Bob copied from her book, which would require her to prove he accessed it. However, this is much easier to prove than contractual

could have been inspired to write about a school for magic without ever reading or knowing about Rowling's work. That idea, in its abstract form, did not originate with Rowling.<sup>258</sup>

Therefore, Rowling would find it difficult to contractually control the use of her book and even more difficult, probably impossible, to contractually control the use of her ideas. This difficulty is not accidental and it is not limited to this specific example.

"Information wants to be free" states a famous catchphrase, typically attributed to Stewart Brand, and commonly used by those who call for broader access to information goods.<sup>259</sup> Information, of course, does not want anything. But the meaning of that statement is that it is extremely difficult to tightly control the flow of information. Intangible goods, exactly as the name suggests, cannot be touched or grasped or have any physical presence, and as such it is difficult to contain them. But the privacy problem is, in essence, a problem of contamination. It requires the distributor of the work—the J.K. Rowlings of the world—to make the access to their work contingent on acceptance of the contract. It obliges them to prevent spillovers—letting anyone access the work without accepting the contract.

The more control the creator wants the more challenging the prevention of spillovers will become. The smaller the unit one tries to control the tighter the net she must cast. If authors want to limit just the use of their books in their entirety, they need to limit the spillover of entire books, but, on the other extreme, if they try to control every idea, the anti-spillover net will need to be impossibly tight. An author probably cannot effectively prevent people from discussing the content of a movie or a book. That kind of information "wants" to be free—meaning it cannot be contained by the strings of contractual privacy nets.<sup>260</sup>

Some might suggest that modern digital technology makes the containment of information more feasible. The popularity of written communication in the digital age—more text messages, online postings, emails, and fewer conversations—facilitates quicker and easier standard-form contracting.<sup>261</sup> While standard-form

privacy. In this case specifically the "widely dissemination" rule in copyright law would greatly assist Rowling in her copyright claim against Bob. Under this rule plaintiffs can prove access by showing that their work was widely disseminated. *Three Boys Music Corp. v. Bolton*, 212 F.3d 477, 482 (9th Cir. 2000). Therefore, it will be trivial for Rowling to prove that Bob accessed her successful work. Contract law provides no such shortcuts in proving privacy.

<sup>258</sup> One can think of many sources for such an idea including the X-Mansion in the X-Men series, Unseen University from Terry Pratchett's Discworld Series, Wizard's Hall in Jane Yolen's novel of the same name, and more.

<sup>259</sup> See Frischmann & Lemley, *supra* note 27 (claiming that the benefit of information goods tend to spill over); Wagner, *supra* note 27 (suggesting that intellectual property law cannot perfectly control the flow of information).

<sup>260</sup> See Merges, *supra* note 254, at 120-21 (discussing the need to maintain a "chain of privacy").

<sup>261</sup> See Margaret Jane Radin, *Humans, Computers, and Binding Commitment Addison*, 75 IND. L.J. 1125, 1127 (2000).

agreements have been a common phenomenon for many decades, digital technology makes click-wraps and browser-wraps easier and cheaper to form, and therefore widespread.

Moreover, it might be easier nowadays to document our digital activities in a way that can make it easier to prove that users accepted a click-wrap agreement. Publishers might be unable to prove whether a potential defendant opened the wrap of a shrink-wrap contract that was attached to a book, but it is at least conceivable that they will be able to better know if a user clicked on a click-wrap agreement that was attached to an electronic book. Moreover, technology might allow them to distribute the electronic book in a way that would force every user, not just the original purchaser, to click on the click-wrap as a condition to access the good, thus improving their control over the technology.<sup>262</sup> Click-wraps that pop-up every time a user installs software might be the best example of such a phenomenon.

This argument, however, should not be taken to the extreme. First, the technology that currently exists, and even the kind of technology we can currently reasonably envision, does not offer the kind of control that would allow publishers to guarantee privacy.<sup>263</sup> As long as people can freely communicate with one another, publishers will not be able to control the distribution of ideas or guarantee that such distribution would be subject to certain contractual restrictions. Moreover, as technology evolves, the ways in which users **consume** information goods expand as well, which makes controlling and contaminating of information more difficult. Users now communicate and exchange information and information goods in innovative ways, including, for example, Facebook, Snapchat, Torrent, and Instagram, or even just thought digital photography, as digital cameras become tremendously ubiquitous and carried by most Americans everywhere they go.<sup>264</sup> Contractually controlling those ways of distribution is expected to be difficult.

Consider, for example, a hypothetical case of a researcher who creates a statistical chart, which is unprotected by copyright, and tries to prevent others from copying it. Modern technology allows the researchers to distribute the chart in an

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<sup>262</sup> Radin has famously called those contracts “viral contracts.” *Id.* at 1128. See also, Niva Elkin-Koren, *What Contracts Cannot Do: The Limits of Private Ordering in Facilitating A Creative Commons*, 74 *FORDHAM L. REV.* 375, 390 (2005).

<sup>263</sup> Of course some might be able to envision more futuristic technology than others. Nimmer and his co-authors, for example, described a dystopian future in which all information goods—poetry, fine art, films, music—are consumed through one, and only one, device. Nimmer et al., *supra* note 3, at 20-21. That device guarantees “that no one anywhere can ever obtain access to any protected works in any form whatsoever without personally clicking on the [form agreement]”. “Clicking” is done by blinking while the device records the brainwaves of the accepting party. Putting aside how likely this scenario is in the long-run, I don’t consider it likely in the near future. It should be noted that the authors placed their story 11 years in the future... in 2010!

<sup>264</sup> Aaron Smith, *U.S. Smartphone Use in 2015*, PEW RES. CTR. (April 1, 2015), <http://www.pewinternet.org/2015/04/01/us-smartphone-use-in-2015/> (“Today nearly two-thirds of Americans own a smartphone.”).

electronic file that will include a pop-up click-wrap agreement prohibiting copying. However, other technology would make this contract difficult to enforce. In practice, the research cannot effectively prevent users from photocopying the chart, and the ubiquity of computers and digital cameras would make this copying extremely easy. Similarly, contract law is not an effective weapon to prevent a copy of the chart to be reproduced online, to a website, a server, or any of the dozens of social media services. Once it is uploaded, contract law is ineffective in preventing users from downloading and using the chart. Indeed, while technology offers better and quicker contracting, it also fosters quicker to a wider distribution of information.

Guaranteeing that all recipients of information and information goods accept a contractual limitation is, therefore, close to impossible. Modern technology does not change the core premise—information tends to be free and escapes control. Consequentially, from the creators' and distributors' perspectives, privity remains a significant challenge that severely limits their abilities to replace copyright law with contracts on a large scale.

## 2. Remedies for Breach of Contract and Secondary Liability

The limitation on contractual remedies provides another obstacle, on top of privity, to those who would be trying to implement a broad scheme to control information and information goods using contracts. The main remedy for a breach of contract is expectation damages.<sup>265</sup> That measure reflects the actual proven harm suffered by the plaintiff.<sup>266</sup>

That makes contract law less efficient in certain situations, including when the harm is difficult to prove and when significant damage is caused by a large group of promisors, each causing just a small harm. As the plaintiff must bear the cost of the litigation, it is typically not worthwhile to sue unless the harm is significant. This is, however, a typical scenario when it comes to information goods. The harm of unrestricted use of information is usually caused by many users, each contributing a small harm.

Consider, for example, how contract law can address the type of damage to music labels or movie studios from online piracy. Copyright law offers several legal mechanisms that allow the publishers to mitigate the damage from piracy.

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<sup>265</sup> This is of course not the only remedy available in a contractual dispute. While expectation damages are the most common remedy, courts may also, *inter alia*, issue injunctions to prevent future breaches, order restitution, and grant reliance damages. In rare cases courts may also order the disgorgement of the defendant's profits. However, unless the defendant's behavior is tortious, courts cannot grant punitive damages, and statutory damages are not available. *See, e.g.*, U.S. Naval Inst. v. Charter Commc'ns, Inc., 936 F.2d 692, 696 (2d Cir.1991) ("punitive awards are not part of the law of contract damages"). Therefore, the availability of other remedies, on top or instead of expectation damages, does not undermine the argument made in these paragraphs.

<sup>266</sup> *See, e.g.*, Freund v. Washington Square Press, Inc., 34 N.Y.2d 379 (1974).



First, copyright law offers generous remedies that include, on top of actual harm and discouragement of the defendant's profits, statutory damages, which can be as high as \$150,000 per work infringed.<sup>267</sup> Those remedies are not available in contractual disputes and the law clearly disallows punitive damages and limits the parties' ability to contractually set their own damages in case of a breach.<sup>268</sup>

In addition, copyright law, unlike contract law, provides a cause of action against those who contribute to the infringement of others.<sup>269</sup> This legal doctrine—secondary copyright liability—allows copyright owners to minimize mass piracy by suing those that facilitate users' copyright infringement, such as Napster or Grokster, which is typically significantly easier than suing thousands of users.<sup>270</sup> Contract law provides no comparable tool.<sup>271</sup>

Consequently, if a publisher tries to use contract law to control the copying or distribution of information goods that are not protected by IP rights, its ability to fight piracy, meaning mass use that is inconsistent with the terms of the contract, will be limited. It will only be able to sue individual users for actual harm caused, which will likely be impractical. It is therefore not surprising that practically all the disputed discussed in the Preemption Decisions were between businesses and professionals.

### 3. Encryption

The previous sections suggest that contracts cannot provide an effective way to limit the use and distribution of information goods and that it is inferior to copyright law in doing so. This might explain why the kind of contracts that some have predicted—those that include a “no parody” or “no use of ideas” provisions—do not exist, at least not among the Preemption Decisions. This Section suggests that contracts are not only inferior to copyright but that they are also inferior to another method of controlling information: encryption.

Encryption allows publishers to self-enforce certain restrictions on the use of their products. Thus, distributors of DVDs can encrypt them in a way that would

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<sup>267</sup> 17 U.S.C. § 504 (2012). *See* Capitol Records, Inc. v. Thomas-Rasset, 692 F.3d 899 (8th Cir. 2012) (ordering the defendant to pay \$220,000 in statutory damages for downloading 24 copyrighted songs, which cause minimal actual harm to the plaintiff).

<sup>268</sup> RESTATEMENT (SECOND) OF CONTRACTS § 355 (1981) (“Punitive damages are not recoverable for a breach of contract”); *id.* § 356 (“A term fixing unreasonably large liquidated damages is unenforceable on grounds of public policy as a penalty.”).

<sup>269</sup> Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259 (9th Cir. 1996) (setting the principles of contributory infringement and vicarious liability under copyright law).

<sup>270</sup> *See* Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., 545 U.S. 913 (2005); A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004 (9th Cir. 2001).

<sup>271</sup> A somewhat equivalent cause of action with respect to contract law is tortious interference with contractual relationship. However, this cause of action is not only difficult to prove at times but it is often preempted by the Copyright Act. *See supra* text accompanying notes 85-87.

prevent others from copying any part thereof, or will make it viewable only in certain times or in certain locations.<sup>272</sup> In this way, the publishers can enforce those restrictions without resorting to expensive litigation. If the encryption tools—typically called Digital Right Management (DRM) devices—are attached to the copies of the work before they are being distributed—a common scheme—the publisher can enforce those limitations on downstream possessors and overcome the privity problem. DRMs can, of course, be circumvented, but since the passage of the Digital Millennium Copyright Act of 1998 (DMCA), the circumvention of most DRMs and the distribution of circumvention tools is illegal.<sup>273</sup> The DMCA anti-circumvention provisions are subject to limited defenses, and in most cases, circumvention of a DRM, even for fair use purposes, is illegal.<sup>274</sup>

Since the passage of the DMCA, DRMs became ubiquitous. Adobe's ADEPT, for example, limits the number of computers on which an electronic book can be viewed. Amazon's DRM limits the transferability of digital books. Apple's FairPlay can be used to restrict the transferability music files. Sony's SecuROM, widely used for computer games, prevents the copying and reverse engineering of software. And the list goes on. The prevalence of DRMs likely reduces the need of information good distributors to rely on contracts to limit the use of information goods. DRMs, compared to contracts, typically provide a more efficient way to control the ways in which a large number of users use information goods. Those devices can still be circumvented but, for many users, the trouble and resources required in such circumvention are not worth the additional benefits of de facto (yet typically illegal) unrestricted use.<sup>275</sup>

#### 4. Other Legal and Non-Legal Restrictions

The previous sections suggest that contracts are not an effective mechanism to restrict usage by users. Other tools, such as copyright infringement claims and

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<sup>272</sup> See *Universal City Studios, Inc. v. Reimerdes*, 111 F. Supp. 2d 294 (S.D.N.Y. 2000), *aff'd*, 273 F.3d 429 (2d Cir. 2001) (discussing this technological device and its circumvention).

<sup>273</sup> 17 U.S.C. § 1201 (2012).

<sup>274</sup> *Universal City Studios, Inc. v. Corley*, 273 F.3d 429 (2d Cir. 2001); *But see*, *Chamberlain Grp., Inc. v. Skylink Techs., Inc.*, 381 F.3d 1178, 1200 (Fed. Cir. 2004) (“We leave open the question as to when [fair use] might serve as an affirmative defense to a prima facie violation of [the anti-circumvention provision].”). The ways in which DRMs might limit fair use, a highly controversial issue, received much attention in copyright literature in the last 15 years. This topic is well beyond the scope of this Article.

<sup>275</sup> It should be noted that while encryption allows the publishers to restrict the ways in which users use their products including in ways that might go beyond copyright law, like restriction on fair use, it does not provide them with absolute control. In particular, encryption typically cannot effectively restrict the copying of ideas and in many cases it has limited ability to restrict the copying of certain expressions. Thus, for example, DRMs cannot typically prevent a downstream buyer from creating a parody of a work. A full analysis of DRMS and their effect on the creation and distribution of information goods is well beyond the scope of this Article.

encryption, can apply such restrictions more cheaply, easily, and effectively. Therefore, and while the attractiveness of contracts, as providing an additional mean of flexible control is clear, the usefulness of contracts is quite limited. This is probably the main reason for the non-existence of true consumers' standard-form agreements within the Preemption Decisions.

However, the practical difficulties in exercising control by contracts are probably just part of the explanation. In addition, regardless of preemption, regulation by contracts is subject to other legal and non-legal constraints that can limit certain aggressive practices.<sup>276</sup> The legal limitations are found in doctrines such as unconscionability—which directs courts to refrain from enforcing contracts, especially form agreements, whose terms “shock the conscience”<sup>277</sup>; public policy doctrine—which directs courts not to enforce contracts that are against public policy;<sup>278</sup> copyright misuse—which denies copyright protection from those who severely abuse their copyright;<sup>279</sup> antitrust law—which sanctions certain contracts that restrict competition;<sup>280</sup> and more. Granted, some of those doctrines, maybe all of them, restrict the enforceability of contracts, including consumers' form-agreements, only in limited, rare, and unusual cases. Unconscionability, for example, is often raised but rarely granted.<sup>281</sup> However, those doctrines could still have teeth, especially when it comes to extreme and unfamiliar contractual provisions.<sup>282</sup> A “no criticism” or “no parody” provision, if ever written and tried to be enforced, would likely be perceived as rare, unusual, and grossly unfair, and thus might run afoul those doctrines.

In addition to legal restrictions, contracts are subject to non-legal limitations as well. Extremely aggressive practices, even when backed by enforceable standard-form contracts, can harm the reputation of the party enforcing the contract.<sup>283</sup> In other words, a party can damage its good reputation and suffer harm by enforcing unusual and unfair contracts. Behavior economics literature suggests that many

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<sup>276</sup> Those legal and non-legal constraints on contractual freedom have been discussed extensively in the legal literature. Radin, in her recent book about standard-form contracting, *supra* note 3, especially in chapters 7 and 10, probably provides the most complete account of that previous work. A full analysis of those constraints is of course well beyond the scope of this Article.

<sup>277</sup> *Sanchez v. Valencia Holding Co., LLC*, 61 Cal. 4th 899, 910-13 (2015).

<sup>278</sup> RESTATEMENT (SECOND) OF CONTRACTS § 178 (1981).

<sup>279</sup> *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 976-79 (4th Cir. 1990).

<sup>280</sup> Sherman Antitrust Act, 15 U.S.C. § 1 (2012) (“Every contract ... in restraint of trade or commerce ... is declared to be illegal.”)

<sup>281</sup> RADIN, *supra* note 3, at 124-25 (“Unconscionability is typically claimed by recipients attempting to invalidate sets of boilerplate terms... [however] Contemporary adherents to classical contract doctrine interpret unconscionability narrowly, focusing on the procedural aspect and discounting the substantive.”)

<sup>282</sup> *See, e.g.* U.C.C. § 2-302 cmt. 1 (2011) (suggesting that “The principle [of unconscionability] is one of the prevention of oppression and unfair surprise.”)

<sup>283</sup> *See infra* notes 294-296 and accompanying text.

people judge the fairness of commercial practices by comparing them to a benchmark “reference transaction.”<sup>284</sup> Therefore, most people perceive ticket scalping as grossly unfair because the price deviates so dramatically from the benchmark transaction—the face value of the ticket.<sup>285</sup> Similarly, one might expect that if a publisher tries to broadly enforce a standard-form agreement with a broad “no parody” or “no criticism” provision by suing users, the backlash will be harsh. It is quite possible that such practices will result in harming a reputation significantly more than any parody.<sup>286</sup>

#### PART IV: NORMATIVE IMPLICATIONS

The previous parts explore the ways in which contract law and copyright law complete and conflict with each other. Those parts focus on the Preemption Decisions—the set of 288 opinions in which courts had to decide if a contract is preempted by copyright law. This Part discusses some of the normative implications. It first suggests that the analysis supports ProCD’s no-preemption approach, and then it asks if that conclusion can be generalized to other areas of the law in which standard-form contracting might conflict with existing underlying norms.

##### A. Copyright Preemption of Contracts over Information Goods

Review of the Preemption Decisions reveals a growing tendency among courts to enforce contracts over information goods. In many cases, such contracts are enforced without an in-depth analysis of their consistency or inconsistency with copyright law policy. In doing so, courts adopt *ProCD*’s no-preemption approach. However, that same review also suggests that the contracts that parties are asking to enforce through litigation typically represent standard commercial transactions between experienced parties. The parade of horrors that many scholars warned against did not materialize. These findings should provide a strong support for to Judge Easterbrook’s position in *ProCD* and the no-preemption approach.

There are real advantages to *ProCD*’s bright-line rule. It allows parties to set their own arrangements, which are typically efficient and respectful of their autonomy. The *ProCD* approach also stresses the importance or freedom of

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<sup>284</sup> Christine Jolls, Cass R. Sunstein & Richard Thaler, *A Behavioral Approach to Law and Economics*, 50 STAN. L. REV. 1471, 1496 (1998).

<sup>285</sup> *Id.* at 1511-12.

<sup>286</sup> The RIAA decision in 2008 to stop suing users for file sharing copyrighted songs is an example of this phenomenon. *See supra* note 267. The 5 years litigation campaign was described as “public-relations disaster” and caused a backlash that led to its termination. Sarah McBride & Ethan Smith, *Music Industry to Abandon Mass Suits*, Wall St. J., Dec. 19, 2008, at B1, available at <http://online.wsj.com/article/SB122966038836021137.html>.

contracts and the value of keeping promises, and, no less important, it provides courts with a simple rule that they can easily implement. If the adoption of the *ProCD* rule does not lead, at least so far, to the horrible results that some commentators were concerned about, then the justifications to frustrate the parties' contractual arrangements is significantly diminished.

Rejecting *ProCD*'s no-preemption approach in favor of the partial-preemption approach, whether as a matter of expressed preemption or conflict preemption, has real costs. The partial-preemption approach requires courts to distinguish contracts that are enforceable from those that are preempted. That so far proved to be a very challenging and complex task. Moreover, considering how untangled contracts and copyright are and how widespread and vital contracts are in the various stages of the creative endeavor,<sup>287</sup> it is doubtful that a simple rule can be formulated in the future.

Consequently, improving the partial-preemption approach will likely require courts to consider complicated questions regarding copyright policy and freedom of contracts.<sup>288</sup> It is doubtful that courts are the ideal forum to consider those questions.<sup>289</sup> Whether courts or the legislator formulate those rules, a complex multi-factor test will inevitably cause uncertainty, which will cause a chilling effect on contracting parties. For example, if *Desny* claims would not be universally enforceable, but instead subject to complex and less predictable tests, some creators will be discouraged from sharing their ideas with potential producers. Finally, such tests will unavoidably result in judicial errors. Type I errors, false positives, are especially concerning. Courts will have a complex test for preemption of contracts and in applying it some of them will probably find some contracts preempted. However, considering the type of contracts that are currently subject to this kind of litigation—reasonable commercial transactions—such a result is unlike desirable.

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<sup>287</sup> See

<sup>288</sup> For example, a group of commentators (self-described as “The Copyright Principles Project”) offered no less than nine factors that courts should consider in adjudication copyright preemption of contracts. Pamela Samuelson, *The Copyright Principles Project: Directions for Reform*, 25 BERKELEY TECH. L.J. 1175, 1236-37 (2010).

<sup>289</sup> That does not mean that specific norms cannot be identified to limit contractual freedom. For example, the Copyright Act currently provides that the rights of authors to terminate every transfer of their rights cannot be contracted away. 17 U.S.C. §§ 203 (a)(5), 204(c)(5) (“Termination of the grant may be effected notwithstanding any agreement to the contrary”). Nevertheless, even this simple restriction creates significant uncertainty as to what constitutes “agreement to the contrary” and what limits should be placed on contractual freedom in this context. See Rub, *supra* note 39, at 113-15 (discussing the caselaw regarding whether a “rescind and re-grant” of a license is considered “agreement to the contrary”). Similarly, as explored above, it is possible that contracts that prohibit reverse engineering should sometimes be unenforceable, although, complex rules, maybe similar to those that exist under European Union law, would need to be in place to identify those unenforceable contracts, and therefore it is possible that this task is more suitable is pursued by Congress. See *supra* note 247.

Indeed, the costs attributed to such a complex partial-preemption system seem unjustified when, de facto, the contracts that are being enforced through litigation represent reasonable commercial interactions.

### *B. The Enforceability of Standard-Form Agreements*

This Article suggests that the concerns that some commentators raised about the enforcement of contracts—and in particular standard-form agreements—over information goods might have been exaggerated. But concerns over enforcement of standard-form agreements go far beyond copyright law policy. Can the conclusions of this Article be generalized and applied to other areas of the law? This Section argues that some of them can, although others will require additional analysis in future works.

Standard-form agreements gradually became more popular in recent decades and, in doing so, they raise serious concerns among commentators. Already in 1943, Frederick Kessler criticized those form agreements which he called “contracts of adhesion.” Kessler claimed that by enforcing those agreements “the law ... does nothing to prevent freedom of contract from becoming a one-sided privilege” and it enables “powerful industrial and commercial overlords... to impose a new feudal order of their own making upon a vast host of vassals.”<sup>290</sup>

This debate continues to these days. Recently, Omri Ben-Shahar offered to divide the commentators on the topic into two main camps, which he called the autonomists and apologists.<sup>291</sup> These two groups differ in some of the methods they use to evaluate standard-form agreements as well as their conclusions regarding their overall desirability. The autonomists “focus on the ills of boilerplate as a process for contracting” and view “the exercise of boilerplate contracting as anything but a dignified, autonomous agreement.”<sup>292</sup> The apologists, in contrast, focus on the effects of the contracts. This approach “measures the boilerplate phenomenon merely by its effect on consumers’ payoffs.” Indeed “boilerplate apologists regard the fine print as merely a feature of mass-produced products, and a welfare-increasing feature at that.”<sup>293</sup>

This Article uses the approach that many apologists used and supports many of their arguments. Some commentators who can fairly be described as apologists claimed that focusing on the terms of the standard-form agreements misses the

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<sup>290</sup> Kessler, *supra* note 32, at 640. *See also* Slawson, *supra* note 32 (suggesting that standard-form agreements should not be considered contracts at all as they lack real consent).

<sup>291</sup> Ben-Shahar, *supra* note 34, at 884-85. As Ben-Shahar acknowledges, separating the participants in this decades-long lively scholarly debate into two groups is, by definition, inaccurate. However, “it is a useful generalization because so many commentators share a basic commitment to it as a foundation for normative claims.” *Id.* at 884. I too find this inaccurate generalization useful.

<sup>292</sup> *Id.*

<sup>293</sup> *Id.* at 885.

mark and inaccurately describes the reality that consumers are dealing with. Lucian Bebchuk and Richard Posner, for example, explained that when companies are subject to reputation constraints and the consumers are not—a common situation—the company might draft a one-sided agreement to allow it to deal with extreme cases.<sup>294</sup> However, that company will typically refrain from fully enforcing the contract:

In this situation, seemingly one-sided terms may not be one-sided after all. The expected cost of the term to the buyer must be discounted by the likelihood that reputational considerations will induce the seller to treat the buyer fairly even when such treatment is not contractually required... Sellers may [] worry that a suit will injure their reputation for fair dealing (because the term is one-sided), or that the cost of the suit will be disproportionate to the expected benefit.<sup>295</sup>

Other apologists also focused on the de-facto experience of consumers.<sup>296</sup> This work demonstrates that one might get the wrong impression of a company and of its relationship with its consumers by focusing exclusively on the terms of its standard-form agreements. Focusing just on the text of the agreements ignores the company's practices in enforcing—or not enforcing—its contractual rights, which might be significantly more important to consumers.

The study reported in this Article demonstrates and supports this claim. It shows that when it comes to contracts over information goods, reading the standard-form agreements might create an incomplete picture. For example, Viva Moffat who examined dozens of standard-form agreements concluded that they pose a serious threat to copyright policy, and specifically to the scope of the fair use defense.<sup>297</sup> But this Article, focusing instead on litigated cases, observes that efforts to contractually limit fair use are rare and limited to specific areas within fair use: reverse engineering.<sup>298</sup> The Article suggests that for the most parts, Bebchuk and Posner's predictions hold true: standard-form agreements might be one sided but

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<sup>294</sup> Bebchuk & Posner, *supra* note 30.

<sup>295</sup> *Id.* at 830.

<sup>296</sup> *E.g.*, Ben-Shahar, *supra* note 34, at 896-98 (contrasting the excitement of buyers of new iPhones with the harshness of Apple's standard-form contract); Jason Scott Johnston, *The Return of Bargain: An Economic Theory of How Standard-Form Contracts Enable Cooperative Negotiation Between Businesses and Consumers*, 104 MICH. L. REV. 857, 858 (2006) (“[A] firm will often provide benefits to consumers who complain beyond those that its standard form obligates it to provide, and it will forgive consumer breach of standard-form terms. Firms do this because they have an interest in building and maintaining cooperative, value-enhancing relationships with their customers.”).

<sup>297</sup> Moffat, *supra* note 112, at 49.

<sup>298</sup> *See supra* text accompanying notes 246-249.

sellers do not typically insist on fully enforcing their contractual rights.

The Article makes another argument that might be generalized. It demonstrates that even without a specific detailed regulatory scheme in place—when it comes to contracts over information goods that scheme is disappearing as the partial-preemption approach loses ground—standard-form agreements cannot easily substitute certain areas of the law, and in particular certain property law rules. The need to establish privity, the limited remedies for breach of contract, and the need to engage in expensive litigation to enforce those rights, can make mass contracts ineffective in controlling certain activities by the public at large. Future work might explore to what extent similar results are applicable in other areas of the law.

At the same time, one must not take this argument to the extreme. A full analysis of the potential threats of standard-form agreement to various legal schemes is well beyond the scope of this Article. Nevertheless, it is important to note that the framework explored in this Article is not universally applicable. Some types of standard-form provisions are probably routinely de facto enforced. Contractual provisions that shield sellers and service providers from significant liability seem like a clear example for this. Indeed, it is probable that a company will use an exculpatory clause to defend a tortious claim<sup>299</sup> or will try to force arbitration to block a class action.<sup>300</sup> Those practices might be subject to reputation constraints but the strength of those constraints depends on the reputation of the company, the salience of the plaintiffs' claims, and savviness of buyers and potential buyers, the competitiveness of the market in which the company operates, and more.<sup>301</sup> Therefore, the conclusion is that some of the findings of this Article can be generalized to other areas of the law, while caution is needed with respect to others. This issue will undoubtedly continue to attract more scholarly attention in the years to come.

#### CONCLUSIONS

For two decades the consensus among copyright scholars has been that contracts over information goods pose significant risk to copyright policy and therefore must be subject to federal preemption. Judge Easterbrook's opinion in *ProCD*, holding the contracts are not preempted by the Copyright Act, made that danger real.

Four decades of litigation, including two since *ProCD*, suggest that those

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<sup>299</sup> The enforceability of exculpatory clauses depends on the level of fault of the company and the jurisdiction. See RADIN, *supra* note 3, at 138-39.

<sup>300</sup> *AT&T Mobility v. Concepcion*, 563 U.S. 333 (2011); RADIN, *supra* note 3, at 6-7.

<sup>301</sup> On the abilities of the market to curtail standard-form contracting practices see, *for example*, RADIN, *supra* note 3, at 189-96 and Guy A. Rub, *Market Solutions to the Boilerplate Problem*, 54 CAN. BUS. L.J. 258, 265-70 (2013).



alarming prophecies were probably exaggerated. Most courts show little hesitation in adopting the *ProCD* approach, and yet, twenty years later, copyright law seems as strong as it ever been. The rights of copyright owners and users with respect to information goods are still primarily determined by copyright law and not contracts. Contract law did not subvert or replace copyright law. Nor are contracts expected to substitute core copyright law norms in the future. Contracts are not designed and are not able to do so. Preempting contract is therefore not needed and is inadvisable.