



2018

## Mangled Metaphors: ProCD, Inc. v. Zeidenberg

Michael P. Malloy

*University of the Pacific, McGeorge School of Law, mmalloy@pacific.edu*

Follow this and additional works at: <https://scholarlycommons.pacific.edu/facultyarticles>



Part of the [Contracts Commons](#)

---

### Recommended Citation

Michael P. Malloy, Mangled Metaphors: Procd, Inc. v. Zeidenberg, 45 Fla. St. U. L. Rev. 998 (2018).

This Article is brought to you for free and open access by the McGeorge School of Law Faculty Scholarship at Scholarly Commons. It has been accepted for inclusion in McGeorge School of Law Scholarly Articles by an authorized administrator of Scholarly Commons. For more information, please contact [mgibney@pacific.edu](mailto:mgibney@pacific.edu).

*Mangled Metaphors: ProCD, Inc. v. Zeidenberg*\*MICHAEL P. MALLOY<sup>†</sup>

What makes a case the worst of its kind? It may be that a decision offends fundamental principles and sensibilities.<sup>1</sup> Or it may be that the decision misunderstands or misapplies applicable law in some significant way.<sup>2</sup> Finally, however, it may be that the outcome is arguably correct, but the reasoning, tone, and approach of the decision is extremely clumsy and distracting. *ProCD, Inc. v. Zeidenberg*<sup>3</sup> falls into this third category. It is a decision grounded in very formalistic analysis, and it is out of touch with the practical reality of the tech market. It has spawned fuzzy concepts concerning contracts in a digital age.

*1. Introduction*

*ProCD* opens with what appears to be a very straightforward question, followed by a deceptively straightforward answer:

Must buyers of computer software obey the terms of shrinkwrap<sup>[4]</sup> licenses? The district court held not, for two reasons: first, they are not

---

\* Copyright © 2017 Michael P. Malloy. A fuller version of this paper was presented at the Twelfth Annual International Conference on Contracts (KCON XII) on 25 February 2017. This paper was inspired by discussions that I had with Claude D. Rohwer and Anthony M. Skrocki, my colleagues and coauthors on *CONTRACTS IN A NUTSHELL* (8th ed. 2016), for which I am forever grateful. I also wish to thank former Dean Francis J. Mootz III and former Associate Dean Raquel Aldana of the University of the Pacific McGeorge School of Law for their generous support and encouragement of my work on this project.

<sup>†</sup> Distinguished Professor & Scholar, University of the Pacific McGeorge School of Law. J.D., University of Pennsylvania (1976); Ph.D., Georgetown University (1983).

<sup>1</sup> See, e.g., *Plessy v. Ferguson*, 163 U.S. 537 (1896) (establishing legal rationale for separation of people based upon race), overruled by *Brown v. Board of Educ.*, 347 U.S. 483 (1954).

<sup>2</sup> See, e.g., *Fertico Belg. S.A. v. Phosphate Chems. Exp. Ass'n*, 100 A.D.2d 165 (N.Y. App. Div. 1984) (in letter of credit case governed by Uniform Customs and Practices, repeatedly citing to UCC Article 5 as authority throughout opinion).

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

<sup>4</sup> A shrink wrap contract term or license involves provisions inside the package containing the software, where the package is heat-sealed with plastic or cellophane wrap:

Once the software package is opened the purchaser is presented with the license, and is supposed to then read and understand it. Once read the purchaser then has the option of accepting the conditions within the license by proceeding to use or install the software, or the purchaser may choose to reject the license and return the un-used software for a refund. The purported license attempts to limit the rights of possessors of the software by prohibiting copying and distribution of the software, and retains ownership of the software with the copyright holder.

*Novell, Inc. v. Network Trade Ctr, Inc.*, 25 F. Supp. 2d 1218, 1230 n.16 (D. Utah 1997), vacated in part, 187 F.R.D. 657 (D. Utah 1999). There is a continuing grammatical dispute about

contracts because the licenses are inside the box rather than printed on the outside; second, federal law forbids enforcement even if the licenses are contracts.<sup>5</sup>

The Court of Appeals for the Seventh Circuit misstated the holdings of the court below.<sup>6</sup> In any event, it is easy to lose sight of the one principle that *ProCD* concedes right at the beginning of the opinion: “Shrinkwrap licenses are enforceable unless their terms are objectionable *on grounds applicable to contracts in general* (for example, if they violate a rule of positive law, or if they are unconscionable).”<sup>7</sup> It should follow then that the fact that terms are embedded in shrink wrap should not in itself mean that the general principles of contract law do not apply to the contract in question.

## 2. Case Summary

On three occasions, Mr. Zeidenberg bought ProCD's SelectPhone™ database and search engine, which was distributed on CD-ROM discs in a sealed package that included a license agreement,<sup>8</sup> thus prohibiting purchasers from distributing the contents or making them available through a network.<sup>9</sup> The only indication on the exterior of the package that a license lurked within was a small printed notice at the bottom of the package.<sup>10</sup> Mr. Zeidenberg uploaded the SelectPhone™ database to an Internet site, and ProCD sued him for breach of the license agreement.<sup>11</sup> In response, Mr. Zeidenberg argued that the terms

---

the proper usage of the expression “shrink wrap.” *ProCD* uses “shrinkwrap,” with no space or hyphen. *See, e.g., ProCD*, 86 F.3d at 1448 (“the terms of shrinkwrap licenses”). Most, if not all, of the published legal scholarship follows this usage. *See, e.g., Mark A. Lemley, Terms of Use*, 91 MINN. L. REV. 459, 459-60 (2006) (article by a professor, who was an attorney for one amicus in *ProCD*, stating, “[a] majority of courts in the last ten years have enforced shrinkwrap licenses”). Most online sources follow the usage of spacing “shrink” and “wrap” as separate words. *See, e.g., Shrink wrap*, WIKIPEDIA, [https://en.wikipedia.org/wiki/Shrink\\_wrap](https://en.wikipedia.org/wiki/Shrink_wrap) [<https://perma.cc/A55R-QTKA>] (“Software on carriers such as CDs or DVDs are often sold in boxes that are packaged in shrink wrap. The licenses of such software are typically put inside the boxes, making it impossible to read them before purchasing.”).

<sup>5</sup> *ProCD*, 86 F.3d at 1448-49.

<sup>6</sup> The district court held that a contract had already been formed without the unknown licenses. *See ProCD, Inc. v. Zeidenberg*, 908 F. Supp. 640, 652 (W.D. Wis. 1996) (“The purchase of the product was sufficient to show agreement between the parties.”). The court also held that federal copyright law preempted terms in the license; *see id.* at 659 (“Plaintiff cannot use a standard form contract to make an end run around copyright law. Its contract claim is preempted by [Copyright Act] § 301.”).

<sup>7</sup> *ProCD*, 86 F.3d at 1449 (emphasis added).

<sup>8</sup> The terms of this license were set forth in an enclosed user guide. *Id.* at 1450. The terms also appeared on-screen when a user (including, presumably, Mr. Zeidenberg) used the disks. *Id.*

<sup>9</sup> *Id.*

<sup>10</sup> *Id.* *See also ProCD*, 908 F. Supp. at 654.

<sup>11</sup> *ProCD*, 86 F.3d at 1450.

of that agreement were not included in whatever contract he and ProCD had entered into.<sup>12</sup>

Treating the parties' agreement as a sale of goods<sup>13</sup> and invoking section 2-206, 2-207, and 2-209 of the UCC, the Western District of Wisconsin ruled for Mr. Zeidenberg on this issue.<sup>14</sup> In an opinion by Judge Easterbrook, the Seventh Circuit reversed, holding that the parties' agreement included the shrink-wrapped terms of the user license.<sup>15</sup> Like the lower court, the Seventh Circuit assumed that UCC Article 2 governed the parties' agreement,<sup>16</sup> but it saw no "battle of the forms" in the transaction to which section 2-207 of the UCC might be applied.<sup>17</sup> The court therefore focused on section 2-204 of the UCC, which loosens up common law standards for contract formation and recognizes "[a] contract for sale of goods ... made in any manner sufficient to show agreement."<sup>18</sup> The result is that an obscure notice on a purchased package incorporated the unrevealed, shrink-wrapped terms into the contract at the point of sale.

## 2. *Misleading Metaphors*

What one scholar says generally about Internet-access cases applies with particular force to the argumentation in ProCD: "The result is an uneven blend of doctrine and metaphor."<sup>19</sup> The case runs rapidly through a series of analogies and metaphors to buttress its position. Buying the software package is like "the purchase of insurance," where terms show up afterwards in the policy.<sup>20</sup> That is misleading. The policy is the objective of that purchase; the shrink-wrapped terms are not. The case then jumps to an analogy to airline tickets,<sup>21</sup>

---

<sup>12</sup> *Id.*

<sup>13</sup> In so doing, the district court relied mainly on Mark A. Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 S. CAL. L. REV. 1239, 1241 (1995) without exploring independently whether the agreement should in fact be characterized as a sale of goods or as a user license. *ProCD, Inc.*, 908 F. Supp. at 650-51 (W.D. Wis. 1996).

<sup>14</sup> *ProCD, Inc.*, 908 F. Supp. at 651-55. The district court also held that section 301(a) of the Copyright Act (17 U.S.C. § 301(a)) preempted the enforcement of the terms of the shrink-wrapped agreement. *Id.* at 656-59.

<sup>15</sup> *ProCD*, 86 F.3d at 1449-50. The Seventh Circuit also rejected the preemption argument under the Copyright Act. *Id.* at 1453-55 (holding that a user license constituted rights created by contract not "equivalent to any of the exclusive rights within the general scope of copyright").

<sup>16</sup> *See id.* at 1450 ("[W]e treat the licenses as ordinary contracts accompanying the sale of products, and therefore as governed by the common law of contracts and the Uniform Commercial Code.").

<sup>17</sup> *See id.* at 1452 ("Our case has only one form; UCC § 2-207 is irrelevant.").

<sup>18</sup> U.C.C. § 2-204(1) (AM. LAW INST. & UNIF. LAW. COMM'N 1977). *See ProCD*, 86 F.3d at 1452 (applying section 2-204 of the UCC and found that "ProCD proposed a contract that a buyer would accept by using the software after having an opportunity to read the license at leisure. This Zeidenberg did.").

<sup>19</sup> Michael J. Madison, *Rights of Access and the Shape of the Internet*, 44 B.C. L. REV. 433, 434 (2003).

<sup>20</sup> *ProCD*, 86 F.3d at 1451.

<sup>21</sup> *Id.*

but passengers are alerted up front to the significance of ticket terms, which was not the case here.

The case then analogizes to consumer goods<sup>22</sup>--a bad choice since the abuses there are well-known and now subject to regulation.<sup>23</sup> At another point, ProCD suggests that shrink-wrap contracting is “reinforce[d]” by section 2-606 of the UCC, which allows for inspection before “acceptance of goods.”<sup>24</sup> This is specious: acceptance of goods pursuant to an existing agreement, the subject of that section, is nothing like acceptance of an offer, the issue in ProCD. The problem is not whether a contract can be “money now, terms later,”<sup>25</sup> but whether that was what actually occurred in the case.<sup>26</sup>

### 3. Conclusion

As modern contracting has moved from telex<sup>27</sup> to facsimile,<sup>28</sup> to e-mail,<sup>29</sup> to online apps,<sup>30</sup> and soon to as yet unimagined methods,<sup>31</sup> new technologies almost always creates new challenges for contract law. In such moments, there is a need for new analysis and adaptable principles for contracting, but without abandoning the objectives underlying contract law. ProCD and its progeny effectively give the offeror the power to dictate special terms as to acceptance. This leads to cynicism about contracts without assent, which weakens the legitimacy of contract law.<sup>32</sup>

---

<sup>22</sup> *Id.*

<sup>23</sup> See, e.g., MICHAEL P. MALLOY, *PRINCIPLES OF BANK REGULATION* §10.10 (3d ed. 2011) (examining the current scope and applicability of consumer protection regulation).

<sup>24</sup> *Id.* at 1452.

<sup>25</sup> *Id.*

<sup>26</sup> Cf. *Specht v. Netscape Comm. Corp.*, 306 F.3d 17 (2d Cir. 2002) (taking a more realistic approach to digital contracting).

<sup>27</sup> See *Apex Oil Co. v. Vanguard Oil & Serv. Co.*, 760 F.2d 417 (2d Cir.1985) (holding that a telex constituted a “writing” satisfying the requirement of a writing confirming the existence of a contract under section 2-201(2) of the UCC).

<sup>28</sup> See, e.g., U.C.C. § 5-102, cmt. 2 (discussing when a facsimile transmission would constitute a “document” for purposes of a letter of credit transaction).

<sup>29</sup> Cf. *Hessenthaler v. Farzin*, 564 A.2d 990, 992 n.3 (Pa. Super. Ct. 1989) (dicta, alluding favorably to e-mails, telexes, and faxes as a “signed writing” within real estate statute of frauds).

<sup>30</sup> See, e.g., *Hancock v. Am. Tel. and Tel. Co.*, 701 F.3d 1248, 1256 (10th Cir. 2012) (observing that “[c]lickwrap agreements are increasingly common and ‘have routinely been upheld’”).

<sup>31</sup> See generally 15 U.S.C. § 7001(a) (providing that an electronic “signature, contract, or other record” is not invalid “solely because it is in electronic form”; such a contract cannot be invalid “solely because an electronic signature or electronic record was used in its formation”).

<sup>32</sup> See, e.g., *i.Lan Sys., Inc. v. Netscout Serv. Level Corp.*, 183 F. Supp. 2d 328, 329 (D. Mass. 2002) (“You probably do not agree in your heart of hearts, but you click anyway.”).