

PROCD, INC. v. ZEIDENBERG
United States Court of Appeals for the Seventh Circuit
86 F.3d 1447 (7th Cir. 1996)

EASTERBROOK, Circuit Judge.

Must buyers of computer software obey the terms of shrinkwrap licenses? The district court held not, for two reasons: first, they are not 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. The parties and numerous amici curiae have briefed many other issues, but these are the only two that matter—and we disagree with the district judge’s conclusion on each. 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). Because no one argues that the terms of the license at issue here are troublesome, we remand with instructions to enter judgment for the plaintiff.

I

ProCD, the plaintiff, has compiled information from more than 3,000 telephone directories into a computer database. We may assume that this database cannot be copyrighted * * *. ProCD sells a version of the database, called SelectPhone (trademark), on CD-ROM discs. * * * A proprietary method of compressing the data serves as effective encryption too. Customers decrypt and use the data with the aid of an application program that ProCD has written. This program, which is copyrighted, searches the database in response to users’ criteria (such as “find all people named Tatum in Tennessee, plus all firms with ‘Door Systems’ in the corporate name”). The resulting lists (or, as ProCD prefers, “listings”) can be read and manipulated by other software, such as word processing programs. * * *

[ProCD makes a commercial version of the product and a less expensive consumer version.] Every box containing its consumer product declares that the software comes with restrictions stated in an enclosed license. This license, which is encoded on the CD-ROM disks as well as printed in the manual, and which appears on a user’s screen every time the software runs, limits use of the application program and listings to non-commercial purposes.

Matthew Zeidenberg bought a consumer package of SelectPhone in 1994 from a retail outlet in Madison, Wisconsin, but decided to ignore the license. He formed Silken Mountain Web Services, Inc., to resell the information in the SelectPhone database. The corporation makes the database available on the Internet to anyone willing to pay its price—which, needless to say, is less than ProCD charges its commercial customers. * * * ProCD filed this suit seeking an injunction against further dissemination that exceeds the rights specified in the licenses * * *.

II

Following the district court, we 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. * * * Zeidenberg [argues], and the district court held, that placing the package

of software on the shelf is an “offer,” which the customer “accepts” by paying the asking price and leaving the store with the goods. In Wisconsin, as elsewhere, a contract includes only the terms on which the parties have agreed. One cannot agree to hidden terms, the judge concluded. So far, so good—but one of the terms to which Zeidenberg agreed by purchasing the software is that the transaction was subject to a license. Zeidenberg’s position therefore must be that the printed terms on the outside of a box are the parties’ contract—except for printed terms that refer to or incorporate other terms. But why would Wisconsin fetter the parties’ choice in this way? Vendors can put the entire terms of a contract on the outside of a box only by using microscopic type, removing other information that buyers might find more useful (such as what the software does, and on which computers it works), or both. The “Read Me” file included with most software, describing system requirements and potential incompatibilities, may be equivalent to ten pages of type; warranties and license restrictions take still more space. Notice on the outside, terms on the inside, and a right to return the software for a refund if the terms are unacceptable (a right that the license expressly extends), may be a means of doing business valuable to buyers and sellers alike. * * *

III

The district court held that, even if Wisconsin treats shrinkwrap licenses as contracts, § 301(a) of the Copyright Act, 17 U.S.C. § 301(a), prevents their enforcement. The relevant part of § 301(a) preempts any “legal or equitable rights [under state law] that are equivalent to any of the exclusive rights within the general scope of copyright as specified by 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.” * * * One function of § 301(a) is to prevent states from giving special protection to works of authorship that Congress has decided should be in the public domain * * * .

But are rights created by contract “equivalent to any of the exclusive rights within the general scope of copyright”? * * * Rights “equivalent to any of the exclusive rights within the general scope of copyright” are rights established *by law*—rights that restrict the options of persons who are strangers to the author. Copyright law forbids duplication, public performance, and so on, unless the person wishing to copy or perform the work gets permission; silence means a ban on copying. A copyright is a right against the world. Contracts, by contrast, generally affect only their parties; strangers may do as they please, so contracts do not create “exclusive rights.” Someone who found a copy of SelectPhone on the street would not be affected by the shrinkwrap license—though the federal copyright laws of their own force would limit the finder’s ability to copy or transmit the application program. * * *

A law student uses the LEXIS database, containing public-domain documents, under a contract limiting the results to educational endeavors; may the student resell his access to this database to a law firm from which LEXIS seeks to collect a much higher hourly rate? Suppose ProCD hires a firm to scour the nation for telephone directories, promising to pay \$100 for each that ProCD does not already have. The firm locates 100 new directories, which it sends to ProCD with an invoice for \$10,000. ProCD incorporates the directories into its database; does it have to pay the bill? Surely yes; * * * promises to pay for intellectual property may be enforced even though federal law * * * offers no protection against third-party uses of that property. But these illustrations are what our case is about. ProCD offers software and data for two prices: one for personal use, a higher price for

commercial use. Zeidenberg wants to use the data without paying the seller's price; if the law student *** could not do that, neither can Zeidenberg.

Although Congress possesses power to preempt even the enforcement of contracts about intellectual property *** courts usually read preemption clauses to leave private contracts unaffected. *** Section 301(a) *** prevents states from substituting their own regulatory systems for those of the national government. Just as § 301(a) does not itself interfere with private transactions in intellectual property, so it does not prevent states from respecting those transactions. *** [W]e 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. *** But general enforcement of shrinkwrap licenses of the kind before us does not create such interference.