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## **Expanding the Scope of the Principles of the Law of Software Contracts to Include Digital Content**

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# Expanding the Scope of the *Principles of the Law of Software Contracts* To Include Digital Content

Nancy S. Kim\*

*The Principles of the Law of Software Contracts, or the “Principles,” seek to “unify and clarify” the law of software transactions. The drafters, however, excluded “digital content” from the scope of their project. This Essay explains why the scope of the Principles should encompass digital content. The exclusion of digital content creates two different but related problems. The first problem is that it creates what I refer to as “classification confusion.” Given the complexity and speed of technological innovation, the task of distinguishing digital content from software may be difficult for courts. The second problem is that it fails to resolve the conundrum of how to balance the proprietary rights and interests of licensor-owners and the rights and interests of licensee-consumers. This conundrum in turn has created problems of contractual form and user assent that arose out of software transactions but which have much more troubling applications in other contexts. With (and sometimes, even without) a click of a mouse, one can relinquish intellectual property, privacy, and expression rights.*

*This Essay proposes that the Principles should generally apply to digital content. The Principles are an impressive accomplishment and go a long way toward unifying and clarifying the law of software transactions. This Essay urges that they go even further.*

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## I. INTRODUCTION

The Principles seek to “unify and clarify” the law of software transactions.<sup>1</sup> Given the rapid evolution of software technology and, accordingly, the legal issues surrounding software transactions, the drafters deemed a restatement of the law to be premature.<sup>2</sup> The Principles aim not to restate the law, but to account for the case law governing software transactions and to recommend best practices without “unduly hindering the law’s adaptability to future developments.”<sup>3</sup>

Unfortunately, the drafters undermine their own stated objectives by excluding “digital content” from the scope of their project. The Principles define digital content as “digital art,” which is “literary and artistic information stored electronically, such as music, photographs, motion pictures, books, newspapers, and other images and sounds,” and “digital database,” which is a “compilation of facts arranged in a systematic manner and stored electronically.”<sup>4</sup> The exclusion of digital content creates two related but different problems. The first problem is what I refer to as “classification confusion.” The distinction between “digital content” and “software” is often unclear and is likely to become even more blurred over time. Creating such a distinction discounts the speed of technological evolution. Companies may rapidly develop offerings that do not neatly fall within the definition of “software.” Classification confusion thereby potentially diminishes the usefulness of the Principles and increases the likelihood of their misapplication or nonapplication by courts.<sup>5</sup>

The second problem with excluding digital content from the Principles is that it fails to resolve the conundrum posed by software transactions of how to balance the proprietary rights and interests of licensor-owners and the rights and interests of licensee-consumers. This conundrum in turn has directly or indirectly created problems of contractual form and user assent that arose out of software transactions but which have much more troubling applications in other contexts.

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1. AM. LAW INST., PRINCIPLES OF THE LAW OF SOFTWARE CONTRACTS, introductory cmt. (2010) [hereinafter ALI PRINCIPLES]. I use the term “Principles” to refer to both the title of the project and the provisions themselves. I use the plural form, rather than the singular one, when referring to the Principles in order to reduce confusion and maintain consistency with other articles in this Symposium.

2. *Id.*

3. *Id.* (“Choices must be made if the project is to be successful, and in making such choices, the Principles seek to adopt best practices.”).

4. *Id.* § 1.01(f)(2).

5. *See* discussion *infra* Part IV.

Initially introduced in the context of software transactions, the use of shrinkwrap, clickwrap, and browsewrap agreements spread to other types of transactions and these contracts are now ubiquitous on the internet. With (and sometimes, even without) a click of a mouse, one can relinquish intellectual property, privacy, and expression rights. Given the commonalities between digital content and software—such as reproducibility and intangibility—contract law issues arising in the context of software transactions will likely affect contract law issues involving digital content.

This Essay proposes that the Principles should include within their scope “digital content.” The Principles are an impressive accomplishment and go a long way toward unifying and clarifying the law of software transactions. This Essay urges that they go even further.

## II. THE SCOPE OF THE *PRINCIPLES OF THE LAW OF SOFTWARE CONTRACTS*

The drafters of the *Principles of the Law of Software Contracts* faced the important preliminary task of determining the scope of the Principles. What types of transactions should the Principles govern? The drafters focused on software transactions and in doing so created a line-drawing problem. By categorizing transactions by subject matter, rather than by the nature of the transaction or contracting method, the drafters were then forced to define what constitutes software. The drafters may have thought that they were simply following the example set by the Uniform Commercial Code (UCC). Article 2 of the UCC governs sales of goods. “Goods” are defined as tangible, moveable items.<sup>6</sup> Yet, where the subject matter is intangible, dynamic, and protean, proper classification becomes much more problematic.

The task of properly defining software is made more complicated because the scope of the Principles is determined solely by subject matter and not by transaction type. To elaborate on the comparison with the UCC, Article 2 applies to sales of goods.<sup>7</sup> The Principles, by contrast, govern software transactions. The drafters used the generic term “transactions” to avoid the difficult issue of determining whether

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6. Under section 2-103 of the Uniform Commercial Code, goods are defined as “all things that are movable at the time of identification to a contract for sale.” U.C.C. § 2-103 (2006).

7. *Id.* § 2-102.

software transactions were licenses, sales, or something else entirely.<sup>8</sup> In fact, the Principles state that they apply “regardless of whether, under previous interpretations, the transaction constituted a sale or license, or whether software is a good or an intangible.”<sup>9</sup> I suspect that one of the reasons for excluding digital content was that the license label may apply more comfortably to digital content than to “software” as defined by the drafters. By carving out digital content from the scope of the Principles, the drafters may have hoped to avoid having to determine whether software is licensed or sold.<sup>10</sup> The drafters state:

[T]he Principles should apply to all software agreements supported by a consideration, including licenses, sales, and access contracts. To some extent, this approach eliminates heretofore contentious debates over the characterization of a transaction, and the resulting implications. For example, the application and reach of these Principles should not depend on whether a transferor labels a transaction a sale or a license.<sup>11</sup>

By dodging the license versus sale bullet, however, the drafters may have run into a classification land mine.

#### A. *Software and Digital Content Defined*

The Principles apply to “agreements for the transfer of software for a consideration. Software agreements include agreements to sell, lease, license, access, or otherwise transfer or share software.”<sup>12</sup>

The Principles define software as follows:

- (j) Software
- (1) “Software” consists of statements or instructions that are executed by a computer to produce a certain result.
- (2) Software does not include digital content, but does include a digital-content player.

As noted in the Introduction, the Principles define digital content as follows:

- (f) Digital Content
- “Digital content” consists of “digital art” or a “digital database.”

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8. Elsewhere, I have argued that mass consumer software offerings are sold, not licensed, and that the issues arising in these transactions differ from those arising in transactions where software is actually licensed and contract terms negotiated. *See generally* Nancy S. Kim, *The Software Licensing Dilemma*, 2008 BYU L. REV. 1103.

9. ALI PRINCIPLES, *supra* note 1, introductory cmt.

10. Another reason may have been that “software,” as defined in the Principles, is copyrightable subject matter whereas databases generally are not. This issue is discussed further in Part III.

11. ALI S, *supra* note 1, ch. 1, definitions, scope, general terms.

12. *Id.* § 1.06.

- (1) "Digital art" is literary and artistic information stored electronically, such as music, photographs, motion pictures, books, newspapers, and other images and sounds.
- (2) A "digital database" is a compilation of facts arranged in a systematic manner and stored electronically. A digital database does not include digital art.<sup>13</sup>

Although it excludes digital content, the definition of software does include a "digital-content player."<sup>14</sup> A digital-content player "consists of software that renders digital content visible, audible, or otherwise perceivable."<sup>15</sup> The drafters explain that the exclusion of digital content is justified because the "software community rarely conceives of software as referring to nonliterary and nonartistic factual data stored electronically."<sup>16</sup>

The drafters acknowledge that "software sometimes encompasses digital art"<sup>17</sup> but that digital art is distinguished from software because it does not perform a "utilitarian function."<sup>18</sup> The important distinction between digital content and software thus seems to be that software is "digital information performing a utilitarian function."<sup>19</sup>

*B. Reasons for the Exclusion of Digital Content from the Scope of the Principles and Arguments Against Those Reasons*

The Principles explain that digital content was excluded from its scope because software is different. Software is different because: (1) it is a mixture of expressive art and utilitarian invention and does not fit comfortably within any category of intellectual property, (2) large amounts of resources are used to create software, (3) it is susceptible to easy copying and distribution, (4) unique engineering challenges are associated with software, (5) it often comprises part of the architecture of a network,<sup>20</sup> and (6) lawmakers have already addressed copyright issues associated with digital content.<sup>21</sup> Furthermore, there was a practical aspect to the drafters' decision to

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13. *Id.* § 1.01.

14. *Id.* § 1.01(j).

15. *Id.* § 1.01(g).

16. *Id.* § 1.01 cmt. a.

17. *Id.*

18. *Id.*

19. *Id.*

20. *Id.* ch. 1 (definitions, scope, general terms).

21. *Id.*

exclude digital content: to include digital art and digital databases would have meant involving those industries in the project.<sup>22</sup>

It is unclear why some of the aforementioned qualities of software would necessitate excluding digital content. For example, there is no reason to presume that more resources are expended on software products than on products containing digital content. Furthermore, software and digital content are both reproducible. Even if the drafters had good reasons for distinguishing digital content from software (such as federal legislation pertaining to digital content but not software), relevant provisions could have been drafted in such a way as to provide exceptions. While there are differences between digital content and software, those differences do not dictate the exclusion of digital content from the scope of the Principles. The Principles provide a mode of analysis or guidelines, not rules or a restatement of the law. The provisions and accompanying comments contain multifactor tests<sup>23</sup> and terms that are expansive and flexible enough to accommodate transactions involving both digital content and software.<sup>24</sup>

Software, as defined by the Principles, is copyrightable subject matter.<sup>25</sup> Under the Copyright Act, a “‘computer program’ is a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result.”<sup>26</sup> It is probably no coincidence that this definition is substantially similar to the definition of software under the Principles.<sup>27</sup> Digital databases, on the other hand, may not be copyrightable subject matter<sup>28</sup> (even though digital art can be).

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22. *See id.* The exclusion of these industries for the sake of expediency may be the best reason to exclude digital content.

23. *See id.* § 1.09 cmt. c.

24. *See* discussion *infra* Part III.

25. *See* *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240, 1249 (3d Cir. 1983) (finding that a “computer program, whether in object code or source code, is a ‘literary work’ and is protected from unauthorized copying, whether from its object or source code version”) (internal quotation marks omitted); *Williams Elecs., Inc. v. Artic Int’l, Inc.*, 685 F.2d 870, 875 (3d Cir. 1982) (“[T]he copyrightability of computer programs is firmly established after the 1980 amendment to the Copyright Act.”); *see also* ALI PRINCIPLES, *supra* note 1, § 1.09 cmt. a (“Software is clearly copyrightable subject matter, and decisions of the Federal Circuit indicate that it regards software as patentable subject matter.”).

26. 17 U.S.C. § 101(a) (2006).

27. ALI PRINCIPLES, *supra* note 1, § 1.01(j).

28. The United States Supreme Court held that information in a phone directory was not copyrightable because it lacked originality. *Feist Publ’ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 363-64 (1991); *see also* *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1454 (7th Cir. 1996) (“After *Feist*, a simple alphabetical list of a firm’s customers, with address and telephone numbers, could not be protected by copyright.”). The original arrangement or

At first glance, the absence of copyright protection for some database products might seem to mean that the contracting issues are vastly different for database providers and software providers. As the comments to the Principles note, contractual terms that purport to restrict dissemination of fact-based databases may be vulnerable to preemption because they purport to grant database providers copyright-like rights.<sup>29</sup> A closer look, however, reveals that the lack of copyright protection for database products should not necessarily exclude them from the scope of the Principles. In fact, the Principles acknowledge that database providers, who do not receive the benefits of copyright protection, may be in a precarious situation if they market a “fact-based product that is expensive to create but also easily copied once made available.”<sup>30</sup> Thus a “term restricting copying or distribution of factual information may be reasonable under the circumstances.”<sup>31</sup> In evaluating a specific provision for preemption purposes, the Principles provide the following test:

- (1) whether the agreement effectively expands the scope of the transferor’s rights or contracts the scope of the transferee’s rights to its own creations under federal law;
- (2) whether the agreement was negotiated and the parties’ relative bargaining power;
- (3) the degree to which enforcement of the provision is likely to affect competition adversely; and
- (4) the degree to which enforcement of the provision is likely to affect innovation adversely.<sup>32</sup>

Not surprisingly, these factors would seem to prove quite helpful in determining whether a contractual term in a license provided by a database provider was preempted, something that the Principles readily admit.<sup>33</sup>

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presentation of facts may be copyrightable. *See* ALI PRINCIPLES, *supra* note 1, ch. 1, definitions, scope, general terms. (“[L]egal issues pertaining to the appropriate interface between ownership of databases and user rights abound. Some issues are clearly the domain of copyright law. For example, pure facts cannot be copyrighted, but a compiler who selects and/or arranges data in an original way can copyright the original aspect of the collection.” (footnotes omitted)).

29. ALI PRINCIPLES, *supra* note 1, § 1.09, reporters’ notes.

30. *Id.*

31. *Id.*

32. *Id.* § 1.09 cmt. c.

33. *Id.* § 1.09, reporters’ notes (“Although digital databases are outside the scope of these Principles, courts may nevertheless find that the multifactor test discussed here helpful in addressing a preemption challenge to restrictions in a digital-database agreement.”).



Preemption issues often arise in software transactions. Software contracts typically include terms that characterize the nature of the transaction as a “license” rather than a sale. A purported licensing of mass market software to a consumer means that the “first sale” doctrine does not apply to the transaction.<sup>34</sup> The first sale doctrine imposes significant limitations on a copyright owner’s exclusive right to distribute.<sup>35</sup> Furthermore, an owner (as opposed to a licensee) of a copy of a software program can make or authorize the creation of another copy as an “essential step” in the utilization of that program or for archival purposes.<sup>36</sup> A mere licensee would not be able to take advantage of this fair-use provision. As a general matter, software “license” agreements typically include a provision prohibiting reverse engineering.<sup>37</sup>

Many commentators have argued that contractual provisions that restrict or prohibit uses expressly permitted under federal law, such as the Copyright Act, may be preempted,<sup>38</sup> although several courts have disagreed.<sup>39</sup> The Principles address the sticky preemption problem in section 1.09 as follows:

A term of an agreement is unenforceable if it (a) conflicts with a mandatory rule of federal intellectual property law, (b) conflicts impermissibly with the purposes and policies of federal intellectual

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34. Kim, *supra* note 8, at 1110-13 (discussing the implications of a transaction being a license versus a sale).

35. 17 U.S.C. § 109(a) (2006).

36. *Id.* § 117(a)(1)-(2).

37. *See, e.g.*, Microsoft Windows XP Home Edition (Retail) End-User License Agreement for Microsoft Software (June 1, 2004), <http://www.microsoft.com/windowsxp/eula/home.mspx> (“You may not reverse engineer, decompile, or disassemble the Software, except and only to the extent that such activity is expressly permitted by applicable law notwithstanding this limitation.”).

38. *See* Dennis S. Karjala, *Federal Preemption of Shrinkwrap and On-Line Licenses*, 22 U. DAYTON L. REV. 512, 525 (1997) (“[T]he preemption question is complex.”); Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 CAL. L. REV. 111, 138-51 (1999) (outlining the preemptive scope and problems of different federal intellectual property statutes); Viva R. Moffat, *Super-Copyright: Contracts, Preemption, and the Structure of Copyright Policymaking*, 41 U.C. DAVIS L. REV. 45 (2007) (arguing that provisions that limit fair use should be preempted); *cf.* Christina Bohannon, *Copyright Preemption of Contracts*, 67 MD. L. REV. 616, 629 (2008) (arguing against categorical approaches to preemption of contracts).

39. *See* Bowers v. Baystate Techs., Inc., 320 F.3d 1317, 1324-25 (Fed. Cir. 2003) (finding that the Copyright Act does not preempt contractual provision prohibiting reverse engineering); Davidson & Assocs. v. Internet Gateway, 334 F. Supp. 2d 1164, 1174-75 (E.D. Mo. 2004) (finding no preemption because contract creates right not existing under copyright law).

property law, or (c) would constitute federal intellectual property misuse in an infringement proceeding.<sup>40</sup>

The Principles express an openness to applying preemption analysis to contracts cases in certain situations:

Although neither [patent nor copyright] law preempts the enforcement of a breach-of-contract cause of action as a general matter, both copyright and patent law may refuse to enforce particular terms under a preemption analysis. . . . Whether a particular contract conflicts with federal intellectual property law or policy depends on its terms.<sup>41</sup>

The comments accompanying the section indicate that the Principles disagree with case law regarding whether federal intellectual property law preempts or prohibits certain contractual terms. In a comment addressing intellectual property misuse, the Principles note that

when a claim in breach of contract is brought, courts should refuse to enforce any provision in the agreement that would have been considered misuse had the action been one for infringement. . . . This places the Principles at odds with the case law addressing this issue. The court in one case found that the particular terms did not constitute misuse, but also stated its reluctance to apply misuse as a defense to a contract claim because it is customarily a defense only in infringement proceedings. Another court indicated its reluctance to expand the doctrine beyond its traditional use as a defense to an infringement claim. As a matter of policy, however, the Principles' position is quite sensible.<sup>42</sup>

The Principles' approach, in the area of preemption as well as other areas, is not only sensible but flexible enough to apply to both software and digital content.

### III. WHY THE SCOPE OF THE PRINCIPLES SHOULD INCLUDE DIGITAL CONTENT

Digital content and software share similar characteristics and often operate in a mutually dependent manner. As a practical matter, software is often considered a subset of digital content if it is even considered and distinguished by the consumer at all.<sup>43</sup> For example, in

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40. ALI PRINCIPLES, *supra* note 1, § 1.09.

41. *Id.* § 1.09 cmt. a.

42. *Id.* § 1.09 cmt. d.

43. A quick online search uncovered several Web sites that used the term "digital content" to describe software. *See, e.g.*, Mitch Bettis, Quick Query: Selling Digital Content via Major Retailers (Mar. 19, 2007), <http://www.practicalecommerce.com/articles/440->

a player's mind, the content of an electronic game is not independent from the software (or "digital content player") that makes the content viewable. Similarly, while a reader may distinguish a Kindle from an e-book, he or she probably does not think about the words separately from the software that enables the words to be displayed. Wikipedia defines "computer software" as the "general term primarily used for digitally stored data such as computer programs and other kinds of information read and written by computers. Today, this includes data that has not traditionally been associated with computers, such as *film*, *tapes* and *records*."<sup>44</sup> Wikipedia includes "video games (except the hardware part)" and "websites" as examples of software.<sup>45</sup>

Limiting the scope of the Principles to "software" and expressly defining software to exclude digital content is likely to result in classification confusion. As previously mentioned, the term "classification confusion" refers to the difficulty with clearly characterizing information as either "digital content" or "software." Ironically, the Principles project, in large part, was inspired by classification confusion regarding whether software transactions were sales or licenses. The drafters note that "[a]s courts treat the matter, the nature of the parties' federal intellectual property rights turns in part on resolution of this classification issue. In addition, is software a good or an intangible?"<sup>46</sup> The exclusion of digital content from the definition of software threatens to impair the effort to create a unified approach. This exclusion raises classification confusion issues that muddy the applicability and relevance of the Principles.

#### A. *Digital Content and Software Share Similar Characteristics*

Given the unique characteristics of software—its malleability, reproducibility, and vulnerability—software producers developed shrinkwrap agreements to protect their products. Many courts, recognizing the business needs of the then-fledgling software industry, accepted these contracting forms even though they contorted

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Quick-Query-Selling-Digital-Content-Via-Major-Retailers (describing Protexis as "a company that links retail outlets with companies wanting to sell digital content such as software, music, video, e-books and other digital products"); Digital Shop, <http://www.mymail.com/?q=content/digital-shop> (last visited Mar. 9, 2010) (noting that with "the Digital Shop PHP script you can sell digital content such as software, scripts, music, ebooks, documents, photos or videos online").

44. Computer Software, [http://en.wikipedia.org/wiki/Computer\\_software](http://en.wikipedia.org/wiki/Computer_software) (last visited Mar. 9, 2010) (emphasis added).

45. *Id.*

46. ALI PRINCIPLES, *supra* note 1, introductory cmt.

traditional contract doctrine. Shrinkwrap agreements paved the way for clickwrap and browsewrap agreements. While software producers have legitimate concerns pertaining to the vulnerabilities of software, they have exploited the form of wrap agreements to include onerous, one-sided terms. The Principles address many of the challenges presented by these novel contracting forms.<sup>47</sup> They acknowledge that some consumer protection laws that may be appropriate for other products are not appropriate for software. For example, cooling-off periods may not be appropriate for software transactions because transferees may download software and then return it.<sup>48</sup> Yet the Principles also acknowledge that software producers can create a “situation-specific monopoly” that raises issues of bargaining power. Additionally, wrap agreements can be manipulated to deflect attention from the terms of the agreement.<sup>49</sup>

Courts that apply the Principles in addressing issues of contractual assent in the context of software will likely apply legal precedent to cases involving digital content. While wrap agreements addressed a need specific to the software industry, the precedential effect of these decisions was not limited to software. As the United States Court of Appeals for the Seventh Circuit noted in *Hill v Gateway*, “Plaintiffs ask us to limit *ProCD* to software, but where’s the sense in that? *ProCD* is about the law of contract, not the law of software.”<sup>50</sup> Especially given the similarities between digital content and software, the courts are likely to focus on the manner of contracting rather than the character of the digital information that is the subject of the contract.

The need for the Principles project arose because the law governing hard goods was inadequate to address software.<sup>51</sup> The speed, reproducibility, storage capabilities, and inspection and quality control issues surrounding software differed from those involving hard goods.<sup>52</sup> Like software, digital content also differs from hard goods. It is easily reproducible, readily distributable, and rapidly evolving. In fact, software is usually distinguished not from digital content, but

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47. See *id.* § 2.02. This applies to standard form transfers of generally available software and enforcement of the standard form, which considers how to address issues unique to transfers of digital information.

48. *Id.* ch. 2, formation and enforcement.

49. *Id.*

50. 105 F.3d 1147, 1149 (7th Cir. 1997).

51. See *id.*

52. See *id.*

from hardware.<sup>53</sup> We are only just beginning to see the many ways in which digital content can be packaged and delivered to consumers. From the average consumer's perspective, digital content is indistinguishable from the software that launches it. From the producer's perspective, software and digital content may be distinguishable during development and manufacture, but they become one product when that product is marketed and sold to the consumer.

### *B. Digital Content Is Often Bundled with Software*

Further complicating matters, digital content is often bundled with embedded software in multimedia products. The Principles include embedded software in their scope:

#### Section 1.07 Scope; Embedded Software

- (a) Subject to section 1.06, these Principles apply to agreements for the transfer of software embedded in goods if a reasonable transferor would believe the transferee's predominate purpose for engaging in the transfer is to obtain the software.<sup>54</sup>

The comments clarify that the "predominate purpose" test "focuses on the transferee's purpose for entering the transaction. The predominate purpose is the most important purpose for entering the transaction."<sup>55</sup> The comments set forth the following factors to consider in determining the predominant purpose:

the language of the agreement; the nature of the goods and the software; the price of the goods and the software . . . the nature of the parties' bargaining over the goods and the software . . . the ease of copying and transferring the embedded software; the general availability of the software on the market; whether there is a separate price for the software; and whether the transferor developed the software for the particular transferee or the particular product. No particular factor is controlling.<sup>56</sup>

The comments address the issue of multimedia products as follows:

If the software is embedded in a game console, for example, this Section applies to determine whether these Principles apply. Some

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53. For example, the *Random House Dictionary* (2010) defines software as "the programs and instructions that run a computer, as opposed to the actual physical machinery and devices that compose the hardware," available at <http://dictionary.reference.com/browse/software> (last visited Mar. 9, 2010).

54. ALI PRINCIPLES, *supra* note 1, § 1.07.

55. *Id.* § 1.07 cmt. b.

56. *Id.* § 1.07(b).

factors for determining the transferee's predominant purpose in the game-console context may suggest that the Principles do not apply. For example, the language of the agreement usually does not describe the transaction as a transfer of software. In addition, some transferees obtain a game primarily for the entertainment value embodied in the game's digital content, not for the functionality of the software. Further, transferees often cannot select the embedded software nor can they acquire the software separately on the market. In addition, the software is often not easy to copy or transfer.<sup>57</sup>

The relevant factors, however, can be easily manipulated. Producers wishing to avoid the effect of the Principles can change the wording of their agreements to license "digital content" rather than software. Transferees wishing to take advantage of the Principles could claim that the software—and not the content of the game—was the reason for the purchase. Game manufacturers can easily tweak existing products to fall within the purview of the Principles or wriggle out of their reach.

The Principles state that in the case of a mixed transaction, the court should determine whether the predominate purpose of the transaction was software or digital content:

Section 1.08 Scope; Mixed Transfers Including Non-Embedded Software

- (a) For purposes of this section,
  - (1) "goods" include any embedded software, and
  - (2) a "mixed transfer" constitutes a single transaction that consists of the transfer of non-embedded software and any combination of goods, digital content, and services.
- (b) Subject to section 1.06, in the case of an agreement for a mixed transfer, these Principles apply to the transfer of the non-embedded software unless the transfer also includes digital content or services and a reasonable transferor would believe the transferee's predominate purpose for engaging in the transfer is to obtain the digital content or services.<sup>58</sup>

The comments acknowledge a "line-drawing" problem in using factors to determine the outcome in individual cases but claim that "this is no different from the challenge of applying the predominate-purpose test in . . . mixed sale-of-goods and services cases, something that courts have been doing successfully for many years under Article 2 of the U.C.C."<sup>59</sup> On the contrary, the line-drawing problem here is actually

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57. *Id.* § 1.07 cmt. d.

58. *Id.* § 1.08.

59. *Id.* § 1.08 cmt. b.

much more difficult because it requires a court to evaluate the characteristics of the subject matter. “Software” and “digital content” are much more similar and difficult to distinguish than “services” and “goods.” The predominate purpose test thus requires courts to determine not only the “purpose” of the transaction but also the nature of the thing being transferred.

*C. Reduces Judicial Discretion and Uncertainty*

The comments suggest that even where the Principles do not technically apply under the predominate purpose test, courts can apply the Principles by analogy “when the reasoning behind these Principles applies persuasively to such transfers.”<sup>60</sup> In other words, in cases involving digital content, the Principles leave to the courts the difficult tasks of (1) distinguishing digital content from software, (2) identifying the “predominate purpose” of the transaction, and (3) determining whether the reasoning underlying the Principles justifies their application in an individual case.

The drafters of the Principles justify carving out digital content from software because they claim that the software community does so. I am skeptical that there is such a consensus view in the software community or that such a cohesive community exists.<sup>61</sup> Even assuming that the software community recognizes this distinction, its members are not responsible for determining whether a given case involves “software” or “digital content.” Rather, this is the task of attorneys and judges. Currently, there is no consensus in the legal community that digital content is distinguishable from software. For example, *ProCD v. Zeidenberg* is generally regarded as the first major case to recognize the use of shrinkwraps to license software; yet the case actually involved “digital databases” (not software) under the definitions set forth in the Principles.<sup>62</sup>

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60. *Id.* § 1.08 cmt. d.

61. The Free On-line Dictionary of Computing notes:

Software . . . does not usually include the data processed by programs unless this is in a format such as multimedia which depends on the use of computers for its presentation. This distinction becomes unclear in cases such as spread sheets which can contain both instructions (formulae and macros) and data . . . . Some claim that documentation (both paper and electronic) is also software. Others go further and define software to be programs plus documentation though this does not correspond with common usage.

<http://dictionary.reference.com/browse/software> (last visited Mar. 9, 2010).

62. 86 F.3d 1447 (7th Cir. 1996).

In *ProCD*, the plaintiff compiled information from telephone directories into a computer database.<sup>63</sup> The plaintiff sought to limit use of the database information to “noncommercial” uses via a shrinkwrap license.<sup>64</sup> As previously discussed, digital databases under the Principles are not “software.”<sup>65</sup> Yet the Seventh Circuit framed the issue as one involving “computer software.”<sup>66</sup> Judge Easterbrook, author of the opinion, recognized the difference between the “copyrighted application program” and the “data” in the product, but did not analyze their treatment for federal preemption purposes any differently.<sup>67</sup> Cases citing to *ProCD* similarly reference it as one involving “software”<sup>68</sup> and rarely distinguish between the data and the application program.

The Principles assume that the courts will be up to the task of drawing lines that require technological sophistication in an increasingly complex field. This assumption is unfounded. Instead of taking this leap of faith, the drafters should have expressly considered the implications of the various provisions of the Principles on digital content rather than leaving it up to the courts. While the Principles are not binding law, they help guide and shape the law as it develops, before norms settle and take hold. Some courts may strategically apply or decline to apply the *Principles* to digital content in order to justify a desired outcome. The Principles then risk becoming an instrument of rationalization rather than tools with which to reason.

#### IV. CONCLUSION

The vulnerabilities of digital information have led to innovative contracting solutions in the form of wrap contracts. Courts, deferring to the business needs of software companies, have enforced these contracts by flexibly interpreting traditional contract doctrine. Some companies have abused the flexibility of the courts by incorporating

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63. *Id.* at 1449.

64. *Id.*

65. ALI PRINCIPLES, *supra* note 1, § 1.01(j) and (f).

66. 86 F.3d at 1448 (“Must buyers of computer software obey the terms of shrinkwrap licenses?”).

67. *Id.* at 1453.

68. *See, e.g.,* Ariz. Cartridge Remanufacturers Ass’n v. Lexmark Int’l, Inc., 421 F.3d 981, 987 n.6 (9th Cir. 2005) (citing to *ProCD* and referring to it as a case involving a shrinkwrap license “on software”); Hill v. Gateway, 105 F.3d 1147, 1148 (7th Cir. 1997) (“[*ProCD* held that] terms inside a box of software bind consumers who use the software after an opportunity to read the terms and to reject them by returning the product.”); Spivey v. Adaptive Mktg., 660 F. Supp. 2d 940, 948 (S.D. Ill. 2009) (noting that the defendant in *ProCD* purchased “computer software” from ProCD).



more one-sided terms. The Principles tackle many of the problematic provisions in wrap contracts and strive to provide a cohesive and unified approach to evaluating software contracts. The exclusion of digital content from software, however, complicates this objective and detracts from what makes software contracts different from other contracts: the nature of software itself, its intangibility, its novelty, and its reproducibility. These characteristics make software vulnerable in ways that tangible products are not. These are also characteristics shared by digital content. It would be a shame to let blurry lines and artificial distinctions limit the reach of the Principles.

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