January 1986

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ENFORCEABILITY OF BOX-TOP LICENSES: A PROPOSAL TO END THE DILEMMA

Douglas J. Nelson

I. INTRODUCTION

Since the introduction of the first “personal” computer in 1976, the computer industry has undergone a radical transformation. Early computers were formidable in size and cost, which made the computer unobtainable for the average American. As a result of downsizing and mass production of computer technology, today the computer has become a common item in many homes and businesses across the nation.

Computer software has undergone a similar transformation. Initially, programs were designed specifically for each end user.
Today, programs are mass-produced and mass-marketed\(^6\) despite the fact that each copy of the software may contain proprietary information and the developer's work product\(^7\). In an attempt to secure protection from unauthorized use,\(^8\) attorneys for software developers have concocted the box-top license.\(^9\) The box-top license is a form contract, often shrink wrapped behind plastic on the face of the software's documentation,\(^10\) which seeks to bind the software purchaser to the license terms when the consumer opens the package.\(^11\)

Consumer problems may arise from the use of the box-top method of licensing. For example, the software dealer may have opened the package in order to demonstrate the software to the consumer. After the sale, the consumer is unable to reject the license terms since the package has been opened. Another problem arises when the consumer is unable to read the license terms prior to purchasing the software.\(^12\) In addition, the consumer may not understand the license terms regardless of having read them. The consumer is unable to make an informed purchase decision if he cannot understand the license terms.

The purpose of this note is to examine box-top licensing in the context of public policy and enforceability. First, the legal status of mass-produced software will be examined to determine whether

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7. "A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it." 4 RESTATEMENT OF TORTS § 757 comment b (1939).

8. Courts have widely concluded that unprotected disclosure of secrets forfeits trade secret protection. See, e.g., Sinclair v. Aquarius Elec., Inc., 42 Cal. App. 3d 216, 116 Cal. Rptr. 654 (1974). Licenses allow the software developer to control the use of the program since proprietary rights remain with the developer and the license can be revoked if its terms are not adhered to. The license agreement used by Information Unlimited Software, Inc. ("IUS") reads: "If you transfer possession of any copy, modification or merged portion of the program to another party, your license is automatically terminated."

9. This type of license is also referred to as a "self-executing" or "tear-open" license. A recent example of a box-top license is reprinted in Appendix A.

10. Documentation generally consists of instruction manuals and other supporting documents which assist the program user in the operation of the program.

11. See, e.g., the MicroPro International End User Program License Agreement (Sept. 1982) (MicroPro 1982 License) which provides: "Before you open this package, carefully read the following legal agreement. . . . Opening this package indicates that you accept this agreement and will abide by it."

12. It is likely that the buyer will not view an unopened package at the point of sale, but will only see an opened copy of the program used for demonstration purposes. The unopened copy the consumer purchases is likely to be bagged for the buyer to take home without the buyer actually having the opportunity to read the license until later.
such software is a "consumer good" which may be subject to regu-
lation under existing pre-sale disclosure statutes. Second, problems
which arise from the use of box-top licenses will be discussed. The
interests of the software developer and software consumer will also
be examined to determine whether box-top licensing is an effective
method of promoting and protecting these interests. Third, recom-
mendations are made for enhancing the effectiveness of the box-top
licenses. One such method is an alternative form of pre-sale disclo-
sure of the material terms of the software license agreement. Finally,
legislative solutions are examined and a recommendation is
proposed which seeks to balance the interests of the software devel-
oper and the consumer.

II. THE STATUS OF COMPUTER SOFTWARE AS A
CONSUMER PRODUCT

Current statutes which require pre-sale disclosure of material
contract terms regarding product purchases apply mainly to con-
sumer goods. While Congress need not limit such regulation to
the consumer context, it is helpful to determine whether computer
software falls within a category which Congress has seen fit to regu-
late. Having regulated disclosure of certain aspects of consumer
transactions, Congress has recognized the importance of the pub-
lic policy which requires that a consumer have access to sufficient
information pertinent to a product and the terms of purchase prior
to the sale.

In the Magnuson-Moss Warranty Act ("MMWA"), Con-
gress defined a consumer product as "any tangible personal prop-
erty distributed in commerce . . . which is normally used for
personal, family, or household purposes." The product need not
be used exclusively in the home. It can also be used in business
applications as long as its use in personal, family and household
applications is not uncommon. Thus, under this definition the

13. Pre-sale disclosure in a broad sense is accomplished where the software buyer views
the unopened software package prior to purchase. Pre-sale disclosure as used herein means
actual, consistent exposure of buyers to the terms of the license prior to sale.
15. Id.
16. Congress' stated purpose of the MMWA is "to improve the adequacy of information
available to consumers, prevent deception, and improve competition in the marketing of
product must be "tangible" and the product must be "normally used" within the established parameters.

The first part of the MMWA definition of a consumer product requires computer software to be "tangible". A characteristic of mass-produced software which indicates its status as tangible property is its ability to stand alone as a product independent of the hardware for which it was designed.\(^2\)

Traditionally, software was custom designed for the user and was only a programming service incidental to the sale of the computer hardware.\(^{21}\) Software in the traditional custom-designed context was treated as a tangible good only when bundled with hardware,\(^{22}\) or when sold with the hardware but programmed at a later date.\(^{23}\) Even today, larger computers require custom-designed programs and many buyers of such systems subsequently employ their own staff of programmers. Since the buyer in this situation contracts to obtain the skill and knowledge of the programmer, the agreement clearly constitutes a contract for services.\(^{24}\)

With the introduction of the personal computer,\(^{25}\) more software is being mass-marketed\(^{26}\) by mass merchandisers\(^{27}\) and sold over the counter without attendant servicing or customizing.\(^{28}\) Thus, the software developer's business may involve mass production and distribution of pre-written, pre-packaged software, which is amenable to little or no modification.\(^{29}\) Since software is sold independently from the hardware without programming services, it assumes the appearance of a consumer product rather than a service.

A strong argument can be made that a particular transaction

\(^{21}\) Id. at 61.
\(^{25}\) See supra note 1 and accompanying text.
\(^{26}\) Brochstein, supra note 3.
\(^{27}\) Id.
\(^{29}\) Many software license agreements restrict modification of any sort. For example, the VisiCorp Customer License Agreement states in part: "Neither the program nor its documentation may be modified or translated without written permission from VISICORP."
constitutes a sale of tangible property if the parties to the transaction regard it as such.\textsuperscript{30} As noted, the seller of mass-marketed computer software clearly intends to market a pre-written, standard form program rather than the services of a programmer in the development of customized software.

The consumer is likely to recognize that the ideas and concepts of the software developer are embodied in the software. However, the nature of the mass-produced software\textsuperscript{31} and the consumer's apparent desire to obtain a standard form program rather than one custom designed for his specific needs indicates the consumer's intent is to obtain a tangible product as opposed to professional advice or service.

Mass-produced computer software has both tangible and intangible characteristics.\textsuperscript{32} However, as one commentator has stated: "A computer program copy is surely distinguishable from pure thought; therefore, it is logical for the law to consider that copy a tangible 'thing' independent of the ideas and intangible instructions it communicates."\textsuperscript{33} Thus, the embodiment of intangible ideas onto a tangible medium such as a floppy disk, adds the substance which makes software a tangible product.

Recognizing that difficulties may arise in the classification of products under the MMWA, the Federal Trade Commission (F.T.C.) has dictated that any ambiguities be resolved in favor of classification as a consumer product thereby affording the consumer the Act's protection in doubtful situations.\textsuperscript{34} Thus, mass-marketed software should be considered a consumer product within the established definition, especially where a consumer buys packaged software from a mass-marketing outlet.

Under the MMWA definition of a consumer product, once it has been established that a product is tangible property, it must then be determined that the product is normally used for personal, family or household purposes.\textsuperscript{35} The use of such a product, however, need not be exclusive to the home.\textsuperscript{36} Thus, the product can

\textsuperscript{30} ACQUIRING COMPUTER GOODS AND SERVICES, supra note 20, at 71.
\textsuperscript{31} Home computer programs are generally recorded on cassette tapes or magnetic diskettes. Gordon, Disks and Drives, COMPUTERS & ELEC., Feb. 1984, at 50.
\textsuperscript{32} The diskette or cassette tape is itself tangible. The ideas and concepts represented by the program, however, are clearly intangible.
\textsuperscript{33} Note, Computer Programs as Goods Under the U.C.C., 77 MICH. L. REV. 1149, 1152 (1979); see also, Chittenden Trust Co. v. King, 465 A.2d 1100 (Vt. 1983)(packaged software constitutes tangible property for sales tax purposes).
\textsuperscript{34} Commercial Practices, 16 C.F.R. § 700.1(a) (1984).
\textsuperscript{36} See supra note 19.
also be used in business applications.\textsuperscript{37} In the description of the products to be covered by the MMWA, the Federal Trade Commission has stated that normal use "means that a product is a ‘consumer product’ if the use of that product is not uncommon."\textsuperscript{38} The use of computer software for personal, family, household and business purposes is well established.\textsuperscript{39}

Since mass-produced software is tangible and its use for personal, family and household purposes is not uncommon, such software should be considered a consumer good subject to Congressional regulation.

\section*{III. Consumer Problems Arising from the Use of Box-Top Licenses}

Consumer problems may arise when software which the purchaser perceives as a tangible product is licensed rather than sold. Such problems have public policy implications. The box-top license seeks to bind the consumer to various restrictions\textsuperscript{40} based on the notion that the software developer retains proprietary rights in the software.\textsuperscript{41} The right to use the software is contingent on the user's adherence to the terms set forth in the license agreement.\textsuperscript{42} The consumer can reject the license agreement by returning the software package unopened.\textsuperscript{43}

The first problem arises if the software package has been

\begin{itemize}
\item[\textsuperscript{37}] Moreover, it appears that business users are in equal need of the protections afforded by the laws regarding purchases of computer software. \textit{See infra} notes 79-80 and accompanying text.
\item[\textsuperscript{40}] Typical restraints generally include:
\begin{itemize}
\item A. limitation of use to a single machine;
\item B. limitations on copying and transferability;
\item C. limitation of warranties;
\item D. limitation of remedies to diskette replacement; and
\item E. restrictions on unauthorized disclosure.
\end{itemize}
\item[\textsuperscript{41}] Licenses only convey the right to use the program. By maintaining title to the program, the developer can control the use of the program on penalty of license revocation.
\item[\textsuperscript{42}] \textit{See}, e.g., VisiCorp Customer License Agreement. "It (the license) will also terminate if you fail to comply with any term or condition of this License Agreement. You agree upon such termination to destroy the Program and Documentation together with all copies, modifications and merged portions in any form."
\item[\textsuperscript{43}] \textit{See supra} note 11 and accompanying text.
opened by a salesperson for demonstration purposes or the consumer purchases the software based upon a demonstration utilizing a dealer copy. The consumer might then purchase the software without having read the license agreement. Second, the consumer may not understand that the software copy remains the property of the developer regardless of having read the license terms. Third, the license may contain non-disclosure provisions which the consumer likely will not understand. Fourth, if the license operates as a condition subsequent which serves to divest the consumer of rights of sale, the license may operate to divest the consumer of the right to dispose of the copy pursuant to the Copyright Act.\textsuperscript{44}

A. \textit{Opened Packages}

A problem can arise when a salesperson opens the software package in order to demonstrate the software to a consumer, or where the consumer decides to buy the software based on a demonstration utilizing the dealer's copy. Under such circumstances, the consumer is at a distinct disadvantage if he then purchases the unwrapped software copy or makes a purchase based on the demonstration without examining the license terms.\textsuperscript{45}

If the consumer later disagrees with the license terms he may be unable to return the software because it has been opened,\textsuperscript{46} or he may be frustrated to learn that he has only purchased the right to

\textsuperscript{44} 17 U.S.C. §§ 101-810 (Supp. V 1975). There are other problematic issues that, although beyond the scope of this note, are worthy of mention since they constitute consumer issues. Many "box-top" licenses severely limit the warranties and remedies available to the consumer. \textit{See}, e.g., Information Unlimited Software, Inc. License Agreement. (declaring that the program is sold "as is" without any warranty whatsoever). Such limitations may be the result of overreaching and therefore subject to the doctrine of unconscionability. \textit{See} U.C.C. § 2-302 (1972); \textit{see also} CAL. CIV. CODE § 1670.5 (1979) (the contract subject matter need not be subject to the U.C.C., and therefore the section applies to intangibles). Further, there are problems regarding the buyer's acceptance of the terms of the agreement. U.C.C. § 2-607(a) states that acceptance of the goods binds the buyer to pay for the goods. It does not however, obligate him to other terms and conditions set forth in the agreement. Reynolds, \textit{The Self-Executing License: A Legal Fiction}, 2 COMPUTER L. REP. 549 (1984). While these contentions are as yet untested in the courts, they eventually may afford the consumer some relief from box-top software license agreements.

\textsuperscript{45} If the buyer has opened the package, his means of rejecting the license terms are eliminated. \textit{See supra} note 11 and accompanying text. The same situation could arise if the consumer were to buy a demonstration copy of the program because it was the last copy in the retailer's stock.

\textsuperscript{46} This presupposes that the dealer will not be willing to allow a return given the circumstances, but it is reasonable to assume that the dealer will be skeptical about accepting a return of an opened program copy especially where the program is not "copy protected." (Programs can be written to resist listing the program instructions and to resist one-to-one copying). Moreover, some dealers may have restrictive return policies which do not allow the purchaser to receive a refund, but only an exchange.
use the software subject to the developer’s terms and restrictions. While in the latter case the purchaser can return the unopened software, some dealers have restrictive return policies which only allow an exchange for other software, a solution less than satisfactory if the consumer objects to license terms in general.

B. Misunderstanding of Proprietary Interests and Rights

Most software licenses make no reference to the fact that proprietary rights remain with the developer other than to state that the contract is a license agreement. It is unlikely that the average consumer understands the meaning or nuances of licensing law. While one would expect an average consumer to understand that a lease does not grant proprietary rights, the same is probably not true of licenses. The average consumer is likely to believe that he owns at least the software copy in his possession as well as any accompanying documentation. Further, the circumstances which surround the acquisition of computer software indicate that this belief may be justified. In the process of acquiring computer software the consumer is likely to be exposed to advertisements stressing performance characteristics and purchase price. Once a decision to purchase has been made, the consumer will choose a distribution outlet from which to buy. The outlet chosen may be a store from which the consumer commonly purchases other items to which title passes at sale. The consumer may be assisted by a salesperson and, once a decision to purchase has been made, the sale is likely to be consummated with the familiar sales receipt or credit card slip. Therefore, a consumer might reasonably conclude that title to the software copy changed hands at the point of sale. If the consumer then treats the software as if he owns the copy, for example lending

47. See, e.g., Information Unlimited Software, Inc. License Agreement (agreement states it is a license, but otherwise makes no reference to proprietary rights). But see, MicroPro 1982 License (stating that the product and associated rights are owned by MicroPro as trade secrets or proprietary information).

48. While it may be argued that what is being sold is the license rights, the true issue is the consumer’s belief that title has passed which is fostered by the circumstances surrounding the transaction.

49. For example, the consumer may choose a computer or electronic specialty store, mass merchandiser or mail order outlet.

50. Software mass-merchandisers include such national store chains as Sears, Montgomery Ward, and K-Mart, as well as many catalogue showrooms and regional department stores. Brochstein, supra note 3.

51. The same can be said for a sale involving a service. In the case of a service, however, nothing tangible like the software media and documentation is generally involved.
the software or attempting to discover how it works, he may expose himself to legal liability.

C. Misunderstanding of Non-Disclosure Concepts

Important to the issue of proprietary rights is the concept of non-disclosure.\(^{52}\) Non-disclosure is the crux of trade secret protection.\(^{53}\) However, most box-top license agreements do not explicitly define non-disclosure or its function. While certain restrictions which are designed to prevent disclosure are included in most licenses,\(^{54}\) it is likely that the consumer does not understand these terms or their purpose. As one commentator pointed out:

The average consumer in the microcomputer marketplace is probably not aware that the software contains trade secrets that are subject to non-disclosure provisions. While the average person recognizes that a copyright means that copying is unlawful, restrictions on use or disclosure are not generally understood.\(^{55}\)

The purchaser is generally precluded from using the software for any purpose other than to operate the software.\(^{56}\) Thus, the license seeks to prevent the end user from "reverse engineering" by decompiling the object code.\(^{57}\) Moreover, some licenses seek to make the end user the guardian of the developer's trade secrets\(^{58}\) despite the likelihood that the end user does not comprehend the specifics of trade secret law.

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52. See Restatement of Torts § 757 comment a (1939). "Apart from breach of contract, abuse of confidence or impropriety in the means of procurement, trade secrets may be copied as freely as devices or processes which are not secret." Id.

53. See, e.g., K-2 Ski Co. v. Head Ski Co., 506 F.2d 471 (9th Cir. 1974). See also Restatement of Torts § 757 comment b (1939).

54. Most license agreements restrict the user from sublicensing, assigning or transferring the program in any way. See, e.g., Information Unlimited Software, Inc. License Agreement. See also MicroPro 1982 License (restricts the end user from removing product identification or proprietary legends in addition to transfer restrictions).

55. Reynolds, supra note 44.

56. Id. The author further asks: "Is it possible to imagine that I would only be able to make four slices of toast per morning upon acceptance of my new toaster or limit its use to bagels only?" Id.

57. "Reverse engineering" is recognized as a valid means of discovering trade secrets. See Restatement of Torts, supra note 53. Reverse engineering consists of disassembling or decompiling the object code version of the program into assembly language or source code. Id.

58. See, e.g., MicroPro 1982 License: "All techniques, algorithms, and processes contained in MicroPro's products or any modification or extraction thereof constitute trade secrets and/or proprietary information of MicroPro and will be protected by end user."
D. **Box-Top Licenses as Conditions Subsequent**

When the consumer is not aware of the license or its terms until after the sale of the software, acceptance by opening the package at a later time may operate as a condition subsequent divesting the consumer of the rights of ownership. This occurs because the license purports not to become effective until the consumer breaks the seal on the software package subsequent to purchasing the program. Title to the software and the associated rights of ownership may transfer to the consumer based upon the contract formed when the software is purchased. It is most likely that the initial transaction results in a sale of the software with title to the copy passing if the consumer reasonably believes that title has passed. The consumer receives no additional consideration for accepting the license terms. The later opening of the software package would then serve to divest the consumer of title to the software, as well as to impose restrictions which also divest rights of ownership for no additional consideration. Since the effect is a forfeiture of rights previously held, conditions subsequent are disfavored by the law.

E. **Restrictions on Transfer - First Sale Doctrine**

The box-top license may wrongfully divest the consumer of a right granted by the U.S. Congress in the Copyright Act of 1976 ("the Act"). Under section 106(3) of the Act, a copyright owner is granted the exclusive right to distribute the work. Notwithstanding, section 109 of the Act provides that "the owner of a particular copy . . . lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy . . ." Thus, under existing law, the distribution rights of a copyright

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59. The acceptance by act concept is borrowed from the U.C.C., and the seller may dictate the manner of acceptance. U.C.C. § 2-206(1). Acceptance occurs when the buyer signifies acceptance to the buyer. U.C.C. § 2-606(1)(a) (1972).
60. Condition subsequent describes an event that extinguishes either a duty, after performance has become due, or a duty to pay damages for breach. E. Farnsworth, Contracts 541 (1982).
61. See supra notes 48-49 and accompanying text.
owner are limited by the "first sale" doctrine\footnote{66} embodied in section 109(a) of the Act.\footnote{67} Under the first sale doctrine the copyright owner has no right to control the distribution of a copyrighted work beyond the point of the first sale of the copy.\footnote{68} The person to whom the software copy has been sold is thereby entitled to dispose of that copy by sale, rental or any other means.\footnote{69} This doctrine also presents the software developer with serious problems.\footnote{70}

Contractual limitations on disposition of the software copy are permitted under the Act.\footnote{71} In order to prevent the resale, rental or other disposition of the copy, developers have turned to the box-top license. As a result most box-top licenses attempt to restrict the transfer of the software copy in numerous ways.\footnote{72}

It is likely that most end users understand the meaning of transfer restrictions. However, if the box-top license is an ineffective means of imposing such restrictions,\footnote{73} consumers may be unnecessarily deprived of rights which have been specifically reserved by section 109 of the Act. Thus, the box-top license may effectively and wrongfully act to suppress a right granted by Congress.\footnote{74}

IV. COMPETING INTERESTS OF CONSUMERS AND SOFTWARE DEVELOPERS

Having recognized that consumer problems exist with the box-top method of licensing software, the validity and strength of the interests of the respective parties must be examined. Any solution to the consumer problems enumerated should balance the opposing

\footnote{66} The first sale doctrine is so called because once the copy has been sold for the first time, the copyright holder's exclusive right to control the disposition of the copy becomes limited. Thus, the first sale doctrine distinguishes between the copyright holder's exclusive right in the intellectual property embodied in copyright (which remains intact) and the ownership right in the material object itself (which becomes limited). H.R. Rep. No. 987, 98th Cong., 2d Sess. 1 (1984), reprinted in 1984 U.S. CODE CONG. & AD. NEWS 2898.

\footnote{67} 17 U.S.C. § 109(a) (1982).


\footnote{70} See infra notes 79-80 and accompanying text.

\footnote{71} House Report at 79. "This does not mean that conditions on the future disposition of copies, . . . imposed by a contract between the buyer and seller, would be unenforceable between the parties as a breach of contract, but it does mean that they could not be enforced by an action for infringement of copyright." Id.

\footnote{72} See supra note 54.

\footnote{73} See supra notes 59-62 and accompanying text.

\footnote{74} CAL. CIV. CODE § 1667 (West 1985). [An "unlawful" contract is defined as any contract which is 1) contrary to an express provision of law; 2) contrary to the policy of express law, though not expressly prohibited; or, otherwise contrary to good morals. See also Dallen v. Delug, 157 Cal. App. 3d 940, 203 Cal. Rptr. 879 (1974).}
interests of the parties such that neither party is denied necessary protection of worthy interests.

A. Interests of the Software Developer

Mass-merchandising in the home computer market presents some unique problems for the software developer. Software developers often expend hundreds of thousands of dollars developing their software. The developer desires to maintain proprietary rights in the product in order to protect the investment expended on research and development and marketing of the software.

Particularly, the software developer seeks to restrict the provisions of sections 109 and 117 of the Copyright Act, as well as to protect the trade secrets which may be embodied in the work.

As previously noted, the first sale doctrine embodied in section 109 of the Act permits the purchaser of a software program copy to dispose of that copy by any means including rental. Thus, a software developer is faced with the possibility of the software copy being commercially rented subsequent to sale. A person renting the software can copy it at a fraction of the cost of purchasing the software, thereby depriving the developer and the publisher of royalties and profits. Commercial rental presents the most severe means of damaging the developer due to the potentially broad scope of distribution.

Section 117 of the Act further limits the exclusive distribution rights of the copyright owner. Section 117 permits the "owner of

75. Apple Computer, Inc. spent over $740,000 developing the operating systems software for the Apple II computer. Apple Computer, Inc. v. Franklin Computer Corp., 714 F.2d 1240, 1245 (3d Cir. 1983).
77. It has been suggested that trade secret protection is the primary concern of the software developer. Nat'l Commission on New Technological Uses of Copyrighted Works, Final Report (1978) at 225.
78. See supra text accompanying notes 64-69.
80. For this reason, and because it would be bad public relations for a developer to sue an individual, the developer is more likely to sue a software rental house. Two such suits have been brought recently. MicroPro International Corp. v. United Computer Corp., No. 80-3019 WWS (N.D. Cal. filed June 17, 1983); ADAPSO v. American Brands, Inc., No. 85-0400 (N.D. Ill. filed 1985). However, both suits have been settled. SOFTWARE NEWS MAG., July 1985, at 8. (American Brands settles); THE JOURNAL OF COMMERCE, Nov. 16, 1983, at 1A, col. 1. (United and MicroPro to settle).
a copy of a computer program to make . . . another copy . . . of the
program."\textsuperscript{82} The right to make a copy of a computer program is
limited to situations where such a copy is "an essential step in the
utilization of the computer program in conjunction with a
'machine'\textsuperscript{83} and 'for archival purposes'\textsuperscript{84}. In the first situation, the
critical determination is the definition of a "machine." Many differ-
ent computer systems may fall within the definition. For example, a
single central processing unit ("CPU") may connect a number of
"dumb" terminals\textsuperscript{85} or a computer system may utilize multiple cen-
tral processing units which are linked into a single system. In other
words, it is unclear whether a "machine" includes a computer sys-
tem which may utilize numerous terminals or link more than one
CPU.

Most developers that mass market software set the price of the
software copy based upon use on a single terminal regardless of the
system to which it may be linked. Thus, the developer, via the box-
top license, may attempt to define "machine" so as to exclude mul-
tiple CPU's and multiple terminals.\textsuperscript{86}

In order to maintain proprietary rights in computer software,
software developers utilize the box-top license which allows the li-
censor to retain title to the copy of the computer software. The
software developer must take reasonable steps to maintain the se-
crecy of his software.\textsuperscript{87} One such step requires that the software
developer control the dissemination of the secret.\textsuperscript{88} Thus, one of
the major purposes of the box-top license is to impose restrictive
terms upon the user to secure the developer's secrets.\textsuperscript{89}

Historically, the negotiation of license terms was feasible be-
cause programs were custom designed and the number of end users
was relatively small. Today, a given software developer may supply
thousands, or hundreds of thousands of end users with standard
programs, and therefore can ill afford to negotiate contracts with
each individual end user. Thus, the software developer seeks to se-
cure proprietary rights unilaterally with box-top licenses, thereby

\textsuperscript{82}. Id.
\textsuperscript{85}. Dumb terminals have no central processing unit and, therefore, are unable to oper-
ate independently of an intelligent main unit.
\textsuperscript{86}. See, e.g., MicroPro 1982 License which provides: "This license is limited to use of
the MicroPro Products included in this package on a single computer . . . ."
\textsuperscript{87}. See supra note 53 and accompanying text.
\textsuperscript{88}. See supra note 52 and accompanying text.
\textsuperscript{89}. See supra note 58 and accompanying text.
avoiding costly and impracticable negotiations with large numbers of end users.

B. Interests of the Software Consumer

The consumer should be afforded an opportunity to discover material facts relevant to a purchase before the transaction is completed.\textsuperscript{90} Several economic and social purposes are fulfilled by such a policy.

First, informed consumer choices serve to allocate societal resources in an efficient manner. Software consumers should have the opportunity to decide between software licenses which may be more or less restrictive. Some developers may choose to sell software outright. In order to choose between such options the software consumer must have adequate purchase information.\textsuperscript{91} Without adequate information about the product and terms of purchase, consumer choices are likely to be dictated by caprice due to psychological motivations, emotional manipulation and guesswork.\textsuperscript{92} The result of capricious consumerism is an irrational market which preys upon the uninformed consumer and adds little to encourage manufacturer responsibility.

Second, disclosure of product information and terms of purchase serves to foster competition in the marketplace.\textsuperscript{93} Disclosure of circumstances surrounding the purchase of a product increases consumer awareness of product quality and facilitates comparative shopping. Comparative shopping encourages manufacturers to either develop superior products, or to lower the price of inferior goods. Thus, the manufacturer is forced to confront the relative merits and demerits of the product and the terms by which it is offered, and to respond accordingly, thereby benefiting the consumer and strengthening the market place.\textsuperscript{94}

The nature of computer products, regardless of the terms of the purchase, is likely to be intimidating and confusing to the average consumer.\textsuperscript{95} Thus, it is especially important that the consumer

\textsuperscript{90} R. Tallman, Consumer Protection Compliance 5 (1971).
\textsuperscript{92} Id.
\textsuperscript{93} See 15 U.S.C. § 2302 (1982). Congress, in the Magnuson-Moss Warranty Act, states that the purpose of the act is "to... improve competition in the marketing of consumer products." Id.
\textsuperscript{94} Gage, supra note 91, at 1041-42.
\textsuperscript{95} Computer technology has been recognized by the courts as one of the most confusing and complex fields in today's marketplace. The court in Glovatorium v. N.C.R. Corp., No. C-79-3393 (N.D. Cal. May 1, 1981) (unreported oral decision) aff'd 684 F.2d 658 (9th
be afforded the opportunity to make a rational and informed decision and to be assured that the purchased product conforms to his expectations.

C. The Need to Balance the Interests of the Consumer and Developer

Having recognized that both the software developer and consumer have legitimate interests at stake, a balance should be struck which protects the interests of both. The consumer problems set forth above result primarily from the fact that the consumer deals with insufficient notice, knowledge and understanding of the legal terms of the box-top license. Adequate pre-sale disclosure would help guarantee informed consumer decisions and help solve the problems of box-top licensing.

Pre-opening problems would be eliminated if the potential consumer was aware of the license terms before purchase. If the consumer proceeds to purchase the software, the decision to purchase will have been made with sufficient information of the license terms. Informing the consumer of the license terms before sale would also eliminate problems arising from restrictive return policies of retailers. The consumer would know the license terms beforehand and would not have to rely on return of the unopened software where the terms of the license are objectionable. In addition, pre-sale disclosure of license terms would help eliminate misunderstandings of proprietary rights and of non-disclosure provisions at the point of sale. This information would facilitate an informed purchase decision. Finally, pre-sale disclosure would help to guarantee that the purchaser gave informed consent to the license terms. Since a box-top license acts as a condition subsequent, informed consent to the license terms is necessary for a court to give effect to the condition.96

The software developer has equally valid interests which need protection. The principal threat to a software developer's interests are posed by commercial entities which may attempt to exploit the developer's product for pecuniary gain to the disadvantage of the developer's market position. In fact, a software rental house may

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96. State v. Allen, 625 P.2d at 848.
rely upon the potential for copying to bolster its business position.\textsuperscript{97}

Moreover, it is a commercial enterprise which can profit most from discovering the developer’s trade secrets. In addition, it is unlikely that a home computer user is likely to utilize the software on multiple C.P.U.s or multiple terminals.

Both the consumer and the software developer stand to gain from pre-sale disclosure of the material terms of software licenses. The consumer stands to gain the ability to make a more informed and therefore more efficient purchase decision. The software developer stands to gain as well. Currently, the developer’s contract may be unenforceable. The contract’s validity is in question due to the consumer problems it entails.\textsuperscript{98} The developer may be engaging in a futile attempt to secure trade secret and contractual protections by using a method of contracting particularly ill suited to achieve such objectives.\textsuperscript{99} The result is that the developer may be getting little or none of the protection sought.

Pre-sale disclosure would serve to strengthen the validity of the license by bringing the developer and consumer into more equal bargaining positions.\textsuperscript{100}

V. PRESALE DISCLOSURE

A. Objectives of Presale Disclosure

Disclosure in the marketing of computer software should assure that the consumer has access to the material terms of the license agreement prior to purchase.\textsuperscript{101} Substantively, the license

\textsuperscript{97} The the software rental house operator may claim that renting provides the computer user with a chance to try the program prior to purchase. However, unquestioning acceptance of such a proposition is probably naive. See MicroPro Sues Software Rental Firm Over Copyright Infringement, Office Admin. & Automation, Aug. 1983, at 17.

\textsuperscript{98} So questionable is the validity of box-top license agreements that the Louisiana Legislature has passed the “Software License Enforcement Act” which deems the box-top agreement valid and enforceable. Louisiana Software Enforcement Act, La. Rev. Stat. Ann. §§ 51:1961 et seq. (West 1985). Such an act, however, ignores the consumer issues which the license may give rise to.


\textsuperscript{100} Courts are less likely to invalidate a harsh contract where the parties deal at arms length. See Shell Oil Co. v. Marinello, 63 N.J. 402, 408, 307 A.2d 598, 601 (1973), cert. denied, 415 U.S. 920 (1974) (unfair provisions of the contract are unenforceable because of disproportionate bargaining power). See also Restatement (Second) of Contracts § 208 comment d (1981).

\textsuperscript{101} One way to accomplish such an objective is to require that the consumer read and initial a copy of the license agreement at the point of sale. While such a requirement presents the developer with some of the expenses which accompany negotiations with large numbers of end users, the burden would be substantially less onerous than full negotiations with, per-
should clearly set forth all the terms of the agreement so that the average buyer can understand them.

Software dealers should be prohibited from removing or obstructing license agreements from the face of the software documentation. The dealer should also be required to prominently display general license terms at the point of sale, as well as any restrictive return policies which may prevent the consumer from obtaining a refund for unopened software.

Further, advertisements which solicit software sales should indicate that the software is licensed and that copies of the licensing agreements are available from the developer without charge.

In return for implementing these measures, the software developer should be granted an enforceable contract by use of the box-top license.

B. Costs of Presale Disclosure

While there are incentives for pre-sale disclosure, namely the likelihood of an enforceable contract, there are also disincentives. Disclosure may be inordinately expensive, either in absolute terms or because a relatively small class of consumers would utilize the information.

In terms of the actual cost, the additional expense of pre-sale disclosure would likely be minimal. The developer would only need to modify existing box-top agreements so that the wording is readily understandable, and provide the software dealer with additional copies of the license to be made available to the consumer at the point of sale. Thus, additional requirements of pre-sale disclosure would only require alteration of current marketing practices, and are unlikely to involve any significant additional expense in the long run. Therefore, at least in terms of actual cost, pre-sale disclosure would not be overly burdensome or place inordinate costs on developers.

A more serious problem with pre-sale disclosure is that its cost may be inordinately expensive due to a small degree of consumer utilization. If an insignificant number of consumers will take ad-

102. Display of the license terms at the point of sale will allow the consumer to consider the license terms when deciding whether to purchase the software.


104. The most expensive aspect of a program would likely be the initial expense involved in altering the license.
vant of pre-sale disclosure in their purchase decisions, then the
time, effort and expense of implementing such a program, even if
slight, might not be cost effective. 105

Pre-sale examination of warranty terms has recently been sur-
veyed by the Federal Trade Commission. 106 The survey specifically
examined consumer perusal of warranties prior to sale, which the
MMWA requires be available. 107 Only about five to fifteen percent
of those surveyed indicated having read warranties prior to
purchasing a product. 108

Although pre-sale disclosure of a product's warranty terms is
utilized by a small number of consumers, there may be sufficient
differences between product warranties and software licenses to
conclude that response to the latter would be more favorable. The
F.T.C. report suggests that "quite simply, most consumers might
not care about warranties before buying a product . . . ." 109 The
same may not be true of software license terms. The average con-
sumer is no doubt aware of the existence of a warranty as well as
the general nature of the warranty terms. 110 The software license
contains various restrictions on the use of the software of which a
consumer may be completely unaware 111 as well as a provision re-
taining title in the developer. 112 A consumer may be vitally inter-
ested in software license terms because of unfamiliarity with such
terms and the limitations which they impose.

Further, only about eighteen percent of those surveyed in the
F.T.C. study indicated that the warranty was one of the top three
most important factors in their purchase decision. 113 Software

105. If disclosure would result in an enforceable license, the developer may find pre-sale
disclosure cost-effective even if few consumers used the information.
106. F.T.C., Warranties Rules Consumer Follow-Up: Evaluation Study Final Report,
July, 1984 (hereinafter cited as "Warranties Rules").
108. Warranties Rules, supra note 106, at 56. (The discrepant percentages are due to
inconsistent responses to various questions within the survey).
109. Id. at 69. About forty percent of those surveyed reported having read the warranty
terms after purchase. Id. at 67.
110. About twenty-one percent of those surveyed indicated having warranty information
prior to purchase other than provided by pre-sale disclosure. Id. at 57. Further, about sev-
enty-one percent reported being aware that warranties are available for inspection prior to
purchase. Id. at ES-2.
111. The consumer may not have an opportunity to read the license until after purchase.
Further, it is a well established proposition that standard form contracts are hardly ever read.
Rakoff, Contracts of Adhesion: An Essay In Reconstruction, 96 HARV. L. REV. 1173, 1179
(1983).
112. See supra note 47 and accompanying text.
licenses with restrictions and disclaimers\textsuperscript{114} may be considerably more important and relevant to the consumer when making a purchase decision.

While pre-sale disclosure in a warranty context is apparently less than perfect, the fact remains that consumer problems associated with software licenses indicate that consumers would be more likely to utilize pre-sale disclosure in a software transaction. Thus, although there are problems with pre-sale disclosure, the nature of the computer software transaction suggests that pre-sale disclosure is a viable means of balancing the interests of the software developer and the consumer and would, therefore, be cost-effective.

VI. PROPOSAL

Since competition in the marketplace has failed to force developers to disclose material terms of licenses in order to compete more efficiently, government regulation is appropriate.\textsuperscript{115}

A pre-sale disclosure statute, coupled with enforceability provisions, is one solution to the box-top dilemma. Such legislation could be modeled after the MMWA and incorporate state legislation which seeks to make box-top licenses enforceable.\textsuperscript{116} Legislation should be designed to insure that consumers receive pertinent information regarding the software license terms whenever software developers choose to license the software.\textsuperscript{117} In exchange for the implementation of such disclosure, software developers should be insured of the enforceability of the licenses.\textsuperscript{118}

A. Proposed Pre-Sale Disclosure Requirements in Mass Produced Software Sales

1. License Terms

a. That the license fully and conspicuously disclose in simple and readily understandable language the terms and conditions of the license.

b. That the license explain in simple terms the purposes and requirements of non-disclosure and proprietary rights.

\textsuperscript{114} See, e.g., MicroPro 1982 License which purports to disclaim all warranties and distribute the copy "as is."

\textsuperscript{115} Pitofsky, supra note 103, at 669.


\textsuperscript{117} A developer may choose to sell rather than license the software. See infra note 122.

\textsuperscript{118} See supra note 97 and accompanying text.
c. That the license terms be made available to the prospective consumer prior to sale.
d. That the license terms or statement of their availability be clearly and conspicuously displayed in close proximity to displays of licensed software at the point of sale in a manner reasonably calculated to elicit the prospective consumer's attention.

2. Dealer Requirements

a. That the dealer be prohibited from removing or obstructing from view the license on the software package.
b. That the dealer display any restrictive return policies which may prevent a consumer from returning unopened software for a refund of the purchase price.

3. Software Sales By Mail

a. That all advertisements soliciting software sales by mail prominently display in simple and readily understandable language a statement of proprietary interest of the developer when such software is to be licensed rather than sold.
b. That all advertisements soliciting software sales by mail include a statement of availability of license terms and that such terms be made available at no cost to the prospective consumer.119
c. That all licensed software purchased and shipped through the mail include a copy of the license terms.


a. That all media advertisements soliciting the sale of mass-marketed computer software state in simple and readily understandable language, in a clear and conspicuous manner, that proprietary rights to the software remain with the developer and that use of the software is subject to the conditions of the software license.

B. Support Legislation

The following is designed as support legislation, to confirm the enforceability of box-top software licensing when pre-sale disclosure provisions have been complied with.120

119. Due to the nature of such advertising and in the interest of brevity further explanation would be undesirable.
120. This proposal is modeled after the Louisiana Software Enforcement Act, LA. REV.
The following terms shall be deemed to have been accepted if included in a software license, where such license is affixed to the outer packaging or packed with the software copy, and provided that the terms and conditions of disclosure proscribed above have been complied with:

1. Provisions for the retention by the licensor of legal title to the copy of the computer software.
2. Provisions prohibiting the duplication of computer software for any purpose, or provisions limiting the purposes for which copies of the computer software can be made, or limitations on the number of copies of the computer software which can be made, if the title to the copy of the computer software has been retained by the licensor.
3. Provisions for the prohibition or limitation of rights to modify or adapt the copy of the computer software in any way, including, without limitation, prohibitions on translating, decompiling, disassembling, or otherwise reverse engineering, or creating derivative works based on the computer software, if title to the copy of computer software has been retained by the licensor.
4. Provisions for the automatic termination without notice of the license agreement if any provisions of the license agreement are breached by the licensee.

C. Proposed Amendment to Section 109 of the Copyright Act

Notwithstanding the provisions of subsection (a), unless authorized by the owners of copyrighted software program, the owner of a particular software copy may not, for purposes of direct or indirect commercial advantage, dispose of, or authorize the disposal of, the possession of the copy by rental, lease, or lending. Nothing in the preceding sentence shall apply to the rental, lease, or lending of a copy for nonprofit purposes by a nonprofit library or nonprofit educational institution where such

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121. The validity of an automatic termination clause is questionable since a license to software is valuable property and divestment by government sanctioned action is subject to the due process clause. See, e.g., Stypmann v. City and County of San Francisco, 557 F.2d 1338 (9th Cir. 1977). Normally, such a divestment of a right would require adequate notice and a hearing. See Fuentes v. Shevin, 407 U.S. 67 (1972). However, even constitutional rights pursuant to the due process clause may be waived with knowledge of the right and clear intention to effect the waiver. See Isbell v. County of Sonoma, 21 Cal. 3d 61, 64, 145 Cal. Rptr. 368, 369, 577 P.2d 188, 189 (1978). ("A court may enter judgment against a defendant only if the record shows that either (a) the defendant has received notice and an opportunity to be heard, or (b) the defendant has voluntarily, knowingly and intelligently waived his constitutional rights.") Whether the pre-sale disclosure provisions outlined constitute sufficient evidence of knowledge for waiver is questionable.
nonprofit entity provides each borrower with a copy of the license terms.\textsuperscript{122}

VII. CONCLUSION

Software which is mass-produced and mass-marketed specifically for the personal computer is best categorized as a consumer product. The conflicting interests of the software developer in maintaining proprietary rights and of the consumer in making an informed purchase decision are not well served by the box-top license. Within the consumer context, the box-top license is fraught with problems which draw the validity and possibility of enforcement of the license into question. These problems stem largely from the fact that the consumer, at the point of sale, does not possess the requisite knowledge of the material terms of the license. This lack of information can largely be overcome through the vehicle of pre-sale disclosure.

Implementation of pre-sale disclosure should be undertaken voluntarily by the software developer since the developer stands to gain from such disclosure. Where software developers fail voluntarily to implement disclosure, however, government intervention on behalf of the consumer is appropriate.

The legislation proposed in this comment would benefit both the software developer and consumer. The consumer will gain the ability to make an informed purchase which will have positive effects on the market. The developer will gain an enforcable contract which will protect the investment represented by the software program and proprietary rights therein.

\textsuperscript{122} This proposal is based upon the 1984 amendment to section 109 of the Copyright Act. H.R. Rep. No. 987, \textit{supra} note 68. Nearly the same effect could be accomplished by placing a provision within the terms deemed accepted. For example:

Provisions for prohibition of further transfer, assignment, rental, sale, or other disposition of that copy or any other copies made from that copy of the computer software if title to the copy of computer software has been retained by the licensor.

However, such a provision would only be effective if the software developer sought to impose it through licensing. By amending section 109, the software developer would be encouraged to sell the program copy where the other protections provided by licensing are not important.
APPENDIX A

SORCIMIUS MICRO SOFTWARE LICENSE AGREEMENT AND LIMITED PRODUCT WARRANTY

YOU SHOULD CAREFULLY READ THE FOLLOWING TERMS AND CONDITIONS. YOUR USE OF THIS PROGRAM PACKAGE INDICATES YOUR ACCEPTANCE OF THEM. IF YOU DO NOT AGREE WITH THEM, YOU SHOULD NOT USE THIS PROGRAM BUT PROMPTLY RETURN THE PACKAGE AND YOUR MONEY WILL BE REFUNDED.

SORCIMIUS provides this program and licenses its use to you. You assume responsibility for the selection of the Program to achieve your intended results and for the installation, use and results obtained from the Program.

LICENSE
You may
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b. Copy the Program into any machine readable or printed form for backup or modification purposes in support of your use of the Program on a single machine. Certain Programs, however, may include mechanisms to limit or inhibit copying. They are marked "copy protected."
c. Modify or merge the Program into another program for your use on the single machine. Any portion of the Program merged into another program will continue to be subject to the terms and conditions of this License. You must reproduce and include the copyright notice on any copy, modification or portion of the Program merged into another program.

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SIX-MONTH REFUND AND REPLACEMENT POLICY
For a period of six months after your purchase of the Program (as evidenced by you or your dealer completing and mailing to SORCIMIUS of the enclosed registration card within ten days after purchase) SORCIMIUS warrants that (i) the Program will substantially perform the functions and generally conform to the Program's specifications published by SORCIMIUS and (ii) the diskettes on which the Program is furnished will be free from defects in materials and workmanship under normal use.

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SORCIMIUS's entire liability and your exclusive remedies shall be
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b. In case the Program diskette is defective, if it is returned with a copy of your sales receipt, SORCIMIUS will either replace it or, if a replacement cannot be delivered, you may terminate this Agreement by returning the rest of the Program and your purchase price will be refunded.

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SORCIMIUS does not claim that the functions contained in the Program will meet your requirements or that the operation of the Program will be either error free or appear precisely as described in the Program documentation.

This Agreement will be governed by the laws of the State of New York.

Should you have any questions concerning this Agreement, you may contact SORCIMIUS by writing to SORCIMIUS at 2195 Fortune Drive, San Jose, CA 95131.

YOU ACKNOWLEDGE THAT YOU HAVE READ THIS AGREEMENT, AND ACCEPT ITS TERMS AND CONDITIONS. YOU ALSO AGREE THAT IT IS THE COMPLETE AGREEMENT BETWEEN US AND THAT IT SUPERCEDES ANY INFORMATION YOU RECEIVED RELATING TO THE SUBJECT MATTER OF THIS AGREEMENT.