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Common Mistakes Made by Licensors in Administering Click-Wrap Agreements

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At one time or another, everyone who has used the Internet or installed a piece of software has encountered a “click-wrap” or “shrink-wrap”² agreement that required you to click to “accept” the agreement before proceeding. For corporate and outside counsel whose clients regularly rely on such agreements to protect their most valuable assets, there has always existed some apprehension regarding the enforceability of such agreements. It is now time to rest a little easier. Two recent decisions, *Softman Products C. v. Adobe Systems, Inc.*³ and *i.Lan Systems Inc. v. Netscout Service Level Corp.*,⁴ add to the growing body of U.S. case law that has held click-wrap and shrink-wrap agreements enforceable against promisees who clearly manifest an

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² A “click-wrap” or “shrink-wrap” agreement is a non-negotiated agreement that a user of software or a visitor to a website is required to agree to by clicking an icon before being permitted to proceed. The terms are used interchangeably in the article.

³ *Softman Products C. v. Adobe Sys., Inc.*, 171 F.Supp.2d 1075 (C.C. CA. 2001)

⁴ *i.Lan Sys. Inc. v. Netscout Service Level Corp.*, 183 F.Supp.2d 328 (D. Mass 2002).

intent to be bound.⁵ Evidence of such intent may include nothing more than clicking an icon that says “I Agree.”⁶

FORMATION OF ELECTRONIC AGREEMENTS.

The U.S. Federal Electronic Signatures in Global and National Commerce Act (“E-SIGN”) effective October 1, 2000, established that, with certain exceptions, electronic signatures and electronic documents have the same legal force and effect as traditional signatures and paper documents.⁷ E-SIGN defines an electronic signature broadly as “an electronic sound, symbol, or process, attached to or logically associated with a contract or other record and executed or adopted by a person with the intent to sign the record.”⁸ Everything from the simplest mouse click to the most complex encrypted digital signature is included. However, E-SIGN is silent

⁵ *See, e.g.* ProCD Inc. v. Zeidenberg, 86 F.3d 1447 (7th Cir. 1996); Specht v. Netscape Comm. Corp., 150 F.Supp.2d 585 (S.D.N.Y. 2001); In re RealNetworks, Inc. Privacy Litigation, WL 631341 (N.D.Ill. May 8, 2000); Hotmail Corp. v. Van\$ Money Pie, Inc., 1998 WL 388389 (N.D.Cal. April 16, 1998); Register.com v. Verio, Inc., 126 F.Supp.2d 238 (S.D.N.Y.2000). In ProCD Inc. v. Zeidenberg, the Seventh Circuit court of Appeals considered a software license agreement “encoded on the CD-ROM disks as well as printed in the manual, and which appear[ed] on a user’s screen every time the software [ran].” ProCD, 86 F.3d at 1450. The court held that the license agreement was binding on the defendant Zeidenberg because he manifested his intent to be bound by its terms. A vendor, as master of the offer, may invite acceptance by conduct, and may propose limitation on the kind of conduct that constitutes acceptance. A buyer may accept by performing the acts the vendor proposes to treat as acceptance. ProCD proposed a contract that a buyer would accept by using the software after having an opportunity to read the license at leisure. Because Zeidenberg was confronted with the electronic version of the license agreement each time he ran the software and could not proceed without accepting it, the court held that he expressed his assent to be bound by it. *Id.* at 1452.

⁶ *i.Lan Sys.*, 183 F.Supp.2d at 336 *citing* ProCD Inc. v. Zeidenberg, 86 F.3d 1447 (7th Cir.1996) and Specht v. Netscape Comm. Corp., 150 F.Supp.2d 585 (S.D.N.Y.2001). *i.LanSystems* involved a battle of the forms between a licensor and its licensee. The issue was whether the additional terms contained in the click-wrap agreement applied despite the existence of separate license agreement between the parties.

⁷ 15 U.S.C. §§ 7001-7006, 7021, 7031

⁸ 15 U.S.C. §7006

with respect to contract formation. To fill the void, courts must rely on traditional principles of contract law such as the mutual assent of the parties.

Under U.S. common law principles and the Uniform Commercial Code, an agreement is not binding unless there is mutual assent. Mutual assent may be “manifested by written or spoken words, or by conduct”⁹ or expressed by “a signature, a handshake, or a click of a computer mouse”.¹⁰ Formality is not requisite to formation of a contract. Provided that the expression to be bound unequivocally relates to the proposed agreement between the parties, any sign, symbol or willful action or inaction may form a contract.¹¹ Upon this basic principle, with or without the benefit of E-SIGN legislation¹², when a promisee is clearly presented with the option to accept an electronic agreement, if the promisee clicks or checks the “I Agree” icon or box, courts have consistently held that such promisee is bound by such an agreement because the promisee has unambiguously expressed his or her assent to be bound.¹³

While practitioners can take comfort in knowing that more and more courts are willing to enforce click-wrap agreements, common mistakes made by licensors in how they present their agreements for acceptance have frequently rendered unenforceable otherwise enforceable agreements. The primary reason is a failure to obtain the prospective licensee’s assent to be bound. The remainder of this article examines the mistakes made by the licensors in *Specht v.*

⁹ *Specht*, 150 F.Supp.2d at 591-92 (S.D.N.Y.2001); *see also* E. ALLAN FARNSWORTH, FARNSWORTH ON CONTRACTS §3.1 (2d ed. 2000)

¹⁰ *Id.* at 587; *see also* U.C.C. § 2-204

¹¹ *Id.*

¹² Neither the *Specht* or *i.Lan System* decisions relied on E-Sign.

¹³ *Specht*, 150 F. Supp. 2d at 595; *c.f.* The following decisions addressed the issue of the enforceability of “shrink-wrap” licenses and held that they were unenforceable on various grounds. *Step-Saver Data Systems, Inc. v. Wyse Tech.*, 939 F.2d 91, 96 n. 7(3d cir.1991); *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255 (5th Cir.1998); and *Klocek v. Gateway, Inc.*, 104 F.Supp.2d 1332 (D.Kan.2000).

*Netscape Communications Corp*¹⁴, *Pollstar v. Gigmania Ltd.*¹⁵ and *Softman Products C. v. Adobe Systems, Inc.*¹⁶ that rendered their potentially enforceable agreement unenforceable.

LACK OF MUTUAL ASSENT

The most common mistake made by online software licensors or website hosts is not having prospective licensees or visitors to their website affirmatively accept the click-wrap agreement governing use of their software and/or website. Often times, the click-wrap agreement is posted in an unobtrusive location so as to not be an inconvenience to visitors and licensees. While this approach may make the website more user friendly, it undermines the purpose and enforceability of the click-wrap agreement. This type of mistake is most clearly demonstrated in *Specht v. Netscape Communications Corp.* and *Pollstar v. Gigmania Ltd.*

SPECHT V. NETSCAPE COMMUNICATIONS CORP

Specht involved a claim by users of Netscape's "SmartDownload" software that Netscape used information about their file transfer activity on the Internet in violation of the U.S. federal privacy and computer fraud statutes.¹⁷ Netscape moved to compel arbitration of their claim as

¹⁴ *Specht*, 150 F. Supp. 2d at 585.

¹⁵ *Pollstar v. Gigamania Ltd.*, 170 F.Supp.2d 974 (E.D. Cal. 2000).

¹⁶ *Softman Products C.*, 171 F.supp.2d at 1075.

¹⁷ *Specht*, 150 F.Supp.2d at 587. The relevant U.S. federal statutes were the Electronic Communications Privacy Act, 18 U.S.C. §2510 *et seq.*, and the Computer Fraud and Abuse Act, 18 U.S.C. § 1030.

provided in its SmartDownload license agreement.¹⁸ The court denied Netscape's motion and held that the plaintiffs never assented to be bound by the license agreement.¹⁹

Netscape offered on its web site its SmartDownload software free of charge to all who visited and downloaded it from the site.²⁰ While Netscape posted a hyperlink on the web page to a license agreement that governed SmartDownload's use, the court held that none of the plaintiffs agreed to be bound by it.²¹ According to the court, Netscape made two mistakes. First, the icon button that activated the download was at the top of the web page while the hyperlink to the license agreement was placed at the bottom.²² Unless the visitor scrolled to the bottom of the page (for which there was no reason in that the icon sued to download the software was at the top of the page), the existence of the license agreement went unnoticed. Second, even if visitors did happen to scroll down and find the hyperlink, they were confronted only with the following: "Please review and agree to the terms of the *Netscape SmartDownload software license agreement* before downloading and using the software."²³ This phrase, according to the court was merely an invitation to read the agreement and did not put a visitor on notice that by downloading the software they were agreeing to be bound by the license agreement.²⁴

¹⁸ Specht, 150 F. Supp. 2d at 587.

¹⁹ *Id.* at 598.

²⁰ *Id.* at 587.

²¹ *Id.*

²² *Id.* at 588.

²³ Specht, 150 F. Supp. 2d at 588. (emphasis in original)

²⁴ *Id.* at 588.

The court contrasted the presentation of the SmartDownload license agreement with that of Netscape's license agreement for its Navigator product.²⁵ Before being able to download Netscape Navigator, prospective licensees are required to click a box affirming their assent to the terms of the agreement.²⁶ According to the court, this unambiguous expression of assent bound licensees to the terms of Navigator's agreement.²⁷ Consequently, because Netscape placed its SmartDownload agreement in an unobservable location and only invited prospective licensees to agree to its terms, the court held that Netscape failed to obtain its licensee's assent to be bound and held that the license agreement was non-binding.²⁸

POLLSTAR V. GIGMANIA LTD.

Similar to *Specht*, the issue in *Pollstar v. Gigmania Ltd.* was whether visitors to a website were bound by the terms and conditions posted on the website by way of a hyperlink.²⁹ Pollstar claimed that its competitor, Gigmania Ltd. ("Gigmania"), copied information from the pollstar.com website and reproduced it to its web site at *www.gigmania.com*.³⁰ Pollstar's complaint stated three causes of action: (i) common law misappropriation, (ii) unfair competition under Cal. Bus. & Prof.Code § 17200, and (iii) breach of contract.³¹ Gigmania filed a motion to

²⁵ *Specht*, 150 F. Supp. 2d at 595.

²⁶ *Id.*

²⁷ *Id.*

²⁸ *Id.* at 596.

²⁹ *Pollstar*, 170 F. Supp. 2d at 980.

³⁰ *Id.* at 986.

³¹ *Id.* at 976.

dismiss the complaint for failure to state a claim under U.S. Federal Civil Procedure Rule 12(b)(6).³² Regarding Pollstar’s third cause of action, the breach of contract claim, Gigmania argued that it was not bound by Pollstar’s license agreement because Gigmania never expressed its assent to be bound.³³

Pollstar argued that users implicitly agreed to be bound by its license agreement because users were “immediately confronted with notice” that continued use of the website was subject to its terms.³⁴ The court disagreed.³⁵ First, the court characterized Pollstar’s form of agreement as a “browse-wrap” agreement and distinguished it from the “shrink-wrap” agreement discussed in *ProCD*.³⁶ According to the court, unlike a shrink-wrap agreement that unambiguously requires users to agree to be bound before proceeding, it is unclear whether users ever agree to be bound by a browse-wrap agreement noted only by a hyperlink.³⁷ Second, the court questioned whether users were in fact “immediately confronted with notice” that use of the website was subject to a license agreement.³⁸ Because the hyperlink to the agreement was presented in small gray text on a gray background and was not underlined (as is the standard convention for hyperlinks) the court discounted whether users were in fact aware of the license agreement.³⁹ While the court

³² Pollstar, 170 F. Supp. 2d at 974. Gigmania’s motion was a U.S. Federal civil Procedure Rule 12(b)(6) motion.

³³ *Id.* at 980.

³⁴ *Id.* at 977.

³⁵ *Id.* at 982.

³⁶ *Id.* at 981.

³⁷ Pollstar, 170 F. Supp. 2d at 981.

³⁸ *Id.* at 982.

³⁹ *Id.* at 981.

ultimately denied Gigmania's 12(b)(6) motion,⁴⁰ it stated that Gigmania raised significant questions regarding the enforceability of Pollstar's "browse-wrap" license agreement.⁴¹

ELECTRONIC VERSION ONLY

A common mistake made by software vendors is providing their license agreement in electronic form only on the diskette or CD_ROM on which the software is licensed or sold. While this may save the software vendor money by not having to print and provide hardcopies of manuals, warranty cards and license agreements, such license agreements have been held to be non-binding on those purchasers of the software who do not install the software because such purchasers never view and accept the license agreement.

In *Softman Products Company, LLC v. Adobe Systems, Inc.*, Adobe Systems Inc. ("Adobe") required every user of its software to click to accept its End User License Agreement ("EULA") prior to installation, but Adobe did not include a hard copy of its EULA with the product packaging.⁴² *Softman* involved a dispute between Adobe and Softman Products company ("Softman") over Softman's unauthorized distribution of Adobe software.⁴³ According to Adobe, Softman violated its EULA when it unbundled collections of Adobe software and sold

⁴⁰ A motion under U.S. Federal Civil Procedure Rule 12(b)(6) is notoriously difficult to succeed on because courts are required to read claims broadly so that all litigants may have their day in court. In *Pollstar*, it appears from the language used by the court that it hesitated to decide the issue of enforceability because of the procedural posture of the case, not because of a strong belief that Gigmania ever manifested its assent to be bound by the license agreement. See *Pollstar*, 170 F. Supp. 2d at 980.

⁴¹ *Pollstar*, 170 F. Supp. 2d at 982.

⁴² *Softman*, 171 F. Supp. 2d at 1087.

⁴³ *Id.* at 1079.

them individually.⁴⁴ Adobe claimed, among other things, that Softman was bound to the term so the EULA electronically recorded on each computer disk which expressly limited the ability of purchasers of the software to resell the software collection.⁴⁵ Softman argued that no contractual relationship existed between it and Adobe and it was not bound by the EULA because it could only be viewed upon installation of the software, which it never did.⁴⁶ The court agreed with Softman.⁴⁷

The court, citing to *Specht*, held that while click-wrap agreements are enforceable if the promisee manifests its assents to be bound; Adobe's EULA was not binding on Softman because Softman never installed the software and accepted the EULA.⁴⁸ Adobe countered by arguing that similar to the facts in *ProCD Inc. v. Zeidenberg*, the packaging for the software collection clearly stated that the use of the software was subject to licensee's agreement to be bound by the terms of the EULA.⁴⁹ The court distinguished the result in *ProCD* by noting that ProCD (i) placed notice of its license agreement on the outside of its product packaging, (ii) inserted a hardcopy of its license agreement inside the packaging, and (iii) required an online acceptance of its agreement each time the software was used.⁵⁰ Adobe relied solely on its electric form of EULA. According to the court, "the existence of [a] notice on the box [could not] bind SoftMan. Reading a notice on a box is not equivalent to the degree of assent that occurs when the software

⁴⁴ Softman, 171 F. Supp. 2d at 1080.

⁴⁵ *Id.* at 1087.

⁴⁶ *Id.*

⁴⁷ *Id.* at 1094.

⁴⁸ *Id.* at 1087.

⁴⁹ Softman, 171 F. Supp. 2d at 1087.

⁵⁰ ProCD, 86 F.3d at 1450.

is loaded onto the computer and the consumer is asked to agree to the terms of the license.”⁵¹

Consequently, because Adobe relied solely on its electronic form of license (despite distributing its product through traditional brick and mortar and mail order channels), the court held that Softman was not bound by the EULA.⁵²

CONCLUSIONS

Despite the statements of the *Specht*, *Pollstar* and *Softman* courts that click-wrap agreements are binding when accepted by licensees or website users, because the licensors in each instance failed to properly present their agreements for acceptance, the courts held them unenforceable. By avoiding Netscape’s, Pollstar’s and Adobe’s mistakes and by following some simple guidelines provided below, licensors can increase the likelihood that a court will enforce their electronic or online agreements against licensees or website users.

1. Place the agreement or the link to the agreement in a highly visible location.
2. Require licensees to accept the agreement by clicking on an “I agree” or “I accept” icon prior to installing, using or downloading the software or entering the website. The licensee should not be able to proceed with any of the foregoing unless the “accept” icon has been clicked. If requiring visitors to your website to accept your website’s terms and conditions each time they visit is not practical, consider having a one-time sign-up and acceptance of the terms and conditions when entering the site for the first time,⁵³ or (ii)

⁵¹ Softman, 171 F. Supp. 2d at 1087.

⁵² *Id.*

⁵³ For example, The New York Times website (www.nytimes.com) and The Wall Street Journal (www.wsj.com) require a onetime registration and acceptance of their terms and conditions before gaining otherwise free access to articles online.

requiring acceptance of the website's terms and conditions only when entering those areas of the site containing valuable information or that involve the provision of services (e.g., electronic trading or online account information). Do not rely on hyperlinks and pop-windows that can be ignored or overlooked.

3. Provide a hardcopy version of the agreement if the product is sold in diskette or CD-ROM form.
4. Write the agreement in simple and concise language using a normal font size that is readable and easy to understand by consumers. Under the laws of certain states, inconspicuous or hard to read terms may not be binding.⁵⁴

⁵⁴ California courts, for example, limit the circumstances under which a party may be bound to a contract. “[A]n offeree, regardless of apparent manifestation of his consent, is not bound by inconspicuous contractual provisions of which he was unaware, contained in a document whose contractual nature is not obvious...” *Specht*, 150 F.Supp.2d at 594 (citations omitted). But inconspicuous contract terms should not be taken to mean that a contract is not binding unless the promisee actually reads it. Courts have been more than willing to hold a promisee to an agreement despite his or her failure to read its terms. *See, e.g.*, *M.A. Mortenson Co. Inc. v. Timberline Software Corp.*, 998 P.2d 305 (Wash 2000); *see also Specht*, 150 F.Supp.2d at 594 *citing* *Powers v. Dickson, Carlson & Campillo*, 54 Cal.App.4th 1102, 1109 (Cal.Ct.App.1997); *Rowland v. PaineWebber Inc.*, 4 Cal.App.4th 279, 287 (Cal.Ct.App.1992).