

## **CLICKING AWAY YOUR SPEECH RIGHTS: THE ENFORCEABILITY OF GAGWRAP LICENSES**

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*Software companies would like to be able to control what their customers and reviewers can say about them and their software. To this end, many include in their license agreements “DeWitt” or “gagwrap” clauses which purport to prevent written reviews or disclosure of benchmark test results involving the software without the manufacturer’s consent. While the courts have recognized the enforceability of software licenses to protect manufacturers, they have so far not addressed the enforceability of gagwrap clauses. This article examines gagwrap clauses and examines them in a public policy framework arising from contract and First Amendment jurisprudence. It proposes a test for the enforceability of the clauses that leaves in place many agreements not to speak but renders gagwrap clauses suspect on public policy grounds.*

Shrinkwrap and clickwrap licenses have become common vehicles for obtaining user acceptance of software licenses and online terms of use. *Black’s Law Dictionary* defines “shrinkwrap” as a license “printed on the outside of a software package to advise the buyer that by opening the package, the buyer becomes legally bound to abide by the terms of the license.”<sup>1</sup> These license agreements derive their

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<sup>1</sup>BLACK’S LAW DICTIONARY (8th ed. 2004).

names from the shrinkwrap around the package that the user must break to install the software.

At least some courts have recognized this kind of license agreement to be enforceable,<sup>2</sup> but not all terms contained in the arguments are benign. Along with standard admonitions about copyright infringement and statements about assignments of rights, software manufacturers of database management applications may include in their clickwrap licenses agreement clauses that forbid the publication of benchmark test results<sup>3</sup> without the manufacturer's consent<sup>4</sup>—consent that is often not provided.<sup>5</sup> Software manufacturers have also included clauses that forbid publication of any review of their products without consent;<sup>6</sup> and they have even sought to prohibit licensees from using licensed software to criticize the software manufacturer.<sup>7</sup>

The implications of these bans are significant. Benchmarks and reviews provide a way for consumers to determine the relative strengths and weaknesses of various software or hardware configurations so that they can make informed buying decisions. Denying consumers the permission to see results from comparative benchmark tests run by disinterested parties only lessens consumers' capabilities to make informed purchasing decisions. The scope of the problem is broad: Software companies using these restrictive clauses represented more than \$60 billion in software sales in 2005 and in-

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<sup>2</sup>See *ProCD v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996). See also *infra* text accompanying notes 47–64.

<sup>3</sup>MICROSOFT PRESS COMPUTER DICTIONARY 47 (3d ed. 1997):

[B]enchmark . . . . A test used to measure hardware or software performance . . . . Benchmarks for software determine the efficiency, accuracy, or speed of a program in performing a particular task, such as recalculating data in a spreadsheet. The same data is [sic] used with each program tested, so the resulting scores can be compared to see which programs perform well and in what areas. The design of fair benchmarks is something of an art, because various combinations of hardware and software can exhibit widely variable performance under different conditions. Often, after a benchmark has become a standard, developers try to optimize a product to run that benchmark faster than similar products run in order to enhance sales.

<sup>4</sup>See, e.g., Oracle Technology Network Development and Distribution License Terms, <http://www.oracle.com/technology/software/htdocs/distlic.html?/technology/software/tech/windows/odpnet/utilsoft.html> (last visited Feb. 5, 2006) [hereinafter Oracle License] (“You may not . . . disclose results of any program benchmark tests without our prior consent.”).

<sup>5</sup>See, e.g., *People v. Network Assocs., Inc.*, 758 N.Y.S.2d 466, 467 (N.Y. Sup. Ct. 2003).

<sup>6</sup>*Id.*

<sup>7</sup>Microsoft Licensing Product Use Rights, Worldwide English April 2006, [download.microsoft.com/download/a/5/f/a5fc3270-2fe6-4536-b228-6b333ab8569d/PUR\\_Apr2006.doc](http://download.microsoft.com/download/a/5/f/a5fc3270-2fe6-4536-b228-6b333ab8569d/PUR_Apr2006.doc) (last visited June 10, 2006).

clude the dominant producers of relational database management software.<sup>8</sup>

Few cases indicate whether courts will enforce these restrictive clauses, but there is already evidence that they have had a significant chilling effect on the publication of comparative product information.<sup>9</sup>

These speech-restrictive clauses, dubbed “gagwrap” by the Consumer Project on Technology (CPT), a non-profit organization focusing on intellectual property rights and health care, electronic commerce and competition policy,<sup>10</sup> contain many types of contract terms that restrict users’ ability to engage in certain kinds of speech. According to CPT:

Gagwrap Clauses purportedly ban disparagement of a website, service, product or company through barring use of graphics, logos, trademarks and other intellectual property to criticize the website, service, product or company. The gagwrap clauses also occasionally condition certification and affiliate programs. The conditions may include a stated duty not only to forbear from disparagement but an affirmative duty to report disparagement.<sup>11</sup>

This article focuses on restrictive clauses that forbid disclosure of any benchmark test results or publication of any product review without manufacturer consent. The article proposes a public policy framework—contract law coupled with a free speech analysis—to render these gagwrap clauses unenforceable. This approach can apply equally well to all gagwrap clauses while leaving intact other contracts that contain agreements not to speak.

It is not the goal of the article to dismantle contract law or to suggest that any contract that curtails the right to speak freely is *per se* unenforceable. In fact, this approach is conservative and will leave un-

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<sup>8</sup>See Scott DeCarlo, ed., *The Forbes Global 2000*, FORBES, Mar. 31, 2005, available at <http://www.forbes.com/2005/03/30/05f2000land.html>.

<sup>9</sup>See *infra* notes 24–27 and accompanying text.

<sup>10</sup>About the Consumer Project on Technology, <http://www.cptech.org/about.html> (last visited Feb. 5, 2006) (“The Consumer Project on Technology was started by Ralph Nader in 1995. Our work is documented extensively on the CPTech Web site. Currently CPTech is focusing on intellectual property rights and health care, electronic commerce (*very broadly defined*) and competition policy” (emphasis in original)).

<sup>11</sup>Gagwrap Clauses in Current Shrinkwrap and Clickwrap Contracts, <http://www.cptech.org/ecom/ucita/licenses/gagwrap.html> (last visited Feb. 5, 2006). The site contains a number of examples of gagwrap clauses from several well-known companies, including Carfax, Macromedia and Microsoft.

touched many agreements that involve pledges of silence. Its goal is to address only contracts not to speak that implicate a public interest.

The article first offers a discussion of companies that use gagwrap clauses in their license agreements and examples of the types of clauses they employ, showing the pervasiveness and impact of the problem. It then provides an overview of contract law and the enforceability of clickwrap and shrinkwrap licenses generally, followed by a discussion of provisions that may render contracts unenforceable. The article next considers the First Amendment: Though these agreements probably do not implicate state action, the First Amendment may still function as a basis for non-enforcement of gagwrap licenses that restrict speech with a public interest component. The article concludes with an application of the public policy framework to the example gagwrap clauses, as well as with a discussion of how the proposed approach leaves intact many contracts that contain agreements of silence.

### **PERVASIVENESS AND IMPACT OF GAGWRAP CLAUSES**

Over the last twenty years, a pattern has developed in which manufacturers of software have attempted to exert control over publication of product reviews and benchmark test results evaluating their products. According to *Jargon: An Informal Dictionary of Computer Terms*, “A benchmark is a test used to measure the relative performance of hardware or software products.”<sup>12</sup> Fair benchmarks are difficult to construct because of the complex performance variables involved; software manufacturers may even optimize their software to perform better with well-known benchmarks so they get better reviews and higher sales.

In the mid-1980s, database software giant Oracle began including in its license agreements what has been called a “DeWitt clause.” Oracle describes itself as “the world’s largest enterprise software company” and is a producer of relational database management (RDBMS) software.<sup>13</sup> It claims to receive more than 41% of all worldwide sales revenue for RDBMS software.<sup>14</sup> David DeWitt, a computer

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<sup>12</sup>ROBIN WILLIAMS, *JARGON: AN INFORMAL DICTIONARY OF COMPUTER TERMS* 59 (1993). See *supra* note 3.

<sup>13</sup>About Oracle, <http://www.oracle.com/corporate/home/index.html> (last visited Feb. 5, 2006).

<sup>14</sup>*Oracle’s Share of the RDBMS Market Continues to Grow 1*, [http://www.oracle.com/corporate/investor\\_relations/orcl\\_db\\_strength.pdf](http://www.oracle.com/corporate/investor_relations/orcl_db_strength.pdf) (last visited Feb. 5, 2006). See also *Gartner Says Worldwide Relational Database Market Increased 8 Percent in*

science professor at the University of Wisconsin and co-founder of Wisconsin Benchmarks, published unfavorable benchmark results for an Oracle database product.<sup>15</sup> To avoid the resulting bad press in the future, Oracle added a provision to its software license agreement prohibiting end-users from disclosing benchmark results without Oracle's permission.<sup>16</sup> Oracle has continued this practice; as of February 2006, the following clause appeared in its software license agreements: "You may not ... disclose results of any program benchmark tests without our prior consent."<sup>17</sup>

Gagwrap practices have become widespread, and they affect a substantial percentage of software sales: In 2005 more than 85% of RDBMS sales, accounting for nearly \$13 billion, were subject to gagwrap clauses of Oracle, Microsoft and IBM.<sup>18</sup> Companies prohibiting publication of benchmarks or reviews about their products include SAP, a provider of enterprise software solutions;<sup>19</sup> Microsoft, a provider of corporate and personal database and productivity software;<sup>20</sup> and APMsafe.com, Inc., and its subsidiary Cypherus, Inc., developers of encryption and virus protection software.<sup>21</sup>

The content of gagwrap clauses has been largely untested in the state courts. By 1999, Network Associates, Inc., producer of the

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2005, <http://www.gartner.com/it/page.jsp?id=493002> (last visited July 28, 2006) (putting Oracles RDBMS market share at 48.6%).

<sup>15</sup>See Brian Moran, *The Truth About the TPC*, SQL SERVER MAG., Mar. 13, 2003, available at <http://www.windowsitpro.com/Article/ArticleID/38348/38348.html?Ad=1> (last visited Feb. 5, 2006).

<sup>16</sup>*Id.*

<sup>17</sup>Oracle License, *supra* note 4.

<sup>18</sup>See *Gartner Says, supra* note 14 (showing that Oracle had 48.6% of the worldwide RDBMS software market in 2005, IBM 22%, and Microsoft 15%); DeCarlo, *supra* note 8 (identifying Oracle, Network Associates/McAfee, SAP and Microsoft among the largest software companies in the world, accounting for combined sales of more than \$60 billion each year). See *supra* note 4 and accompanying text for a description of Oracle's gagwrap clause; *infra* note 20 and accompanying text for a description of the Microsoft database software gagwrap clause; *infra* notes 31–32 and accompanying text for the IBM gagwrap clause.

<sup>19</sup>See, e.g., SAP Developers Network—SAP 90 Days Evaluation License Agreement, [https://www.sdn.sap.com/sdn/downloads.sdn?page=software\\_download.htm](https://www.sdn.sap.com/sdn/downloads.sdn?page=software_download.htm) (last visited July 1, 2005) ("You may not disclose the results of any benchmark test ... to any third party without SAP's prior written approval.").

<sup>20</sup>See, e.g., Microsoft SQL Server 2000 Windows CE 2.0 End-User License Agreement, Developer And Test Edition (Sept. 16, 2002), <http://www.microsoft.com/sql/ce/howtobuy/20eula.mspx> (last visited Feb. 5, 2006) ("You may not disclose the results of any benchmark test of the Software or any component thereof to any third party without Microsoft's prior written approval.").

<sup>21</sup>See, e.g., Cypherus Free Download Legal Agreement, <http://www.cypherus.com/download.php> (last visited Feb. 5, 2006) (user agrees "not to publish reviews of this product, or disclose the results of any benchmark test to any third party without prior written consent from Cypherus Inc.").

McAfee family of virus scan and firewall software, began including the following notice on many of its software diskettes and the Web page where its software could be downloaded: "The customer will not publish reviews of this product without prior consent from Network Associates, Inc."<sup>22</sup> The New York court enjoined the use of the gagwrap provision not because of its content but because of the arguably deceptive way in which it was presented.<sup>23</sup>

There is evidence that gagwrap clauses have had significant chilling effect on journalists and independent third parties attempting to publish results of comparative product tests and that independent evaluators withhold benchmark results from the public because of threatened legal action from software manufacturers. *InfoWorld* magazine acknowledges that it has left Oracle out of product comparisons because of Oracle's DeWitt clause.<sup>24</sup> Two other publicized examples arose in 2001 and 2002. Randy Kennedy, research director for technology company Competitive Systems Analysis, worked with Microsoft for five days "refining testing methodology and hardware and software tuning" in a benchmark test of Microsoft's SQL Server product; when the results looked unfavorable to Microsoft, it forbade him to publish, citing the gagwrap clause. Fearing the cost of a suit from the software giant, Kennedy suppressed his results.<sup>25</sup>

Chris Merrill, researcher at Web Performance, a small technology company, was performing a comparative test of Java servers in 2002.<sup>26</sup> In accordance with BEA Systems' license agreement, he sought permission to include its WebLogic software in the test, only

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<sup>22</sup>*People v. Network Assocs., Inc.*, 758 N.Y.S.2d 466, 467 (N.Y. Sup. Ct. 2003). In a case brought by New York Attorney General Eliot Spitzer, the court determined that the license agreement was deceptive because it referred to rules and regulations (including the gagwrap clause) outside of the license agreement itself in a way the court deemed deceptive. *Id.* at 470. Despite the narrow basis for its holding, the court enjoined Network Associates from selling any software "including any language restricting the right to publish the results of testing and review without notifying the Attorney General at least 30 days prior to such inclusion." *Id.*

<sup>23</sup>*Id.*

<sup>24</sup>See Ed Foster, *A Censorship Test Case*, INFOWORLD, Mar. 4, 2002, available at <http://www.infoworld.com/articles/op/xml/02/03/04/020304opfoster.html> ("Many publications, InfoWorld included, have been forced to leave Oracle out of product comparisons because" of the restrictive clause.) On at least one occasion, Oracle invoked the DeWitt clause to discourage *InfoWorld* from publishing benchmark results. *Id.*

<sup>25</sup>See John Fontana, *Microsoft Gets Tough With Independent Testers*, INFOWORLD, Mar. 5, 2001, available at [http://www.networkworld.com/archive/2001/118166\\_03-12-2001.html](http://www.networkworld.com/archive/2001/118166_03-12-2001.html).

<sup>26</sup>See Ed Foster, *Censorship Test: The Government Can't Muzzle Speech, But Vendors Act as Though Benchmark Testing is Unconstitutional*, INFOWORLD, Mar. 7, 2003, available at [http://www.infoworld.com/article/03/03/07/10gripe\\_1.html](http://www.infoworld.com/article/03/03/07/10gripe_1.html).

to be told that BEA had a “blanket policy” of not granting such permission. BEA warned Merrill that it would strictly enforce its policy, so Merrill declined to include the BEA software in the test.<sup>27</sup>

DeWitt and gagwrap clauses have not always prevented publication of benchmarks and product comparisons; competitors with the financial means and a tolerance for risk have ignored the gagwraps and published results. Oracle itself became the target of a DeWitt clause in 2000: Oracle CEO Larry Ellison received a cease and desist letter from Microsoft after he publicly disclosed benchmark results and compared Microsoft’s SQL Server product to Oracle’s database. Ellison ignored the threat and continued making the public comparisons.<sup>28</sup> The *Network Associates* case arose after New York’s attorney general learned of *Network World Fusion* magazine’s decision to publish test results without Network Associates’ permission.<sup>29</sup> These examples probably represent the exception rather than the rule: Oracle and *Network World Fusion*’s publisher, International Data Group, have the resources to withstand lawsuits stemming from these license agreements and might even relish the publicity they would bring.<sup>30</sup> Smaller media, technology, and research companies are more likely to avoid a direct assault from a software giant.

At least one major database software manufacturer has taken a more liberal approach. The license agreement for IBM’s DB2 Data Warehouse Enterprise Edition V9.1 provides:

You may disclose the results of any benchmark test of the Program or its subcomponents to any third party provided that You (A) publicly disclose the complete methodology used in the benchmark test (e.g., hardware and software setup, installation procedure and configuration files), (B) perform Your benchmark testing running the Program in its Specified Operating Environment using the latest applicable updates, patches and fixes available for the Program from IBM or third parties that provide IBM products (“Third Parties”), and (C) follow any and all performance tuning and “best practices” guidance avail-

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<sup>27</sup>*Id.*

<sup>28</sup>See Paul Thurrott, *Microsoft Sends Oracle a Cease-and-Desist Order*, SQL SERVER MAG., Jan. 2001, available at [http://www.sqlmag.com/Article/ArticleID/16187/sql\\_server\\_16187.html](http://www.sqlmag.com/Article/ArticleID/16187/sql_server_16187.html).

<sup>29</sup>*Network Assocs.*, 758 N.Y.S.2d 466, 470 (N.Y. Sup. Ct. 2003).

<sup>30</sup>Oracle’s market capitalization as of June 12, 2006, was nearly \$70 billion. See [www.nasdaq.com](http://www.nasdaq.com). International Data Group, publisher of *Info World Fusion* (now *InfoWorld*), publishes more than 300 newspaper and magazine titles globally. IDG Print Publications, <http://www.idg.com/www/IDGProducts.nsf/PubViewByTitle?OpenForm> (last visited June 12, 2006).

able in the Program's documentation and on IBM's support web sites for the Program. If You publish the results of any benchmark tests for the Program ... IBM and Third Parties shall have the right to publish the results of benchmark tests with respect to Your products provided IBM or Third Parties complies with the requirements of (A), (B) and (C) above in its testing of Your products.<sup>31</sup>

The clause allows IBM to dictate in advance some of the terms under which a licensee can publish benchmark results, but it denies IBM the right to exercise a unilateral veto of a benchmark's publication. It also clarifies that IBM expects reciprocity; if a competitor publishes benchmarks of IBM software, IBM can publish benchmarks of the competitor's, subject to the terms of the paragraph. IBM's clause recognizes some of the challenges of performing accurate benchmarks,<sup>32</sup> but it prefers public disclosure and dialogue rather than reserving for IBM the right to suppress unflattering reviews.

If gagwrap clauses directed at product reviews and benchmark tests are enforced, there is evidence that more sweeping gagwrap clauses may appear in the marketplace in the future. In 2001, for example, commentators on Web-based news services reported a gagwrap clause in the end-user license agreement for Microsoft's FrontPage 2002 Web site design software; other sites later picked up the story.<sup>33</sup> Similar terms currently appear in FrontPage 2003's end-user license agreement, or EULA:

*Web Components.* The software includes web components for MSNBC news headlines, MSN MoneyCentral Stock Quote and MSN Search ... . You may not use the web components to imply any relationship with

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<sup>31</sup>IBM License Information Document, Program Name: IBM DB2 Data Warehouse Enterprise Edition V9.1, Program Number: 5724-E34, [http://www-03.ibm.com/software/sla/sladb.nsf/lilookup/ED32F9FD0A9C758400257130005F4BAF?open=document&li\\_select=8A46DE9928278D4800257130005F4B7D](http://www-03.ibm.com/software/sla/sladb.nsf/lilookup/ED32F9FD0A9C758400257130005F4BAF?open=document&li_select=8A46DE9928278D4800257130005F4B7D) (visited June 12, 2006).

<sup>32</sup>See *supra* note 3.

<sup>33</sup>See Ed Foster, *A Punitive Puppeteer?*, INFOWORLD, Sept. 4, 2001, available at <http://archive.infoworld.com/articles/op/xml/01/09/17/010917opfoster.xml>; Ed Foster, *Control With Fine Print*, INFOWORLD, Sept. 28, 2001, available at <http://archive.infoworld.com/articles/op/xml/01/10/01/011001opfoster.xml>; Donna Longenecker, *Open Computing Urged*, REPORTER, Apr. 18, 2002, <http://www.buffalo.edu/reporter/vol33/vol33n25/n5.html>; Russell Pavlicek, *EULA, EULA, Where's the Moola?*, [http://www.open-mag.com/features/Vol\\_27/EULA/eula.htm](http://www.open-mag.com/features/Vol_27/EULA/eula.htm) (last visited Feb. 5, 2006); Marshall Roch, *Free Speech vs. Microsoft FrontPage*, OUT2TEACH, [http://www.out2teach.com/articles/article.php?article\\_id=33](http://www.out2teach.com/articles/article.php?article_id=33) (last visited Feb. 21, 2003).

Microsoft or MSNBC; disparage Microsoft or MSNBC or their products, software, or services; or violate any law.<sup>34</sup>

This gagwrap clause goes far beyond the typical DeWitt clause. “Disparage” can be read in both its common meaning of “speak[ing] of in a slighting or disrespectful way; belittle[ing],”<sup>35</sup> which could include truthful statements, or in its legal sense of making “false and injurious statement[s] that discredit[] or detract[] from the reputation of another’s property, product, or business.”<sup>36</sup> Imposing restrictions on disparagement, in the former sense, of the FrontPage product may seem alarming enough; the clause goes further, extending the ban on disparagement of Microsoft and its business partners. It is hard to imagine a justification for Microsoft to exact such a promise from its customers, and yet it has been doing so for at least three years.

Considering the power, pervasive influence, and financial resources of these software companies, and the danger that they may be able to suppress truthful speech about their products and even about subjects totally unrelated to their products, it is essential that gagwrap clauses be evaluated critically. In at least some cases, they should be held unenforceable.

## OVERVIEW OF RELEVANT COPYRIGHT AND CONTRACT LAW

Software license agreements exist at the intersection of federal copyright and state contract law. Generally, a consumer enters a license agreement to obtain a software manufacturer’s permission to make copies of and use the software, a copyright-protected work. Federal copyright law regulates which works are subject to copyright protection and which exclusive rights the copyright owner holds, but principles of state law govern whether a license agreement forms a binding contract, how the contract should be interpreted, and whether provisions of it can be held unenforceable.

### *Copyright Law*

Software licenses permit consumers to use software protected by federal copyright law.<sup>37</sup> The author of a work subject to copyright re-

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<sup>34</sup>Microsoft Licensing Product Use Rights, *supra* note 7.

<sup>35</sup>AMERICAN HERITAGE DICTIONARY OF THE ENGLISH LANGUAGE (4th ed. 2000).

<sup>36</sup>BLACK’S LAW DICTIONARY (8th ed. 2004).

<sup>37</sup>Computer software is among the many works subject to the federal copyright laws. *See, e.g.*, *Dun & Bradstreet Software Serv., Inc. v. Grace Consulting, Inc.*, 307 F.3d 197, 206 (3d Cir. 2002).

ceives the exclusive right to copy and distribute it, and to create derivative works from it, among other things.<sup>38</sup> Judicial doctrines and the Copyright Act itself impose some limitations on the copyright owner's rights.<sup>39</sup> Computer software license agreements are contracts between software companies and the consumers of their products.<sup>40</sup> A license agreement confers upon the consumer a license to use the software in ways that require making copies of it and modifying it.<sup>41</sup> In return, the consumer agrees to certain other terms, often including restrictions on copying and limitations of damages.<sup>42</sup>

In the event the consumer breaches the license agreement, the software company's power goes beyond merely enforcing the agreement. Each time the licensee runs the software, a copy of the software is made in the computer's memory. Assuming the licensee has breached the license agreement, each copy constitutes an infringement of the copyright. Each time the licensee runs the software is a breach, making the licensee liable for damages for one infringing copy of the work.<sup>43</sup> Because the Copyright Act of 1976 provides for statutory damages and attorney fees, the damages can mount to a substantial level over a short time.<sup>44</sup>

### ***Law of Contract Formation***

While interpreting copyright law is exclusively within the jurisdiction of the federal courts,<sup>45</sup> copyright license agreements are interpreted according to the contract law of the applicable states.<sup>46</sup> For example, in a dispute over a software license agreement between two Wisconsin parties, a federal judge would decide the question of the

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<sup>38</sup>17 U.S.C. § 106 (2000). A derivative work is a "work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted." *Id.* at § 101.

<sup>39</sup>*See, e.g., id.* at § 107 (describing fair use).

<sup>40</sup>The use of a license, rather than a sale, of software allows software companies to overcome consumer protections enacted by Congress. *See id.* at § 117.

<sup>41</sup>*See, e.g., Oracle License, supra* note 4.

<sup>42</sup>*See id.*

<sup>43</sup>*See, e.g., Stenograph L.L.C. v. Bossard Assocs., Inc.*, 144 F.3d 96, 101–02 (D.C. Cir. 1998); *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 518 (9th Cir. 1993) (Running the software loads it into the computer's memory, which "creates a 'copy' of that software in violation of the Copyright Act.").

<sup>44</sup>*See* 17 U.S.C. §§ 504(c), 505 (2000).

<sup>45</sup>*See* 28 U.S.C. § 1338(a) (2000).

<sup>46</sup>*See, e.g., Davidson & Assocs. v. Jung*, 422 F.3d 630, 639 (8th Cir. 2005); *Bowers v. Baystate Techs, Inc.*, 320 F.3d 1317, 1325–26 (Fed. Cir. 2003).

validity of the copyright and whether a given act infringed the copyright according to federal copyright law; the judge would interpret the license agreement according to Wisconsin contract law. The court might even conclude that the license agreement, under Wisconsin law, fails to meet the requirements of contract formation. The court may be confronted, not just with the question of the license agreement's enforceability under state law, but also with questions about what terms it may contain.

### **ProCD v. Zeidenberg**

In *ProCD v. Zeidenberg*,<sup>47</sup> for example, Matthew Zeidenberg purchased a consumer copy of ProCD's product Select Phone, an aggregation of more than 95,000,000 residential and commercial listings.<sup>48</sup> He then made those listings available over the Internet for commercial purposes, in violation of the product's shrinkwrap license, which read, in part, "You will not make the Software or the Listings ... available to any other user in any networked or time-shared environment, or transfer the Listings ... to any other computer other than the computer used to access the Listings."<sup>49</sup> ProCD filed suit, alleging copyright infringement and breach of the license agreement.<sup>50</sup>

The district court reasoned the listings in Select Phone were not protected under copyright law, because they were purely factual.<sup>51</sup> Copyright law did protect the software on the CD, the court said, but Zeidenberg had not distributed the software. In the absence of a breach of the license agreement, therefore, there was no infringement of ProCD's copyright.<sup>52</sup> The district court concluded the license agreement was not enforceable on two grounds: Zeidenberg had never assented to the contract terms;<sup>53</sup> and the Copyright Act

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<sup>47</sup>86 F.3d 1447 (7th Cir. 1996).

<sup>48</sup>*ProCD v. Zeidenberg*, 908 F. Supp. 640, 645 (W.D. Wisc. 1996).

<sup>49</sup>*Id.*

<sup>50</sup>*Id.* at 646.

<sup>51</sup>*Id.* at 647. *See also* *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 363 (1991) ("[C]opyright rewards originality, not effort.").

<sup>52</sup>*Id.* at 650.

<sup>53</sup>*Id.* at 655. The district court concluded that a contract is generally formed when one party makes an offer to another party who assents to the terms, but that neither party is generally at liberty unilaterally to supply additional terms after the bargain has been achieved. *Id.* at 654. The license agreement for Select Phone appeared in the software manual, inside the shrinkwrapped box, and a notice on the outside of the box said that the product was subject to the license agreement inside. *Id.* Applying the provisions of Wisconsin law relating to the sale of goods, the district court

preempted the license agreement, because it extended copyright protection to the facts in the database, which are not subject to copyright.<sup>54</sup>

The United States Court of Appeals for the Seventh Circuit reversed.<sup>55</sup> It held that shrinkwrap licenses, where the licenses are contained inside the boxes, are no different than many other license arrangements.<sup>56</sup> The court identified other transactions where money changes hands before the purchaser is aware of all the terms of the agreement: insurance contracts and airline tickets, for example. In those cases, as in *ProCD*, the vendor offers the purchaser an opportunity to return the product or cancel the sale after the purchaser has had an opportunity to consider the terms of the license agreement.<sup>57</sup> The court concluded that acceptance of the contract offer happens when the purchaser uses the product or fails to cancel the sale. Drawing analogies to a number of these arrangements, from radios to drugs, the court found that interpreting shrinkwrap licenses in the way that Zeidenberg argued would “return transactions to the horse-and-buggy age.”<sup>58</sup>

As for the question of the contract extending copyright-like protection to the facts in *ProCD*'s compilation, the Seventh Circuit found the trial court had erred. With regard to the licensor's power to impose license terms on the licensee that govern the licensee's conduct in matters other than the copyrighted material itself, the court found that the Copyright Act's preemption of state law was intended to prevent state governments from enacting copyright-like protections for a subject matter that Congress had chosen to leave within the public

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reasoned that Zeidenberg was not bound by the license agreement because he was not aware of its terms before he purchased the software. *Id.* at 655. The court concluded that under Wisconsin law, Zeidenberg accepted the offer to sell the CD when he paid for it and left the store; *ProCD*'s shrinkwrapped license agreement offered additional terms, but because Zeidenberg had not assented to them before the transaction was consummated, they were not binding on him. *Id.*

<sup>54</sup>*Id.* at 659. The court noted that the license agreement for the copyrightable material (the *ProCD* software) purported to limit the purchaser's use of the public domain material (the telephone listings). Zeidenberg alleged this was an attempt by *ProCD* to extend copyright protection to uncopyrightable subject matter. *Id.* Federal copyright law preempts state law that attempts to confer the exclusive rights of copyright on other subject matter. *Id.* at 657. The trial court held that even if the agreement was binding, the provision attempted to extend copyright-like protection to factual material. In effect, the district court held, enforcing the state law license agreement would confer copyright protection on the facts in the case. *Id.* at 659. The court disapproved this outcome. *Id.*

<sup>55</sup>*ProCD v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996).

<sup>56</sup>*Id.* at 1451.

<sup>57</sup>*Id.*

<sup>58</sup>*Id.* at 1452.

domain.<sup>59</sup> Such a state law might indeed grant exclusive rights—rights the holder could exercise against the whole world—to one able to take advantage of it, the court concluded.<sup>60</sup> The court contrasted this with the case of a license agreement, where the vendor does not obtain any exclusive rights because the contract binds only the purchaser. The court observed that if Zeidenberg found a copy of the ProCD listings on a CD lying on the ground, in the absence of the shrinkwrap, he would be under no copyright or contract obligation not to distribute it. If he found a copy of the ProCD software, which is subject to copyright protection, on a CD lying on the ground, copyright law would limit his ability to distribute it even in the absence of a license agreement.<sup>61</sup>

The Seventh Circuit was clear: “Shrinkwrap licenses are enforceable unless their terms are objectionable on grounds applicable to contracts in general (for example, if they violate a rule of positive law, or if they are unconscionable).”<sup>62</sup>

Though *ProCD* has never been challenged in the Seventh Circuit or at the Supreme Court, other courts have criticized and distinguished it. In *Wrench, LLC v. Taco Bell Corp.*,<sup>63</sup> the Sixth Circuit declined to accept *ProCD*’s narrow interpretation of when preemption applies, holding that “[i]f the promise amounts only to a promise to refrain from reproducing, performing, distributing or displaying the work, then the contract claim is preempted.”<sup>64</sup> At least two courts have agreed with the district court in *ProCD* that the license agreement is not binding under state contract law relating to the sale of goods.<sup>65</sup>

At least in the Seventh Circuit, shrinkwrap agreements will be held enforceable, and provisions of those license agreements that govern conduct other than the conduct directly addressed by the Copyright Act will not be preempted by federal law. This suggests that some gagwrap clauses in shrinkwrap agreements, at least, will survive the preliminary assessment of whether they are enforceable under federal copyright and state contract law.

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<sup>59</sup>*Id.* at 1453.

<sup>60</sup>*Id.*

<sup>61</sup>*Id.* at 1454.

<sup>62</sup>*Id.* at 1449.

<sup>63</sup>256 F.3d 446 (6th Cir. 2001).

<sup>64</sup>*Id.* at 457–58. Other courts have followed suit. *See, e.g., Green v. Hendrickson Publ’ers, Inc.*, 770 N.E.2d 784, 789 (Ind. 2002).

<sup>65</sup>*Klocek v. Gateway, Inc.*, 104 F. Supp. 2d 1332, 1339 (D. Kan. 2000) (considering Kansas and Missouri law); *Novell, Inc. v. Network Trade Ctr., Inc.*, 25 F. Supp. 2d 1218 (D. Utah 1997), *partially vacated on other grounds*, 187 F.R.D. 657 (D. Utah 1999).

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### ***“Clickwrap” and “Browsewrap” Agreements***

Gagwrap clauses also appear in license agreements described as “clickwrap” and “browsewrap” licenses. A clickwrap license presents the user with a screen containing the text of the license agreement and a button for the user to click: “I Agree,” or “I Accept,” for example. If the user does not click the button, indicating assent to the terms of the license agreement, no further access to the application is permitted.<sup>66</sup> Clickwrap agreements are generally held to be enforceable contracts (though they may be subject to some of the same copyright preemption concerns as shrinkwrap licenses).<sup>67</sup> Other cases have rejected clickwraps on other technical grounds.<sup>68</sup>

A browsewrap agreement may take one of two general forms: (1) a document appearing to the consumer that is obviously intended to be a license agreement, to which the consumer is not required to assent *before* the transaction is consummated; and (2) a statement somewhere on a Web page that viewing the page is subject to terms of use or a license agreement appearing elsewhere. Both types are typically held unenforceable unless the terms are displayed in such a conspicuous way as to ensure the consumer’s knowledge of the terms and to infer the consumer’s assent to them.<sup>69</sup>

### ***Impact of UCITA***

The Uniform Computer Information Transactions Act (UCITA), the model law supported by many in the computer industry, appears

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<sup>66</sup>See *Specht v. Netscape Commc’ns Corp.*, 150 F. Supp. 2d 585, 593–94 (S.D.N.Y. 2001).

<sup>67</sup>See, e.g., *Davidson & Assocs., Inc. v. Internet Gateway, Inc.*, 334 F. Supp. 2d 1164, 1177 (E.D. Mo. 2004) (interpreting California and Missouri law); *Motise v. America Online, Inc.*, 346 F. Supp. 2d 563, 566 (S.D.N.Y. 2004); *Mortgage Plus, Inc. v. DocMagic, Inc.*, 2004 WL 2331918, \*5 (D. Kan. 2004) (distinguishing *Klocek*, 104 F. Supp. 2d 1332 (D. Kan. 2002)).

<sup>68</sup>See, e.g., *Comb v. PayPal, Inc.*, 218 F. Supp. 2d 1165, 1173, 1177 (N.D. Cal. 2002) (procedural and substantive unconscionability). Unconscionability is a doctrine courts often use in conjunction with public policy concerns when considering whether to enforce a contract. *Black’s Law Dictionary* defines “unconscionable” as “affronting the sense of justice, decency, or reasonableness.”

<sup>69</sup>See, e.g., *Register.Com, Inc. v. Verio, Inc.*, 356 F.3d 393, 429 (2nd Cir. 2004); *Specht v. Netscape Commc’ns Corp.*, 306 F.3d 17, 30 (2nd Cir. 2002) (finding clickwrap unenforceable on grounds that buyer’s assent was not required *before* the purchase); *Defontes v. Dell Computer Corp.*, 2004 WL 253560, \*6 (R.I. Super. 2004) (consumer could view terms only “via a hyperlink, inconspicuously located at the bottom of the webpage”); *but see Pollstar v. Gigmania, Ltd.*, 170 F. Supp. 2d 974, 981 (E.D. Cal. 2000) (refusing to dismiss claim on plaintiff’s license agreement, even though it was available to consumer only through an inconspicuous link “in small gray print on gray background”).

to follow the view that clickwrap and browsewrap licenses are generally enforceable as contracts.<sup>70</sup> It provides:

A person manifests assent to a ... term if the person, acting with knowledge of, or after having an opportunity to review the ... term or a copy of it ... authenticates the ... term with intent to adopt or accept it; or ... intentionally engages in conduct or makes statements with reason to know that the other party ... may infer from the conduct or statement that the person assents to the ... term ... . A person has an opportunity to review a record or term only if it is made available in a manner that ought to call it to the attention of a reasonable person and permit review.<sup>71</sup>

UCITA also confirms the decision in *ProCD*, providing if a “term is available for review only after a person becomes obligated to pay or begins its performance, the person has an opportunity to review only if it has a right to a return if it rejects” the term.<sup>72</sup>

Though the terms of UCITA, like the language of the court cases cited above, leave plenty of room for dispute and interpretation, it is certain that many courts will find shrink-, click- and browsewrap agreements properly formed and generally enforceable.

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<sup>70</sup>UCITA began as a joint project between the National Conference of Commissioners of Uniform State Laws (NCCUSL) and the American Law Institute (ALI) as an addition to the Uniform Commercial Code, Article 2B, but after heavy criticism from government, legal and academic communities, ALI withdrew its support. See Cheon-Seok Seo, *Licenses and the Uniform Computer Information Transactions Act*, 1 BUFF. INTELL. PROP. L.J. 146, 154–55 (2001). NCCUSL, however, continued to support Article 2B; the organization renamed the proposal UCITA and retained the text from Article 2B almost verbatim. As of late 2006 only two states, Virginia and Maryland, have adopted UCITA, and it has been introduced in Delaware, the District of Columbia and Oklahoma. UCITA has come under fire from consumer, library and technology groups. See Grant Gross, *UCITA Hits Snag With Lawyer Group*, ITWORLD.COM, Feb. 12, 2003, available at <http://www.itworld.com/Man/2681/030212ucita/>; but see Sean F. Crotty, *The How and Why of Shrinkwrap License Validation Under the Uniform Computer Information Transactions Act*, 33 RUTGERS L. J. 745, 766 (2002) (“I think that the objections to this innovation are misguided and unrealistic because they lose sight of the market realities that serve as the focus of a proper uniform commercial statute. As a uniform commercial statute, the UCITA’s policies and provisions are meant to reflect the norms of the community that it will serve—the business community.”) Not surprisingly, Microsoft and IBM and other software companies support UCITA as a way to reduce vendor liability costs.

<sup>71</sup>Uniform Computer Information Transactions Act §§ 112(a), 113(a) (2002).

<sup>72</sup>*Id.* at § 113(c).

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***Agreements and Promises Void on the Basis  
of Public Policy***

A gagwrap license term can be attacked under state contract law in ways other than attempting to find the parties did not assent to the terms of the license agreement or that the gagwrap term is subject to federal preemption. Many court cases have acknowledged that laws and contract principles of general applicability control the enforceability of license agreement and assignment provisions, among them unconscionability and choice of law.<sup>73</sup>

Several of these principles may be capable of invalidating an overreaching gagwrap clause; however, the most effective solution will be to combine the law relating to contract promises that are not enforceable on the basis of public policy with First Amendment principles and a right to hear under the Constitution.

The public policy rationale for voiding a contract promise works well because it is consistent, widely applicable, and accessible. The principles under which courts may invalidate contract clauses on the basis of public policy are based upon the *Restatement (Second) of Contracts*, sections 178 and 179.<sup>74</sup> The *Restatement* formulation of this body of law most nearly represents the law as it stands throughout the United States. The alternative would be to conduct an exhaustive review of each jurisdiction's law on the matter, which is beyond the scope of the public policy approach and the patience of the authors.

The *Restatements* of the law are a series of summaries of law in various substantive areas. The American Law Institute (ALI) develops and promulgates a *Restatement* after a lengthy process, during which members of small advisory groups, broader groups of experts, the Institute's governing council, and eventually the membership of the Institute review multiple drafts.<sup>75</sup> Intermediate drafts are available to the public and the scholarly community for review and comment.<sup>76</sup> The *Restatement (Second) of Contracts*, for example,

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<sup>73</sup>See, e.g., *In re Amica, Inc.*, 135 B.R. 534, 545 (Bankr. N.D. Ill. 1992) (applying choice of law provisions of California law to copyright license); *id.* at 551 (applying California law of unconscionability to copyright license). See also *Foad Consulting Group, Inc. v. Azzalino*, 270 F.3d 821, 827 (9th Cir. 2001) (applying California contract law to determine whether license was granted); *Bourne v. Walt Disney Co.*, 68 F.3d 621, 627 (2d Cir. 1995) (applying New York "merger doctrine" to interpret copyright assignment agreement).

<sup>74</sup>RESTATEMENT (SECOND) OF CONTRACTS (1981) (hereinafter RESTATEMENT CONTRACTS).

<sup>75</sup>American Law Institute, <http://www.ali.org> (last visited Feb. 9, 2006).

<sup>76</sup>*Id.*

underwent development from 1959 until its final publication in 1981.<sup>77</sup>

The *Restatements* are not enacted law, however, and they are not binding on any court or jurisdiction in the United States. As their title suggests, they attempt to summarize the state of that law in each topic. Many courts see the *Restatements* as authoritative, at least on certain topics.<sup>78</sup> Some critics, however, complain that the *Restatements* often describe the law more as ALI members would like it to be than the way it actually is.<sup>79</sup> Despite the complaints of critics, courts may look to *Restatements* for guidance and even adopt their rules verbatim in the absence of common law on a topic in a jurisdiction.<sup>80</sup>

Each *Restatement* section consists of a “black letter rule;” commentary adopted by ALI, sometimes including illustrations; and a reporter’s note.<sup>81</sup> Some states have not accepted portions of the *Restatement of Contracts*, and some have expressly declined to adopt provisions of it.<sup>82</sup> Section 178’s black letter rule sets out when a contract term is unenforceable on grounds of public policy:

A promise or other term of an agreement is unenforceable on grounds of public policy if legislation provides that it is unenforceable or the interest in its enforcement is clearly outweighed in the circumstances by a public policy against the enforcement of such terms.<sup>83</sup>

The reference to promises unenforceable on the first basis—legislation—is not relevant for the present discussion, as there are no statutes directly on this point in any United States jurisdiction. Of

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<sup>77</sup>*Id.*

<sup>78</sup>*See, e.g.,* Gianetti v. Norwalk Hosp., 779 A.2d 847, 854 (Conn. App. Ct. 2001) (“[W]e recognize that Restatements of the Law are an authoritative source for many of our holdings” (applying RESTATEMENT (SECOND) CONTRACTS §§ 347, 350)); Thorn v. Stephens, 646 N.Y.S.2d 597, 599 n.2 (N.Y. Sup. 1995) (“The Restatement of Law is not binding. In the absence of legal precedent, however, the Courts may look for guidance to such sources as the Restatements of Law.”).

<sup>79</sup>*See, e.g.,* Kirsten L. Christophe, *Recent Developments in the Law Affecting Professionals, Officers, and Directors*, 31 TORT & INS. L.J. 407, 416 (1996); Geoffrey Hazard Jr., *Tribute in Memory of Herbert Wechsler*, 100 COLUM. L. REV. 1362, 1365 (2000) (tribute to memory of late director of American Law Institute); W. Noel Keyes, *The Restatement (Second): Its Misleading Quality and a Proposal for its Amelioration*, 13 PEPP. L. REV. 23, 24–25 (1986). Interestingly, neither Christophe nor Hazard actually cite any criticism of the *Restatements* (not even Keyes’ earlier work). It is unclear to what extent these negative views are held, even in the scholarly community.

<sup>80</sup>*See, e.g.,* Lake v. Wal-Mart Stores, Inc., 582 N.W.2d 231, 233 (Minn. 1998).

<sup>81</sup>*See, e.g.,* RESTATEMENT CONTRACTS, *supra* note 74, at § 178.

<sup>82</sup>*See, e.g.,* Lectus, Inc. v. Rainier Nat’l Bank, 647 P.2d 1001, 1001–02 (Wash. 1982) (expressly declining to adopt § 217A).

<sup>83</sup>RESTATEMENT CONTRACTS, *supra* note 74, at § 178.

course, any legislature could adopt a statute prohibiting gagwrap promises.<sup>84</sup>

The second basis for finding contract terms unenforceable is that of balancing the interest in the enforcement of the promise with public policy concerns against enforcement. The *Restatement* identifies factors a court may use to support enforcement of a promise: “(a) [T]he parties’ justified expectations, (b) any forfeiture [by promisee] that would result if enforcement were denied, and (c) any special public interest in the enforcement of the particular term.”<sup>85</sup> On the other hand, the court should consider factors against enforcement of the promise:

(a) the strength of that policy as manifested by legislation or judicial decisions, (b) the likelihood that a refusal to enforce the term will further that policy, (c) the seriousness of any misconduct involved and the extent to which it was deliberate, and (d) the directness of the connection between that misconduct and the term.<sup>86</sup>

The bases upon which courts should find public policies against enforcement are “(a) relevant legislation [and] (b) the need to protect some aspect of the public welfare.”<sup>87</sup> Examples of aspects of the public welfare include preventing unreasonable restraints of trade, impairing family interests, and others.<sup>88</sup>

The official comment for section 178 points out that courts invalidate few promises on public policy grounds; except in obvious cases, a court will balance the parties’ interest in enforcement against the harm that enforcement will cause.<sup>89</sup> The comment notes that sec-

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<sup>84</sup>UCITA, for example, could have a provision expressly prohibiting them, *see supra* notes 70–72 and accompanying text. It could just as easily have a provision expressly permitting gagwrap clauses. UCITA is only a model law, however, and states are free to modify it before adopting it. A state legislature could add to UCITA a prohibition on gagwrap clauses or could even pass a law making gagwrap clauses passed pursuant to the laws of other states unenforceable. *See, e.g.*, Brian D. McDonald, *The Uniform Computer Information Transactions Act*, 16 BERKELEY TECH. L.J. 461, 468–70 (2001) (discussing Iowa “bomb-shelter” statute, which provides that UCITA cannot be enforced as a choice of law in contracts with Iowa citizens).

<sup>85</sup>RESTATEMENT CONTRACTS, *supra* note 74, at § 178(2).

<sup>86</sup>*Id.* at § 178(3).

<sup>87</sup>*Id.* at § 179.

<sup>88</sup>*Id.* Other types of contract terms infringing protected interests include promises involving commission of a tort, *id.* at § 192; promises inducing violation of fiduciary duties, *id.* at § 193; promises interfering with the contract of another, *id.* at § 194; terms exempting promisee from liability for harm caused intentionally, recklessly, or negligently, *id.* at § 195; and terms exempting the promisee from consequences of misrepresentation, *id.* § 196.

<sup>89</sup>*Id.* at § 178, comment b.

tions 178(2) and (3) set out only the “most common” factors courts consider when performing this balancing test, suggesting others are possible: “Enforcement will be denied only if the factors that argue against enforcement clearly outweigh the law’s traditional interest in protecting the expectations of the parties, its abhorrence of any unjust enrichment, and any public interest in the enforcement of the particular term.”<sup>90</sup>

Three Indiana cases provide examples of how courts may, or may not, come to the view that a contract is void on the grounds of public policy. Each case deals with yellow pages advertising contracts taken by Ameritech Publishing, Inc., a subsidiary of Ameritech, Inc., which was also the parent company of Indiana Bell Telephone Company.<sup>91</sup>

In *Pigman v. Ameritech Publishing, Inc.*,<sup>92</sup> the Indiana Court of Appeals reversed and remanded a summary judgment in favor of the defendant, Ameritech Publishing, Inc. (API).<sup>93</sup> Robert J. Pigman was an attorney with a law firm in Evansville, Indiana.<sup>94</sup> The firm entered a contract with API that provided API would display an advertisement in the yellow pages, listing Pigman under his firm’s entry and also separately. API failed to display Pigman’s entries, and he sued.<sup>95</sup>

The API form contract included an exculpatory clause, providing, in part: “If publisher should be found liable for loss or damage ... the liability shall be limited to an amount equal to the contract price for the disputed advertisements, or that sum of money actually paid by customer toward the disputed advertisements, whichever sum shall be less.”<sup>96</sup> The trial court held the exculpatory clause enforceable.<sup>97</sup> The court of appeals reversed, holding the exculpatory clause void as a matter of public policy.<sup>98</sup>

The appellate court acknowledged that Indiana generally recognizes exculpatory clauses:

No public policy exists to prevent such contracts. However, exceptions exist where the parties have unequal bargaining power, the contract is

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<sup>90</sup>*Id.*

<sup>91</sup>*See, e.g.,* Pinnacle Computer Servs., Inc. v. Ameritech Publ’g, Inc., 642 N.E.2d 1011, 1018 (Ind. Ct. App. 1994).

<sup>92</sup> 641 N.E.2d 1026 (Ind. Ct. App. 1994).

<sup>93</sup>*Id.* at 1035.

<sup>94</sup>*Id.* at 1028.

<sup>95</sup>*Id.*

<sup>96</sup>*Id.* at 1028–29 (original appeared in capitals; formatting altered here).

<sup>97</sup>*Id.* at 1029.

<sup>98</sup>*Id.* at 1035.

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unconscionable, or *the transaction affects the public interest* such as utilities, carriers, and other types of businesses generally thought to be suitable for regulation or which are thought of as a practical necessity for some members of the public.<sup>99</sup>

In other words, exculpatory clauses are enforceable “unless they clearly tend to injure the public in some way.”<sup>100</sup> In this case, the court found that API was providing a unique and important public service by publishing the yellow pages,<sup>101</sup> and that the nexus between the advertising medium and the “regulated telephone service” established a public policy interest in barring the enforcement of the exculpatory clause.<sup>102</sup>

However, in *Pinnacle Computer Services, Inc. v. Ameritech Publishing, Inc.*,<sup>103</sup> the same court found an identical exculpatory clause enforceable on almost identical facts. The court repeated the general principles the *Pigman* court observed: An exculpatory clause is generally enforceable unless some public policy renders it unenforceable.<sup>104</sup> The court cited several reasons for holding that public policy did not void the exculpatory clause. First, it disagreed with the *Pigman* court’s ruling about API’s status in a regulated industry, noting that though Indiana Bell is regulated, its sister company API is not.<sup>105</sup> Second, it rejected the *Pigman* court’s holding that API’s monopoly position as a provider of the yellow pages is significant, noting that there are many other venues for advertising.<sup>106</sup> Third, it addressed consequences of not enforcing the clause, including the prospect of Ameritech having to assume liability for acts of its advertisers (for example, consequential damages), and the prospect of having to defend against speculative claims of damages.<sup>107</sup>

Having rejected the arguments for a public policy interest and having found support for the exculpatory clause by considering the consequences of voiding it, the court affirmed the trial court’s judgment in favor of defendant API.<sup>108</sup>

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<sup>99</sup>*Id.* (internal quotations and citations omitted, emphasis added).

<sup>100</sup>*Id.* (internal quotations and citations omitted).

<sup>101</sup>*Id.* at 1034.

<sup>102</sup>*Id.* at 1035.

<sup>103</sup>642 N.E.2d 1011 (Ind. Ct. App. 1994).

<sup>104</sup>*Id.* at 1017–18.

<sup>105</sup>*Id.* at 1018.

<sup>106</sup>*Id.*

<sup>107</sup>*Id.*

<sup>108</sup>*Id.* at 1019.

Opinions, even within the same court in a jurisdiction, therefore, may differ regarding the public policy bases for voiding contract promises. The Indiana Supreme Court reviewed this issue on nearly identical facts in 1998 in *Trimble v. Ameritech Publishing, Inc.*,<sup>109</sup> expressly overruled *Pigman*, and adopted the analysis and holding in *Pinnacle*.<sup>110</sup>

### FIRST AMENDMENT AS PUBLIC POLICY BASIS FOR NOT ENFORCING

The public policy framework relies on a developing right to hear as central to the First Amendment. The doctrine forms the foundation of the public policy concerns against the enforcement of gagwrap clauses.

The First Amendment to the Constitution has long been understood to prohibit government from passing or enforcing laws that limit freedom of expression.<sup>111</sup> There is little question of the importance of these freedoms in protecting the open flow of information and ideas.<sup>112</sup> For example, in a very famous footnote in *United States v. Carolene Products*,<sup>113</sup> the Court suggested a protected status for speech, as well as for other rights contained within the Bill of Rights: “There may be narrower scope for operation of the presumption of constitutionality when legislation appears on its face to be within a specific prohibition of the Constitution, such as those of the first ten Amendments, which are deemed equally specific when held to be embraced within the Fourteenth.”<sup>114</sup> This footnote is often cited in support of increased judicial concern for protection of free speech and press, even though the *Carolene Products* case itself was a commerce case.<sup>115</sup>

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<sup>109</sup>700 N.E.2d 1128 (Ind. 1998).

<sup>110</sup>*Id.* at 1130.

<sup>111</sup>*See, e.g.*, *Texas v. Johnson*, 491 U.S. 397, 414 (1989) (“If there is a bedrock principle underlying the First Amendment, it is that the government may not prohibit the expression of an idea simply because society finds the idea itself offensive or disagreeable.”).

<sup>112</sup>As Justice Sandra Day O’Connor wrote, for example, “The hallmark of the protection of free speech is to allow ‘free trade in ideas.’” *Virginia v. Black*, 538 U.S. 343, 358 (2003).

<sup>113</sup>304 U.S. 144 (1938).

<sup>114</sup>*Id.* at 152 n.4.

<sup>115</sup>*See, e.g.*, Patrick M. Garry, *A One-Sided Federalism Revolution: The Unaddressed Constitutional Compromise on Federalism and Individual Rights*, 36 SETON HALL L. REV. 851, 877 (2006) (discussing how “Footnote Four” provided the foundation for additional protections for non-economic or property rights).

Many cases adopt a preferred position for freedom of expression, particularly when the law in question proscribes speech that espouses a particular point of view.<sup>116</sup> In *R.A.V. v. City of St. Paul*,<sup>117</sup> for instance, a city ordinance that proscribed certain kinds of hate speech but not others was held to be constitutionally invalid.<sup>118</sup>

A small but growing number of Supreme Court cases recognize a right to receive information. These cases, starting in the 1940s, suggest that the Court has recognized the existence of auxiliary rights to the right to speak that are in some cases as important as the explicitly recognized First Amendment rights, although the Court has not fully developed a constitutional right to receive information.

### *The “Right to Hear” in Supreme Court Cases*

The first case to recognize a right to receive information was *Martin v. City of Struthers*,<sup>119</sup> decided in 1943. The Court overturned a city ordinance making it unlawful to ring residents’ doorbells or knock on their doors to distribute literature.<sup>120</sup> Justice Hugo Black wrote for the majority: “Freedom to distribute information to every citizen wherever he desires to receive it is so clearly vital to the preservation of a free society that, putting aside reasonable police and health regulations of time and manner of distribution, it must be fully preserved.”<sup>121</sup>

Two years later, in *Thomas v. Collins*,<sup>122</sup> the Court overturned a Texas statute requiring union officials to get organizer’s cards before engaging in member solicitation. A labor organizer was served with an injunction pursuant to the law before he spoke at a union rally; he decided to speak anyway.<sup>123</sup> In overturning the statute, the Court did not rely solely on the audience’s right to receive the information the

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<sup>116</sup>See, e.g., *Thomas v. Collins*, 323 U.S. 516, 529–30 (1945) (“[T]he usual presumption supporting legislation is balanced by the preferred place given in our scheme to the great, the indispensable democratic freedoms secured by the First Amendment.”).

<sup>117</sup>505 U.S. 377 (1992).

<sup>118</sup>*Id.* at 395.

<sup>119</sup>319 U.S. 141 (1943).

<sup>120</sup>*Id.* at 149.

<sup>121</sup>*Id.* at 146–47 (emphasis added). Justice Black was writing for a 5–4 Court. Justice Stanley Reed, in dissent, suggested a limit to the right to receive information: “The First Amendment does not compel a pedestrian to pause on the street to listen to the argument supporting another’s views of religion or politics.” *Id.* at 157 (Reed, J., dissenting).

<sup>122</sup>323 U.S. 516 (1945).

<sup>123</sup>*Id.* at 518.

organizer would provide at the rally, but Justice Wiley Rutledge, writing for a five-member majority, noted: “That there was restriction upon Thomas’ right to speak and *the rights of the workers to hear* what he had to say, there can be no doubt.”<sup>124</sup>

In neither of these cases was a right to receive information the primary rationale for disposition. That trend changed in the 1960s. In two cases decided in 1965, the Court began to develop more fully the notion that the right to receive information was a critical element in realizing the right to speak.

In *Lamont v. Postmaster General*,<sup>125</sup> at issue was a federal statute requiring those who wished to receive mail from abroad found to contain “[C]ommunist political propoganda” to return a postcard to the post office stating that the addressee wished to receive that mail.<sup>126</sup> Justice William O. Douglas wrote for the Court that the burden placed on the addressee affirmatively to request that mailings of a kind that have been determined by the government to be communist is an unconstitutional burden on free speech rights:

We rest on the narrow ground that the addressee in order to receive his mail must request in writing that it be delivered. This amounts in our judgment to an unconstitutional *abridgment of the addressee’s First Amendment rights*. The addressee carries an affirmative obligation which we do not think the Government may impose on him . . . . The regime of this Act is at war with the uninhibited, robust, and wide-open debate and discussion that are contemplated by the First Amendment.<sup>127</sup>

The right to receive information here for the first time is central to the disposition of a free speech case. In making it so, the Court extended full First Amendment protection to a right that, while not explicit in that amendment, is essential to its full realization.

An additional endorsement of the idea appears in Justice William Brennan’s concurring opinion in *Lamont*, in which he explicitly acknowledges the right to receive information as part of free speech guarantees: “[T]he protection of the Bill of Rights goes beyond the specific guarantees to protect from congressional abridgment those equally fundamental personal rights necessary to make the express

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<sup>124</sup>*Id.* at 534 (emphasis added).

<sup>125</sup>381 U.S. 301 (1965).

<sup>126</sup>*Id.* at 302.

<sup>127</sup>*Id.* at 307 (citations omitted; emphasis added).

guarantees fully meaningful. I think the right to receive publications is such a fundamental right.”<sup>128</sup>

This endorsement of the right to receive is repeated in Douglas’ opinion for the Court in *Griswold v. Connecticut*.<sup>129</sup> A Connecticut statute making the use of contraceptives illegal and punishing those who provided information or counsel on contraception to married couples was challenged.<sup>130</sup> In striking down the statute, Douglas echoed Brennan’s support for auxiliary rights to the First Amendment’s right to speak: “The right of freedom of speech and press includes not only the right to utter or to print, but the right to distribute, *the right to receive*, the right to read and freedom of inquiry, freedom of thought, and freedom to teach.”<sup>131</sup> Such “peripheral” rights, he added, provide security to “specific” rights.<sup>132</sup> As Brennan said in *Lamont*, “It would be a barren marketplace of ideas that had only sellers and no buyers.”<sup>133</sup>

Thus, by 1969, when the Court upheld the constitutionality of the Federal Communication Commission’s Fairness Doctrine in *Red Lion Broadcasting Co. v. FCC*,<sup>134</sup> the right to receive information was no longer novel. The Fairness Doctrine was an FCC rule that required broadcasters to cover both sides of controversial issues of public importance.<sup>135</sup> After a discussion of the history of broadcast regulation and the unique characteristics of the medium that justified the creation of the FCC and its regulatory stance toward broadcast licensure and content,<sup>136</sup> the Court upheld its.<sup>137</sup> To assign a broadcast license to one party is to deny it to another, and the gov-

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<sup>128</sup>*Id.* at 308 (Brennan, J., concurring) (citations omitted).

<sup>129</sup>381 U.S. 479 (1965).

<sup>130</sup>*Id.* at 480.

<sup>131</sup>*Id.* at 482 (citations omitted; emphasis added).

<sup>132</sup>*Id.* at 482–83. It should be noted that Douglas in this case found the non-explicit right to privacy in “penumbras, formed by emanations from those [Bill of Rights] guarantees that help give them life and substance.” *Id.* at 484. However, the rights he outlined in the case as auxiliary to the explicit rights in the First Amendment are extensions of those rights, not wholly new creations, as might be argued about the right to privacy.

<sup>133</sup>381 U.S. at 308 (Brennan, J., concurring).

<sup>134</sup>395 U.S. 367 (1969).

<sup>135</sup>*Id.* at 369.

<sup>136</sup>*Id.* at 376–83. “Very shortly [after the establishment of the Federal Radio Commission in 1927] the Commission expressed its view that the ‘public interest requires ample play for the free and fair competition of opposing views, and the commission believes that the principle applies ... to all discussions of issues of importance to the public.’” *Id.* at 377.

<sup>137</sup>*Id.* at 388–90 and *passim*.

ernment has the right to do so;<sup>138</sup> however, Justice Byron White wrote for the Court:

[T]he people as a whole retain their interest in free speech by radio and their collective right to have the medium function consistently with the ends and purposes of the First Amendment. *It is the right of the viewers and listeners, not the right of the broadcasters, which is paramount.*<sup>139</sup>

Moreover, White added, “It is the right of the public to receive suitable access to social, political, esthetic, moral, and other ideas and experiences which is crucial here. That right may not constitutionally be abridged either by Congress or by the FCC.”<sup>140</sup> A law resembling the Fairness Doctrine could not constitutionally be enforced upon traditional print media,<sup>141</sup> and the *Red Lion* Court outlined a number of factors that differentiate the broadcast media from the print media and, therefore, justify additional regulations upon broadcasters.<sup>142</sup> However, *Red Lion* demonstrates that the Court was willing at the time to rate the public interest in receiving information as important as (or here, more important than) a speaker’s right to speak.<sup>143</sup>

In that same year, the Court reiterated the right to receive information in *Stanley v. Georgia*.<sup>144</sup> The defendant was found guilty under Georgia law of knowingly possessing obscene material.<sup>145</sup> The Court overturned his conviction and said that the First Amendment could not be interpreted to punish mere possession of obscene material.<sup>146</sup> Justice Thurgood Marshall, writing for the Court, provided an almost matter-of-fact endorsement of the idea that there is a right to receive information: “It is now well established that the Constitution protects the right to receive information and ideas . . . . This

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<sup>138</sup>*Id.* at 389.

<sup>139</sup>*Id.* at 390 (emphasis added).

<sup>140</sup>*Id.*

<sup>141</sup>*See, e.g.,* Miami Herald Publ’g Co. v. Tornillo, 418 U.S. 241 (1974). The Court unanimously overturned a Florida right-to-reply statute applied to newspapers. White wrote, in concurrence, “[P]rior compulsion by government in matters going to the very nerve center of a newspaper—the decision as to what copy will or will not be included in any given edition—collides with the First Amendment.” *Id.* at 261.

<sup>142</sup>395 U.S. at 388–90 and *passim*.

<sup>143</sup>This article does not call for additional regulations to be applied to any medium. *Red Lion* is included here as part of the Court’s trend of recognizing a right to receive information.

<sup>144</sup>394 U.S. 557 (1969).

<sup>145</sup>*Id.* at 558.

<sup>146</sup>*Id.* at 559.

right to receive information and ideas, regardless of their social worth ... is fundamental to our free society.”<sup>147</sup>

The right to receive information does not automatically trump other interests, however. In *Kleindienst v. Mandel*,<sup>148</sup> the Court held that the right to receive information, although important to consider, was not justification enough to allow entry of Ernst Mandel, an alien scholar (self-described as a “revolutionary Marxist”<sup>149</sup>) into the United States to speak at several conferences.<sup>150</sup> Mandel’s visa was denied under the Immigration and Nationality Act of 1952, which prevented individuals who espouse and teach world communism from entering the United States unless the attorney general waives that ineligibility.<sup>151</sup> The professors who had invited Mandel sued to enforce their rights, not those of Mandel.<sup>152</sup> Justice Harry Blackmun, writing for the Court, agreed with the professors and framed the question in part as the right to receive information: “Whether the First Amendment confers upon the appellee professors, because they wish to hear, speak, and debate with Mandel in person, the ability to determine that Mandel should be permitted to enter the country or, in other words, to compel the Attorney General to allow Mandel’s admission.”<sup>153</sup>

While acknowledging that “[i]n a variety of contexts this Court has referred to a First Amendment right to ‘receive information and ideas,’”<sup>154</sup> Blackmun noted the need to balance that right against other governmental concerns.<sup>155</sup> Were every alien who had a citizen wishing to hear him speak granted a waiver to enter the country, Blackmun pointed out, one of two things would happen: either all waivers would be granted, thereby nullifying the discretion of the attorney general, or some test would have to be developed that would balance the interest of the executive branch against the interest of the citizen.<sup>156</sup> Such a test, Blackmun wrote, would be difficult to de-

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<sup>147</sup>*Id.* at 564 (citations omitted).

<sup>148</sup>408 U.S. 753 (1972).

<sup>149</sup>*Id.* at 756.

<sup>150</sup>*Id.* at 756–57.

<sup>151</sup>*Id.* at 755. Mandel had come to the United States twice before, both on waivers from the attorney general, and had not conformed to the limitations of his visa in an earlier trip. The attorney general denied Mandel’s visa based on his abuse of that earlier visa. *Id.* at 758–59.

<sup>152</sup>*Id.* at 762.

<sup>153</sup>*Id.*

<sup>154</sup>*Id.*

<sup>155</sup>*Id.* at 765–66.

<sup>156</sup>*Id.* at 768–69.

termine, and thus discretion had properly been placed with the executive branch.<sup>157</sup>

Thus, Blackmun concluded:

We hold that when the Executive exercises this power [to permit aliens into the United States] negatively on the basis of a facially legitimate and bona fide reason, the courts will neither look behind the exercise of that discretion, nor test it by balancing its justification against the First Amendment interests of those who seek personal communication with the applicant.<sup>158</sup>

Though in this case executive discretion trumped the right to receive information, the outcome is less important than the Court's willingness to consider the right as equal to other rights. Blackmun recognized the history of the right to receive information and treated it seriously.

The Court has also recognized a public right to receive information in criminal cases by affirming open criminal trials,<sup>159</sup> in the legislative arena by striking down a state law prohibiting companies from spending money to influence referendum proposals not directly affecting their businesses,<sup>160</sup> in the advertising industry by permitting the truthful advertising of prescription drug prices,<sup>161</sup> and in libraries by curtailing school boards' abilities to remove books from school libraries and educational curricula based on their own judgments of morality.<sup>162</sup>

In each case examined above, the Court focused on the need for more information to be available to the public, many times striking down laws that would inhibit the flow of knowledge, or, at minimum, balancing that need with other important rights. While the right to receive information may not have been paramount in the disposition of these cases, it has been sufficiently acknowledged and cited to support the assertion that it is indeed a derived right similar to the right of privacy and the right to travel—among those “important but unarticulated rights [that] have nonetheless been found to share constitutional protection in common with explicit guarantees.”<sup>163</sup>

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<sup>157</sup>*Id.* at 769.

<sup>158</sup>*Id.* at 770.

<sup>159</sup>*Richmond Newspapers, Inc. v. Virginia*, 448 U.S. 555 (1980).

<sup>160</sup>*First Nat'l Bank v. Bellotti*, 435 U.S. 765 (1978).

<sup>161</sup>*Va. State Bd. of Pharmacy v. Va. Citizens Consumer Council*, 425 U.S. 748 (1976).

<sup>162</sup>*Bd. of Educ. v. Pico*, 457 U.S. 853 (1982).

<sup>163</sup>*Richmond Newspapers*, 448 U.S. at 580.

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### *Scholarly Literature and the Right to Hear*

As early as 1971, legal commentators were examining the burgeoning area of the First Amendment right to receive information. John M. Steel, in an early article, articulated a political justification theory to support the freedom to hear: If the First Amendment was intended to support and promote effective self-governance, freedom of expression must necessarily include a right to hear what is said on public matters.<sup>164</sup> He proposed a three-part test to determine applicability of the freedom to hear. First, the speaker must be discussing “matters of social importance;”<sup>165</sup> second, that speaker must want to be heard; and third, listeners must be able to choose to leave or ignore the speaker.<sup>166</sup> Steel defined his public issues test broadly, and he made clear that the power to decide whether to listen should rest with the individual and not be managed closely by the government.<sup>167</sup> Interestingly, Steel also called for a legislative response, suggesting that Congress pass “appropriate implementing legislation” for his test under Section Five of the Fourteenth Amendment.<sup>168</sup>

More than a decade and a half later, William E. Lee wrote that the Court, although claiming that the right to receive information is well established, had not outlined a theoretical basis for the right.<sup>169</sup> He traced the patchwork development of the right among disparate cases and settings, noting that “the primary utility of the right to receive is in those peculiar settings where speakers are free from government restraint but where the government burdens the receipt of expression.”<sup>170</sup> Lee further noted that the line of cases in which the right to receive information has been articulated has resulted in a number of contradictions that suggest that the right “consists of a bundle of concepts, each of which has vitality in a narrow context.”<sup>171</sup> His recommendation was that the Court recognize the right to receive only when a speaker has a recognized right to speak.<sup>172</sup> Such a restriction would let judges rely on the well-established doc-

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<sup>164</sup>John M. Steel, *Freedom to Hear: A Political Justification of the First Amendment*, 46 WASH. L. REV. 311, 328 (1971).

<sup>165</sup>*Id.* at 341.

<sup>166</sup>*Id.*

<sup>167</sup>*Id.* at 346–47.

<sup>168</sup>*Id.* at 374.

<sup>169</sup>William E. Lee, *The Supreme Court and the Right to Receive Information*, 1987 SUP. CT. REV 303, 307 (1987).

<sup>170</sup>*Id.* (footnotes omitted).

<sup>171</sup>*Id.* at 343.

<sup>172</sup>*Id.* at 344.

trines protecting freedom of expression instead of on the patchwork of right to receive doctrine.<sup>173</sup>

Most recently, Jamie Kennedy suggested that the best articulation of the right to receive information is when it is used in “lifting barriers to promote free speech.”<sup>174</sup> Kennedy divided the doctrine’s application into three categories: preventing the government from raising barriers between speakers and listeners, requiring government intervention to compel actions from the press, and claiming access to information in government possession due to funding constraints.<sup>175</sup> Those cases in the second category contain applications of positive rights; they require government action to compel the media to achieve results, and, Kennedy argued, are the most difficult for the judiciary to enforce.<sup>176</sup> As a result, they do not fully support the right to receive information. Thus, Kennedy concluded, the right should be based on the other two categories, since they do not require courts to compel action, merely to prevent action—in the first category, to prevent barriers to access between speakers and listeners, and in the third, to prevent the government from withholding previously available information.<sup>177</sup>

Other authors have examined another facet of the right to hear: whistleblowing. Terry Morehead Dworkin and Elletta Sangrey Callahan examined the proliferation of secrecy clauses over the past decade and balanced them against the concurrent rise in state whistleblower legislation.<sup>178</sup> They approached the question of enforceability from the employer’s point of view, however, suggesting ways in which employers can protect themselves. Employers, for example, could craft agreements in which employees would be required to disclose any damning information internally first.<sup>179</sup> Dworkin and Callahan noted that approaches like this may well limit the amount of information that gets to the public, but that they are “consistent with the attempts at the federal level to encourage internal whistleblowing as a means to curb corporate wrongdoing.”<sup>180</sup>

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<sup>173</sup>*Id.*

<sup>174</sup>Jamie Kennedy, Comment, *The Right to Receive Information: The Current State of the Doctrine and the Best Application for the Future*, 35 SETON HALL L. REV. 789, 790 (2005).

<sup>175</sup>*Id.*

<sup>176</sup>*Id.* at 810–11.

<sup>177</sup>*Id.* at 819

<sup>178</sup>Terry Morehead Dworkin & Elletta Sangrey Callahan, *Buying Silence*, 36 AM. BUS. L.J. 151, 190 (1998).

<sup>179</sup>*Id.*

<sup>180</sup>*Id.* at 191.

Carol M. Bast also examined confidentiality agreements in the whistleblowing context. She offered a test based on her readings of the case law and contract law that is based on public policy concerns:

The six-part test would require a court to consider the parties' reasonable expectations, the potential loss to the employer if the confidentiality agreement is not enforced, the protectability of the information as a trade secret or proprietary information, substantial adverse effects on third parties, exacerbation of the adverse effects if the confidentiality agreement is enforced, and the possibility of limited disclosure.<sup>181</sup>

The test contains a number of elements that are strictly defined and seem to favor the employer rather than the potential whistleblower. Several of the elements relate to the possible effect on the employer (potential loss and trade secrets, for example), while none address the effects on the whistleblower or the public directly.

Balancing tests are not, however, uncommon in the literature. Alan E. Garfield offered a test that focuses more on the free speech elements of a confidentiality agreement.<sup>182</sup> After examining two extreme cases (a contract to conceal a crime and a contract to withhold trade secrets), he suggested the following straightforward guideline:

A court must compare the strength of the public and private interests in enforcing a contract that suppresses speech, the "confidentiality interest," with the competing public interest in not having the threat of contractual liability inhibit speech, the "disclosure interest." If the disclosure interest clearly outweighs the interest in confidentiality, then the court should not enforce the contract.<sup>183</sup>

The allure of such a simple test is also its potential problem: While Bast's test attempts to formalize the elements that would make up the balance between the need for confidentiality and the public right to know, Garfield's test is more open-ended. It provides more possibilities for liberal interpretation, but also an equal number of opportunities for restrictive interpretation.

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<sup>181</sup>Carol M. Bast, *At What Price Silence: Are Confidentiality Agreements Enforceable?*, 25 WM. MITCHELL L. REV. 627, 714 (1999).

<sup>182</sup>Alan E. Garfield, *Promises of Silence: Contract Law and Freedom of Speech*, 83 CORNELL L. REV. 261, 315 (1998).

<sup>183</sup>*Id.*

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### *The Question of State Action*

Well-established legal doctrine dictates that the government could not expect to enforce a gagwrap clause without meeting strict scrutiny. As gagwrap clauses are by nature content-based—that is, they proscribe speech on the basis of what that speech says—they would have to undergo a strict scrutiny analysis.<sup>184</sup> Government entities are generally not permitted to pass laws that disallow or punish particular areas of speech while leaving others untouched.<sup>185</sup> For a regulation to withstand a strict scrutiny analysis, the government must show that (1) it has a compelling interest, and (2) the restriction in question is the least restrictive means to promote that interest.<sup>186</sup> Usually, when a regulation must face strict scrutiny, the regulation fails.<sup>187</sup> Thus, if the government is a party to a gagwrap agreement, it could not hope to enforce the gagwrap clause.

But what of contracts between non-government parties? Certainly, not all government enforcements of contracts implicate state action.<sup>188</sup> This makes sense from a practical standpoint, because parties are free to contract with each other to abridge their rights, and they do so all the time. For example, two friends might sign a contract that if one mows the other's lawn for a period of a year, the other will pay him \$500. If the first party fulfills his part of the contract (mows the lawn for a year) and the second party refuses to pay him the money, government enforcement of the contract would not necessarily involve state action because the agreement is between two private parties and does not involve anyone else.

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<sup>184</sup>See Geoffrey R. Stone, *Content-Neutral Restrictions*, 54 U. CHI. L. REV. 46, 48 (1987) (“Indeed, outside the realm of low-value speech, the Court has invalidated almost every content-based restriction that it has considered in the past thirty years.”).

<sup>185</sup>In *R.A.V. v. City of St. Paul*, 505 U.S. 377 (1992), a city ordinance that proscribed certain kinds of hate speech but not others was held to be constitutionally invalid.

<sup>186</sup>See, e.g., *United States v. Playboy Enter. Group, Inc.*, 529 U.S. 803, 813 (2000) (“If a statute regulates speech based on its content, it must be narrowly tailored to promote a compelling Government interest. If a less restrictive alternative would serve the Government's purpose, the legislature must use that alternative.”).

<sup>187</sup>See *United States v. Carolene Prods.*, 304 U.S. 144, 152 n.4 (1938).

<sup>188</sup>For example, in a Washington Court of Appeals case, *State v. Noah*, 9 P.3d 858, 871 (Wash. Ct. App. 2000), state enforcement of a settlement agreement between two private parties was not held to be state action for First Amendment purposes: “For the existence of a First Amendment violation, state action is required. State enforcement of a contract between two private parties is not state action, even where one party's free speech rights are restricted by that agreement.”

Of some importance, then, is whether courts will find that *enforcing* a gagwrap clause in a contract between non-government parties is state action, a normal prerequisite to application of the First Amendment.

The Supreme Court has made it clear that enforcement of some private contracts does, indeed, constitute state action, particularly when the agreement affects not only the private parties involved in the contract. The lead case in this area is *Shelley v. Kraemer*,<sup>189</sup> in which property owners in St. Louis signed an agreement stipulating that for fifty years their properties must be owned only by Caucasians.<sup>190</sup> In striking down this agreement, the Court said:

These are not cases, as has been suggested, in which the States have merely abstained from action, leaving private individuals free to impose such discriminations as they see fit. Rather, these are cases in which the States have made available to such individuals the full coercive power of government to deny to petitioners, on the grounds of race or color, the enjoyment of property rights in premises which petitioners are willing and financially able to acquire and which the grantors are willing to sell. The difference between judicial enforcement and non-enforcement of the restrictive covenants is the difference to petitioners between being denied rights of property available to *other members of the community* and being accorded full enjoyment of those rights on an equal footing.<sup>191</sup>

The Court suggested that this case affects outside parties; it is not merely the state enforcing a contract voluntarily entered into by private parties. Non-Caucasians who might want to purchase property in that area and had the resources to do so were forbidden to do so without consent of all the existing Caucasian property owners.

The *Shelley* line of argument can be extended into the gagwrap area. Even if an end-user voluntarily contracts with a software provider by accepting a EULA containing a gagwrap clause, the rights of the public to hear the restricted speech that user wants to express using that software are abridged. This argument is not far-fetched in light of whistleblowing statutes. These statutes, passed by many government entities,<sup>192</sup> are intended to provide public access to information that

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<sup>189</sup>334 U.S. 1 (1948).

<sup>190</sup>*Id.* at 4.

<sup>191</sup>*Id.* at 19 (emphasis added).

<sup>192</sup>It is difficult to establish exactly how many state, federal, agency and local whistleblowing laws exist. Bast, *supra* note 181, cites forty-one state laws. As might be expected, the laws vary widely in their scopes and protections.

an employer would rather not have publicized.<sup>193</sup> The sheer number of whistleblowing statutes strongly suggests that states have an interest in protecting those who wish to expose corporate or governmental wrongdoing in violation of their confidentiality agreements.

Both a software user agreeing to a gagwrap clause and an employee signing a confidentiality agreement consent not to speak about certain topics. Yet there may be speech that the public has an interest in hearing that those speakers have promised to forego saying. Whistleblowing laws may protect the employee's speech, rendering an employer's confidentiality agreement unenforceable; gagwrap clauses may be unenforceable under the same public policy concerns that protect whistleblowers.

### ***The First Amendment in the Absence of State Action***

The First Amendment provides an important and powerful tool in gagwrap cases even if courts find that they do not implicate state action. First Amendment jurisprudence provides clear endorsement of a powerful public policy to encourage more speech, especially speech that adds to the public discourse.<sup>194</sup> Furthermore, *Restatement* section 178 does not require that a statute directly invalidate a promise for the court to refuse to enforce it; the section provides for an evaluation of policies "as manifested by legislation or judicial decisions."<sup>195</sup> The First Amendment clearly offers at least indirect support for the idea of reviewing gagwrap provisions critically; and court decisions interpreting the First Amendment greatly enhance our understanding of that public policy.

### ***The Weight of First Amendment Interests in Individual Agreements***

Nevertheless, the practical use of the public policy framework, of First Amendment jurisprudence in conjunction with *Restatement* section 178, requires that courts be able to evaluate the weight of First Amendment concerns in each case. It is not enough to say that a contract limits speech. Many agreements that courts will wish to enforce on public policy grounds impose some limitations on speech—

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<sup>193</sup>A "whistleblower act" is a "federal or state law protecting employees from retaliation for disclosing employer wrongdoing, as during an investigation by a regulatory agency." BLACK'S LAW DICTIONARY (8th ed. 2004).

<sup>194</sup>See *supra* notes 111–63 and accompanying text.

<sup>195</sup>RESTATEMENT CONTRACTS, *supra* note 74, at §178(3)(a).

mutual non-disclosure agreements between potential joint venturers and confidentiality agreements to protect trade secrets, for example.

Courts should consider three characteristics (though many others could be offered) when weighing the public policy interest in enforcing a particular promise not to speak: whether the statements relate to a public figure, a matter of public interest, or a mass-market product. Cases examining the tangents of the First Amendment and defamation and privacy torts support the use of these distinguishing factors.

### *Public Figures*

In a defamation case, status as a public person increases the burden of proof placed on the plaintiff.<sup>196</sup> Rather than merely proving the defendant made false statements through negligence, a public figure must prove actual malice, that is, that the defendant made statements with knowledge that they were false or with reckless disregard for the truth.<sup>197</sup> The Supreme Court set out a strong rationale for the requirement that public officials meet a higher burden: Justice Brennan wrote that the necessity in a democratic self-governing country for debate about issues of public importance may include “vehement, caustic, and sometimes unpleasantly sharp attacks on government and public officials.”<sup>198</sup> This same rationale also applies to public figures.<sup>199</sup>

The Supreme Court has further noted that public figures “usually enjoy significantly greater access to channels of effective communication and hence have a more realistic opportunity to counteract false statements than private individuals normally enjoy.”<sup>200</sup> These observations are equally relevant in determining the weight of the First Amendment interest in enforcement of a promise not to speak. Here, to the extent a software manufacturer or Web site provider is a public figure, the public naturally has an interest in its conduct; this

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<sup>196</sup>See *New York Times Co. v. Sullivan*, 376 U.S. 254, 279–80 (1964) (“The constitutional guarantees require, we think, a federal rule that prohibits a public official from recovering damages for a defamatory falsehood relating to his official conduct unless he proves that the statement was made with ‘actual malice’—that is, with knowledge that it was false or with reckless disregard of whether it was false or not.”). The same burden of proof—actual malice—also applies to public figures. See *Curtis Publ’g Co. v. Butts*, 388 U.S. 130, 162 (1967).

<sup>197</sup>*Id.* at 280.

<sup>198</sup>*Id.* at 270.

<sup>199</sup>See *Butts*, 388 U.S. at 162.

<sup>200</sup>*Gertz v. Robert Welch, Inc.*, 418 U.S. 323, 344 (1974).

conclusion strengthens the argument that gagwrap clauses should not be enforced.

It is not a forgone conclusion that courts will treat software manufacturers as public figures, however. Courts currently make the determination on a case-by-case basis.<sup>201</sup> Some hold the fact that a company is a corporation and holds itself out to and advertises in a market does not by itself make the company a public figure.<sup>202</sup> Others hold that a vendor of products that advertises those products in a market is a limited public figure, at least with regard to statements about the products.<sup>203</sup> Courts will weigh such factors based upon the facts of each case; those courts more likely to find that a software manufacturer is a public figure with regard to its products will weigh First Amendment concerns more heavily against enforcing the promise not to speak.<sup>204</sup>

### ***Matters of Public Importance***

In the context of defamation and some privacy torts, defendants enjoy special defenses and immunity from certain types of liability if

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<sup>201</sup>In fact, the United States Court of Appeals for the Fifth Circuit has suggested such a case-by-case approach in *Snead v. Redland Aggregates Ltd.*, 998 F.2d 1325, 1329 (5th Cir. 1993) (“Because the two *Gertz* justifications for the public figure/private figure dichotomy do not suggest a general rule to be applied to corporations, the inquiry must be made on a case-by-case basis, examining all the relevant facts and circumstances.”).

<sup>202</sup>See *Melaleuca, Inc. v. Clark*, 78 Cal. Rptr. 2d 627, 638 (Cal. App. 1998) (holding that producer of products, Melaleuca, was not a public figure for the purpose of evaluating claims that defendant Clark made false statements about the Melaleuca products); *Bank of Oregon v. Independent News, Inc.*, 693 P.2d 35, 42 (Ore. 1985) (“Merely opening one’s doors to the public, offering stock for public sale, advertising, etc., even if considered a thrusting of one’s self into matters of public interest, is not sufficient to establish that a corporation is a public figure.”).

<sup>203</sup>See *Steaks Unlimited, Inc. v. Deaner*, 623 F.2d 264, 273 (3d Cir. 1980). Steaks Unlimited advertised a sale of meat products by radio, newspaper, signs and handbills, spending more than \$16,000. The court ruled that this made the company a public figure with regard to defamation claims arising from the meat products. *Id.* at 273–74. See also *Schiavone Construction Co. v. Time Inc.*, 847 F.2d 1069, 1072 (3d Cir. 1988) (“We conclude that even if plaintiffs did not intend to achieve limited purpose public figure status by their activities, they nevertheless did so by thrusting themselves into the forefront of the debate.”).

<sup>204</sup>At least one commentator has suggested that publicly held corporations should be considered public figures. See Scot Wilson, *Corporate Criticism on the Internet: The Fine Line Between Anonymous Speech and Cybersmear*, 29 PEPP. L. REV. 533, 563 (2002) (“[I]n making the decision to ‘go public,’ the corporation seeks and often obtains national recognition, and ‘voluntarily submits itself both to extensive legal regulation (including public disclosure requirements) and to a degree of public scrutiny.’”).

the comments they make relate to matters of public importance.<sup>205</sup> The Third Circuit, for example, has held that because a publication regarded “some interest of social importance” it overcame a presumption of malice in Pennsylvania defamation law.<sup>206</sup> With regard to the value of speech in the consumer products area, the Third Circuit opined: “Consumer reporting enables citizens to make better informed purchasing decisions. Regardless whether particular statements made by consumer reporters are precisely accurate, it is necessary to insulate them from the vicissitudes of ordinary civil litigation in order to foster ... First Amendment goals.”<sup>207</sup> The California Court of Appeals held that because an “alleged defamatory statement is a matter of public concern, the plaintiff may not recover presumed or punitive damages without showing actual malice.”<sup>208</sup>

The *Restatement (Second) of Torts* includes the tort of publicity given to private life:

One who gives publicity to a matter concerning the private life of another is subject to liability to the other for invasion of his privacy, if the matter publicized is of a kind that (a) would be highly offensive to a reasonable person, and (b) is *not of legitimate concern to the public*.<sup>209</sup>

So, for example, the Illinois Court of Appeals concluded that a newspaper was not liable for the tort of publication of private facts where it covered a family’s loss of its teenaged son to a drug overdose, because the matter was of “legitimate concern to the public.”<sup>210</sup>

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<sup>205</sup>See *Steaks Unlimited*, 623 F.2d at 271. It should be noted, however, that there is no Supreme Court mandate that matters of public importance must be given special consideration. This approach was advanced in *Rosenbloom v. Metromedia*, 403 U.S. 29, 43–44 (1971), where Justice Brennan wrote for a plurality of the Court, “We honor the commitment to robust debate on public issues, which is embodied in the First Amendment, by extending constitutional protection to all discussion and communication involving matters of public or general concern, without regard to whether the persons involved are famous or anonymous.” This “public matter” approach was discarded three years later in *Gertz*, 418 U.S. at 345–46 (“[W]e conclude that the States should retain substantial latitude in their efforts to enforce a legal remedy for defamatory falsehood injurious to the reputation of a private individual. The extension of the *New York Times* test proposed by the *Rosenbloom* plurality would abridge this legitimate state interest to a degree that we find unacceptable.”).

<sup>206</sup>*Steaks Unlimited*, 623 F.2d at 280.

<sup>207</sup>*Id.*

<sup>208</sup>*Melaleuca*, 78 Cal. Rptr. 2d 627, 636 (Cal. App. 1998).

<sup>209</sup>RESTATEMENT (SECOND) OF TORTS § 652D (1977) (emphasis added) (hereinafter RESTATEMENT TORTS). See also *Lake v. Wal-Mart Stores, Inc.*, 582 N.W.2d 231, 233 (Minn. 1998) (adopting the *Restatement* formulation of the tort verbatim).

<sup>210</sup>*Beresky v. Teschner*, 381 N.E.2d 979, 984–85 (Ill. Ct. App. 1978).

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### ***Statements Regarding Mass-Market Products***

Statements regarding mass-market products also enjoy a greater degree of protection in tort law than statements about personal reputations. The *Restatement (Second) of Torts* includes in the definition of the “injurious falsehood” tort (also sometimes called trade libel or trade defamation): “One who publishes a false statement harmful to the interests of another is subject to liability for pecuniary loss resulting to the other if ... *he knows that the statement is false or acts in reckless disregard of its truth or falsity.*”<sup>211</sup> Application of the rule is limited to “cases of the disparagement of property in land, chattels or intangible things or of their quality.”<sup>212</sup> The California Court of Appeals summarized the issue well:

[T]he common law has always distinguished between statements which impugn a person’s reputation and those which disparage a product and it has always given the owner or marketer of a product very limited rights against the publisher of statements which disparage the product. Given the limited interest the common law recognizes in protecting products and the constitutional preference for the free exchange of ideas, we believe it is clear the Constitution will not permit liability to be imposed for injurious falsehood absent a showing of actual malice.<sup>213</sup>

### ***Conclusion—First Amendment***

First Amendment jurisprudence provides considerable support to the concept of a right to hear. Using the First Amendment to attack gagwrap clauses directly would require that state action be found first. Even without state action, however, the First Amendment provides a significant public policy basis upon which gagwrap clauses might be found to be unenforceable. It remains to be seen how this public policy rationale will work with the *Restatement of Contracts* framework when evaluating gagwrap clauses.

## **THE PUBLIC POLICY FRAMEWORK**

The First Amendment may not provide the means to mount a direct assault on gagwrap clauses, but courts may use public policy

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<sup>211</sup>RESTATEMENT TORTS, *supra* note 209, at § 623A (emphasis added).

<sup>212</sup>*Id.* at comment a.

<sup>213</sup>*Melaleuca*, 78 Cal. Rptr. 2d at 637.

considerations driven by the First Amendment and existing contract law to resolve most gagwrap cases appropriately. This public policy framework attempts to establish what weight should be given certain facts common to gagwrap cases while performing an analysis under *Restatement* section 178. The public policy framework does not propose the adoption of new doctrine or even extension of the operation of the First Amendment, but permits the courts to use established law. In light of the strong public policy behind the free flow of information about matters of public interest under the First Amendment, *Restatement of Contracts* section 178 could be applied to gagwrap clauses.

### *Interests in Enforcing Gagwrap Clauses*

The enforceability test in *Restatement* section 178 calls for a balancing of factors that support enforcement of a promise against the weight of public policy against enforcement.<sup>214</sup> The presumption is that the contract promise should be enforced unless clearly outweighed by the public policy.<sup>215</sup> Courts will consider at least three factors in support of enforcing a gagwrap clause: the parties' expectations, harm to the software manufacturer if the promise is not enforced, and any "special public interest" in enforcement of the term.<sup>216</sup>

The expectations of the software manufacturer can be measured in at least two ways: by considering whether the agreement has been negotiated with the promise of silence as a central feature of its existence (as with a non-disclosure agreement), and by ascertaining what benefit the software manufacturer hopes to obtain from enforcement of the promise.

Gagwrap provisions should rarely, if ever, be considered as central to a software licensing agreement because neither a reasonable software manufacturer nor a reasonable consumer would expect them to be. First, unlike clauses setting out restrictions on copying, sale and transfer, and reverse engineering, and providing for liability limitations and warranty exclusions, which appear in nearly all license agreements, gagwrap clauses appear in a small class of very significant software licenses. The software industry as a whole, therefore, does not consider gagwrap clauses central to the licensing transaction. Second, few if any consumers would expect to find a gagwrap

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<sup>214</sup>RESTATEMENT CONTRACTS, *supra* note 74, at § 178(2)–(3).

<sup>215</sup>*Id.* at comment b.

<sup>216</sup>*Id.* at § 178(2).

provision in a software license. Most consumers recognize that when they click through license agreements they are agreeing to certain limitations on their use of the software and that the manufacturer's liability is reduced. Few consumers would imagine that they would be prevented from discussing their impressions of the software or their assessment of its performance with others.

A gagwrap clause might be central to a license agreement actually negotiated between the parties. If, for example, a software manufacturer sought the advice of key users of its software regarding a pre-release version of a new software package, the manufacturer may wish to negotiate with the users to ensure that they do not discuss the flaws of the pre-release software with others. The disclosure to the public of flaws that the manufacturer will remove before the software is released does not improve the knowledge of consumers and harms the manufacturer.

Software companies may seek to obtain a variety of benefits by imposing gagwrap clauses in end-user license agreements. Chief among these benefits could be preventing dissemination of incorrect information about their software. Some in the software industry have expressly identified this concern.<sup>217</sup> Other manufacturers may have concerns about exposure of their trade secrets. Some software manufacturers may be less well-intentioned, seeking to use gagwrap clauses in an effort to keep the consuming public from learning about the flaws in their products.

The second factor the court must weigh in favor of enforcement is the harm caused to the software manufacturer if the court does not enforce the promise. If some particular performance by the software manufacturer were tied to the promise of silence, the software manufacturer might sustain a significant loss. An example from another industry may serve to illustrate. Imagine a contract for the sale of goods, with three shipments and a payment for each shipment scheduled. Such pairs of performances are sometimes called "agreed equivalents."<sup>218</sup> If the vendor sent all three shipments, but the purchaser's promise to pay was ruled unenforceable before the purchaser made the third payment, the vendor would have forfeited the third shipment. If that forfeiture were large, this factor would speak strongly in favor of enforcing the promise. In the case of gagwrap promises, there is no obvious agreed equivalent. In other words, the

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<sup>217</sup>See Brian Moran, *The Devil's in the DeWitt Clause*, SQL SERVER MAGAZINE, Apr. 3, 2003, available at <http://www.windowsitpro.com/Article/ArticleID/38587/38587.html> (last visited Feb. 25, 2006).

<sup>218</sup>RESTATEMENT CONTRACTS, *supra* note 74, at § 183.

software developer does not relinquish anything in particular in return for the promise of silence. At least on this basis, there is no strong interest in enforcement.

The software companies are nevertheless losing something if the gagwrap promise is not enforced—the value of whatever they would have if it were enforced. Software companies concerned only about the distribution of inaccurate information about their products may lose little or nothing if the gagwrap promise is not enforced. The laws of many states provide for a cause of action—“injurious falsehood” or “trade defamation”—by a business against one who makes false statements about the business or its products.<sup>219</sup> If the gagwrap clause were entirely absent from the EULA, the software company should still be able to take action against someone making false statements about the company’s products. This may weigh more or less in the favor of the software manufacturer depending on what state’s law would be applied to its case against the alleged trade defamer. Nevada, for example, has not even defined the tort of injurious falsehood, and other states define it in various ways.<sup>220</sup>

Non-enforcement harms only the software manufacturer’s interest in controlling what is said about it in the public forum. This interest is relatively weak, however: The manufacturer probably has recourse to tort law if public statements are false.

The third factor to consider in favor of enforcement is any “special public interest” in enforcement of the promise. As the discussion be-

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<sup>219</sup>In general, the tort of injurious falsehood subjects an individual to liability for publication of false statements about a product “harmful to the interests of another” resulting in “pecuniary loss resulting to the other if (a) he intends for publication of the statement to result in harm to interests of the other having a pecuniary value, or either recognizes or should recognize that it is likely to do so, and (b) he knows that the statement is false or acts in reckless disregard of its truth or falsity.” RESTATEMENT TORTS, *supra* note 74, at § 623(A).

<sup>220</sup>California formulates injurious falsehood or trade libel as publication of an intentional falsehood derogatory to plaintiff’s business; to recover “the plaintiff must prove in all cases that the publication has played a material and substantial part inducing others not to deal with him, and that as a result he has suffered special damages.” *Atl. Mut. Ins. Co., v. J. Lamb, Inc.*, 123 Cal. Rptr. 2d 256, 270 (Cal. Ct. App. 2002). New York formulates the rule this way:

The tort of trade libel or injurious falsehood consists of the knowing publication of false matter derogatory to the plaintiff’s business of a kind calculated to prevent others from dealing with the business or otherwise interfering with its relations with others, to its detriment. The communication must play a material and substantial part in inducing others not to deal with the plaintiff, with the result that special damages, in the form of lost dealings, are incurred.

*Waste Distillation Tech., Inc., v. Blasland & Bouck Eng’rs, P.C.*, 523 N.Y.S.2d 875, 877 (N.Y. Sup. Ct., App Div. 1988) (internal citations omitted).

low makes clear, public interest speaks against enforcement of these promises.

In summary, the software manufacturer's interest in enforcing gagwrap clauses is its interest in controlling what the public says about its products.

### ***The Public Interest in Not Enforcing Gagwrap Clauses***

Once a public policy basis for invalidating a contract promise is put forward, the *Restatement* calls upon the court to consider the importance of the policy, the likelihood that the court will advance the policy by not enforcing the promise, and any misconduct involved.<sup>221</sup>

Gagwrap clauses will almost always relate to mass-market products of public interest. In many jurisdictions, the manufacturers will be regarded as public figures or limited public figures. Consider a case of misconduct on the part of a software licensee; if, for example, a reporter published a false report of the manufacturer's product, the manufacturer will generally have recourse to tort law (defamation or injurious falsehood claims).

Opinion and truthful statements of fact relating to mass-market products enjoy an important status in the public discourse. Allowing software manufacturers to quell this public discourse with gagwrap clauses is not in the public interest and does not advance the legitimate interests of the software manufacturers themselves.

### ***Application of Public Policy Framework to Gagwrap Agreements***

The Oracle DeWitt clause,<sup>222</sup> the Network Associates no-review-without-permission clause,<sup>223</sup> Microsoft's FrontPage non-disparagement clause,<sup>224</sup> and IBM's intermediate clause<sup>225</sup> would fare differently under the proposed public policy framework, although some public policy factors are common to each of the software companies. The company may or may not be a public figure, but mass market for its software and the important role that software plays in business make its software a matter of great public interest.

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<sup>221</sup>RESTATEMENT CONTRACTS, *supra* note 74, at § 178(3).

<sup>222</sup>See *supra* note 4 and accompanying text.

<sup>223</sup>See *supra* note 22 and accompanying text.

<sup>224</sup>See *supra* note 7 and accompanying text.

<sup>225</sup>See *supra* note 31 and accompanying text.

The Oracle gagwrap clause provides: "You may not ... disclose results of any program benchmark tests without our prior consent."<sup>226</sup> The clause, therefore, entirely prohibits disclosures of benchmark results without Oracle's permission. Oracle's expectation is to be able to control what test results about its products are published, if any. The promise of silence is not central to the agreement, and there is no agreed equivalent to which that promise can be matched.<sup>227</sup> If this provision is not enforced, Oracle may face the difficulty and expense of responding publicly to negative test results; if the results are correct, Oracle should have no expectation of avoiding such expenses. If the results are false, Oracle will often have recourse in tort law.<sup>228</sup> The public policy in this case weighs against Oracle: The Oracle gagwrap clause would not be enforced under the public policy framework.

The Network Associates license agreement provided, "The customer will not publish reviews of this product without prior consent from Network Associates, Inc."<sup>229</sup> In its effect, this provision is substantially the same as Oracle's gagwrap clause: It prevents public commentary about the product without the advance permission of the software manufacturer. The provision is subject to the same analysis as the Oracle gagwrap clause, and it should not be enforced for the same reasons.

Microsoft's FrontPage license agreement provides: "You may not use the web components to ... disparage Microsoft or MSNBC or their products, software, or services."<sup>230</sup> As with all the gagwrap clauses considered here, the promise of silence is not central to the purchase of a license to use FrontPage. But the benefit Microsoft seeks to obtain with the provision is unclear. If it seeks only to prevent false statements about itself, its products, and its affiliates, a court would likely accord greater weight to Microsoft's expectations. Indeed, this clause could be Microsoft's means of dealing with the multiplicity of trade defamation laws among the states;<sup>231</sup> if a given state provides no cause of action for injurious falsehood, Microsoft could still pursue the false statements as a breach of the agreement. If, on the other hand, Microsoft is attempting to quell truthful criti-

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<sup>226</sup>*Supra* note 4.

<sup>227</sup>*See id.*

<sup>228</sup>*See supra* notes 218–20 and accompanying text.

<sup>229</sup>*People v. Network Assocs., Inc.*, 758 N.Y.S.2d 466, 467 (N.Y. Sup. Ct. 2003).

<sup>230</sup>*Supra* note 7.

<sup>231</sup>*See supra* note 220 and accompanying text.

cism of itself and its products, the court should discount Microsoft's expectations.

The harm to Microsoft if the clause is not enforced will depend on what it is interpreted to mean. If "disparage" is given the narrower construction, Microsoft may forfeit useful tools to pursue persons who have wronged it in states where trade libel is not a well-developed doctrine. If it is given the broader construction, Microsoft is forfeiting more. It also loses the ability to control speech about itself and its products, whether that speech is true or not. The public policy against enforcing the contract is considerably stronger if Microsoft is attempting to prevent all criticism than if it is merely seeking to prohibit trade defamation. On balance, the provision should be enforced only if "disparage" is given the narrower meaning of "making false statements."

IBM's intermediate clause permits benchmark results to be disclosed provided that the methodology is also disclosed and the test is run with the latest version of the software and under optimal recommended performance parameters; IBM further reserves the right of reciprocal testing and disclosure.<sup>232</sup> IBM exercises less control here than Oracle in its gagwrap clause. It does, nevertheless, impose certain requirements that may prove challenging for those performing tests. It requires that the publisher of a benchmark use the latest official releases of the IBM software and that the testers "tune" the software according to the advice on IBM's Web site.

At first glance, these seem very reasonable requirements, but they do not account for the fact that many of IBM's customers may choose not to use the latest software releases, perhaps waiting for "bugs" to be worked out; or that they may never use the software in IBM's theoretically ideal environment, so tests would need to reflect the way businesses actually *use* the software. As for the requirements that testers fully disclose their methodologies and permit IBM to publish results of testing their products, the public policy framework strongly supports these outcomes. The IBM clause's requirements for methodology disclosure and testing reciprocity should be enforced without hesitation. The court would require further facts to determine whether and to what extent IBM should be able to dictate software versions and set-up parameters.

Software companies will probably want to know what provisions their license agreements can have consistent with the proposed public policy framework. The following provisions would generally be

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<sup>232</sup>See *supra* note 31 and accompanying text.

consistent with the framework, but individual facts might alter the outcomes.

First, the agreement could require the publisher of test results to publish a full description of the test environment and methods; this permits readers to evaluate the reliability of the test. It does not impose a substantial additional burden on the tester, but it permits the software manufacturer to identify characteristics of the test that may have resulted in poor performance. This serves a legitimate interest of the software manufacturer without undermining the policy bases for the framework.

Second, the agreement could require the publisher of test results to notify the software manufacturer of the results and method at the time of, but not before, publication. This ensures the software manufacturer is not blind-sided by the publication and can react to inaccurate results promptly. Again, only a minor effort is required from the tester, and the benefit to the software manufacturer is significant; the policy underpinnings of the framework are not affected.

Third, the agreement could require mutuality, as the IBM clause does. This provision actually supports the policy basis of the framework by making more information available to consumers. Each software manufacturer that agrees to this provision while testing the software of its competitor is now subject to testing under the same terms.

Fourth, the agreement could prohibit the licensee from making false statements about the software and software manufacturer. The software manufacturer's interest here is clear—it can impose a uniform, contractual prohibition on trade defamation without concerns that the law of injurious falsehood varies from state to state. The policy values embodied in the framework are not undermined by allowing makers of false statements to be punished.

Though most of the gagwrap clauses considered would not be enforced under the proposed public policy framework, legitimate interests of software manufacturers can be protected with a variety of contract terms. The framework is also appropriate for the consideration of other types of agreements not to speak.

### ***Application of Framework to Other Agreements***

Some agreements containing promises not to speak should and will continue to be enforced if the public policy framework is adopted: for example, agreements where a disclosure would rob the manufacturer of the value of its efforts, where the parties negotiate a non-disclosure to further their mutual interests, where the parties

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settle a dispute between them and seek to keep the terms confidential, and where a reporter makes a promise of anonymity to a confidential source.

***Where Promise is Not to Disclose Information  
With Commercial Value***

In some cases, a software manufacturer includes a promise not to reproduce or disclose the contents of information resources in its license agreements. Such was the case with ProCD,<sup>233</sup> where the contents of its data CD were not protected by copyright law because they were factual; ProCD nevertheless sought to protect the value of its information-gathering efforts by requiring licensees not to disclose the database content. In that case, ProCD's justified expectation was that its customers would not be able to take its products and go into competition with it; no company engaging in the sort of work undertaken by ProCD could afford to operate without this protection. If a court failed to enforce this promise, ProCD would be unlikely to continue offering its information products at all.

Thus, courts should weigh the reasonable expectations of the licensor and the consequences of forfeiture more heavily in favor of enforcing the promise not to speak under these circumstances than under a gagwrap clause. If, however, a promise not to speak in a license agreement for a product like ProCD's may be calculated to prevent speech about the product (as opposed to disclosing its valuable contents), the court should perform the gagwrap analysis offered above, and probably should find that portion of the promise unenforceable.

***Where Promise is a Negotiated  
Non-Disclosure Agreement***

Mutual non-disclosure agreements (NDAs) between individuals or companies contemplating business relationships are common; the parties must exchange sensitive information with each other to explore the potential relationship, but neither wishes the other to disclose the information to third parties. In most cases, courts would be able to continue enforcing promises not to speak in NDAs under the framework.

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<sup>233</sup>See *supra* notes 47–65 and accompanying text.

Here, the expectations of the parties speak strongly for enforcement. Assuming the central feature of the contract is an agreement not to disclose secrets, failure to enforce the agreement would deprive one or more of the parties of the significant protections of confidentiality. There are particular public policy reasons for enforcing promises not to speak in mutual NDAs—the encouragement of exchanges of information in furtherance of economic development is one. On the First Amendment side, the policy reasons for refusing to enforce the promise are less strong: The parties may not be public figures, they may be disclosing matters not of public interest, and the information may not be related to mass-market products.

Some NDAs may contain promises not to speak that would not be enforced, however. For example, a court should probably not enforce an NDA resulting from a public company's agreement to pay a group of disaster-planning consultants not to disclose dangerous conditions at the company's factories. Assuming the agreement does not require the consultants to conceal conditions that must be reported under the law (assuming that concealing the information is not itself an act giving rise to civil or criminal liability, for example), the framework could still result in the court not enforcing the promise not to speak. Here, the status of the company as a public figure and of the dangerous facilities as a subject of public interest support the argument against enforcement. The company stands to lose public stature, perhaps, if the dangerous conditions are exposed, but the public's interest in knowing of them exceeds the company's interest in concealing them.

Whistleblowing statutes pose some of the same questions as mutual NDAs. Employers may not wish to have employees disclose certain information that may result in public opprobrium. The public policy framework could permit courts to invalidate promises of silence in employee confidentiality agreements even in jurisdictions without whistleblowing statutes or where the statutes do not reach the alleged conduct of the employer.

### ***Where Promise is in an Agreement to Settle Litigation or a Dispute***

Settlement agreements in disputes between individuals and companies are often reached with promises to keep the terms of the settlement confidential.<sup>234</sup> The parties may seek a court order to seal

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<sup>234</sup>See Laurie Kratky Doré, *Settlement, Secrecy, and Judicial Discretion: South Carolina's New Rules Governing the Sealing of Settlements*, 55 S.C. L. REV. 791, 794 (2004).

the settlement agreement, making it not only a breach of the agreement but contempt of court to disclose the terms.<sup>235</sup> These agreements and courts' willingness to seal them have come under heavy criticism from scholarly commentators.<sup>236</sup>

The proposed public policy framework may prove useful in examining which settlement agreements should be enforceable and which should not, but that application is not considered further here.

### ***Where Promise is a Reporter Promise of Confidentiality***

The Supreme Court has established that the First Amendment does not trump laws of general applicability. In *Cohen v. Cowles Media*,<sup>237</sup> two newspapers published the name of a source who had provided information on condition of anonymity, despite their reporters' promises of confidentiality. The source sued for breach of contract. The Minnesota Supreme Court ruled in favor of the newspapers, saying that to enforce the promise of confidentiality would violate the newspapers' First Amendment rights.<sup>238</sup>

The Minnesota Supreme Court also addressed the question of promissory estoppel, a state common law doctrine which says that in some cases, injustice can only be avoided if a non-contractual promise is enforced,<sup>239</sup> holding that the First Amendment rights of the newspapers must be balanced against the harm the source suffered from the revealing of his name, which the reporters had promised not to do. The court found that the enforcement of the confidentiality promise would violate the newspapers' First Amendment rights.<sup>240</sup>

The U.S. Supreme Court reversed. It held promissory estoppel, as enforceable through the Minnesota courts, creates state action for purposes of implicating the First Amendment.<sup>241</sup> Further, laws of general applicability, like promissory estoppel, apply to the media just as to anyone else, and the media must obey other laws of general applicability as well.<sup>242</sup> The Court concluded that "the First Amend-

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<sup>235</sup>*See id.* at 802.

<sup>236</sup>*See, e.g.,* David Luban, *Settlements and the Erosion of the Public Realm*, 83 GEO. L.J. 2619, 2648–49 (1995).

<sup>237</sup>501 U.S. 663 (1991).

<sup>238</sup>*Id.* at 666.

<sup>239</sup>*See* BLACK'S LAW DICTIONARY (8th ed. 2004).

<sup>240</sup>501 U.S. at 667.

<sup>241</sup>*Id.* at 668.

<sup>242</sup>*Id.* at 669.

ment does not confer on the press a constitutional right to disregard promises that would otherwise be enforced under state law.”<sup>243</sup>

One scholar has argued that *Cohen* opened the door for parties to use contract and property law to “cordon off information from public purview without First Amendment scrutiny.”<sup>244</sup> He warned that “efforts to control the flow of information through contract and property rights are likely to become more prevalent in a world in which property rights in information are paramount and signing onto an adhesion contract is only a click away.”<sup>245</sup> Other commentators expressed concern that the Court’s shifting of emphasis away from the social value of the speech toward the relationship between reporter and source would result in a loss of First Amendment protection for both sources and news organizations.<sup>246</sup>

Yet *Cohen* presents a situation where there are strong public policy considerations on both sides. Enforcing a promise not to speak in this case would result in the public not knowing the identity of the speaker but still benefiting from information that the speaker wishes to share anonymously. The present analysis would require a court to balance these factors on a case-by-case basis. On balance, it is essential for reporters to be able to provide to the public information from sources who wish their identities to be secret, and courts are likely to uphold contract provisions that make this possible.

### ***Alternatives to the Public Policy Framework***

One commentator has proposed that the issue of gagwrap provisions may be resolved by applying the doctrine of copyright misuse or by amending the Copyright Act.<sup>247</sup> These approaches prove problematic for different reasons.

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<sup>243</sup>*Id.* at 672.

<sup>244</sup>Alan E. Garfield, *The Mischief of Cohen v. Cowles Media Co.*, 35 GA. L. REV. 1087, 1089 (2001).

<sup>245</sup>*Id.* at 1126–27.

<sup>246</sup>Matthew D. Bunker & Sigman L. Splichal, *Legally Enforceable Reporter-Source Agreements: Chilling News Gathering At The Source?*, 70 JOURNALISM Q. 939, 943 (1993) (“Private remedies, no less than government-initiated prosecutions, have great potential to limit speech considered important to an informed, self-governing society.”). See also Laurence B. Alexander, *Civil Liability for Journalists Who Violate Agreements of Confidentiality With Sources*, 14 NEWSPAPER RES. J. 45 (1993); Paula S. Norvath-Neimeyer, *Contracts and Confidential Sources: The Implications of Cohen v. Cowles Media*, 67 JOURNALISM Q. 1078 (1990) (both arguing that prior to *Cohen*, the law was a patchwork when it came to enforcing promises of confidentiality).

<sup>247</sup>Anthony G. Read, *DeWitt Clauses: Can We Protect Purchasers Without Hurting Microsoft?*, 25 REV. LITIG. 387 (2006).

Copyright misuse is a doctrine that permits a defendant in copyright suits to escape liability where the plaintiff-copyright holder is using its copyright to undermine the public policy the Copyright Act is intended to further.<sup>248</sup> Copyright misuse has its roots in competition policy and takes its form from the analogous doctrine of patent misuse,<sup>249</sup> which had its genesis in competition policy and reached its modern form in *Morton Salt Co. v. G. S. Suppiger Co.*<sup>250</sup> *Morton Salt* is a paradigm patent misuse case. Suppiger, holder of a patent in manufacturing equipment that inserted salt pellets into cans, leased the equipment to customers but required them to purchase from Suppiger the salt pellets necessary to operate them.<sup>251</sup> Both Suppiger and Morton produced salt pellets suitable for the machines.<sup>252</sup> When Morton developed its own machines for inserting pellets, Suppiger sued it for patent infringement.<sup>253</sup> The Court held that Suppiger's "tying arrangement" allowed it to extend its monopoly on the patented devices into the market for sales of the salt pellets.<sup>254</sup> The Court denied Suppiger any infringement remedy in this case and, effectively, in any other until Suppiger changed its practices:

Equity may rightly withhold its assistance from such a use of the patent by declining to entertain a suit for infringement, and should do so at least until it is made to appear that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated . . . . It is the adverse effect upon the public interest of a successful infringement suit in conjunction with the patentee's course of conduct which disqualifies him to maintain the suit, regardless of whether the particular defendant has suffered from the misuse of the patent.<sup>255</sup>

Like patent misuse, copyright misuse grew from competition policy. Some courts have inferred the Supreme Court's approval of the doc-

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<sup>248</sup>See 4 DAVID NIMMER, NIMMER ON COPYRIGHT § 13.09[A] (Matthew Bender & Co. 2005) (1963).

<sup>249</sup>See *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970, 973 (4th Cir. 1990).

<sup>250</sup>314 U.S. 488 (1942).

<sup>251</sup>*Id.* at 491.

<sup>252</sup>*Id.* at 490.

<sup>253</sup>*Id.* at 491.

<sup>254</sup>*Id.* ("[R]espondent is making use of its patent monopoly to restrain competition in the marketing of unpatented articles, salt tablets, for use with the patented machines, and is aiding in the creation of a limited monopoly in the tablets not within that granted by the patent.").

<sup>255</sup>*Id.* at 493-94.

trine from *United States v. Paramount Pictures, Inc.*,<sup>256</sup> an antitrust case in which the Supreme Court ruled that copyright holders were attempting to extend their copyright monopolies using the *Morton Salt* analysis. The Supreme Court has never expressly approved or formulated the copyright misuse doctrine. The earliest recognition of the doctrine among the circuit courts of appeal looked beyond competition policy to find broader policy concerns capable of giving rise to a copyright misuse defense.<sup>257</sup> The three other circuits that have expressly adopted the doctrine have followed suit,<sup>258</sup> but most continue to focus their analysis on competition policy,<sup>259</sup> and nine other circuits have so far failed to adopt the doctrine expressly.<sup>260</sup>

The consequences for the copyright holder if it is found to abuse copyright are grim. For example, if a copyright license term is held to

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<sup>256</sup>334 U.S. 131 (1948).

<sup>257</sup>See *Lasercomb*, 911 F.2d 970, 978 (4th Cir. 1990).

<sup>258</sup>See *Video Pipeline, Inc. v. Buena Vista Home Entm't, Inc.*, 342 F.3d 191, 206 (3d Cir. 2003); *Alcatel USA, Inc. v. DGI Techs., Inc.*, 166 F.3d 772, 793–94 (5th Cir. 1999); *Practice Mgmt. Info. Corp. v. Am. Med. Ass'n*, 121 F.3d 516, 520–21 (9th Cir. 1995).

<sup>259</sup>See *Dun & Bradstreet Software Servs., Inc. v. Grace Consulting, Inc.*, 307 F.3d 197 (3d Cir. 2002) (citing *Lasercomb*, but expressly postponing consideration of copyright misuse doctrine, as it found plaintiff copyright holder was not improperly suppressing competition); *Alcatel*, 166 F.3d at 793–94 (recognizing application of doctrine beyond antitrust violations, but finding misuse based upon plaintiff copyright holder's efforts to use its copyright work to hinder competition in sales of another product not protected by copyright); *DSC Commc'ns Corp. v. DGI Techs., Inc.*, 81 F.3d 597, 601 (5th Cir. 1996) (adopting the *Lasercomb* court's formulation of copyright misuse, but applying it in a context where the plaintiff copyright holder "seems to be attempting to use its copyright to obtain a patent-like monopoly over unpatented microprocessor cards"); *Practice Management*, 121 F.3d at 520–21 (finding misuse without an antitrust violation, but in a context where plaintiff copyright holder was attempting to suppress competition); *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1169–70 (1st Cir. 1994) (recognizing the analysis in *Lasercomb*, but declining to adopt it because there was no antitrust violation in the instant case); *Bellsouth Adver. & Pub. Corp. v. Donnelley Info.*, 933 F.2d 952, 961 (11th Cir. 1991) (declining to recognize copyright misuse as it found no antitrust violation in the instant case), *rev'd on other grounds on reh'g*, 999 F.2d 1436, 1446 (1993), *cert denied*, 510 U.S. 1101 (1994); *Lasercomb*, 911 F.2d at 978 (finding copyright misuse because plaintiff copyright holder's license agreement attempted to limit competition). *Compare Video Pipeline*, 342 F.3d at 206 (no misuse found where plaintiff copyright holder's license agreement limited licensee's speech about plaintiff, but court recognized extension of copyright misuse doctrine beyond antitrust environment) *with Assessment Techs. of WI, LLC v. WIREdata, Inc.*, 350 F.3d 640, 647 (7th Cir. 2003) (while not expressly adopting the misuse doctrine, the court intimated that it would not be confined to antitrust violations if adopted).

<sup>260</sup>The Second, Sixth, Eighth, Tenth, Federal and D.C. Circuits have yet to discuss *Lasercomb* and to rule on the copyright misuse doctrine; the First, Seventh and Eleventh Circuits have discussed the doctrine without adopting it; only the Third, Fourth, Fifth, and Ninth Circuits have expressly adopted the doctrine. See *supra* notes 258 and 259.

be copyright misuse, the copyright holder will not be able to enforce the copyright for any reason against any other party until it “purges” the offending conduct.<sup>261</sup> In *Lasercomb America, Inc. v. Reynolds*,<sup>262</sup> the defendant never entered into the license agreement upon which it based its claim; there was no evidence Lasercomb had ever enforced it against anyone else, either.

The Supreme Court has recently limited the patent misuse doctrine. In *Illinois Tool Works, Inc. v. Independent Ink, Inc.*,<sup>263</sup> the Court held that a tying arrangement of the type in *Morton Salt* was not sufficient by itself to support the imposition of the patent misuse doctrine, abrogating the holding in *Morton Salt*.<sup>264</sup> This decision brings the patent misuse doctrine more tightly into the antitrust constellation, where defendants alleging unlawful tying arrangements must show that the patent holder has power in the relevant market of products in which the patented product is sold—showing a tying arrangement is not enough.<sup>265</sup>

Several factors speak against relying on copyright misuse to resolve problems with gagwrap clauses. First, the doctrine itself has not achieved widespread acceptance. Nine federal circuits and the Supreme Court have so far not adopted the doctrine. Second, the Supreme Court has never approved the extension of copyright misuse doctrine, or patent misuse doctrine, for that matter, to issues outside competition policy. Third, the remedy for copyright misuse works a terrible hardship on software manufacturers, who may be attempting to remedy legitimate business concerns.

Commentator Anthony Read has suggested amending the Copyright Act to embody the provisions in the IBM license discussed above.<sup>266</sup> Though there are reasons to be dissatisfied with the IBM language,<sup>267</sup> other language might be drafted that could achieve substantially all of the objectives of the proposed framework.

The proposed public policy framework is preferable to attempting to amend the Copyright Act for several reasons. First, the Copyright

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<sup>261</sup>See *Video Pipeline*, 342 F.3d at 204.

<sup>262</sup>911 F.2d 970 (4th Cir 1990).

<sup>263</sup>126 S. Ct. 1281 (2006).

<sup>264</sup>*Id.* at 1284 (“[T]he mere fact that a tying product is patented does not support ... a presumption” of patent infringement.).

<sup>265</sup>*Id.* at 1286 (“[T]he essential characteristic of an invalid tying arrangement lies in the seller’s exploitation of its control over the tying product to force the buyer into the purchase of a tied product that the buyer either did not want at all, or might have preferred to purchase elsewhere on different terms.”) (quoting *Jefferson Parish Hospital Dist. No. 2 v. Hyde*, 466 U.S. 2, 12 (1984)).

<sup>266</sup>See *supra* note 246 and accompanying text.

<sup>267</sup>See *supra* text accompanying footnote 233.

Act is rarely amended, and then usually only with the backing of powerful industry interests. The software manufacturers are unlikely to propose an anti-gagwrap statute, and they may even oppose its enactment. Second, no sufficiently scandalous test case has arisen to goad Congress to action. So far, software manufacturers have made effective use of gagwrap clauses mostly through threats and intimidation. When the courts are confronted with their first gagwrap cases, it would be best if they already possessed the tools to deal with them. Third, depending on how legislation is drafted, it may raise as many issues as it resolves, and it is questionable whether the software industry would allow it to pass without being watered down considerably.

## CONCLUSION

Shrinkwrap and clickwrap agreements are common in the software industry, yet most consumers are unaware of the provisions they may contain—including clauses that are agreements not to speak. The public policy framework proposed here uses settled contract law and long-standing First Amendment jurisprudence to evaluate gagwrap promises; the proposal requires no new legislation or departure from judicial precedent. It does require an understanding of the importance of well-settled First Amendment jurisprudence recognizing not only the right to speak, but the right to hear.

The public policy framework calls for a balancing of the interests of the software manufacturer in enforcing the gagwrap clause with those of the public. The manufacturer may have legitimate expectations, including the right to prevent false speech about its products. These are counterbalanced where the manufacturer is a public figure, the speech is about matters of public interest, and the software is a mass-marketed product. Even if gagwrap clauses are invalidated, manufacturers may look to state tort law for remedies to false speech about their products.

Under the public policy framework, many gagwrap clauses will be held unenforceable, but other promises of silence that have important commercial or social benefits, such as source confidentiality, non-disclosure, and settlement agreements, will remain intact.

The framework is not perfect. For example, it is subject to variations in state contract law. Assuming a gagwrap clause appeared in a EULA to be interpreted under the laws of two different states, it is possible that it would be found unenforceable in one state and enforceable in the other.

This right to speak and the right to hear are essential to democratic self-governance, and attempts to stunt the free flow of information through use of gagwrap clauses should be suspect. The public policy framework offers an approach to evaluating gagwrap clauses.