

TAKE IT OR LEAVE IT: *MONSANTO V. MCFARLING*, *BOWERS V. BAYSTATE TECHNOLOGIES*, AND CONTRACTS OF ADHESION IN THE FEDERAL CIRCUIT

by Christopher M. Kaiser

INTRODUCTION

Contracts of adhesion, including form contracts¹ and shrinkwrap license agreements,² are an important part of the modern consumer economy. By greatly reducing transaction costs, these contracts help to lubricate the gears of the market in “standardized goods and services.”³ They also allow the party who drafts the contract to “rationally calculate the costs and risks of performance.”⁴ Given these benefits, it is little wonder that adhesion contracts “probably account for more than ninety-nine percent of all the contracts now made.”⁵

All this benefit comes at a cost, though. While both parties experience the benefit of lowered transaction costs inherent in the use of form contracts and other contracts of adhesion, the benefit of the increased ability to “calculate the costs and risks of performance”⁶ is only felt by the party who drafts the contract. The party who adheres to the contract—who must take the offered terms or forgo the transaction⁷—gives up much, possibly all, of the bargaining power she is assumed to have under the traditional model of contract formation.⁸ Many people adhere to such contracts without reading or understanding the terms to which they consent, even when they take the time to shop around for a good bargain.⁹ Thus, although contracts of adhesion are generally not considered unenforceable, courts have begun to treat them differently from traditional contracts in certain circumstances.¹⁰

Despite their relative abundance, contracts of adhesion have rarely been at issue in cases before the Federal Circuit, probably due to the specialized nature of its subject-matter jurisdiction. However, two cases dealing with contracts of adhesion were decided by the Federal Circuit in late 2002 and early 2003. The two cases were *Monsanto Co. v. McFarling*¹¹ and

*Bowers v. Baystate Technologies, Inc.*¹² In both cases, the court enforced the contracts at issue, even though in both cases the contracts were clearly adhesive and even though both contracts were at least arguably at odds with other public policies.¹³ These decisions and their rationales suggest that the Federal Circuit strongly favors enforcing contracts, possibly to the exclusion of other considerations.

This note will examine the ways in which the Federal Circuit decides cases dealing with contracts of adhesion and will suggest methods for improving the defensibility of those decisions. Part I will examine the principles courts generally employ for deciding when contracts of adhesion should be enforced. Part II will review the background of the two recent Federal Circuit cases, *Bowers* and *Monsanto*. Part III will look to the public policies courts seek to enforce when deciding issues of intellectual property law. Finally, Part IV will develop a list of factors for courts to consider when dealing with intellectual property cases in which contracts of adhesion are at issue.

I. PRINCIPLES CURRENTLY EMPLOYED TO DECIDE WHETHER TO ENFORCE CONTRACTS OF ADHESION

Text here.

II. *MONSANTO* AND *BOWERS*: THE FEDERAL CIRCUIT CONSIDERS CONTRACTS OF ADHESION

Prior to August 2002, the Federal Circuit had never decided whether to enforce a formal contract alleged to be adhesive.¹⁴ However, within a span of less than six months, the court decided two cases dealing with formal contracts of adhesion, holding in both instances that the contracts were enforceable. In August 2002, the court decided *Monsanto Co. v. McFarling*, a patent law case, while *Bowers v. Baystate Technologies, Inc.*, a case implicating both patent law and copyright law, was decided following a panel rehearing in January 2003.

1. Monsanto Co. v. McFarling

Monsanto Co. developed genetically engineered soybean seeds resistant to particular herbicides that it also manufactures.¹⁵ Use of these soybean seeds apparently reduces the labor cost for farmers who need to apply herbicides to their fields, since the herbicide can be applied broadly, “killing the weeds but not harming the resistant [soybeans].”¹⁶ The soybeans, sold under the Roundup Ready[®] brand, are covered by United States patents, and they are therefore only available from Monsanto.¹⁷ Farmers find these seeds more competitive than ordinary, non-genetically modified seed, to the extent that nearly two-thirds of soybeans planted in the United States today are Roundup Ready[®] seeds.¹⁸

Farmers purchase genetically engineered soybean seeds through “various companies [authorized by Monsanto] to manufacture the patented seeds.”¹⁹ Monsanto requires that the purchasing farmer pay a particular license fee to Monsanto and that the farmer sign a “Technology Agreement,” a preprinted form containing the terms of the sale.²⁰

Among the terms in the Technology Agreement is a forum selection clause giving the United States District Court for the Eastern District of Missouri, Eastern Division, “exclusive jurisdiction . . . for all disputes arising under [the agreement].”²¹ Should the farmer violate the terms of the agreement, suit would be brought in Missouri, Monsanto’s home forum,²² against him. In fact, this is what happened in *Monsanto Co. v. McFarling*.

Monsanto filed suit against Homan McFarling, a Mississippi farmer, for a violation of one of the terms of the Technology Agreement: he admitted to saving some of his soybean crop from each harvest to plant as seed the next year.²³ The suit was brought in the Eastern District of Missouri, Eastern Division, consistent with the forum selection clause discussed above.²⁴ The district court granted a preliminary injunction against McFarling prohibiting him from replanting

the seeds he saved from crops grown from Monsanto's patented soybean seed.²⁵ McFarling appealed the grant of the preliminary injunction, challenging the personal jurisdiction of the Missouri court.²⁶

The Federal Circuit majority upheld the grant of the injunction, ruling that the forum selection clause in the contract controlled whether the district court had personal jurisdiction.²⁷ The majority's approach can be best classified as formalist. They held that McFarling's argument that his "voluntary failure to read what he signed" afforded him no protection from being bound by the terms of the agreement.²⁸

In contrast to the majority, which made no attempt to evaluate whether the forum selection clause in the Technology Agreement was reasonable or appropriate, the dissent argued that "the conclusion that a defendant has surrendered his right to due process of law is not one that a court should reach casually."²⁹ Particularly when a right is so fundamental as the right to be tried in a court with proper personal jurisdiction,³⁰ when the right is alleged to have been waived in a contract of adhesion,³¹ and when the party drafting the contract and the party bringing suit are the same party,³² the dissent argues that the court should engage in much more significant analysis than that engaged in by the majority.³³

Panel and en banc rehearings of the case were denied by the Federal Circuit on October 16, 2002.³⁴ The United States Supreme Court denied the petition for writ of certiorari on March 3, 2003.³⁵

2. Bowers v. Baystate Technologies, Inc.

Factually, *Bowers v. Baystate* appears to be a more complex case than was *Monsanto v. McFarling*. The case involves claims for breach of contract, patent infringement, and copyright infringement.³⁶ All three claims stem from Harold Bowers's development of a product

originally known as Cadjet and eventually sold as part of a product called the Designer's Toolkit.³⁷

Bowers developed a template to assist operators of computer-aided design (CAD) programs.³⁸ Typically, when CAD users want to give a command to their software, they must select it out of nested menus, which is somewhat inefficient.³⁹ Bowers improved the situation by developing a template to lay on top of a digitizing tablet, allowing "the many CAD commands [to be presented] in a . . . logical order."⁴⁰ The template was protected by a patent⁴¹ and was commercialized as Cadjet.⁴²

Later, an engineer named George W. Ford, III, developed software that improved Bowers's improvement to CAD software by allowing operators to easily add symbols specifying "technical tolerances for features of the computer-generated design."⁴³ This software was protected by registered copyright.⁴⁴ Since Ford's and Bowers's products were so closely related, they were eventually sold together as the Designer's Toolkit.⁴⁵ This product was sold under a shrinkwrap license agreement prohibiting reverse engineering of the software.⁴⁶

Eventually, Baystate Technologies, a competitor of Bowers, purchased a copy of the Designer's Toolkit,⁴⁷ reverse engineered it,⁴⁸ and incorporated its features into their own competing product, Draft-Pak.⁴⁹ Baystate sued Bowers for declaratory judgment of patent invalidity, and Bowers counterclaimed for copyright infringement, patent infringement, and breach of contract.⁵⁰ The district court jury found for Bowers and awarded damages on all three of his claims and against Baystate its claim.⁵¹ The district court judge modified the jury's verdict, finding the copyright and breach of contract damages duplicative and omitting the copyright damages as a result.⁵²

The issue on appeal was whether Bowers's breach of contract claim was preempted by federal copyright law.⁵³ Because the copyright infringement claim and the breach of contract claim were based in the same alleged actions, the contract claim might be preempted by the copyright statute,⁵⁴ leaving only the copyright claim, which Baystate argued it should win because its alleged actions, constituting reverse engineering, fell within the fair use exception in the statute.⁵⁵

The majority in the Federal Circuit held that Bowers's breach of contract claim was not preempted by federal copyright law.⁵⁶ Specifically, "private parties are free to contractually forego the limited ability to reverse engineer a software product under the exemptions of the Copyright Act."⁵⁷ The majority did not discuss whether contracts of adhesion, such as the shrinkwrap license agreement at issue, should be enforced as readily as negotiated contracts.

As in *Monsanto*, there was a dissent in this case. Instrumental in Judge Dyk's dissent was that the contract at issue was adhesive.⁵⁸ He went so far as to suggest that any contract of adhesion purporting to prohibit the adherent from engaging in conduct permitted under the fair use exception of the copyright statute would be preempted by copyright law.⁵⁹

The January 2003 decision in this case was the result of a panel rehearing.⁶⁰ The United States Supreme Court denied the petition for writ of certiorari in this case on June 16, 2003.⁶¹

III. PUBLIC POLICIES SOUGHT TO BE ENFORCED IN INTELLECTUAL PROPERTY CASES

Text here.

IV. FACTORS TO CONSIDER IN DECIDING WHETHER TO ENFORCE A CONTRACT OF ADHESION IN CONFLICT WITH INTELLECTUAL PROPERTY PUBLIC POLICIES

It is clear from the dissents in both *Bowers* and *Monsanto* that there is room for disagreement with the Federal Circuit's decisions. It is not immediately clear to an impartial

observer whether the majority or the dissent in either case ultimately came to the correct decision. What does seem clear is that the majority in both cases failed to give proper consideration to any of the factors previously considered by other courts or suggested by commentators for deciding whether an adhesive contract should be enforced. In *Monsanto*, the majority's analysis was limited to the question of whether the defendant signed the agreement in question.⁶² Implicit in this analysis was the assumption that any contract agreed to is enforceable, regardless of its other characteristics. The analysis of the majority in *Bowers* was similar. Here, the questions asked included whether it was permissible under copyright law for a party to waive its fair use protection⁶³ and whether the terms of the contract at issue did in fact waive that protection in this case.⁶⁴ Never did the majority ask whether the adhesive nature of the contract affected its enforceability.

The reasoning followed by the Federal Circuit in these two cases suggests an increasing formalism with respect to contract claims. If these cases are followed in the future, the judicial inquiry will be limited to asking whether a contract existed and whether the terms of that contract accomplished what the parties claim they accomplished. The fact that a contract may conflict with other important public policies, such as personal jurisdiction rules or the copyright fair use exception, means nothing in this inquiry. The fact that a particular contract exhibits problems with mutual assent, as is the case for adhesive contracts, is likewise unimportant. The Federal Circuit should depart from this course. It should clearly announce a test for determining when contracts of adhesion will be enforced and when they will not be.

¹ For a very complete discussion of the use of form contracts to replace market transactions in the modern business environment, see Todd D. Rakoff, *Contracts of Adhesion: An Essay in Reconstruction*, 96 HARV. L. REV. 1174, 1220-25 (1983).

² A discussion of shrinkwrap license agreements can be found in Mark A. Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 S. CAL. L. REV. 1239 (1995). As he notes, they are typically found in the context of software purchases, where the consumer accepts the terms of the agreement simply by opening the package in which the software is shipped and marketed. *Id.* at 1241-42.

³ 1-1 CORBIN ON CONTRACTS § 1.4.

⁴ *Id.*

⁵ W. David Slawson, *Standard Form Contracts and Democratic Control of Lawmaking Power*, 84 HARV. L. REV. 529, 529 (1971). Slawson notes that “Parking lot and theater tickets, package receipts, department store charge slips, and gas station credit card purchase slips are all standard form contracts,” as are many contracts pertaining to “insurance, leases, deeds, mortgages, automobile purchases, and all of the various forms of consumer credit.” *Id.*

⁶ 1-1 CORBIN ON CONTRACTS § 1.4.

⁷ Rakoff, *supra* note 1, at 1222-24.

⁸ See Slawson, *supra* note 5 (“The contracting still imagined by courts and law teachers as typical, in which both parties participate in choosing the language of their entire agreement, is no longer of much more than historical importance.”).

⁹ Rakoff, *supra* note 1 at 1226 (“The ideal adherent who would read, understand, and compare several forms is unheard of in the legal literature and, I warrant, in life as well.”).

¹⁰ *Id.* at 1174.

¹¹ 302 F.3d 1291 (Fed. Cir. 2002), *cert. denied*, 123 S. Ct. 1357 (U.S. Mar. 3, 2003).

¹² 320 F.3d 1317 (Fed. Cir. 2003), *cert. denied*, 123 S. Ct. 2588 (U.S. June 16, 2003).

¹³ *Monsanto* dealt with the adherent’s agreeing to be sued in a court that could not, in the absence of the contract, exercise personal jurisdiction over him. The contract in *Bowers* was a shrinkwrap license agreement under which the adherent agreed not to engage in reverse engineering of software, behavior specifically allowed in 17 U.S.C. § 107, the fair use provision of the copyright statute. See *infra* notes __, __, __, and __ and accompanying text.

¹⁴ Other than *Monsanto* and *Bowers*, the only other case in which the Federal Circuit has ever used the phrase “contract of adhesion” was *Vitacco v. Toastmaster, Inc.*, 1994 U.S. App. LEXIS 2049 (1994), an unpublished decision in which the court upheld a district court’s summary judgment against a plaintiff who had alleged *inter alia* that a contract at issue was adhesive, with the term in this instance suggesting that the contract was oppressive as well as offered in a “take it or leave it” spirit. *Id.* at *8. Presumably, given the ubiquitous nature of formal and informal form contracts in the modern consumer economy, the court has considered an adhesive contract at some point since its formation in 1982.

¹⁵ *Monsanto*, *supra* note 11, at 1293.

¹⁶ *Id.*

¹⁷ *Id.*; see United States Patent No. 5,633,435, United States Patent No. 5,352,605.

¹⁸ *Monsanto*, *supra* note 11, at 1301.

¹⁹ *Id.* at 1293.

²⁰ *Id.*

²¹ *Id.* at 1294.

²² *Id.* at 1295.

²³ *Id.* at 1293.

²⁴ *Id.*

²⁵ *Id.*

²⁶ *Id.* at 1294.

²⁷ *Id.* at 1296.

²⁸ *Id.* at 1295.

²⁹ *Id.* at 1300.

³⁰ *Id.*

³¹ *Id.* at 1301–02.

-
- ³² *Id.* at 1306–07.
- ³³ *Id.* at 1306.
- ³⁴ *Monsanto Co. v. McFarling*, 2002 U.S. App. LEXIS 23177 (October 16, 2002).
- ³⁵ *McFarling v. Monsanto Co.*, 123 S. Ct. 1357 (2003).
- ³⁶ *Bowers*, *supra* note 12, at 1320.
- ³⁷ *Id.* at 1321–22.
- ³⁸ *Id.* at 1320.
- ³⁹ *Id.* at 1321.
- ⁴⁰ *Id.*
- ⁴¹ United States Patent No. 4,933,514.
- ⁴² *Bowers*, *supra* note 12 at 1321.
- ⁴³ *Id.*
- ⁴⁴ *Id.* at 1322.
- ⁴⁵ *Id.*
- ⁴⁶ *Id.*
- ⁴⁷ *Id.*
- ⁴⁸ *Id.* at 1326–27.
- ⁴⁹ *Id.* at 1322.
- ⁵⁰ *Id.*
- ⁵¹ *Id.* at 1320.
- ⁵² *Id.*
- ⁵³ *Id.* at 1323.
- ⁵⁴ *See* 17 U.S.C. § 301(a) (2000).
- ⁵⁵ 17 U.S.C. § 107 (2000). The Federal Circuit held that reverse engineering of software falls within the copyright fair use exception in *Atari Games Corp. v. Nintendo of Am., Inc.*, 975 F.2d 832, 843 (Fed. Cir. 1992).
- ⁵⁶ *Bowers*, *supra* note 12, at 1325–26.
- ⁵⁷ *Id.*
- ⁵⁸ *Id.* at 1337–38.
- ⁵⁹ *Id.* at 1337.
- ⁶⁰ *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1316 (Fed. Cir. 2003).
- ⁶¹ *Baystate Techs., Inc. v. Bowers*, 123 S. Ct. 2588 (2003).
- ⁶² *Monsanto*, *supra* note 11, at 1295–96.
- ⁶³ *Bowers*, *supra* note 12, at 1324–25.
- ⁶⁴ *Id.* at 1326.