

No. 01-1108, -1109

In the
United States Court of Appeals
for the Federal Circuit

HAROLD L. BOWERS, d/b/a HLB TECHNOLOGY,

Plaintiff-Cross-Appellant,

v.

BAYSTATE TECHNOLOGIES, INC.,

Defendant-Appellant

*Appeal from the United States District Court
for the District of Massachusetts
in CV-91-40079
Judge Nathaniel M. Gorton*

BOWERS' OPPOSITION TO BAYSTATE'S COMBINED PETITION
FOR PANEL REHEARING AND REHEARING EN BANC

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Certificate of Interest (Fed. Cir. R. 47.4)

Counsel for the Plaintiff-Cross-Appellant, Harold L. Bowers, certifies the following:

1. The full name of every party or amici represented by me in this appeal is: **Harold L. Bowers.**
2. The party named in the caption is the real party in interest represented by me.
3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party represented by me are: NONE.
4. The names of all law firms and the partners or associates that appeared for the party now represented by me in the trial court or are expected to appear in this court are:

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ARGUMENT

I. The Sky is Not Falling

Baystate warns that the Court's decision will "wreak havoc on the entire software industry" [Petition at 2] and that the decision will have an "unprecedented effect" that will "chill innovation" arising from a "new claim" that can be brought against competitors. [Petition at 4]. The amici similarly sound warning bells, misreading the Court's opinion as going to an "extreme, adopting a blanket rule that such restrictions are never preempted." Amici also point out that the legislatures of various other countries have enacted various protections for reverse engineering of software, and apparently invite this Court to judicially enact similar legislation.

In reality, the opposite is true. Baystate acknowledges that the use of shrink wrap licenses is a common practice in the software industry, and that such licenses frequently contain clauses restricting the ability of end users to decompile and reverse engineer the code contained in software products, which frequently contain trade secrets. Had the Court ruled that such contracts were unenforceable as a matter of law, the software industry would be thrown in disarray -- stripped of a widely used means of protecting its

extensive investments in trade secrets and other valuable intellectual property, absent expensive patents or literal copying of software.

As Judge Easterbrook of the Seventh Circuit has noted in a similar context, “General Motors is entitled to control 100% of its own output of mufflers, without handing any of them over to Ford or Toyota or Volkswagen. Permitting a producer the full return on its investment in mufflers (or any other product) is essential to promote investment in productive assets and rivalry with other producers.” *IDX Systems Corp. v. Epic Systems Corp.*, 285 F.3d 581, 585, 62 USPQ2d 1278, 1282 (7th Cir. 2002). Judge Easterbrook noted that because “it is hard to prove that particular information qualifies as a trade secret, many producers of intellectual property negotiate with their customers for additional protection.” *Id.* at 285 F.3d at 584, 62 USPQ2d at 1280, citing contractual remedies approved by *ProCD, Inc. v Zeidenberg*, 86 F.3d 1447, 39 USPQ2d 1161 (7th Cir. 1996). The status quo is industry reliance on software licensing agreements that restrict the ability of competitors to strip out trade secrets and other valuable information from software products that are intended primarily for use by consumers. Baystate and amici present an alarmist and unrealistic viewpoint that is out of touch with the marketplace.

Baystate's example of competitors at trade shows allegedly using reverse engineering as a "competitive event" is misleading. [Petition at 4] Demonstrating software products at a trade show for all to see is not similar to the facts of this case, in which Baystate surreptitiously analyzed the structure of Bowers' software product in its laboratories after having agreed to the terms of the software license prohibiting exactly that practice. The panel's decision allows competitors to decide whether to accept software licenses that have reverse engineering provisions, and allows competitors to reverse engineer software where they did not assent to the license terms; can show that the license terms were unconscionable; or that any of the other normal defenses to a breach of contract claim would apply.

II. Baystate Has Waived Any Contractual Defenses

Baystate and amici refer to the terms of the shrinkwrap license as "unilaterally imposed" by software vendors [Amici at 6-7]; an "unbargained shrinkwrap license unilaterally imposed by one party" [Amici at 9]; and "adhesion as a condition to licensing" [Amici at 14]. Such arguments concern contract formation, consideration, and alleged unconscionability of the contracts. None of those defenses was raised or at issue in this appeal.

Baystate has never denied that the contracts at issue in this case were the subject of a proper offer, acceptance, and consideration, and it never

before raised unconscionability or “adhesion” as a contract defense. Nor has Baystate ever denied that the contracts were breached, or that Bowers suffered damages as a result of the breach. Consequently, all of these allegations concern hypothetical facts not at issue in this case. They cannot form the basis for overturning the Court’s decision, which was based solely on the question of preemption.

III. The Contract Claim Was Not Preempted

Baystate and amici raise two grounds on which the breach of contract claim should have been preempted: statutory preemption under section 301 of the Copyright Act, and “conflict preemption” under principles of general federal supremacy. Neither argument is persuasive.

A. Statutory Preemption Does Not Apply

(1) Baystate’s Argument Conflicts With the Copyright Act

Baystate’s statutory preemption argument is based on the premise that reverse engineering is *per se* a “fair use” protected under the Copyright Act. Importantly, Congress has already provided two narrowly defined circumstances under which reverse engineering would be a defense to infringement. Section 906 of Title 17, entitled “Limitation on Exclusive Rights: Reverse Engineering,” provides that “Notwithstanding the provisions of section 905, it is not an infringement of the exclusive rights of

the owner of a mask work for (1) a person to reproduce the mask work solely for the purpose of teaching, analyzing, or evaluating the concepts or techniques embodied in the mask work or the circuitry, logic flow, or organization of components used in the mask work” This narrowly-drawn provision would be completely eviscerated if Baystate’s argument were to be accepted.

Similarly, as part of the Digital Millenium Copyright Act (DMCA), Congress in 1998 enacted 17 U.S.C. § 1201(f), which provides that:

(f) Reverse Engineering – (1) Notwithstanding the provisions of subsection (a)(1)(A), a person who has lawfully obtained the right to use a copy of a computer program may circumvent a technological measure that effectively controls access to a particular portion of that program for the sole purpose of identifying and analyzing those elements of the program that are necessary to achieve interoperability of an independently created computer program with other programs, and that have not previously been readily available to the person engaging in the circumvention, to the extent any such acts of identification and analysis do not constitute infringement under this title.

Given that Congress has already defined two narrow circumstances under which reverse engineering should be permitted, Baystate’s interpretation of the fair use defense under section 107 is untenable because it would render superfluous the other Congressionally-defined exceptions for reverse engineering. See *Reiter v. Sonotone Corp.*, 442 U.S. 330, 339

(1979) (“In construing a statute we are obliged to give effect, if possible, to every word Congress used.”); *Genentech Inc. v. Eli Lilly & Co.*, 998 F.2d 931, 942, 27 USPQ2d 1241, 1248 (Fed. Cir. 1993).

(2) Fair Use is a Defense, Not an Affirmative Right

Baystate argues that the fair use doctrine is a “right” protected under copyright law. [Petition at 5, referring to a supposed “right to reverse engineer.”] The Copyright Act, however, provides only that “the fair use of a copyrighted work . . . is not an infringement of copyright.” 17 U.S.C. § 107. This limited defense to copyright infringement does not provide an affirmative federal right that trumps other federal and state causes of action. Following Baystate’s logic would result in all sorts of untenable situations.

For example, an accused patent infringer could escape patent infringement for a patented software product by arguing that he was merely “fairly using” the patented technology to better understand how the patented invention worked. One accused of trade secret misappropriation could escape liability by arguing that he was merely trying to learn how a secret process worked. One who published defamatory remarks about a competitor’s product could hide behind a “fair use” shield by arguing that he was merely investigating and reporting on the properties of the product.

Baystate's theory, if correct, could be used to defeat claims of trademark infringement, tortious interference, and other causes of action.

Such nonsensical outcomes do not, of course, arise out of any right provided under the Copyright Act. Consequently, Baystate's theory should be rejected.

(3) Cases Cited by Baystate are Not Controlling

Baystate and amici point to the Fifth Circuit's decision in *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 7 USPQ2d 1281 (5th Cir. 1988) in support of their contention that the contractual agreement should be preempted. But *Vault* was not decided on the same preemption issue in the present case. Instead, that case was decided on the ground that a state law, the Louisiana License Act, actually conflicted with section 117 of the Copyright Act. Because the Vault license was dependent on that act, once the state law was held unenforceable, the license provisions dependent upon it were also held to be unenforceable. *Vault*, 847 F.2d at 270, 7 USPQ2d at 1295. (In its opening brief in this Court, Baystate never raised section 117 as a basis for preemption. Consequently, that issue has been waived.)

Baystate and amici cite with approval this Court's prior decision in *Atari Games Corp. v. Nintendo of America, Inc.*, 975 F.2d 832, 24 USPQ2d 1015 (Fed. Cir. 1992), and the Ninth Circuit's decision in *Sega Enterprises*,

Ltd. v. Accolade, Inc., 977 F.2d 1510, 24 USPQ2d 1561 (9th Cir. 1993) as supporting their position that reverse engineering is a fair use. Nobody contests the fact that reverse engineering might constitute fair use against copyright infringement in certain circumstances. That is not the issue in this case, and both Baystate and amici misread the import of these and other decisions. In neither case did the defendant agree to a restriction on the use of software that specifically prohibited the defendant from reverse engineering the licensed computer software. This Court in *Atari* addressed the question whether Atari could rely on the fair use defense to overcome Nintendo's copyright infringement claim. This Court held that it could not. *Atari*, 975 F.2d at 844, 24 USPQ2d at 1024. At no point did this Court state that the fair use defense to copyright infringement would have preempted or otherwise overridden a clause in a license agreement that prohibited reverse engineering.

In *Sega*, the Ninth Circuit found that a defendant having a legitimate reason for understanding unprotected functional elements of a computer program could rely on the fair use defense to avoid liability for copyright infringement. No license was at issue, and unlike Baystate's situation, no breach of contract claim was at issue. *Sega*, 977 F.2d at 1514, 24 USPQ2d at 1563 ("Accolade is not and never has been a licensee of Sega.")

Consequently, *Sega* is of no help to Baystate. Other cases cited by Baystate and amici are similarly off-point or raise issues never before the panel in this case.

Baystate cites the Sixth Circuit's decision in *Wrench LLC v. Taco Bell Corp.*, 256 F.3d 446, 457, 59 USPQ2d 1434, 1441 (6th Cir. 2001) as supporting its argument that the contract rights at issue in this case are not qualitatively different from those provided under copyright law. [Petition at 12-14]. Actually, *Wrench* fully supports Bowers' position. In *Wrench*, the plaintiff sought recovery under an implied-in-fact contract claiming that a dog used in an advertising commercial was based on a cartoon that the plaintiff had shown to the defendant's executives. The Sixth Circuit held that the defendant's implied promise to pay for the use made the plaintiff's claim qualitatively different and thus not preempted. Baystate then cites dicta from *Wrench*, discussing facts not before that court, involving a hypothetical situation in which only pure "copying" was involved. Not only was that situation not before the Sixth Circuit, it was not before this panel, since it is beyond dispute that an agreement to not reverse engineer or decompile the software at issue is qualitatively different than an agreement that solely prohibits copying.

B. Conflict Preemption Does Not Apply

(1) The Issue Was Waived On Appeal

Footnote 10 of Baystate's brief and several pages of the brief of the amici chastise the panel for not considering whether the breach of contract claim could be preempted under so-called "conflict preemption" instead of section 301 of the Copyright Act. That argument was never raised in Baystate's opening brief before this Court, and it should not be entertained now in a petition for rehearing. *Becton Dickinson & Co. v. C.R. Bard, Inc.*, 922 F.2d 792, 800, 17 USPQ2d 1097, 1103 (Fed. Cir. 1990).

Of the 62 pages in Baystate's opening brief, only two and one-half pages were devoted to the contract preemption issue. Those two pages contained the sole argument that the breach of contract claim was preempted under section 301 of the Copyright Act. Not until Baystate's reply brief, after Bowers had no right of reply, did Baystate belatedly mention – buried on page 19 of its reply brief – that the claim might also be preempted under a "conflict preemption" analysis. Because it failed to timely raise this issue in its opening brief, the issue has been waived and Baystate cannot allege error in its petition for rehearing.

(2) There is No Conflict Preemption

The Supreme Court has made it clear that private parties are free to contract away rights or defenses that they might otherwise have raised in a federal cause of action. In *Aronson v. Quick Point Pencil Co.*, 440 U.S. 259 (1979), the Court held that a private contract to pay patent royalties for an unpatentable design was enforceable and did not conflict with the federal policies underlying patent law. The Court noted that

Permitting inventors to make enforceable agreements licensing the use of their inventions in return for royalties provides an additional incentive to invention. . . . Enforcement of the agreement does not withdraw any idea from the public domain. The design for the keyholder was not in the public domain before Quick Point obtained its license to manufacture it. . . . Aronson disclosed the design in confidence. Had Quick Point tried to exploit the design in breach of that confidence, it would have risked legal liability.

Aronson, 440 U.S. at 262-63.

This court has also recognized this right. *Universal Gym Equip., Inc. v. ERWA Exercise Equip. Ltd.*, 827 F. 2d 1542, 1550, 4 USPQ2d 1035, 1041 (Fed. Cir. 1987) (“Parties to a contract may limit their right to take action they previously had been free to take.”).

Baystate’s argument that competitors should be able to avoid a contract clause governing the use of a product, even if that product contains

no copyrightable subject matter, should be rejected. The same principles set forth in *Aronson* apply with equal force to Baystate's preemption arguments.

Under principles of conflict preemption, the relevant inquiry is whether the state law action frustrates "the accomplishment and execution of the full purposes and objectives of Congress." *Hines v. Davidowitz*, 312 U.S. 52, 67 (1941). There is no such frustration in this case. Congress merely provided a fair use defense to copyright infringement (17 U.S.C. § 107).

Baystate and the amici suggest that because courts have found that reverse engineering in certain situations constitutes "fair use" under the copyright act, reverse engineering must be a federal right that Congress intended to be protect. There are at least two problems with Baystate's argument. First, nowhere in the copyright statute is there any Congressional intent evident to protect reverse engineering, other than within the limited confines of 17 U.S.C. §§ 906 and 1201(f). Baystate's reliance on cases interpreting "fair use" as including reverse engineering is thus one level removed from the statute enacted by Congress. Second, neither Baystate nor amici have articulated why reverse engineering and contract claims cannot coexist. Parties not bound by a contractual agreement against reverse engineering are free to reverse engineer software, subject to other possible

other causes of action (e.g., a patent or trade secret claim). Because there is no frustration of federal objectives, there can be no conflict preemption.

Amici rely on dicta in *Goldstein v. California*, 412 U.S. 546 (1973), arguing that if a state attempted to protect that which Congress intended to be free from restraint, the state act would be preempted. Of course, the Supreme Court in *Goldstein* found that there was no preemption in that case, and amici has not provided a citation to the broad Congressional intent ascribed to it by amici.

The First Circuit has similarly never applied conflict preemption in the manner now proposed by Baystate and amici. The First Circuit's decision in *Data General* has been fully explored by the Court and no further comment is necessary. Baystate relies on dicta in *Saenger Organization., Inc. v. Nationwide Ins. Licensing Associates, Inc.*, 119 F.3d 55, 64 n.2, 43 USPQ2d 1492, 1419 (1st Cir. 1997) in support of its position. That language is of no help to Baystate in this Court or in the First Circuit. None of the other cases cited by Baystate or amici are more relevant than *Data General Corp. v. Grumman Sys. Support Corp.* 36 F.3d 1147, 32 USPQ2d 1385 (1st Cir. 1994) , on which the Court has relied.

IV. Public Policy

Trade Secret protection is fundamental to business in the United States. An important component of that protection is the freedom between private parties to contract in order to manage their relationships.¹ The use of a clause limiting reverse engineering to preserve a company's trade secrets is a standard provision used by many companies, since trade secrets and other proprietary information often take years to develop. Given the technology and tools available today, this information may be readily obtained via reverse engineering in a very short period of time and at little cost. Consequently, companies have developed contractual restrictions on how certain products and information may be used.

Baystate's business model is telling: "inventor rarely earns big dollars," "innovator rarely earns big dollars," "**immitator [sic] usually earns big dollars,**" "[Baystate Technologies] developers don't originate, rather scan search for good technologies and propose them for markets."

¹ The Amici acknowledge that "[i]n some circumstances, such as in a true trade secret context, a restriction on reverse engineering may be consistent with copyright policy." [Amici at 14].

[A1466-1468]. Baystate asks this Court to embark on a sweeping judicial modification of existing contractual relationships between private parties by declaring a universal right to breach any contract provided the motivation was for "reverse engineering". This invitation should be rejected.

CONCLUSION

The Court faithfully followed the First Circuit's decision in *Data General*, which is the most pertinent case on point. Because the contract at issue contained additional elements that are qualitatively different than the protections offered under copyright law, and because there is no federal "right to reverse engineer" as broadly urged by Baystate, the Court's decision should not be disturbed.

Respectfully submitted,

Dated: October 7, 2002



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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on October 8, 2002, two copies of the foregoing BOWERS' OPPOSITION TO BAYSTATE'S COMBINED PETITION FOR PANEL REHEARING AND REHEARING EN BANC were served on counsel of record as follows:

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