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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.

**ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF MASSACHUSETTS
IN CV-91-40079
JUDGE NATHANIEL M. GORTON**

BRIEF OF AMICI CURIAE IN SUPPORT OF PETITION FOR PANEL REHEARING AND REHEARING EN BANC OF DEFENDANT – APPELLANT BAYSTATE TECHNOLOGIES, INC.

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INTEREST OF AMICI CURIAE

Pursuant to Local Rule 40(g), this brief is submitted by the Electronic Frontier Foundation, Americans for Fair Electronic Commerce Transactions, the Digital Future Coalition, the Association of Research Libraries, the American Library Association, the American Association of Law Libraries, Computer & Communications Industry Association and U.S. Association for Computing Machinery (Public Policy Committee) and 33 professors of intellectual property law at universities throughout the United States. Amici represent the interests of many sectors of the technology, telecommunications and information services industries, as well as users of information. Common among all amici is a commitment to encouraging authorship and innovation by maintaining the free flow of ideas and information. Amici are concerned that the Panel decision could disrupt this flow.

ARGUMENT

I. Software Reverse Engineering is Critical to Innovation and Competition in the Computer Industry

In *Atari Games Corp. v. Nintendo*, 975 F.2d 832 (Fed. Cir. 1992), this Court found that the copying incidental to reverse engineering could constitute a fair use: "The Copyright Act permits an individual in rightful possession of a copy of a work to undertake necessary efforts to understand the work's ideas, processes, and methods of operation." *Id*. at 842. This Court based this holding on the

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Constitutional purpose for copyright protection: "the promotion of 'the Progress of Science….'" *Id.*, *quoting* U.S. Const. Art. I, §8, cl. 8. This Court correctly observed that the fair use doctrine advances this Constitutional objective by "'encourag[ing] others to build freely upon the ideas and information conveyed by a work.'" *Id., quoting Feist Publications, Inc., v. Rural Telephone Serv. Co., Inc.*, 499 U.S. 340, 350 (1991). *See also id*. at 843. Numerous other courts of appeal have followed this Court's lead, and permitted reverse engineering as a fair use. *See Sony Computer Ent. Corp. v. Connectix Corp*., 203 F.3d 596 (9th Cir. 2000); *Sega Enter. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1527-28 (9th Cir. 1992); *Bateman v. Mnemonics, Inc.,* 79 F.3d 1532 (11th Cir. 1996); *see also Lotus Dev. Corp. v. Borland Int'l*, 49 F.3d 807 (1st Cir. 1995) (Boudin, J., concurring), *aff'd by equally divided Court* 516 U.S. 233 (1996). Additionally, in *Alcatel U.S.A., Inc. v. DGI Techs., Inc.*, 166 F.3d 772, 793 (5th Cir. 1999), the Fifth Circuit agreed with a jury finding that a contractual restriction on reverse engineering constituted copyright misuse. *See also DSC Communications Corp. v. DGI Techs.*, 81 F.3d 597 (5th Cir. 1996).

Legislatures around the world have also acknowledged the importance of software reverse engineering. The Digital Millennium Copyright Act, enacted by Congress in 1998, permits the circumvention of technological protections for the purpose of engaging in reverse engineering. 17 U.S.C. § 1201(f). *See* S. Rep.

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No. 105-190, at 13 (1998). Many other nations have also amended their laws to permit software reverse engineering.[1] Likewise, this past July, the National Conference of Commissioners on Uniform State Laws amended the Uniform Computer Information Transaction Act to render unenforceable contractual restrictions on reverse engineering under certain circumstances. Most commentators, too, have endorsed the permissibility of reverse engineering. *See, e.g.,* Pamela Samuelson & Suzanne Scotchmer, *The Law and Economics of Reverse Engineering*, 111 Yale L.J. 1575 (2002).

II. The Panel's Opinion Wrongly Suggests That Copyright Law Imposes No Restriction on Shrinkwrap Licenses

The question before this Court in the instant case is to what extent a provider of copyrighted content can unilaterally override the Constitutional privilege to reverse engineer by printing a shrinkwap license on the content's packaging. Enforcement of shrinkwrap license terms depends on questions of contract law, antitrust, copyright misuse and preemption. In this brief we address only the

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[1] The 1991 European Union Software Directive, which has been implemented throughout Europe, contains a specific exception for software reverse engineering Council Directive 91/250/EEC on the Legal Protection of Software Programs (May 14, 1991), O.J. No. L122/42,44 (May 17, 1991). Significantly, the Software Directive explicitly invalidates contractual restrictions on reverse engineering, reflecting an awareness that software developers would attempt to use such restrictions to undermine the Directive's pro-competitive policy. For other national laws favoring reverse engineering, see Ord. No. 92 of 1997 (Hong Kong); Copyright (Amendment) Bill of 1998 (Singapore); Republic Act 8293 of 1996 (Philippines); Copyright Amendment (Computer programs) Bill of 1999 (Australia).

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question of preemption of state enforcement of such contracts by the Federal intellectual property system. Amici do *not* argue that shrinkwrap licenses that diverge from the Copyright Act are always preempted, nor that all shrinkwrap restrictions on reverse engineering are preempted. In some circumstances, such as in a true trade secret context, a restriction on reverse engineering may be consistent with copyright policy. We are concerned, however, that the Panel in this case has gone to the opposite extreme, adopting a blanket rule that such restrictions are never preempted. We believe that rule is both bad law and bad policy.

Copyright preemption of state law can take one of two basic forms. First, Congress has to a limited extent "preempted the field" of copyright by passing the Copyright Act of 1976. This statutory preemption is governed by Section 301 of the Copyright Act, 17 U.S.C. §301, which provides in part that "all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright . . . are governed exclusively by" federal copyright law.

Second, copyright preemption of state law also occurs where there is a conflict between state law and the federal intellectual property system. This Constitutional preemption based on the U.S. Constitution's Supremacy Clause, Article VI, and its Intellectual Property Clause, Article I, Section 8, can occur

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either when the federal and state laws directly conflict, so that it is physically impossible for a party to comply with both, or when a state law "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress." *California Fed. Sav. & Loan Ass'n v. Guerra*, 479 U.S. 272, 281 (1987). Like the court in *ProCD v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996), the Panel devoted its discussion entirely to Section 301 preemption, and ignored conflict preemption altogether. The Panel's complete failure to consider conflict preemption requires rehearing of this appeal.

The leading case treating Constitutional preemption under the copyright laws is *Goldstein v. California,* 412 U.S. 546 (1973). In that case, the Supreme Court stated:

> Where the need for free and unrestricted distribution of a writing is thought to be required by the national interest, the Copyright Clause and the Commerce Clause would allow Congress to eschew all protection. In such cases, a conflict would develop if a State attempted to protect that which Congress intended to be free from restraint or to free that which Congress had protected.

Goldstein, 412 U.S. at 559. In resolving the Constitutional preemption question regarding reverse engineering, the Court on rehearing must decide whether enforcing a contractual restriction on reverse engineering would have the effect

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of protecting that which the copyright laws intended to be free from restraint.[2] See David A. Rice, *Public Goods, Private Contract and Public Policy: Federal Preemption of Software License Prohibitions Against Reverse Engineering*, 53 U. Pitt. L. Rev. 543 (1992).

Such a contract could conflict with federal policy, at least in certain circumstances. As noted above, this Court in *Atari* found that reverse engineering promoted the Constitutional objective of the progress of science. Likewise, the Ninth Circuit in *Sega* found that a legal prohibition on the reverse engineering of programs would

> preclude[] public access to the ideas and functional concepts contained in those programs, and thus confer[] on the copyright owner a de facto monopoly over those ideas and functional concepts. That result defeats the fundamental purpose of the Copyright Act - to encourage the production of original works by protecting the expressive elements of those works while leaving the ideas, facts, and functional concepts in the public domain for others to build on.

Sega, 977 F.2d at 1527.

For this Court to allow software vendors unilaterally and without restriction

[2] The continuing need for such conflicts-based preemption under the 1976 Act should be clear. Section 301 only preempts laws that grant rights equivalent to copyright. But if a state law were to restrict the reach of federal copyright, for example by immunizing certain private parties from federal copyright liability or by restricting the circumstances in which a plaintiff could bring a copyright suit, the law would be preempted under the Supremacy Clause because it interfered with the federal statute. *See, e.g., ASCAP v. Pataki*, 1997 Copr. L. Dec. ¶27,649 (S.D.N.Y. 1997) (state law limiting the time in which copyright owners could bring a copyright claim preempted under the Supremacy Clause).

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to impose terms that prohibit reverse engineering would frustrate the policy of encouraging the creation of innovative and interoperable software products. It would also create a direct conflict among the Circuits. The one reported decision to consider the specific issue before this Court found that federal copyright law preempts state laws enforcing contractual restrictions on reverse engineering. *Vault Corp. v. Quaid Software Ltd*., 847 F.2d 255 (5th Cir. 1988), examined the enforceability of a state statute which expressly validated shrinkwrap license terms precluding users from reverse engineering computer programs. Relying on the Constitutional preemption cases, the Fifth Circuit refused to enforce the term because it "conflicts with the rights of computer program owners under [17 U.S.C.] §117 and clearly 'touches upon an area' of federal copyright law." *Id*. at 270.

Contractual restrictions on reverse engineering can also interfere with the operation of the federal patent system. In *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.,* 489 U.S. 141 (1989), the Supreme Court considered a Florida statute which prohibited the unauthorized use of a direct molding process to replicate manufactured boat hulls. The Supreme Court in a unanimous decision held that the statute conflicted with the federal patent law and thus was invalid under the Supremacy Clause. The Court stated that "the States may not offer patent-like protection to intellectual property creations which would otherwise remain

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unprotected as a matter of federal law." *Id.* at 156. The Court further stated that "[i]n essence, the Florida law prohibits the entire public from engaging in a form of reverse engineering of a product in the public domain." *Id.* at 160. The Court concluded that "the efficient operation of the federal patent system depends upon substantially free trade in publicly known, unpatented design and utilitarian conceptions." *Id.* at 156.

Like the Florida statute, blanket enforcement of contractual restrictions on software reverse engineering would "offer patent-like protection to intellectual property creations which otherwise would remain unprotected as a matter of federal law." *Id.* at 156. Similarly, a contractual restriction would prohibit the licensee "from engaging in a form of reverse engineering of a product" distributed to the public. *Id.* at 160. The potential for conflict with federal patent policy is particularly great in this case, since the Court concluded that no reasonable jury could find Bowers' patent infringed. Bowers seeks to prohibit by contract what the *Bonito Boats* Court held fundamental to the free trade in goods: reverse engineering of products in the public domain.[3]

[3] If Baystate's conduct infringed Bowers' copyright, of course, it did not take information in the public domain. Liability for copyright infringement must be based on proof of copying in the commercial product, however, not merely on proof of reverse engineering.

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Citing *Bonito Boats*, this Court in *Atari* found that using the copyright laws to prevent reverse engineering would conflict with the federal patent laws.

> To protect processes or methods of operation, a creator must look to the patent laws. An author cannot acquire patent-like protection by putting an idea, process, or method of operation in an unintelligible form and asserting copyright infringement against those who try to understand that idea, process, or method of operation.

975 F.2d at 842. If an author cannot receive patent-like protection by means of copyright, surely an author cannot willy-nilly receive patent-like protection by means of a shrinkwrap license.

Amici take no position on whether conflicts-based preemption should in fact apply in this case. It may be that enforcement of the contract in this case does not conflict with copyright policy because – as the district court found – the conduct at issue in the contract claim also infringed copyright. If so, the Court could reach the identical result by concluding that defendant had engaged in copyright infringement. If the Court concludes that defendant did not infringe the copyright, however, then its conclusion that it is nonetheless liable for the same remedies for engaging in otherwise lawful reverse engineering conflicts with the strong public policy in favor of allowing reverse engineering of copyrighted works. This is particularly true because the "contract" at issue here is an unbargained shrinkwrap license unilaterally imposed by one party. *See* Dennis S. Karjala, *Federal Preemption of Shrinkwrap and On-Line Licenses*, 22 U. Dayton L. Rev. 511 (1997) (preemption concerns heightened in shrinkwrap context).

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III. The Panel's Ruling Undermines Copyright's Exceptions and Limitations

This brief has focused on a shrinkwrap prohibition on reverse engineering, but the possible repercussions of the Panel's holding go much farther. The Panel in essence held that by using a shrinkwrap license, a publisher could require users to waive all their privileges under the Copyright Act. Such a result would remake copyright law as we know it. A scholar could lose his fair use privilege to quote a novel. *See Wright v. Warner Books, Inc.*, 953 F.2d 731, 741 (2d Cir. 1991). A library could lose its ability under the first sale doctrine to lend books, and its ability to make preservation copies under 17 U.S.C. §108. An insurance company could lose its ability to aggregate facts from numerous sources to create an actuarial table. *See Feist.*

CONCLUSION

Amici do not suggest reversal of the Panel's decision. We merely urge the Court to consider conflict preemption, and to clarify that in some cases the need for "national uniformity in the realm of intellectual property," *Bonito Boats*, 489 U.S. at 162, requires preemption of shrinkwrap license terms.

Respectfully submitted,

____

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