

ALL QUIET ON THE REVERSE-ENGINEERING FRONT

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When can silence speak louder than words? When the U.S. Supreme Court decides not to hear a case.

This summer, much of the software industry watched with bated breath as Baystate Technologies, Inc. petitioned the U.S. Supreme Court for review of the decision in <u>Bowers v. Baystate Technologies, Inc.</u>, 20 F.3d 1316 (Fed. Cir. 2003). The issue -- are so-called "shrinkwrap" licenses a valid way to prevent unauthorized reverse engineering of computer software? The stakes -- billions of dollars in software intellectual property currently protected by these ubiquitous license agreements.

The facts -- in 1991, Harold Bowers was an inventor, businessman, and owner of HLB Technology, Inc., a company specializing in simplifying computer-assisted drawing (CAD). One of his products, named Geodraft¹, was a separate computer program designed to work with the popular CadkeyTM CAD program. When activated, the Geodraft program guides the CadkeyTM user through the arduous and error-prone process of creating "Geometric Dimensioning and Tolerancing" (GD&T) symbols. In layperson's terms, the GD&T symbol tells the reader of a mechanical drawing how precise a part has to be manufactured to operate correctly. For example, a drawing of a car door handle might specify that it must be 3 inches long. The GD&T symbol tells the person making the handle how close to 3 inches the handle actually has to be (e.g., "is 2.999 inches close enough?").

Bowers was not the only one selling CadkeyTM products, and was not the only one selling GD&T computer programs for use with CadkeyTM. However, when rival Baystate Technologies, Inc. began selling a disturbingly-familiar looking GD&T program, Bowers took note. When Baystate priced its products to beat Bowers's prices, he became concerned. When Baystate then used its profits to acquire the makers of CadkeyTM and terminate Bowers's status as an authorized dealer, Bowers was devastated – he could no longer develop and sell the very products that were the staple of his business.

Bowers and Baystate engaged in a ten year court battle, with Bowers alleging (among other things) that Baystate had copied his program, violating his copyright in the program. In the exchange of information that happens in a lawsuit (called "discovery"), Bowers was allowed to inspect Baystate's files and interview Baystate's employees, and it was through this process that the story came to light.

Baystate had obtained a copy of Bowers's program, which was distributed with a "shrinkwrap" license agreement on the outside of the package. This shrinkwrap agreement included the following provision:

"The original PURCHASER may not engage in, nor permit third parties to engage in any of the following:

... D. Attempting to Un-assemble, de-compile or reverse engineer the Software or Template in any way ..."

¹ Geodraft was authored by George Ford, an individual who agreed to bundle his program with Bowers's other Cadkey add-on products.

[&]quot;Cadkey" is a trademark of the Cadkey Corporation.

Such protections against reverse engineering are now common in most software licenses, including the "click wrap" agreements now found on web pages and in new software, and are intended to protect a company's valuable trade secrets from being discovered through unauthorized reverse engineering.

At trial and on appeal, the reverse engineering clause proved to be Baystate's undoing. The jury concluded that Baystate had knowingly entered into a valid contract (dismissing any argument that Baystate was somehow unaware of the terms of the agreement), and that it had breached this contract. Baystate appealed to the Court of Appeals for the Federal Circuit, but the Federal Circuit affirmed the contract finding.

This led to the showdown at the Supreme Court. Baystate petitioned, arguing that reverse engineering is a common practice throughout the software industry, that it leads to innovation, and that the Federal Circuit's decision would wreak havoc in this industry. The legal basis for Baystate's argument relied on a concept called preemption, or the notion that states cannot write laws to regulate matters that are already regulated by federal law. For example, federal Copyright Law spells out how long a copyright lasts, and individual states cannot write their own laws extending or shortening the term of a copyright – they are preempted from doing so. Baystate argued that since reverse engineering has been recognized as a defense to a charge of copyright infringement (copyright being federal law), it should be treated as a federal right that preempts any state law attempt to limit it (enforcement of a contract being a state law matter).

Bowers responded to Baystate's preemption argument by noting that copying is not innovation, that the protection of trade secrets against unauthorized reverse engineering is an equally important interest, and that enforcing a contract has nothing to do with any attempt by the state at regulating copyright or reverse engineering. It was simply a private contract between two private parties, much like the contract that a movie star might sign promising not to reveal to the press the surprise ending to a movie that she's filming. The movie star's freedom of speech is definitely a federal right, as spelled out in the Constitution, but preemption would not prevent enforcement of such a contract.

Thus, the stage had been set. If Baystate's arguments were successful, it could mean the invalidation of shrinkwrap, click wrap, and other contractual agreements everywhere, and the loss of countless millions of dollars in software intellectual property through unauthorized reverse engineering. If Bowers were successful, then the software industry can rest assured that their contractual protections against such behavior are still valid.

The verdict -- the Supreme Court denied Baystate's petition, leaving intact the Federal Circuit's decision that private parties can indeed contract to protect their trade secrets against reverse engineering.

So what's the moral of this story? The lesson to be learned here is simple: if you are worried about losing market share and/or your trade secrets through reverse engineering, then you should be sure to include contractual protections against such behavior. On the flip side, if you or your employees agree to a shrinkwrap or click wrap license, this license is likely an enforceable contract and should be taken seriously.

There was no fanfare to the Supreme Court's decision. There was little press coverage or boisterous celebration. But do you hear that silence? It's the sound of innovation continuing under the protection of contract.