

**THE COPYRIGHT-CONTRACT INTERSECTION:  
SOFTMAN PRODUCTS CO. V. ADOBE SYSTEMS, INC.  
& BOWERS V. BAYSTATE TECHNOLOGIES, INC.**

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Although copyright and contract law have long co-existed symbiotically,<sup>1</sup> their relationship has faced increasingly greater scrutiny in light of the explosive growth of digital information technology over the last few years.<sup>2</sup> Two related factors have impelled courts and commentators to ponder the proper balance between copyright law and contract law. First, the idiosyncratic nature of digital information technology exacerbates the “public goods” problem of intellectual property rights and disrupts the traditional “tangible goods” paradigm upon which copyright protection is based.<sup>3</sup> Second, there has been a consequent “movement to contract,”<sup>4</sup> as computer software companies increasingly depend on prohibitive contractual provisions to assert and arguably even expand their intellectual property rights in an attempt to gain market dominance.<sup>5</sup> Contract law offers a

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1. Raymond T. Nimmer, *Breaking Barriers: The Relation Between Contract and Intellectual Property Law*, 13 BERKELEY TECH. L.J. 827, 829 (1998) (“Contract and intellectual property law have always co-existed, not only peacefully, but [also] in an aggressive interaction between mutually supportive fields.”).

2. See Maureen A. O’Rourke, *Striking a Delicate Balance: Intellectual Property, Antitrust, Contract, and Standardization in the Computer Industry*, 12 HARV. J.L. & TECH. 1, 3 (1998) (asserting that debate over the former proposed Uniform Commercial Code Article 2B on Software Contracts and Licenses of Information actuated analysis of the appropriate relationship between contract law and intellectual property law); see also Dennis S. Karjala, *Copyright Owners’ Rights and Users’ Privileges on the Internet: Federal Preemption of Shrinkwrap and On-Line Licenses*, 22 U. DAYTON L. REV. 511, 512 (1997) (“While [the issue of the intersection of copyright and contract law] could theoretically have arisen with traditional copyright-protected works, it is only . . . the digital age . . . that [has] pressed it upon us with practical force.”).

3. See Michael J. Madison, *Legal-Ware: Contract and Copyright in the Digital Age*, 67 FORDHAM L. REV. 1025, 1035-1049 (1998) (explaining that digital technology disrupts implicit assumptions about traditional forms of intellectual property, such as books, and that digitization decreases the costs and increases the ease of free-riding and piracy).

4. Maureen A. O’Rourke, *Copyright Preemption After the ProCD Case: A Market-Based Approach*, 12 BERKELEY TECH. L.J. 53, 54 (1997).

5. See O’Rourke, *supra* note 2, at 3-4 (1998) (“[T]he computer industry has brought to the fore the issue of how to address a dominant market participant’s use of

potential conduit through which a copyright holder may not only bolster the protection of his rights under federal copyright provisions, but also create protection that is otherwise unavailable under current intellectual property law.<sup>6</sup>

Scholars disagree and courts are in conflict as to the proper balance between contract and copyright. The underlying questions are twofold:

“Are the traditional copyright balances between the rights of copyright owners and the rights of users merely a 'default position' that is subject to variation by contractual agreement between owners and the users of particular copies? Or do those balances represent, rather, a resolution of policy tensions that are not amenable to private reordering by the transacting parties?”<sup>7</sup>

This Note seeks to examine two recent judicial decisions, *SoftMan Products Co. v. Adobe Systems, Inc.*,<sup>8</sup> and *Bowers v. Baystate Technologies, Inc.*,<sup>9</sup> in the context of the conflicting scholarship and inconsistent caselaw regarding whether contract law may appropriately supplement or supplant federal copyright law. This Note concludes that economic efficiency and public policy considerations strongly disfavor the holdings in both *SoftMan* and *Bowers*.

## I. BACKGROUND

### A. The Idiosyncratic Nature of Digital Information Technology

Information is a public good.<sup>10</sup> Unlike a private good that, “once consumed, cannot be consumed by another,”<sup>11</sup> multiple individuals may use a public good simultaneously, without depleting the value of the good itself.<sup>12</sup> Furthermore, an individual who does not have authorized access to

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intellectual property and restrictive contractual provisions to attain and maintain market power.”); Stephen P. Tarolli, Comment, *The Future of Information Commerce Under Contemporary Contract and Copyright Principles*, 46 AM. U. L. REV. 1639, 1642 (1997).

6. O'Rourke, *supra* note 4, at 54.

7. Karjala, *supra* note 2, at 512.

8. 171 F. Supp. 2d 1075 (C.D. Cal. 2001).

9. 302 F.3d 1334 (Fed. Cir. 2002), *aff'd in part and rev'd in part*, 2003 U.S. App. LEXIS 1423 (Fed. Cir. 2003).

10. Niva Elkin-Koren, *Copyright Policy and the Limits of Freedom of Contract*, 12 BERKELEY TECH. L.J. 93, 98 (1997).

11. Lydia Pallas Loren, *Redefining the Market Failure Approach to Fair Use in an Era of Copyright Permission Systems*, 5 J. INTELL. PROP. L. 1, 22-23 (1997).

12. See Madison, *supra* note 3, at 1036-1037; see also Norman Siebrasse, *A Property Rights Theory of the Limits of Copyright*, 51 UNIV. OF TORONTO L.J. 1, 4-7 (2001)

a particular public good may nevertheless get a copy of the work and use it for unauthorized purposes.<sup>13</sup> Given that a public good is “virtually inexhaustible once produced,”<sup>14</sup> there is a high probability of both free-riding and piracy.<sup>15</sup> Copyright law seeks to protect the expression of information, and information is a public good; consequently, the public goods problem may deter content providers from creating or supplying copyrighted works.<sup>16</sup> Copyright law attempts to remedy this market imperfection by allowing a copyright owner to limit who may use the copyrighted work.<sup>17</sup>

The unprecedented ease with which digital information may be accessed, copied, and distributed exacerbates the public goods dilemma.<sup>18</sup> Although digital storage and transmission technologies profitably optimize the potential for widespread availability of copyrighted digital works,<sup>19</sup> they also create two market imperfections. First, digital storage and transmission technologies lower the costs of pirating and free-riding.<sup>20</sup> Second, digital storage and transmission technologies raise the costs of policing the use of copyrighted digital works and protecting the copyright owner's rights.<sup>21</sup>

Digital information technology not only aggravates the public goods problem, but also disrupts the tangible goods paradigm upon which tradi-

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(discussing how several courts and commentators assert that the distinguishing public goods characteristics of intellectual property rights are its significant sunk costs of creation and low costs of copying).

13. See Madison, *supra* note 3, at 1037; Loren, *supra* note 11, at 23 n.94.

14. Siebrasse, *supra* note 12, at 59.

15. Madison, *supra* note 3, at 1037; Loren, *supra* note 11, at 23 n.94.

16. Elkin-Koren, *supra* note 10, at 98.

17. *Id.*

18. See, e.g., 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, 545 (1992) (explaining that the software market exemplifies an imperfect market for public goods, because (1) individuals who have not paid for a copy of software cannot be excluded from using the program, and (2) one individual's use of a copy of a software program does not necessarily deplete the supply of copies to which others have access). The Internet, for example, enables pervasive and relatively effortless imitation, duplication, and unauthorized usage of copyrighted digital works. See Tarolli, *supra* note 5, at 1642 (presenting a hypothetical that illustrates how the Internet enables pervasive and effortless piracy of copyrighted digital works).

19. See, e.g., Jay P. Kesan & Thomas S. Ulen, *Intellectual Property Challenges in the Next Century*, 2001 U. ILL. L. REV. 57, 60 (2001) (“Easy access to multitudes of protected works in cyberspace has created an environment for [copyright] infringement on a mammoth scale. Literally billions of dollars are lost annually to electronic pirates.”).

20. Madison, *supra* note 3, at 1037-38.

21. *Id.*

tional copyright law is based.<sup>22</sup> For traditional copyrighted works, such as novels, paintings, or other “hard-copied” goods, courts have applied the idea/expression dichotomy to demarcate the scope of copyright protection.<sup>23</sup> In doing so, courts have extended copyright protection only to the original, non-functional, expressive elements that they are able to separate definitively from the functional, non-original, non-protectable elements.<sup>24</sup>

On the other hand, for digital information works, the distinction between expressive elements and utilitarian elements is less definitive.<sup>25</sup> While users may analyze and access the elements of traditionally protected works “on the face of the commercial product[s] sold in the marketplace,”<sup>26</sup> users generally need to reverse engineer digital works such as software, in order to access and analyze their unexpressive and unprotectable elements, in most circumstances. Before the arrival of digital information technology, the issue of reverse engineering within the copyright context was virtually irrelevant and unnecessary.<sup>27</sup>

## B. Digital Information Technology's Movement to Contract

Given that digital information technology is inherently distinct from traditional copyrighted works, digital information providers increasingly believe that application of current copyright provisions to protect their works may be inefficient or ineffective.<sup>28</sup> Thus, digital content providers increasingly have utilized contractual provisions to protect their copyrighted works.<sup>29</sup> Software license agreements, for example, often require

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22. See generally Himanshu A. Amin, *The Lack of Protection Afforded Software Under the Current Intellectual Property Laws*, 43 CLEV. ST. L. REV. 19 (1995) (discussing how digital information technology both aggravates the public goods problem and disrupts the tangible goods paradigm upon which traditional copyright law is based); Peter S. Menell, *Envisioning Copyright Law's Digital Future*, 46 N.Y.L. SCH. L. REV. 63 (2003) (examining copyright law's adaptations to the digital age).

23. See Fred Anthony Rowley, Jr., Note, *Dynamic Copyright Law: Its Problems and a Possible Solution*, 11 HARV. J. L. & TECH. 481, 489 (1998).

24. *Id.*

25. See Andre R. Jaglom, *Computer Related Distribution Issues: Current Developments in Liability On-Line, Business Methods Patents and Software Distribution, Licensing, and Copyright Protection Questions*, SE47 ALI-ABA 729, 761 (2000); see also Menell, *supra* note 22, at 83-84.

26. Paula Samuelson & Suzanne Scotchmer, *The Law and Economics of Reverse Engineering*, 111 YALE L.J. 1575, 1585 (2002).

27. See *id.*

28. See Menell, *supra* note 22, at 66.

29. O'Rourke, *supra* note 4, at 53.

consumers to agree to provisions that are more restrictive than copyright law compels.<sup>30</sup>

The software industry pioneered the use of private contractual provisions to supplement, and even supplant, federal copyright provisions.<sup>31</sup> Originally, Congress, courts, and commentators were unsure as to the copyrightability of software.<sup>32</sup> Because copyright law purports to protect the expressive, non-functional elements of a particular work, the general functional value of software and the utilitarian nature of its object code appeared to preclude its copyrightability.<sup>33</sup> Thus, software providers needed to find another legal mechanism that could provide copyright-like protection for their works.<sup>34</sup> Providers began to utilize private contracts to define the products they offered, to control liability, and to separate concretely the rights granted with the transfer of software from the rights thereby excluded.<sup>35</sup> Software providers originally relied on two types of licensing agreements, “bargained agreements” in transferring custom software and “unbargained shrinkwrap licenses” in distributing mass-market software.<sup>36</sup> During the late 1970s, Congress attempted to address, for the first time, the issue of software copyrightability. Upon recommendations from the National Commission on New Technological Uses of Copyrighted Works (CONTU), Congress broadly asserted that software was indeed copyrightable.<sup>37</sup> Federal courts subsequently concluded that software is protectable as a copyrighted literary work.<sup>38</sup> Since then, copyright law has become the primary source of legal protection for computer

30. Mark A. Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 S. CAL. L. REV. 1239, 1239-40 (1995).

31. See O’Rourke, *supra* note 2, at 3-4 (“[T]he computer industry has brought to the fore the issue of how to address a dominant market participant’s use of intellectual property and restrictive contractual provisions to attain and maintain market power.”).

32. Brett Frischmann & Dan Moylan, *The Evolving Common Law Doctrine of Copyright Misuse: A Unified Theory and Its Application to Software*, 15 BERKELEY TECH. L.J. 865, 903-04 (2000).

33. *Id.* at 905-13 (2000); Amin, *supra* note 22, at 32.

34. Maureen A. O’Rourke, *Drawing the Boundary Between Copyright and Contract: Copyright Preemption of License Terms*, 45 DUKE L.J. 479, 488-89 (1995).

35. See *id.*; Holly K. Towle, *Mass Market and Consumer Contracts in Computer Information*, 600 PLI/Pat 197, 201-03 (2000).

36. Lemley, *supra* note 30, at 1239.

37. The copyrightability of software was codified in the 1976 Copyright Act and the corresponding amendments in 1980. See Peter S. Menell, *An Analysis of the Scope of Copyright Protection for Application Programs*, 41 STAN. L. REV. 1045, 1046-48 (1989).

38. See Frischmann & Moylan, *supra* note 32, at 904-05 nn. 165 & 169 (citing to various cases holding that copyright protects software as a literary work).

software.<sup>39</sup> Moreover, as software became a “mass-market commodity,” unbargained shrinkwrap licenses, rather than individually bargained agreements, became an industry norm.<sup>40</sup> Congress, however, has failed to delineate exactly how courts should apply copyright law to computer programs.<sup>41</sup> In light of this uncertainty, to minimize or eliminate free copying of their programs, software providers continue to distribute only object code and to use shrinkwrap licensing agreements in transfers of software.<sup>42</sup>

### C. Purpose of Shrinkwrap Licensing Agreements in the Software Market

Software providers structure shrinkwrap licensing agreements so as to contract around two primary statutory limitations on the rights of copyright holders.<sup>43</sup> First, by characterizing transfers of software as licenses, and not sales, software providers aim to avoid copyright law's “first sale” doctrine.<sup>44</sup> Second, by prohibiting the reverse engineering, decompilation, or disassembly of their software, copyright owners attempt to deprive users of activities that, notwithstanding the contractual prohibition, may otherwise qualify as fair use under copyright law.<sup>45</sup>

#### 1. Avoidance of the “First Sale” Doctrine

Under 17 U.S.C. § 106(3), the owner of a copyright has the exclusive right “to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending . . . .”<sup>46</sup> The distribution method that the copyright owner ultimately

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39. Menell, *supra* note 22, at 13; Amin, *supra* note 22, at 30.

40. Lemley, *supra* note 30, at 1239.

41. Lloyd L. Weinreb, *Copyright for Functional Expression*, 111 HARV. L. REV. 1149, 1151 (1998).

42. Lemley, *supra* note 30, at 1243-44 (stating that vendors can obtain protection of their programs by only distributing the programs' object code); O'Rourke, *supra* note 34, at 493 (“As a result [of judicial uncertainty], software providers are never sure, *ex ante*, exactly what part(s) of their program will be protected and what will not.”).

43. See Karjala, *supra* note 2, at 518 (1997) (noting that federal copyright law limits the exclusive rights of copyright owners); Apik Minassian, *The Death of Copyright: Enforceability of Shrinkwrap Licensing*, 45 UCLA L. REV. 569, 572 (1997) (stating the main purposes for terms included in software licensing agreements).

44. Raymond T. Nimmer, THE LAW OF COMPUTER TECHNOLOGY § 7:72, at 3 (2002) (stating that, in the absence of a contractual provision to the contrary, copyright law gives a first sale purchaser limited redistribution and modification rights).

45. Eric Douma, *The Uniform Computer Information Transactions Act and the Issue of Preemption of Contractual Provisions Prohibiting Reverse Engineering, Disassembly, or Decompilation*, 11 ALB. L.J. SCI. & TECH. 249, 250 (2001).

46. 17 U.S.C. § 106(3) (2000).

chooses is extremely significant, because it determines how much control he will have over the distribution rights of downstream users who own copies of the copyrighted work.<sup>47</sup>

If the copyright owner opts to sell copies, he subjects himself to the “first sale” doctrine under federal copyright law.<sup>48</sup> The first sale doctrine allows the first purchaser and any subsequent owners of a particular copy of a copyrighted work to sell or otherwise transfer possession of that copy, without the copyright owner’s permission.<sup>49</sup> Conflict potentially arises when a copyright owner alleges that a copy owner is violating the copyright owner’s distribution rights under 17 U.S.C. § 106(3) and the copy owner asserts first sale rights under 17 U.S.C. § 109(a), as a defense to the infringement claim.<sup>50</sup>

## 2. *Attempt to Eliminate Fair Use Exceptions for Reverse Engineering*

Computer programs consist of both source code and object code. A programmer writes the program in human-readable source code.<sup>51</sup> Then, a compiler program translates the source code into object code, which consists of binary sequences that are only machine-readable.<sup>52</sup> Commercial

47. See generally Elkin-Koren, *supra* note 10 (asserting that contractual arrangements may provide owners with rights not granted to them under copyright law, thus confining access information in a way not intended by the law).

48. 17 U.S.C. § 109(a) states:

Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord. Notwithstanding the preceding sentence, copies or phonorecords of works subject to restored copyright under section 104A that are manufactured before the date of restoration of copyright or, with respect to reliance parties, before publication or service of notice under section 104A(e), may be sold or otherwise disposed of without the authorization of the owner of the restored copyright for purposes of direct or indirect commercial advantage only during the 12-month period beginning on—

(1) the date of the publication in the Federal Register of the notice of intent filed with the Copyright Office under section 104A(d)(2)(A), or

(2) the date of the receipt of actual notice served under section 104A(d)(2)(B), whichever occurs first.

17 U.S.C. § 109(a).

49. *Id.*

50. See, e.g., *Quality King Distrib., Inc. v. L’Anza Research Int’l, Inc.*, 523 U.S. 135 (1998).

51. Amin, *supra* note 22, at 21.

52. *Id.*

software developers normally distribute the software program in object code form only.<sup>53</sup> Consequently, the uncopyrightable elements and ideas of most software programs are only available through reverse engineering processes such as decompilation and disassembly, or through the derivation of the software's human-readable source code from the unreadable object code.<sup>54</sup> Because decompilation and disassembly require the making of unauthorized intermediate copies of software programs, many commercial software providers contend that reverse engineering of software constitutes copyright infringement and trade secret misappropriation.<sup>55</sup>

Courts, however, have held that decompilation and disassembly are legal if they are undertaken for the purpose of obtaining specifications needed to make interoperable or competitive products, and if reverse engineering is the only means by which the user can access the program's uncopyrightable elements.<sup>56</sup> Furthermore, Section 117 of the Federal Copyright Act specifically allows a computer program user to make an adaptation of that program, if such adaptation is an essential step in the utilization of the program.<sup>57</sup>

#### **D. Enforceability of Shrinkwrap Licensing Agreements**

To determine the enforceability of shrinkwrap licensing agreements, courts consider three legal issues: (1) whether the shrinkwrap license is valid as a matter of contract formation, (2) whether the transfer of software is a sale or a license, and (3) whether federal copyright law preempts state contractual claims.<sup>58</sup> Currently, there is no judicial consensus or standard statutory resolution of these issues. The Uniform Computer Information Transactions Act (UCITA), which began as proposed U.C.C.

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53. Commercial developers do not normally provide the source code because (1) object code sufficiently serves the users' functional purposes and (2) software providers wish to maintain privately source code as trade secrets. Samuelson & Scotchmer, *supra* note 26, at 1608-09.

54. See Menell, *supra* note 22, at 21-22; Dennis S. Karjala, *A Coherent Theory for the Copyright Protection of Computer Software and Recent Judicial Interpretations*, 66 U. CIN. L. REV. 53, 113 (1997) ("[Computer] [p]rograms, however, cannot be 'read' like books. In order for a human being to understand the ideas and other unprotected elements contained in the object-code form of a computer program, a technological process known as 'reverse analysis' is necessary.").

55. Samuelson & Scotchmer, *supra* note 26, at 1609.

56. See generally *Sony Computer Entm't, Inc. v. Connectix Corp.*, 203 F.3d 596 (9th Cir. 2000); *Sega Enters. v. Accolade, Inc.*, 977 F.2d 1510 (9th Cir. 1992); *Atari Games Corp. v. Nintendo of Am., Inc.*, 975 F.2d 832 (9th Cir. 1992); see also Samuelson & Scotchmer, *supra* note 26, at 1608-12.

57. See 17 U.S.C. § 117(a)(1).

58. See generally Samuelson & Scotchmer, *supra* note 26.

Article 2B, has been the only legislative attempt to resolve dispute over the enforceability of shrinkwrap licensing agreements. However, many state legislators and commentators have criticized UCITA, contending that the model legislation deprives consumers of their rights and is too pro-computer industry.<sup>59</sup> UCITA has been largely unsuccessful, as only two states have adopted the model legislation.<sup>60</sup>

1. *Is the Shrinkwrap License Valid as a Matter of Contract Formation?*

A shrinkwrap licensing agreement does not result from a bargain between the parties.<sup>61</sup> Unlike traditionally enforceable contracts, which are comprised of the elements of offer, acceptance, and consideration, shrinkwrap licenses are essentially “reverse unilateral contracts.”<sup>62</sup> Accordingly, in the 1980s and early 1990s, courts declared that U.C.C. Sections 2-207 and 2-209 rendered shrinkwrap licenses generally unenforceable.<sup>63</sup> However, in the late 1990s, in *ProCd, Inc. v. Zeidenberg*, the Seventh Circuit pioneered a judicial trend toward the enforcement of shrinkwrap licenses.<sup>64</sup> In *ProCd*, the Seventh Circuit held that a shrinkwrap license accompanying boxes of computer software was enforceable.<sup>65</sup> Since then, courts have considered shrinkwrap licenses generally enforceable as a matter of contract formation.<sup>66</sup>

2. *Is the Transfer of Software a Sale or a License?*

There are four appropriate lines of inquiry to determine whether the transfer of software is a sale or a license.<sup>67</sup> A court should consider (1) whether the copy of software was lawfully produced under the authority of the copyright owner; (2) whether that particular copy was lawfully transferred under the authority of the copyright owner; (3) whether the defen-

59. See generally Brian D. McDonald, *Contract Enforceability: The Uniform Computer Information Transactions Act*, 16 BERKELEY TECH. L.J. 461 (2001) (tracking and analyzing the most significant recent UCITA developments).

60. *Id.* at 484.

61. Lemley, *supra* note 30, at 1248-49.

62. *Id.* at 1241-42.

63. *Id.* at 1248-53; see, e.g., *Step-Saver Data Sys., Inc. v. Wyse Tech.*, 939 F.2d 91 (3d Cir. 1991) (holding that U.C.C. §§ 2-207 and 2-209 rendered shrinkwrap licenses generally unenforceable).

64. 86 F.3d 1447, 1448 (7th Cir. 1996).

65. *Id.*

66. Scott J. Spooner, *The Validation of Shrink-Wrap and Click-Wrap Licenses by Virginia's Uniform Computer Information Transactions Act*, 7 RICH. J.L. & TECH. 27, 34 (2001).

67. 2 NIMMER ON COPYRIGHT § 8.12 (2002).

dant qualifies as the lawful owner of that copy; and (4) whether the defendant distributed that copy.<sup>68</sup>

There are only a few lower court cases holding that copies of software are sold.<sup>69</sup> The majority of courts conclude that copies of software are licensed.<sup>70</sup> In *Microsoft Corp. v. Harmony Computers & Electronics, Inc.*,<sup>71</sup> for example, plaintiff Microsoft Corporation alleged that, by illegally copying and distributing Microsoft products, defendants were in violation of Microsoft's exclusive right as copyright holder to govern the distribution of Microsoft products. Microsoft argued that it neither licensed nor authorized defendants to distribute copyrighted Microsoft products.<sup>72</sup> Microsoft also contended that, by unbundling the Microsoft products from their complementary personal computer systems, defendants violated Microsoft's licensing restrictions.<sup>73</sup> Defendants admitted to distributing Microsoft Products and unbundling some items from their corresponding personal computer systems.<sup>74</sup> However, defendants justified their actions by asserting that the first sale doctrine immunized them from copyright infringement claims.<sup>75</sup> The Court held that, because defendants could not prove that they had received an authorized transfer of ownership title from the copyright holder, they failed to demonstrate that they had the authority to sell Microsoft products.<sup>76</sup> The Court concluded that Microsoft only licensed the use of its products.<sup>77</sup>

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68. *Id.* at 7.

69. Raymond T. Nimmer, *Copyright and Computer Technology*, § 1:97 LAW COMPUTER TECH. 1, n.5 (2002) ("The very few lower court cases that hold to the contrary are outside the mainstream and inconsistent with commercial practice. Among the few courts that have suggested this result, two were reversed on appeal . . . [and] two were vacated . . . DSC Communications Corp. v. Pulse Communications, Inc., 170 F.3d 1354, 50 U.S.P.Q.2d (BNA) 1001 (Fed. Cir. 1999) (reversing District Court ruling that licensee was an owner and expressly rejecting the view that a single payment perpetual license means that the transfer of the copy was a sale); *Novell, Inc. v. Network Trade Center, Inc.*, 25 F. Supp. 2d 1218, 37 U.C.C. Rep. Serv. 2d 528 (D. Utah 1997), *related reference*, 25 F. Supp. 2d 1233 (D. Utah 1998), *vacated in part*, 187 F.R.D. 657 (D. Utah 1999); *Novell, Inc. v. CPU Distrib., Inc.*, 200 WL 33672900 (S.D. Texas. 2000) (opinion vacated).").

70. Nimmer, *supra* note 69.

71. 846 F. Supp. 208, 210 (E.D.N.Y. 1994).

72. *Id.*

73. *Id.*

74. *Id.*

75. *Id.*

76. *Id.* at 212-13.

77. *Id.*

Similarly, in a recent case, *Adobe Systems, Inc. v. One Stop Micro, Inc.*, plaintiff Adobe Systems, Inc., alleged that defendant One Stop Micro, a distributor, improperly acquired Adobe educational software packages, cut open and removed Adobe's shrink-wrapped licenses, peeled off and destroyed package identification stickers and labels, and then re-shrink-wrapped and distributed the boxes of software.<sup>78</sup> Adobe asserted that all of its software products were subject to the shrink-wrap End User License Agreement (EULA) provision of the Off/On Campus Educational Reseller Agreement, which granted the copy owner a license and prohibited copying or commercial re-distribution of the software copies.<sup>79</sup> One Stop Micro, however, contended that Adobe's Off/On Campus Educational Reseller Agreement constituted a sales agreement, and that the first sale doctrine was applicable.<sup>80</sup> The Court agreed with Adobe and found that Adobe's Off/On Campus Educational Reseller Agreement was a licensing agreement, which meant that the first sale doctrine was inapplicable.<sup>81</sup> The Court also concluded that the licensing agreement applied to One Stop Micro even though the distributor was not a signatory thereto.<sup>82</sup> Furthermore, the Court held that One Stop Micro had committed copyright infringement by violating the license agreement.<sup>83</sup> Recently, in *Adobe Systems, Inc. v. Stargate Software, Inc.*,<sup>84</sup> the district court of Northern California re-affirmed the *One Stop Micro, Inc.* analysis and held that the structure and language of the EULAs at issue clearly indicated Adobe's licensing of its software.<sup>85</sup>

### 3. *Does a Federal Copyright Claim Preempt the State Contractual Claim?*

Federal copyright law may preempt either a specific cause of action asserted under a state law or the state law itself.<sup>86</sup> There are two basic types of copyright preemption.<sup>87</sup> First, "direct conflict preemption" or "statutory preemption" occurs when federal copyright law preempts state statutes or state-governed contractual provisions that directly conflict with

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78. *Id.* at 1088.

79. *Id.* at 1090.

80. *Id.* at 1088.

81. *Id.* at 1091-92.

82. *Id.* at 1092.

83. *Id.*

84. 216 F. Supp. 2d 1051 (N.D. Cal. 2002).

85. *See id.*

86. *See* RAYMOND T. NIMMER, *Copyright Preemption*, INFORMATION LAW, available at Westlaw, INFOLAW 2:13 (November 2001).

87. *See* Lemley, *supra* note 30, at 1269-72.

the Copyright Act.<sup>88</sup> Section 301 of the Copyright Act, which establishes statutory copyright preemption, states that “all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright” are exclusively governed by federal copyright law.<sup>89</sup> Second, “delicate balance preemption” or “constitutional preemption” arises under the Supremacy Clause, when claims under state laws do not directly conflict with federal copyright law, but nevertheless “upset the balance struck by Congress.”<sup>90</sup> Most courts reject delicate balance preemption only if the claim under state law involves an “extra element” that is not explicitly present in federal copyright law.<sup>91</sup> For example, some commentators contend that the agreement of the parties is enough to satisfy the “extra element” test.<sup>92</sup> Unlike statutory preemption, constitutional preemption requires an inquiry into not only whether the rights at issue are equivalent to those that the Copyright Act establishes, but also consideration of policy decisions underlying the Copyright Act.<sup>93</sup>

Courts are in conflict as to when federal copyright law preempts contractual prohibitions.<sup>94</sup> In *Vault Corp. v. Quaid Software Ltd.*, a case of first impression, the Fifth Circuit considered whether a user's intermediate copying of software violated the copyright owner's exclusive rights and breached a license agreement prohibiting decompilation or disassembly of the software program at issue.<sup>95</sup> The Court held that the license agreement provision prohibiting reverse engineering was unenforceable on the grounds of preemption.<sup>96</sup> The Fifth Circuit concluded that the Louisiana License Act, which governed the breach of agreement claim, “touched” upon the area of federal copyright law embodied in the Federal Copyright Act.<sup>97</sup> *Vault*, thus, established a broad principle of copyright preemption. On the other hand, in *ProCd*, the Seventh Circuit concluded that the contractual claim at issue was not equivalent to any of the exclusive rights

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88. *Id.*

89. 17 U.S.C. § 301(a) (2000).

90. Lemley, *supra* note 30, at 1272.

91. *Id.*; *see, e.g.*, *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147 (1st Cir. 1994).

92. Lemley, *supra* note 30, at 1272.

93. Daniel B. Ravicher, *Facilitating Collaborative Software Development: The Enforceability of Mass-Market Public Software Licenses*, 5 VA. J.L. & TECH. 11, 57 (2000).

94. Samuelson & Scotchmer, *supra* note 26, at 1626.

95. 847 F.2d 255, 258 (5th Cir. 1988).

96. *Id.* at 270.

97. *Id.*

granted by federal copyright law and was, therefore, not preempted.<sup>98</sup> The Court noted, however, that it did not hold that all “contracts” are never preempted by federal copyright law.<sup>99</sup>

## II. CASE SUMMARIES

### A. *SoftMan Products Co. v. Adobe Systems, Inc.*

#### 1. *Factual Background*

Adobe Systems Inc. (“Adobe”) is a software development and publishing company that produces, among other things, Adobe “Collections” consisting of individual Adobe products bundled together as collective Adobe “Retail Boxes.”<sup>100</sup> Each Collection is sold at a price discounted from the retail price of each individual product in the set.<sup>101</sup> SoftMan Products Company (“SoftMan”) is a distributor of computer software products.<sup>102</sup> The company's main distribution channel is its website, [www.buycheapsoftware.com](http://www.buycheapsoftware.com).<sup>103</sup> Adobe alleged that, since at least November 1997, SoftMan began distributing unauthorized Adobe products, which consisted of software components separated from unbundled Adobe Collections.<sup>104</sup>

Adobe brought action against SoftMan, alleging that SoftMan had infringed its copyright.<sup>105</sup> Adobe contended that by distributing the individual software components from unbundled Adobe Collections, SoftMan infringed upon Adobe's exclusive right, as the copyright owner, to govern the terms concerning distribution of Adobe products.<sup>106</sup> More specifically, Adobe argued that SoftMan's unbundling of Adobe Collections and distribution of the individual components “exceeded the scope” of the End User License Agreement (“EULA”), which stated that the end user of an Adobe

98. 86 F.3d 1447, 1455 (7th Cir. 1996).

99. *Id.* (“[W]e think it prudent to refrain from adopting a rule that anything with the label ‘contract’ is necessarily outside the preemption clause: the variations and possibilities are too numerous to foresee.”).

100. *Softman Prod. Co. v. Adobe Sys., Inc.*, 171 F. Supp. 2d 1075, 1080 (C.D. Cal. 2001).

101. *Id.* at 1080 n.2.

102. *Id.* at 1079.

103. *Id.* at 1079-80.

104. *Id.*

105. Adobe's counterclaim apparently arises from an action brought by SoftMan Products Co. (“SoftMan”) that also alleges copyright and trademark infringement. *See id.* at 1080.

106. *Id.* at 1080-81.

product could transfer all his rights to the use of that software to another person, provided that he also transfer the EULA and all other software or hardware bundled with that particular Adobe product.<sup>107</sup>

SoftMan argued that its resale of the Adobe Collection software was allowable under the first sale doctrine.<sup>108</sup> Adobe, however, contended that the first sale doctrine was inapplicable because Adobe neither sells nor authorizes any sale of its software.<sup>109</sup> Rather, Adobe asserted that throughout the stream of commercial transactions involving Adobe software, the software is always licensed.<sup>110</sup>

On August 27, 2001, the District Court of the Central District of California granted Adobe's request for a temporary restraining order and seizure order against SoftMan.<sup>111</sup> Then, on September 10, 2001, the Court ordered a preliminary injunction for the duration of the Court's review of supplemental materials.<sup>112</sup> Finally, on October 19, 2001, the Court heard oral argument regarding Adobe's motion for a preliminary injunction.

## 2. *The District Court's Holding and Analysis*

The district court held that Adobe did not demonstrate a likelihood of success on the merits regarding its copyright infringement claim.<sup>113</sup>

First, although Adobe characterized the EULA as a "shrinkwrap license," the Court concluded that the transfer of Adobe software to the end user is a "sale" and not a license.<sup>114</sup> The Court also concluded that Adobe likewise sells its software to distributors.<sup>115</sup> The Court reasoned that because the distributors pay full value for the software and bear the risk that the products may be lost or damaged or otherwise unfit for resale, the ex-

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107. *Id.* Adobe also brought a trademark claim. Adobe alleged that because the individual pieces of software from an Adobe Collection may not be accompanied by registration information allowing the software purchaser to access Adobe's customer support and technical services, SoftMan's distribution of unbundled Adobe Collection products would create customer confusion and blur the distinction between authorized Adobe software and unauthorized items. More specifically, Adobe contended that it would suffer dilution of customer goodwill, price erosion of Adobe software, tarnishment of the Adobe trade name, and dilution of Adobe trademarks. *Id.*

108. *Id.* at 1082.

109. *Id.* at 1083.

110. *Id.*

111. *Id.* at 1080.

112. *Id.*

113. *Id.* at 1094.

114. *Id.* at 1085.

115. *Id.*

change of consideration and risk of loss for the transfer of title in the software constitutes a sale.<sup>116</sup>

Second, the Court held that SoftMan did not assent to the EULA terms and, therefore, is not bound by the EULA.<sup>117</sup> The Court reasoned that because the end user is asked to agree to the electronically recorded EULA terms only when he attempts to install the software, and SoftMan never loaded the software, SoftMan never agreed to be bound by the EULA.<sup>118</sup> Additionally, the Court explicitly noted that it would not determine the general validity of shrinkwrap licenses.<sup>119</sup>

## **B. *Bowers v. Baystate Technologies, Inc.***

### *1. Background*

Plaintiff Harold L. Bowers patented and marketed Cadjjet, a template for streamlining computer aided design (CAD) software.<sup>120</sup> Defendant Baystate Technologies, Inc., which creates and sells tools for CAD software, purchased copies of Bowers' Cadjjet, reverse engineered the Cadjjet software, and then developed its own slightly modified version of the product.<sup>121</sup> Bowers asserted that, by reverse engineering the Cadjjet software, Baystate infringed on Bowers' copyright and breached the shrinkwrap license agreement governing Baystate's possession of the copy of Cadjjet software.<sup>122</sup> Baystate, on the other hand, contended that the Copyright Act preempted the contractual prohibition of reverse engineering found in the shrinkwrap license agreement.<sup>123</sup>

The case went to trial, whereby a jury awarded Bowers damages for both copyright infringement and breach of contract.<sup>124</sup> The district court, however, set aside the copyright damages, reasoning that they were duplicative of the contract damages.<sup>125</sup>

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116. *Id.*

117. *Id.* at 1087.

118. *Id.*

119. *Id.* at 1088.

120. *Bowers v. Baystate Techs., Inc.*, 302 F.3d 1334, 1340 (Fed. Cir. 2002).

121. *Id.* at 1340.

122. *Id.* at 1339.

123. *Id.* at 1341.

124. *Id.* at 1340.

125. *Id.*

## 2. *The Federal Circuit's Holding and Analysis*

The Federal Circuit held that the federal Copyright Act did not preempt Bowers' breach of contract claim.<sup>126</sup> First, the Federal Circuit concluded that the shrinkwrap license contained the "extra element" necessary to qualitatively distinguish Bowers' contractual claim from his copyright infringement claim.<sup>127</sup> In reaching this conclusion, the Federal Circuit relied upon *ProCD*, in which the Seventh Circuit held that the mutual assent and consideration necessary for a valid contract are sufficient to prevent federal copyright law from preempting a state contractual claim.<sup>128</sup> Second, the Federal Circuit reasoned that, because the shrinkwrap license prohibited any reverse engineering of Bowers' product, the scope of the shrinkwrap license was far broader than that of copyright protection.<sup>129</sup>

On January 29, 2003, on a combined petition that Baystate filed, the Federal Circuit denied rehearing en banc and granted the petition for rehearing of the case by the panel.<sup>130</sup> Upon examination of new briefs that the parties had submitted, the Federal Circuit affirmed its prior decision.<sup>131</sup>

### III. DISCUSSION

#### A. **Precedent Cases Indicate that Software is Licensed and that Economic Efficiency and Public Policy Favor the Licensing of Software**

First, in concluding that Adobe sold, rather than licensed, its software to authorized distributors, the district court in *Softman* ignored industry standards and misapplied precedent. To support its holding, the court reasoned that "many courts and commentators [have] conclude[d] that a 'shrinkwrap license' transaction is a sale of goods rather than a license."<sup>132</sup> However, the court failed to cite to any cases that both concluded that a "shrinkwrap license" transaction is a sale of goods and that consisted of facts similar to the situation in *Softman*. For example, the court heavily

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126. *Id.* at 1341.

127. *Id.* at 1341-43.

128. *Id.* at 1342-43.

129. *Id.*

130. *Bowers v. Baystate Technologies, Inc.*, No. 01-1108, 01-1109, 2003 U.S. App. LEXIS 1422, at \*1 (Fed. Cir. Jan. 29, 2003).

131. *Bowers v. Baystate Technologies, Inc.*, No. 01-1108, 01-1109, 2003 U.S. App. LEXIS 1423, at \*36-\*37 (Fed. Cir. Jan. 29, 2003).

132. *Softman Prod. Co. v. Adobe Sys., Inc.*, 171 F. Supp. 2d 1075, 1085 (C.D. Cal. 2001).

relied on *Novell, Inc. v. CPU Distributors, Inc.*,<sup>133</sup> to bolster its holding that Adobe sold its software.<sup>134</sup> However, *Novell* involved an OEM Agreement that unambiguously and repetitiously used the terms “sell,” “sells,” “resellers,” “resale,” and “sold.”<sup>135</sup> In *SoftMan*, on the other hand, there was no evidence of such concrete language to indicate that Adobe’s agreements with its authorized distributors were sales.<sup>136</sup> *Novell* is, thus, factually distinguishable from *Softman* and would seem to be inapplicable.

Furthermore, the court’s dismissal of *Microsoft Corporation v. Harmony Computers and Electronics, Inc.*,<sup>137</sup> and *Adobe Systems Inc. v. One Stop Micro, Inc.*,<sup>138</sup> was unsubstantiated and improper.<sup>139</sup> The court found that, because the defendants in *Harmony* were allegedly selling counterfeit Microsoft products and the defendants in *SoftMan* were not, the two cases were incomparable.<sup>140</sup> However, the court misconstrued both *Harmony* itself and Adobe’s reliance thereon. Contrary to the court’s assumption, only some of the products at issue in *Harmony* were allegedly counterfeit.<sup>141</sup> Furthermore, the counterfeit issue was not a dispositive factor upon which the *Harmony* court based its holding; in fact, the *Harmony* court declined to even make a finding on that issue.<sup>142</sup> Rather, the court in *Harmony* held that, as Adobe correctly argued, Microsoft only licensed and did not sell its products.<sup>143</sup>

Rather than provide any explanation as to why *One Stop Micro, Inc.*, is distinguishable from *SoftMan*, the *SoftMan* court “simply decline[d] to adopt that analysis.”<sup>144</sup> An examination of the factual background and legal issues in *One Micro, Inc.*, however, reveals its applicability to *SoftMan*. Adobe alleged copyright infringement in both *SoftMan* and *One Mi-*

133. No. H-97-2326, 2000 U.S. Dist. LEXIS 9952, at \*1 (S.D. Tex. May 12, 2000).

134. *SoftMan Prod.*, 171 F. Supp. 2d at 1084.

135. *Novell, Inc.*, 2000 U.S. Dist. LEXIS 9952, at \*13-\*19.

136. *See SoftMan Prod.*, 171 F. Supp. 2d 1075.

137. 846 F. Supp. 208 (E.D.N.Y. 1994).

138. 84 F. Supp. 2d 1086 (N.D. Cal. 2000).

139. 171 F. Supp. 2d at 1086.

140. *Id.* at 1086-87.

141. *See Microsoft*, 846 F. Supp. at 210.

142. *See id.* at 212 (“[T]he Court declines at this juncture to make a finding as to the genuineness of the Microsoft Products sold by defendants.”); *see also* Nimmer, *supra* note 67, at 7 (asserting that the court in *Harmony* clearly did not base its ruling on whether the software at issue was counterfeit).

143. *See Microsoft Corp. v. Harmony Computers & Electronics, Inc.*, 846 F. Supp. 208, 213 (E.D.N.Y. 1994); *see also* Nimmer, *supra* note 67, at 7.

144. *See SoftMan Prod.*, 171 F. Supp.2d at 1086.

*cro, Inc.*<sup>145</sup> More importantly, the dispositive issue in both *SoftMan* and *One Micro, Inc.*, was whether the subject shrinkwrap EULA constituted a sale, thereby allowing the alleged infringer to assert a first sale defense to Adobe's copyright claims.<sup>146</sup> Additionally, in both cases, the alleged infringer was not a signatory to the agreement at issue.<sup>147</sup>

Second, the *SoftMan* court reasoned that fundamental economic realities and public policy considerations weighed in favor of finding that Adobe sold its software.<sup>148</sup> However, economic efficiency and public interest strongly indicate that *SoftMan* was decided incorrectly.

By creating opportunities for arbitrage, the resale of software inhibits price discrimination and renders the market inefficient. Price discrimination occurs when a seller charges different prices for different groups of consumers purchasing commensurate or identical products.<sup>149</sup> For example, a seller may categorize purchasers according to the degree to which they value the product.<sup>150</sup> Purchasers who have a stronger demand or need for the product are "high valuation" consumers, whereas purchasers who have a weaker demand or need for the product are "low valuation," less-favored consumers.<sup>151</sup> In a perfectly efficient software market, a seller would know exactly what product each user desires and how much each user is willing to pay for that product.<sup>152</sup> The seller would be able to modify and price discriminate his products accordingly.<sup>153</sup> Arbitrage occurs when the favored customers purchase the products and then re-sell them to the disfavored customers.<sup>154</sup> If high valuation, favored software users can

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145. Compare *id.* at 1080 with *Adobe Sys., Inc. v. One Stop Micro, Inc.*, 84 F. Supp. 2d 1086, 1088 (N.D. Cal. 2000).

146. See *SoftMan Prod.*, 171 F. Supp. 2d at 1088.

147. See *id.* at 1092.

148. See *id.* at 1084, 1087, 1090-91.

149. Michael J. Meurer, *Price Discrimination, Personal Use and Piracy: Copyright Protection of Digital Works*, 45 BUFF. L. REV. 845, 869 (1997) [hereinafter Meurer, *Price Discrimination*].

Three conditions are necessary to sustain effective price discrimination: the seller can measure consumer preferences and correlate prices thereto; the seller has some measure of market power; and the seller can stop arbitrage of price differentials. Michael J. Meurer, *Copyright Law and Price Discrimination*, 23 CARDOZO L. REV. 55, 59 (2001) [hereinafter Meurer, *Copyright Law*].

150. See Meurer, *Copyright Law*, *supra* note 149, at 67-80 (illustrating the "profit maximizing pricing strategy," which is to charge every buyer his/her valuation as long as the valuation exceeds marginal cost).

151. See *id.*

152. *Id.* at 105.

153. *Id.*

154. Meurer, *Price Discrimination*, *supra* note 149, at 850.

re-sell their acquired copies to low valuation, disfavored users, then price discrimination fails.<sup>155</sup> The re-sale of software inefficiently inflates the minimum price at which the seller would sell his product to anyone.<sup>156</sup>

Moreover, the re-sale of software inhibits a seller's ability to use bundling, a price discrimination technique with several potential benefits.<sup>157</sup> Bundling averages demand over multiple products so as to achieve the most effective price, given the different groups of consumers.<sup>158</sup> Bundling reduces transaction and enforcement costs by potentially avoiding wasteful investment in the valuation of the components of a bundle.<sup>159</sup> By rendering bundling ineffective, the re-sale of software inefficiently increases transaction and enforcement costs.

Adobe, for example, bundled the "Collections" and Educational software at issue in *SoftMan* and offered the bundled software at a discount from the price of the individual retail products contained therein.<sup>160</sup> The *SoftMan* court's holding renders such bundling impossible, since consumers can, just as *SoftMan* had done, purchase the bundled software, unbundle the software, and then resell each individual retail products at its higher price. To offset the costs of such resale, Adobe would need to raise the minimum price at which it sells the bundled "Collections" and Educational software to anyone.

In sum, precedent caselaw, public policy, and economic efficiency all disfavor the holding in *SoftMan* and the effects thereof.

### **B. Public Policy Favors Preemption Analysis that Considers Constitutional Preemption and Available Remedies, and Disfavors the Blanket Prohibition of Reverse Engineering**

The Federal Circuit's preemption analysis in *Bowers* completely failed to consider constitutional preemption under the Supremacy Clause.<sup>161</sup> Under a constitutional preemption analysis, the Federal Circuit may have come to a different conclusion in *Bowers*. Contractual prohibitions on reverse engineering, like the one at issue in *Bowers*, are unconstitutional because their overbreadth disturbs the proper owner-user balance underlying

155. *Id.* at 83.

156. *See ProCd, Inc. v. Zeindenberg*, 86 F.3d 1447, 1450 (7th Cir. 1996).

157. Meurer, *Copyright Law*, *supra* note 149, at 131.

158. *Id.* at 123-25 (illustrating the profit-enhancing effect of the averaging technique achieved through bundling).

159. *Id.* at 131.

160. *See SoftMan Prod.*, 171 F. Supp. 2d at 1080.

161. Mark A. Lemley, Amicus Brief for Defendant-Appellant at 10, *Bowers v. Baystate Technologies, Inc.*, 302 F.3d 1334 (Fed. Cir. 2002) (No. CV-91-40079) [hereinafter Lemley, *Amicus*].

the Copyright Act.<sup>162</sup> Shrinkwrap licensing agreements in the software industry may be characterized as a type of private legislation because of their uniformity and non-negotiability.<sup>163</sup> Thus, like various state legislation that courts have preempted, contractual prohibitions on reverse engineering wholly subvert important federal policy allowing reverse engineering under specified, limited circumstances.<sup>164</sup>

Moreover, the equivalence of rights analysis should include not only an examination of the rights themselves, but also a consideration of their means of enforcement.<sup>165</sup> Courts should compare applicable copyright remedies with applicable contract remedies and then determine, on a case-by-case basis, whether they are comparable in terms of availability, appropriateness, and effectiveness. Although a particular contractual right may appear equivalent to a statutory right, their respective enforcement may differ in terms of availability, appropriateness, and effectiveness.<sup>166</sup> For example, federal copyright law offers strong remedies such as injunctive relief and seizure or destruction of infringing copies, whereas contract remedies offer arguably weaker remedies, such as specific performance, which are harder to obtain.<sup>167</sup>

Public policy considerations, moreover, strongly disfavor a blanket prohibition on reverse engineering and, instead, favor the allowance of reverse engineering under limited, federally specified circumstances.<sup>168</sup> Interoperability is crucial to mitigate "tipping," which occurs when a single interface becomes the monopolizing marketplace standard.<sup>169</sup> Reverse

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162. Douma, *supra* note 45, at 257.

163. Robert P. Merges, *Expanding Boundaries of the Law: Intellectual Property and the Costs of Commercial Exchange: A Review Essay*, 93 MICH. L. REV. 1570, 1613 (1995).

164. *Id.*

165. Jane C. Ginsburg, *Copyright, Common Law, and Sui Generis Protection of Databases in the United States and Abroad*, 66 U. CIN. L. REV. 151, 167-68 (1997).

166. *Id.* at 168.

167. *Id.*

168. Lemley, *Amicus*, *supra* 161, at 9.

169. See Samuelson & Scotchmer, *supra* note 26, at 1624-1625:

"Tipping" means that a single interface succeeds in becoming the standard in the market, creating a monopoly. Such tipping may be detrimental to consumers, but it is beneficial to the winning platform owner. By buying up talented independent application developers, entering into exclusive licensing agreements with them, or simply attracting them with its large installed base, a platform owner may create sufficient network externalities to drive out rivals and remain the sole platform provider. A right to reverse-engineer may neutralize this threat of tipping. If the interface becomes open through reverse engineering or

engineering is the primary means for software manufacturers to achieve interoperability. Blanket contractual prohibitions on reverse engineering may increase tipping and leave consumers at the mercy of a single manufacturer.<sup>170</sup> Additionally, without interoperability, developers will waste costs associated with the development of different applications for different interfaces.<sup>171</sup> Moreover, caselaw and statutory fair use allowances for reverse engineering are sufficiently narrow to prohibit most reverse engineering without the use of contractual prohibitions.<sup>172</sup> Reverse engineering is a sufficiently costly and difficult endeavor so as to preclude widespread abuse of the fair use exceptions.<sup>173</sup>

#### IV. CONCLUSION

In determining the proper balance between copyright law and contract law, courts ought to consider whether the agreement or contractual provision at issue (1) achieves the Copyright Act's goal of furthering the progress of knowledge and (2) threatens to displace the owner-user balance that is the foundation of the Copyright Act.<sup>174</sup> The re-sale of software disrupts the owner-user balance without furthering the progress of knowledge. Thus, economic realities and public policy strongly disfavor the conclusion reached in *SoftMan*. Similarly, a blanket rule establishing that contractual prohibitions on reverse engineering are never preempted could eventually deprive users of the benefits of interoperability. In *Bowers*, the Federal Circuit ignored "the fundamental purpose of the Copyright Act," which "is 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."<sup>175</sup> These recent decisions indicate that courts still have not delineated a copyright-

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otherwise, other firms can develop platforms to compete with the proprietary platform and thereby undermine the latter's monopoly pricing strategy. Insofar as this interface becomes a de facto standard, consumers will benefit because more applications will be available for the platform and application developers will be in a better position to negotiate with firms competing in the platform market for better access to interface information.

170. *Id.*

171. *Id.*

172. *Id.*

173. *Id.*

174. See Ginsburg, *supra* note 165, at 168 (1997).

175. *Sega Entertainments v. Accolade, Inc.*, 977 F.2d 1510, 1527 (9th Cir. 1992); see also Lemley, *Amicus*, *supra* 161, at 11.

contract balance that not only maintains the owner-user balance but also achieves the goal of “furthering the progress of knowledge.”<sup>176</sup>

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176. See Ginsburg, *supra* note 165, at 168.