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Commentary:

SHRINKWRAP AGREEMENTS - LOOK BEFORE YOU LEAP

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Chances are, we've all done it. Eager to install and begin using that new computer software we just bought, we first see a screen of text that appears to go on for ages. There's a button labeled 'I Accept the Terms' and another labeled 'I Do Not Accept the Terms.' Do they seriously expect me to read all that stuff? Yeah, yeah, yeah, whatever - CLICK.

Those annoying 'shrinkwrap' or 'clickwrap' agreements aren't really enforceable, are they? The folks who put those agreements on your screen would beg to differ, and this summer much of the software industry watched with bated breath as the issue made its way to the U.S. Supreme Court.

Baystate Technologies Inc. had petitioned the U.S. Supreme Court for review of the decision in Bowers v. Baystate Technologies Inc., 20 F.3d 1316 (Fed. Cir. 2003), a case that dealt with a so-called shrinkwrap agreement.

So what happened in that case? In 1991 Harold Bowers was an inventor, businessman and owner of HLB Technology Inc., a company specializing in simplifying 'computer-assisted drawing.' One of his products, named Geodraft, 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' 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, an engineer's drawing of a bicycle part might specify that it must be 8 inches long. The GD&T symbol on the drawing tells the person making the part how close to 8 inches it actually has to be (e.g., is 7.999 inches close enough?).

Bowers was not the only one selling CadkeyTM products, and he was not the only one selling GD&T computer programs for use with CadkeyTM. However, when rival Baystate Technologies began selling a disturbingly familiar looking GD&T program, Bowers took note. When Baystate priced its products to beat Bowers' prices, he became concerned. When Baystate then used its profits to acquire the makers of CadkeyTM and terminate Bowers' 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 soon found themselves in court, with Bowers alleging (among other things) that Baystate had copied his program, violating his copyright in the program. Through the exchange of information in a lawsuit, known as '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' 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: ... attempting to un-assemble, de-compile or reverse engineer the software or template in any way.'

At trial, the jury concluded that Baystate had broken the terms of this agreement, dismissing any argument that Baystate was somehow unaware of the terms of the agreement. Baystate appealed to the U.S. Court of Appeals for the Federal Circuit, but the court affirmed the contract finding.

Baystate hoped the U.S. Supreme Court would undo the Federal Circuit's finding.

Baystate argued 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 income tax laws define the standard deduction amount, and individual states cannot write their own laws increasing or decreasing this amount - 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 he or she is filming. Freedom of speech is definitely a federal right, as spelled out in the U.S. 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, clickwrap and other contractual agreements everywhere, and the loss of countless millions of dollars in software intellectual property through unauthorized reverse engineering. If unsuccessful, then software developers can rest assured that their contractual protections against such behavior are still valid.

In the end, the Supreme Court declined to review Baystate's case, leaving intact the Federal Circuit's decision that private parties can contract to protect their trade secrets against reverse engineering.

So what's the moral of this story? Look before you leap. If you or your employees agree to a shrinkwrap or clickwrap license, this license can very well be an enforceable contract. On the other hand, if your company has valuable trade secrets that it needs to protect, a shrinkwrap or clickwrap agreement may be just the thing to protect your interests.

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