Vault produces computer diskettes under the registered trademark "PROLOK" which are designed to prevent the unauthorized duplication of programs placed on them by software computer companies, Vault's customers. Floppy diskettes serve as a medium upon which computer companies place their software programs. To use a program, a purchaser loads the diskette into the disk drive of a computer, thereby allowing the computer to read the program into its memory. The purchaser can then remove the diskette from the disk drive and operate the program from the computer's memory. This process is repeated each time a program is used.

The protective device placed on a PROLOK diskette by Vault is comprised of two parts: a "fingerprint" and a software program ("Vault's program"). The "fingerprint" is a small mark physically placed on the magnetic surface of each PROLOK diskette which contains certain information that cannot be altered or erased. Vault's program is a set of instructions to the computer which interact with the "fingerprint" to prevent the computer from operating the program recorded on a PROLOK diskette (by one of Vault's customers) unless the computer verifies that the original PROLOK diskette, as identified by the "fingerprint", is in the computer's disk drive. While a purchaser can copy a PROLOK protected program onto another diskette, the computer will not read the program into its memory from the copy unless the original PROLOK diskette is also in one of the computer's disk drives. The fact that a fully functional copy of a program cannot be made from a PROLOK diskette prevents purchasers from buying a single program and making unauthorized copies for distribution to others.

n1 A PROLOK diskette contains two programs, the program placed on the diskette by a software company (e.g., word processing) and the program placed on the diskette by Vault which interacts with the "fingerprint" to prevent the unauthorized duplication of the software company's program. We use the term "software program" or "program" to refer to the program placed on the diskette by one of Vault's customers (a computer company) and "Vault's program" to refer to the program placed on the diskette by Vault as part of the protective device. We collectively refer to the "fingerprint" and Vault's program as the "protective device."

n2 The license agreement refers to the program placed on the diskette by Vault, not the software program placed on the diskette by Vault's customers. See supra note 1 for terminology. The companies that place their software programs on PROLOK diskettes, not Vault, own the copyright to their programs and may include a license agreement covering their programs in the package for sale to the public.

Vault's license agreement reads:
IMPORTANT! VAULT IS PROVIDING THE ENCLOSED MATERIALS TO YOU ON THE EXPRESS CONDITION THAT YOU ASSENT TO THIS SOFTWARE LICENSE. BY USING ANY OF THE ENCLOSED DISKETTE(S), YOU AGREE TO THE FOLLOWING PROVISIONS. IF YOU DO NOT AGREE WITH THESE LICENSE PROVISIONS, RETURN THESE MATERIALS TO YOUR DEALER, IN ORIGINAL PACKAGING WITHIN 3 DAYS FROM RECEIPT, FOR A REFUND.

1. This copy of the PROLOK Software Protection System and this PROLOK Software Protection Diskette (the "Licensed Software") are licensed to you, the end-user, for your own internal use. Title to the Licensed Software and all copyrights and proprietary rights in the Licensed Software shall remain with VAULT. You may not transfer, sublicense, rent, lease, convey, copy, modify, translate, convert to another programming language, decompile or disassemble the Licensed Software for any purpose without VAULT's prior written consent.

2. THE LICENSED SOFTWARE IS PROVIDED "AS-IS". VAULT DISCLAIMS ALL WARRANTIES AND REPRESENTATIONS OF ANY KIND WITH REGARD TO THE LICENSED SOFTWARE, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. UNDER NO CIRCUMSTANCES WILL VAULT BE LIABLE FOR ANY CONSEQUENTIAL, INCIDENTAL, SPECIAL OR EXEMPLARY DAMAGES EVEN IF VAULT IS APPRISED OF THE LIKELIHOOD OF SUCH DAMAGES OCCURRING. SOME STATES DO NOT ALLOW THE LIMITATION OR EXCLUSION OF LIABILITY FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES, SO THE ABOVE LIMITATION OR EXCLUSION MAY NOT APPLY TO YOU.

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n3 The license agreement included the following language beginning with version 2.0:

To the extent the laws of the United States of America are not applicable, this license agreement shall be governed by the laws of the State of Louisiana.

Quaid's product, a diskette called "CopyWrite," contains a feature called "RAMKEY" which unlocks the PROLOK protective device and facilitates the creation of a fully functional copy of a program placed on a PROLOK diskette. The process is performed simply by copying the contents of the PROLOK diskette onto the CopyWrite diskette which can then be used to run the software program without the original PROLOK diskette in a computer disk drive. RAMKEY interacts with Vault's program to make it appear to the computer that the CopyWrite diskette contains the "fingerprint," thereby making the computer function as if the original PROLOK diskette is in its disk drive. A copy of a program placed on a CopyWrite diskette can be used without the original, and an unlimited number of fully functional copies can be made in this manner from the program originally placed on the PROLOK diskette.

Quaid first developed RAMKEY in September 1983 in response to PROLOK [**6]** version 1.0. In order to develop this version of RAMKEY, Quaid copied Vault's program into the memory of its computer and analyzed the manner in which the program operated. When Vault developed version 1.07, Quaid adapted RAMKEY in 1984 to defeat this new version. The adapted version of RAMKEY contained a sequence of approximately 30 characters found in Vault's program and was discontinued in July 1984. Quaid then developed the current [*258] version of RAMKEY which also operates to defeat PROLOK version 1.07, but does not contain the sequence of characters used in the discontinued version. Quaid has not yet modified RAMKEY to defeat PROLOK version 2.0, and has agreed not to modify RAMKEY pending the outcome of this suit. Robert McQuaid, the sole owner of Quaid, testified in his deposition that while a CopyWrite diskette can be used to duplicate programs placed on all diskettes, whether copy-protected or not, the only purpose served by RAMKEY is to facilitate the duplication of programs placed on copy-protected diskettes. He also stated that without the RAMKEY feature, CopyWrite would have no commercial value.

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IV. Vault's Louisiana Claims

Seeking preliminary and permanent injunctions and damages, Vault's original complaint alleged that Quaid breached its license agreement by decompiling or disassembling Vault's program in violation of the Louisiana Software License Enforcement Act (the "License Act"), La.Rev.Stat.Ann. § 51:1961 et seq. (West 1987), and that Quaid misappropriated Vault's program

n26 While the district court held that the Louisiana Uniform Trade Secrets Act, La.Rev.Stat.Ann. ß 51:1431 et seq., was not preempted by the Copyright Act, the court held that the process of ascertaining information by "reverse engineering," used by Quaid to analyze the operation of Vault's program, did not constitute a violation of the Louisiana Trade Secrets Act. Vault, 655 F. Supp. at 761. This holding is not challenged on appeal.

n27 Beginning with PROLOK version 2.0, Vault's license agreement contained a choice of law clause adopting Louisiana law. See supra note 3.

Louisiana's License Act permits a software producer to impose a number of contractual terms upon software purchasers provided that the terms are set forth in a license agreement which comports with La.Rev.Stat.Ann. ß ß 51:1963 & 1965, and that this license agreement accompanies the producer's software. Enforceable terms include the prohibition of: (1) any copying of the program for any purpose; and (2) modifying and/or adapting the program in any way, including adaptation by reverse engineering, decompilation or disassembly. La.Rev.Stat.Ann. ß 51:1964. The terms "reverse engineering, decompiling or disassembling" are defined as "any process by which computer software is converted from one form to another form which is more readily understandable to human beings, including without limitation any decoding or decrypting of any computer program which has been encoded or encrypted in any manner." La.Rev.Stat.Ann. ß 51:1962(3).

n28 Section 51:1964 reads, in full:

Terms of which shall be deemed to have been accepted under R.S. 51:1963, if included in an accompanying license agreement which conforms to the provisions of R.S. 51:1965, may include any or all of the following:

(1) Provisions for the retention by the licensor of title to the copy of the computer software.
(2) If title to the copy of computer software has been retained by the licensor, provisions for the prohibition of any copying of the copy of computer software for any purpose and/or limitations on the purposes for which copies of the computer software can be made and/or limitations on the number of copies of the computer software which can be made.
(3) If title to the copy of computer software has been retained by the licensor, provisions for prohibitions on translation, reverse engineering, decompiling, disassembling, and/or creating derivative works based on the computer software.
(4) If title to the copy of computer software has been retained by the licensor, provisions for further transfer, assignment, rental, sale, or other disposition of that copy or any other copies made from that copy of the computer software, provided that terms which prohibit the transfer of a copy of computer software in connection with the sale or transfer by operation of law of all or substantially all of the operating assets of a licensee's business shall to that extent only not be deemed to have been accepted under R.S. 51:1963.
(5) Provisions for the automatic termination of the license agreement if any provisions of the license agreement are breached by the licensee.

n29 Vault's program. Vault asserts that these prohibitions are enforceable under Louisiana's License Act, and specifically seeks an injunction to prevent Quaid from decompiling or disassembling Vault's program.

n29 See supra, note 2.

The district court held that Vault's license agreement was "a contract of adhesion which could only be
enforceable if the [Louisiana License Act] is a valid and enforceable statute." Vault, 655 F. Supp. at 761. The court noted numerous conflicts between Louisiana's License Act and the Copyright Act, including: (1) while the License Act authorizes a total prohibition on copying, the Copyright Act allows archival copies and copies made as an essential step in the utilization of a computer program, 17 U.S.C. ß 117; (2) while the License Act authorizes a perpetual bar against copying, the Copyright Act grants protection against unauthorized copying only for the life of the author plus fifty years, 17 U.S.C. ß 302(a); and (3) while the License Act places no restrictions on programs which may be protected, under the Copyright Act, only "original works of authorship" can be protected, 17 U.S.C. ß 102. Vault, 655 F. Supp. at 762-63. The court concluded that, because Louisiana's License Act "touched upon the area" of federal copyright law, its provisions were preempted and Vault's license agreement was unenforceable. Id. at 763.

In Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 84 S. Ct. 784, 11 L. Ed. 2d 661 (1964), the Supreme Court held that "when state law touches upon the area of [patent or copyright statutes], it is 'familiar doctrine' that the federal policy 'may not be set at naught, or its benefits denied' by the state law." Id. at 229, 84 S. Ct. at 787 (quoting Sola Elec. Co. v. Jefferson Elec. Co., 317 U.S. 173, 176, 63 S. Ct. 172, 173, 87 L. Ed. 165 (1942)); see Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234, 84 S. Ct. 779, 11 L. Ed. 2d 669 (1964); see also Mitchell v. Penton/Indus. Publishing [*270] Co., 486 F. Supp. 22 (N.D. Ohio 1979) (holding that common law unfair competition claim preempted by the Copyright Act); Triangle Publications, Inc. v. Sports Eye, Inc., [*44] 415 F. Supp. 682, 686-87 (E.D. Penn. 1976) (holding that state regulation of unfair competition preempted as to matters falling within broad confines of the Copyright Act). Section 117 of the Copyright Act permits an owner of a computer program to make an adaptation of that program provided that the adaptation is either "created as an essential step in the utilization of the computer program in conjunction with a machine," ß 117(1), or "is for archival purpose only," ß 117(2). The provision in Louisiana's License Act, which permits a software producer to prohibit the adaptation of its licensed computer program by decompilation or disassembly, conflicts with the rights of computer program owners under ß 117 and clearly "touches upon an area" of federal copyright law. For this reason, and the reasons set forth by the district court, we hold that at least this provision of Louisiana's License Act is preempted by federal law, and thus that the restriction in Vault's license agreement against decompilation or disassembly is unenforceable.

n30 See supra note 11.

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