

No. 24-569

In the Supreme Court of the United States

BMC SOFTWARE, INC.,
PETITIONER,

v.

INTERNATIONAL BUSINESS MACHINES CORPORATION,
RESPONDENT.

*ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT*

REPLY BRIEF FOR PETITIONER

JEFFREY B. WALL
MORGAN L. RATNER
DANIEL J. RICHARDSON
SULLIVAN &
CROMWELL LLP
1700 New York Ave., N.W.,
Ste. 700
Washington, D.C. 20006

JEFFREY L. OLDHAM
Counsel of Record
WARREN W. HARRIS
WALTER A. SIMONS
BRACEWELL LLP
711 Louisiana St., Ste. 2300
Houston, Texas 77002
(713) 221-1225
jeff.oldham@bracewell.com

HARRIET O'NEILL
LAW OFFICE OF
HARRIET O'NEILL, P.C.
919 Congress Ave.,
Ste. 1400
Austin, Texas 78701

SEAN GORMAN
CHRISTOPHER L. DODSON
WHITE & CASE LLP
609 Main St., Ste. 2900
Houston, Texas 77002

Counsel for Petitioner

TABLE OF CONTENTS

	Page
I. IBM Misconstrues The Decision Below, Which Creates Conflicts And Confusion On Federal-Law Issues.....	2
II. The Issues Will Recur Often And Are Important	7
III. The Decision Below Is Wrong.....	9
CONCLUSION	11

II

TABLE OF AUTHORITIES

	Page(s)
Cases	
<i>Anheuser-Busch, Inc. v. Abrams</i> , 520 N.E.2d 535 (N.Y. 1988).....	6
<i>Data Gen. Corp. v.</i> <i>Grumman Sys. Support Corp.</i> , 36 F.3d 1147 (1st Cir. 1994), abrogated on other grounds by <i>Reed Elsevier, Inc. v. Muchnick</i> , 559 U.S. 154 (2010).....	5
<i>Image Tech. Servs., Inc. v.</i> <i>Eastman Kodak Co.</i> , 125 F.3d 1195 (9th Cir. 1997).....	5
<i>In re Indep. Serv. Orgs. Antitrust Litig.</i> , 203 F.3d 1322 (Fed. Cir. 2000).....	5
<i>People v. Roth</i> , 420 N.E.2d 929 (N.Y. 1981) (per curiam)	6
<i>SOLIDFX, LLC v.</i> <i>Jeppesen Sanderson, Inc.</i> , 841 F.3d 827 (10th Cir. 2016)	5
Rule	
Fifth Cir. R. 35 [now 40].....	7

REPLY BRIEF FOR PETITIONER

In IBM's telling, the Fifth Circuit's decision to wipe out a \$1.6 billion judgment involved nothing more than a factbound application of state law. E.g., Br. 1-3. But that ignores what the decision actually held. To absolve IBM from liability for breach of contract and fraud, the court concluded that licensing restrictions are unreasonable and unenforceable any time they limit the licensee from fulfilling a third party's request for services. That conclusion defies common sense and all practical realities, but most importantly contravenes *federal* law and will undermine *federal* precedent if left uncorrected.

IBM does not dispute that many courts of appeals have recognized the federal right of copyright holders to restrict the terms of a license, including where it limits the options available to third parties. Br. 19; see Pet. 9-16. Nor does IBM contest that the rights at stake present important issues of federal law. See Pet. 22-25.

Instead, IBM argues that the decision below does not conflict with that uniform authority and, even if it did, it will not affect future cases. Neither argument is correct. *First*, the court's entire analysis was driven by its conclusion that a license would be unreasonable, absurd, and likely unenforceable if it did not permit a third-party customer (AT&T) to request that the licensee (IBM) perform conduct prohibited by the contract (replacing BMC's software with IBM's). Otherwise, the court would have had no reason to graft a customer-initiated exception into a carefully-negotiated license. *Second*, nothing about the court's reasoning is limited to this case. Licensors routinely impose restrictions that prevent competitors from exploiting access to their intellectual property; if something material distinguishes the contract provision here

from a run-of-the-mill license restriction, neither IBM nor the court below has said what it is.

IBM also suggests that review is unwarranted because the decision below is correct. But IBM can advance that argument only by again ignoring large portions of the court's opinion, all of which demonstrate that the decision was driven by the court's own views of licensing policy, not the clear contractual terms negotiated by the parties.

Simply put, this case has broad implications for federal intellectual-property rights and licensing, holds widespread practical significance for businesses, and reflects clear errors of law. This Court should grant the Petition.

I. IBM Misconstrues The Decision Below, Which Creates Conflicts And Confusion On Federal-Law Issues.

IBM does not contest the principles of federal copyright law embraced by other courts of appeals. See Pet. 9-16. Instead, it argues that the decision below did not announce a general rule of law respecting license restrictions and is confined to New York state law. Neither argument is persuasive.

A. IBM mostly denies what the Fifth Circuit held. As BMC has explained, the decision's core conclusion was that a use restriction in a commercial license cannot stand where it restricts the licensee from offering services requested by a third party. This conclusion motivated each of the court's rulings on "unfair[] competi[ti]on," "absurd[ity]," "unreasonable[ness]," and "unenforceab[ility]." Pet. 7-8, 17-22, 26-27; see App. 9a-16a.

IBM's primary counter is that the court merely applied contract principles and, in any event, that the rule-of-reason ruling was "just one of several" grounds. Br. 1-

3, 8-12, 14-27. But IBM cannot sidestep the many portions of the opinion repeating that a license restriction cannot stand *if* it would affect a third party's marketplace options, which permeated every ground the court offered to justify its decision. See App. 9a-16a. First, in purporting to construe the contract's language, App. 9a-13a, the court inserted the words "(not unfairly competitive)" into the text to conclude that IBM's breach was excused because a third-party customer requested it. App. 11a. Second, the court held that the license restriction would be "absurd" and "commercially unreasonable" if it prevented IBM from swapping out BMC's software at a customer's request. App. 13a. Third, the court held, under the rule-of-reason test applied in competition law, that BMC would have "no legitimate reason" to enforce a restriction on IBM if it would impact third-party AT&T's "independent[]" request for IBM's services. App. 14a-15a.

All of that makes sense only in light of the court's core legal conclusion that there is no legitimate interest in licensing restrictions that affect third parties' marketplace choices—full stop. And that bottom-line conclusion is not limited to the rule-of-reason analysis, as IBM suggests. Instead, it drove the whole decision, and thus the entire opinion is reviewable on that basis.

IBM's other attempts to minimize the court's rule-of-reason ruling also go nowhere. First, IBM pretends that it was "merely ... additional confirmation" of the court's prior textual analysis. Br. 24. But as explained above, any fair reading of the opinion confirms that the court's policy-laden views about license restrictions drove the entire decision. Second, IBM claims the court merely "flagged" the anticompetition issue and did not "definitively resolve" it. Br. 2, 14, 17. Yet the court's analysis starts by reasoning

that BMC’s reading of the contract “runs a serious risk of being an unenforceable restrictive covenant,” and ends by saying that it “likely converts this provision into an illegal, and therefore unenforceable, restraint on competition.” App. 10a, 15a. Given that language, it is difficult to take seriously IBM’s notion that the court did not reach a “holding” on the enforceability of BMC’s interpretation, or to think that future courts or litigants will treat the opinion so dismissively.

Finally, in wrongly characterizing the decision below as an ordinary exercise in contract interpretation, IBM observes that the court *cited* principles of construction to defend its customer-initiated carveout to the parties’ license agreement. Br. 8-12, 20-23. True enough. App. 8a-13a. But as BMC has explained, e.g., Pet. 21-22, the court plainly misapplied those principles to inject its own desired notion of “unfair[] competiti[on]” into the text. See App. 11a; see also *infra* Part III. Most glaringly, the court simply asserted that the contract’s prohibition on “displac[ing]” BMC’s software prevented IBM only from “competing unfairly,” while the contract’s language allowing IBM to “discontinue” BMC products for “other valid business reasons” actually permitted any conduct that was “not unfairly competitive.” App. 11a.¹ None of that is in the contract, and none of the ordinary principles of construction cited by IBM justify the court’s decision to make it up. Accord Br. 1-2 (IBM explaining its reading by using words that appear nowhere in the contract (e.g., “*unfairly*

¹ Indeed, the court went so far as to insert its desired language when quoting the contractual text. See App. 11a (“valid (*not unfairly competitive*) business reason”) (emphasis added).

compete with BMC by *affirmatively encouraging* mutual customers to [displace]”) (emphases added).

B. IBM also contends that review should be denied because the Fifth Circuit’s errors were framed under New York state law. Br. 1-3, 13-19, 26-27. But IBM does not address the reasons BMC explained (Pet. 27-28) as to why this Court’s review is warranted irrespective of the state-law prism. And its argument ignores the substance of the decision below, which squarely undercut federal copyright protections and misstated the rule-of-reason test that is applied under the Sherman Act. See Pet. 9-16, 27-28.

First, the court held that license restrictions protecting copyrighted works are not reasonable or enforceable whenever they impact third parties. Although that holding arose in a state-law dispute, it directly undermines the federal-law right of copyright owners to decide whether and on what terms to license their works—a right that four circuits have recognized. Pet. 10-14, 27-28; see, *e.g.*, *SOLIDFX, LLC v. Jeppesen Sanderson, Inc.*, 841 F.3d 827, 841-43 (10th Cir. 2016); *In re Indep. Serv. Orgs. Antitrust Litig.*, 203 F.3d 1322, 1328-29 (Fed. Cir. 2000); *Image Tech. Servs., Inc. v. Eastman Kodak Co.*, 125 F.3d 1195, 1215-20 (9th Cir. 1997); *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1187 (1st Cir. 1994), abrogated on other grounds by *Reed Elsevier, Inc. v. Muchnick*, 559 U.S. 154 (2010). Given the breadth of the court’s analysis, it is irrelevant whether the court expressly “mentioned” federal law or “pass[ed] upon” the federal issues that BMC squarely raised. Br. 1-2, 13-19, 24, 26. What matters is whether copyright owners in the Fifth Circuit enjoy the same freedom to license their works as copyright owners in other circuits. Following the decision below, they do not.

Second, IBM cannot avoid the implications of the decision for federal antitrust suits. As IBM admitted below, the rule-of-reason analysis under New York law is identical to the rule-of-reason analysis under Section 1 of the Sherman Act. See IBM Resp. to Pet. for Reh’g En Banc at 9, No. 22-20463 (5th Cir. July 8, 2024); Pet. 13-14, 16, 27-28. IBM’s own cited authorities *reinforce* that point. One notes that New York’s antitrust statute was modeled after the Sherman Act and *rejected* an argument that “would result in an interpretation of the [New York statute] at odds with the settled interpretation of its Federal counterpart.” *Anheuser-Busch, Inc. v. Abrams*, 520 N.E.2d 535, 538-39 (N.Y. 1988).² And another is an exception that proves the rule, where the court departed from federal law only because of “a specific analysis of the legislative history underlying the [New York statute].” *People v. Roth*, 420 N.E.2d 929, 930 (N.Y. 1981) (per curiam). IBM never identifies a single distinction between New York and federal antitrust law, let alone one that would be relevant to the court’s analysis of licensing restrictions.

Although IBM never denies that the federal-law issues raised in the Petition were preserved below, it nonetheless implies that BMC advanced only state-law errors in its Fifth Circuit petition for rehearing en banc. Br. i, 2, 13-14. To be sure, BMC properly asserted state-law errors, which provide a valid basis for en banc review in the

² IBM also cherry-picks from a quote that, in full, supports BMC: “Although we do not move in lockstep with the Federal courts in our interpretation of antitrust law, the [New York statute]—often called a ‘Little Sherman Act’—should generally be construed in light of Federal precedent and given a different interpretation only where State policy, differences in the statutory language or the legislative history justify such a result.” *Anheuser-Busch*, 520 N.E.2d at 539 (citation omitted).

Fifth Circuit. See Fifth Cir. R. 35 [now 40] I.O.P. “Extraordinary Nature of Petitions for Rehearing En Banc.” But BMC also expressly advanced the same federal-law arguments presented in its Petition. See Pet. 8; BMC Pet. for Reh’g En Banc at 12, 14-15, No. 22-20463 (5th Cir. May 27, 2024); see also BMC Pet. for Panel Reh’g at 14, 16-17, No. 22-20463 (5th Cir. May 27, 2024). Indeed, IBM quotes from a point heading where BMC asserted error “on the enforceability of private agreements,” Br. 13, but *omits* the words that follow: “in a manner that affects federal law,” BMC Pet. for Reh’g En Banc at 12 (capitalization altered). And IBM cannot deny that IBM itself injected the Sherman Act into the appeal for the first time in reply, see Reply Br. for IBM at 6, No. 22-20463 (5th Cir. May 25, 2023), or that the panel invoked federal law at oral argument, see Oral Arg. Hrg. at 27:43-29:41, No. 22-20463 (5th Cir. Sept. 5, 2023).

II. The Issues Will Recur Often And Are Important.

As BMC has explained, the decision’s core conclusion—preventing copyright owners from enforcing license restrictions whenever it could limit third parties’ commercial options—will have widespread effect. See Pet. 22-27. In arguing otherwise, IBM stresses the “*sui generis* contract language” and “set of facts” here and claims the decision will have no broader impact. Br. 1, 13-14, 18, 24, 26. Those arguments are mistaken.

A straightforward reading of the decision below confirms there is nothing factbound about its holding. Although the opinion references the parties’ agreement throughout, the court’s understanding of what is “absurd,” “unreasonable,” or “unenforceable” was not limited to this contract language. On the contrary, the court’s reasoning makes clear there was *no* language BMC could

have used to prevent IBM from using BMC's copyrighted software for no fee to swap out BMC's products for AT&T. The court did not rely on "*sui generis* contract language" to justify a customer-initiated exception; the court started from the premise that such an exception was necessary and contorted the text to shoehorn it in. IBM also claims the court limited its opinion to "the unique 'circumstances' of this case" and ruled against BMC only on these "particular facts," while acknowledging BMC's legitimate interest otherwise in preventing unfair conduct by IBM. Br. 18, 24. But the only "circumstance[]" or "fact[]" the court's opinion mentioned was that BMC's interpretation of the contract would restrict third-party AT&T's "independent[]" choice to have IBM perform services. App. 14a-15a. That simply confirms that the decision announced a legal rule precluding license restrictions that limit the commercial options available to third parties.

Because use restrictions are standard in commercial licensing, the issues will arise frequently. See Pet. 23-26. And many licenses, especially between competitors, will impact third parties in restricting what the licensee can and cannot do with the licensed work. Finding "no legitimate purpose[]" in a restriction whenever that happens is indeed sweeping, App. 14a, and certainly *not* "good-for-this-case-only," Br. 18. License restrictions in other cases may use different words and address distinct issues, but the court's reasoning will affect them all the same.

The decision below will therefore subvert federal intellectual-property rights and risk severe harm to businesses, especially technology firms dependent on licensing to protect their financial investments in intellectual property. See Pet. 13-16, 23-26. Faced with the Fifth Circuit's opinion, many copyright owners may simply refuse

to license their works at all, thereby harming third parties and the consumers who rely on them. See Pet. 24-25. Despite its efforts to recast the decision below, IBM never disputes the importance of the issues.

III. The Decision Below Is Wrong.

BMC previously explained why the Fifth Circuit’s decision reflects serious errors of law. See Pet. 13-22. IBM’s responses are wholly unpersuasive.

First, IBM offers no meaningful defense of the court’s core conclusion that a licensor cannot enforce a contractual license restriction, voluntarily agreed to by the licensee, where it would limit a third party’s marketplace options. The closest IBM gets is a passing sentence—without explanation—that “BMC plainly has no legitimate interest in impeding the ability of customers to switch from BMC to IBM software for reasons entirely of their own.” Br. 24. But the license restriction here did not lock customers into BMC software or prevent IBM from competing; IBM simply had to pay BMC for the rights it needed. See Pet. 18. As BMC thoroughly explained, BMC has a legitimate interest in this license restriction under New York’s rule-of-reason test and the identical federal test. See Pet. 17-20. Given the issue’s importance, IBM’s silence on the merits of the court’s holding speaks volumes.

Second, IBM tries to defend the decision as a matter of contract interpretation. But the court’s interpretive analysis ignored bedrock principles of contract construction to support its overarching policy conclusion, see Pet. 20-22, and IBM’s brief does nothing to change that.

IBM notes the court “*started with* dictionary definitions of ‘displace’ and ‘discontinue.’” Br. 21 (emphasis added). But the court then faulted BMC for relying too

much “on dictionary definitions” and construed those distinct words to have the exact same meaning. App. 9a-10a. The court justified its departure from bedrock canons of construction by claiming its interpretation was necessary to avoid superfluity. But as BMC already explained (*contra* Br. 26), the court ignored that BMC’s interpretation gives “other valid business reasons” meaning by limiting when IBM can “discontinue” BMC software—*i.e.*, only for valid reasons “other” than to displace with IBM products. Pet. 21-22; ROA.14883. *The court’s* analysis is what created superfluity, reading the word “other” out of this phrase. See App. 11a. Simply put, contrary to IBM’s textual claims (Br. 25), the opinion’s supposed interpretation of the text does not pass the straight-face test.

IBM also notes that the court discussed other contract provisions, which purportedly justify the customer-initiated exception. Br. 9-10, 22. But those provisions have nothing to do with what “displace” or “discontinue ... for other valid business reasons” mean. The court repeatedly dubbed its analysis “holistic.” App. 10a-12a, 15a. Its actual analysis, however, shows that it was invoking various provisions in the contract only to give effect to its misguided policy concerns over enforcing license restrictions that impact third parties, not to seriously interpret the relevant provision of the contract.

Finally, IBM contends that BMC is unlikely to ultimately prevail on the merits of its claims because IBM has “multiple arguments for reversal” other than what the Fifth Circuit resolved. Br. 3, 14-15, 27. Neither IBM nor the court below has suggested that IBM could avoid liability for breach without the improper customer-initiated carveout. And the district court issued over a hundred pages of detailed findings explaining how IBM committed

egregious fraud and caused BMC hundreds of millions of dollars in real losses that it is entitled to recover. See App. 42a-165a. That IBM has yet-to-be-addressed challenges to those findings does nothing to obscure the issues presently before the Court, nor do they counsel against review. IBM's speculation is no reason to deny review and risk the serious problems of federal law created by the opinion the Fifth Circuit actually issued—problems that will infect other cases absent this Court's intervention.

CONCLUSION

For these reasons and those stated in BMC's Petition for a Writ of Certiorari, the Petition should be granted.

Respectfully submitted,

JEFFREY B. WALL
MORGAN L. RATNER
DANIEL J. RICHARDSON
SULLIVAN &
CROMWELL LLP
1700 New York Ave., N.W.,
Ste. 700
Washington, D.C. 20006

HARRIET O'NEILL
LAW OFFICE OF
HARRIET O'NEILL, P.C.
919 Congress Ave.,
Ste. 1400
Austin, Texas 78701

JEFFREY L. OLDHAM
Counsel of Record
WARREN W. HARRIS
WALTER A. SIMONS
BRACEWELL LLP
711 Louisiana St.,
Ste. 2300
Houston, Texas 77002
(713) 221-1225
jeff.oldham@bracewell.com

SEAN GORMAN
CHRISTOPHER L. DODSON
WHITE & CASE LLP
609 Main St., Ste. 2900
Houston, Texas 77002

FEBRUARY 13, 2025