

COPYRIGHT LAW

Computer Programs

WITHOUT A DOUBT, computer programs are one of the most important categories of works protected by copyright. Modern life could not proceed without programs that control computerized functions and interact with one another. As in most other areas of intellectual property law, the copyright principles that apply to programming are the result of two contending interests—the desire to provide robust protection in order to stimulate and reward creativity, balanced against the need to allow the public to use and adapt copyrighted works.

Some courts have narrowed copyright protection for computer programs in view of “practical considerations”—witness the test to determine when two programs are substantially similar, developed by the 2d U.S. Circuit Court of Appeals in *Computer Associates Intern. Inc. v. Altai Inc.*, 982 F.2d 693 (2d Cir. 1992), and rulings holding that copying a program for the purpose of reverse engineering may be fair use. *Sony Computer Entertainment Inc. v. Connectix Corp.*, 203 F.3d 596 (9th Cir. 2000).

For the most part, however, federal courts have afforded programmers liberal protection under the Copyright Act. That is illustrated by two recent decisions. In *Dun & Bradstreet Software Services Inc. v. Grace Consulting Inc.*, 307 F.3d 197 (3d Cir. 2002), the 3d Circuit

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reversed a jury verdict in favor of the defendant and found copyright infringement as a matter of law. In *Bowers v. Baystate Technologies Inc.*, 302 F.3d 1334 (Fed. Cir. 2002), the

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court rejected the claim that the Copyright Act pre-empted a shrinkwrap license that prohibited reverse engineering.

‘Dun & Bradstreet’ found modifications infringing

Plaintiff Dun & Bradstreet Software Services, now known as Geac Computer Systems Inc., markets a suite of software business applications under the name Millennium. Millennium includes software that prepares W-2 forms and related year-end tax reports required by federal and state governments. The W-2 package was the focus of this litigation.

Defendant Grace Consulting is a software consultant, specializing in maintenance and support for Millennium. Grace customizes Millennium for the specific needs of individual clients, fixes bugs in the software and provides tax and regulatory updates. Of most concern to Geac was Grace's “Remain on Release” product, which functions as Grace's version of Geac's W-2 program and uses “Copy and Call” commands to retrieve data and run code from Millennium. As Grace put it, Remain on Release “allows customers to stay on their present [Millennium] release without having to accept expensive upgrades from [Geac].”

Grace conceded that its employees had made “large scale” modifications in Millennium in the course of fixing bugs and updating and customizing the program and had copied portions of Geac code. It argued, however, that these acts did not constitute actionable infringement, because (among other reasons) the copying was de minimus, was justified by “industry custom and practice” and was necessary to ensure that Grace's program could work with Millennium. The jury returned a defense verdict on the copyright counts. One can infer that the jury sympathized with the view that Geac's customers should be allowed to buy cheaper updates from Grace, rather than pay full freight to Geac.

The 3d Circuit took the opposite view, finding that no reasonable jury could fail to find copyright infringement. It found that the case presented “serious problems of alleged copyright infringement in an evolving and highly competitive world of computer technology that challenges the effectiveness

of our well-established copyright laws.” Writing for the circuit, Judge Max Rosenn rejected each of the arguments Grace made.

First, the court found that Grace could not assert a de minimus defense. Grace argued that the 525,000 lines of code in its program included no more than 27 lines of Geac’s code. The court rejected that analysis because Grace’s copy commands enabled it to “gain access” to 43% of Geac’s code, amounting to 62% of Grace’s program. Geac’s code was improperly used by Grace even though the copy command did not insert text from one program into the other, and the two programs remain separate in memory. More important, the court held, “a de minimus defense does not apply where the qualitative value of the copying is material.” As Grace’s program could not work without using the material taken from Geac’s code, the portion taken was material, and a de minimus defense unavailable.

The court also refused to credit Grace’s argument that infringement was justified by industry custom and practice. The court found that Geac’s license agreement, which prohibited the copying done by Grace, was an unambiguous document that may not be altered by “purported industry custom and usage.” And the court made plain its view that custom and usage could never be used to limit rights granted under the Copyright Act: “A defense of industry custom and practice in the face of the protective provisions of the Copyright Act could undermine the purposes and objectives of the statute and reduce it to rubble.”

The court next considered Grace’s attempt to invoke the doctrine of externalities. As the 2d Circuit recognized in *Altai*, “in many instances it is virtually impossible to write a program to perform particular functions in a specific computing environment without employing standard techniques.” 982 F.2d at 709. Therefore, copyright protection will not extend to elements of a program that “necessarily result from external factors inherent in the subject matter of the work.” *Mitel Inc. v. Iqtel Inc.*, 124 F.3d 1366, 1375 (10th Cir. 1997).

Relying on this doctrine, Grace contended that, in a modern computer environment, programs must be designed to work with licensed copies of other programs. Therefore, it reasoned, elements of a licensed program that must be used to insure intraoperability are

“external factors inherent in the subject matter of the work” and may be copied without violating the Copyright Act. Under this view, a program that is designed to update or modify another program would inevitably be given broad license to copy from that other work.

Given the importance of intraoperability, it is not hard to advance policy arguments in favor of Grace’s position. Yet the 3d Circuit ruled that Grace’s argument turned the doctrine of externalities on its head. Properly understood, the court said, the doctrine must focus on “external factors that influenced the choice of the creator of the infringed product.” Thus, those elements of the infringed work that result from externalities are not protected by copyright. But the doctrine cannot be used by a defendant to argue that his copying from the plaintiff’s program was justified; such an argument improperly looks at “externalities from the eyes of the plagiarist, not the eyes of the program’s creator.”

Finally, the court rejected Grace’s attempt to plead the defense of copyright misuse. While cases such as *Lasercomb America Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1990), have recognized the defense, no 3d Circuit decision has yet done so, and the court reserved the issue for another day. It went on to hold that, even accepting the validity of that defense, Geac’s license agreements could not amount to misuse because they allow its customers to contract with third parties for maintenance work, as long as those parties sign nondisclosure agreements.

The *Dun & Bradstreet* decision is a strong endorsement of vigorous copyright protection for computer programs.

‘Bowers’ found shrinkwrap license was not pre-empted

Copyright proprietors who are unsatisfied with the extent of protection available under the Copyright Act—or who simply want to add another string to their bow—often require licensees to sign license agreements that add to the exclusive rights granted by the act. While the extent to which such agreements should be pre-empted under § 301 of the Copyright Act is a matter of intense academic debate, federal courts have so far been unwilling to use the pre-emption provisions to override private agreements.

The Federal Circuit’s recent decision in *Bowers v. Baystate Technologies Inc.* is further evidence of that trend. In *Bowers*, the author of computer-assisted design software distributed the product subject to a shrinkwrap license that prohibited use of the software for the purpose of reverse engineering.

At trial, the defendant argued that the Copyright Act pre-empted that contract clause. Apparently accepting that position, the district court instructed the jury that “reverse engineering violates the license agreement only if [the defendant’s] product that resulted from reverse engineering infringes [the plaintiff’s] copyright because it copies protectable expression.” That instruction effectively read the reverse-engineering prohibition out of the contract.

Deciding the issue under 1st Circuit law (as the trial was held in Massachusetts), the Federal Circuit rejected the pre-emption defense. Looking to cases such as the 7th Circuit’s decision in *ProCD v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996), and *Wrench LLC v. Taco Bell Corp.*, 256 F.3d 446 (6th Cir. 2001), the court concluded that “most courts to examine this issue have found that the Copyright Act does not preempt contractual restraints on copyrighted material.” It approved of the conclusion of *ProCD*, that “the mutual assent and consideration required by a contract claim render that claim qualitatively different from copyright infringement.” Under that rationale, no restrictions imposed by a valid contract will be pre-empted.

It would not be difficult to imagine a copyright regime in which software is considered more of a business tool than a literary work. In that regime, the doctrine of externalities would be broadly construed, fair use would be expanded to allow copying necessary for programs to work together smoothly and pre-emption and copyright misuse would be applied to bar contractual limits on reverse engineering. As *Dun & Bradstreet* and *Bowers* illustrate, the federal courts are clearly going down a different path.

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