

THE UNCERTAIN FUTURE OF COMPUTER SOFTWARE USERS' RIGHTS IN THE AFTERMATH OF MAI SYSTEMS

MICHAEL E. JOHNSON

INTRODUCTION

Since the dawn of the computer age, Congress and the courts have struggled with the practical and conceptual difficulties of providing intellectual property protection for computer programs. The Computer Software Copyright Act of 1980,¹ enacted in response to these difficulties, took several important steps toward the formulation of a fair and workable form of intellectual property protection for computer programs, while leaving many questions unanswered. Much of the debate over the effect and scope of the protection of computer programs has centered on issues such as which aspects of computer programs are subject to copyright protection² and whether copyright is even the appropriate form of intellectual property protection for computer programs at all.³ Courts have also struggled to determine which uses of copyrighted programs by ordinary consumers should be permitted and which should be proscribed.⁴ One effect of the uncertainty regarding the scope of copyright protection for computer programs has been a "crescendo of litigation" in this field.⁵

1. Act of Dec. 12, 1980, Pub. L. No. 96-517, 94 Stat. 3015, 3028 (codified at 17 U.S.C. § 101, § 117 (1988)).

2. Foremost among the conceptual difficulties underlying the debate over the copyrightability of certain or all aspects of computer programs is how to apply the idea/expression dichotomy to computer programs. See, e.g., RAYMOND T. NIMMER, *THE LAW OF COMPUTER TECHNOLOGY* ¶ 1.02[2] (2d ed. 1992).

3. See, e.g., Pamela Samuelson, *Creating a New Kind of Intellectual Property: Applying the Lessons of the Chip Law to Computer Programs*, 70 MINN. L. REV. 471, 471 (1985).

4. Questions surrounding the scope of protection for copyrighted computer programs generally involve 17 U.S.C. § 117 and the definitions of "copies" and "fixed" under 17 U.S.C. § 101 (1988). See, e.g., *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 518 (9th Cir. 1993), cert. dismissed, 114 S. Ct. 671 (1994); *Apple Computer, Inc. v. Formula Int'l, Inc.*, 594 F. Supp. 617 (C.D. Cal. 1984).

5. David Bender, *Software Protection: The 1985 Perspective*, 7 W. NEW ENG. L.

Some commentators have argued that the current statutory scheme provides adequate guidance for a judicial determination of the scope of copyright protection for computer programs, while others have called for a complete legislative overhaul.⁶ A recent case from the U.S. Court of Appeals for the Ninth Circuit demonstrates how both the interpretive strategies employed by courts and the faulty language of the Copyright Act of 1976⁷ itself have tilted the balance, in certain respects, too far away from the rights of program users. In *MAI Systems Corp. v. Peak Computer, Inc.*,⁸ the Ninth Circuit held that a third party who was neither an owner of the copyrighted program nor a licensed user violated the Copyright Act by loading the program onto random-access memory (RAM) for the purpose of making repairs to the program as a service to a licensed user.

The *MAI Systems* case demonstrates how a series of legal determinations, each somewhat defensible as a mechanical application of statutory language and caselaw precedent, can yield a result that is plainly at odds with the policies behind the statutes it seeks to apply. The *MAI Systems* court erred both in holding that loading a program onto RAM constitutes a "copy"⁹ and in excluding Peak Computer's customers from the scope of 17 U.S.C. § 117,¹⁰ which stipulates that certain uses of copyrighted computer programs by the owners of copies of those programs or those authorized by such owners are deemed not to be copyright infringements.¹¹ It is the combination of these two determinations, however, that so distorts the vision not only of the Computer Software Act of 1980, but of the Copyright Act as a whole. Despite certain flaws in the drafting of section 117, the result reached in *MAI Systems* was far from inevitable. This Note considers *MAI Systems* in light of previous efforts to define the effect of copyright protection for computer programs and suggests some of the judicial initiatives needed to clarify the muddy waters of such protection.¹²

REV. 405, 407 (1985).

6. See *infra* text accompanying notes 11-20.

7. Pub. L. No. 94-553, 90 Stat. 2541 (1976) (codified as amended at 17 U.S.C. §§ 101-1010 (1988 & Supp. IV 1992)).

8. 991 F.2d at 518.

9. *Id.*

10. *Id.* at 518-19.

11. 17 U.S.C. § 117 (1988).

12. Throughout this Note the phrases "scope of copyright protection" and "effect of copyright protection" denote two distinct concepts. The "scope of copyright protection"

Part I first examines the history and purposes of the Computer Software Act of 1980, focusing on the final report of the National Commission on New Technological Uses of Copyrighted Works (CONTU).¹³ This Part then introduces the *MAI Systems* case, criticizing the holding that the act of loading a program onto RAM creates a "copy" within the meaning of 17 U.S.C. § 101. Part II examines the holding in *MAI Systems* that the plaintiff Peak Computer could not avail itself of section 117 protection, since Peak's customers are not owners but merely licensed users of MAI's software. This Part argues that this conclusion is the result of a test for copyright infringement that is inappropriate for software infringement cases and is at odds with the policies of section 117. Finally, Part III considers the result reached in *MAI Systems* in light of both federal preemption by the Copyright Act and the copyright misuse doctrine, concluding that software licensors such as MAI should not be permitted to broaden the scope of the limited monopoly granted to them under the copyright laws through the use of restrictive software licenses.

I. CONTU, 17 U.S.C. § 117, AND THE *MAI SYSTEMS* CASE

A. *The CONTU Report and Section 117*

Underscoring virtually all of the conceptual difficulties of copyright protection for computer software is an uneasy match between a legal mechanism aimed at protecting the fruits of creative labor, which has evolved for centuries around artistic and literary concepts, and devices that control a machine.¹⁴ It is not surprising, therefore, that prior to the enactment of the Copyright Act of 1976 and the advent of mass-marketed computers for use in homes and small businesses, the interests of program developers were protected largely by trade secrecy and by contract.¹⁵ Never-

refers to the question of which aspects of a program may receive copyright protection. Thus, the question of whether both the source codes and the object codes of a program may receive copyright protection is a question of scope. The "effect of copyright protection" refers to the question of what activities are permitted or proscribed as a result of copyright protection.

13. NATIONAL COMM'N ON NEW TECHNOLOGICAL USES OF COPYRIGHTED WORKS, CONTU'S FINAL REPORT AND RECOMMENDATIONS, *reprinted in* 5 COPYRIGHT, CONGRESS AND TECHNOLOGY: THE PUBLIC RECORD (Nicholas Henry ed., 1980) [hereinafter CONTU REPORT].

14. See NIMMER, *supra* note 2, ¶ 1.02.

15. MARC BRESLOW ET AL., AN ANALYSIS OF COMPUTER AND PHOTOCOPYING

theless, when Congress enacted the 1976 Act it appointed CONTU¹⁶ to study, *inter alia*, the possibility of extending copyright protection to computer programs,¹⁷ while provisionally stipulating that the Copyright Act would not alter the status of computer programs until Congress made a final determination on the matter. The recommendations of the CONTU report, which was submitted in 1978, were adopted almost in their entirety in the Computer Software Copyright Act of 1980.¹⁸

While the majority of the members of CONTU favored copyright protection for computer programs, characterizing them as "a form of writing,"¹⁹ the Commission considered only existing forms of intellectual property protection.²⁰ The primary rationale for extending copyright protection to computer programs was the need for an economic incentive to create programs, which can be copied

COPYRIGHT ISSUES FROM THE POINT OF VIEW OF THE GENERAL PUBLIC AND THE ULTIMATE CONSUMER, reprinted in 4 COPYRIGHT, CONGRESS AND TECHNOLOGY: THE PUBLIC RECORD, *supra* note 13, at 111, 119; NIMMER, *supra* note 2, ¶ 1.03[2].

16. Although courts generally treat the CONTU report as legislative history (indeed, the sole source of legislative history) with respect to the later Computer Software Protection Act of 1980, 17 U.S.C. § 117 (1988), CONTU was not a congressional committee, but rather a blue-ribbon commission created as part of the Library of Congress. Nicholas Henry, *Introduction to 4 COPYRIGHT, CONGRESS AND TECHNOLOGY: THE PUBLIC RECORD*, *supra* note 13, at xiii.

17. Only a fraction of the CONTU report dealt with the problem of computer programs and copying. Other areas covered in the report include photocopying, CONTU REPORT, *supra* note 13, at 94-160, and computer databases, *id.* at 76-94.

18. Act of Dec. 12, 1980, Pub. L. No. 96-517, 94 Stat. 3015, 3028 (1980) (codified at 17 U.S.C. §§ 101, 117 (1988)). This Act amended the 1976 Copyright Act by adding, in § 101, a definition of "computer program" stating that "a 'computer program' is a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result." 17 U.S.C. § 101. The Act further replaced the provisional § 117 with a section qualifying the exclusive rights of the owners of copyrights in computer programs. The current § 117 provides:

Notwithstanding the provisions of section 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided: (1) that such new a [sic] copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner, or (2) that such new copy or adaptation is for archival purposes only. . . . Any exact copies prepared in accordance with the provisions of this section may be leased, sold, or otherwise transferred, along with the copy from which such copies were prepared, only as part of the lease, sale, or other transfer of all rights in the program. Adaptations so prepared may be transferred only with the authorization of the copyright owner.

Id. § 117. The inclusion of the word "owner" instead of "rightful possessor" represents the Act's sole divergence from CONTU's recommendations and is discussed *infra* Part II.

19. CONTU REPORT, *supra* note 13, at 17.

20. NIMMER, *supra* note 2, ¶ 1.03[1].

far less expensively than they can be produced.²¹ Recognizing that such an incentive should not be achieved by "unduly burdening users of programs and the general public,"²² CONTU sought to strike a careful balance between the rights of copyright owners on the one hand and program users on the other, a balance reflected in the composition of the Commission itself.²³ This balance, as embodied in the adaptation right and the right to make archival copies,²⁴ sought to ensure that copyright owners, acting in the capacity of creators, lessors, licensors, or vendors of copies of programs, could not deny to rightful users of programs the legal right to copy the programs to the extent that will permit their use.²⁵

Although CONTU inevitably failed to anticipate many of the important consequences of providing copyright protection for computer programs, the overarching vision of the CONTU report was to carefully circumscribe such protection. Specifically, CONTU believed that "the refusal to allow the extension of patents or copyrights beyond their limited scopes . . . [is] the heart of the concern about the economic effects of program copyright."²⁶ There is no suggestion anywhere in the CONTU report that the exclusive right of copyright owners to make or license others to make necessary repairs or adaptations of computer programs is part of the desirable production incentive intended by copyright protection. Indeed, such a suggestion flatly contradicts CONTU's analogy of computer programs to piano rolls, vinyl records, and audiotape recordings,²⁷ which underscores the entire policy of providing copyright protection for computer programs.

21. CONTU REPORT, *supra* note 13, at 20 ("The cost of developing computer programs is far greater than the cost of their duplication.").

22. *Id.* at 22.

23. Of the thirteen members comprising CONTU, four represented copyright owners, four represented the users of copyrighted material, four represented the general public, and the thirteenth was the Librarian of Congress. *Id.* at xiii.

24. 17 U.S.C. § 117(1), (2) (1988).

25. CONTU REPORT, *supra* note 13, at 24.

26. *Id.* at 46.

27. *Id.* at 19. Obviously, the owner of the copyright to a song recorded on audiotape could not claim that the owner of a copy of the tape infringed the copyright by allowing someone else to play the tape. See *infra* Section II(A).

B. MAI Systems Corp. v. Peak Computer, Inc.

The *MAI Systems* case involved an appeal from an injunction granted against a computer servicing company's alleged acts of copyright infringement and unfair competition with a computer systems manufacturer.²⁸ MAI Systems Corporation is a vendor, and was until recently a manufacturer, of business computer systems, including both computers and software, which is sold with a carefully worded license agreement. Among the software provided by MAI is the operating system software necessary for the computers' operation.²⁹ Peak Computer, Inc. provides routine maintenance and ordinary repairs for computer systems. Prior to the dispute, a majority of Peak's business came from the repair of MAI computers.³⁰

On March 17, 1992, MAI filed suit in district court against Peak, alleging in part that Peak's use of MAI software constituted copyright infringement and seeking a temporary restraining order and a preliminary injunction.³¹ MAI received a preliminary injunction that barred Peak from "infringing MAI's copyrights in any manner and from using . . . or otherwise disposing of any copies or portions of copies of [certain] MAI copyrighted [programs]."³² The order also barred Peak from "maintaining any MAI computer system."³³ The court subsequently granted partial summary judgment for MAI and entered a permanent injunction enjoining Peak from "copying, disseminating, selling, purchasing, distributing, loaning, or otherwise infringing MAI's copyrighted works, or any derivatives thereof."³⁴ The "copying" enjoined specifically included the loading of any MAI software onto the RAM of the central processing unit of a computer system.³⁵

28. *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 513-16 (9th Cir. 1993), cert. dismissed, 114 S. Ct. 671 (1994).

29. *Id.* at 513.

30. *Id.*

31. *Id.* Other counts of MAI's complaint not discussed in this Note included misappropriation of trade secrets, trademark infringement, false advertising, and unfair competition. *Id.*

32. *Id.* at 513-14.

33. *Id.* at 514.

34. *Id.* at 515.

35. *Id.*

On appeal, the Ninth Circuit affirmed the district court's grant of partial summary judgment as well as the permanent injunction as it related to the issue of the alleged copyright violation based on Peak's conduct in running MAI software licensed to Peak customers.³⁶ Since a claim of copyright infringement must establish "a 'copying' of protectable expression' beyond the scope of a license,"³⁷ and since MAI software licenses do not provide for any third-party use, the court asserted that any copying undertaken by Peak was beyond the scope of the license.³⁸ Moving to the question of whether a "copying" took place within the meaning of the Copyright Act, the court found, as a matter of first impression, that the representation created in RAM was sufficiently "fixed" to constitute a copy.³⁹ In so finding, the court relied largely on the fact that the representation created in RAM was sufficiently permanent for Peak operators to view the system error log and diagnose the problem. Finally, the court dismissed the possibility that Peak's use might be protected by section 117, asserting that the Peak customers did not qualify as "owners" under section 117.⁴⁰

C. *Random-Access Memory and the Meaning of "Copy"*

In reaching the conclusion that the transfer of a computer program from a permanent storage device to a computer's RAM⁴¹ constitutes a copy under copyright law, the court in *MAI Systems* relied primarily on the traditional indicia of a "copy" under 17 U.S.C. § 101. The court used a straightforward section 101 analysis to determine that copying did indeed take place and then to dismiss summarily the possibility of recourse to section 117 as a defense to copyright infringement.

The legislative history of section 117 indeed implies that CONTU's drafters believed that loading a computer program onto

36. *Id.* at 519.

37. *Id.* at 517 (citing *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1085 (9th Cir. 1989)).

38. *Id.*

39. *Id.* at 518.

40. *Id.* at 518 n.5.

41. RAM is "a computer component in which data and computer programs can be temporarily recorded." *Apple Computer, Inc. v. Formula Int'l, Inc.*, 594 F. Supp 617, 622 (C.D. Cal. 1984). When a computer is turned off, the program that is stored in RAM is not saved. *Id.*

RAM might result in the creation of a potentially infringing copy, but this fact is of uncertain value. The CONTU report explains the need for a compromise between the rights of copyright owners and the legitimate interests of users by suggesting that "the placement of any copyrighted work into a computer is the preparation of a [potentially infringing] copy."⁴² While this suggestion creates a powerful example of the need for a fair use provision for program copy owners, there was little reason at the time the CONTU report was drafted, nor is there now, to believe that all program use involves potentially infringing copying, since a computer program in RAM is not "fixed" in the same way a program copied onto permanent, or "read-only" memory (ROM) is. Rather, it is "a transitory and ephemeral writing, like a message written in sand."⁴³ Even a blink in the power source causes a work to vanish from RAM.

The best explanation for CONTU's suggestion that the mere act of running a program might involve a potentially infringing act of copying is that CONTU set up the nonexistent problem of all users being infringers as a "straw man" to better justify the need to protect program owners' rights. The CONTU drafters could state that the mere act of loading a program constitutes an act of copying without any practical consequence if they intended section 117 to preclude any court from ever actually finding infringement in such a case. Even the cases giving credence to the notion that all acts of loading create potentially infringing copies did not actually find infringement on those grounds.⁴⁴ There is thus little support for the proposition that CONTU intended to create liability under the Copyright Act for the mere act of loading a program onto RAM.

In *Apple Computer, Inc. v. Formula International, Inc.*, the district court for the central district of California stated that loading a program onto RAM is "only a temporary fixation."⁴⁵ Although the *MAI Systems* court considered the use of the word "fixation" in the *Apple Computer* decision to be support for the

42. CONTU REPORT, *supra* note 13, at 23.

43. Richard H. Stern, *Section 117 of the Copyright Act: Charter of the Software Users' Rights or an Illusory Promise?*, 7 W. NEW ENG. L. REV. 459, 463 (1985).

44. See, e.g., *Micro-Sparc, Inc. v. Amtype Corp.*, 592 F. Supp. 33, 35 (D. Mass. 1984) (stating that "[i]nputting a computer program entails the preparation of a copy," but finding infringement on the grounds that defendant copied the program onto a diskette).

45. 594 F. Supp. at 622.

argument that a program is sufficiently fixed to pass the section 101 requirements,⁴⁶ the *Apple Computer* court was not referring to a fixation within the meaning of section 101 or any other part of the Copyright Act. On the contrary, the notion of a temporary fixation seems contrary to the section 101 explanation of the phrase " 'fixed' in a tangible medium of expression,"⁴⁷ which requires embodiment "for a period of more than transitory duration."⁴⁸ By reasoning that a work is "fixed" when it can be "perceived, reproduced, or otherwise communicated,"⁴⁹ the *MAI Systems* court rendered the expression "for a period of more than transitory duration" moot.

The *MAI Systems* court's interpretation of section 101 neither employed nor established any workable guidelines for ascertaining how permanent a copy must be to meet the fixation requirement of the section. Because the program remained in RAM long enough for Peak operators to diagnose the problem with the software, the court concluded that something more than a transitory fixation occurred. This approach is blind to the Copyright Act's overarching purpose of assuring that creators are not denied the fruits of their creative labor.⁵⁰ If copies could be made and sold or otherwise distributed with impunity, then the cost to consumers of a copyrighted work would reflect merely the cost of copying, and creators would be denied a crucial incentive. Applying the broad logic of section 101 to the question of RAM, it is difficult to see how loading a program onto RAM denies the copyright owner an economic benefit that the law should or intends to provide. Unlike the example of a compact disc being recorded onto an audiocassette or of a computer program being recorded onto a non-owner's hard drive, so that the user can receive the full benefit of the copyrighted work without purchasing an authorized copy, it is implausible to argue that loading a program onto RAM cre-

46. *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 519 (9th Cir. 1993), *cert. dismissed*, 114 S. Ct. 671 (1994).

47. 17 U.S.C. § 101 (1988).

48. *Id.*

49. *MAI Sys.*, 991 F.2d at 518.

50. See *Diamond v. Am-Law Publishing Corp.*, 745 F.2d 142, 147 (2d Cir. 1984). The requirement of fixation in a tangible form also has a constitutional dimension, since the constitutional reference to "Writings," U.S. CONST. art. I, § 8, has been interpreted by the Supreme Court "to include any physical rendering of the fruits of creative intellectual or aesthetic labor." *Goldstein v. California*, 412 U.S. 546, 561 (1973).

ates a substitute for the program's purchase.⁵¹ Indeed, the only way to conclude that loading a program onto RAM denies copyright owners economic benefits the law intends for them would be to begin with the assumption that only purchasers should be able to use the software they buy, or that copyright owners should have the exclusive right to perform maintenance on the programs they sell. Neither assumption finds support in copyright law,⁵² and the latter may even offend antitrust laws.⁵³

II. THE EFFECT OF LICENSE AGREEMENTS ON THE SCOPE OF COPYRIGHT PROTECTION

The possibility of a section 117 defense to Peak's alleged copyright infringement was dismissed by the *MAI Systems* court in a one-sentence footnote.⁵⁴ Since a plaintiff's burden in a copyright infringement case is merely to "prove ownership of a copyright and a 'copying of protectable expression' beyond the scope of a license,"⁵⁵ and since MAI's software licenses do not provide for the copying or use of MAI software by third parties such as Peak, the court concluded that any copying done by Peak was "beyond the scope" of the license agreement and therefore a copyright infringement.⁵⁶ An examination of the cases dealing

51. A narrow exception may arise in situations in which a single copy of a program can be loaded into several computers whose power source is uninterrupted, if no other programs need be run and no information need be stored into memory during the program's use.

52. For example, the act of a rightful owner in lending or even reselling a cassette tape would not violate the copyright; selling or giving out illicit copies of the tape would. See 17 U.S.C. § 109 (1988 & Supp. IV 1992) (granting right of first sale).

53. See *infra* Section III(B).

54. *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 518 n.5 (9th Cir. 1993), *cert. dismissed*, 114 S. Ct. 671 (1994) ("Since MAI licensed its software, the Peak customers do not qualify as 'owners' of [a copy of] the software and are not eligible for protection under § 117.").

55. *Id.* at 517 (quoting *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1085 (9th Cir. 1989)).

56. *Id.* One of the most puzzling inconsistencies in the court's reasoning in *MAI Systems* is the unquestioning reliance on the license agreement to determine which uses of MAI's software were permitted and the contrasting reliance on the Copyright Act for the definition of "copy." *Id.* at 517-18. Specifically, the court might have inquired whether loading the program onto RAM was "copying" not within the meaning of the Copyright Act, but rather within the meaning of the license agreement. In the latter context, the court's broad definition of "copying" as including all acts of loading seems far less plausible. See *id.* at 517 n.3. In the alternative, the court might have focused on any of the more specific "[c]ustomer [p]rohibited [a]cts" found in the license agreement,

with the meaning of "owner of a copy" in section 117 reveals that *MAI Systems* glossed over an important question of first impression. Specifically, no court had passed directly upon the question of whether a user licensed directly by the copyright owner is considered an "owner of a copy" within the meaning of section 117,⁵⁷ although the distinction between owners and licensees had been collapsed in at least one case.⁵⁸

It is unclear why Peak did not advance a section 117 argument as an alternative to its primary argument that no "copying" occurred, but at least four such arguments are available in support of the proposition that section 117 protection should be available to parties such as Peak despite the existence of a license agreement. First, the *MAI Systems* court enunciated the wrong test for infringement when it stated that any copying of MAI's software beyond the scope of the license constituted an act of infringement.⁵⁹ Second, the word "owner" in section 117 is broad enough to encompass licensees such as Peak's customers. Third, even courts that maintain a strict, technical distinction between owners and licensees should hold license agreements such as MAI's void as against the policy of section 117. Finally, courts should decline to enforce such restrictive license agreements on preemption or misuse grounds. The first three possibilities are examined in this Section and the fourth in Part III.

such as "examination," "modification," or "adaptation." *Id.* The court's reluctance to rely on the language of the license agreement may reflect discomfort with the implications of the license agreement for the misuse doctrine. *See infra* Section III(B).

57. The only conceptual limit courts have placed on the notion of "owner of a copy" in § 117 is that a rightful possessor of a program copy who copies the program for purposes not related to that individual's internal use is not an "owner of a copy" within the meaning of § 117. The word "owner," then, is commonly understood to mean "owner-user." *See, e.g.,* *Apple Computer, Inc. v. Formula Int'l, Inc.*, 594 F. Supp. 617, 621-22 (1984) (holding that only an owner-user may avail himself of § 117 and that the copying must be necessary for the owner-user to use the copyrighted program on his own computer). Raymond Nimmer cites *Hubco Data Products Corp. v. Management Assistance Inc.*, 219 U.S.P.Q. (BNA) 450 (D. Idaho, Feb. 3, 1983), in support of the proposition that § 117 is inapplicable when another person retains title to the copy. NIMMER, *supra* note 2, ¶ 1.18[1]. The *Hubco* case, however, does not discuss or even mention license agreements, and seems to confuse the distinct concepts of copyright owner and owner of a program copy in its discussion of § 117. *Hubco*, 219 U.S.P.Q. (BNA) at 456.

58. *See Foresight Resources Corp. v. Pfortmiller*, 719 F. Supp. 1006, 1009-10 (D. Kan. 1989) (stating that "[t]here is no question that [defendant] Hall-Kimbrell is the lawful owner of a copy of the *Drafix 1* program" and applying the adaptation right under § 117 where the alleged infringer was a licensed user).

59. *MAI Sys.*, 991 F.2d at 517.

A. *The Test for Infringement of Licensed Software*

The first major flaw in the logic of *MAI Systems* is found in an apparently innocuous statement of the elements of copyright infringement. Citing *S.O.S., Inc. v. Payday, Inc.*,⁶⁰ the court asserted that MAI's burden in the case was to prove a copying of protectable expression beyond the scope of the license.⁶¹ Without further elaboration, the court proceeded to apply the *S.O.S.* standard mechanically, moving first to the question of whether a "copying" took place.⁶² A careful analysis of *S.O.S.* and its precedents, however, reveals that this standard was misapplied in *MAI Systems* and that its literal application is inappropriate in the context of section 117.

S.O.S. involved a copyright infringement suit in which the defendant, Payday, allegedly made several illicit copies of the plaintiff's copyrighted computer program and subsequently altered parts of the program in order to avoid the expense of purchasing separate copies of the program.⁶³ Payday defended its actions, claiming that the copying was permissible, since Payday had a license to use *S.O.S.*'s software. The court properly rejected this argument, ruling that the existence of a license to use a copyrighted work does not necessarily preclude infringement.⁶⁴ Rather, the question was whether the copying was within the scope of the license. *S.O.S.*'s burden in its copyright infringement action, therefore, was to establish both ownership of the copyright and a copying of protectable expression "beyond the scope of Payday's license."⁶⁵ Since the acts alleged were clearly per se violations of *S.O.S.*'s exclusive reproduction right,⁶⁶ *S.O.S.* needed to prove merely that such acts were not permitted by the license.⁶⁷

Neither *S.O.S.* nor any of the cases it cites involved a licensing agreement purporting to restrict the rights of the licensee such that the licensee's rights under the license were less than they would have been had the copy been sold rather than licensed. The

60. 886 F.2d 1081 (9th Cir. 1989).

61. *MAI Sys.*, 991 F.2d at 517.

62. *Id.* at 517-18.

63. *S.O.S.*, 886 F.2d at 1083-84.

64. *Id.* at 1087-88.

65. *Id.* at 1085.

66. 17 U.S.C. § 106(1) (1988 & Supp. IV 1992).

67. *S.O.S.*, 886 F.2d at 1087-90.

acts of copying allegedly undertaken by Payday, which included illegal entry into S.O.S.'s system and copying S.O.S.'s program for the purpose of avoiding the expense of purchasing new copies, would clearly have been a violation of S.O.S.'s copyright in the absence of the contractual limitations of the license agreement. *Gilliam v. American Broadcasting Companies, Inc.*,⁶⁸ cited in *S.O.S.*, also did not involve acts that would have been permissible had the copyrighted material been sold rather than licensed.⁶⁹ Rather, the license granted in *Gilliam*, like the typical software license,⁷⁰ gave the licensee rights far in excess of the rights of a mere owner of a copy.⁷¹ Likewise, the acts of infringement alleged in *Sid & Marty Kroft Television v. McDonald's Corp.*⁷² were not within any rights granted explicitly or implicitly to owners of copies of copyrighted works.

The literal application of the *S.O.S.* test in a case such as *MAI Systems*, in which the license forbids the licensee from exercising rights that the licensee would have had as the owner of a copy of the copyrighted work, reveals the need for a rethinking of the original rule. Suppose, for example, that the author and owner of a copyright to a book licenses the book to various readers, stipulating in the license that the licensee may not create a parody of the work. Suppose further that one of the licensees does, in fact, create a parody of the work in violation of the license but within the scope of the familiar "parody exception" to copyright

68. 538 F.2d 14 (2d Cir. 1976).

69. The *Gilliam* case can be distinguished from both *S.O.S.* and *MAI Systems* on a number of grounds. Notably, *Gilliam* involved the infringement of the copyright of an underlying work, when only the derivative work was licensed. *Id.* at 18-23.

70. As with other copyright license agreements, computer software license agreements typically give to the licensee not only the rights of the owner of a copy, but also additional rights that but for the license would be retained by the copyright owner. See NIMMER, *supra* note 2, ¶ 6.17[2] ("Despite the sale of a copy of a program, the proprietor of intellectual property rights retains substantial rights in certain uses of the program. These rights are the appropriate subject matter of a mass-market software license.").

71. The right to rebroadcast copyrighted material on network television that was granted by the license in *Gilliam* is an example of the right of reproduction, one of the rights expressly reserved for the copyright owner under 17 U.S.C. § 106(1) (1988). These exclusive rights do not pass to the mere owner of a copy of such copyrighted material.

72. 562 F.2d 1157 (1977) (involving alleged wrongful appropriation of plaintiff's copyrighted television show for use in television commercials), cited in *S.O.S.*, 886 F.2d at 1085.

infringement.⁷³ The copyright owner may or may not prevail on a claim for breach of contract by proving that the licensee created a parody,⁷⁴ but it seems clear that the copyright owner would not prevail on a claim of copyright infringement. A license can create new contractual remedies for the licensor, but the rights of a copyright owner *as a copyright owner* are fixed under the Copyright Act.⁷⁵

In another case involving a software license agreement that purported to restrict the user's adaptation right more narrowly than would section 117, *Foresight Resources Corp. v. Pfortmiller*,⁷⁶ the court declined to enforce the restrictive language of the license agreement. After questioning the validity of the restrictive license terms in light of the preemption doctrine, the court held that even if the agreement had been enforceable, the restrictions were not within the scope of the copyright owner's exclusive rights in the first place.⁷⁷ While the *Foresight Resources* court did not expressly consider the possibility of an owner/licensee distinction, it treated section 117 as qualifying the exclusive rights of the owners of copyrights in computer programs,⁷⁸ thus eliminating the possibility that activity of a program user permitted by section 117, such as making modifications for personal use, could nevertheless constitute infringement.

73. See, e.g., *Fisher v. Dees*, 794 F.2d 432, 435 (9th Cir. 1986).

74. The possibility that the preemption doctrine may preclude enforcement of contractual provisions such as the no-parody clause in this hypothetical example is discussed *supra* Section III(A).

75. See 17 U.S.C. § 106 (1988). This does not, of course, mean that a copyright owner cannot, through use of a contract, waive certain rights that he may have under the Copyright Act as a copyright owner. A copyright owner who licenses someone to prepare derivative works based on the original copyrighted work, for example, cannot successfully invoke his exclusive right to prepare derivative works under § 106(2) against that licensee in a copyright infringement action, since the licensee's use is permissible. It is an entirely different matter to claim that the exclusive rights conferred to copyright owners under the Copyright Act can somehow be expanded by private contractual rights, creating new or expanded exclusive rights of the copyright owner.

76. 719 F. Supp. 1006 (D. Kan. 1989).

77. *Id.* at 1010.

78. *Id.* at 1009-10. Whether the fair use exceptions contained in the Copyright Act, 17 U.S.C. §§ 107-120 (1988 & Supp. IV 1992), are understood as diminishing the exclusive rights of the copyright owner or as setting out zones of protected activity notwithstanding these exclusive rights is of little consequence. Under either conception, the fair use exceptions limit or constrain the limited monopoly granted to copyright owners in 17 U.S.C. § 106 (1988 & Supp. IV 1992).

Like the license in the *Foresight Resources* case, the license at issue in *MAI Systems* precluded certain activities of the licensee that would have been permitted under the Copyright Act had a copy of the program been sold rather than licensed.⁷⁹ The proper analysis in cases like *MAI Systems* should be to consider the license restrictions placed on the user with regard to the issue of breach of contract and to disregard the license restrictions with regard to the issue of copyright infringement. Of course, if a court were to find that the alleged acts of infringement were expressly or implicitly permitted by the license agreement, then the defendant's use would be permissive, and thus both the copyright infringement claim and the breach of contract claim would fail. Recourse to such an approach would not, by itself, prevent parties from using contracts to allocate their respective rights in a protected work as they wish. It would merely prevent copyright owners from using copyright law to do the work of contract law.⁸⁰

A similar argument in the context of phonorecords is suggested in the Committee Report accompanying § 109 of the Copyright Act of 1976. The Report states that "conditions on future disposition of copies or phonorecords, imposed by a contract between their buyer and seller, would [not necessarily] be unenforceable between the parties as a breach of contract, but . . . they could not be enforced by an action for infringement of copyright." While this Note further argues that plaintiffs such as *MAI Systems* should not prevail on a contract theory either, elimination of the copyright remedy would, at the very least, destroy federal jurisdiction in a number of cases and preclude the recovery of statutory damages under the Copyright Act.

B. Licensees as Owners Within the Meaning of Section 117

The court's summary dismissal of a section 117 defense in *MAI Systems*⁸¹ reflects an interpretation of the word "owner" that, while consistent with the common law understanding of this term⁸² and with other parts of the Copyright Act,⁸³ nevertheless

79. *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 518 (9th Cir. 1993), cert. dismissed, 114 S. Ct. 671 (1994).

80. H.R. REP. NO. 1476, 94th Cong., 2d Sess. 79 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5693.

81. *MAI Sys.*, 991 F.2d at 518 n.5.

82. *Black's Law Dictionary* defines "owner" as "a person in whom one or more in-

fails to comport with the purposes of section 117 and the practical realities of computer operation. Indeed, there is little doubt that parties to software licenses, along with independent service companies such as Peak, "take for granted the assumption that licensees are owners of a copy under copyright law—and thus may make backup copies and do other things they deem essential."⁸⁴

The main objection of most commentators to a construction of the word "owner" broad enough to include licensed users is that there is some evidence in the legislative history of section 117 that Congress may have chosen this word for the express purpose of excluding mere licensees from the section 117 exemption from copyright infringement.⁸⁵ Specifically, the sole deviation between the version of section 117 recommended by CONTU and the final version of section 117 is the use of the word "owner" instead of "rightful possessor."⁸⁶ Many commentators have insisted that despite the lack of any indication in the legislative history of section 117 of why Congress made this change, the fact that the change was made establishes, as a matter of common sense, that Congress intended to substantively alter CONTU's suggestion.⁸⁷

Although the use of the word "owner" in the final version of section 117 is puzzling, the disparity in wording between the CONTU recommendation and the current section 117 is only one factor among several that courts should consider in ascertaining the meaning of the word. It is quite possible that Congress did not notice the change between the proposed and final versions of section 117, especially in light of the statement in the House Report that section 117 "embodies the recommendation of [CONTU]

terests are vested for his own benefit." BLACK'S LAW DICTIONARY 1105 (6th ed. 1990).

83. Section 109(b)(1)(A) of the Copyright Act, as amended by the Computer Software Rental Amendments Act of 1990, Pub. L. No. 101-650, § 802, 104 Stat. 5134, 5134-35, refers separately to "owners" and "possessors" of copies of copyrighted works. 17 U.S.C. § 109(b)(1)(A) (Supp. IV 1992); see Robert A. Kreiss, *Section 117 of the Copyright Act*, 1991 B.Y.U. L. REV. 1497, 1536.

84. Joseph E. Hustein, *Ruling Affects Rights of Support Contractors*, NAT'L L.J., June 21, 1993, at 34, 38.

85. See, e.g., Kreiss, *supra* note 83, at 1536-38.

86. The CONTU report states,

[T]he law should provide that persons in rightful possession of copies of programs [should] be able to use them freely without fear of exposure to copyright liability. . . . One who rightfully possesses a copy of a program, therefore, should be provided with a legal right to copy it to that extent which will permit its use by that possessor.

CONTU REPORT, *supra* note 13, at 24; see *supra* note 18.

87. See, e.g., Kreiss, *supra* note 83, at 1538.

with respect to clarifying the law of copyright of computer software."⁸⁸

The conclusion that whoever made the change might have thought that "owner" was a simpler or less vague way to say "rightful possessor" is also supported by the history and language of section 117.⁸⁹ Specifically, if Congress had intended to exclude all licensees from the scope of section 117, then it must have understood the section as a mere gap-filler provision, allowing computer program users to use, adapt, and make backup copies of their software only in the rare instance when there is no license, or when the license is silent or unclear. This suggestion cannot be reconciled with CONTU's assertion that "the law should provide that persons in rightful possession of computer programs be able to use them freely without fear of exposure to copyright liability."⁹⁰

One response to this argument is that the right to use computer programs is implied in a license, even if not explicitly stated, so that licensees need not fear copyright infringement each time they run their programs.⁹¹ While it is true that most courts would probably infer a term in the license giving the licensee the right to run the software, it is less clear why the rest of the minimal protection afforded by section 117 should not be similarly inferred. A software purchaser naturally expects to be allowed not only to run his software, but also to make backup copies and repairs, if necessary.⁹² Indeed, it is difficult to reconcile the view that CONTU wished to accommodate the "practical realities"⁹³ of program operation with an interpretation of "owner" that excludes all licensees.⁹⁴

88. H.R. REP. No. 1307, 96th Cong., 2d Sess., pt. 1, at 23 (1980), *reprinted in* 1980 U.S.C.C.A.N. 6460, 6482, *cited in* Kreiss, *supra* note 83, at 1509 n.53.

89. This interpretation is also supported by the common understanding of program users. *See* Hustein, *supra* note 84, at 38.

90. CONTU REPORT, *supra* note 13, at 24.

91. *See* Kreiss, *supra* note 83, at 1539.

92. *See* CONTU REPORT, *supra* note 13, at 24. The court in *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255 (5th Cir. 1988), did consider the example of a copyright licensor who wished, for whatever reason, to force a lawful owner or possessor to stop using the program. The court concluded that the user in such a case should be provided with not only a legal right to use the program, but also "the right to load it into a computer and to prepare archival copies of it to guard against destruction or damage by mechanical or electrical failure." *Id.* at 266 n.24.

93. *See* Kreiss, *supra* note 83, at 1515-20.

94. The possibility that Congress wished to bring certain licensees within the scope of

The view that a computer software licensee may be treated as an owner for purposes of section 117 was adopted by the Fifth Circuit in *Vault Corp. v. Quaid Software Ltd.*⁹⁵ *Vault* involved the defendant's use of a program designed to defeat the protective, anticopying features of the plaintiff's program, which functioned, in part, by copying the plaintiff's program.⁹⁶ The court held that the defendant's use of the program was protected by the "essential step" clause of section 117, even though the defendant was licensed merely to use the plaintiff's program.⁹⁷ In holding that the defendant's use of the program was within the scope of section 117, the court emphasized that nothing in the language or history of subsection 117(1) suggests that the copies permitted by that section must be employed for a use intended by the copyright owner.⁹⁸ The *Vault* court went on to hold that a Louisiana law purporting to enforce license agreements in which software producers prohibit the adaptation of their licensed programs by decompilation or disassembly was an invalid intrusion into the area of federal copyright law.⁹⁹

Vault demonstrates the possibility of a judicial response to the ambiguous language of section 117,¹⁰⁰ even though a legislative correction would provide a clearer and more decisive solution.¹⁰¹ Conversely, the *MAI Systems* case demonstrates how a narrow, mechanical application of statutory language can produce results that would almost certainly have been reprehensible to the statute's drafters. While courts applying misdrafted statutes must occasionally reach results that would not have been anticipated by a statute's drafters, courts should avoid such results when the statutory language is broad or vague enough to allow an interpre-

§ 117 and to exclude others is discussed *infra* Section II(C).

95. 847 F.2d 255, 270 (5th Cir. 1988).

96. *Id.* at 256-58.

97. *Id.* at 261 (interpreting 17 U.S.C. § 117(1) (1988)).

98. *Id.*

99. *Id.* at 268-70. Although the *Vault* court did not need to allege an actual conflict between the Louisiana law and § 117 to sustain its preemption argument, the court went so far as to state that "[t]he 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 § 117" *Id.* at 270.

100. See Stern, *supra* note 43, at 461 ("The language of section 117 is ambiguous. It uses terms that the act does not define and that are not explained in a legislative history.").

101. See Kreiss, *supra* note 83, at 1538.

tation consistent with the overarching purpose of the legislation. This judicial flexibility, which has been instrumental in the development of United States intellectual property law, is especially crucial in an area as fraught with conceptual and technical difficulties as computer law.¹⁰²

C. *Invalidating License Agreements That Circumvent Section 117*

A somewhat bolder approach courts might take in future cases like *MAI Systems* would be to maintain the distinction in section 117 between owners and licensees, but to nevertheless refuse enforcement of the license agreement on the grounds that such an agreement is an impermissible circumvention of the Copyright Act's protection of users' rights set forth in section 117. Such an approach, like the expansive interpretation of "owner," would be consistent with the broad goals of section 117 in allowing program users to undertake minimal steps to preserve and maintain their computer programs without fear of copyright infringement. Additionally, such an approach would allow licensing agreements that are not intended merely to circumvent section 117, but instead demonstrate the true indicia of a license rather than a sale, to remain enforceable.

It is possible, albeit unlikely, that Congress, in enacting section 117, did not intend to completely foreclose the option of a licensor to license her software with conditions more restrictive than those available to a user under section 117. Indeed, the possibility of modifying a user's rights through contractual agreements such as a true license was anticipated by *CONTU*.¹⁰³ Nevertheless, there is support not only in the specific context of section 117¹⁰⁴

102. See Leo J. Raskind, *The Uncertain Case for Special Legislation Protecting Computer Software*, 47 U. PITT. L. REV. 1131, 1146, 1181 (1986) (arguing that courts are capable of effectively adapting the Copyright Act to a changing technical landscape, while also calling for congressional hearings on software protection).

103. See *CONTU REPORT*, *supra* note 13, at 26 ("Should proprietors feel strongly that they do not want rightful possessors of copies of their programs to prepare such adaptations they could, of course, make such desires a contractual matter.").

104. Professor Raymond Nimmer endorses an approach that looks to the substance of the license agreement in determining whether the transaction should be characterized as a sale for purposes of § 117.

Merely labeling a transaction as a lease or license does not control. If a transaction involves a single payment giving the buyer an unlimited period in which it has a right to possession, the transaction is a sale. . . . The pertinent issue is whether, as in a lease, the user may be required to return the copy to the vendor after the expiration of a particular period. If not, the transaction con-

but also in other areas of intellectual property law for an approach that looks beyond the mere form of a license agreement to determine whether the transaction was, in substance, a license or a sale.¹⁰⁵ A software license agreement that but for the restrictions placed on the user's rights is the functional equivalent of a sale can be compared to a license agreement whose purpose is not only to sell property for a full price, but also to place restraints upon its further alienation.¹⁰⁶ In the cases of both the sale with restrictions on alienation and the restrictive software license, the restrictions on use contravene an important public policy.¹⁰⁷

Although there is little support in recent copyright cases for the invalidation of license agreements that contravene the policies of the Copyright Act, several earlier U.S. Supreme Court cases held that patent and copyright holders could not enlarge the scope of protection provided by federal laws through a licensing scheme.¹⁰⁸ In *Boston Store of Chicago v. American Graphophone Co.*,¹⁰⁹ the Court invalidated a sale and license agreement for graphophones that placed restrictions on the terms of subsequent transfer of the graphophones, including the resale price and the persons to whom they could be sold. The Court found the transaction to be a sale and held that the license agreement was invalid insofar as it attempted to enlarge the scope of powers granted by patent law.¹¹⁰

veyed not only possession, but also transferred ownership of the copy.

NIMMER, *supra* note 2, ¶ 1.18[1], at 1-103.

105. In the context of mass-marketed software, Professor Nimmer has argued that "it is unlikely that consumers regard their purchases of software as different in any manner from purchases of phonograph records, televisions, or other consumer items." *Id.* ¶ 6.17[1], at 6-66.

106. See, e.g., *Straus v. Victor Talking Mach. Co.*, 243 U.S. 490, 500-01 (1917) (holding that a "License Notice" that appeared in substance to be a sale but that placed restraints on further alienation was a sale rather than a license).

107. While it is convenient to view § 117 as merely a balancing of the *individual* rights of copyright owners with those of users, this balancing underscores such broad *public* objectives as promoting ingenuity to improve computer programs. "Evading this policy [of promoting ingenuity] is something the law should not favor." Richard H. Stern, *Shrink Wrap Licenses of Mass Marketed Software: Enforceable Contracts or Whistling in the Dark?* 11 *RUTGERS COMPUTER & TECH. L.J.* 51, 66 (1985).

108. See Deborah Kemp, *Mass Marketed Software: The Legality of the Form License Agreement*, 48 *LA. L. REV.* 87, 98 (1987).

109. 246 U.S. 8, 25 (1918).

110. *Id.* Although the Court in *Boston Store* invalidated both the copyright infringement remedy and the breach of contract remedy, the latter part of the ruling has largely been ignored. Kemp, *supra* note 107, at 99 n.71. Ordinarily, even if a transaction is held

In another case relevant to software licensing agreements, *Straus v. Victor Talking Machine Co.*,¹¹¹ the Court invalidated a licensing agreement that licensed phonographs for the duration of their patents under which the machines became the licensees' property at the expiration of the patents. During the license period various restrictions were placed upon the machines' transfer. Looking to the substance of the transaction, the Court determined that the purpose of the agreement was to sell property at full price while placing restraints on its alienation.¹¹² The Court further concluded that the transaction, which purported to be a license, was in fact a sale. The Court relied on the traditional indicia of a license, namely that (1) the licensee makes periodic payments or a fee other than a purchase price; (2) the licensor retains title for purposes of retaining records, generally to retain a security interest; and (3) the license has a set term for expiration of the right.¹¹³

Applying the *Straus* criteria to the software licensing agreement in *MAI Systems*,¹¹⁴ there appears to be support for the argument that license agreements such as that employed by MAI should be construed as sales. MAI's license, like the typical software license, "(1) has a set fee comparable to the expected purchase price, (2) provides for retention of title merely to prevent the transaction from being called a sale, and (3) has no term for expiration of the license."¹¹⁵ The second of these factors is particularly compelling as applied to the MAI license agreement; the only reason MAI characterizes its agreements as licenses rather than sales with user restrictions is to remove its users from the scope of section 117. Absent any showing that the policy of section 117 is somehow preserved within the framework of the licensing scheme, restraints on activity expressly permitted in the Copyright Act for program copy owners should be invalidated.¹¹⁶

to be a transfer of ownership for copyright purposes, the copyright owner still has a cause of action for breach of contract. *Id.*

111. 243 U.S. 490, 501 (1917).

112. *Id.* at 500-01.

113. *Id.* at 498-500.

114. *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 517 n.3 (9th Cir. 1993), *cert. dismissed*, 114 S. Ct. 671 (1994).

115. Kemp, *supra* note 108, at 100.

116. As Professor Nimmer notes, this conclusion does not necessarily rest upon the premise that § 117 is not subject to variation by contract. NIMMER, *supra* note 2, ¶ 7.24[3][c]. Courts should look at the entire transaction to determine whether a license

While the strongest arguments for characterizing software license agreements as sales apply to the shrink-wrap agreements found in mass-marketed software, which have often been characterized as adhesion contracts,¹¹⁷ the general logic also applies to other software licenses that curtail users' rights, which equally contravene the policy of section 117.¹¹⁸

The use of restrictive software licenses, both in the mass-marketing context and for custom software such as that licensed by MAI, raises questions about the ability of the courts to meet the challenge of practices that, though perhaps narrowly remaining within the letter of the Copyright Act, thoroughly distort the vision of its drafters. The argument that only a redrafting of the section will close off the loopholes that have emerged,¹¹⁹ while appealing in its apparent faithfulness to the precise wording of section 117, is nevertheless overly skeptical about the judiciary's ability to react to the changing legal and technological landscape of intellectual property.¹²⁰

provision violates the policy of § 117. A provision prohibiting the making of backup copies, for example, might be valid if the seller provided to the user a backup copy of the program, since the policy of allowing users to have backup copies would not be thwarted.

117. See, e.g., Stern, *supra* note 107, at 55; Page M. Kaufman, Note, *The Enforceability of State "Shrink-Wrap" License Statutes in Light of Vault Corp. v. Quaid Software Ltd.*, 74 CORNELL L. REV. 222, 235 (1988).

118. See Hustein, *supra* note 84, at 38 ("It has generally been taken for granted that the purchaser of a computer program was the owner of that copy and could make an archival backup copy and do other things owners can do, even if unauthorized or prohibited in the license agreement."). The *MAI Systems* decision was premised on a signed license agreement, but the court made no effort to justify its result in terms of the benefit of the bargain MAI's customers expected when they purchased the system software.

119. See, e.g., Stern, *supra* note 43, at 483.

120. See generally Raskind, *supra* note 102, at 1134 (advocating the judicious application of existing principles in the Copyright Act). It is also noteworthy that even courts employing a highly deferential canon of construction have looked to the legislative history of § 117 in opting for a broad definition of "owner." *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 266-67 (5th Cir. 1988) ("[I]t is not [the court's] job to apply laws that have not yet been written.") (citing *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 456 (1984)).

III. ENLARGING THE COPYRIGHT MONOPOLY: PREEMPTION AND MISUSE

A. *The Preemption Doctrine and Restrictive Software Licenses*

Although the relationship between the contractual rights enforced in *MAI Systems* and the scheme of federal copyright protection for computer programs was not discussed at length in the case, *MAI Systems* nevertheless raises important new questions about the effect of contracts on the scope of copyright protection. By holding, for the first time, that loading a computer program onto a computer's RAM is an act of copying,¹²¹ and by enforcing the terms of a restrictive license agreement forbidding any unauthorized copying, the *MAI Systems* court has paved the way for the copyright owners of computer programs to expand, through contractual provisions, the scope of the limited monopoly granted to them by virtue of the Copyright Act. Such expansions of the copyright monopoly should be treated as misuse in copyright infringement actions and as unenforceable under the preemption doctrine¹²² when parties seek to enforce such provisions under state contract law.

Since the relationship between the intellectual property right and the contractual provisions in question is seldom clear, courts applying the preemption doctrine must first identify the rationale underlying the policy embodied in the intellectual property right and then consider the contract in light of that policy.¹²³ In this regard, the preemption argument is closely related to the public policy argument discussed in Section II(C), namely that license provisions whose primary or sole function is to undermine a policy objective of copyright law should simply be declared void as against public policy.¹²⁴ The *MAI Systems* case itself did not pro-

121. Although *Micro-Sparc v. Amtype Corp.*, 592 F. Supp. 33 (D. Mass. 1984), held that "[i]nputting a computer program entails the preparation of a copy," that case did not deal specifically with the question of RAM, and the act of infringement in the case involved the creation of a disk copy. *Id.* at 35 (quoting 2 MELVILLE B. NIMMER, NIMMER ON COPYRIGHT ¶ 8.08 (1978)).

122. See 17 U.S.C. § 301 (1988).

123. See DONALD S. CHISUM & MICHAEL A. JACOBS, UNDERSTANDING INTELLECTUAL PROPERTY LAW § 1D[3], at 1-10 (1992).

124. See *supra* notes 103-20 and accompanying text. In another patent case involving a license agreement and the preemption doctrine, *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969), the Court emphasized that the licensor's "equities . . . do not weigh very heavily

vide the occasion for a ruling on the validity of the MAI licensing scheme in light of the preemption doctrine, since MAI's principle claim was under federal copyright law.¹²⁵ Nevertheless, given the possibility of a virtually unlimited expansion of the control copyright owners may seek to exercise over their copyrighted programs as a result of the *MAI Systems* decision, courts should use the preemption doctrine in future cases to limit the effect of *MAI Systems* when copyright owners attempt to enforce their restrictive licenses under state contract law.

While no court has yet sought recourse to the preemption doctrine to preclude enforcement of a restrictive software license agreement under state contract law, the court in *Vault Corp. v. Quaid Software Ltd.*¹²⁶ took the intermediary step of invoking the preemption doctrine against a state statutory scheme that sought to permit software producers to prohibit adaptation of their licensed programs. The statute in question in *Vault*, the Louisiana Software License Enforcement Act,¹²⁷ permitted software producers to impose, in a license agreement, a number of restrictions upon software purchasers, including the prohibition of any copying or modifying of the program for any reason whatsoever.¹²⁸ The court held that the Louisiana statute contained numerous conflicts with the Copyright Act, including a conflict with section 117, because the statute authorized licensors to impose a total prohibition on copying notwithstanding the exceptions provided in section 117.¹²⁹

Cases in which the plaintiff relies not on a specific state law touching upon the area of copyright law but rather on the state common law of contracts are arguably distinguishable from

when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain."

125. While the misuse doctrine is sometimes explained as an application of the preemption doctrine, *see* CHISUM & JACOBS, *supra* note 123, § 1D[3][b], this Note treats the two doctrines as conceptually distinct. A copyright preemption claim arises as a defense to an action under state contract law, in which the defendant asserts that enforcement of the contractual provisions would alter the scope of rights that arise under the Copyright Act. A copyright misuse claim arises as a defense to an action of copyright infringement, in which the defendant asserts that the contractual provisions impermissibly broaden the scope of the monopoly granted under the Copyright Act.

126. 847 F.2d 255, 270 (5th Cir. 1988).

127. LA. REV. STAT. ANN. §§ 51:1961-1966 (West 1987).

128. *Id.* § 51:1964.

129. *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 269-70 (5th Cir. 1988).

Vault,¹³⁰ but the core reasoning of *Vault* nevertheless applies to such cases.¹³¹ Section 301(a) of the 1976 Copyright Act states that "no person is entitled to any such right [as those set out in section 106] or equivalent right . . . under the common law or statutes of any State."¹³² Enforcement of licenses that have the effect of expanding the exclusive rights of the software producer creates such an equivalent right.¹³³

The most promising support for application of the preemption doctrine in cases in which a licensor such as MAI Systems seeks to enforce the terms of its restrictive license in an action for breach of contract is found in the patent field. In *Brulotte v. Thys Co.*,¹³⁴ the U.S. Supreme Court refused to enforce a license agreement that had the practical effect of extending the duration of certain patents on agricultural machines beyond the statutory term.¹³⁵ While part of the court's reasoning reflected the usual patent misuse doctrine,¹³⁶ the thrust of the court's logic was directed at the effort of the plaintiff to use state contract law to alter certain federal rights in the patent field.¹³⁷

130. The most powerful such distinction is that the license agreement in *Vault* would have been void as an adhesion contract but for the Louisiana statute. *Id.* at 269. To this extent, the Louisiana statute expanded the exclusive rights of the software producers even further than the producers could have through contract alone.

131. The *Foresight Resources* case was probably hinting at a preemption argument when, citing *Vault's* preemption argument, it suggested that "there is some reason to question the enforceability of [restrictive software license agreements]." *Foresight Resources Corp. v. Pfortmiller*, 719 F. Supp. 1006, 1010 (D. Kan. 1989).

132. 17 U.S.C. § 301(a) (1988).

133. Some commentators have suggested that provisions of restrictive software licenses that restrict the rights protected by § 117 create equivalent rights, leading to the conclusion that any enforcement of these provisions should be precluded. *See, e.g.*, Kaufman, *supra* note 117, at 241 ("A license term purporting to affect the purchaser's right to make archival copies, or to make copies or adaptations required for the utilization of the software is invalid and unenforceable because it either grants an equivalent right or conflicts with rights granted under the Copyright Act."). Nevertheless, this argument necessarily rests on the rejection of the sale/license distinction under § 117.

134. 379 U.S. 29 (1964).

135. *Id.* at 30-32.

136. *Id.* at 33 (comparing the plaintiff's licensing scheme to "an effort to enlarge the monopoly of the patent by tying the sale or use of the patented article to the purchase or use of unpatented ones").

137. *Id.* at 32 (citation omitted):

Those restrictions are apt and pertinent to protection of the patent monopoly; and their applicability to the post-expiration period is a telltale sign that the licensor was using the licenses to project his monopoly beyond the patent period. . . . But patents are in the federal domain; and "whatever the legal device employed" a projection of the patent monopoly after the patent expires is not

A licensee or third-party maintenance provider seeking to prevent enforcement of a license agreement forbidding any unauthorized use of a computer program could advance an argument similar to that employed in the patent preemption cases. Not only would the enforcement of a contractual provision emasculating the fair use exception of section 117 constitute a state's alteration of a federal right, but such enforcement would seriously compromise the policies and objectives of section 117.¹³⁸ The fact that the license is being used to eliminate certain types of fair use rather than to create a new or expanded right of the copyright owner would be of little consequence; both cases would amount to an expansion of the copyright owner's statutory monopoly.

Although no defendant has prevailed on a preemption defense to a copyright infringement case involving a software license that purported to circumvent the fair use provisions of section 117, such a preemption argument might prevail if the breach of contract argument involved solely allegations of unauthorized use of copyrightable material. In *Brignoli v. Balch Hardy & Scheinman, Inc.*,¹³⁹ the court rejected a preemption defense in an action for breach of a computer software license on the grounds that the plaintiff's claims included allegations that were not equivalent to exclusive rights within the scope of copyright.¹⁴⁰ In so holding, the court affirmed the general proposition that "[a] claim [under contract] that a defendant made unauthorized use of copyrightable material falls squarely within § 301 [of the Copyright Act] and thus is preempted."¹⁴¹ While a closer examination of the preemption question in light of section 117 would produce uncertain re-

enforceable.

138. See CONTU REPORT, *supra* note 13, at 46 ("[T]he refusal to allow the extension of patents or copyrights beyond their limited scopes . . . may be the heart of the concern about the economic effects of program copyright."); *id.* at 50 ("[T]he lawful copyright monopoly may not be used other than as intended.").

139. 645 F. Supp. 1201 (S.D.N.Y. 1986).

140. *Id.* at 1205.

141. *Id.*; see also *Peckarsky v. American Broadcasting Co., Inc.*, 603 F. Supp. 688, 695-96 (1984) (holding that journalist's unfair competition and unfair trade practices claims based on ABC's alleged improper use of copyrighted article were preempted by federal copyright law).

sults,¹⁴² the preemption doctrine is promising as a means to limit the effect of *MAI Systems* short of expressly overruling the case.

B. *The Implications of MAI Systems for the Misuse Doctrine*

One effect of the *MAI Systems* holding is to allow copyright holders who distribute software to retain, or to license for a fee, the exclusive right to perform maintenance and repairs on their copyrighted programs. Such a principle threatens the viability of independent service companies, who may find themselves at the mercy of software producers unless *MAI Systems* is overturned.¹⁴³ Indeed, in a recent case also involving MAI, several software service and maintenance companies have asserted that MAI is unlawfully tying¹⁴⁴ the sale of its copyrighted operating system software to the sale of maintenance and repair services for its computers in violation of the Sherman Act.¹⁴⁵

The strongest support for the application of the doctrine of copyright misuse when a software licensor seeks to enforce contractual use restrictions in a copyright infringement action is found in the CONTU report itself. Possibly reacting to the suggestion that providing copyright protection for computer programs would result in an excessive concentration of economic power in the

142. Specifically, a court accepting the premise that no licensees fall within the scope of § 117 might argue that a license provision limiting use of a copyrighted program does not affect any right to which the user-licensee was ever entitled. This argument should fail, however, because acceptance of the initial premise leads to the conclusion that the very existence of the license fundamentally alters the federal rights under § 117. This conclusion, in turn, casts doubt on the proposition that Congress intended to exclude all licensees from the scope of § 117.

143. See Hustein, *supra* note 84, at 38. The observation that software producers such as MAI might use the *MAI Systems* holding as a sword to beat down their competitors in the software servicing and maintenance industry has proved to be more than mere speculation. Following the *MAI Systems* case, MAI began to send "cease and desist" letters to unauthorized maintenance companies, citing the *MAI Systems* decision. See *Advanced Computer Servs., Inc. v. MAI Sys. Corp.*, 161 B.R. 771 (E.D. Va. 1993).

144. A tying agreement exists whenever a seller conditions the purchase of one product (the tying product) on the purchase of another product (the tied product). *Fortner Enter. v. U.S. Steel*, 394 U.S. 495, 497 (1969). The Supreme Court has held that tying arrangements are per se unreasonable "whenever a party has sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product and a 'not insubstantial' amount of interstate commerce is affected." *Id.*, at 499 (quoting *N. Pac. Ry. Co. v. United States*, 356 U.S. 1, 6 (1958) (citation omitted)).

145. *Advanced Computer Servs.*, 161 B.R. at 773.

hands of a few large firms,¹⁴⁶ the CONTU majority repeatedly emphasized that the limited monopoly granted to the owners of copyrighted programs must not be expanded or used other than intended.¹⁴⁷ The presumption in favor of limiting the scope of the copyright monopoly emphasized in the CONTU report was "the heart of the concern about the economic effects of program copyright."¹⁴⁸

Although the Supreme Court has not expressly extended the doctrine of misuse, applied in the patent field since the early 1900s, to copyright infringement suits,¹⁴⁹ the Fourth Circuit has recognized the affirmative defense of copyright misuse in a case involving computer software. *Lasercomb America, Inc. v. Reynolds*¹⁵⁰ arose out of a software program developer's copyright infringement suit against a steel rule die manufacturer who violated the terms of the anticompetitive clauses in the software license.¹⁵¹ The license in question in *Lasercomb* not only prohibited the copying of the program's source code, but also forbade the licensee from developing any kind of computer-assisted die-making software. In so doing, the licensor effectively expanded its copyright monopoly to include not only the expression contained in its software but also the idea that the program expressed.¹⁵² Reasoning that the defense of misuse is "inherent in the law of copyright just as a misuse of patent defense is inherent in patent law"¹⁵³ and that misuse of copyright need not be a violation of antitrust law,¹⁵⁴ the court dismissed the claims arising out of the illegal license provisions.¹⁵⁵

While the effective extension of MAI's statutory monopoly to include the exclusive right to make repairs or modifications on its licensed programs is arguably less egregious than the misuse alleged in *Lasercomb*, such a licensing scheme may nevertheless

146. See CONTU REPORT, *supra* note 13, at 73 (Commissioner Nimmer, concurring).

147. *Id.* at 49-50.

148. *Id.* at 46.

149. Susan H. Nycum, *Copyright Misuse and Fraud on the Copyright Office*, in INTELLECTUAL PROPERTY/ANTITRUST 1993, at 629 (Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series No. G-365, 1993).

150. 911 F.2d 970 (4th Cir. 1990).

151. *Id.* at 971-72.

152. *Id.* at 978.

153. *Id.* at 973.

154. *Id.* at 978.

155. *Id.* at 979.

involve the illegal tying of separate products. In *Service & Training, Inc. v. Data General Corp.*,¹⁵⁶ the Fourth Circuit held that the appellee's licensed software and its repair services constituted "separate products" for purposes of a per se tying claim under section 1 of the Sherman Act.¹⁵⁷ This conclusion also finds support in the 1956 consent decree enjoining IBM from requiring purchasers to have machines repaired by or parts supplied by IBM and prohibiting experimentation with the machines.¹⁵⁸ The ultimate success of challenges to restrictive software licenses on copyright misuse grounds will depend upon both the courts' application of the doctrine of copyright misuse and the resolution of complex factual and legal issues, such as licensors' power in the relevant markets.¹⁵⁹ Nevertheless, the basic theoretical soundness of such challenges exposes the fallacy of granting to the owners of copyrighted computer programs economic powers far beyond those of any other copyright owners.

CONCLUSION

While the time may indeed be ripe for a revision of the laws granting intellectual property protection to computer programs, there is also ample basis in the current statutory material and caselaw for preventing further expansion of the rights of computer program copyright owners. The combined effect of the *MAI Systems* holdings that any act of loading a program constitutes a potentially infringing act of copying¹⁶⁰ and that software owners

156. 963 F.2d 680, 683 (4th Cir. 1992). The elements of a per se tying claim are (1) the existence of two separate products, (2) an agreement conditioning purchase of the tying product upon purchase of the tied product (or at least upon an agreement not to purchase the tied product from another party), (3) the seller's possession of sufficient economic power in the tying product market to restrain competition in the tied product market, and (4) a not insubstantial impact on interstate commerce.

Id. (citations omitted). The appellant in *Service & Training* failed to overturn an adverse ruling of summary judgment as to the existence of a tying agreement. *Id.*

157. 15 U.S.C. § 1 (1988).

158. *United States v. International Business Mach. Corp.*, 1956 Trade Cas. (CCH) ¶ 68,245 (S.D.N.Y. Jan. 25, 1956).

159. In tying cases, a general presumption of the requisite market power attaches when the tying product is copyrighted. See Glen P. Belvis, *Computers, Copyright & Tying Agreements: An Argument for the Abandonment of the Presumption of Market Power*, 28 B.C. L. REV. 265, 276 (1987). However, courts are split as to whether this presumption should attach when the tying product is a computer program. *Id.* at 279-82.

160. *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 519 (9th Cir. 1993), *cert.*

can, through a license, exclude their customers from the ambit of section 117¹⁶¹ is to create a new and overly broad form of intellectual property protection for computer programs. Such an expansion of copyright owners' rights thoroughly distorts the vision of the legislators who sought to account for the unique aspects of computer programs in creating the type of balance between the rights of program creators and the rights of the public that is reflected in all other areas of copyright law.

dismissed, 114 S. Ct. 671 (1994).

161. *See supra* Section II(B).