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Alternative Software Protection in View of In re Bilski

By Lauren Katzenellenbogen[*], Charles Duan[**], & James Skelley[***]

I. INTRODUCTION – SOFTWARE PROTECTION VIA PATENT AND COPYRIGHT

¶1 The United States Court of Appeals for the Federal Circuit's (CAFC) *en banc* decision, *In re Bilski*, redefined the standard for patenting processes including business methods and computer software.[1] In *Bilski*, the Federal Circuit departed from the "useful, concrete, and tangible result" test it had established in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*,[2] which had been the standard for the past ten years. The Federal Circuit returned to a test articulated nearly 40 years ago by the Supreme Court in *Gottschalk v. Benson*,[3] and clarified that *State Street* was "never intended to supplant the Supreme Court's test."[4] Under this revived Supreme Court test, to be patent-eligible a claimed process must 1) be tied to a particular machine or apparatus or 2) transform a particular article into a different state or thing.[5]

¶2 It is still unclear whether the recitation of a general-purpose computer in a software claim would be sufficient to satisfy the first prong.[6] However, in *Ex parte Halligan*, the Board of Patent Appeals and Interferences recently interpreted the first prong of the *Bilski* machine-or-transformation test as requiring more than the recitation of a general purpose computer alone.[7] This uncertainty has left many software developers seeking

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[1] In re Bilski, 545 F.3d 943 (Fed. Cir. 2008).

[2] State Street Bank & Trust Co. v. Signature Financial Group, Inc.,149 F.3d 1368, 1374 (Fed. Cir. 1998).

[3] Gottschalk v. Benson, 409 U.S. 63, 70-71 (1972).

[4] *Bilski*, 545 F.3d at 959.

[5] *Id.* at 954 ("A claimed process is surely patent-eligible under § 101 if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing.") (citing *Benson*, 409 U.S. at 70, Diamond v. Diehr, 450 U.S. 175, 192 (1981), Parker v. Flook, 437 U.S. 584, 589 n.9 (1978) and Cochrane v. Deener, 94 U.S. 780, 788 (1876)).

[6] *Id.* at 994-95 ("Other aspects of the changes of law also contribute uncertainty. We aren't told when, or if, software instructions implemented on a general purpose computer are deemed 'tied' to a 'particular machine,' for if *Alappat*'s guidance that software converts a general purpose computer into a special purpose machine remains applicable, there is no need for the present ruling. For the thousands of inventors who obtained patents under the court's now-discarded criteria, their property rights are now vulnerable.").

[7] *Ex parte* Halligan, No. 2008-1588, 2008 WL 4998541, at *13 (B.P.A.I. Nov. 24, 2008) ("The issue presented by these claims is whether recitation of a programmed computer suffices to tie the process claims to a particular machine. This is the exact issue that the court in *Bilski* declined to decide. *Bilski* at *11. The court did, however, provide some guidance when it explained that the use of a specific machine must impose meaningful limits on the claim's scope to impart patent-eligibility. *Id.* Claims 119 and 120 recite a method performed on a programmed computer. This recitation fails to impose any meaningful limits on the claim's scope as it adds nothing more than a general purpose computer that has been programmed in an unspecified manner to implement the functional steps recited in the claims. Were the recitation of a 'programmed computer' in combination with purely functional recitations of method steps, where the

other forms of protection in addition to software patents. Copyright protection is one such alternative.

¶3 Both patent and copyright protection share several common features amenable to software protection. The damages available for copyright infringement are similar to those available for patent infringement. Specifically, lost income or lost profits is available as a measure of damages for both. For copyright infringement, the alternative measure of damages of disgorgement of the infringer's profits is also available. Where lost profits cannot be proven, patent law provides for a reasonable royalty while copyright law provides for statutory damages for a registered work. Most importantly to holders of intellectual property, both patents and copyrights allow property holders to sue distributors for infringement rather than actual users via secondary liability.

¶4 This article reviews recent developments making copyright protection comparable to that of patents as well as important considerations in implementing copyright protection for software. Future developers may wish to take advantage of these copyright alternatives to acquire similar, and in some cases more extensive, coverage than that available solely through patents.

II. Copyright, like Patents, Offers Indirect Liability (Contributory and Induced Infringement)

¶5 An important aspect of protection for software is enforcement against distributors rather than individual end users. This occurs most frequently when the software owner wishes to target certain undesirable uses of the software. For example, a computer game author may wish to prevent users of the computer game from running cheat programs with the game.[8] It would be far more effective to go after the party distributing the cheat program than all of the individual users of the game with the cheat program.

¶6 The problem is that, while users of the software program have directly infringed the software owner's intellectual property rights, the parties who facilitate the undesired behavior or encourage software users to engage in the infringing behavior are not themselves direct infringers. Thus, a specialized cause of action is required to attack the unconnected third party for its actions. Indirect copyright infringement is one means of doing so. This section addresses the doctrines of indirect copyright infringement, applying them to the question of how a software owner might use them to target parties who encourage or facilitate unwanted uses of the software.

¶7 A prerequisite for indirect copyright infringement is one or more acts of direct copyright infringement. To establish direct infringement of a copyright, plaintiffs must satisfy two requirements: (1) they must show that they own the allegedly infringed copyright, and (2) they must show that the alleged infringer has violated at least one of the exclusive rights granted under section 106 of the Copyright Act (Title 17 of the U.S. Code).[9]

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functions are implemented using an unspecified algorithm, sufficient to transform otherwise unpatentable method steps into a patent eligible process, this would exalt form over substance and would allow pre-emption of the fundamental principle present in the non-machine implemented method by the addition of the mere recitation of a "programmed computer.").

[8] *See, e.g.*, MDY Indus., LLC v. Blizzard Entm't, Inc., No. 06-2555, 2008 U.S. Dist. LEXIS 53988 (D. Ariz. July 14, 2008), discussed *infra*.

[9] A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1013 (9th Cir. 2001).

¶8 Whenever a software program is executed, it is "copied" under section 106 by virtue of the fact that executing the program makes a copy of the software in a computer's random access memory ("RAM"). Because of the availability of indirect infringement, copyright protection like patent protection offers the possibility of targeting a party who does not directly cause infringement, but rather who encourages infringing activity among others.

¶9 Unlike the United States patent statutes,[10] however, the Copyright Act does not expressly contain provisions for indirect copyright infringement.[11] Section 106 of the Copyright Act refers to the copyright holder's exclusive right "to do and to authorize" any of the exclusive rights specified thereafter. According to the statutory history, the phrase "to authorize" was intended to cover contributory copyright infringers.[12] Subsequent case law further developed this secondary liability, and has generally established three ways in which a party may be held secondarily liable for infringement of copyright: contributory infringement; intent to induce infringement; and vicarious liability. Like the indirect infringement of patent law, all three require a finding of direct copyright infringement.

A. *Contributory Infringement*

¶10 The doctrine of contributory infringement of copyright is analogous to the patent doctrine of infringement for sale of a component of an infringing device. Contributory infringement requires that a party: (1) know of the infringing activity; and (2) induce, cause or materially contribute to the infringing conduct.[13] The Supreme Court in the *Betamax* case described the contributory infringer as one who "was in a position to control the use of copyrighted works by others and had authorized the use without permission from the copyright owner."[14] The significance of the reference to "control" in the *Betamax* case is a little unclear and appears to have been interpreted fairly broadly. Nimmer recognizes two ways in which the material contribution element may be satisfied: (1) by acts of the party in concert with the direct infringer, and (2) by distribution of devices that may be used to perform infringement.[15] By providing the software, the distributor enables the infringing act.

¶11 Distribution, however, is not an absolute ground for secondary liability. The Supreme Court in *Betamax* added a "safe harbor" provision, so that distribution of devices that would otherwise subject a party to contributory liability will not do so where the devices are "capable of substantial noninfringing uses."[16] This rule is derived from a

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[10] 35 U.S.C. § 271 (2006).

[11] Sony Corp. of Am. v. Universal City Studios (*Betamax*), 464 U.S. 417, 434-37 (1984) ("The Copyright Act does not expressly render anyone liable for infringement committed by another.").

[12] H.R. REP. NO. 94-1476, at 61 (1976) ("Use of the phrase 'to authorize' [in section 106] is intended to avoid any questions as to the liability of contributory infringers.").

[13] *See Sony Corp. of Am.*, 464 U.S. at 439; Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., 545 U.S. 913, 930 (2005) (A person commits contributory copyright infringement "by intentionally inducing or encouraging direct infringement.").

[14] *Sony Corp. of Am.*, 464 U.S. at 437.

[15] MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.04[A][3] (2008).

[16] *Sony Corp. of Am.*, 464 U.S at 442 ("The sale of copying equipment, like the sale of other articles of commerce, does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes. Indeed, it need merely be capable of substantial noninfringing uses.").

similar exception for devices capable of substantial noninfringing uses, in the patent statute regarding contributory infringement based on the sale of a component of a patented device.[17]

B. Inducement of Infringement

¶12 Inducement is a theory of liability developed by the Supreme Court in *MGM Studios, Inc. v. Grokster, Ltd.*[18] Inducement requires that a party (1) distribute a device, (2) with the object of promoting its use to infringe, (3) shown by a clear expression or affirmative steps to foster infringement. This rule, like the substantial noninfringing use exception to contributory infringement, is drawn from the patent law of inducement, and it is indeed so tied to the patent doctrine that case law on inducement of patent infringement has often drawn on *Grokster*.[19]

¶13 The key distinction between inducement and contributory infringement is that inducement focuses more on the steps the alleged infringer took to encourage the direct infringement. In *Grokster*, the key evidence that swayed the Court was that Grokster, a peer-to-peer software maker, had marketed itself through advertising as an avenue of infringement and had made no effort to prevent infringing acts.[20] Thus, distributors who hold themselves out as a means of circumventing the limitations of a software license will typically be liable for inducement.

C. Vicarious Liability

¶14 The third theory for finding secondary copyright infringement is vicarious liability. In order to prove vicarious liability, the copyright holder must show that the alleged infringer had (1) the right and ability to supervise the direct infringer's conduct, and (2) a direct financial interest in the result.[21] This doctrine, which is essentially a broadened form of *respondeat superior*, is also shared with patent law.

¶15 One primary use of this doctrine among intellectual property owners is to target parties who aid in transactions of infringing items. For example, in *Fonovisa, Inc. v. Cherry Auction, Inc.*, the Ninth Circuit held that a swap meet manager was liable for copyright infringement under a vicarious liability theory, on the grounds that numerous sellers at the swap meet traded in counterfeit movies. The manager was found to have sufficient control over the sellers who attended the swap meet, so holding the manager liable was proper. For those who sell software, vicarious liability under copyright offers a potential cause of action against those who offer a forum for illegally copying protected software.

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[17] 35 U.S.C. § 271(c) (2006).

[18] *See Grokster*, 545 U.S. 913.

[19] *See, e.g.*, MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp., 248 F. App'x. 199 (Fed Cir. 2007).

[20] *Grokster*, 545 U.S. at 925.

[21] *E.g.*, Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 262 (9th Cir. 1996) (citing Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc., 443 F.2d 1159, 1162 (2d Cir. 1971)); *see also* NIMMER, *supra* note 15, § 12.04[A][1].

D. Important Differences in the Protection Available Through Copyrights and Patents

¶16 As discussed above, copyright offers much of the same protections available through patent rights. Nonetheless, there are some important differences. The primary difference is that a copyright generally protects against acts of copying the particular execution of an idea or invention, whereas a patent provides broader protection for the idea itself. Section 106 of the Copyright Act gives owners the exclusive right to copy, distribute, publicly perform, or publicly display protected works. However, no cause of action for copyright infringement arises if another person independently creates a work that is similar or even identical to a copyrighted work, under the doctrine of independent creation.[22] This contrasts with patent infringement, which may occur even if the infringer's acts are innocently done with no knowledge of the patent.[23] Thus, copyright can be used to prevent the unauthorized copying and redistribution of software, but it is not an alternative to patent protection that can be asserted against competing software companies that make programs independently.[24]

¶17 Copyright also differs from patents in a manner beneficial to rights holders: unlike patents, a copyright is not created by the act of registration. While registration confers certain benefits, such as the availability of statutory damages and attorneys' fees in an infringement suit, it is not necessary to obtain copyright until contemplating litigation to enforce the copyright. This contrasts with patent rights, which are only obtained after expending substantial effort in prosecuting the patent.

III. SOFTWARE LICENSE PROVISIONS - AN IMPORTANT CONSIDERATION FOR COPYRIGHT PROTECTION

¶18 When software is distributed, it is usually wrapped in one or more licenses, often known as an End User License Agreement. The particular terms of these licenses often heavily influence the copyright protection afforded to the software. Certain terms of the agreement may be construed as aspects of contract rather than license and thus, state law rather than the federal laws of copyright infringement may apply. Additionally, if the copyright holder fails to retain sufficient ownership rights in the copy of the computer program, the running of the program for a purpose specifically prohibited by the license may not be found to be a copyright infringement. It is very important to draft the license agreement such that significant, and properly crafted, restrictions are placed on the use of the copy so that ownership of the copy is retained by the copyright holder.

[22] This view was famously expressed in *Sheldon v. Metro-Goldwyn Pictures Corp.*, 81 F.2d 49, 54 (2d Cir. 1936): "[I]f by some magic a man who had never known it were to compose anew Keats's Ode on a Grecian Urn, he would be an 'author,' and if he copyrighted it, others might not copy that poem, though they might of course copy Keats's." *Id.*

[23] *See, e.g.*, Jurgens v. CBK, Ltd., 80 F.3d 1566, 1570 n.2 (Fed. Cir. 1996) (noting that infringement is a strict liability offense).

[24] Indeed, if one were to merely copy the appearance of a particular computer program without copying specific code, it is likely that no copyright infringement would be found, because copyright does not protect functional elements of a work. *See* Lotus Dev. Corp. v. Borland Int'l, Inc., 49 F.3d 807 (1st Cir. 1995), *aff'd by an equally divided Court*, 516 U.S. 233 (1996). Thus, assertion of copyright infringement with respect to software is most strongly asserted when actual copying of the software itself occurs, and this article focuses on such forms of direct copying.

A. MDY v. Blizzard – Contractual Term or License Condition

¶19 In the recent case of *MDY Industries, LLC v. Blizzard Entertainment, Inc.*,[25] the District Court for the District of Arizona considered the issue of whether contract law or copyright law should apply when the purchaser of a computer game violated a license provision. Blizzard authored and sold a computer game with a license agreement prohibiting the use of "bot" programs within the game.[26] "Bot" programs are autonomous software programs that perform user actions in lieu of a live player.[27] MDY distributed a bot program for Blizzard's game, upsetting the game dynamics for other players who continued to play manually.[28] MDY sought a declaratory judgment of noninfringement, and Blizzard counterclaimed for copyright infringement.[29]

¶20 The court considered whether the license agreement provision regarding bot programs was a contractual term or a license condition. It reasoned that the bot prohibition was a license condition because the section containing the prohibition dealt with rights related to Blizzard's copyright, namely copying, modifying, and distributing software.[30]

¶21 The court began with Ninth Circuit precedent regarding the distinction between license conditions and contractual terms. It stated:

> Generally, a copyright owner who grants a nonexclusive license to use his copyrighted material waives his right to sue the licensee for copyright infringement and can sue only for breach of contract. . . . If, however, a license is limited in scope and the licensee acts outside the scope, the licensor can bring an action for copyright infringement. To prevail on a copyright infringement claim, therefore, a plaintiff who has granted a license must establish that the license terms are "limitations on the scope of the license rather than independent contractual covenants," and that the defendant's actions exceed the scope of the license.[31]

¶22 The court then cited the relevant passage of the End User License Agreement (EULA),[32] and then provided the following analysis:

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[25] No. 06-2555, 2008 U.S. Dist. LEXIS 53988, at *18-19 (D. Ariz. July 14, 2008)

[26] *Blizzard*, 2008 U.S. Dist. LEXIS 53988, at *4.

[27] *Id*.

[28] *Id*.

[29] *Blizzard*, 2008 U.S. Dist. LEXIS 53988, at *5.

[30] *Blizzard*, 2008 U.S. Dist. LEXIS 53988, at *18.

[31] *Blizzard*, 2008 U.S. Dist. LEXIS 53988, at *12 (quoting Sun Microsystems, Inc. v. Microsoft Corp., 188 F.3d 1115, 1121 (9th Cir. 1999) (citations omitted)).

[32] The section read:

Grant of Limited Use License. If you agree to this License Agreement, computer software (hereafter referred to as the "Game Client") will be installed on your hardware. . . . *Subject to your agreement to and continuing compliance with this License Agreement, Blizzard hereby grants, and you hereby accept, a limited, nonexclusive license* to (a) install the Game Client on one or more computers owned by you or under your legitimate control, and (b) use the Game Client in conjunction with the Service for your non-commercial entertainment purposes only. *All use of the Game Client is subject to this license Agreement and to the [TOU]*, both of which you must accept before you can use your account to play the game.

Blizzard, 2008 U.S. Dist. LEXIS 53988, at *13.

> The title [of the cited section] – "Grant of Limited Use License" – makes clear that the license is limited, as does the later reference to a "limited, non-exclusive license." The grant of the limited license is expressly made "[s]ubject to your agreement to and continuing compliance with this License Agreement." The section further provides that "[a]ll use of the Game Client is subject to" the EULA and the [Terms of Use]. Thus, the very portion of the contract that grants a license to use the game client software also makes clear that the license is limited.[33]

¶23 The court then considered Section 4 of the EULA, which contained several other provisions of the game that prohibited certain activities during gameplay, such as "intercepting, emulating, or redirecting the proprietary components of the game," and concluded: "The provisions of section 4 thus make clear that although users are licensed to play WoW and to use the game client software while playing, they are not licensed to exercise other rights belonging exclusively to Blizzard as the copyright holder – copying, distributing, or modifying the work."[34]

¶24 For these reasons, the court concluded that the provisions of Section 4 of the EULA were conditions of the copyright license and not contractual terms. Since the bot prohibition was contained in Section 4, the court concluded that this prohibition fell within the license conditions as well.[35]

¶25 *MDY* thus offers the following guidance as to the drafting of copyright licenses: conditions on the use of software should be clearly demarcated as conditions of the license, such that a court interpreting the condition would be compelled to conclude that the license was revoked upon breach of the condition.

B. User Ownership and the Section 117 Safe Harbor

¶26 Where the act of copying a software program is the alleged act of infringement, Section 117 of the Copyright Act must also be consulted, and the license agreement must be written to ensure the copyright owner retains ownership of copies sold. Section 117 of the copyright statute reads, in relevant part:

> [I]t 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 . . . that such a new 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.[36]

¶27 Generally speaking, running a software program requires making a copy of the program in the RAM of a computer. Since making a copy in the RAM to run the program is an "essential step" in running the program, the issue is whether the software users are "owners" under the statute.[37] Ownership of a copy is something distinct from

[33] *Blizzard*, 2008 U.S. Dist. LEXIS 53988, at *14.
[34] *Blizzard*, 2008 U.S. Dist. LEXIS 53988, at *17.
[35] *Blizzard*, 2008 U.S. Dist. LEXIS 53988, at *18.
[36] 17 U.S.C. § 117 (2006).
[37] *Blizzard*, 2008 U.S. Dist. LEXIS 53988, at *10 (2008) ("Ninth Circuit Law holds that the copying of software to RAM constitutes 'copying' for purposes of section 106 of the Copyright Act.").

copyright ownership.[38] Ownership of a copy is itself determined largely by the degree of freedom offered by the software license. Accordingly, highly restrictive software licenses generally help developers retain ownership, but the doctrine is still under development. Several recent cases have addressed the factors constituting ownership under § 117.

¶28

1. Cases Interpreting § 117

¶29 *a) Krause v. Titleserv.*—In *Krause v. Titleserv, Inc.* the Second Circuit considered whether a company was the owner of software written by a contract programmer.[39] Some courts had accepted the interpretation that Congress had chosen to use the word "owner" in the statute instead of the term "rightful possessor," indicating that Congress intended to have the affirmative defense available only to title owners. The Second Circuit, however, did not adopt this view.[40] The court first held that neither mere possession nor title ownership was dispositive of § 117 ownership.[41] Finding that a company did have ownership of software, the Second Circuit applied a totality-of-circumstances test, considering such factors as:

> (1) whether the company paid substantial consideration for software,
> (2) whether the software was created for sole benefit of company,
> (3) whether the software was customized for company's operations,
> (4) whether the software was stored on company's servers,
> (5) whether the copyright holder reserved right to repossess copies of software,
> (6) whether the copyright holder agreed to allow the company to possess and use software, and
> (7) whether the company was free to discard or destroy the software at will.[42]

¶30 Instead of requiring formal title, the court stated that it should "inquire into whether the party exercises sufficient incidents of ownership over a copy of the program to be sensibly considered the owner of the copy for purposes of §117(a)."[43] The court held that despite any oral understanding that the buyer was a licensee, the buyer did own its copy of the software.[44]

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[38] *See* 17 U.S.C. § 202 (2006) ("Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied.").

[39] Krause v. Titleserv, Inc., 402 F.3d 119 (2d Cir. 2005).

[40] Mark Hamblett, *In Copyright Case, 2nd Circuit Clarifies Software Program 'Owner'*, N.Y.L.J., March 24, 2005, http://www.law.com/jsp/article.jsp?id=1111572311393; *see Krause*, 402 F.3d at 123 ("In our view, Congress's decision to reject 'rightful possessor' in favor of 'owner' does not indicate an intention to limit the protection of the statute to those possessing formal title.").

[41] *Krause*, 402 F.3d at 122 ("It is not clear from the text of § 117(a) how many and what kind of sticks may be removed from the bundle before the possessor of a copy of a computer program is no longer considered its owner for purposes of § 117(a).").

[42] *Id.* at 124.

[43] *Id.* (**"**We conclude for these reasons that formal title in a program copy is not an absolute prerequisite to qualifying for § 117(a)'s affirmative defense. Instead, courts should inquire into whether the party exercises sufficient incidents of ownership over a copy of the program to be sensibly considered the owner of the copy for purposes of § 117(a).").

[44] *Id.* ("We conclude that Titleserv owned copies of the disputed programs within the meaning of §

¶31 *b) DSC Communications v. Pulse Communications.*—A second case considering ownership under § 117 was *DSC Communications Corp. v. Pulse Communications, Inc.*[45] The plaintiff, DSC, made certain software and hardware for telephone network switching. The defendant, Pulsecom, made only the hardware, which was designed to automatically copy DSC's software upon use.[46] The issue in the case was whether that act of copying, which was done under the control of the consumer of the device, was protected under § 117. To decide the issue, Federal Circuit needed to determine whether the hardware consumers, known as RBOCs (Regional Bell Operating Companies), owned copies of software they transferred onto interface cards.[47]

¶32 The Federal Circuit devised a test for ownership of software based on a license, holding that ownership would not follow from a license with sufficiently "severe restrictions."[48] The Federal Circuit concluded that the RBOCs were not owners because licensing agreements with the copyright holder "severely limit[ed] the rights of the RBOCs with respect to the . . . software in ways that are inconsistent with the rights normally enjoyed by owners of copies of software."[49] The agreements prohibited the RBOCs from using DSC's software on hardware other than that provided by DSC and limited the authority of the RBOCs to transfer copies of the software.[50] In finding a lack of ownership, the court relied on the following facts:

> (1) license stated that copyright holder owned all copies;
> (2) license restricted right to transfer or disclose details of software to third parties;
> (3) license restricted use of software on unauthorized machines.[51]

¶33 *c) Stuart Weitzman v. Microcomputer Resources.*—In the district court decision of *Stuart Weitzman, LLC v. Microcomputer Resources, Inc.*[52] the court recognized the above two cases as the leading cases in the field, and determined that *Krause* would be applied where there was no formal document establishing ownership, as there was in *DSC*.[53] In particular, the court relied on the fact that although there was an unsigned agreement, the agreement was only prospective in nature, and so it did not deal with ownership of copies

117(a). We reach this conclusion in consideration of the following factors: Titleserv paid Krause substantial consideration to develop the programs for its sole benefit. Krause customized the software to serve Titleserv's operations. The copies were stored on a server owned by Titleserv. Krause never reserved the right to repossess the copies used by Titleserv and agreed that Titleserv had the right to continue to possess and use the programs forever, regardless whether its relationship with Krause terminated. Titleserv was similarly free to discard or destroy the copies any time it wished. In our view, the pertinent facts in the aggregate satisfy § 117(a)'s requirement of ownership of a copy.").

[45] 170 F.3d 1354 (Fed. Cir. 1999).

[46] *Id.* at 1358.

[47] *See id.* at 1360.

[48] *Id.*

[49] *Id.* at 1361.

[50] The agreements limited the authority of the RBOCs to transfer copies of the software, even though the "first sale" doctrine would have protected certain transfers if the RBOCs had owned copies of the software. *See id.* at 1361-62.

[51] *See id.* at 1361.

[52] 510 F. Supp. 2d 1098 (S.D. Fla. 2007).

[53] *Id.* at 1106.

made in the past.[54] Although overruled on appeal for lack of subject matter jurisdiction,[55] the district court's analysis comports with the developing doctrine of the § 117 safe harbor provision.

¶34 *d) MDY v. Blizzard.*—The *Blizzard* case also weighed the precedent above in evaluating a section 117 defense. MDY argued that the users of Blizzard's game were owners because they were entitled to keep the copies.[56] However, the court held that the § 117 defense did not immunize the computer game users' infringing acts. The court cited several Ninth Circuit cases holding that "licensees of a computer program do not 'own' their copy of the program and therefore are not entitled to a section 117 defense."[57] Because Blizzard's agreement with the user explicitly stated that it was only a license, and the agreement significantly limited game users' rights to make copies of the game or transfer it to others, the court held that game users were licensees and not owners under § 117, and thus not entitled to the defense.[58] Despite a standard click through license, adequate warnings on the box that just a license was given sufficed to defeat a section 117 defense.[59]

2. Best Practices Under § 117

¶35 In view of the recent case law, licenses that specifically recite that the licensor owns all copies of the software, and place as many restrictions as reasonably possible on the manner of use of the software, should facilitate retention of all the copyright privileges. Additionally, the *Stuart Weitzman* case suggests that retroactive agreements with current software users may give ownership over all copies to the licensor. Software embodied in machines which are sold to users create particular problems, as the users typically "own" the machines per the "first sale" doctrine. Copyright infringement will much more likely be found where the machines are leased rather than sold.

IV. Conclusion

¶36 In light of the uncertainty raised by the *Bilski* machine-or-transformation test for patentability, software developers may increasingly rely on copyright as an alternative to patent protection. Copyright can offer software developers protections similar to that attainable through patents, especially in terms of indirect liability. However, the doctrines have some significant differences that should be considered in determining what combination of patent and copyright will offer the best protection. Additionally, software end-user license agreements should be carefully drafted with copyright protection in mind.

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[54] *Id.*

[55] *See* Stuart Weitzman, LLC v. Microcomputer Res., Inc., 542 F.3d 859 (11th Cir. 2008).

[56] MDY Indus., LLC v. Blizzard Entm't, Inc., 2008 U.S. Dist. LEXIS 53988, at *25-26 (D. Ariz. July 14, 2008). MDY adopted the argument from an amicus brief submitted by the organization Public Knowledge. *Id.*

[57] *Blizzard*, 2008 U.S. Dist. LEXIS 53988 at *25 (citing MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511, 518 n.5 (9th Cir. 1993); Triad Sys. Corp. v. Se. Express Co., 64 F.3d 1330, 1333 (9th Cir. 1995); Wall Data Inc. v. L.A. County Sheriff's Dep't, 447 F.3d 769, 784-85 (9th Cir. 2006)).

[58] *Blizzard*, 2008 U.S. Dist. LEXIS 53988, at *26-28.

[59] *Blizzard*, 2008 U.S. Dist. LEXIS 53988, at *29 ("The Blizzard license in this case is also a standard click-through license.").

¶37