

SOFTWARE LICENSING AGREEMENTS—SECTION 117 OF THE COPYRIGHT ACT— UNAUTHORIZED ADAPTATIONS AND ENHANCEMENTS

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A client calls with a problem. She has a copyrighted software package which she plans to sell to the public. Her market is sophisticated and specialized. Many of her customers have unique needs. She knows that once they get their hands on her software, they will tinker with the program to adapt it for their own peculiar uses. Her problem is that she does not want her users to enhance or adapt the software. She plans to do it for them—for an annual maintenance fee. She asks you to draft a license agreement which will prohibit a licensee from enhancing or adapting the software without first obtaining her written permission.

The rub is Section 117 of the Copyright Act. Section 117 states:

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 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 and that all archival copies are destroyed in the event that continued possession of the computer program should cease to be rightful.

At least two courts have ruled that section 117 preempts state law claims which are based upon language in a licensing agreement prohibiting adaptations for in-house use. If these cases are decided correctly, then the license agreement requested by your client will be unenforceable.

The Case Law

Vault Corp. v. Quaid Software, Ltd., 847 F.2d 255 (5th Cir. 1988), illustrates the problem. Vault made a floppy

diskette called Prolok. Prolok offered a security feature which prevented users from making unauthorized copies of any program put on the Prolok diskette. Relying on the Louisiana License Act which authorizes the licensor to prohibit copies and adaptations, Vault's license agreement specifically prohibited users from copying, modifying, translating, decompiling or disassembling the Prolok security program without prior written authorization.

Quaid made a diskette called Copywrite which included a feature to unlock the Prolok security device. A user could thwart the Prolok security feature and make an unlimited number of fully functional copies of any program on a Prolok diskette by copying the program on to Copywrite diskettes. Quaid admitted that it copied Vault's program into the memory of its computer, analyzed the manner in which the program operated and modified the program in order to create Copywrite.

Vault sought a preliminary injunction alleging, among other things, that Quaid breached the license agreement.

It has been said that in the Copyright Act Congress has preempted state law to the extent that state law "touches upon an area" of federal copyright law. In Vault, the court applied this principle without in-depth analysis. Because the Louisiana License Act would give a licensor greater ability to restrict adaptations and enhancements than is available under Section 117 of the Copyright Act, the court found that the Louisiana License Act is preempted. Accordingly, Vault's licensing agreement is unenforceable and the injunction was denied.

Similarly, in *Foresight Resources Corp. v. Pfortmiller*, 719 F. Supp. 1006 (D.Kan. 1989), the court denied a preliminary injunction on plaintiff's claim for breach of a software licensing agreement. There, Foresight sold Pfortmiller a copy of software known as Drafix 1+ which Pfortmiller adapted for use in an asbestos consulting business. He called the adapted version "the HK Digitizer," but did not attempt to sell it to other users.

In denying Foresight a preliminary injunction, the court found that Foresight failed to demonstrate a likelihood of success on the merits. The court was not persuaded that the language of the licensing agreement reserved the right to improve or enhance the software exclusively for Foresight. But even assuming that the contract language prohibited unauthorized adaptations, the court, citing *Vault Corp. v. Quaid Software, Ltd.*, questioned the enforceability of such an agreement in light of section 117. To grant Foresight a preliminary injunction based on state law "would have the effect of denying defendant the benefit of § 117 . . ." 719 F. Supp. at 1011.

The Legislative History

Does this mean that your client's situation is hopeless? Not necessarily. The reasoning of the *Vault* and *Foresight* courts should not go unchallenged. Neither court seems to have understood fully the legislative history of section 117.

In 1974 Congress established the National Commission on New Technological Uses of Copyrighted Works (known as "CONTU") to make recommendations concerning copyright protection for computer programs. In 1978 CONTU issued its final report which recommended the enactment of section 117 substantially as we know it today.

In 1980 Congress enacted the Computer Software Copyright Act which adopted the recommendations contained in the CONTU report. The legislative history, as contained in a committee report, states merely that the Act "embodies the recommendations of [the CONTU report] . . ." H.R. Rep. No. 1307, 96th Cong., 2d Sess., pt. 1, at 23, *reprinted in* 1980 U.S. Code Cong. and Admin. News 6460, 6482. This has led courts to rely on the CONTU report as an expression of legislative intent. *E.g., Vault Corp., supra; Foresight Resources, supra; Atari, Inc. v. JS&A Group, Inc.*, 597 F. Supp. 5, 9 (N.D. Ill. 1983); *Midway Mfg. Co. v. Strohon*, 564 F. Supp. 741, 750 n. 6 (N.D. Ill. 1983).

CONTU contemplated that software proprietors would be authorized to prohibit adaptations if they so chose. According to the final report:

[t]he conversion of a program from one higher-level language to another to facilitate use would fall within this right [of adaptation], as would the right to add features to the program that were not present at the time of rightful acquisition. . . . [t]his right of adaptation could not be conveyed to others along with the licensed or owned program without the express authorization of the owner of the copyright in the original work. Preparations of adaptations could not, of course, deprive the original proprietor of copyright in the underlying work. The adaptor could not vend the adapted program, under the proposed revision of the new law, nor could it be sold as the original without the author's permission. Again, it is likely that many transactions involving copies of programs are entered into with full awareness that users will modify their copies to suit their own needs, and this should be reflected in the law. The comparison of this practice to extensive marginal note-taking in a book is appropriate: note-taking is arguably the creation of a derivative work, but unless the note-taker tries to copy and vend that work, the copyright owner is unlikely to be very concerned. *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.*

Final Report of the National Commission on New Technological Uses of Copyrighted Works 13-14 (1978) (emphasis supplied).

Both the *Vault* and *Foresight* courts failed to appreciate the significance of the highlighted language in the excerpt quoted above. CONTU contemplated that state law would compliment section 117—not be preempted by it—at least to the extent that licensors may invoke local law to enforce contractual language limiting or prohibiting the creation of adaptations or enhancements. Because the CONTU report is the authoritative statement of the legislative intent underlying section 117, courts should agree that there was no congressional intent to preempt local law to the extent that local law permits licensors to limit or prohibit the creation of enhancements and adaptations.

Conclusion

You tell your client that there is some risk that the prohibitory language in her license agreement will not be enforced by a court in light of the *Vault* and *Foresight* cases. But you also tell her that those cases are poorly reasoned.

On the strength of the legislative history of section 117, you tell her that she has a good chance of having her license agreements enforced.