

A PRIMER ON SOFTWARE LITIGATION

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Software: *n* 1 : The entire set of programs, procedures, and related documentation associated with a system and esp. a computer system; *specif*: computer programs...

Litigate: *v* to carry on a legal contest by judicial process.

Webster's New Collegiate Dictionary, 1974.

INTRODUCTION

Software continues to grow as a part of everyday American life and the economy. Tech companies lead the surging bull market, and none of their products or services work without advanced software. No office worker in America today does their job without software. Many pundits predict the future of consumer purchases lies on the Internet. No one accesses the Internet without software. As the potential value of software continues to geometrically increase, disputes over who owns the rights to software will become even more common place. Businesses and individuals rely more on software for productive tasks, consumption and recreation each day. The increased use and expectations leads to more disputes over whether or not software performs as represented or agreed.

Courts on both the state and federal level now face software issues on a regular basis. As with most developing areas, the courts seek to apply traditional rules of law and then carve out exceptions if necessary. Legislators on both the state and federal level recognize the value of software and have made attempts to harmonize and structure the law as it applies to software products.

This presentation will give you an understanding of software litigation, how it tends to develop in the courts, and steps you can take to maximize your litigation position. Software litigation usually falls into three areas.

First, the purchaser, lessee or licensee of the software sues because the software allegedly does not perform properly. This litigation will be decided using contract law principals, possibly controlled by the Uniform Commercial Code, including warranty law. In this day of shrink wrap licenses, click wrap licenses, and sales of software on the Internet, consumer protection law and principals of personal jurisdiction as related to electronic commerce can also be important concerns for a software developer. Software performance litigation comes in two distinct types--the large purchaser, lessee, licensee who gets a custom or modified product as opposed to the "mass" business or consumer application.

The second type of software litigation involves a purchaser/lessee/licensee violating its agreement or maintenance agreement with the developer. A violation can involve something as simple as non-payment. More complex legal issues arise when a customer makes unauthorized modifications, allows unauthorized access, makes unauthorized copies, or sells the software package itself or maintenance/modification packages for the software. This litigation will also rely on contract principals, including any extraordinary relief provided for in the contract. Software misuse litigation also often involves copyright, patent or trade secret law.

The third type of software litigation involves a competitor or other person incorporating a portion of your code in his product, making/selling unauthorized copies, making/selling unauthorized modifications or otherwise unlawfully displaying, using, selling or manufacturing your software. These software piracy cases do not involve contract at all. The deciding legal principals will come from federal copyright and patent law and, to a lesser extent, from state or federal trade secret law. The Business Software Alliance (BSA) and Software Piracy Association (SPA) both pursue this type of litigation on behalf of their members. The BSA and SPA may also pursue a customer who makes unauthorized copies but likely will do so only on copyright or patent grounds rather than contract grounds.

Each of these types of litigation presents issues about forum, remedies, strategy and costs. Some of these will overlap. The following outline will cover all three types of litigation.

OUTLINE OF PRESENTATION

- I. Software performance litigation. **Attachment One--Sample Complaint.**
 - A. Forum, what law governs.
 - B. Issues.
 1. Timely implementation.
 2. Functionality.
 3. Processing speed.
 4. Peripherals--printing, formatting, communication with other programs, etc.
 5. Ease of use.
 6. Maintenance/modifiability.
 7. Y2K. **Attachment Two--List of Y2K cases.**
 - C. Limitation of warranties **Attachment Three--Dowty Communications Inc. v. Novatel Computer Systems Corp.**
 - D. Limitation of remedies: repair, replacement, refund. **See Attachment Three.**
 - E. Application of the Uniform Commercial Code.
 1. Goods or services? **Attachment Four--Hartford Mut. Ins. Co. v. Seibels, Bruce & Co.**
 2. Proposed new chapter for software **Attachment Five--S. Chow, "Intellectual Property Licensing Under UCC 2B."**
 - F. The shrink wrap or click wrap license. **Attachment Six--Article and ProCD, Inc. v. Zeidenberg.**
 - G. Selling software over the Internet--where might you get sued? The sliding scale from informative site to advertising site to interactive site. **Attachment Seven--M. Manos, "Intellectual Property Law in Cyberspace." especially pp. 11-12.**

- II. Software misuse litigation. **Attachment Eight--Sample Complaint.**
 - A. Forum/what law governs.
 - B. Preliminary relief--this can be the entire war, not just a battle in many cases, include it in your contract. **Attachment Nine--Sample Preliminary Injunction Motion.**
 - C. Copyright protection cases. **Attachment Ten--Avtec Systems, Inc. v. Peiffer.**
 - D. Patent protection cases. **Attachment Eleven--Refac International, Ltd. v. Lotus Development Corp.**
 - E. Trade secret protection cases, generally not the way to go. **Attachment Twelve--S.C. Statute, Articles.**

- III. Software piracy litigation. **Attachment Thirteen--Sample letters.**
 - A. Many issues similar to those discussed under software misuse, but no contract involved.
 - B. Preliminary relief--even more important in this case and possibly determinative.
 - 1. Marshall's order for search and seizure.
 - 2. Impoundment.
 - C. Typical ways to assess damages.
 - 1. Copyright. Statutory damages vs. actual (royalty or profits); attorneys' fees.
 - 2. Patent. Royalty or profit; attorneys' fees.
 - 3. Trade secret. Possible trebled damages and attorneys' fees.
 - 4. Why it is important to use copyright or patented notice or warning or trade secrets--intent gives you greater remedies.
 - D. Some common defenses.
 - 1. Statute of limitations/laches.
 - 2. Independent invention/development.
 - 3. Within licensed rights.

4. Legal reverse engineering.
5. Software is in the public domain.

IV. Check list for beginning a software misuse or piracy case. **Attachment Fourteen.**

CHECKLIST FOR SOFTWARE PIRACY LITIGATION

The following is a check list of information to have when you go talk to your attorney about a possible misuse of your software. This will help focus the issues, save costs and evaluation whether or not you have a case.

1. Have a complete copy of both your product and the infringing product.
2. Have all the information on the person or entity who owns or sells the infringing product--address, phone, how they sell it, marketing materials, manuals etc.

3. What type of claim do you believe you have?

Breach of contract (be sure to bring copy of all relevant contract documents)

Copyright infringement (Bring your copyright registration)

Patent infringement (Bring your patent and application)

Trade secret (Bring your company procedures for maintaining trade secrets)

NOTE: you may have a combination of contract with any of the last three or a combination of trade secret and copyright claims. Generally, you cannot have both a trade secret and a patent claim in the same software.

4. When did the other party begin selling, distributing, using the product? (Find out how acquired. If developed before your product, you probably have no claim).

5. How did the other party get access to your product to copy or use it?

6. What is the other party charging for the software, including maintenance if any? How many sales have been made?

7. What do you charge for your product? Can you estimate how many sales/licenses you have lost?

8. Do the products directly compete? How are they different? How significant are the differences?

9. Are any of your former employees, agents or contractors involved with the other party?

--If yes, what types of contracts/covenants against disclosure or competition did you have with them.

10. What are the types and costs of advertising you have done for your software? (Bring the advertising copy).

11. The same for the other party's advertising.
12. What is the geographic market for your product? For the other product?
13. In general, get all the useful information you can on the other party, their structure, financial situation and their product. Use their marketing/sales materials, web site or any other source you can access.