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SOFTWARE RENTAL, PIRACY, AND COPYRIGHT PROTECTION†

A recent development in the computer industry has been the emergence of software rental companies. For fifteen to twenty-five percent of the cost of a program, a person or business can rent a software package for a one to three week trial period. If the lessee decides to purchase the package, the rental price is credited toward the selling price. The software manufacturers want this practice stopped. They believe it is a profitable exploitation of their product and an infringement of their copyright. One manufacturer has initiated suit against one of the rental companies.

The leasing of software packages is clearly a profitable exploitation of the manufacturer's labor, but it is not an infringement of the copyright statute. The owner of a copy of copyrighted material is free to alienate that copy in any manner, including lease. The only infringement that can be claimed is that the lessee is copying the package and retaining the copy at the termination of the lease. The claim would then be that the lessor is contributorily infringing on the copyright by making the packages readily available without purchase. If it can be proven that the lessor knew or had reason to know that the lessee leased the package with the intention of copying it, the claim will be upheld with respect to lessees who use the package for profit. Personal, private copying, however, may fall under the aegis of fair use, which may exculpate the lessor as well.

This Note will argue that software manufacturers need and deserve protection from short-term renting companies. There is both legislative authority and a policy justification for granting a fair use exemption for private, noncommercial users, but the exemption

2. Id. MicroPro International Corp. is suing United Computer Corp. in the federal district court in San Francisco.
5. See infra § III for a discussion of fair use.
should not protect a lessor's exploitation of a manufacturer's product. The protection should be granted by amendment to or interpretation of the copyright laws. Other remedies that are available do not offer adequate protection.

I. THE RIGHT TO RENT SOFTWARE IS PROTECTED BY STATUTE

Under existing law, software rental is not piracy, but a fully protected right of the owner of a copy of copyrighted material. Under section 106(3) of the Copyright Act of 1976, the copyright owner has the exclusive right "to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer or by rental, lease or lending." Nevertheless, section 109(a) severely restricts that right once title to a particular copy of the work has been relinquished: "Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord." If the holder of the copyright has relinquished all title in the physical copy, the copyright law does not allow him to restrict the disposition of the copy. If the copyright holder retains some claim of ownership, such as by transferring possession through rental, lease, loan or other means, section 106(3) still applies and the copyright holder can control distribution. For large computers, or mainframes, this arrangement is common and takes the form of licensing agreements that usually carry maintenance agreements as well. Software manufacturers have tried to sell the right to use the software without selling any rights in the physical copy by granting licenses to software "purchasers" and theoretically retaining title of copies. Nevertheless, software packages for personal computers are consumer products and are generally sold at retail to unsophisticated consumers. As a result, the assertion that the copy is not the owner's property might not be valid. If the distinction is not valid, then the purchaser is authorized to rent the software.

In addition, the courts have adhered to the "first sale" doctrine. Under this doctrine, the courts hold that the right of copying re-

8. See Software Rentals, supra note 1, at 91.
9. If there is no meeting of the minds, or mutual understanding regarding the "right to use" limitation, the limitation may be struck from the contract as unconscionable. See A. Corbin, Corbin on Contracts, One Volume Edition, § 107 (1952).
mains with the copyright holder, but the right to alienate a copy belongs to the lawful possessor or owner of the physical copy.\textsuperscript{10} Therefore, an agreement not to sell a copy is enforceable in contract, but a sale in violation of such an agreement will not constitute infringement under copyright law.\textsuperscript{11} The right to control resale is not vested by copyright.\textsuperscript{12} For example, when defendant copyright holders refused to sell to retailers who sold books below list price, the Supreme Court held that copyright protection could not be invoked as a defense to an action for unlawful restraint of trade under the Sherman Antitrust Act.\textsuperscript{13}

One may argue that the first sale doctrine is granted in order to give the copyright holder remedies against possessors or owners of unauthorized copies when no remedy is available against the infringing copier. The doctrine does not support any right of the copyright holder in the physical copies.\textsuperscript{14}

While the above-mentioned arguments support the first sale doctrine generally, there are also policy reasons to adhere to the first sale doctrine as it relates to computer software. Software rental by someone other than the copyright holder serves a special function. Computer consultants and software houses match the needs of a client as closely as possible to the hardware and software available on the market and then "customize" the collection by writing routines to connect the functioning of different packages or to simplify data entry for a particular application.\textsuperscript{15} They may lease the whole package as a "turnkey" system, the name reflecting the idea that all the user has to do is turn on the system, while the system does the rest. Such systems may come with maintenance agreements for the length of the lease, so that the consultant will handle problems with either hardware or software. In an area that is growing and changing as fast as computers, and where expertise is expensive to maintain, these arrangements are very valuable. These arrangements are also not likely to result in piracy, as the lessee has possession of the software and hardware for the same amount of time, that is, the amount of time for which the software has value to

\textsuperscript{10} United States v. Wise, 550 F.2d 1180 (9th Cir. 1977).
\textsuperscript{11} Id.
\textsuperscript{13} Straus v. American Publishers' Ass'n, 231 U.S. 226 (1913).
\textsuperscript{14} See 2 M. Nimmer, NIMMER ON COPYRIGHT § 8.12 (1983).
\textsuperscript{15} This does not infringe the copyright holder's rights under 17 U.S.C. § 117 (1982) (adaptions may only be transferred with the consent of the copyright owner). This work affects not the package, but the interface between the package and the screen, which is external to the copyrighted work.
him. Additionally, the quality of the custom package is enhanced by the ability of the consultant to choose different parts of the system from different vendors. If copyright holders had exclusive control over rental, packages containing the works of competing companies would be less readily available.

The copyright holder would likely desire control over the use and transfer of his work even after sale. If no copies could be lent, leased, or sold to a third party, every person who wanted access to a work would have to purchase a copy. Congress and the courts did not elect to grant the copyright owner such control over distribution of the tangible physical property which embodies the copyrighted work. All rights to copy remain with the copyright holder, but all other rights of ownership belong to the purchaser.

II. CONTRIBUTORY INFRINGEMENT

The question in this section arises from the nature of a short term rental of software. Business sense indicates that one would not spend fifteen to twenty-five percent of the cost of a product merely to try it out for one to three weeks. The payoff must be elsewhere. The likely source of the payoff is copying. It makes good sense to rent a copy of a program for fifteen to twenty-five percent of list price in order to make another copy when the degree of protection the copyright affords is still open to debate.

When commercial lessees make and retain a copy of software after returning the rented original copy, they clearly infringe on the copyright holder's exclusive right to reproduction. Nevertheless, the cost of discovering individual infringers and obtaining a remedy outweighs the harm that most infringers cause. The likelihood of an adequate remedy is slim, as is the case with infringement of audio visual works. The aggregate cost of this abuse, however, may be substantial.

If the software lessor knows or has reason to know that the lessee is copying the software and retaining a copy, he may be held liable on a theory of contributory infringement. In Screen Gems—Columbia Music, Inc. v. Mark-Fi Records, Inc., where a retailer sold records at a price "suspiciously below market price," the copy-
right owner was held to have a cause of action. The court based its reasoning on the tort notion that one who knowingly participates in tortious activity is jointly and severally liable with the primary tortfeasor. In *Gershwin Publishing Corp. v. Columbia Artists Management*, a manager who allowed his performing clients to perform copyrighted works without proper licenses was held contributorily liable, even though he had not infringed the copyright himself. The manager was in a position to control the infringement and did not; he was therefore liable.

For software lessors, the threshold question for finding contributory infringement is whether and to what extent the lessee is pirating software. If copying activity is minimal, the staples of commerce doctrine would bar a finding of contributory infringement. If most customers are merely trying the software before purchasing it, and are not retaining copies, then the lessor is providing a valuable service and should not be liable for the acts of an occasional infringer. If a substantial proportion of the lessees are pirating the software by retaining copies, then the lessor should be charged with knowledge of the infringement. Since eighty percent of the revenues of software sales and rental companies come from rentals, the probability of piracy is high.

If the infringement occurs in conjunction with a profit making activity, the doctrine of fair use does not offer a defense. Section 107 of the copyright code outlines the elements that support a finding of fair use:

> Notwithstanding the provisions of section 106, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—

1. The purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
2. the nature of the copyrighted work;
3. the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
4. the effect of the use upon the potential market for or value

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21. 443 F.2d 1159 (2d Cir. 1971).
22. See *Software Rentals*, *supra* note 1.
23. *Id.* at 91.
of the copyrighted work.\textsuperscript{25}

With software copying, the work is an identical copy. There is not even the loss of fidelity associated with home audio recording. In addition, the activity of renting is engaged in for profit. Software is "read" by a computer to create a tool; it is not read by the lessee to obtain information.\textsuperscript{26} The concept of the free flow of ideas, which is embodied in the Constitution\textsuperscript{27} and which excuses behavior such as copying news programs for scholarly reasons,\textsuperscript{28} does not apply to software rental. The constitutional clause justifying copyright\textsuperscript{29} does not justify the theft of traditional tools of research and development, such as laboratory equipment, even when the tools are used to further scientific developments. Likewise, it cannot justify the theft of intellectual property to create such a tool.\textsuperscript{30}

The only possible application of the doctrine of fair use to software rental is if a majority of lessees are using the software legitimately, while but a few are pirating software. The lessor may have knowledge of the infringement, but the nature of his involvement is that of an unwilling participant, as he has no control over the lessees' actions. Conversely, the lessor who gains substantial profit from leasing to people who make and retain copies has no more control over such behavior, but engages in the rental business specifically to profit from the lessees' piracy. This approach of finding contributory infringement but allowing a fair use defense, or finding that the activity interferes with the copyright holder's rights but does not constitute infringement because of fair use, may be preferable to finding no contributory infringement in the case of minimal abuse.\textsuperscript{31} There is some harm to the copyright holder, and the lessor is contributing to that harm. But the benefit of the lessor's business to society should be weighed against the harm to the software developer's incentive to produce, just as the relative benefit or harm from direct infringement is analyzed under section 107. The amount of damage standing alone should not decide the issue of infringement, for to do so would mean that the single user would not be an infringer. Fair use developed as an "equitable rule of rea-

\textsuperscript{26} See Davidson, supra note 18, for a description of this "reading" process.
\textsuperscript{27} U.S. Const. art. I, § 8, cl. 8; U.S. Const. amend. I.
\textsuperscript{29} U.S. Const. art. I, § 8, cl. 8.
\textsuperscript{30} See, e.g., Encyclopedia Brittanica Educational Corp. v. Crooks, 542 F. Supp. 1156 (W.D.N.Y. 1982) (despite the fact that individual copying for scholarly purposes would be fair, the wholesale copying for profit did not constitute fair use).
\textsuperscript{31} See 3 M. Nimmer, supra note 14, § 13.05[E] for a discussion of this rationale as applied to photocopying.
son. It excludes from infringement liability uses providing more benefit to society in furtherance of the arts and sciences than societal detriment by reducing the copyright holder's incentive to produce.

Unfortunately, the Supreme Court has not adopted a fair use standard for analysis of contributory infringement. In *Universal City Studios v. Sony Corp. of America* (Betamax), Universal Studios sued Sony on the theory that, by manufacturing and distributing video cassette recorders (VCR's), Sony was contributing to the copyright infringement that occurred when the purchasers of VCR's copied the plaintiffs' programs. The court adopted the standard that there is no contributory infringement if the product may "merely be capable of substantial noninfringing uses," drawing an analogy to the staples of commerce doctrine in patent law. Such a broad standard was unnecessary. The court found time-shifting to be a substantial noninfringing use; this finding alone would have been sufficient to preclude liability, without resort to the "mere capability" language.

Future courts may distinguish between providing the copying


34. 104 S.Ct. 774 (1984). The district and appellate courts in Betamax decided differently the question of whether the copyright holder had reason to know of the infringement. The district court recognized that if the manufacturer could be charged with knowledge of infringement, and if there were not substantial noninfringing uses, the manufacturer would be contributorily negligent. Nevertheless, it held that, assuming home video copying was not fair use, the defendants' knowledge of infringement was insufficient to make them liable. A home video recorder is a staple of commerce, and the manufacturer cannot be held liable if such an item is used later for an illegal act. Otherwise, the manufacturer of typewriters would be held liable for extortion letters subsequently typed on it. Sony had no direct contact with the consumer, and Henry's Camera, the retailer, had insufficient contacts with the Griffiths, the actual copiers, to have any knowledge of the use they would make of the product. Furthermore, since the limits of copyright protection for home video recording had not been determined, the defendants could not be charged with knowledge of copyright infringement.

The Court of Appeals did not find home video recording to be fair use. The court did not dispute the value of the staples of commerce doctrine, but held that a home video recorder did not have substantial noninfringing uses, and could not be protected by the doctrine. Sony could be charged with constructive knowledge of the infringing uses. An actual lack of knowledge of the law speaks to the remedy, not to a finding of infringement.

35. Id. at 789.

equipment and providing the copyrighted work itself, but this is unlikely. If the right to rent were not granted by section 109(a) of the Copyright Act, renting alone might be sufficient to find inducement to infringe. But, since the right to rent is granted by statute, and selling the copying equipment and providing the copyrighted work by rental equally facilitate the piracy, both activities should be judged by the same standard for contributory infringement. People may rent software merely to see if it will do the task for which it is being purchased, deciding to purchase the software if it performs adequately. Thus, short term rental is capable of substantial noninfringing uses.

The second test for contributory infringement is that the infringer's actions must induce, cause, or materially contribute to the infringing conduct of another. It seems that making software available for fifteen to twenty-five percent of the purchase price, with no supervision to ensure that copying does not occur, would materially contribute to the infringing conduct of another. Furthermore, creating the opportunity to copy software that is identical to the original for a seventy-five to eighty-five percent discount may be construed as an inducement to infringe. In Betamax, the Supreme Court adopted a stringent standard for finding infringement. Making VCR's available for use in copying did not induce infringement, even though virtually all television programs that a VCR might copy are copyrighted. The court implied that Sony might be liable if its advertisement induced infringement but, it, standing alone, making the means available for piracy did not constitute inducement.

The third test of contributory infringement is the nature of the relationship between the direct infringer and the contributor. When the contributor is the employer or agent of the direct infringer, he may be liable. If the contributor substantially benefits from the infringement, he may be liable. The test appears to be limited to cases where the person who benefits from another's infringement is in a position to prohibit the infringement. Merely selling the equipment used in infringing activities, or making the product available for infringement, is not sufficient.

38. See Software Rentals, supra note 1.
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The court in Betamax did not discuss contributory infringement in terms of the general standard for contributory liability in tort. The joint tortfeasor must be "proceeding tortiously, which is to say with intent to commit a tort, or with negligence. One who innocently, and carefully, does an act which furthers the tortious purpose of another is not acting in concert with him."42 For example, the agent who allows clients to perform copyrighted songs is either negligent or intentionally benefiting from the infringement. On the other hand, Sony had reason to believe that home recording would be fair use; it was intentionally contributing to the activity of copying, but not necessarily to infringement. Likewise, the lessor who enters the software rental market to earn profits generated by non-infringing lessees and does all possible to ensure piracy is not occurring, but who unintentionally assists a pirate, is not acting tortiously and should not be liable under a tort rationale. Nevertheless, if the market is profitable only because it provides assistance to pirates, then the lessor intends to profit from the piracy and is acting tortiously and should be liable. This analysis is consistent with Betamax and will lead to a just evaluation of software lessors.

III. HOME COPYING AS FAIR USE

It might not be an infringement of copyright for a private individual to copy another individual's copy of software for personal, noncommercial use.43 This practice is similar to the reproduction of phonorecords onto audio cassettes that is common today. Neither practice is entered into for profit. Both are modern high-technology examples of lending and borrowing among friends. Likewise, giving away a tape without expecting it to be returned is motivated by the same qualities of generosity and friendship that would motivate lending the original. In some instances, it is simply more convenient to give away the copy than to lend the original. The finding in Betamax that time-shifting (taping for later viewing) is fair use44 supports the argument that copying for convenience is fair use. In the case of a software diskette, the possibility of hardware malfunction is always present. In order to avoid the risk of damage to the original, a person is likely to lend a copy rather than the original, even when expecting the copy to be returned.45

44. Sony, 104 S. Ct. at 789.
If personal copying is not fair use and if the prohibition against copying could be enforced, the practice of making copies to give away might be curtailed, but the practice of lending would continue. If both lender and borrower made frequent use of a particular program, the borrower might eventually purchase a personal copy, assuming affordability. Programs cost from $25 to $500. The lower end of the spectrum is comprised mainly of games and utilities that substitute simpler commands for more tedious programming functions. People are more likely to borrow the games and do without the utilities if they cannot afford a personal copy. The higher end of the spectrum, software selling for more than $200, includes major software packages that transform the computer into different tools, such as spreadsheet, database, and word processing systems. Although it is conceivable that an individual user could write such packages with the languages built into the computer, it is unlikely that many would do so.\textsuperscript{46} The cost of these packages makes doing without a more likely substitute for piracy than purchasing the software. The potential loss of sales is limited to those purchases that would be made because copying is illegal and borrowing is impractical. It is unlikely that sharing software among friends by copying rather than borrowing shrinks the market enough to affect the availability of diverse products. It may be so unlikely that it cannot justify the invasion of privacy that enforcement of the copyright would require.\textsuperscript{47}

With phonorecords the ratio between the cost of a blank tape and a prerecorded tape is approximately 1:3. If the practice of copying were curtailed, it is likely that a substantial portion of the money now being spent for blank tapes would be spent on purchases of phonorecords. The ratio for blank floppy disks (two to five dollars) to pre-recorded software is 1:10 to 1:250. It is less probable that the money spent on copies would be spent instead on purchases of software if copying were curtailed, or that the money otherwise spent on purchases of software would have a major impact on the market. Therefore, the argument that private copying should be fair use is stronger for software than it is for phonorecords. If privacy concerns justify tolerance of the personal copying of phonorecords, where copying more than likely reduces sales of the original recording, the same concerns should justify tol-

\textsuperscript{46} Most home computers come with a form of the BASIC language, in which all of the processes of the larger packages can be performed. A great deal of time would be required to recreate a package’s functioning, however, and such a task takes great programming sophistication.

\textsuperscript{47} Despite this, the fair use doctrine should not extend protection to the lessor. \textit{See infra} § IV.
erance of copying and trading of software. Since the major determination of fair use is the presence of economic gain to the infringer or loss of market for the copyright holder, a finding of fair use is warranted.

In the legislative history accompanying the Sound Recording Act of 1971, Congress made it clear that the act was not intended to prohibit taping from radio broadcasts or recordings for private use. The practice was unrestrained and common in 1971, as was the practice of trading copies among friends. Nothing in the legislative history suggests that Congress intended to distinguish copying the phonorecord of another from copying one’s own phonorecord, holding the first, and not the second, a copyright infringement. Likewise, the practice of trading software is common among computer owners today and is becoming more common as computers become more commonplace. If a person may copy a friend’s phonorecord, he should be able to copy a friend’s software diskette.

Betamax was expected to determine the extent to which private use is protected under the fair use doctrine. The trial court applied fair use to the home copying of television broadcasts an analogy to the fair use exception for audio recording. The appellate court reversed on the theory that Congress created the exception for audio taping because it was so widespread at the time, but did not intend to carry the idea over to video recording, which was new and uncommon at the time. The court felt that fair use protects productive uses, but not nonproductive uses, even when such uses do not harm the copyright holder. The Supreme Court reversed on this issue:

A challenge to a noncommercial use of a copyrighted work requires proof either that the particular use is harmful, or that if it should become widespread, it would adversely affect the potential market for the copyrighted work. . . . If the intended use is for commercial gain, that likelihood may be presumed. But if it is for a noncommercial purpose, the likelihood must be demonstrated.

The court further held that time-shifting, or copying for later viewing, was fair use. It explicitly did not rule on the transfer of tapes to other persons, or the use of home-recorded tapes for public perform-

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52. Sony, 104 S. Ct. at 793.
ances, and it did not discuss the maintenance of a tape library. Universal Studios sought no relief against the individual infringer, and the individual infringer did not appeal the decision, so these issues were not before the court.

The Supreme Court took an unusual step in this case. After hearing argument in the 1982 session, it rescheduled the case for re-argument in the 1983 session. Commentators believe this was predominantly a stalling tactic to allow Congress to decide the issue by legislation.\(^5\) The Supreme Court, by basing its decision in part on Congressional silence, seems to confirm this belief.\(^5\) Congress did not take up the offer, although members of each house did propose legislation.\(^5\) The author feels that the Congressional silence should be seen as a mandate to refer back to the legislative history of section 107. The section should be flexible enough to handle new technology, and this new technology should be governed by the same policies and principles that govern older technologies.

This mandate does not immediately answer the question of whether software copying for private use should be tolerated. A weighing of the relative advantages and disadvantages to individual users and producers of intellectual property is still required. Does copying for private use adversely affect the incentive to produce, hence affecting the diversity of products on the market? Computer programs are costly to create. With the limited market that exists, developers keep royalties high in order to recoup the costs and make a profit. This results in high prices, which encourages piracy. Piracy works to keep the market small, which in turn contributes to high costs. In order to secure relief, the software developer must prove that an effective ban against copying will break this cycle. But for many users, computers are only affordable because software is shared. An enforced prohibition against copying could decrease computer sales and decrease, rather than increase, software sales. It is the availability of ideas to society, not the economic interest of the author, that the copyright laws are designed primarily to protect.\(^5\) Congress grants an author a limited monopoly for the sole purpose of providing the author with an incentive to produce.

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54. *Sony*, 104 S. Ct. at 796.
IV. A FAIR USE EXCEPTION FOR HOME RECORDING DOES NOT JUSTIFY CAPITAL EXPLOITATION OF THE RIGHT

The previous section demonstrated that a fair use exception may exist for personal, non-profit use of copyrighted materials. There is, however, another application of this doctrine that considers a use a fair one because society profits from the use of the copyrighter's work. That fair use doctrine allows authors to quote short passages from copyrighted works for purposes of illustration or criticism. It also allows medical libraries to copy and distribute articles from medical journals. The purposes of these two applications of the fair use doctrine are different. The second applies the word fair in the sense of just and honest.57 Absent any considerations outside the purposes and scope of the Copyright Act, the use of copyrighted material in this manner would be fair. The purpose of advancing science and the useful arts is best served by allowing this use of the copyrighter's material. In describing the private use doctrine, the word fair in the sense of "according to the rules,"58 as in "fair play," is more appropriate. In this case, no justification for the use lies within the purposes that underly the copyright protection. Rather, the reason for allowing such a copy comes from another source. A fundamental right to privacy59 underlies the decision to deny a remedy to the holder of the copyright.

Despite a finding that the private borrowing and copying of a software package is a fair use, a person leasing the software for profit should still be liable for contributory copyright infringement if there is reason to believe that a copy is being made and retained. The combined acts of the lessor and lessee have a damaging impact on the copyright holder's potential profits and motivation to produce new works. The right to privacy that excuses personal use does not apply to the lessor. In the criminal law, we may not hold criminally responsible a person who cannot understand the criminal nature of his act.60 Nevertheless, we may hold the person who conspired with

57. WEBSTER'S NEW INTERNATIONAL DICTIONARY 815 (3d ed. 1966) (definition 7a).
58. Id. (definition 7b).
59. See Griswold v. Connecticut, 381 U.S. 479, 484-86 (1965) (finding of a right to marital privacy as a result of penumbras surrounding the specific guarantees in the Bill of Rights). But see id. at 507-09 (Black, J., dissenting) (there is no constitutional right to privacy, though there are guarantees in specific provisions designed to protect privacy at certain times and places with respect to certain activities).
60. MODEL PENAL CODE § 4.01(1) (Proposed Official Draft 1962) ("A person is not responsible for criminal conduct if at the time of such conduct as a result of mental disease or defect he lacks substantial capacity either to appreciate the criminality
him guilty as a conspirator.\textsuperscript{61} Similarly, we may choose to respect the right to privacy and protect the copier, but hold liable the lessor, as a contributory infringer.

The infringement of the rights of the copyright holder is identical whether a person copies a program and sells it for fifteen to twenty-five percent of its list price, or whether a person leases it for the same price and allows the lessee to copy it in the privacy of his home. The only difference is that we may choose not to enforce the rights against the lessee. This decision, based on privacy concerns, should not justify the lessor's exploitation of the copyright holder's product. The place where the copy is made should not determine the extent of the copyright holder's protection.

This same reasoning can be applied to the decision in \textit{Elektra Records Co. v. Gem Electronic Distributors, Inc.}\textsuperscript{62} The defendant owned a coin operated eight-track cartridge copying machine, a "Make-a-Tape" system. He lent copies of copyrighted works to customers who purchased blank cartridges in his store. They copied the copyrighted work onto the blank tape and obtained a copy of the work for $1.49 to $1.99 instead of the $6.00 retail price of a legitimate copy. The court looked to the legislative history that created the exemption for home audio recording, which provided that a "home recording is for private use and with no purpose of reproducing or otherwise capitalizing commercially on it."\textsuperscript{63} The court reasoned:

In lending the copyrighted sound recording to the customer without charge, in selling the less costly blank tape from which the spurious but exact copy may be made, and in providing the equipment whereby it may be speedily done at minimal cost, defendants are engaging in mass piracy on a custom basis. To view this activity as a form of "home recording" would stretch the imagination to the snapping point. To refuse to protect the plaintiffs' exclusive reproduction and publication rights in such circumstances would defeat the very purpose of the sound recording amendment and nullify the intent of Congress.\textsuperscript{64}

The court did not rely on a finding that the employees of Gem

\begin{footnotes}
\item[61] Model Penal Code § 5.04(1)(b) (Proposed Official Draft 1962) ("it is immaterial to the liability of a person who solicits or conspires with another to commit a crime that: . . . (b) the person whom he solicits or with whom he conspires is irresponsible or has an immunity to prosecution or conviction for the commission of a crime").
\item[64] Electra Records Co., 360 F. Supp. at 824-25.
\end{footnotes}
assisted in the copying; it was illegal to create the opportunity to produce the tape, even if the employees did not actually do the copying. The court found the defendant's role in the copying to be an infringement. Similarly, although persons who copy software for private use may not be infringers, those who profit from making such copying available should be liable as infringers.

V. ALTERNATE REMEDIES

Alternate remedies do not offer adequate protection for the copyright holder. The copyright holder may put conditions on the contract of sale, but contract remedies are limited to provable damages, which may be impossible to prove. Contract remedies would also be limited to the first purchaser who actually contracts with the copyright holder. The remedies in many cases would not extend beyond the retailer, and would never reach a third party lessor or the pirate. Furthermore, retailers often are forbidden from discriminating among customers, so any contract attempting to discriminate against pirating customers would be illegal. Software manufacturers have attempted to license only the right to use, but if it is perceived as a sale by the courts, the licensing agreement will be ineffective. 65

Using technological techniques to limit the ability to copy software does not provide an adequate solution. 66 In any encryption scheme, the decoder must be part of the package, and can be reverse engineered. Bit copiers can generally be modified to copy almost any disk. New “wild cards” take a direct copy of the working program from memory, thereby bypassing the encryption problems. 67 Furthermore, because of problems of hardware malfunction and operator mistakes, the inability to copy a program for the legitimate purpose of backup makes the product less desirable. 68 Future technological advances may offer a solution to the problem of copying, but, for the present, technology does not offer a solution. 69

The law of unfair competition may allow the software developer

65. See United States v. Wise, 550 F.2d 1180, 1192 (9th Cir. 1977) (reversing one of several counts of copyright infringement due to inability of government to prove absence of first sale; language of transaction purported to be license agreement held to constitute a sale).


69. See Davidson, supra note 18, at 411-13.
to prohibit rental in some jurisdictions: it is not fair to compete against a company with that company's own product.\textsuperscript{70} Other jurisdictions, however, require actual competition, and software rentals may not be viewed as competing with sales. The software developer does not want to have his products rented by purchasers, because renting facilitates piracy, resulting in the loss of sales. This result would also occur if the developer rented the software. The competition is between legitimate uses of the software and piracy, not between leasing and sales. In jurisdictions requiring actual competition, however, no remedy will be provided.\textsuperscript{71} Furthermore, the federal copyright statute allows rental of copyrighted works,\textsuperscript{72} and may pre-empt state remedies.\textsuperscript{73}

\textbf{VI. CONCLUSION}

The enforcement of copyright protection against individual lessees who pirate software is likely to be too costly to be pursued by a software developer. Nevertheless, the aggregate effect of piracy by all lessees of software may adversely affect the profitability of developing software, and therefore affect the diversity of products on the market. Software rental by agents other than the copyright holder, however, may sometimes be desirable, as when an independent agent may combine competitors' products to create a superior system. A complete removal of the rights of an owner of a copy to lease that copy may also reduce diversity in the marketplace.

Congress should replace the blanket right of the owner of a copy to lease that copy with a compulsory licensing and royalty scheme similar to the scheme adopted for audio recording\textsuperscript{74} and proposed for rental of phonorecords and video tapes.\textsuperscript{75} The copyright holder would get a royalty, and a larger share of the profits generated by his product, without getting complete control of the rental of the product. Society would get the benefits of diverse products.


\textsuperscript{71} See \textit{supra} § II for a discussion of contributory infringement.

\textsuperscript{72} 17 U.S.C. § 109(a) (1982).

\textsuperscript{73} See Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964) ("because of the federal patent laws a State may not, when the article is unpatented and uncopyrighted, prohibit the copying of the article itself or award damages for such copying." \textit{Id.} at 232-33.).

\textsuperscript{74} 17 U.S.C. ch. 8 (1982).

\textsuperscript{75} S. 1758 amend. 1333, 97th Cong., 2d Sess. (1982).
without compromising the right to privacy. Short-term rental which induces piracy should be prohibited.

Congress should also clarify the extent to which home use is protected by the doctrine of fair use. It is impossible to interpret the copyright act consistently with the intentions of Congress when those intentions have been perceived to be (1) a limited protection for home recording of audio works that was removed by the passing of the Copyright Act of 1976 or (2) a blanket protection for all recording done in the home, including the copying of television shows and software. Congressional silence on this issue is a disservice to the courts and the people.

If Congress does not act, the courts are not empowered to implement a system of royalties. The right of a lawful owner to rent copies of the software is granted by section 109(a) of the Copyright Act, and any royalty scheme imposed by the courts would violate the statute. The courts should instead apply the doctrine of contributory infringement, and extend it to include those cases in which the contribution to infringement is unfair, though the actual infringer is excused. The doctrine of fair use should allow software rental only when the benefit of the noninfringing uses to which the lessor's efforts contribute outweighs the harm caused by certain infringing lessees.

The goal of the copyright law is to promote the sciences and useful arts. Software developers need economic incentive to create products if they are to further that goal. They need adequate assurance that they will be the principal beneficiaries of the profits generated by their products. They must also be adequately compensated for the rental of their packages, since rental encourages piracy. Congress must limit or eliminate short term leasing to protect the rights of the copyright holders. If Congress does not act, the courts should apply the contributory infringement theory to curtail this activity.

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