ECKERT SEAMANS ATTORNEYS AT LAW

April 14, 2023

Intellectual Property Update

SPLIT FEDERAL CIRCUIT DECISION MAY LIMIT NONLITERAL COPYRIGHT INFRINGEMENT OF COMPUTER SOFTWARE

By Daniel J. Melman

In a precedential ruling, with implications for the computer software industry, a divided Federal Circuit recently affirmed a lower court's finding that the owner of copyrighted software failed to establish the *copyrightability* of nonliteral elements of its computer programs. *SAS Institute, Inc. v. World Programming Ltd.* (2021-1542) ("*SAS v. WPL*"). The case had garnered significant interest and prompted numerous amicus briefs supporting both sides and had been billed as the 'next big software copyright case to watch.'

As a reminder, in the Supreme Court's 2021 seminal *Google v. Oracle* decision, the high court excused Google's copying of Oracle's application programming interface (API) code as fair use. The Supreme Court, however, avoided deciding the thornier question of whether Oracle's API code was *copyrightable – i.e.*, whether it was deserving of copyright protection in the first place. In contrast, the question of the copyrightability of the software at issue in *SAS v. WPL* was front-and-center before the Federal Circuit.

SAS Institute Inc. ("SAS"), a US-based multinational developer of analytics software, sued World Programming Limited ("WPL"), a UK-based software developer, for patent and copyright infringement (and other counts) in the United Stated District Court for the Eastern District of Texas. The "SAS System" and "SAS Language" are software-implemented programs that enable users to perform a variety of tasks related to data access, data management, data analysis (including statistical analysis), and data presentation.

As a general matter, the literal elements of computer programs include source and object code. Copyright protection may also extend beyond literal elements to nonliteral elements, which are not reduced to written computer code. Such elements include the program architecture, structure, sequence and organization, operational modules, and user interface.

SAS did not accuse WPL of copying lines of software code, but instead it alleged that WPL copied the functions or results of its system – the program's nonliteral elements. SAS accused WPL of designing its software to execute the same input formats (vocabulary and syntax) used in the SAS System and to produce equivalent outputs, which are the result of applying the input formats to user data. In fact, WPL had openly claimed that it had "cloned" the SAS System.

Following a "special" pre-trial "copyrightability hearing," the district court determined as a matter of law that, notwithstanding SAS's copyright registrations, its software was not entitled to copyright protection and dismissed SAS's copyright infringement claims. In reaching this conclusion, the district court applied the "abstraction-filtration-comparison" method or *Altai* test, first articulated by the Second Circuit Court of Appeals in 1992.

Under the abstraction-filtration-comparison test, adopted by various circuits, including the Tenth Circuit and Fifth Circuit (which encompasses the Eastern District of Texas and whose law), courts seek to determine the scope of copyright protection for computer programs. In the first step of the test, courts break down the allegedly infringed program into its constituent structural parts – abstraction. At step two, the court separates or "filters" out those elements of the software that are *un*copyrightable because, for example, they constitute ideas, facts, information in the public domain, merger material, and *scènes à faire*. In contrast, the creative expression of such ideas *are* copyrightable. The last step of the test constitutes the trier of fact comparing any remaining "core of protectable expression" with the allegedly infringing program to determine if there is a substantial similarity – comparison.

The district court followed a burden shifting procedure, in which the court first assumed that the software was copyrightable based upon SAS's copyright registrations. WPL then presented evidence showing that the software program elements were not within the scope of protection under copyright law. The district court identified those elements as unprotectable open source elements; factual and data elements; elements not original to SAS; mathematical and statistical elements; process, system, and method elements; well-known and conventional display elements, such as tables, graphs, plots, fonts, colors, and lines; material for which SAS is not the author; merged elements; statistical analysis; *scènes à faire* elements; and short phrase elements.

Based on WPL's evidentiary showing, the district court shifted the burden back to SAS to demonstrate that its asserted program elements were copyrightable. SAS and its technical expert, however, offered no rebuttal and "refused to engage in the filtration step and chose instead to simply argue that the SAS System was creative."

On appeal, SAS argued that the district court committed three critical errors: (1) it improperly shifted the burden and required SAS to prove that the software elements it asserted were copied by WPL were entitled to copyright protection; (2) it inappropriately used a "copyrightability hearing" to assist it in reaching a copyrightability determination; and (3) it wrongly excluded the testimony of its expert. The Federal Circuit's majority panel addressed each of these issues and ultimately affirmed on all grounds.

Regarding SAS's burden shifting argument, the Federal Circuit stated:

> We hold that where the court has received persuasive evidence that the asserted elements are copyright unprotectable, SAS, as the copyright holder, was obligated to identify with specificity the elements of the SAS program that it asserts as copied and to establish that those elements fall within the scope of protection extended to such elements under copyright law. Under these circumstances, the district court correctly determined that SAS did not meet its burden.

As for the pre-trial copyrightability hearing, the Federal Circuit held that it was within the district court's discretion to manage pre-trial matters and to conduct reasonable procedures and case management to narrow the issues and simplify the case for trial, including "where the issue of protectability can be more efficiently addressed before determining copying." Therefore, because "SAS failed to provide evidence on which of the challenged elements of the SAS System were copyrightable, the district court correctly found that a jury would be unable to conduct a proper infringement analysis."

Lastly, the Federal Circuit held that "district court appropriately exercised its authority and discretion in finding that SAS's expert engaged in egregious conduct and his report was unreliable because it failed to filter out

unprotectable elements as ordered by the court, thereby rendering the opinion unhelpful to the jury." In sum, "SAS's repeated claims that the asserted elements were creative were insufficient."

In a lengthy and forceful dissent, Judge Pauline Newman said that the majority's holding "contravene[d] law and precedent" and amounted to a "far reaching change." According to Judge Newman, the district court's decision and Federal Circuit's majority holding rested on an incorrect legal premise – "that the SAS computer programs [were] not copyrightable, because they contain[ed] non-literal elements that were generally known and inadequately distinguished." The dissent criticized the panel majority for failing to "discuss the selection, combination, and arrangement of the program elements." Judge Newman's observation that "SAS state[d] that its programs include the selection and assembly of literal and nonliteral elements, and that there are a large number of choices among possible Input Formats and an infinite number of possible Output Designs" also failed to persuade her colleagues.

To be sure, *SAS v. WPL* re-confirms that copyright law extends to software and computer programs. Additionally, the Supreme Court's *Google v. Oracle* decision makes clear that computer programs, like other literary works, are subject to "the ordinary application of copyright's limiting doctrines."

Because the Federal Circuit's jurisdiction is unique (it has appellate jurisdiction over final decisions from all U.S. district courts but only if the underlying claims arise under the patent laws) and it applies non-patent substantive law of the other courts of appeal, the effect of the holding in *SAS v. WPL* in future copyright infringement cases remains to be seen.

In any event, in nonliteral copyright infringement cases (*i.e.*, cases in which the alleged copying does not involve pilfering actual lines of software code, but rather more general levels of a computer program), plaintiffs should be prepared to articulate the core of their protectable expressions and a legally viable theory on which to base their copyright infringement claims. Vague and unspecific assertions that a program's nonliteral elements are protectable because they are creative or because other software design and architecture choices exist may be insufficient in persuading a court that such elements are copyrightable.

ECKERT SEAMANS ATTORNEYS AT LAW