

991 F.2d 511, \*, 1993 U.S. App. LEXIS 7522, \*\*;  
26 U.S.P.Q.2D (BNA) 1458; Copy. L. Rep. (CCH) P27,096

[edited version]

**MAI SYSTEMS CORPORATION, v. PEAK COMPUTER, INC.**  
**No. 92-55363, No. 93-55106**

**UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT**

*991 F.2d 511; 1993 U.S. App. LEXIS 7522; 26 U.S.P.Q.2D (BNA) 1458; Copy. L. Rep. (CCH) P27,096; 93 Cal. Daily Op. Service 2596; 93 Daily Journal DAR 4604*

**April 7, 1993, Filed**

BEFORE: PREGERSON, BRUNETTI, and  
FERNANDEZ, Circuit Judges. Opinion by Judge  
Brunetti

[\*513] OPINION

BRUNETTI, Circuit Judge:

Peak Computer, Inc. and two of its employees appeal the district court's order issuing a preliminary injunction pending trial as well as the district court's order issuing a permanent injunction following the grant of partial summary judgment.

## **I. FACTS**

MAI Systems Corp., until recently, manufactured computers and designed software to run those computers. The company continues to service its computers and the software necessary to operate the computers. MAI software includes operating system software, which is necessary to run any other program on the computer.

Peak Computer, [\*\*2] Inc. is a company organized in 1990 that maintains computer systems for its clients. Peak maintains MAI computers for more than one hundred clients in Southern California. This accounts for between fifty and seventy percent of Peak's business.

Peak's service of MAI computers includes routine maintenance and emergency repairs. Malfunctions often are related to the failure of circuit boards inside the computers, and it may be necessary for a Peak technician to operate the computer and its operating system software in order to service the machine.

In August, 1991, Eric Francis left his job as customer service manager at MAI and joined Peak. Three other MAI employees joined Peak a short time later. Some businesses that had been using MAI to service their computers switched to Peak after learning of Francis's move.

## **II. PROCEDURAL HISTORY**

On March 17, 1992, MAI filed suit in the district court against Peak, Peak's president Vincent Chiechi, and Francis. The complaint includes counts alleging copyright infringement, misappropriation of trade secrets, trademark infringement, false advertising, and unfair competition.

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## **IV. COPYRIGHT INFRINGEMENT**

The district court granted summary judgment in favor of MAI on its claims of copyright infringement and issued a permanent injunction against Peak on these claims. The alleged copyright violations include: (1) Peak's running of MAI software licenced to Peak customers; (2) Peak's use of unlicensed software at its headquarters; and, (3) Peak's loaning of MAI computers and software to its customers. Each of these alleged violations must be considered separately.

### **A. Peak's running of MAI software licenced to Peak customers**

To prevail on a claim of copyright infringement, a plaintiff must prove ownership of a copyright and a "copying" of protectable expression" beyond the scope of a license. *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1085 (9th Cir. 1989).

MAI software licenses allow MAI customers to use the software for their own internal information processing. n3 This allowed [\*\*14] use necessarily includes the loading of the software into the computer's random access memory ("RAM") by a MAI customer. However, MAI software licenses do not allow for the use or copying of MAI software by third parties such as Peak. Therefore, any "copying" done by Peak is "beyond the scope" of the license.

n3 A representative MAI software license provides in part:

4. Software License.

(a) License. ... Customer may use the Software (one version with maximum of two copies permitted -- a working and a backup copy) ... solely to fulfill Customer's own internal information processing needs on the particular items of Equipment ... for which the Software is configured and furnished by [MAI]. The provisions of this License ... shall apply to all versions and copies of the Software furnished to Customer pursuant to this Agreement. The term "Software" includes, without limitation, all basic operating system software ....

(b) Customer Prohibited Acts. ... Any possession or use of the Software ... not expressly authorized under this License or any act which might jeopardize [MAI]'s rights or interests in the Software ... is prohibited, including without limitation, examination, disclosure, copying, modification, reconfiguration, augmentation, adaptation, emulation, visual display or reduction to visually perceptible form or tampering. ...

(c) Customer Obligations. Customer acknowledges that the Software is [MAI]'s valuable and exclusive property, trade secret and copyrighted material. Accordingly, Customer shall ... (i) use the Software ... strictly as prescribed under this License, (ii) keep the Software ... confidential and not make [it] available to others ....

A representative diagnostic license agreement provides in part:

6. Access/Non-Disclosure. Licensee shall not give access nor shall it disclose the Diagnostics (in any form) ... to any person ... without the written permission of [MAI]. Licensee may authorize not more than three (3) of its bona fide employees to utilize the Diagnostics ... if, and only if, they agree to be bound by the terms hereof.

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It is not disputed that MAI owns the copyright to the software at issue here, however, Peak vigorously disputes the district court's conclusion that a "copying" occurred under the Copyright Act.

The Copyright Act defines "copies" as "

material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.

*17 U.S.C. § 101.*

The Copyright Act then explains:

A work is "fixed" in a tangible medium of expression when its embodiment in a copy or phonorecord, by or under the authority of the author, is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated [\*518] for a period of more than transitory duration.

*17 U.S.C. § 101.*

The district court's grant of summary judgment on MAI's claims of copyright infringement reflects its conclusion that a "copying" for purposes of copyright law occurs when a computer program is transferred from a permanent storage device to a computer's RAM. [\*\*16] This conclusion is consistent with its finding, in granting the preliminary injunction, that: "the loading of copyrighted computer software from a storage medium (hard disk, floppy disk, or read only memory) into the memory of a central processing unit ("CPU") causes a copy to be made. In the absence of ownership of the copyright or express permission by license, such acts constitute copyright infringement." We find that this conclusion is supported by the record and by the law.

Peak concedes that in maintaining its customer's computers, it uses MAI operating software "to the extent that the repair and maintenance process necessarily involves turning on the computer to make sure it is functional and thereby running the operating system." It is also uncontroverted that when the computer is turned on the operating system is loaded into the computer's RAM. As part of diagnosing a computer problem at the customer site, the Peak technician runs the computer's operating system software, allowing the technician to view the systems error log, which is part of the operating system, thereby enabling the technician to diagnose the problem. n4

n4 MAI also alleges that Peak runs its diagnostic software in servicing MAI computers. Since Peak's running of the operating software constitutes copyright violation, it is not necessary for us to directly reach the issue of whether Peak

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also runs MAI's diagnostic software. However, we must note that Peak's field service manager, Charles Weiner, admits that MAI diagnostic software is built into the MAI MPx system and, further, that if Peak loads the MAI diagnostic software from whatever source into the computer's RAM, that such loading will produce the same copyright violation as loading the operating software.

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Peak argues that this loading of copyrighted software does not constitute a copyright violation because the "copy" created in RAM is not "fixed." However, by showing that Peak loads the software into the RAM and is then able to view the system error log and diagnose the problem with the computer, MAI has adequately shown that the representation created in the RAM is "sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration."

After reviewing the record, we find no specific facts (and Peak points to none) which indicate that the copy created in the RAM is not fixed. While Peak argues this issue in its pleadings, mere argument does not establish a genuine issue of material fact to defeat summary judgment. A party opposing a properly supported motion for summary judgment may not rest upon the mere allegations or denials in pleadings, but "must set forth specific facts showing that there is a genuine issue for trial." Fed. R. Civ. Pro. 56(e); *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248, 91 L. Ed. 2d 202, 106 S. Ct. 2505 (1986); *Harper v. Wallingford*, 877 F.2d 728 (9th Cir. 1989). [\*\*18]

The law also supports the conclusion that Peak's loading of copyrighted software into RAM creates a "copy" of that software in violation of the Copyright Act. In *Apple Computer, Inc. v. Formula Int'l, Inc.*, 594 F. Supp. 617, 621 (C.D. Cal. 1984), the district court held that the copying of copyrighted software onto silicon chips and subsequent sale of those chips is not protected by § 117 of the Copyright Act. Section 117 allows "the 'owner' n5 of a copy of a computer program to make or authorize the making of another copy" without infringing copyright law, if it "is an essential step in the utilization of the computer program" or if the new copy is "for archival purposes [\*519] only." 17 U.S.C. § 117 (Supp. 1988). n6 One of the grounds for finding that § 117 did not apply was the court's conclusion that the permanent copying of the software onto the silicon chips was not an "essential step" in the utilization of the software because the software could be used through RAM without making a permanent copy. The court stated:

RAM can be simply defined as a computer component in which data and computer programs can be temporarily [\*\*19] recorded. Thus, the purchaser of [software] desiring to utilize all of the programs on the diskette could arrange to copy [the software] into RAM. This would only be a temporary fixation. It is a property of RAM that when the computer is turned off, the copy of the program recorded in RAM is lost.

Apple Computer at 622.

n5 Since MAI licensed its software, the Peak customers do not qualify as "owners" of the software and are not eligible for protection under § 117.

n6 The current § 117 was enacted by Congress in 1980, as part of the Computer Software Copyright Act. This Act adopted the recommendations contained in the Final Report of the National Commission on New Technological Uses of Copyrighted Works ("CONTU") (1978). H.R. Rep. No. 1307, 96th Cong., 2d Sess., pt. 1, at 23. The CONTU was established by Congress in 1974 to perform research and make recommendations concerning copyright protection for computer programs. The new § 117 reflects the CONTU's conclusion that: "Because the placement of a work into a computer is the preparation of a copy, the law should provide that persons in rightful possession of copies of programs be able to use them freely without fear of exposure to copyright liability." Final Report at 13.

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While we recognize that this language is not dispositive, it supports the view that the copy made in RAM is "fixed" and qualifies as a copy under the Copyright Act.

We have found no case which specifically holds that the copying of software into RAM creates a "copy" under the Copyright Act. However, it is generally accepted that the loading of software into a computer constitutes the creation of a copy under the Copyright Act. See e.g. *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 260 (5th Cir. 1988) ("the act of loading a program from a medium of storage into a computer's memory creates a copy of the program"); 2 Nimmer on Copyright, § 8.08 at 8-105 (1983) ("Inputting a computer program entails the preparation of a copy."); Final Report of the National Commission on the New Technological Uses of Copyrighted Works, at 13 (1978)

("the placement of a work into a computer is the preparation of a copy"). We recognize that these authorities are somewhat troubling since they do not specify that a copy is created regardless of whether the software is loaded into the RAM, the hard disk or the read only memory ("ROM"). However, since we find that [\*\*21] the copy created in the RAM can be "perceived, reproduced, or otherwise communicated," we hold that the loading of software into the RAM creates a copy under the Copyright Act. *17 U.S.C. § 101*. We affirm the district court's grant of summary judgment as well as the permanent injunction as it relates to this issue.

#### **B. Use of unlicensed software at headquarters**

It is not disputed that Peak has several MAI computers with MAI operating software "up and running" at its headquarters. It is also not disputed that Peak only has a license to use MAI software to operate one system. As discussed above, we find that the loading of MAI's operating software into RAM, which occurs when an MAI system is turned on, constitutes a copyright violation. We affirm the district court's grant of summary judgment in favor of MAI on its claim that Peak violated its copyright through the unlicensed use of MAI software at Peak headquarters, and also affirm the permanent injunction as it relates to this issue.

#### **C. Loaning of MAI computers and software**

MAI contends that Peak violated the Copyright Act by loaning MAI computers and software to its customers. Among [\*\*22] the exclusive rights given to the owner of a copyrighted work is the right to distribute copies of the work by lending. *17 U.S.C. § 106(3)*. Therefore, Peak's loaning of MAI software, if established, would constitute a violation of the Copyright Act.

[\*520] MAI argues that it is clear that Peak loaned out MAI computers because Peak advertisements describe the availability of loaner computers for its customers and Chiechi admitted that the available loaners included MAI computers. However, there was no evidence that a MAI computer was ever actually loaned to a Peak customer. Paul Boulanger, a Senior Field Engineer at Peak, testified in his deposition that he was not aware of any MAI systems being loaned to Peak customers or of any customer asking for one. Charles Weiner, a Field Service Manager at Peak, testified in his deposition that he did not have any knowledge of MAI systems being loaned to customers. Weighing this evidence in the light most favorable to Peak, whether Peak actually loaned out any MAI system remains a genuine issue of material fact.

As a general rule, a permanent injunction will be granted when liability has been established and there [\*\*23] is a threat of continuing violations. See, *National Football League v. McBee & Bruno's, Inc.*, 792 F.2d 726, 732 (8th Cir. 1986); 3 Nimmer on Copyright § 14.06[B] at 14-88. However § 502(a) of the Copyright Act authorizes the court to "grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain infringement of a copyright." *17 U.S.C. § 502(a)* (emphasis added). While there has been no showing that Peak has actually loaned out any MAI software, the threat of a violation is clear as Peak has MAI computers in its loaner inventory. The permanent injunction is upheld as it relates to this issue.

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