

1 **WO**

2

3

4

5

6

IN THE UNITED STATES DISTRICT COURT

7

FOR THE DISTRICT OF ARIZONA

8

9

MERCHANT TRANSACTION)
SYSTEMS, INC.,)

Case No. CV 02-1954-PHX-MHM

10

Plaintiff,)

ORDER

11

vs.)

12

NELCELA, INC., an Arizona)
Corporation; LEN CAMPAGNA, an)
Arizona resident; ALEC)
14 DOLLARHIDE, an Arizona resident;)
EBOCOM, INC., a Delaware)
15 Corporation; POST INTEGRATIONS,)
INC., an Illinois Corporation,)

16

Defendants.)

17

And Related Counterclaims, Cross-Claims,)
and Third-Party Claims.)

18

19

20

21

Currently before the Court is the parties' briefing and proposed orders and objections on the issue of analytical dissection (Dkt. #s 560, 565, 572, 600, 601, 602, 603). After reviewing the pleadings and holding oral argument on March 11, 2008, the Court issues the following order.

22

23

24

25

I. THE PARTIES

26

On October 3, 2002, Plaintiff Merchant Transaction Systems, Inc. ("MTSI") instigated a civil action relating to copyright infringement. (Dkt. #1). MTSI's Complaint alleged that Defendant Alex Dollarhide breached his fiduciary duty and duty of

27

28

1 confidentiality when he, along with Defendant Leonard Campagna and their corporation
2 Nelcela, Inc. (collectively, “Nelcela”), sold MTSI’s software to Defendants Ebocom, Inc.
3 and Post Integrations, Inc. (Id.). MTSI also asserted a declaratory judgment and quiet
4 title claim with respect to its ownership rights in its software (“MTSI software”), which
5 was allegedly converted by Nelcela. (Id.). Nelcela answered MTSI’s claims and
6 counterclaimed against MTSI, asserting various claims including copyright infringement
7 and declaratory relief as to its ownership rights in its software (the “Nelcela software”).
8 (Dkt. #50). Nelcela also asserted cross-claims and third-party claims against Ebocom,
9 Inc., Post Integrations, Inc., Mary Gerdts, and Douglas McKinney (collectively, “Post”).
10 (Id.). In response, Post cross-claimed and asserted third-party claims against Nelcela,
11 including a claim that Nelcela breached their contractual obligation to Post pursuant to an
12 August 2, 2000 agreement in which Nelcela was to provide its Nelcela System source
13 code to Post. (Dkt. #51). Post also asserted a declaratory claim regarding its ownership
14 rights in the Nelcela software. (Id.).

15 In addition, on June 13, 2005, Lexcel Solutions, Inc. (“Lexcel”) moved to
16 intervene as a plaintiff in this litigation. (Dkt. #169). The Court granted Lexcel
17 permission to intervene (Dkt. #209), and on July 29, 2005, Lexcel filed an Intervening
18 Complaint, alleging that Nelcela engaged in copyright infringement of Lexcel’s software
19 by unlawfully converting Lexcel’s software. (Dkt. #212).

20 **II. THE ISSUES**

21 This litigation primarily involves claims of copyright infringement of computer
22 software. To establish copyright infringement, a plaintiff must prove (1) ownership of a
23 valid copyright and (2) unauthorized copying of protected elements of the copyrighted
24 work. See Rice v. Fox Broadcasting Co., 330 F.3d 1170, 1174 (9th Cir. 2003) (“In order
25 ‘[t]o establish infringement, two elements must be proven: (1) ownership of a valid
26 copyright, and (2) copying of constituent elements of the work that are original.’”) (citing
27 Feist Publ’ns, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 361 (1991)). Here, the parties
28 stipulated to bifurcate the action into two phases tracking the elements of copyright

1 infringement: (1) ownership and (2) infringement/damages. (Dkt. #87). The stipulation
2 provided that the "issue of ownership shall be bifurcated and tried expeditiously. In the
3 Ownership phase, discovery shall be limited to Ownership." (Id., p.1).

4 Phase I, the ownership phase, is complete: on September 30, 2006, the Court held
5 on summary judgment that "based upon the undisputed similarities between the Lexcel
6 2001 software, MTSI software and Nelcela software . . . they are substantially similar
7 beyond the possibility of random chance and that copying took place" (Dkt. #383, p.28);
8 trial was then held to determine who owned that software (i.e., the authorization and
9 merchant systems), and on April 24, 2007, the jury found that Lexcel was the owner (Dkt.
10 # 501). The jury also found that Lexcel possessed a valid copyright over the "database
11 component or system" of the Lexcel software. (Id., p.2). Therefore, Lexcel has proven
12 the first element of infringement.

13 As a result of the bifurcation, the Court was to then proceed to Phase II, the
14 infringement phase, at which time the Court would consider, among other things, whether
15 Nelcela copied any protected elements of the Lexcel software without authorization.
16 However, the transition to Phase II of this action became complicated when Nelcela
17 raised the issue of analytical dissection in its Motion for Judgment as a Matter of Law
18 during the Phase I trial on ownership. (Dkt. #486). For the first time in this action,
19 Nelcela argued that the Court's September 30, 2006 ruling that the various software at
20 issue were substantially similar was erroneous because "the Court was required to engage
21 in analytic dissection in order to identify the software that was eligible for copyright
22 protection" (Dkt. #600, p.2). The Court denied that motion as untimely, to be reurged
23 after the Phase I trial; Nelcela then reurged the analytical dissection issue in its Renewed
24 Motion for Judgment as a Matter of Law and/or Motion for Judgment Notwithstanding
25 the Verdict or, in the alternative, Motion for a New Trial. (Dkt. #505, pp. 5-10).
26 Although the Court denied that motion as well, the Court held that the jury's "ownership
27 determination [must] face scrutiny based upon the requisite 'analytical dissection.'" (Dkt.
28 #547, p.15). This order addresses the issue of analytical dissection.

1 **A. Waiver**

2 The Joint Parties argue that Nelcela waived its challenge to the Court’s summary
3 judgment ruling and the jury’s verdict by “fail[ing] to raise its analytic dissection defense
4 in opposition to the Joint Parties’ motion for summary judgment.” (Dkt. #601, pp. 13-
5 15). Nelcela, on the other hand, argues that it cannot have waived the issue of analytical
6 dissection because the Joint Parties carry “the burden to show that [the copied unlicensed,
7 protected] elements constitute protectable expression.” (Dkt. #603, p.2).

8 The Court notes that the issue of waiver is entangled in the parties’ present
9 conceptions of what was and was not decided in Phase I. Unfortunately, the stipulated
10 bifurcation has caused much confusion and led the parties to repeatedly squabble over
11 whether, and to what extent, certain issues were involved in Phase I, and what was to be
12 reserved or remained for Phase II. Looking back, the parties stipulated to bifurcate the
13 issues of ownership and infringement/damages in this action on March 11, 2005. (Dkt.
14 #87). However, due to Post Integrations’ subsequent statement that “MTSI is not entitled
15 to have a jury determine ownership with respect to its request for declaratory relief
16 settling the question of ownership between it and POST” (Dkt. #88), Nelcela requested
17 that the Court clarify the issues to be considered in Phases I and II. (Dkt. #93). Although
18 the Court held a hearing on March 31, 2005 on the request for clarification, the Court was
19 required “to hold off on the ownership dispute because [the parties] ha[d] not been able to
20 determine what it is that [they] need[ed] to turn over.” (Dkt. #126, p.41). Nonetheless,
21 the parties agreed at that time that the questions to be resolved in Phase I, the ownership
22 phase, was the following: “[W]ho owns the software that Nelcela [claims it owns]? Who
23 owns the software that MTSI claims it owns? And who owns the software that Nelcela
24 claims POST is infringing upon?” (Id., p.33).

25 However, disagreement concerning the bifurcation was evident again when
26 Nelcela sought summary judgment in Phase I on MTSI’s unfair competition,
27 misappropriation, conversion, and intentional interference with economic relations claims
28 and Lexcel’s copyright, misappropriation, unfair competition, breach of contract, and

1 conversion claims (which Nelcela claims are barred by the statute of limitations). (Dkt.
2 #s 323-25). In Response to Nelcela's motions, the Joint Parties¹ reasserted its position
3 that "Phase I was limited to the issue of software ownership" (Dkt. #351, p.23), and that
4 Nelcela's motions on the aforementioned claims were "Phase II claims" (id., p.24). But
5 in Reply, Nelcela opined that the Court "understood that 'Phase I' has involved extensive
6 questions regarding copyright infringement" and that "there were issues of both Phases
7 involved at this time." (Dkt. #361, p.8). The Court understood no such thing; on
8 September 30, 2006, the Court found that "the Parties, especially Nelcela, ha[d] asserted
9 argument [sic] that address[ed] issues outside the scope of the ownership phase of this
10 litigation," and as such, "the Court [would] not entertain the merits of [those] arguments
11 that [fell] outside the scope of the ownership phase" (Dkt. #383, p.3), which included the
12 merits of Nelcela's statute of limitations argument against Lexcel (id., pp. 16-17).

13 The Court was forced to again address the issue of bifurcation at the Final Pretrial
14 Conference proceedings held on April 3 and 4, 2007, when Nelcela sought to have its
15 experts "come in and testify [during the Phase I trial] in accordance with their reports and
16 their disclosed testimony about where there are any similarities, where there are not
17 similarities, and the nature of the similarities amongst all of the codes." (Dkt. #474,
18 p.10). However, the Court reiterated the fact that on Phase I summary judgment it "found
19 copying between the Lexcel CD, the Nelcela code, and the MTSI code. And at this point,
20 this includes both the Authorization and the Merchant code." (Dkt. #474, p.11). As such,
21 the Court limited the expert testimony on copying in the Phase I trial to "the relationship
22

23
24 ¹On February 15, 2006, Post and MTSI filed a Stipulation for Partial Dismissal of
25 Certain Claims Pursuant to Settlement. (Dkt. #322). The Stipulation stated that "the Lexcel
26 Parties, MTSI Parties, and the POST Parties have mutually released each other from all
27 claims related to the circumstances alleged in the present lawsuit. The Settlement Agreement
28 and Mutual Release does not release any claims asserted by the parties to that agreement
against any of the Nelcela Defendants." (Id., p.2) (emphasis in original). As such, the
Lexcel, MTSI, and POST Parties, are now referred to in this litigation as the "Joint Parties."

1 between the '94/'95 Lexcel software and the 2001 Lexcel CD, but not with respect to
2 whether copying took place in 2001.” (Id., pp. 18, 25). In addition, the Court again
3 emphasized that due to the parties’ stipulation to bifurcate the litigation, the Phase I trial
4 was to determine ownership, and nothing more. (Id., p.89).

5 Still, the Court’s pronouncements were apparently not clear enough, as Nelcela
6 further inquired into whether its statute of limitations argument against Lexcel’s claims
7 would be addressed during the Phase I trial. (Dkt. #462, p.14). Once more, the Court
8 stated that “[t]he issue for trial as to ownership is somewhat narrow now due to the
9 Court’s prior determination that copying occurred between the relevant software
10 versions.” (Id., p.37). Further, the Court stated that “[i]t seems in phase II of this
11 litigation, if Lexcel is deemed to be the owner by the jury in phase I, Nelcela clearly will
12 be afforded the opportunity to challenge Lexcel’s claim for copyright infringement
13 against Nelcela based upon the applicable statute of limitations and when Lexcel’s
14 infringement claims accrued.”² (Id., p.21). As such, the Court concluded that “the issue
15 as to ownership over the relevant software between the joint parties and Nelcela, would
16

17 ²On October 15, 2007, Nelcela filed a Post Trial Memorandum on Statute of
18 Limitations, reasserting its position that Lexcel’s copyright claims are barred by the statute
19 of limitations. (Dkt. #575). The Court addressed the statutes of limitations issue at the
20 Motions Hearing on March 11, 2008, stating that “[t]he question here, . . . is whether
21 Nelcela’s assurances that it would not and was not using Lexcel’s source code is sufficient
22 conduct to toll the statute of limitations and allow Lexcel to obtain damages for any
23 infringement that occurred prior to June 13, 2002.” (Dkt. #597, pp. 21-22). The Court went
24 on: “it’s unclear . . . whether Nelcela’s acts were calculated to mislead Lexcel as to have
25 reasonably caused Lexcel’s failure to file suit at that time and thus whether equitable estoppel
26 applies to bar Lexcel’s claim of infringement prior to June of 2002. And it seems like where
27 the facts are undisputed, and only one inference may be drawn from them, the question of
28 estoppel is one of law. But otherwise, it is one of fact.” (Id., pp. 21-22); see, e.g., Atkins v. Union Pacific Railroad Co., 753 F.2d 776, 777 (9th Cir. 1985); Weber v. Geffen Records, Inc., 63 F.Supp.2d 458, 466 (S.D.N.Y. 1999). As such, the Court found that “[i]t appears inappropriate for the Court to foreclose discovery or [sic] this issue [during discovery in Phase II] or issue an order stating that Lexcel is foreclosed from seeking to establish an [sic] equitable estoppel exists to allow it to recover for acts of infringement by Nelcela prior to June 13 of 2002.” (Dkt. #597, pp. 22).

1 not . . . become an open question again. . . . regardless of whether Lexcel is deemed to
2 own or be the creator of the relevant software, and this Court subsequently invalidates
3 Lexcel’s legal ownership rights during phase II.” (Id., pp. 21-22; Dkt. #457, pp. 12-13).

4 Then, as previously mentioned, during the trial on ownership, Nelcela raised the
5 issue of analytical dissection, arguing that the Court’s September 30, 2006 ruling that the
6 various software at issue were substantially similar was erroneous because the Court had
7 not engaged in analytic dissection in order to identify the software that was eligible for
8 copyright protection. (Dkt. #486). That argument was incorrect and premature; analytical
9 dissection is an examination into whether a party infringed a valid copyright by copying
10 constituent elements of the work that are original, and as such it is an issue solely for
11 Phase II, the infringement/damages phase. The Court’s September 30, 2006 finding that
12 the Lexcel 2001 software, MTSI software, and Nelcela software were “substantially
13 similar beyond the possibility of random chance and that copying took place” (Dkt. #383,
14 p.28), and the jury’s subsequent determination that Lexcel owned that software, neither
15 addresses nor prevents an analysis into whether Nelcela copied any protected elements of
16 the Lexcel software without authorization. The September 30, 2006 ruling merely found,
17 as a factual proposition, that copying occurred. In other words, although the Court used
18 the term “substantially similar,” which may have led to some confusion,³ the Court’s
19 finding related only to the probative similarity of the Lexcel, MTSI, and Nelcela software.

20 The Court’s finding with respect to probative similarity between the software at
21 issue was a necessary part of the Phase I ownership issue. Analytic dissection and
22 substantial similarity, on the other hand, are creatures of infringement, and their relevance
23 is limited to determining whether Nelcela’s copying is actionable (i.e., whether the
24 particular features/elements of the Lexcel software that Nelcela allegedly copied are

25
26 ³See 4 NIMMER ON COPYRIGHT § 13.03[A] (“Although the term ‘substantial similarity’
27 often is invoked as a proxy to prove copying as a factual proposition, we have seen that the
28 term ‘probative similarity’ is to be preferred in that context and the question of ‘substantial
similarity’ arises analytically only thereafter.”).

1 protected by copyright).⁴ As such, pursuant to the parties’ stipulation on bifurcation,
2 those issues are the subject of Phase II. Further, as the Court stated in its August 21, 2007
3 order, “should it be determined that Lexcel’s claims for copyright infringement are based
4 upon overlapping software versions that are common in nature and not protectable,
5 Lexcel’s claims based upon copyright ownership and infringement may be invalidated.”
6 (Dkt. #547, p.15). See, e.g., Feist Publ’ns, 499 U.S. at 361 (“Not all copying, however, is
7 copyright infringement.”); 4 NIMMER ON COPYRIGHT § 13.03[A] (“[E]ven where the fact
8 of copying is conceded [or established], no legal consequences will follow from that fact
9 unless the copying is substantial.”). Accordingly, despite the Joint Parties’ contention to
10 the contrary, as well as the fact that Nelcela prematurely raised the issue of analytical
11 dissection and incorrectly argued that it applied to the Court’s finding of probative
12 similarity and the jury’s verdict on ownership,⁵ Nelcela’s failure to raise the issue of
13 analytical dissection in opposition to the Joint Parties’ Motion for summary judgment
14 does not constitute a waiver of Nelcela’s challenges to infringement based on analytical
15 dissection in Phase II.

16 **B. Phase II - Infringement**⁶

17
18 ⁴But see Brown Bag Software v. Symantec Corp., 960 F.2d 1465, 1476 (9th Cir. 1992)
19 (“Analytic dissection is relevant not only to the copying element of a copyright infringement
20 claim, but also to the claim’s ownership element.”). However, as the Brown Bag court went
21 on to state, analytical dissection is only relevant to the issue of ownership to the extent that
22 it may limit the scope of the copyright depending on the extent the copyright owner’s work
23 is unprotected or unprotectable under copyright. Id. In other words, analytical dissection
24 merely determines whether a copyright is actionable; while it may render certain constituent
25 parts of a copyright unenforceable, it does not necessarily divest the copyright-holder of
26 ownership.

27 ⁵In its latest briefing, Nelcela states that it “does not challenge” the Court’s ruling on
28 probative similarity, i.e. that copying occurred. (Dkt. #603, p.2). Clearly, that has not
always been Nelcela’s position. See Dkt. #505, pp. 5-11 (arguing that the Court’s summary
judgment ruling was erroneous due to the Court’s failure to perform analytical dissection).

⁶Although the parties continue to argue over aspects of Phase I of this litigation, there
is no question that this case is now in Phase II. Despite Nelcela’s assertions to the contrary

1 The issue before the Court is whether Nelcela copied *protected* elements of
2 Lexcel’s software. See Newton v. Diamond, 204 F.Supp.2d 1244, 1253 (C.D. Cal. 2002)
3 (citing Feist Publ’ns, 499 U.S. at 348-51) (“The protectability of elements of a
4 copyrighted work is a question of law for the court.”); 4 Nimmer on Copyright § 13.03[F]
5 (“Infringement is shown by a substantial similarity of *protectible* [sic] *expression*, not just
6 an overall similarity between the works.”). To establish infringement, Lexcel must
7 “show[] that the works in question ‘are substantially similar in their protected elements.’”
8 Id. (citing Metcalf v. Bochco, 294 F.3d 1069, 1072 (9th. Cir. 2002)).

9 The Ninth Circuit utilizes “a two-part test to determine whether two works are
10 substantially similar: an extrinsic test and an intrinsic test.” Jada Toys, Inc. v. Mattel,
11 Inc., 518 F.3d 628, 637 (9th Cir. 2008); Apple Computer, Inc. v. Microsoft Corp., 35 F.3d
12 1435, 1442 (9th Cir. 1994) (“We have traditionally determined whether copying
13 sufficient to constitute infringement has taken place under a two-part test having
14 ‘extrinsic’ and ‘intrinsic’ components.”). “At summary judgment, courts apply only the
15 extrinsic test; the intrinsic test, which examines an ordinary person’s subjective
16 impressions of the similarities between the two works, is exclusively the province of the
17 jury.” Funky Films, Inc. v. Time Warner Entertainment Co., L.P., 462 F.3d 1072, 1077
18 (9th Cir. 2006); Smith v. Jackson, 84 F.3d 1213, 1218 (9th Cir. 1996) (“If [a] plaintiff
19 satisfies the extrinsic test, the intrinsic test’s subjective inquiry must be left to the jury and
20 summary judgment must be denied.”).

21 _____
22 (Dkt. #540), the Court allowed Phase II discovery to commence: the parties conducted
23 discovery on the issue of equitable estoppel and the statute of limitations (Dkt. #554), the
24 Court has ruled on that issue, and the parties have submitted numerous briefing on the issue
25 of analytical dissection (on which neither party sought additional discovery) (Dkt. #s 550,
26 551). As such, although technically not presented with motions for summary judgment on
27 the parties’ respective infringement claims, the briefing submitted addresses the same, and
28 thus this Order will constitute the Court’s definitive ruling on the issue of analytical
dissection. Further, to the extent that the parties contemplate that additional fact discovery
is necessary or additional issues must be presented to the Court with respect to any remaining
Phase II issues, the Court will take up those issues at the next status hearing.

1 A plaintiff may satisfy the extrinsic test by providing ““indicia of a sufficient
2 disagreement concerning the substantial similarity of [the] two works.”” Swirsky v.
3 Carey, 376 F.3d 841, 846 (9th Cir. 2004) (quoting Brown Bag, 960 F.2d at 1472).
4 However, “a plaintiff who cannot satisfy the extrinsic test necessarily loses on summary
5 judgment, because a jury may not find substantial similarity without evidence on both the
6 extrinsic and intrinsic test.” Kouf v. Walt Disney Pictures & Television, 16 F.3d 1042,
7 1045 (9th Cir. 1994). Thus, “[s]ummary judgment for a defendant accused of copyright
8 infringement is appropriate when the plaintiff fails to show a genuine issue regarding
9 whether the ideas and expressive elements of the works are substantially similar.” Brown
10 Bag, 960 F.2d at 1472.

11 “The extrinsic test considers whether two works share a similarity of ideas and
12 expression as measured by external, objective criteria.” Swirsky v. Carey, 376 F.3d 841,
13 845 (9th Cir. 2004); Apple Computer, 35 F.3d at 1442 (“The extrinsic test [] objectively
14 considers whether there are substantial similarities in both ideas and expression . . .”).
15 However, “it must be kept in mind that ideas by themselves are not subject to copyright
16 protection; only the expression of ideas is.” Swirsky, 376 F.3d at 845 n. 4 (citation
17 omitted); see, e.g., Rice, 330 F.3d at 1174 (“Ideas generally do not receive protection,
18 only the expression of such ideas do.”) (citing Metcalf, 294 F.3d at 1074); Brown Bag,
19 960 F.2d at 1475 (“The extrinsic test [is] an ‘objective . . . analys[is] of *expression*.’”)
20 (quoting Shaw v. Lindheim, 919 F.2d 1353, 1357 (9th Cir. 1990)) (emphasis in original).

21 The extrinsic test involves three basic steps:

22 (1) The plaintiff must identify the *source(s)* of the alleged similarity
23 between his work and the defendant’s work. (2) Using analytic dissection,
24 and, if necessary, expert testimony, the court must determine whether any
25 of the allegedly similar features are protected by copyright. . . .
26 unprotectable ideas must be separated from potentially protectable
27 expression; to that expression, the court must then apply the relevant
28 limiting doctrines in the context of the particular medium involved, through
the eyes of the ordinary consumer of that product. (3) Having dissected the
alleged similarities and considered the range of possible expression, the
court must define the scope of the plaintiff’s copyright – that is, decide
whether the work is entitled to “broad” or “thin” protection. Depending on
the degree of protection, the court must set the appropriate standard for a

1 subjective comparison of the works to determine whether, as a whole, they
2 are sufficiently similar to support a finding of illicit copying.

3 Apple Computer, 35 F.3d at 1443 (emphasis in original). In other words, the test involves
4 properly identifying the sources of similarity in the works, distinguishing ideas from
5 expression, applying relevant limiting doctrines, and deciding the scope of the copyright
6 by dissecting the unauthorized expression and filtering out unprotectable elements. See
7 id. at 1443-47.

8 **III. APPLICATION OF THE EXTRINSIC TEST**

9 **A. Burden of Proof**

10 It is well settled that “the plaintiff bears the burden of proof on the *prima facie*
11 case, and the defendant bears the burden as to defenses.” 3 NIMMER ON COPYRIGHT §
12 12.11. However, copyright registration is presumptive evidence of copyrightability. See
13 Swirsky, 376 F.3d at 851 (“Because [the work] has a valid certificate of registration with
14 the copyright office . . . [the plaintiff] is entitled to a presumption of originality.”) (citing
15 17 U.S.C. § 410(c) (2003) (presumption extends five years from date of registration)); 3
16 NIMMER ON COPYRIGHT § 12.11[B][1] (“[A] certificate of registration, properly obtained
17 within the prescribed five-year period, constitutes *prima facie* evidence of the author’s
18 originality.”). In addition, in order to establish a *prima facie* case of copying, a plaintiff
19 must prove both access and probative similarity. Id. at § 12.11[D] (“[W]here the plaintiff
20 has made a strong *prima facie* case of copying by proving both access and a convincing
21 number of similarities so that there is a high probability that copying, whether intentional
22 or unintentional, has in fact occurred, at that point, the burden of going forward . . . shifts
23 to the defendant, who must [] negative the probability of copying by evidence of
24 independent creation, or common sources”); but see Swirsky, 376 F.3d at 844
25 (“Where a high degree of access is shown, we require a lower standard of proof of
26 substantial similarity.”).⁷ Here, during Phase I, the Court found that probative similarity

27 ⁷In Swirsky, the plaintiff possessed a valid certificate of registration, and thus the
28 Court held that the plaintiff was entitled to a presumption of originality. 376 F.3d at 851.

1 existed between the Lexcel and Nelcela software, and the jury determined that Lexcel
2 possessed a valid copyright in the Lexcel software; Nelcela does not contest that the
3 Lexcel software is not copyrightable. See Dkt. #600, p.6. Therefore, Lexcel has satisfied
4 its *prima facie* burden and is entitled to a presumption of copyrightability.

5 That presumption extends to the Court’s use of analytic dissection under the
6 extrinsic test to determine whether any of the allegedly similar features are protected by
7 copyright. See Apple Computer, 35 F.3d at 1443. Because Lexcel satisfied its *prima*
8 *facie* burden and was determined to possess a valid copyright, Lexcel is entitled to a
9 presumption that the common features and elements in the Lexcel and Nelcela software
10 are copyrightable. See Swirsky, 376 F.3d at 851. As such, contrary to Nelcela’s assertion
11 that “it is Lexcel’s burden to prove the significance of the elements copied” (Dkt. #603,
12 p.4), the burden in fact shifts to Nelcela to demonstrate why those common features and
13 elements are not protected by copyright. See Bibbero Sys., Inc. v. Coldwell Sys., Inc.,
14 893 F.2d 1104, 1106 (9th Cir. 1990) (“[A] certificate of registration constitutes *prima*

15
16
17 However, the Ninth Circuit also stated that “[w]here a high degree of access is shown, [the
18 Ninth Circuit] require[s] a lower standard of proof of *substantial* similarity” (emphasis
19 added), implying that the plaintiff carries the burden of proof under the extrinsic test despite
20 possessing a valid certificate of registration. Id. at 844. But apart from identifying the
21 sources of the similarities in the works (which a plaintiff must do to establish probative
22 similarity), the extrinsic test primarily involves analytic dissection and application of the
23 relevant limiting doctrines (the second element). And analytic dissection or “filtration”
24 involves analyzing, among other things, the originality of the work, which is presumed (for
25 a period of five years) by virtue of possessing a valid copyright. Further, as stated below, a
26 defendant in the Ninth Circuit carries the burden under the extrinsic test of proving that
27 limiting doctrines apply. As such, it would make little sense, when a valid copyright exists,
28 to force a plaintiff to carry the burden of proof on the remaining issues of analytic dissection.
Therefore, this Court will not interpret Swirsky’s reference to proof of *substantial* similarity
to imply that a plaintiff, despite possessing a valid copyright, must shoulder the burden of
proof as to parts of the second element (analytic dissection and application of the relevant
limiting doctrines) of the extrinsic test. There is nothing in Swirsky to convince this Court
that to establish a *prima facie* case of copying, a plaintiff must do more than prove the
existence of a valid certificate of registration, access, and probative similarity (element one).

1 *facie* evidence of copyrightability and shifts the burden to the defendant to demonstrate
2 why the copyright is not valid.”); see also 3 NIMMER ON COPYRIGHT § 12.11[D] (above).

3 Nelcela also argues that Lexcel should carry the burden of proving that the
4 relevant limiting doctrines – here, merger and *scènes à faire* – do not apply to prevent the
5 copyrightability of the alleged common features and elements between the Lexcel and
6 Nelcela software. See Dkt. #600, pp. 6-7 (citing, e.g., Maddog Software, Inc. v. Sklader,
7 382 F.Supp.2d 268, 282 (D. N.H. 2005) (“[Plaintiff] has the burden to show that these
8 elements constitute protectable expression with reference to the various doctrines just
9 discussed.”). However, it is clear that in the Ninth Circuit, “[the doctrines of merger and
10 *scènes à faire*] are defenses to infringement.” Ets-Hokin v. Skyy Spirits, Inc., 225 F.3d
11 1068, 1082 (9th Cir. 2000); see Satava v. Lowry, 323 F.3d 805, 810 n. 3 (9th Cir. 2003)
12 (“The Ninth Circuit treats *scènes à faire* as a defense to infringement rather than as a
13 barrier to copyrightability.”). Thus, despite Nelcela’s assertion to the contrary, “[Nelcela]
14 must go forward at trial with appropriate evidence as to those doctrines.” 4 NIMMER ON
15 COPYRIGHT § 13.03[F][3].

16 **B. Computer Software**

17 “It is settled that computer programs are entitled to copyright protection. General
18 Universal Systems, Inc. v. Lee, 379 F.3d 131, 142 (5th Cir. 2004); see Hutchins v. Zoll
19 Medical Corp., 492 F.3d 1377, 1383 (Fed. Cir. 2007) (“The Copyright Act provides
20 protection against unauthorized copying of computer programs, defined in 17 U.S.C. §
21 101 as ‘a set of statements or instructions to be used directly or indirectly in a computer in
22 order to bring about a certain result.’”). “A computer program is made up of several
23 different components, including the source and object code, the structure, sequence and/or
24 organization of the program, the user interface, and the function, or purpose, of the
25 program. Whether a particular component of a program is protected by a copyright
26 depends on whether it qualifies as an ‘expression’ of an idea, rather than the idea itself.”
27 Johnson Controls, Inc. v. Phoenix Control Systems, Inc., 886 F.2d 1173, 1175 (9th Cir.
28 1989) (citing Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 547

1 (1985)). “[Copyright] protection extends not only to the ‘literal’ elements of computer
2 software – the source code and object code⁸ – but also to a program’s nonliteral elements,
3 including its structure, sequence, organization, user interface, screen displays, and menu
4 structures.” Gen. Universal Sys., 379 F.3d at 142; see O.P. Solutions, Inc. v. Intellectual
5 Property Network, Ltd., 1999 WL 47191, at *6 (S.D.N.Y. 1999) (“[L]iability will attach
6 where the ‘fundamental essence or structure’ of one work is duplicated in another, even if
7 the so-called ‘literal’ elements of the work are not similar.”) (quoting Computer
8 Associates Int’l, Inc. v. Altai, Inc., 982 F.2d 693, 701 (2d Cir. 1992)). It is important to
9 note that “[t]he ‘non-literal components’ of a computer program, including its user
10 interface, are protectable if, ‘on the particular facts of each case, the component in
11 question qualifies as an expression of an idea [not] an idea itself.” Apple Computer v.
12 Microsoft Corporation, 799 F.Supp. 1006, 1020 (N.D. Cal. 1992) (quotation omitted)).

13 “Copyrighted software ordinarily contains both copyrighted and unprotected or
14 functional elements.” Sony Computer Entertainment, Inc. v. Connectix Corp., 203 F.3d
15 596, 599 (9th Cir. 2000). However, copyright protection may be afforded to unprotected
16 elements that constitute “compilations”: the “collection and assembling of preexisting
17 materials or of data that are selected, coordinated, or arranged in a way that the resulting
18 work as a whole constitutes an original work of authorship.” 17 U.S.C. § 101. Thus,
19 “even if the constituent elements of a work are not protected, protection may extend to the
20 ‘selection, coordination, or arrangement’ of such elements in the work as a whole.” O.P.
21 Solutions, 1999 WL 47191, at *9; see Satava, 323 F.3d at 811 (“[A] combination of
22 unprotectable elements may qualify for copyright protection.”); Metcalf, 294 F.3d at 1074
23 (“[A] particular sequence in which an author strings a significant number of unprotectable
24 _____

25 ⁸Computer software contains two types of code: source code and object code. Source
26 code is a textual computer language that is written and readable by human programmers.
27 Source code is then translated by a program called a compiler into object code, the binary
28 language that is executed / readable directly by a computer. See Universal City Studios, Inc.
v. Reimerdes, 111 F.Supp.2d 294, 305-06 (S.D.N.Y. 2000) (giving a detailed description of
object and source code).

1 elements can itself be a protectable element. Each note in a scale, for example, is not
2 protectable, but a pattern of notes in a tune may earn copyright protection.”).

3 As for computer software, “if constituent elements of a screen display or user
4 interface lack requisite originality, or are outside the scope of copyrightable material
5 under 102(b), or are otherwise unprotectable, the selection, coordination, and arrangement
6 of such elements may be protectable, even though those individual elements are not.”
7 O.P. Solutions, 1999 WL 47191, at *9 (citing Apple, 799 F.Supp. at 1023). However, it
8 is important to keep in mind that “a combination of unprotectable elements is eligible for
9 copyright protection only if those elements are numerous enough and their selection and
10 arrangement original enough that their combination constitutes an original work of
11 authorship.” Satava, 323 F.3d at 811 (citing Feist, 499 U.S. at 358 (“[T]he principle
12 focus should be on whether the selection, coordination, and arrangement are sufficiently
13 original to merit protection.”)).

14 **C. Identification / Abstraction**

15 On August 31, 2007, the Joint Parties submitted a List of Common Features and
16 Elements Between the Lexcel Software and the Nelcela Software, alleging that Nelcela
17 copied both non-literal and literal elements from the Lexcel software. (Dkt. #555). The
18 Joint Parties allege that Nelcela copied numerous non-literal elements of the Lexcel
19 software, including “[t]he tasks performed by the Lexcel system [which] include
20 authorizing, processing, and storing credit card transactions and date,” “[t]he computer
21 platform on which the Lexcel System is designed to operate,” “[t]he design and layout of
22 the Lexcel System” and the “database used by the Lexcel System,” including table and
23 column names and data types.” (Id., p.2). The Joint Parties also allege that Nelcela
24 copied the following literal elements: program structure, file names, file structures,
25 variable names, definition, and data structures, procedures and functions, formatting,
26 commenting, database structures and definitions (including table and column names and
27 data types), and “[s]ections of source code (including formatting, naming, and
28

1 commenting) copied verbatim from the Lexcel System, including source code from [12]
2 files.” (Id., pp. 2-3).^{9 10}

3 First, however, program structure, file names, file structures, variable names,
4 definition, and data structures, procedures and functions, formatting, commenting,
5 database structures and definitions (including table and column names and data types),
6 are not, by themselves, literal elements of computer software. “Literal elements consist
7 of actual computer programming codes.” O.P. Solutions, Inc., 1999 WL 47191, at *6. As
8 such, the only literal elements of the Lexcel software that are specifically mentioned in
9 the Joint Parties’ List are 12 sections of source code. To the extent that the remaining
10 alleged common features and elements are independently asserted, they are non-literal
11 elements of the Lexcel software. “[A] computer’s ‘non-literal’ elements consist of
12 elements other than the code, and may generally be described as the ‘structure, sequence,
13 and organization’ of the underlying program.” Id. These elements include “general flow
14 charts, as well as the more specific organization of inter-modular relationships, parameter
15 lists, and macros,” Altai, 982 F.2d at 702, in addition to features such as screen displays
16 and user interfaces, menus, and “command tree” structures contained on the screens,
17 Mitek Holdings, Inc. v. Arce Eng’g Co., 89 F.3d 1548, 1555 n.15. See Apple Computer,
18 35 F.3d at 1445.

19 Second, although Nelcela does not directly contend that the Joint Parties’ List of
20 Common Features and Elements is inadequate, Nelcela does state that “[t]he Joint Parties
21 have not identified in their list of common features (Docket No. 555) or anywhere else in
22

23 ⁹The 12 sections of source code are: ACCOUNT.SQL, AUTHDAEM.C, BANK.SQL,
24 CARD.SQL, CMDEXEC.C, CMDEXEC.H, IDR.SQL, INTERCHANGE.H, ISO8583.C,
25 ISO8583STRUCT.H, SELECT.SQL, and TABLES. (Dkt. #555, p.3).

26 ¹⁰The Joint Parties’ List of Common Features and Elements also includes various
27 sections of source code from the MTSI software. See Dkt. #555, p.3. However, as the only
28 issue presently before the Court is whether Nelcela copied protected elements of the *Lexcel*
software, the Joint Parties’ reference to various sections of the MTSI source code is
inapposite.

1 the record, any alleged substantial similarities other than those in [Phase I Trial] Exhibits
2 504 and 509.” (Dkt. #603, p.4). The Joint Parties counter that “Exhibits 504 and 509
3 [we]re [merely] examples offered at trial of some of the verbatim copying of the Nelcela
4 Software from the Lexcel Software,” whereas the List of Common Features and Elements
5 constitutes a “comprehensive list of the similarities between the Lexcel Software and the
6 Nelcela Software.” (Dkt. #602, pp.6-7).

7 The Joint Parties’ List of Common Features and Elements represents the
8 identification of the sources of the alleged similarity between the Lexcel software and the
9 Nelcela software under the first step of the extrinsic test. (Dkt. #601, p.18); see O.P.
10 Solutions, 1999 WL 47191, at *6 (“[I]n cases where ‘the copyright holder presents the
11 court with a list of features that it believes to be protectable . . . the court need not abstract
12 further such features.”). Thus, to the extent that the List contains more alleged
13 similarities than those contained in Phase I’s Trial Exhibits 504 and 509, the Court must
14 consider those similarities. However, although the Joint Parties’ present a list of features
15 and elements that they maintain are (1) protectable, and (2) were illegally copied by
16 Nelcela, the Joint Parties fail to specifically identify the extent to which Nelcela allegedly
17 copied the Lexcel software’s non-literal elements (i.e., the Lexcel software’s design and
18 layout, program structure, file names, file structures, variable names and data structures,
19 procedures and functions, formatting, commenting, database structures and definitions).
20 Except for the specific references to the 12 sections of source code that Nelcela allegedly
21 copied from the Lexcel software, the List of Common Features and Elements contains
22 only general allegations of copying. Nonetheless, the Court will conduct the extrinsic test
23 based on a presumption that the Joint Parties contend that Nelcela copied *all* of the Lexcel
24 software’s non-literal elements. See Dkt. #602, p.10 (“[T]he Joint Parties claim that
25 Nelcela copied the **entire** copyrighted Lexcel database schema.”) (emphasis in original).¹¹

26
27 ¹¹A database schema “is the organization and names that the programmer uses to
28 establish a computer database and to reference data stored in the database.” (Dkt. #565,

1 **D. Analytical Dissection**

2 As noted above, “[b]ecause only those elements of a work that are protectable . . .
3 can be compared when it comes to the ultimate question of illicit copying, [the Court
4 must] use analytic dissection to determine the scope of copyright protection before works
5 are considered ‘as a whole.’” Apple Computer, 35 F.3d at 1443; Thomas v. Walt Disney
6 Co., 2008 WL 425647, at *2 (N.D. Cal. 2008) (“Under the extrinsic test, the Court
7 defines the scope of copyright protection by ‘analytically dissecting’ the alleged
8 similarities between the works and separating protected elements of expression from
9 unprotected ideas.”); see O.P. Solutions, 1999 WL 47191, at *7 (the abstraction-filtration-
10 comparison test “instructs courts to do what all courts do when evaluating infringement
11 claims: compare the protectable elements of each work to determine whether they are so
12 ‘substantially similar’ as to justify a finding of infringement.”). To conduct analytic
13 dissection, the Court must “filter out as unprotectable the ideas, expression necessarily
14 incident to the idea, expression already in the public domain, expression dictated by
15 external factors (like the computer’s mechanical specifications, compatibility with other
16 programs, and demands of the industry served by the program), and expression not
17 original to the programmer or author.” Atari Games Corp. v. Nintendo of America, Inc.,
18 975 F.2d 832, 839 (Fed. Cir. 1992) (citations omitted); see also Apple Computer, 35 F.3d
19 at 1446 (“[T]he unprotectable elements have to be identified, or filtered, before the works
20 can be considered as a whole.”). Analytic dissection, also referred to in other circuits as
21 “filtration,” merely “appl[ies] well developed doctrines of copyright law” and may “leave
22 behind a ‘core of protectable material.’” Altai, 982 F.2d at 707 (quoting 3 NIMMER ON
23 COPYRIGHT § 13.03[F][5] at 13-72).

24 1. Originality & the Idea/Expression Dichotomy

25 As an initial matter, copyright protection extends only to “those elements [of a
26 work] [that] are ‘original,’ which is to say they are the product of ‘independent creation,
27

28 p.16).

1 not novelty.” Jada Toys, 518 F.3d at 636 (citation omitted); see Feist, 499 U.S. at 345
2 (noting that the “sine qua non of copyright is originality,” and that “originality is a
3 constitutional requirement”). However, it is important to note that “the definition of
4 originality is broad, and originality means ‘little more than a prohibition of actual
5 copying’”; “the author [need only] contribute ‘something more than a ‘merely trivial’
6 variation.” Swirsky, 376 F.3d at 851 (quoting Three Boys Music Corp. v. Bolton, 212
7 F.3d 477, 485 (9th Cir. 2000)); see Feist, 499 U.S. at 345 (noting that copyright
8 protection is available to those constituent elements of a work that possess more than a de
9 minimis quantum of creativity).

10 However, while “[c]opyright assures authors the right to their original expression,
11 [it] encourages others to build freely upon the ideas and information conveyed by a
12 work.” Feist, 499 U.S. at 348. This is referred to as the idea/expression dichotomy; it is
13 codified in 17 U.S.C. § 102(b), and provides that:

14 In no case does copyright protection for an original work of authorship
15 extend to any idea, procedure, process, system, method of operation,
16 concept, principle or discovery, regardless of the form in which it is
described, explained, illustrated, or embodied in such work.

17 17 U.S.C. § 102(b); see also Gen. Universal Sys., 379 F.3d at 142-43 (“Copyright
18 protection does not extend to ideas, processes, facts, elements dictated by considerations
19 of efficiency, elements required by factors external to the program itself, or items taken
20 from the public domain.”). Section 102(b) distinguishes between ideas and functional
21 items (which are not protected) and creative, expressive works (which are protected).

22 2. The Limiting Doctrines

23 The Court must also apply the relevant limiting doctrines in the context of the
24 particular medium involved – here, computer software – through the eyes of the ordinary
25 consumer. See Apple Computer, 35 F.3d at 1443. The relevant limiting doctrines at issue
26 are the merger doctrine and the “scènes à faire” doctrine.

27 The merger doctrine restricts what otherwise constitutes protectable material by
28 recognizing that although the expression of an idea is entitled to protection, “even

1 expression is not protected in those instances where there is only one or so few ways of
2 expressing an idea that protection of the expression would effectively accord protection to
3 the idea itself.” Genessee Brewing Co. v. Stroh Brewing Co., 124 F.3d 137, 146 (2d
4 Cir. 1997); Ets-Hokin, 225 F.3d at 1082 (“Under the merger doctrine, courts will not
5 protect a copyrighted work from infringement if the idea underlying the copyrighted work
6 can be expressed in only one way, lest there be a monopoly on the underlying idea. In
7 such an instance, it is said that the work’s idea and expression ‘merge.’”) (citing CDN
8 Inc. v. Kapes, 197 F.3d 1256, 1261 (9th Cir. 1999); see also Apple Computer, 35 F.3d at
9 1444 (“[W]hen an idea and its expression are indistinguishable, or ‘merged,’ the
10 expression will only be protected against nearly identical copying.”). “Merger means
11 there is practically only one way to express an idea.” Apple, 799 F.Supp. at 1021; see
12 Krofft, 562 F.2d at 1168 n. 10 (merger occurs “[i]f, in describing how a work is
13 expressed, the description differs little from a simple description of what the work is.”).

14 “Under the related doctrine of *scènes à faire*, courts will not protect a copyrighted
15 work from infringement if the expression embodied in the work necessarily flows from a
16 commonplace idea; like merger, the rationale is that there should be no monopoly on the
17 underlying unprotectable idea.” Ets-Hokin, 225 F.3d at 1082 (citation omitted); see
18 Apple Computer, 35 F.3d at 1443 (“[S]imilarities derived from the use of common ideas
19 cannot be protected; otherwise, the first to come up with an idea will corner the market.”).

20 In particular, with respect to computer software, the *scènes à faire* doctrine “strips
21 protection from expression made in the form of stock features required by specifications
22 of the computer itself and supported software, or by industry standards and customary
23 programming practices.” O.P. Solutions, 1999 WL 47191, at *8 (quotation omitted); see
24 Apple, 799 F.Supp. at 1021 (“[I]f technical or conceptual constraints limit the available
25 ways to express an idea, even though there is more than one avenue of expression
26 available, copyright law will abhor only a virtually-identical copy of the original.”). As
27 such, “[i]f ‘market factors play a significant factor in determining the sequence and
28 organization’ of a computer program, then those patterns may well be termed ideas

1 beyond the ownership of any one seller.” Apple, 799 F.Supp. at 1023 (quoting Plains
2 Cotton Co-Op v. Goodpasture Computer Serv., 807 F.2d 1256, 1262 (5th Cir. 1987)).

3 3. The Alleged Similarities

4 As noted above, the Joint Parties seek protection for both literal and non-literal
5 elements in the Lexcel software. The non-literal elements contained in the Joint Parties’
6 List of Common Features and Elements concern the database schema of the Lexcel
7 software, i.e., the utilization of a single database, the design and layout of the database,
8 the accompanying database structures and definitions (table and column names and data
9 types), file names and structures, procedures, functions, formatting, commenting and the
10 like. See O.P. Solutions, 1999 WL 47191, at *10 (noting that non-literal elements refer to
11 elements such as the organizational structure of the actual program, as opposed to the
12 internal operation of the program). However, the Joint Parties’ list of similarities also
13 references 12 sections of source code (literal elements) that were allegedly copied
14 verbatim from the Lexcel software. As such, Lexcel seeks to protect not only underlying
15 elements of its program, but also the “unique selection and arrangement” of its features.

16 i. Non-literal Elements

17 The Joint Parties state that “Lexcel does not seek copyright protection for [its]
18 non-literal elements in isolation, but rather seeks protection of the combination of the
19 identified non-protectible elements.” (Dkt. #601, p.19). In response, Nelcela states that
20 “[a]lthough the Joint Parties’ claim copying of a database schema, their own expert
21 offered no evidence of a database schema.” (Dkt. #603, p.5). But the Joint Parties clearly
22 set forth those non-literal elements and features that they contend constitutes a protectable
23 compilation of unprotectable elements (Dkt. #555, p.2; Dkt. #601, pp. 18-19); they do not
24 simply argue “that the few field names that are identical in the Lexcel and Nelcela
25 software constitute a protectable compilation” (Dkt. #603, pp. 4-5). Regardless, for some
26 unknown reason, Nelcela merely argues that the field names in the Lexcel software do not
27 constitute protectable expression, as they are unoriginal and also unprotectable under the
28

1 scènes à faire doctrine as they naturally flow “from the industry custom of labeling fields
2 to identify content and the required content dictated by the Visa Regulations.” (Id., p.5).

3 Clearly, isolated field names “are not original, are within the public domain, and
4 are not entitled to individual protection.” O.P. Solutions, 1999 WL 47191, at *15; CMM
5 Cable Rep, Inc. v. Ocean Coast Props., 97 F.3d 1504, 1519 (1st Cir. 1996) (“It is
6 axiomatic that copyright law denies protection to ‘fragmentary words and phrases’ and to
7 ‘forms of expression dictated solely at functional considerations’ on the grounds that
8 these materials do not exhibit the minimal level of creativity necessary to warrant
9 copyright protection.”) (citing 1 NIMMER ON COPYRIGHT (1985 ed.) § 2.01[B] at 2-13-18;
10 37 C.F.R. § 202.1(a)). That is relatively undisputed. See Dkt. #602, p.9 (“[C]opyright
11 law does not protect individual, commonplace words.”). In addition, the Court agrees
12 with Nelcela’s expert’s testimony that the particular field names in the Lexcel software
13 may be logically related to the names in the Visa Regulations, and primarily consist of
14 “industry standard abbreviations of a wide variety of data elements and data fields that are
15 used commonly throughout the industry.” (Dkt. #600, p.10). Although the Joint Parties’
16 expert posited that Lexcel’s field names “could have been named differently,” the Joint
17 Parties do not necessarily disagree that programmers generally use stereotypical
18 expressions and chose field names that express the content of the data elements (such as
19 abbreviating “authorization” as “auth,” not “Jayhawks”); they do not use arbitrary field
20 names. This is a prime example of the merger doctrine: there are only so few ways of
21 expressing the particular idea that protection of the expression would effectively accord
22 protection to the idea itself. See 4 NIMMER ON COPYRIGHT § 13.03[F][e][iii]
23 (“[A]lternative possibilities cannot, by themselves, vouchsafe copyrightability.”). In
24 addition, individual field names are unprotected under the scènes à faire doctrine as they
25 are generally a result of customary programming practices. See O.P. Solutions, 1999 WL
26 47191, at *14 (“Individual fields . . . do not constitute original expression, but rather are
27 abbreviations for commonplace terms, and as such are unoriginal and uncopyrightable.”).

28

1 However, the coordination, selection, and arrangement of these field names, as
2 well as the fields and field types themselves, formatting, and commenting, may be
3 entitled to protection as a compilation so long as they “are numerous enough and their
4 selection and arrangement original enough that their combination constitutes an original
5 work of authorship.” Satava, 323 F.3d at 811. While the mere “decision to combine
6 unprotectable elements does not render the resulting product original,” Situation
7 Management Systems v. ASP Consulting Group, 2008 WL 538808, at *7 (D. Mass.
8 2008), “the selection, coordination, and arrangement” of unprotectable elements may be
9 sufficiently original to merit protection, Feist, 499 U.S. at 358. See also Apple Computer,
10 35 F.3d at 1445 (“[O]riginal selection and arrangement of otherwise uncopyrightable
11 components may be protectable.”).

12 Nelcela contends that although its use of inconsistencies in the abbreviations used
13 for terms in the Lexcel software implies that factual copying occurred, “these
14 discrepancies do not establish that the choices made by Lexcel constitute protectable
15 expression. There remain only a few ways to abbreviate the names in the Visa
16 regulations, and the abbreviations chosen by Lexcel are standard and commonplace.”
17 (Dkt. #600, p.13). But in comparing just 44 lines of the Lexcel and Nelcela software, Dr.
18 Posner, the Joint Parties’ expert, found that “the definitions [in the Lexcel and Nelcela
19 software] are identical down to the last character including order of fields, field types,
20 names, formatting, and comments.” (Dkt. #337, p.19). Dr. Posner went on: “If we make
21 the ridiculously conservative assumption that the odds of exactly duplicating a single line
22 by accident are 1 in 2 then the odds of getting 44 consecutive matches . . . is greater than
23 10 trillion to 1.” (Id.). That supports the proposition that while individual field names
24 may be limited in their expression / abbreviations, certainly when incorporated into lines
25 of code, they may become numerous enough and their selection and arrangement original
26 enough that their combination constitutes an original work. See Hutchins, 492 F.3d at
27 1384 (“Copyright does not protect individual words and ‘fragmentary’ phrases when
28 removed from their form of presentation and compilation. Although the compilation . . .

1 may be subject to copyright in the form in which it is presented.”); Apple Computer, 35
2 F.3d at 1439 (“[P]rotectable substantial similarity cannot be based on the mere use of
3 overlapping windows, although, of course, Apple’s *particular expression* may be
4 protected.”) (emphasis in original).

5 In addition, this is not a instance where “[t]he similarity of [] functional elements.
6 . . . or their arrangement in products of like kind [amounts to] standardization across
7 competing products for functional considerations.” Apple, 799 F.Supp. at 1023. There is
8 insufficient information to suggest that Nelcela’s use of the exact arrangement of the field
9 names in Lexcel’s software amounts to standardization across like software for functional
10 considerations; nor is there anything to suggest that common sense or efficiency
11 considerations dictated Nelcela’s use of the same abbreviations in the exact order as
12 Lexcel.¹² Thus, the Court cannot conclude that no reasonable juror could not find
13 creativity in the selection and arrangement of the Lexcel software’s field names, let alone
14 the remaining allegedly similar non-literal elements of the Lexcel software, sufficient to
15 render the compilation original enough for protection.

16
17
18
19
20
21
22
23
24 ¹²Despite Nelcela’s assertion to the contrary, the determination that Lexcel’s field
25 names and abbreviations are not necessarily limited as scènes à faire is supported by the fact
26 that Nelcela’s expert, Mr. Pell, abbreviated several field names differently than the
27 abbreviations used in the Lexcel and Nelcela software. See Dkt. #600, pp. 11-12 n. 7; Dkt.
28 #602, p.9 n. 3. The evidence presented supports neither a finding that Lexcel’s non-literal
elements are merely a result of external considerations (such as software or design standards,
or programming practices and techniques) nor an inference of independent creation on the
part of Nelcela.

1 ii. Literal Elements

2 The Joint Parties allege that Nelcela copied verbatim portions, including
3 formatting, naming, and commenting, of 12 of Lexcel’s source codes. (Dkt. #565, p.10;
4 Dkt. #601, pp. 19-20). Specifically, with respect to five of Lexcel’s source codes –
5 ACCOUNT.SQL, CARD.SQL, IDR.SQL, SELECT.SQL, and TABLES – the Joint
6 Parties allege that Nelcela copied numerous database table and column names. (Dkt.
7 #565, pp. 10-12; Dkt. #601, pp. 20-23). With respect to AUTHDAEM.C, CMDEXEC.C,
8 CMDEXEC.H, INTERCHANGE.H, and ISO8583STRUCT.H, Lexcel alleges that
9 “almost the entirety of the Lexcel file[s], including variables, parameters, formatting, and
10 the unique way in which Lexcel chose to express the functionality performed by the
11 file[s] appear verbatim in the Nelcela file[s].” (Id.). The Joint Parties assert that “entire
12 passages of code were copied word-for-word by Nelcela, complete with discretionary
13 word choices, misspellings, and even blank programmer comments,” and that the Lexcel
14 code was not dictated by the programming language or VISA regulations. (Dkt. #565,
15 p.12). Nelcela, on the other hand, refers to the similarities between the Lexcel and
16 Nelcela source code as “fragmented literal similarity”¹³ (Dkt. #600, p.16), resulting from
17 standard programming techniques and efficiency concerns (id., p.17; Dkt. #603, p.5).
18 Specifically, Nelcela argues that “every bit of highlighted code: 1) is found in the public
19 domain, i.e., ‘Sybase’ manuals or ‘standard, common’ ‘C’ code that must be used in every
20 ‘C’ program ever written; 2) is standard VisaNet data that must be included in any
21 authorization system for functionality in order to send to or receive data from VISA;
22 and/or 3) is standard functionality to place an ‘asterisk’ icon on the screen while the
23 program runs. None of these items is protected by copyright.” (Dkt. #560, pp. 14-15).

24
25
26 ¹³“Fragmented literal similarity exists where the defendant copies a portion of the
27 plaintiff's work exactly or nearly exactly, without appropriating the work's overall essence
28 or structure.” Newton v. Diamond, 388 F.3d 1189, 1195 (9th Cir. 2004) (citing 4 NIMMER
ON COPYRIGHT § 13.03[A][2], at 13-45).

1 First, as discussed in the preceding section, to the extent that the Joint Parties
2 allege that Nelcela copied database table names and column names from the identified
3 source code, only the selection, coordination, and arrangement of that information is
4 subject to protection. Second, with respect to the remaining source code, it appears
5 undisputed that the programming languages used by Lexcel afford multiple ways to
6 express the functionality in the Lexcel source code (Dkt. #565, p.13), it is also true that
7 copyright is not afforded to “programming practices and techniques that have become
8 widely used and accepted in the computer software industry.” 4 NIMMER ON COPYRIGHT
9 § 13.03[F][e]. As such, it is hard to imagine that code implementing an ISO error
10 message or displaying a spinning asterisk while the computer is functioning does not
11 constitute an unprotectable “procedure, process, system [or] method of operation” under
12 17 U.S.C. § 102(b). In addition, as an example, Nelcela’s expert testified that the
13 ISO8583 include function appears in “just about every authorization system” as a
14 common format to exchange transaction information, and other code identified by Lexcel
15 appear to utilize standard programming techniques. (Dkt. #600, p.18). Clearly, “[t]he
16 mere fact that similar practices or techniques are employed in two programs is tenuous
17 evidence at best of copying.” 4 NIMMER ON COPYRIGHT § 13.03[F][e][ii]; Altai, 982 F.2d
18 at 708 (“Since . . . there may be only a limited number of efficient implementations for
19 any given program task, it is quite possible that multiple programmers, working
20 independently, will design the identical method employed in the allegedly infringed work.
21 Of course, if this is the case, there is no copyright infringement”) (citations omitted).

22 However, “[c]omputer programming is a highly creative and individualistic
23 endeavor,” id., and source code is “consistently held protected by a copyright of the
24 program,” Johnson Controls, 886 F.2d at 1175. Even Nelcela’s expert recognized that
25 Lexcel exercised at least *some* discretion when programming its source code, including in
26 Lexcel’s comments (which does not add to the software’s functionality) (Dkt. #565,
27 p.12). Nonetheless, the Court cannot find based on the evidence presented that the Lexcel
28 source code, while not necessarily dictated by external constraints, does not generally

1 result from standard programming techniques and/or efficiency considerations, especially
2 in light of the software's need to comply with VISA regulations (in processing and
3 storing data).

4 But this case does not involve general copying of standardized elements. It
5 involves verbatim copying of numerous parts of source code, including commenting, that
6 are simply not by functionality, efficiency, or compliance with the VISA regulations.
7 (Dkt. #565, pp. 12-17). Although Lexcel seems to overstate the sheer number of ways in
8 which a programmer would develop source code to comply with the VISA regulations,
9 the Court cannot alternatively conclude that the Lexcel source code consists only of
10 commonly known techniques and material strung together without significant originality
11 or skill.

12 The Court finds it helpful here to look at what happened in Altai. There,
13 approximately 30 percent of the defendant's software was copied directly from the
14 plaintiff's software. Altai, 982 F.2d at 700. But once the defendant discovered that
15 copying had taken place, it locked away the code and rewrote the 30 percent of copied
16 code using untainted employees. Id. The result? Although the defendant's original
17 software clearly constituted infringement of the plaintiff's software, the Second Circuit
18 found that the similarities between the plaintiff's software and the defendant's *rewritten*
19 software were merely a result of external factors, such as the software's functionality, and
20 thus did not constitute copyright infringement. Id. at 714-15. The instant action is more
21 akin to the unchallenged finding of infringement between the plaintiff's software and
22 defendant's original software. Although perhaps, in some other instance, external
23 constraints and considerations could lead programmers to independently create the Lexcel
24 software at issue (both literal and non-literal elements), that is simply not the case here.
25 Here, the evidence simply does not support a finding that the similarities in both literal
26 and non-literal elements between the Lexcel and Nelcela software constitute only
27 "functional elements and elements taken from the public domain [that] do not qualify for
28 copyright protection." Id. at 714. The evidence supports factual copying of elements that

1 extend beyond the dictates of external constraints; there is at the very least “‘indicia of a
2 sufficient disagreement concerning the substantial similarity of [the] two works.’”
3 Swirsky, 376 F.3d at 846 (quoting Brown Bag, 960 F.2d at 1472). Thus, the Court cannot
4 conclude that the Lexcel source code lacks sufficient originality to not warrant protection.

5 **E. Comparison / Scope of Protection**

6 The Court must now define the scope of Lexcel’s copyright – that is, decide
7 whether the Lexcel software is entitled to “broad” or “thin” protection. Then, depending
8 on the degree of protection, the Court must set the appropriate standard for the intrinsic
9 test, i.e., subjective comparison of the Lexcel and Nelcela software by the trier of fact to
10 determine whether they are sufficiently similar to support a finding of illicit copying. See
11 Apple Computer v. Microsoft Corp., 821 F.Supp. 616, 623 (N.D. Cal. 1993) (“[A]fter
12 filtering out all unprotectable elements, the court’s substantial similarity inquiry [must]
13 focus on the remaining ‘core of protectable expression,’ and whether defendant copied
14 any aspect of this protected expression, as well as ‘the copied portion’s relative
15 importance with respect to the plaintiff’s overall program.’”) (quoting Altai, 982 F.2d at
16 710).

17 In making this determination, the Court notes that “[b]roader protection is
18 generally accorded to artistic works and other analogous works because of the endless
19 variations of expression that are available in such works; in those cases, the appropriate
20 standard under the intrinsic analysis is substantially similar copying.” Apple Computer,
21 35 F.3d at 1446-47 (citation omitted). On the other hand, if the range of possible
22 expression is narrow, then the works are afforded only “thin” protection and the
23 appropriate standard under the intrinsic analysis is virtual identity. Id. at 1439; see also
24 Harper House, Inc. v. Thomas Nelson, Inc., 889 F.2d 197, 205 (9th Cir. 1989) (works
25 consisting largely of uncopyrightable elements receive only limited copyright protection).

26 In addition, there are only two instances where a court may find noninfringement
27 as a matter of law: “[E]ither when the similarity concerns only noncopyrightable elements
28 of plaintiff[’s] work, or when no reasonable trier of fact could find the works substantially

1 similar.” Walker v. Time Life Films, Inc., 784 F.2d 44, 48 (2d Cir. 1986); see also Aliotti
2 v. R. Dakin & Co., 831 F.2d 898, 901 (9th Cir. 1987) (“[N]o substantial similarity may be
3 found under the intrinsic test where analytic dissection demonstrates that all similarities in
4 expression arise from the use of common ideas.”). Here, as discussed above, the Joint
5 Parties have demonstrated that some of the elements of the Lexcel software constitute
6 copyrightable subject matter – in particular, some of the portions of Lexcel’s source code
7 (those involving more than naming conventions), and more persuasively, the selection,
8 coordination, and arrangement of the information contained in the Lexcel software’s
9 database schema (non-literal elements) and source code (those involving copying of table
10 and column names). As such, Nelcela may not secure summary judgment of non-
11 infringement on the ground that the similarities concern only noncopyrightable elements
12 of Lexcel’s work. Instead, Nelcela’s request must rest on the ground that no reasonable
13 trier of fact could find the works to be sufficiently similar.

14 Here, because the non-literal elements of the Lexcel software are protectable only
15 as compilations, they are subject to “thin” protection. See O.P. Solutions, 1999 WL
16 47191, at *9 (“Protection of compilations is thin, as it is limited to just ‘those components
17 of a work that are original to the author,’ [Feist,]499 U.S. at 348 . . .”). In addition,
18 although the portions of Lexcel’s source code that were allegedly copied by Nelcela are
19 protectable (either independently or as a compilation) as they have not been shown to be
20 sufficiently unoriginal, given the Court’s additional determination that some of the
21 protectable elements are not subject to endless variations of expression, the Court is
22 unable at this time to afford them broad protection. Regardless, even if the Court were to
23 afford them such protection, “[t]he fact that the work as a whole may be composed of a
24 few individual elements protectible under the substantial similarity standard should not
25 imply that the substantial similarity standard applies to the work as a whole.” Apple
26 Computer v. Microsoft Corp., 1993 WL 207982, at *2 (N.D. Cal 1993). As a result, the
27 Lexcel’s literal elements will also be afforded only “thin” protection. See Satava, 323
28 F.3d at 812 (“Satava’s copyright on these original elements (or their combination) is

1 ‘thin,’ however, comprising no more than his original contribution to ideas already in the
2 public domain.”). Accordingly, the appropriate standard under the intrinsic analysis is for
3 the trier of fact to compare the works for virtually identical copying, Apple Computer, 35
4 F.3d at 1439, and thus infringement will lie only if the protectable elements differ from
5 one another by no more than a trivial degree, O.P. Solutions, 1999 WL 47191, at *21.

6 Of course, “it is important to note that even though some aspects of the programs
7 may be dissimilar, that fact alone will not preclude a finding of infringement. Rather . . .
8 a defendant will escape liability only where the copied, protectable elements constitute an
9 insignificant portion or aspect of the work in question.” O.P. Solutions, 1999 WL 47191,
10 at *21. Importantly,

11 [i]t is only when the similarities between the protected elements of
12 plaintiff’s work and the allegedly infringing work are of ‘small import
13 quantitatively or qualitatively’ that the defendant will be found innocent of
infringement.

14 Williams v. Crichton, 84 F.3d 581, 587 (2d Cir. 1996). Therefore,

15 [i]n some cases, the amount of material copied will be so small as to be *de*
16 *minimis*, and will not justify a finding of substantial similarity. In other
17 cases, however, even a quantitatively small amount of copied material may
be sufficiently important to the operation of plaintiff’s program to justify a
finding of substantial similarity.

18 4 NIMMER ON COPYRIGHT § 13.03[F][5]; see also Apple Computer, 821 F.Supp. at 624
19 (“[Q]uantitatively insignificant infringement may be substantial if the material is
20 qualitatively important to [the] plaintiff’s work.”). Thus, Nelcela will not escape liability
21 unless it can show that the protectable elements in the Lexcel software constitute an
22 insignificant (quantitatively and qualitatively) portion or aspect of the Lexcel software.

23 Based on the evidence presented, the Court is unable to find, as a matter of law,
24 that “no reasonable juror could conclude” that the protected elements of the works do not
25 differ by more than a trivial degree. Although Nelcela asserts that the Joint Parties cannot
26 satisfy the intrinsic test because “[l]ess than the ‘entire’ Lexcel Authorization System as a
27 whole” (Dkt. #600, p.19), Nelcela is reminded that “the relevant inquiry is whether a
28 substantial portion of the protectable material in [*Lexcel’s*] work was appropriated—not

1 whether a substantial portion of *defendant's* work was derived from plaintiff's work.”
2 Worth v. Selchow & Righter Co., 827 F.2d 569, 570 n. 1 (9th Cir. 1987) (emphasis in
3 original). In addition, the Joint Parties assert that the Lexcel database schema “is key to
4 the entire functioning of the Lexcel authorization and merchant systems, much like an
5 engine is to a car.” (Dkt. #602, p.11). It is for the jury to resolve this dispute; the jury
6 must determine whether the protectable elements of the two works differ in more than a
7 trivial degree, and, if not, whether those elements are of sufficient importance to the
8 works as a whole to render Nelcela guilty of infringement. Thus, because there are
9 disputed issues of material fact concerning whether the Lexcel and Nelcela software are
10 similar enough to support the Joint Parties' claim, summary judgment may not be granted.

11 **IV. SUMMARY**

12 As previously mentioned, this action is currently in Phase II, the
13 Infringement/Damages phase. The parties have already engaged in discovery on the issue
14 of the statute of limitations, and the Court has ruled that the issue of whether equitable
15 estoppel acts to bar Lexcel's infringement claim involves questions of fact reserved for
16 the jury in Phase II. In addition, this Order rules on the issue of analytical dissection and
17 finds that the jury in Phase II must determine whether the similarities between the
18 protected elements in the Lexcel and Nelcela software differ by no more than a trivial
19 degree (which includes an inquiry into the qualitative and quantitative significance of the
20 protected elements).

21 Moreover, while the Court indicated at the March 11, 2008 hearing that the Joint
22 Parties could resubmit their Motion for Partial Summary Judgment on Nelcela's Claims
23 of Copyright Infringement, Conversion, and Aiding and Abetting Tortious Conduct after
24 the Court's ruling on the issue of analytical dissection (Dkt. #597, pp. 107-08), that no
25 longer seems necessary. In light of the forgoing discussion concerning the Court's
26 September 30, 2006 Order on Phase I Summary Judgment, the Jury's April 24, 2007
27 verdict on ownership, and the instant Order on Analytical Dissection, Nelcela's claims of
28

1 Copyright Infringement, Conversion, and Aiding and Abetting Tortious Conduct (Dkt.
2 #399, pp. 11-14) appear moot.

3 As discussed in depth above, the issue of copyright ownership has been
4 determined; Lexcel owns the identified and copyrightable portions of the Merchant and
5 Authorization systems at issue in this case. Although Nelcela argues in its Response to
6 the Joint Parties' Motion for Partial Summary Judgment, that its copyright infringement
7 claim is still actionable because "even if the Nelcela Merchant System is an unauthorized
8 derivative work, no precedent conveys ownership of the material contributed by Alec
9 Dollarhide or others" (Dkt. #562, p.2), the Court is not aware of any "material contributed
10 by Alec Dollarhide or others" in the Nelcela software that Nelcela has identified as being
11 copied by the Joint Parties apart from what has already been found to be owned and/or
12 copied from the Lexcel software. The ownership phase is over; Phase II is well under
13 way. Nelcela was afforded a full and fair opportunity during Phase I to identify the
14 material in the Nelcela software that it contends is original and was copied by the Joint
15 Parties (Dkt. #s 323-25, 349); the Court need not consider any new arguments with
16 respect to ownership at this late stage. See, e.g., Alaska Center for Environment v. U.S.
17 Forest Service, 189 F.3d 851, 858 n. 4 (9th Cir. 1999) ("Arguments not raised in opening
18 brief are waived."); Giddings v. Vision House Production, Inc., 584 F.Supp.2d 1222,
19 1226 (D. Ariz. 2008) ("Where a plaintiff sets forth one theory in the complaint and does
20 not move to amend until summary judgment proceedings, it is barred from proceeding on
21 a new theory."); Lloyd v. Ashcroft, 208 F.Supp.2d 8, 11 (D.D.C. 2002) ("A plaintiff
22 cannot change the theory of his case in his post-trial motion in order to survive a Rule 50
23 motion for judgment as a matter of law. He is bound by what he pled and attempted to
24 prove at trial."). Nelcela's copyright infringement claim was rendered moot by Phase I.¹⁴

25
26 ¹⁴This holding does not apply to Nelcela's claims as they relate to the POST parties
27 (POST Integrations, Inc., Ebocom, Inc., Ebocom, LLC, Mary Gerdts, and Douglas
28 McKinney). See Dkt. #468 (pre-trial stipulation between the Nelcela and the Joint Parties
that "[t]he Nelcela Parties' allegations that [the POST parties] stole, infringed upon or

1 In addition, Nelcela’s conversion claim is no longer actionable. “[C]onversion
2 claims with respect to intellectual property arise from the reproduction, copying and
3 misuse of a work. . . . [and] are ‘clearly equivalent to [those of] a copyright claim.’”
4 Meridian Project Systems, Inc. v. Hardin Const. Co., LLC, 2006 WL 1062070, at *4
5 (E.D. Cal. 2006). Thus, “to the extent that [Nelcela] alleges the conversion of
6 [copyrightable or] otherwise noncopyrightable intellectual property contained within [the
7 Nelcela software], the [conversion] claim is preempted by the Copyright Act.” Id.
8 However, “[t]he conversion of tangible property does not fall within the scope of
9 copyright protection.” Id. at *2. “[A] claim for conversion of physical property requires
10 plaintiff to demonstrate that defendants wrongfully obtained possession over a specific
11 piece of property.” Id. at *2 (citing Oddo v. Ries, 743 F.2d 630, 635 (9th Cir. 1984)).

12 But in its claim for conversion, Nelcela does not specifically allege the conversion
13 of tangible property such as disks, files, and other related Nelcela documentation. See
14 Dkt. #399, ¶¶ 60-70; see also Meridian Project, 2006 WL 1062070, at *3. Nelcela’s
15 claim focuses on the conversion of intangible property, i.e., “the portions of the Nelcela
16 Merchant System created by Alec Dollarhide (or others) without an appropriate license.”
17 (Dkt. #562, p.3) (“For example, Nelcela would have the right to remove any preexisting
18 Lexcel software form the Nelcela Merchant System and license the resulting software on
19 an exclusive or nonexclusive basis.”). Nelcela’s conversion claim arises from allegations
20 of the Joint Parties’ alleged “reproduction, copying and misuse” of independently created
21 (and unidentified) portions of the Nelcela software. “[S]uch rights are ‘clearly equivalent
22 to [those of] a copyright claim.’” Meridian Project, 2006 WL 1062070, at *4 (quoting
23 Firoozye v. Earthlink Network, 153 F.Supp.2d 1115, 1130 (N.D. Cal. 2001)). As such,

24
25
26 otherwise had access to, the Nelcela source code, including, but not limited to, access across
27 the VPN line, shall be preserved for phase two of this litigation and all issues relating to
28 ownership of POST’s code and alleged infringement by POST shall be preserved for phase
two.”)

1 because Nelcela's copyright claim was rendered moot after Phase I, Nelcela's conversion
2 claim (and related aiding and abetting claim) was also rendered moot by Phase I.

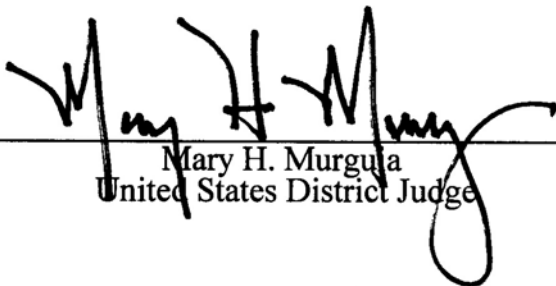
3 **Accordingly,**

4 **IT IS HEREBY ORDERED** that this Order constitutes the Court's definitive
5 ruling on the issue of analytic dissection.

6 **IT IS FURTHER ORDERED** setting this case for a Status Hearing on April 14,
7 2009, at 1:30 p.m, at which counsel are directed to be physically present. The parties are
8 directed to meet and confer prior to the hearing and be prepared to discuss any remaining
9 issues in Phase II of this litigation, in addition to setting this case for trial on the issues of
10 infringement and damages.

11 DATED this 17th day of March, 2009.

12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28



Mary H. Murgula
United States District Judge