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Nexus Crystals: Crystallizing Limits on Contractual Control of Virtual Worlds

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**NEXUS CRYSTALS: CRYSTALLIZING LIMITS ON
CONTRACTUAL CONTROL
OF VIRTUAL WORLDS**

Joshua A.T. Fairfield[†]

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I. INTRODUCTION

Can a video game developer or publisher successfully sue a video game player for copyright infringement for not “playing a game nicely,” “cheating,” or “buying software from a third party”? This article suggests a new reason why it cannot.

The founding social contract of the new millennium is the End User License Agreement (EULA), not the U.S. Constitution. Website terms of use (TOU) and software EULAs now have an enormous impact on how citizens must act and how their rights and redresses are defined. EULAs contain not only traditional intellectual property licensing conditions¹ but complicated directives regarding what members of online communities can say, how they must act, what they can do, with whom they can transact business, and whether they can own the fruits of their own labor.²

The question that has been before academics for a long time, and before courts for a shorter time, is how far these contracts can go in controlling the property and dignitary interests of contractual

1. See *Kindle License Agreement and Terms of Use*, AMAZON.COM, http://www.amazon.com/gp/help/customer/display.html/ref=hp_left_sib?ie=UTF8&nodeId=200506200 (last visited Oct. 5, 2011) (“Upon your download of Digital Content and payment . . . [Amazon] grants you a non-exclusive right to view, use, and display such Digital Content an unlimited number of times, solely on the Kindle or a Reading Application or as otherwise permitted as part of the Service . . . Digital Content is licensed, not sold, to you by the Content Provider.”).

2. See *World of Warcraft End User License Agreement*, BLIZZARD ENTMT, http://us.blizzard.com/en-us/company/legal/wow_eula.html (last updated Oct. 29, 2010) [hereinafter *World of Warcraft EULA*] (“All title, ownership rights and intellectual property rights in and to the Game and all copies thereof (including without limitation any . . . characters . . . concepts, artwork, character inventories . . . and any related documentation) are owned or licensed by Blizzard.”). In the *World of Warcraft EULA*, the ability to permanently transfer all rights and obligations under the EULA of the game is detailed. *Id.* (explaining that a transfer is allowed so long as you transfer the physical copy with all the documentation that came with it, delete all copies on your computer and in your possession, and the transferee agrees to the EULA); see also, e.g., *Second Life Terms of Service*, SECOND LIFE, <http://secondlife.com/corporate/tos.php> (last updated Dec. 15, 2010) [hereinafter *Second Life EULA*] (outlining the rights and responsibilities of Linden Lab and end users). Specifically, section 4.5 of the *Second Life EULA* states that Linden Lab owns the Server data and is not liable for service interruptions or loss of data. *Id.* This is subject to section 7.1, which recognizes end users’ pre-existing intellectual property rights. *Id.* Section 6 specifies that “virtual land” is owned by Linden Lab and that it is licensed to the user. *Id.*

communities.³ The consequences of this legal debate are immediate and personal,⁴ although the law governing these rules is always in flux and sometimes incoherent. You may “jailbreak” your iPhone or “root” your droid⁵ without implicating copyright issues no matter what your license says. But if you “mod” your PlayStation 3 (PS3) in violation of your software license agreement (or, worse, show others how to do so), then you risk a major lawsuit.⁶

3. See Edward Castronova, *Virtual Worlds: A First-Hand Account of Market and Society on the Cyberian Frontier* 4, 30 (CESifo Working Paper Series No. 618, 2001), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=294828 (discussing the lack of distinct protections for property rights in virtual property because of EULAs, despite the scale of virtual worlds); see also *Bragg v. Linden Research, Inc.*, 487 F. Supp. 2d 593 (E.D. Pa. 2007) (detailing the novel issues presented by the relationship between the creator and user of a virtual world, as created by the Linden Lab’s EULA). But see Will Knight, *Gamer Wins Back Virtual Booty in Court Battle*, NEWSIDENTIST (Dec. 23, 2003, 14:37), <http://www.newsidentist.com/article/dn4510-gamer-wins-back-virtualbooty-in-court-battle.html> (discussing *Li Hongchen v. Beijing Arctic Ice Technology Development Co.*, a case in which a Chinese court ordered a virtual-world company to return the virtual property to a player whose account had been hacked and looted).

4. See Knight, *supra* note 3; see also *Dutch Court Rules Virtual Theft Is Real*, RADIO NETHERLANDS WORLDWIDE (Oct. 22, 2008, 3:04 PM), <http://www.rnw.nl/english/article/dutch-court-rules-virtual-theft-real> (reporting a case from Germany in which two boys threatened a classmate with a knife until he agreed to transfer virtual items to their account in the online game, Runescape); Mike Musgrove, *Tokyo Woman Jailed for Avatar “Murder,”* WASH. POST, Oct. 23, 2008, http://voices.washingtonpost.com/posttech/2008/10/tokyo_woman_jailed_for_a_vatar.html?nav=rss_blog.

5. Rooting, or jailbreaking, is the process of installing an application on a phone that has not been approved by the phone’s manufacturer. See Debra Littlejohn Shinder, *Pros and Cons of Jailbreaking or Rooting Your Smartphone*, TECHREPUBLIC SMARTPHONES (Aug. 20, 2010, 8:00 PM PDT), <http://www.techrepublic.com/blog/smartphones/pros-and-cons-of-jailbreaking-or-rooting-your-smartphone/1460>. While jailbraking is no longer illegal, the jailbraking exception of the Digital Millennium Copyright Act (DMCA) does not address the likely breach of contract between you and, for example, Apple, should you jailbreak your iPhone. *Id.* So, your warranty may be voided and Apple or Google can issue a patch to “fix” your jailbreaking or rooting. *Id.* Your phone can also be bricked. *Id.* This is where the smartphone basically locks up and either requires new hardware due to software corruption or complex repair (in effect, turning your cell phone into a \$400 “brick”). *Id.*

6. *Compare* Exemption to Prohibition Against Circumvention, 37 C.F.R. § 201.40 (2010) [hereinafter Jailbreak Exemption] (creating the “jail-breaking” exception rule that does not force smartphone makers to permit jail-breaking but makes it lawful to circumvent controls designed to block jail-breaking), with 37 C.F.R. § 201.40(b)(4) (2010) (providing an exception for video games where the circumvention is for good faith testing, investigating, or correcting of security issues provided the information from the testing is used in such a way that does not aid in copyright infringement), and *Sony Computer Entm’t Am. LLC v. Hotz*, No. CV11 0167, 2011 WL 347137 (N.D. Cal. Jan. 27, 2011) (initiating an action against a programmer for modifying a PS3; in order for defendant Hotz to prevail,

The only way to understand this area of law is to identify the legal questions at the center of the debate because, while the answers courts give to these questions are not stable, the questions themselves have been. The center of the debate is the interaction between the grant of exclusive rights in the core provisions of the Copyright Act and the later additions by the Digital Millennium Copyright Act (DMCA)⁷—the statute that protects technological locks against technological circumvention.⁸ The connection between contracts and technological measures is direct but not immediately clear. Contracts that restrict access to software are legally enforceable documents, but also technological protective measures that control access to copyrighted material.⁹ This creates a catch-22 for the end user: either the end user clicks through the EULA and gives up a panoply of rights, often including fair use,¹⁰

the modifications made must enable the PS3 to work with other programs and not facilitate copyright infringement).

7. See 17 U.S.C. § 106 (2006) (providing to a copyright owner exclusive rights to reproduce, prepare derivative works, distribute, perform, and display their copyrighted work); *MDY Indus. v. Blizzard Entm't, Inc.*, 629 F.3d 928, 938, 942–43, 945 (9th Cir. 2010) (outlining the exclusive rights under § 106 and, later, the goals of the DMCA with copyright enforcement in the digital age and ultimately finding a new anti-circumvention right); *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 387 F.3d 522, 528, 533, 550 (6th Cir. 2004) (analyzing the relationships between rights under the Copyright Act and the DMCA's anti-circumvention provisions, and determining that the anti-circumvention provisions do not grant a new right); *Chamberlain Grp. v. Skylink Techs., Inc.*, 381 F.3d 1178, 1192–1201 (Fed. Cir. 2004) (interpreting the DMCA's anti-circumvention provisions, looking to the Copyright Act, Congressional intent, and finding the anti-circumvention provisions created a new cause of action and not a new right where circumvention is infringement and copyright protection would be implicated).

8. Digital Millennium Copyright Act, Pub. L. No. 105-304, 112 Stat. 2860 (codified as amended in scattered sections of 17 U.S.C. (1998)). The DMCA contains three provisions that create a framework to address circumvention of technological measures that protect copyrighted works. See 17 U.S.C. §§ 1201(a)(1)–(2), 1201(b)(1) (2006).

9. See *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1452 (7th Cir. 1996) (describing that UCC 2-204(1) provides for different formations of contracts, such as a prompt on a computer screen, which can prevent access). “ProCD proposed a contract that a buyer would accept by *using* the software after having an opportunity to read the license at leisure. This Zeidenberg did. He had no choice, because the software splashed the license on the screen and would not let him proceed without indicating acceptance.” *Id.* If you fail to click agree and still use the software, then you have circumvented a technological measure. See 17 U.S.C. § 1201(a)(1)(A) (2006) (“No person shall circumvent a technological measure that effectively controls access to a work protected under this title.”).

10. See *Davidson & Assocs. v. Internet Gateway*, 334 F. Supp. 2d 1164, 1181 (E.D. Mo. 2004), *aff'd sub nom. Davidson & Assocs. v. Jung*, 422 F.3d 630, 632 (8th Cir. 2005) (“The defendants in this case waived their ‘fair use’ right to reverse

or the end user circumvents the contract and is liable for that circumvention under the DMCA.¹¹

The question is whether corporations can use EULAs to control consumer behavior that has little or nothing to do with copyright. It is clear that a copyright license that restricts a licensee from making copies makes use of a power that Congress intended to give to copyright holders.¹² It is less clear that Congress intended to permit companies to turn actions such as “being rude while playing a video game,” “criticizing the game company while commenting on game message boards,” or “cheating while playing a game” into copyright infringements. Companies can, of course, contract with users to use the software in certain ways,¹³ but it is not at all certain that any resulting breach of contract claims should be transformed into copyright infringements and/or DMCA violations.

A number of courts have therefore held that there must be a “nexus” between a license restriction that a corporation seeks to

engineer by agreeing to the licensing agreement.”); *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317, 1325–26 (Fed. Cir. 2003) (detailing that private parties are able to contract out of the limited ability to reverse engineer software—a fair use under the exemptions of the Copyright Act).

11. See 17 U.S.C. § 1201(a)(1)(A) (2006) (“No person shall circumvent a technological measure that effectively controls access to a work protected under this title.”).

12. See U.S. CONST. art. I, § 8, cl. 8 (“The Congress shall have Power . . . To Promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”); 17 U.S.C. §§ 101–103 (2006) (granting federal copyright protection to authors of “original works of authorship”); 17 U.S.C. § 106(1) (2006) (providing for the exclusive right to reproduce work that is copyrighted). *But see* 17 U.S.C. § 117(a)(1) (2006) (providing for the essential step defense unique to the software context). The owner may make copies to their computer’s random access memory (RAM) where it is essential to the use of that software in conjunction with the machine and is used in no other way. See also 17 U.S.C. § 109(a) (2006) (providing for the first sale doctrine where a lawful owner of a copy of a copyrighted work is able, without the permission of the copyright owner, to sell or otherwise dispose of the possession of the relevant copy). The first sale doctrine allows owners of copies of copyrighted works to resell those copies. *Id.* Both of these affirmative defenses are limited to owners of copyrighted works. *Id.*

13. See, e.g., *MDY Indus. v. Blizzard Entm’t, Inc.*, 629 F.3d 928, 938 (9th Cir. 2010) (detailing Blizzard’s TOU and the prohibition of cheats, hacks, or other third-party software, essentially requiring fair play); Apple, *iPOD Software License Agreement Single Use License*, APPLE, ¶ 2(a) (July 20, 2010), <http://images.apple.com/legal/sla/docs/ipod.pdf> [hereinafter *iPOD SLA*] (restricting the use of the iPOD software to use on one iPOD). “[Y]ou may not copy, decompile, reverse engineer, disassemble, attempt to derive the source code of, decrypt, modify, or create derivative works of the iPod Software, iPod Software Updates, or any part thereof.” *Id.* ¶ 2(c).

enforce on penalty of DMCA violation and some right granted by the Copyright Act.¹⁴ The Ninth Circuit has held otherwise: a clause unconnected to any core right granted by the Act would be enforceable as a copyright infringement if the user violated the EULA and as a DMCA violation if the user either circumvented the EULA or sought to avoid surveillance programs, such as Blizzard's Warden, intended to enforce these contractual clauses.¹⁵

Yet the Ninth Circuit has now recently recognized the dissonance caused by permitting corporations to turn every breach of contract into a claim for copyright infringement, an infringement of the DMCA, or even a criminal hacking claim.¹⁶ In

14. See *Chamberlain Grp. v. Skylink Techs., Inc.*, 381 F.3d 1178, 1204 (Fed. Cir. 2004) (ruling that a copyright owner who seeks to impose liability on an accused circumventor must show a "reasonable relationship" between the circumvention and a protected interest under the Copyright Act of the copyright owner); see also *Storage Tech. Corp. v. Custom Hardware Eng'g & Consulting, Inc.*, 421 F.3d 1307, 1318 (Fed. Cir. 2005) (citing *Chamberlain*, 381 F.3d at 1202-03) ("[Section 1201] prohibits only forms of access that bear a reasonable relationship to the protections that the Copyright Act otherwise affords copyright owners."). "If such a nexus were not required, the careful balance that Congress sought to achieve between the 'interests of content creators and information users' would be upset." *Id.* at 1319 (citing H.R. REP. NO. 105-551, pt. 1, at 26 (1998)); *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 387 F.3d 522, 550 (6th Cir. 2004) (detailing that a technological measure must control access to a work falling under the general copyright protection of 17 U.S.C. § 102(a)). "To the extent the Toner Loading Program is not a 'work protected under [the copyright statute],' the DMCA necessarily would not protect it." *Id.* at 550. The court is finding a need for a technological measure, such as an EULA, to be a protected right under 17 U.S.C. § 102(a) (2006). See, e.g., *ProCD Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996). If the technological measure does not fall under 17 U.S.C. § 102(a) (2006), then a violation, or circumvention, of it would not be a copyright infringement.

15. See *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 519 (9th Cir. 1993) (finding that a copy made by a licensee is a violation of the license agreement and is also a copyright infringement). See *infra* note 16 for a discussion of the RAM copy doctrine. In *MAI*, the purchaser was a licensee, not an owner, and therefore not able to use the affirmative defense of "essential step." *MAI Sys. Corp.*, 991 F.2d at 519; see also *Wall Data Inc. v. L.A. Cnty. Sheriff's Dep't*, 447 F.3d 769, 784-86 (9th Cir. 2006) (finding that defendant was a licensee of the software and therefore infringed the plaintiff's copyright by copying the software and installing it on several computers, in violation of the license agreement); *Davidson & Assocs., Inc. v. Internet Gateway*, 334 F. Supp. 2d 1164, 1181 (E.D. Mo. 2004).

16. See *MDY Indus.*, 629 F.3d at 941 (discussing the RAM copy doctrine loosely). "This would allow software copyright owners far greater rights than Congress has generally conferred on copyright owners." *Id.* at 941. The Ninth Circuit created the RAM copy doctrine in *MAI*. See *MAI Sys. Corp.*, 991 F.2d at 519. The court determined that copies made to the computers' RAM were a copy under the Copyright Act, 17 U.S.C. § 101 (2006). *Id.* The court also found that *MAI*'s copyright was violated by the licensee, Peak, through the unlicensed use of

a recent case, *MDY Industries, LLC v. Blizzard Entertainment, Inc.*, the Ninth Circuit adopted a novel approach to contractual construction that may serve to separate “play nice” contract clauses from “don’t illegally copy” core copyright license terms.¹⁷

This article argues that such an approach might serve as a “nexus crystal”; a doctrinal catalyst around which doctrines that take seriously these important issues of consumer control could crystallize. *MDY* does not adopt a nexus test for DMCA claims in the Ninth Circuit.¹⁸ But it nevertheless succeeds in separating social control from copyright licensing through a closer examination of the contractual clauses themselves; it does so by arguing that a mere rule of social control (“play nice”) is a contractual condition and not a condition of the intellectual property license.

This article proceeds in three parts. The first part discusses some pertinent legal literature and case law concerning the contractual control of online communities. The second part discusses case law that I believe describes coalescing limits on contractual control. One limit is familiar: some circuits require a nexus between a DMCA-protected technological lock and the exercise of some right granted by the Copyright Act to the copyright holder with respect to the locked-up material. But a second limit is potentially significantly more far-reaching: a contractual construction that limits the kinds of social control a copyright holder can exercise via mass-market consumer contracts of adhesion. Simply put, can software providers require their mass-market consumers to not criticize the company on public forums or to not do business with an aftermarket software provider, as conditions of the intellectual property license? This article argues that they cannot¹⁹ and that the *MDY* decision is one of the first

MAI’s software. *Id.* The RAM copy doctrine makes it a copyright violation to violate any term of a license agreement where the software is copied into the computer’s RAM. *Id.* “The rationale would be that because the conduct occurs while the player’s computer is copying the software code into RAM in order for it to run, the violation is copyright infringement.” *MDY Indus.*, 629 F.3d at 941. Typically, a license does not allow for copies of the game into the computers RAM. Only owners are afforded the essential step defense. *See Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1110 (9th Cir. 2010).

17. *See MDY Indus.*, 629 F.3d at 939 (setting out the contractual terms that limit the scope of a license as a “condition” and all other license terms as “covenants”).

18. *Id.* at 952.

19. It is worth underscoring that these kinds of community control clauses are not completely invalid—violations of the clauses may still be a breach of

cases to confront this issue head-on and resolve it correctly.

The third part examines the district and appellate decisions in *MDY v. Blizzard* and discusses how the court navigates the labyrinth between copyright holders' rights and their ability to dictate patterns of social behavior to online communities under threat of copyright infringement. I then offer some conclusions.

II. CONTRACTUAL CONTROL OF ONLINE COMMUNITIES

The legal literature has previously addressed issues of contractual control from several distinct angles: the angle of the DMCA's new anti-circumvention right, the angle of digital first sale and the "essential step" defense, the angle of contractual interpretation, and the angle of the Communications Decency Act (CDA) immunity and anticompetition concerns.²⁰ I will discuss each literature in turn before concluding that the contractual construction approach is the most under-theorized and thus most useful, new analysis for determining the reach and role of EULA terms in governing online conduct.

A. *The Legal Background*

There are several distinct legal approaches worth noting. A good place to start is the academic and juridical discussion over the reach of the grant of rights in § 106 of the Copyright Act to copyright holders and the defenses in §§ 109 and 117 of fair usage and "essential steps."²¹ Secondly, the interaction of the DMCA with these basic grants has, legal academics argue, caused a significant diminution in rights granted to consumers by the Copyright Act.²²

contract, even though they do not constitute intellectual property infringement. However, when I play a video game in a mean way, killing the avatar of the same player over and over again (a practice called "camping" and "griefing") in violation of the Terms of Use, I have breached a contract, not violated the Copyright Act.

20. See, e.g., Brian W. Carver, *Why License Agreements Do Not Control Copy Ownership: First Sales and Essential Copies*, 25 BERKELEY TECH. L.J. 1887 (2010), available at <http://ssrn.com/abstract=1586580>; Joshua A.T. Fairfield, *Anti-social Contracts: The Contractual Governance of Virtual Worlds*, 53 MCGILL L.J. 427, 435–36 (2008); Jacqueline Lipton, *The Law of Unintended Consequences: The Digital Millennium Copyright Act and Interoperability*, 62 WASH. & LEE L. REV. 487, 493, 495, 535 (2005).

21. See, e.g., *Wall Data Inc. v. L.A. Cnty. Sheriff's Dep't*, 447 F.3d 769, 776–80, 784–87 (9th Cir. 2006); Llewellyn Joseph Gibbons, *Entrepreneurial Copyright Fair Use: Let the Independent Contractor Stand in the Shoes of the User*, 57 ARK. L. REV. 539, 539–42, 576 (2004).

22. See Diane Leenheer Zimmerman, *Adrift in the Digital Millennium Copyright*

A third legal literature discusses the impact of using mass-market consumer contracts to regulate shifting multi-million-member online communities.²³ It is this literature that I think bears the most fruit in the current context, given that the *MDY* court's decision turned on contractual interpretation grounds.

Statutory immunizations for providers²⁴ and antitrust/anticompetition concerns are also two other sources of law worth mentioning, although they have a more muted role in these cases. Courts and academics have addressed the tension between the CDA's broad immunization of providers' breaches of contract and the broad promises (to create a safe environment online, to police bad actors, or to screen potential online dates with background checks) that providers make but are not required to enforce.²⁵ Finally, copyright misuse²⁶ and anticompetition claims²⁷ comprise a hefty undercurrent, if not a major theme, in this area of

Act: The Sequel, 26 U. DAYTON L. REV. 279, 281 n.10 (2001) ("As a practical matter, the survival of the limitations on copyright owner's rights, as set out in Chapter 1 of the Copyright Act of 1976, including the 'first sale' doctrine, and exemptions provided for by § 110, will now be available purely at the discretion of the copyright owner.").

23. See Erez Reuveni, *On Virtual Worlds: Copyright and Contract Law at the Dawn of the Virtual Age*, 82 IND. L.J. 261, 287–94 (2007) (discussing the role of contracts in virtual worlds, specifically EULAs); see also Fairfield, *supra* note 20, at 432 (covering the role of contracts in virtual worlds and why they are problematic because they supplant the common law process and default rules).

24. See 47 U.S.C. § 230 (2006).

25. See *Barnes v. Yahoo!, Inc.*, 570 F.3d 1096, 1108–09 (9th Cir. 2009) (refusing to dismiss claims pursuant to § 230 because plaintiff established a prima facie case of promissory estoppel); see also David S. Ardia, *Free Speech Savior or Shield for Scoundrels: An Empirical Study of Intermediary Immunity Under Section 230 of the Communications Decency Act*, 43 LOY. L.A. L. REV. 373 (2010) (detailing the first empirical study of § 230 and how it has been applied by courts, in the end haphazardly, with a mixed outcome for providers); Ken S. Myers, *Wikimmunity: Fitting the Communications Decency Act to Wikipedia*, 20 HARV. J.L. & TECH. 163, 172–76, 201 (2006) (discussing the Communications Decency Act's (CDA) background and its problems and fitting it with Wikipedia to avoid liability).

26. See *Video Pipeline, Inc. v. Buena Vista Home Entm't, Inc.*, 342 F.3d 191, 197 (3d Cir. 2003) (explaining that the fair use doctrine may be implicated if copyright misuse will stifle the very creativity that the copyright law was designed to foster); *Practice Mgmt. Info. Corp. v. Am. Med. Ass'n*, 121 F.3d 516, 521 (9th Cir. 1997) (finding that conditioning the license on a promise not to use competitors' products constituted a misuse of the copyright); *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 978–79 (4th Cir. 1990) (holding that the copyright holder misused its copyright by including in licensing agreements a provision that neither the licensee company nor its officers and employees could develop competing goods for the term of the ninety-nine year agreement).

27. *Video Pipeline*, 342 F.3d at 204 ("Anti-competitive licensing agreements may conflict with the purpose behind a copyright's protection by depriving the public of the would-be competitor's creativity.").

law. The contracts we are talking about almost invariably forbid a consumer from doing business with the seller's aftermarket rival. Although antitrust has been given short shrift in information technology cases, usually because of the argument that the speed of the information industry does away with the need for antitrust controls,²⁸ the subtext of these cases is clearly one of anticompetition and thus this legal approach should be addressed. This section addresses each of the above legal approaches briefly, by way of providing background, before proceeding to Part B for a closer look at some of the key cases.

1. *The Copyright Act's Basic Limits on Contractual Control*

The judicial interpretation of the basic grants and defenses of the Copyright Act remains in motion. The first set of articles and decisions discussing the limits of contractual control of online communities concerns the limits set out in the Copyright Act itself in §§ 109 and 117. These sections establish the first sale doctrine and its ancillary "essential step" defense. First sale is the doctrine that limits the copyright holder's rights to the first sale of a copy of copyrighted materials; after that first sale, she has exhausted her rights and cannot control what is done with the book.²⁹ Thus, for example, after my uncle finished his anatomy and physiology class in medical school, he took his textbook out to a field and shot it. That was his right, since he owned that copy of the textbook. The attendant right of taking an "essential step" was created by Congress to permit an owner of software to load a copy of the software without permission of the copyright holder if doing so was an essential step to use of the software.³⁰

The first sale doctrine and essential step defense might at first blush seem to limit the control that intellectual property holders

28. STAN J. LIEBOWITZ & STEPHEN E. MARGOLIS, WINNERS, LOSERS & MICROSOFT: COMPETITION AND ANTITRUST IN HIGH TECHNOLOGY 246, 256 (2001) (discussing the fears over anticompetitive behaviors, such as decreased supply and rising prices, but noting that the reality is that software prices have dropped and supplies have increased). Liebowitz and Margolis argue that antitrust controls then are misplaced in the software context of the pace of innovation and the reality that where products are better, they will succeed but where they are inferior, they will fail. *Id.* For a broad treatment of the idea of path dependence and network effects and their frailty according to Liebowitz and Margolis, refer to chapters one and two.

29. See 17 U.S.C. § 109(a) (2006).

30. See 17 U.S.C. § 117(a)(1) (2006).

can assert over their customers.³¹ This is because the owner of a copy of software is nominally free to dispose of it as she sees fit (thus eliminating any restrictive aftermarket controls placed on it by the copyright holder) and because owners of the software are free to load the software into random access memory (RAM) as an essential step of using the software.³²

The first sale doctrine and essential step defense have been severely eroded by a controversial line of cases rooted in the Ninth Circuit's decision in *MAI Systems Corp. v. Peak Computer, Inc.*³³ *MAI* held that a repair person made an illicit copy of a computer program—and violated the Copyright Act—merely by turning a computer on.³⁴ The court reasoned that when a user turns a computer on, the user copies the software from read only memory (ROM) into RAM and thus makes a copy.³⁵ If, at that moment, the copy made into RAM is contemporaneous with some action that violates the terms of the license agreement, then the resulting RAM copy constitutes copyright infringement. This is termed the RAM copy doctrine.³⁶

31. See 17 U.S.C. § 109(a) (2006); 17 U.S.C. § 117(a)(1) (2006). These two statutory rights limit *MAI's* RAM copy doctrine. See *supra* note 16 for a discussion of the RAM copy doctrine. Under the RAM copy doctrine, a license agreement can specify that a user is not allowed to make copies, but if it is determined by the court that the purchaser is an owner and not a licensee, then they are able to make copies, in contravention of the license agreement. The weight under the RAM copy doctrine is on the license agreement, where the affirmative defenses of first sale and essential step place the weight on whether the software is owned or licensed. For these defenses, the license agreement by itself is not dispositive. *Cf.* *United States v. Wise*, 550 F.2d 1180, 1192 (9th Cir. 1977) (finding that some contracts, “consistent with their designation as loans or licenses,” are not sales).

32. See 17 U.S.C. § 109(a) (2006); 17 U.S.C. § 117(a)(1) (2006).

33. 991 F.2d at 511, 519 (9th Cir. 1993) (“[S]ince we find that 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.”). This copy is then subject to the anti-circumvention regime under the DMCA. See *MDY Indus. v. Blizzard Entm’t, Inc.*, 629 F.3d 928, 942–46 (9th Cir. 2010); see also *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1109–11 (9th Cir. 2010) (discussing the essential step defense); *Wall Data, Inc. v. L.A. Cnty. Sheriff’s Dep’t*, 447 F.3d 769, 784–86 (9th Cir. 2006) (finding that the essential step defense did not apply because defendant was not an owner of the software and plaintiff’s license imposed significant restrictions).

34. See *MAI Sys. Corp.*, 991 F.2d at 518–19.

35. *Id.* at 518.

36. The RAM copy doctrine has fared differently in different circuits. See *Cartoon Network LP v. CSC Holdings, Inc.*, 536 F.3d 121, 127–28 (2d Cir. 2008) (finding that an embodiment and durational requirement needed to be met in order for a data stream to be fixed). The Second Circuit’s decision presented an apparent circuit split that the parties to *Cartoon Network* wanted addressed. See KATE M. MANUEL, CONG. RESEARCH SERV., RL34719, *CARTOON NETWORK LP v. CSC*

The RAM copy doctrine first gutted the protections that § 109 granted to owners of a particular copy of software. The problem is that courts have (in my opinion) misconstrued the Copyright Act and have permitted private contracts to undo what Congress did. Courts rely on the fiction that the buyer of software is not really the owner but merely the licensee of the software.³⁷ The legal literature focuses on the question of whether buyers of software are truly owners of that copy of the software or whether the reservation of a license precludes ownership.³⁸ It may seem obvious that it does not, since purchasing a book grants ownership of a copy of the book, as well as a limited license to the contents within.

But courts have generally held that purchasers of software do not own what they buy largely because the license simply asserts that the buyer of software is not a buyer. Giving this much weight to the seller's characterization of ownership interests in software is, in my mind, incorrect. The statute contemplates a norm by which buyers would have an ownership interest in a given copy of software (but obviously not ownership of the intellectual property itself).³⁹

Regarding the "essential step" defense, because the purchaser is not the owner of a given copy but a "mere" licensee, she does not benefit from the right to freely dispose of her copy of the software.

HOLDINGS, INC.: REMOTE-STORAGE DIGITAL VIDEO RECORDERS AND COPYRIGHT LAW 10 n.90 (2009), available at http://ipmall.info/hosted_resources/crs/RL34719_090706.pdf (detailing that, in June 2009, the Supreme Court denied certiorari for review of the apparent circuit split created by the Second Circuit's ruling and therefore suggesting that *MAI* and *Cartoon Networks* could be harmonized).

37. See *Advanced Computer Servs. of Mich., Inc. v. MAI Sys. Corp.*, 845 F. Supp. 356, 367, (E.D. Va. 1994) ("MAI customers are not 'owners' of the copyrighted software; they possess only the limited rights set forth in their licensing agreements."); see also *Vernor*, 621 F.3d at 1110–12 (establishing a three point framework to determine if a purchaser of software is an owner or licensee). The court looked to the license to determine if the license specified that the user was a licensee or owner. It is therefore up to the seller to determine the property rights of a buyer and not the underlying exchange. But see *Vernor v. Autodesk, Inc.*, 555 F. Supp. 2d 1164, 1170–72 (W.D. Wash. 2008) (determining the transfer was a sale because of the underlying facts of the transaction and the terms in the agreements).

38. See Nancy S. Kim, *The Software Licensing Dilemma*, 2008 BYU L. REV. 1103, 1106–09 (2008) (outlining the dilemma of software transactions: whether they are sales or licenses).

39. See Joseph P. Liu, *Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership*, 42 WM. & MARY L. REV. 1245, 1343–44 (2001) (discussing the DMCA and its overreach and arguing for an unlimited right to access digital copies in one's possession based on what the DMCA encroaches upon).

Nor does she benefit from the “essential step” defense, which would protect her from claims that I had made an illicit copy merely by turning an electronic device on.

Following the RAM copy doctrine to its logical conclusions leads the law to some strange distinctions. According to the RAM copy doctrine, I have done nothing whatsoever to invoke copyright when I page through a paperback in a bookstore. However, if I page through the same book in the same store on a Kindle, I have made a copy of the book (by turning the Kindle on) and am liable for copyright infringement if I have done so in violation of any term or condition attached to the e-Book. The RAM copy doctrine has been widely criticized⁴⁰ and superseded by statute in its narrow holding (that a repair man cannot turn on a computer to service it); but it remains the law of the land, at least in the Ninth Circuit.⁴¹

Court decisions in this area have spurred verdant and indignant legal literature in response.⁴² Although this literature touches on the issues addressed here, I consider first sale and essential step to be adequately theorized in the legal academic literature, although perhaps misanalyzed by courts.

2. *The Digital Millennium Copyright Act’s Anti-Circumvention Right*

Scholars also have debated the reach and role of the DMCA and the damage that the Act has caused to bedrock fair use rights (such as the right to reverse engineer, modify, or create add-on projects) that have long been the foundation stones of the open

40. For critical treatment, see Aaron Perzanowski, *Fixing RAM Copies*, 104 NW. U. L. REV. 1067, 1075–80 (2010) (detailing the two main criticisms, interpretive failings and policy considerations, of the RAM copy doctrine).

41. The RAM copy doctrine is superseded by the DMCA’s anti-circumvention provisions. See 17 U.S.C. § 1201(a)(1)–(2), (b)(1) (2006).

42. See, e.g., Jonathan Band, *A New Day for the DMCA: The Chamberlain and Lexmark Decisions*, 9 ELECTRONIC COM. & L. REP. 987 (2004), available at http://www.policybandwidth.com/publications/JBand-DMCABNA_v1.pdf [hereinafter *A New Day for the DMCA*] (detailing two circuit court decisions, *Chamberlain v. Skylink* and *Lexmark v. Static Control Components*); Carver, *supra* note 20, at 1894–95 (discussing problems with the *MDY Indust., LLC v. Blizzard Entertainment, Inc.* decision); Ross Shikowitz, Note, *License to Kill: MDY v. Blizzard and the Battle over Copyright in World of Warcraft*, 75 BROOK. L. REV. 1015 (2010) (arguing the district court decision in *MDY Indust., LLC v. Blizzard Entertainment, Inc.* was wrongly decided); Fred Von Lohmann, *Unintended Consequences: Twelve Years Under the DMCA*, ELECTRONIC FRONTIER FOUND. (Feb. 2010), <http://www.eff.org/files/eff-unintended-consequences-12-years.pdf> (discussing how the DMCA has been applied in various cases).

internet architecture.⁴³ The dispute over the reach and role of the DMCA is ground fairly well trodden.⁴⁴ The Act has been accused of killing free speech and lauded for providing the legal assurances content owners needed to finally make their content available online. The DMCA illegalizes both hacking into copyrighted material and trafficking in tools that are primarily designed or intended to hack into copyrighted material or trafficking in tools that bypass copy protection of copyrighted material.⁴⁵

Specifically, copyright-holder-drafted EULAs and the DMCA combine to grant greater rights than might be at first apparent. The EULA is the door to the copyrighted material, and the DMCA says that you must agree to the EULA or suffer legal sanction for breaking down the door.⁴⁶ Thus, for example, although the right to reverse engineer code to make other interoperable code is a longstanding fair use right and, indeed, the bedrock of the modern internet,⁴⁷ if an employee at a software development firm clicks “I Agree” to an EULA that waives reverse engineering rights, the whole firm’s ability to make interoperable software may evaporate.⁴⁸

43. See Amir Hassanabadi, *Viacom v. Youtube: All Eyes Blind—The Limits of the DMCA in a Web 2.0 World*, 26 BERKELEY TECH. L.J. (forthcoming 2011), available at <http://ssrn.com/abstract=1809194> (discussing the limitations of the DMCA and concluding that the DMCA is no longer capable of protecting service providers and content owners from copyright infringement suits); Lipton, *supra* note 20, at 522 (arguing that the DMCA may have overreached beyond the “digital copyright piracy” it was meant to prevent and into other areas Congress did not foresee); see also 17 U.S.C. § 1201(f)(1)–(2) (2006) (explaining the limited purposes for which reverse engineering is lawful); Dan L. Burk, *Anticircumvention Misuse*, 50 UCLA L. REV. 1095, 1139 (2003) (“[T]he reverse engineering exception does not extend to reverse engineering hardware or data. Neither does it allow reverse engineering for any purpose other than software interoperability.”).

44. See, e.g., Carver, *supra* note 20; Hassanabadi, *supra* note 43; Lipton, *supra* note 20.

45. See 17 U.S.C. § 1201(a)(1)–(2), (b)(1) (2006).

46. See *supra* note 9 and accompanying text for discussion about EULAs as both a contract and technological protection measure of copyrighted work. This is the idea of the EULA as fitting under the DMCA because it is a technological measure that is protected under 17 U.S.C. § 1201. “No person shall circumvent a technological measure that effectively controls access to a work protected under this title.” 17 U.S.C. § 1201(a)(1)(A).

47. This is necessarily so as the Internet is a decentralized network. In order to communicate, and therefore create the Internet, different software and network systems must be able to communicate and work together or be interoperable. See *New York v. Microsoft Corp.*, 224 F. Supp. 2d 76, 122 (D.D.C. 2002) (discussing network systems and the important role of interoperability when communicating on networks as there is no one single type of computer, hardware, or code), *aff’d*, 373 F.3d 1199 (D.C. Cir. 2004).

48. See 17 U.S.C. § 107 (2006) (outlining the fair use limitation on exclusive rights); 37 C.F.R. § 201.40 (2010); see also Julie E. Cohen & Mark A. Lemley, *Patent*

Of course, if the employee had reverse compiled the code and avoided the EULA in order to preserve development rights, that bypass would make the third-party developer liable under the DMCA.⁴⁹ This creates a relatively well-known DMCA catch-22: a company that wishes to exercise its fair use rights to make an interoperable product is damned if they click through the EULA and damned if they do not.⁵⁰

3. *Contract Construction as a Limit on Copyright Control*

Yet another approach focuses on the community-binding contracts themselves and asks whether private law contracts are the ideal vehicle for protecting public law concerns like fair use and public access to information. This literature is the most under-theorized of the three and also the one to which I have contributed somewhat and thus the one on which this article focuses.⁵¹ For example, the *MDY* decisions have been parsed by other academics on the prior two grounds: the reach and role of the DMCA⁵² and the questions of digital first sale and essential step.⁵³ But while there has been adequate discussion of the first sale and essential

Scope and Innovation in the Software Industry, 89 CALIF. L. REV. 1, 3 (2001) (“[W]e advocate a limited right to reverse engineer patented computer programs in order to gain access to and study those programs and to duplicate their unprotected elements. Such a right is firmly established in copyright law, and seems unexceptional as a policy matter even in patent law.”). *But see* MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511, 519 (9th Cir. 1993) (finding that a copy made by a licensee is a violation of the license agreement and is also a copyright infringement); *supra* text accompanying note 16. The employee who signs the EULA binds the company to that contract and its terms, even if they specify a waiver of the fair use exemption. *See supra* note 10 and accompanying text.

49. The company would be liable as the EULA acts as a technological measure and would have been circumvented. *See* 17 U.S.C. § 1201(a)(1)(A); *see also supra* note 9 and accompanying text.

50. This is due to the license agreements widely in use. These agreements often restrict fair use rights. *See* Davidson & Assocs. v. Jung, 422 F.3d 630, 639 (8th Cir. 2005) (holding that the software developer gave up its fair use right to reverse engineer software for interoperability purposes when an employee clicked “I Agree” on a Blizzard EULA); Von Lohmann, *supra* note 42, at 1 (“[T]he DMCA grants to copyright owners the power to unilaterally eliminate the public’s fair use rights.”).

51. *See generally* Fairfield, *supra* note 20 (discussing the limitations on contract law in governing virtual worlds).

52. *See, e.g.*, Jessica Gallegos, Note, *A New Role for Tortious Interference in the Digital Age: A Model to Enforce End User License Agreements*, 38 FLA. ST. U. L. REV. 411, 419–24 (2011) (discussing the *MDY* cases and their effect on the DMCA, tortious interference, and EULAs).

53. *See* Hassanabadi, *supra* note 43; Lipton, *supra* note 20; *see also supra* note 41 and accompanying text.

step implications of *MDY*, there has been much less and too little discussion of the contractual interpretation element of the cases. This is what I find fascinating about the *MDY* cases: the appellate court's interpretation of contractual conditions and covenants overruled the district court's conventional application of the first sale, essential step, and RAM copy doctrines, *as a matter of contract interpretation*. In so doing, the case directly undermines the trifecta of legal errors that have plagued the private regulation of intellectual property.⁵⁴ Thus, this piece focuses on the Ninth Circuit's under-examined contractual interpretation analysis.

4. *Communications Decency Act Section 230 and the Unenforceability of Consumer Protection Provisions by Consumers*

There are two other subtexts in these cases. The first is that although community-governing EULAs make many pretty promises to consumers (for example, promises to parents about safety, to online daters about the backgrounds of potential romantic interests, or to online buyers about the risks of their online transactions), those promises are largely unenforceable. This is

54. The Ninth Circuit previously held that a license agreement can control the behavior of an end user. *See MDY Indus. v. Blizzard Entm't, Inc.*, 629 F.3d 928 (9th Cir. 2010); *supra* note 16 and accompanying text (discussing RAM copy doctrine). The shift appears subtle in *MDY* but is significant. *See MDY Indus.*, 629 F.3d at 939 (setting out the contractual terms that limit the scope of a license as a "condition" and all other license terms as "covenants"). The shift is that a court reviewing contract terms in one case has the usual effect of a one-shot engagement. The parties adapt and rewrite the contract but *MDY* is different. The court states that not only is the license agreement written in a way that does not impose copyright liability, as it is a covenant, but also that the interpretation of the contractual terms is not a one-time assessment. *Id.* at 939–40 ("A . . . user commits copyright infringement by playing [World of Warcraft] while violating a ToU term that is a license condition. To establish copyright infringement . . . [the plaintiff] must demonstrate that the violated term—ToU § 4(B)—is a condition rather than a covenant. . . . Applying these principles, ToU . . . prohibitions . . . are covenants rather than copyright-enforceable conditions.") (citations omitted). The court set out a new framework, based on two types of clauses that could not be contracted around. The court's framework of contractual conditions and covenants directly undermines *MAI* and the RAM copy doctrine:

Were we to hold otherwise, Blizzard—or any software copyright holder—could designate any disfavored conduct during software use as copyright infringement, by purporting to condition the license on the player's abstention from the disfavored conduct. The rationale would be that because the conduct occurs while the player's computer is copying the software code into RAM in order for it to run, the violation is copyright infringement. This would allow software copyright owners far greater rights than Congress has generally conferred on copyright owners.

Id. at 941.

due to CDA § 230⁵⁵ that immunizes an interactive computing services provider from claims arising out of the tortious acts of users and immunizes the censorship attempts of corporate entities by granting a near-absolute privilege to remove “objectionable material.”⁵⁶

The result of combining these statutes with cleverly-worded EULAs and TOUs is somewhat distressing. Online communities of all sorts are governed by EULAs full of promises that users cannot enforce against one another due to lack of privity and cannot enforce against the service provider who is immunized under § 230.⁵⁷ Thus, for example, when an online dating service provider promised that all members of the service were over eighteen but failed to ensure that this is so, the provider was not held liable for its own breach of contract because the breach was caused by false

55. See 47 U.S.C. § 230 (2006).

56. See *id.* § 230(c) (providing for protection of providers for screening of offensive material, immunizing providers from liability where they do so). Section 230(c)(2)(A) specifically states that

[n]o provider or user of an interactive computer service shall be held liable on account of . . . any action voluntarily taken in good faith to restrict access to or availability of material that the provider or user considers to be obscene, lewd, lascivious, filthy, excessively violent, harassing, or otherwise objectionable, whether or not such material is constitutionally protected

Id. § 230(c)(2)(A).

57. EULAs are by construction agreements between the company and the user, not between users. For example, the concerns raised by MDY’s Glider program that is the subject of *MDY* did not result in suits between users with the program and those without. This is despite the claim by Blizzard that they received 465,000 complaints about World of Warcraft bots from December 2004 to March 2008. *MDY*, 629 F.3d at 936. Players did not sue each other; rather, the company sued a third party, here MDY. See *Fairfield*, *supra* note 20, at 453 (detailing a case where users sued gold farmers within Blizzard’s World of Warcraft game, asserting that all players are third-party beneficiaries of every other player’s promise to Blizzard to refrain from engaging in the exchange of virtual objects for real money). “Third-party-beneficiary clauses require that the beneficiary be the intended, not just the incidental, beneficiary of a contractual promise.” *Id.*; see also RESTATEMENT (SECOND) OF CONTRACTS § 302 (1981) (distinguishing “incidental” from “intended” beneficiaries of contract promises). For § 230 treatment, see *Fairfield*, *supra* note 20, at 450 n.93:

Even if a virtual-world provider promises . . . to ban bad actors, those promises may be held unenforceable under [§ 230 of the] Communications Decency Act of 1996 (47 U.S.C. § 230 (2000)). This statute has been broadly interpreted to hold internet service providers immune to claims based on the actions of their users. See *Zeran v. America Online, Inc.*, 129 F.3d 327 (4th Cir. 1997) (holding internet service providers broadly immune from claims based on bad acts of users); . . . *Doe v. Friend Finder Network, Inc.* [540 F. Supp. 2d 288 (D. N.H. 2008) (finding the same)].

information (the age) entered by a third party (a minor) who illicitly made use of the site.⁵⁸ Similarly, consumers who have sued dating sites based on other failures have been met with similar judicial opposition.⁵⁹ For example, a consumer who is sexually assaulted by someone she met through an online service would have an extremely difficult time enforcing the service's promise to screen out users with violent histories.⁶⁰

All of this has an odd effect on the EULAs and TOUs that set the rules for enormous (hundreds of millions strong) online communities; these rules are used to attract consumers with the promise of a safe space, but they are generally alterable at the near-whim of the service provider and enforcement is absolutely a matter of discretion. On a similar note, other courts have voiced some distress that these EULAs and TOUs are not only unenforceable by the consumers they purport to protect, but are alterable at the near-whim of the license drafter.⁶¹ At least one court has noted that such a state of affairs approaches the antiquated notion of "illusoriness"—the notion that a TOU that reserves the untrammelled right to alter the terms without consideration to the consumer constitutes no contract at all.⁶²

This forms an important subtext to the cases examined below. While we look at the enforceability by a company of its TOU or EULAs, it is critical to remember that these cases do not run both ways. What is good for the goose is not good for the gander. The promises made by consumers in EULAs and TOUs are often enforced by courts;⁶³ the promises made by corporations to

58. *See, e.g., Doe v. SexSearch*, 502 F. Supp. 2d 719 (N.D. Ohio 2007) (holding that CDA § 230 proscribes web provider SexSearch's liability when a female web user falsely put her age as eighteen on the website). *But see Doe v. SexSearch*, 551 F.3d 412 (6th Cir. 2008) (affirming dismissal of counts for failure to state a claim but declining to adopt the District Court's holding that § 230 immunizes Internet computer services providers (ICSPs) from all state law claims).

59. *See, e.g., Doe v. MySpace, Inc.*, 528 F.3d 413 (5th Cir. 2008) (holding MySpace not liable on CDA § 230 grounds for sexual assault of minor, Doe, by someone she met via the service).

60. *Id.*

61. *See Harris v. Blockbuster Inc.*, 622 F. Supp. 2d 396 (N.D. Tex. 2009) (holding that an arbitration clause was illusory because drafter could alter it at will); *see also* Eric Goldman, *Stop Saying "We Can Amend This Agreement Whenever We Want"!*—*Harris v. Blockbuster*, TECH. & MKTG. L. BLOG (June 10, 2009, 10:26 AM), http://blog.ericgoldman.org/archives/2009/06/stop_saying_we_1.htm (criticizing the use of amendment clauses and highlighting the trouble it caused Blockbuster).

62. *See Harris*, 622 F. Supp. 2d at 398–99.

63. *See Davidson & Assocs. v. Jung*, 422 F.3d 630 (5th Cir. 2005) (holding that

consumers (for example, promises to parents about safety or representations to an online dater about the arrest record of her next date) are not.⁶⁴

5. *Overtones of Anticompetition*

There are also strong overtones of anticompetition and antitrust inherent in deciding what promises content holders should be able to extract from consumers through the catch-22 that the courts have handed to corporations. Of course, the very first promises extracted through EULAs are anticompetitive ones, such as promises not to do business with a competitor in a product aftermarket.⁶⁵ Courts have traditionally asked when a company may use its control over content to destroy competition⁶⁶ but have used this power much less in the information marketplace.⁶⁷ The idea is that the very speed of innovation in the software industry supposedly obviates the need for traditional antitrust remedies.⁶⁸

the software developer gave up its fair use right to reverse engineer software for interoperability purposes when an employee clicked “I Agree” on a Blizzard EULA).

64. See *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1452 (7th Cir. 1996) (describing that the contract at issue was not a battle-of-the-forms scenario and instead there was one contract, which under U.C.C. § 2-204 allowed the vendor, as master of the offer, to set the terms of acceptance). The contract then cuts one way—against the buyer.

65. See *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 31–32 (2006) (discussing the use of a license dealing with printing technology between companies). “The OEMs agree that they will purchase their ink exclusively from petitioners, and that neither they nor their customers will refill the patented containers with ink of any kind.” *Id.* at 32; *United States v. Microsoft Corp. (Microsoft I)*, 253 F.3d 34, 64 (D.C. Cir. 2001) (“[A]ll the OEM license restrictions at issue represent uses of Microsoft’s market power to protect its monopoly, unredeemed by any legitimate justification.”); see also *MDY Indus. v. Blizzard Entm’t, Inc.*, 629 F.3d 928, 938 (9th Cir. 2010) (detailing the Blizzard TOU and its prohibition on the use of third-party software).

66. See Stuart M. Reynolds, Jr., *The Relationship of Antitrust Laws to Regulated Industries and Intellectual Property in the New Marketplace*, 4 TUL. J. TECH. & INTELL. PROP. 1, 2 (2002) (“Traditional rules of antitrust apply even in highly regulated industries, such as the power industry.”).

67. See Peter Dizikes, *Justice Dept. Drops Microsoft Breakup Request*, ABC NEWS (Sept. 6, 2001), <http://abcnews.go.com/Business/story?id=87749&page=1> (“Rather than break up the company into separate operating systems and applications businesses, the Justice Department said the government will pursue restrictions on Microsoft’s business practices to ‘obtain prompt, effective and certain relief’ for consumers.”).

68. See *Microsoft I*, 253 F.3d at 65 (“As with the license restrictions, we consider first whether the suspect actions had an anticompetitive effect, and then whether [there is] a procompetitive justification for them.”); see also LIEBOWITZ & MARGOLIS, *supra* note 28, at 246, 256.

Thus the first cases challenging a manufacturer's right to control aftermarkets were direct antitrust claims, such as claims by a company against a competitor that the competitor accessed the plaintiff's content in violation of intellectual property law as a means of blocking competing products.⁶⁹ But due to the muted reception of anticompetition claims in information technology cases, the current set of attacks on aftermarkets are now being litigated more as subtext to the contractual interpretation, copyright scope, and DMCA reach and role arguments.

B. *The Emerging Case Law*

This section discusses the circuit split currently underway between the Federal, Sixth, and Ninth Circuits with respect to whether a copyright holder may require any behavior she likes of her users as a condition of an intellectual property license.⁷⁰ The

69. See, e.g., *Microsoft Corp. v. AT & T Corp.*, 550 U.S. 437, 446 (2007) ("Microsoft further acknowledged that by licensing copies of Windows to manufacturers of computers sold in the United States, it induced infringement of AT & T's patent.") (footnote omitted).

70. The circuit split is comprised of three approaches as to whether violations of a license agreement can result in copyright infringement. The Federal Circuit Court's view in *Chamberlain* is essentially the same as the Sixth Circuit Court's view in *Lexmark*. The Ninth Circuit issued two different approaches, first with *MAI* and, second, in the recent *MDY* decision. Compare *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 387 F.3d 522, 550 (6th Cir. 2004) (finding that the DMCA's anti-circumvention provisions do not give a new anti-circumvention right and rather give a cause of action for rights provided under preexisting copyright protection), and *Chamberlain Grp., Inc. v. Skylink Techs., Inc.*, 381 F.3d 1178, 1204 (Fed. Cir. 2004) (determining that the anti-circumvention provisions of the DMCA create a new cause of action for copyrights already in place and that circumvention is not infringement), with *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993) (determining that an action of an end user was both a violation of a license agreement and a copyright infringement), and *MDY Indus.*, 629 F.3d at 941 (rejecting the RAM copy doctrine and interpreting the license agreement to contain covenants rather than conditions and that the license agreement in dispute not only did not reach copyright infringement but also that later license agreements would be so affected). The effect of the Federal Circuit's ruling is that a violation of a license agreement will not be treated as copyright infringement unless that violation is also a right protected under copyright. The court in *Lexmark* stated the following:

All three liability provisions of this section of the DMCA require the claimant to show that the 'technological measure' at issue 'controls access to a work protected under this title,' see 17 U.S.C. § 1201(a)(2)(A)–(C), which is to say a work protected under the general copyright statute, *id.* § 102(a). To the extent the Toner Loading Program is not a "work protected under [the copyright statute]"... the DMCA necessarily would not protect it.

Lexmark, 387 F.3d at 550. The Ninth Circuit's finding in *MAI* is based on the RAM

legal questions of *MDY*, and thus the ones to keep in mind, are first whether a copyright holder may require its consumers to stop doing business with a competitor after the competitor markets a competing aftermarket program and second, more strongly, whether the copyright holder can place license conditions requiring users to vote Democratic or wear pink (or not to be rude or not to criticize the company, which are real-world EULA or TOU conditions) on pain of infringement of intellectual property rights.⁷¹

The *MDY* court likewise sought to ascertain when a company may forbid its customers from doing business with other companies as a condition of an intellectual property license.⁷² (A thought experiment: imagine if the same intellectual property claims now being raised by content providers had been asserted by the developers of TCP/IP—the basic transmission packet routing protocol that runs the Internet—where the use of others’ servers and other computing resources is essentially ubiquitous.) These issues have currently developed into a good old-fashioned circuit split in the appellate courts, as the next sections describe.

A few caveats seem appropriate at this point. I describe here a line of cases that tend to limit the ability of manufacturers *qua* intellectual property holders to control the non-intellectual-property related actions of their customers. I do this with full awareness that the cases I describe below focus on limiting the scope of the DMCA in order to achieve these limits, while *MDY* does so via contractual construction of the clauses of the EULA (that is the point of the article). I also do so knowing that there are other cases, for example, those rooted in *Universal Studios v. Reimerdes*, that cut the other way by holding that the DMCA ushered in a new legal era in which copyright holders may demand nearly anything of consumers on pain of copyright infringement.⁷³

copy doctrine. The RAM copy doctrine makes it a copyright violation to violate any term of a license agreement where the software is copied into the computer’s RAM. See *supra* note 16 and accompanying text.

71. These conditions are similar to the provision in Blizzard’s EULA and TOU preventing cheating. None of these hypothetical conditions or the real world example of the prohibited use of “bots” have a direct relationship with copyright protections. The court in *MDY* rejected this idea. See *MDY Indus.*, 629 F.3d at 941. The new ruling went against the Ninth Circuit’s prior decision supporting this EULA Copyright control. See *MAI Sys. Corp.*, 991 F.2d at 511.

72. This is exactly what Blizzard attempted to do. See *MDY Indus.*, 629 F.3d at 939 (laying out a framework for copyright and contractual terms for licenses which turn on whether the terms of the license affect the scope of the license).

73. See *Universal City Studios, Inc. v. Reimerdes*, 111 F. Supp. 2d 294

My goal is straightforward. I identify a growing trend in which some courts limit contractual controls exercised by intellectual property holders over consumers, and then observe a recent and important precedent in a critical circuit (the *MDY* line of cases in the Ninth Circuit) that actually strengthens that trend, rather than undermines it.

1. Chamberlain v. Skylink

In *Chamberlain Group v. Skylink Technologies*,⁷⁴ the Federal Circuit decided whether a company might leverage control over intellectual property embedded in a garage door. In *Chamberlain*, the intellectual property at issue was a computer authentication program embedded in the door which was used to exclude competitors from selling generic garage door openers.⁷⁵ The garage doors worked by responding to a rolling authentication code—it changed regularly, ostensibly to prevent someone with another garage door opener from breaking into the house but in actuality to prevent competitors from making garage door openers that would interoperate with the garage door.⁷⁶ The defendant did precisely that anyway by offering a generic garage door opener that was able to circumvent Chamberlain’s authentication sequence.⁷⁷

Chamberlain sued, and the district court held for Skylink, noting that because Chamberlain did not condition its sale to users on not using generic remote controls, the sale was unconditional⁷⁸ and users did not commit any copyright infringement when they used a generic remote.⁷⁹ The Federal Circuit affirmed, holding that Chamberlain had not met its burden of showing that the access by Chamberlain users using generic garage door openers was unauthorized, and thus that there was no circumvention of access controls such that a DMCA claim could be sustained.⁸⁰

The more important part of the court’s analysis bore on the requirement that there be a nexus between the exercise of the exclusionary right of the DMCA and some right granted by the

(S.D.N.Y. 2000), *aff’d*, 273 F.3d 429 (2d Cir. 2001).

74. 381 F.3d 1178 (Fed. Cir. 2004).

75. *Id.* at 1183.

76. *Id.* at 1183–85.

77. *See id.*

78. *Id.* at 1187.

79. *Id.* at 1187–88.

80. *Id.* at 1202–03.

Copyright Act.⁸¹ The court noted the following:

Chamberlain, however, has failed to show not only the requisite lack of authorization, but also the necessary fifth element of its claim, the critical nexus between access and protection. Chamberlain neither alleged copyright infringement *nor explained how the access provided by the Model 39 transmitter facilitates the infringement of any right that the Copyright Act protects*. There can therefore be no reasonable relationship between the access that homeowners gain to Chamberlain's copyrighted software when using Skylink's Model 39 transmitter and the protections that the Copyright Act grants to Chamberlain.⁸²

Both the district and appellate courts held that there was no underlying copyright violation when Chamberlain's customers used a generic remote.⁸³ Thus, the requisite nexus between a copyright violation and the protections granted by the DMCA's anti-circumvention right simply did not exist. As a result, neither the purchaser nor the manufacturer of the generic garage door remote were liable for copyright infringement or a DMCA violation. The following discussion may clarify how near a miss the entire generic aftermarket add-on industry had.

2. Lexmark v. Static Control Components

In *Lexmark International, Inc. v. Static Control Components, Inc.*,⁸⁴ the Sixth Circuit implicitly required a nexus between the technological access control protected by the DMCA—the lock—and some right protected under the Copyright Act.⁸⁵ Lexmark sold printers and printer cartridges.⁸⁶ Lexmark marketed “single-use” non-refillable printer cartridges; these cartridges were sold at a discount up front but could not be refilled because of a computer control that caused the printer to reject refilled single-use cartridges.⁸⁷ Static Control Components marketed a program that permitted Lexmark buyers to bypass the single-use control and thus refill and reuse single use cartridges.⁸⁸

81. *Id.* at 1204.

82. *Id.*

83. *Id.*

84. 387 F.3d 522 (6th Cir. 2004).

85. *See id.* at 549–50.

86. *Id.* at 529.

87. *Id.* at 529–30.

88. *Id.* at 529–31.

The Sixth Circuit engaged in a somewhat more circuitous analysis than did the *Chamberlain* court, but came to the same result.⁸⁹ The district court first noted that the copyrighted material claimed—the authentication sequence that caused the printer to accept or reject the cartridge—was the same as the access control that Lexmark argued Static Control Components had circumvented in violation of the DMCA.⁹⁰ The *Lexmark* court decided that the access control and the copyrighted material protected by the access control could not be the same material.⁹¹ The *Lexmark* court also determined that the numeric sequence necessary to authenticate the cartridges by the printer was the only way to so authenticate and thus that the mathematical sequence’s function “merged” with the copyrightable elements.⁹² As a result, the copyrightable elements’ functional components were not protected and due to the merger, neither was the numerical sequence protected by copyright.⁹³

A second critical finding by the *Lexmark* court was that the authentication sequence did not provide “access” to any copyrighted material.⁹⁴ Rather, the purchase of the printer and cartridge provided “access.”⁹⁵ In that respect, the software handshake protocol that controlled cartridge use was not deemed to qualify as a technological protection measure protected under the DMCA at all.

The *Lexmark* court in the end made a move similar to that of the Federal Circuit in *Chamberlain*. The court required that the DMCA “lock” first “provide[] access” to copyrighted material. Secondly, and most importantly, the court then required that the action performed with the copyrighted material must have some relationship to the right protected under the Copyright Act—either a right of copying, distributing, performing, creating derivative work, or so on.⁹⁶ Because the court found that the “lock” protected no right of the software creator under the Copyright Act, the court

89. See *Chamberlain Grp., Inc. v. Skylink Techs., Inc.*, 381 F.3d 1178 (Fed. Cir. 2004).

90. *Lexmark*, 387 F.3d at 546.

91. *Id.* at 546, 547, 550.

92. *Id.* at 535–36.

93. *Id.* at 535–44.

94. *Id.* at 546 (“It is not Lexmark’s authentication sequence that ‘controls access’ to the Printer Engine Program. . . . It is the purchase of a Lexmark printer that allows ‘access’ to the program.”).

95. *Id.*

96. *Id.* at 549–50; see *Chamberlain Grp., Inc. v. Skylink Techs., Inc.*, 381 F.3d 1178 (Fed. Cir. 2004).

determined that Static Control Components' circumvention of the printer authentication sequence was not a violation of the DMCA.⁹⁷

3. MGE UPS Systems v. GE Consumer & Industrial

The Fifth Circuit, in *MGE UPS Systems, Inc. v. GE Consumer & Industrial, Inc.*,⁹⁸ acted more recently to limit the scope of contractual control that intellectual property holders can assert over their customers.⁹⁹ The *MGE* court rejected a DMCA claim asserted by a manufacturer of an encrypted security dongle—generally a USB stick used to generate a rolling authentication code just like that used in the garage door in *Chamberlain*—only this time the dongle granted access to the consumer's own computer.¹⁰⁰ MGE UPS manufactured a dongle that controlled access to diagnostic programs in the hardware that it sold.¹⁰¹ Hackers then posted the circumvention code on the Internet.¹⁰² A GE employee used the hacked software, and MGE UPS sued—and lost—on the DMCA claim.¹⁰³ The court limited the dongle creator's ability to control a customer's access to the customer's own computer system by narrowing the definition of circumvention:

The DMCA defines circumvention broadly to include not only disabling protections, but also avoiding or bypassing them. . . . We, however, do not construe “bypass” or “avoid” to encompass use of a copyrighted work subsequent to a circumvention merely because that use would have been subject to a technological measure that would have controlled access to the work, but for that circumvention. So broad a construction would extend the DMCA beyond its intended purposes to reach extensive

97. *Lexmark*, 387 F.3d at 563–64.

98. 622 F.3d 361, 366 (5th Cir. 2010) (determining that MGE had not shown circumvention of its software protections).

99. *See* *MGE UPS Sys., Inc. v. GE Consumer & Indus., Inc.*, 612 F.3d 760, 765 (5th Cir. 2010) (embracing the Federal Circuit's approach in *Chamberlain* requiring an infringement nexus), *withdrawn*, 622 F.3d 361 (5th Cir. 2010). The court avoided adding to the circuit split by not citing *Chamberlain* but still added to the split by finding that once a measure is circumvented, subsequent use does not constitute a per se violation of the DMCA. *MGE*, 622 F.3d at 366.

100. *MGE*, 622 F.3d at 364, 366; *see also* Tim Armstrong, *DMCA: Fifth Circuit Inches Closer to “Fair Circumvention” Defense*, INFO/LAW (July 26, 2010), <http://blogs.law.harvard.edu/infolaw/2010/07/26/dmca-fifth-circuit-inches-closer-to-fair-circumvention-defense/> [hereinafter *DMCA Fair Defense*] (praising the outcome of the decision but criticizing the court's cursory analysis).

101. *MGE*, 622 F.3d at 364.

102. *Id.*

103. *Id.* at 366.

conduct already well-regulated by existing copyright laws.¹⁰⁴ MGE did not present any evidence showing that a GE/PMI representative altered the Pacret and Muguet software such that a dongle was not required to use the software; rather, employees simply used the software after the alteration was made. As such, the actions by GE/PMI employees did not amount to circumvention. Without proving GE/PMI actually circumvented the technology, MGE does not present a valid DMCA claim.¹⁰⁵

This holding is potentially broader than the others, since it restricts the ability of an intellectual property holder to control its customers' aftermarket modifications on the grounds that once a technological measure has been bypassed (or "cracked"), subsequent uses of the cracked software do not constitute per se violations of the DMCA.¹⁰⁶ And since GE did not crack the software, the Fifth Circuit reasoned, GE was not liable under the DMCA.¹⁰⁷

The outcomes of the *Chamberlain* and *Lexmark* cases seem fairly balanced from a doctrinal and normative standpoint. *MGE UPS* joins the trend against intellectual property control of customers and perhaps extends too far by restricting the statutory power of intellectual property holders in DMCA cases to situations in which the customer herself cracked the software. The manufacture of generic television remote controls and garage door openers seems fairly uncontroversial. The outright circumvention of security dongles adds to this trend but is, to my mind, more controversial.

Underscoring these courts' decisions was the fact that each plaintiff intellectual property holder attempted to control the

104. *Id.* The Fifth Circuit's language is not far removed from that of the Ninth Circuit's in *MDY* finding that such a construction of the DMCA would go beyond congressional intent and precedent. *MDY Indus. v. Blizzard Entm't, Inc.*, 629 F.3d 928, 950–52 (9th Cir. 2010).

105. *MGE*, 622 F.3d at 366.

106. Compare *Chamberlain Grp., Inc. v. Skylink Techs., Inc.*, 381 F.3d 1178, 1204 (Fed. Cir. 2004) (requiring a reasonable relationship between the circumvention and a protected interest under the Copyright Act of the copyright owner), and *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 387 F.3d 522, 550 (6th Cir. 2004) (requiring that technological measures must control access to a work falling under general copyright protection), with *MGE*, 622 F.3d at 366 (finding that subsequent use of a circumvented copyrighted work did not constitute a per se copyright infringement), and *MDY Indus.*, 629 F.3d at 941 (finding that the Blizzard license agreement contained conditions and covenants, and determining that whether violations would constitute copyright infringement hinged on whether a condition or covenant was violated, and not an infringement nexus).

107. *MGE*, 622 F.3d at 366.

businesses that customers could economically interact with—or the after-market modifications that customers could make to the customers’ own property—merely by claiming that the EULAs prohibited customers from purchasing aftermarket add-ons and services or making aftermarket modifications.¹⁰⁸ From a common sense perspective, these decisions check out. Just as a car manufacturer cannot prevent customers from purchasing gold rims or a house seller cannot prevent a buyer from remodeling, courts have quite sensibly and increasingly held that an attempt by an intellectual property holder to seize the aftermarket for modifications and aftermarket goods was bad for consumers and competition alike.

Unfortunately, the DMCA made simple cases needlessly complex. Each court had to do some heavy lifting to determine that a manufacturer was not privileged to control the add-on or aftermarket modification purely by virtue of the fact that they claimed a copyright interest in software embedded in the objects they sold to the users.

Each of these court cases represents a slightly different approach toward the same goal. Each court attempted to whittle down the seemingly unlimited copyright and DMCA anti-circumvention rights and did so by requiring limits on the application of the DMCA, either to violations actionable under the Copyright Act itself or to direct circumventions by the defendant.

The Ninth Circuit declined to follow this DMCA-centered approach in *MDY Industries, LLC v. Blizzard Entertainment, Inc.*,¹⁰⁹ and instead focused on the terms of the contract granting the license itself.¹¹⁰ Yet the case is not beyond hope. Properly understood, the Ninth Circuit’s holding is even broader than any of the prior cases in this trend, since it held that a copyright holder’s customers simply did not violate copyright even though they breached the express terms of their license agreements.¹¹¹ The

108. See *Lexmark*, 387 F.3d at 530, 531 (restricting the use of non-Lexmark toner cartridges); *Chamberlain*, 381 F.3d at 1183, 1187 (prohibiting the use of non-Chamberlain garage remotes); see also *MGE*, 622 F.3d at 366–67 (discussing assessment of damages for copyright infringement and looking to a hypothetical license agreement and what the parties would have agreed to); Band, *supra* note 42, at 988 (“And consumers noted with alarm two instances where companies used the DMCA to threaten competitors in after-markets . . .”).

109. 629 F.3d at 928.

110. *Id.* at 939–41, 952.

111. *Id.* at 941 (“Although . . . conduct may violate the contractual covenants . . . it would not violate any . . . exclusive rights of copyright. . . . A . . . user violates the covenants . . . but does not thereby commit copyright infringement because

next part of this article therefore focuses on the close contract interpretation approach adopted by the Ninth Circuit in *MDY*.

III. NEXUS CRYSTALS: CRYSTALLIZING LIMITS ON CONTRACTUAL CONTROLS

The district court in *MDY Industries, LLC v. Blizzard Entertainment, Inc.*,¹¹² offered a fairly black-letter interpretation of the current state of the law, given the Ninth Circuit's then-extant judicial interpretations, by rejecting World of Warcraft (WoW) players' claims of ownership and thus their access to the essential step defense.¹¹³ The district court then held that players violated intellectual property rights each time they turned the game on whilst using third-party software that altered the game experience.¹¹⁴ The district court thus permitted a software provider to limit what aftermarket purchases or modifications a customer could make.

The Ninth Circuit Court of Appeals reversed in broad measure,¹¹⁵ and it is precisely the tension between the Ninth Circuit's newfound understanding that software holders cannot be permitted to enforce any term whatsoever as a condition of an intellectual property license and its persistent refusal to adopt a "nexus test" for the DMCA claims that make the *MDY* line of cases so interesting.¹¹⁶ As the following analysis shows, the Ninth Circuit clearly has adopted as a matter of contract construction what it rejected as a matter of statutory interpretation:¹¹⁷ companies cannot

[he or she] does not infringe any . . . exclusive rights.").

112. *MDY Indus., LLC v. Blizzard Entm't, Inc.* (MDY District I), No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988, at *1 (D. Ariz. July 14, 2008) (finding MDY in breach of the DMCA).

113. *Id.* at *17–18, *52 (“[Granting] summary judgment in favor of Blizzard with respect to MDY’s liability for tortious interference . . . and contributory and vicarious copyright infringement . . . grant[ing] summary judgment in favor of MDY on the portion of the DMCA claim . . . that is based on 17 U.S.C. § 1201(a)(2) and applies to Blizzard’s game client software code; grant[ing] summary judgment in favor of MDY on the unfair competition claim . . . and den[ying] summary judgment on the unjust enrichment claim . . .”) (internal citations omitted); *see also* *MDY Indus. v. Blizzard Entm't, Inc.* (MDY District II), 616 F. Supp. 2d 958 (D. Ariz. 2009) (outlining the court’s order and the injunction granted following trial on the remaining claims).

114. *MDY District II*, 616 F. Supp. 2d at 965–68.

115. *MDY Indus.*, 629 F.3d at 941–42.

116. *Id.* at 939–40, 950, 952.

117. *Compare id.* at 939–41 (outlining the difference between covenants and conditions in a license agreement and holding that terms in a license agreement unrelated to a protected right under the Copyright Act cannot be enforced under

require customers to act in certain social ways that have little to do with acts proscribed under the Copyright Act.¹¹⁸ The following subparts discuss some facts behind the case, the decisions below, and the appellate ruling in detail.

A. MDY v. Blizzard Entertainment

This section examines both the factual backdrop of the MDY/Blizzard dispute (some of which was incorrectly stated at oral argument),¹¹⁹ as well as the district court and Ninth Circuit opinions. The section concludes with an analysis of the contractual interpretation holdings of the Ninth Circuit, which represent to me a significant and very important narrowing of the potential for consumer liability for copyright infringement (and, indirectly, for secondary liability for the third-party developers who serve them).

1. *The Players and Some Additional Interesting Facts*

MDY was a fight between gaming juggernaut Blizzard Entertainment and MDY, a one-man add-on software business.¹²⁰ Blizzard is the creator of video game mega-hits that include Diablo I and II, Starcraft, Starcraft II, Warcraft I-III, the upcoming much-anticipated Diablo III, and the fantastically popular massively multiplayer online role-playing game (MMORPG) at issue in the *MDY* case, World of Warcraft (WoW).¹²¹ WoW is a virtual world—a simulated three-dimensional, persistent, and interactive space in which players are represented by avatars (digital representations of

Copyright law), *with id.* at 942–48 (interpreting the anti-circumvention statutory regime and finding a new right of access, yielding copyright protection, created under § 1201(a)).

118. *See id.* at 941 (“A player might violate this prohibition . . . by harassing another player with unsolicited instant messages. Although this conduct may violate the contractual covenants with Blizzard, it would not violate any of Blizzard’s exclusive rights of copyright.”).

119. Counsel for Blizzard argued that Blizzard never permitted programs such as Glider. Blizzard had, in fact, allowed other third-party programs or “bots.” *See World of Warcraft Database, infra* note 133.

120. Blizzard is well-known for enforcing its intellectual property rights in the video game context. Recent legal battles include the suits of a rival game server, WoWscape, Peons4hire (a spamming entity), KeSpa, and MBC Games over the emergence of StarCraft as a lucrative sport, to name but a few.

121. *See Games*, BLIZZARD ENTM’T, <http://us.blizzard.com/en-us/games/> (last visited Sept. 13, 2011); *see also* Matt Vella, *Inside the World of Blizzard*, BUSINESSWEEK, Aug. 20, 2008, http://www.businessweek.com/innovate/content/aug2008/id20080820_123140.htm (detailing the success of Blizzard).

themselves within the virtual world).¹²² Blizzard boasts of more than 12 million subscribers to the game, each of whom pays a monthly subscription fee, and the game brings in over a billion dollars annually in revenue.¹²³

At the center of this case was Blizzard's add-on policy. From the game's inception, Blizzard harnessed player creativity by encouraging third parties to create add-ons that improved the game experience. However, add-on creators live in a legal grey space. Blizzard reserved, and reserves, the right, via its EULA, to decide at any time that an add-on developer's creation does not meet the standards of game play or that a third-party program offers some players a unique advantage.¹²⁴ On more than one occasion, Blizzard has even adopted the add-on's functionality into its own interface and then banned or de-incentivized the use of the competing add-on.¹²⁵

MDY developed a third-party add-on for WoW. In March 2005, Michael Donnelly (the founder, owner, and head of MDY) created a popular program called Glider (sometimes WoW-Glider),¹²⁶ that permitted users to automate their avatars.¹²⁷ It is important to note that many virtual worlds have expressly permitted—indeed almost required—automated scripting activity on the part of the player. A good example of this was the (at first) popular Star Wars Galaxies

122. BENJAMIN TYSON DURANSKE, VIRTUAL LAW: NAVIGATING THE LEGAL LANDSCAPE OF VIRTUAL WORLDS 2–10 (2008) (describing what a virtual world is and what an avatar is); see also F. Gregory Lastowka & Dan Hunter, *Virtual Worlds: A Primer*, in THE STATE OF PLAY: LAW, GAMES, AND VIRTUAL WORLDS 13, 15 (Jack M. Balkin & Beth Simone Noveck eds., 2006) (describing persistent worlds as those where “the environment continues to exist and changes over time” despite a given player logging off).

123. See Press Release, Blizzard Entm't, World of Warcraft Subscriber Base Reaches 12 Million Worldwide (Oct. 7, 2010), <http://us.blizzard.com/en-us/company/press/pressreleases.html?id=2847881>; see also Activision Blizzard Announces Record First Quarter Financial Results, ACTIVISION (May 9, 2011), <http://investor.activision.com/releasedetail.cfm?ReleaseID=575495>.

124. See, e.g., *World of Warcraft Terms of Use*, BLIZZARD ENTM'T, http://us.blizzard.com/en-us/company/legal/wow_tou.html (last updated Dec. 9, 2010).

125. See Ndragheta, *Blizzard Continues to Steal Ideas*, WOWHEAD (June 18, 2009, 4:22 PM), <http://www.wowhead.com/forums&topic=103216/blizzard-continues-to-steal-ideas>. For a list of these third party add-ons, see *World of Warcraft Client Patch 4.2: Rage of the Firelands*, WORLD OF WARCRAFT: CATAclysm (June 28, 2011), <http://us.battle.net/wow/en/game/patch-notes/4-2-0> [hereinafter *Rage of the Firelands*].

126. MDY Indus. v. Blizzard Entm't, Inc., 629 F.3d 928, 935 (9th Cir. 2010).

127. *Id.* at 935–36 (explaining that the program was initially created by Michael Donnelly for his personal use and then later sold to other users given its wild success).

virtual world, in which players were permitted to write elaborate automated scripts that would automate the player's avatar.¹²⁸

Glider permitted similar functionality. Players could instruct their avatars to engage in simple, repetitive tasks (like killing the same virtual creature over and over again in search of a rare item).¹²⁹ Glider did not permit players to engage in the more complex behavior required to actually play the game interactively, such as cooperating with other players to go on an adventure (called a "raid"). This was far beyond Glider's capacity.¹³⁰ The Glider software was of a genre called "botting," since it turned the player's avatar into a "bot" (short for robot) that acted automatically within the game context.¹³¹

Consistent with the then-prevalent industry practice, Blizzard's EULA did not at first ban avatar automation scripts outright.¹³² The line between bots and legitimate add-ons was, and is, impossible to seriously maintain. All add-on computer scripts automate some element of the functionality of an avatar. For example, an early and extraordinarily successful add-on was called "Thottbot"—the name of which even included "bot"—which automated the collection and collation of all objects, creatures, and quests within the WoW world.¹³³ Thottbot then automatically indexed and made searchable the quests, items, and creatures in the game. Thus, a player who got stuck on a quest or could not find a given creature or item could simply look up the answer with Thottbot. Even though Thottbot was, and still remains, a powerful way to

128. See Kurt D. Squire & Constance A. Steinkuehler, *Generating Cyber Culture/s: The Case of Star Wars Galaxies*, in *CYBERLINES 2.0: LANGUAGES AND CULTURES OF THE INTERNET* 177, 181–83 (Donna Gibbs & Kerri-Lee Krause eds., 2d ed. 2008), available at <http://inkido.indiana.edu/onlinecom/squire-steinkuehler.pdf>.

129. See MICHAEL LUMMIS & ED KERN, *WORLD OF WARCRAFT MASTER GUIDE STRATEGY GUIDE 4* (2d ed. 2006); Shikowitz, *supra* note 42, at 1026 ("Once the player instructs Glider, the program works automatically, allowing the player to return to his computer later and resume playing with the added experience and valuable items Glider earned in the meantime.").

130. Indeed, a primary purpose of the program was to automate simple tasks to speed up game play. See *MDY Indus.*, 629 F.3d at 935–36. This is seen in what it did: automate simple tasks and leave complex enjoyable tasks, such as raids, to the user.

131. *Id.* at 935.

132. *Id.* at 936, 956.

133. Indeed, Thottbot is still up and running, although its importance has been eclipsed by competitors. See, e.g., *World of Warcraft Database*, THOTTBOT, <http://thottbot.com> (last visited Sept. 10, 2011). For additional amusement, one might search on Thottbot for the description of a Nexus Crystal, a once-important virtual object in the WoW economy.

circumvent the “natural” progression of exploring the game, it remains a tolerated and successful add-on—indeed, a pillar of the community¹³⁴—although now somewhat diminished in importance since other, more aggressive indexing sites have become available.¹³⁵ This norm remains firm throughout other popular virtual worlds. For example, in addition to the Star Wars Galaxies scripts described above, a core component of the popular virtual world Second Life is the so-called “Animation Override”—a process by which an avatar is automated by a third-party script and performs some act (usually a dance) under the control of the computer.¹³⁶

Although critical to a proper understanding of the case, these background facts were under-addressed or outright misstated at oral argument. For example, in oral argument before the Ninth Circuit, counsel for Blizzard incorrectly represented that Blizzard had, prior to the launching of Gilder, banned datamining and bot algorithms under the EULA.¹³⁷ One must assume that Blizzard’s counsel was simply unaware of Thottbot and the hundreds of other botting, automation, and datamining scripts that ran, and continue to run, openly and with Blizzard’s blessing within WoW.¹³⁸

As might be predicted, MDY’s Glider program proved extremely popular and sold over 100,000 copies.¹³⁹ Blizzard then altered its EULA to ban avatar-automation software.¹⁴⁰ Blizzard’s

134. See *Thottbot.com Site Info*, ALEXA, <http://www.alexa.com/siteinfo/thottbot.com> (last visited Nov. 24, 2011) (detailing the web traffic of Thottbot, showing that, as of November 24, 2011, it was ranked number 46,771 in the world and number 15,381 in the United States); see also Simon Carless, *IGE: Inside the MMO Trading Machine*, GAMASUTRA (Aug. 25, 2006), http://www.gamasutra.com/view/feature/1837/ige_inside_the_mmo_trading_machine.php (labeling Thottbot as a “major item listing site”).

135. See *Wowhead.com Site Info*, ALEXA, <http://www.alexa.com/siteinfo/wowhead.com> (last visited Nov. 24, 2011) (listing Wowhead, a comparable program to Thottbot, with a traffic rank of 1391 globally and 949 in the United States, as of November 24, 2011).

136. See *SLTutorials.net Tutorial Database*, SLTUTORIALS, http://www.sltutorials.net/mtree/Animation_%26_More/ (last visited Oct. 22, 2011).

137. Oral Argument at 18:48, *MDY Indus. v. Blizzard Entm’t, Inc.*, 629 F.3d 928 (No. 09-15932), available at http://www.ca9.uscourts.gov/media/view_subpage.php?pk_id=0000005584 (stating that the Terms of Use in use at the time of Glider’s development contained a provision that banned “mining data from the game”).

138. See Ndragheta, *supra* note 125; *Rage of the Firelands*, *supra* note 125 (listing these third-party add-ons).

139. *MDY Indus.*, 629 F.3d at 936.

140. *Id.* at 956 n.22 (“When MDY created Glider in 2005, Blizzard’s ToU prohibited the use of ‘cheats’ and ‘unauthorized third-party software’ in

position was that avatar automation reduced the player's incentive to play the game as intended and reduced the social interactivity important to the game.¹⁴¹ (Never mind that Blizzard's position was incoherent, given its ongoing tolerance of "walk-through" and "cheat" tip sites for WoW.)¹⁴² MDY believed that Blizzard did not have the right to unilaterally alter its EULA to destroy MDY's business model. MDY therefore altered Glider to be undetectable by Blizzard's sentinel program, Warden.¹⁴³

The Warden program was the technological enforcement arm of Blizzard's interpretation of its EULA. Warden was downloaded onto players' computers and then scanned their RAM for the presence of other programs that interacted with the WoW executable.¹⁴⁴ It is important to note that Warden was not copy protection software in any but the most technical of aspects. Warden reported its findings to Blizzard, permitting Blizzard to ban users of forbidden third-party software from the game.¹⁴⁵ Warden also prevented the WoW executable from running if it found the presence of banned third-party executable programs in RAM. Warden was not, however, in any other way a copy protection program.

MDY modified its program to avoid detection by Warden and further warned its users via its website that use of Glider was a breach of the WoW EULA and thus might result in banning. However, MDY continued to offer Glider and to update and modify it so that it would evade detection by Warden.

2. *The District Court Opinions*

The district court opinion (actually consisting of two opinions worth mentioning, one granting early summary judgment on some claims, and the second following trial on the remaining claims) was a clear and straightforward black-letter application of Ninth Circuit case law interpreting the Copyright Act, first sale doctrine, essential

connection with WoW. The meaning of these contractual terms, including whether they prohibit bots such as Glider, is ambiguous."). MDY argued that Blizzard changed its TOU to ban bots directly, but this was not decided given the triable issue of fact. *Id.* at 956 n.24.

141. *See id.* at 936, 956.

142. *See, e.g.,* Ndragheta, *supra* note 125; (a message board providing walk-through and cheat information to the public); *see also* *Rage of the Firelands*, *supra* note 125 (listing third party add-ons).

143. *See MDY Indus.*, 629 F.3d at 936.

144. *See id.* at 942.

145. *Id.* at 936, 942.

step defense, and the DMCA. The court held that following *MAI Systems Corp. v. Peak Computer, Inc.*, the license clearly considered the anti-botting rule as a condition on which the grant of license was based.¹⁴⁶ Thus, the district court held, WoW players did not own their copies of the game, were not entitled to load the software into RAM as an “essential step” of making use of it, and therefore committed primary copyright infringement each time that they loaded the game in contravention of the terms of the license.¹⁴⁷

Having found primary copyright infringement, the court then easily found that MDY had committed secondary copyright infringement under both vicarious and contributory liability theories.¹⁴⁸ Furthermore, the district court granted summary judgment on Blizzard’s state law claim of tortious interference with contract, on the grounds that under Arizona law MDY’s conduct in offering and continuing to offer Glider was wrongful as a matter of law.¹⁴⁹

The district court held for MDY on Blizzard’s DMCA § 1201(a)(2) claim as premised on alleged circumvention of access controls protecting a copyrighted work.¹⁵⁰ The district court did find that MDY violated § 1201(a)(2) with respect to the dynamic nonliteral elements of WoW.¹⁵¹ The district court reasoned that since players had paid for access to WoW and were in fact able to access WoW, the Warden program did not control access to WoW.¹⁵²

The district court did however deviate from its by-the-book black-letter approach to note that there may be a category of contractual clauses that are simply outside of the ambit of conditions imposed within intellectual property licenses.¹⁵³ In its earlier opinion granting Blizzard summary judgment on secondary copyright liability (among other claims), the district court noted a difference between clauses that go to a right of copy and those that are merely related to proper gameplay:

The provisions of section 4 thus make clear that although users are licensed to play WoW and to use the game client

146. *MDY District I*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988, at *10–11, *16–19 (D. Ariz. July 14, 2008).

147. *Id.* at *31, *32.

148. *See id.* at *32.

149. *Id.* at *51.

150. *MDY District II*, 616 F. Supp. 2d 958, at 964–68 (D. Ariz. 2009).

151. *Id.* at 966–67.

152. *See id.*

153. *See MDY District I*, 2008 U.S. Dist. LEXIS 53988, at *12.

software while playing, they are not licensed to exercise other rights belonging exclusively to Blizzard as the copyright holder Section 5 of the TOU is different. It is titled “Rules of Conduct.” *Id.* at 4. The subsections of section 5 are titled “Rules Related to Usernames and Guild Designations” (§ 5(A)), “Rules Related to ‘Chat’ and Interaction With Other Users” (§ 5(B)), and “Rules Related to Game Play” (§ 5(C)).¹⁵⁴

As a result, the district court determined that:

Section 5 thus sets rules for the game, whereas section 4 establishes limits more clearly designed to preserve Blizzard’s copyright interests. The section 5 rules also regulate relatively minor matters such as the use of celebrity names (§ 5(A)(4)) or offensive language (§ 5(A)(2)) for WoW characters. Section 5 establishes game rules by contract.¹⁵⁵

Thus, even though the district court held that the “no-botting” rule was a condition of an intellectual property license rather than a contractual condition, the court seemed unsettled by the overreaching claims by copyright holders.¹⁵⁶ The claim that any activity performed during the use of software could be subject to a condition of a grant of an intellectual property license seemed even to the district court to be one step too far. The district court noted this distinction quite clearly:

When the EULA and TOU are considered in their entirety, the Court concludes that section 4 of the TOU establishes limitations on the scope of the license and section 5 sets rules of the game as independent contract terms [that is, contractual covenants instead of intellectual property conditions].¹⁵⁷

Despite its reservations, however, the district court held that WoW buyers did not own the software that they bought, that they had no right to load the software into RAM unless they complied with every condition in the EULA, and that MDY was secondarily liable for any copyright infringement that was the result of players playing the game while using Glider.¹⁵⁸

154. *Id.* at *17–18.

155. *Id.* at *18.

156. *See id.* at *20.

157. *Id.* at *18.

158. *See id.* at *18, *31–32, *52.

B. The Ninth Circuit Appeal

Although the Ninth Circuit reversed the district court, it did so by adopting and extending the district court's logic regarding the enforceability of social control clauses like "do not use third party programs." That is, the Ninth Circuit simply seized on the difference identified by the district court between limits on rights exercised vis-à-vis intellectual property (the right to make a copy, to distribute, to create derivative works, and so on) and purely "social" contractual clauses that merely set forth contractual game rules.¹⁵⁹ The Ninth Circuit then expanded on the district court's own reasoning to such an extent that it overruled the district court's overall outcome.

1. Conditions, Covenants, and Copyrights

On appeal, the Ninth Circuit broadly reversed. First, the Ninth Circuit reversed the district court's finding any copyright infringement whatsoever, whether primary (by the player) or secondary (on MDY). The critical question was whether Blizzard players, when they used WoW Glider, were directly violating intellectual property rights instead of merely violating a contractual covenant set forth in the EULA. (The court used a basic naming convention: it termed clauses that limit the scope of an intellectual property license "conditions" and other contractual promises "covenants.")¹⁶⁰ The court determined, quite correctly, that social rules—like "don't cheat"—were covenants instead of contractual conditions.¹⁶¹

Without such a holding, the court noted, a corporation would be free to condition an intellectual property license on any social rule whatsoever. The critical language reads as follows:

Were we to hold otherwise, Blizzard—or any software copyright holder—could designate any disfavored conduct during software use as copyright infringement, by purporting to condition the license on the player's abstention from the disfavored conduct. The rationale would be that because the conduct occurs while the player's computer is copying the software code into RAM in order for it to run, the violation is copyright

159. See *MDY Indus. v. Blizzard Entm't, Inc.*, 629 F.3d 928, 939–41 (9th Cir. 2010).

160. See *id.* at 939–40.

161. *Id.*

infringement. This would allow software copyright owners far greater rights than Congress has generally conferred on copyright owners.¹⁶²

It is important to determine whether this holding is a matter merely of contract interpretation or contractual construction. If the court is merely advancing a statement of interpretation—that is, that although in this case the “don’t bot” requirements were contractual covenants and not license conditions, Blizzard may simply rewrite the contract to make them such—the *MDY* case will not lead to much.¹⁶³ There are some cases like this, where a court lets a consumer win on a narrow contractual ground.¹⁶⁴ The losing corporation then merely changes its contract language (which it reserves the right to do unilaterally) and the case is a flash in the pan—one customer wins but the case sets no useful precedent for the protection of consumers more broadly.¹⁶⁵

However, if the *MDY* court’s decision that there was no copyright infringement on behalf of WoW players stands for something more than bare contractual interpretation, then perhaps the case is not a flash in the pan.¹⁶⁶ At issue is whether, going forward, Blizzard may simply amend its TOU and EULA to expressly state that non-use of bots is a condition of the grant of the intellectual property license. The fighting question is whether that clear statement would satisfy the Ninth Circuit or other federal

162. *Id.* at 941.

163. Band, *supra* note 42 at 987 (“Only time will tell whether these holdings will be limited to their specific facts, or will evolve into rules of more general applicability.”).

164. See *Williams v. Walker-Thomas Furniture Co.*, 350 F.2d 445, 450 (D.C. Cir. 1965) (remanding the case to the lower courts to determine whether the contract was unenforceable and directing them to find the contract unenforceable if they found it unconscionable); *Harris v. Blockbuster Inc.*, 622 F. Supp. 2d 396, 400 (N.D. Tex. 2009) (finding the terms of the contract unenforceable as they were illusory).

165. This problem is expressed more broadly in the power imbalance of one-time participants and repeat players. Individuals (for example customers) are the quintessential one-shot players. In the gaming context, a game is purchased once (same with expansion packs). The repeat player (for example Blizzard) has greater knowledge, power, and access to the legal system. For a broad treatment of this, see Marc Galanter, *Why the “Haves” Come out Ahead: Speculations on the Limits of Legal Change*, 9 LAW & SOC’Y REV. 95 (1974), available at <http://www.jstor.org/stable/3053023>; Carrie Menkel-Meadow, *Do the “Haves” Come out Ahead in Alternative Judicial Systems?: Repeat Players in ADR*, 15 OHIO ST. J. ON DISP. RESOL. 19 (1999).

166. If it is not just a matter of a single contractual interpretation, then it can result in a rule of general applicability and act as a tool to counteract copyright creep.

courts treating *MDY* as persuasive authority or whether the court's language here demonstrates something more: a limit on the use of contractual clauses to control behavior that is, at best, tangentially related to rights granted under the Copyright Act.

The language of the opinion quoted above is instructive in addressing this question. The court appears to hold that a contractual clause unrelated to a core right granted under § 106 of the Copyright Act cannot be a condition of an intellectual property license.¹⁶⁷ This holding, clear on its face, in fact undermines the Ninth Circuit's adherence to *MAI*, which has been roundly criticized in the academic legal literature.¹⁶⁸ Here is why: the *MDY* court requires that there be a nexus between the clause in the contract and the exercise of some right granted under § 106.¹⁶⁹

The court's common-sense ruling was that Warden was not a copy-protection program: it sought to prevent the use of unauthorized add-ons, not to prevent copying of the WoW executable. Indeed, Blizzard has little interest in preventing the copying of the WoW executable and in fact hands it out for free.¹⁷⁰ Since users must pay for an account and a subscription, Blizzard makes its money not from selling the software client but from the account subscription fees.¹⁷¹ Thus, there are no copy protections on Blizzard clients—one can simply download the latest client for free from the Internet. Of course, in order to play the game one must set up an account and a subscription.

But this common sense analysis flies straight in the face of *MAI*'s insane decision that a copy of software is made every time a

167. *MDY Indus.*, 629 F.3d at 941.

168. The legal academic response to *MAI* has been deeply negative. See Perzanowski, *supra* note 40, at 1075 (detailing the two main criticisms, interpretive failings and policy considerations, of the RAM copy doctrine); see, e.g., Band, *supra* note 42; Carver, *supra* note 20, at 1954 (“To determine whether title to a copy has been transferred, courts should look to whether the transferee has a right of perpetual possession of the copy. This is the key factor that distinguishes sales and gifts on the one hand, and leases and lending on the other.”); Shikowitz, *supra* note 42 (detailing the two main criticisms, interpretive failings and policy considerations, of the RAM copy doctrine); Von Lohmann, *supra* note 42.

169. Von Lohmann, *supra* note 42.

170. *Sign up for the Free World of Warcraft Starter Edition*, BATTLE.NET, <https://us.battle.net/account/creation/wow/signup/> (last visited Oct. 9, 2011) (offering new users the opportunity to play the first twenty WoW levels for free).

171. See *Subscription Options*, BLIZZARD ENTMT, http://us.blizzard.com/support/article.xml?locale=en_US&articleId=21450&pageNumber=1&searchQuery=payment (last visited Oct. 9, 2011) (offering month-to-month, three month, and six month subscriptions).

computer loads software from the hard disk into RAM.¹⁷²

Proponents of Blizzard's position in the *MDY* case must have suffered a moment of surreality in reading the Ninth Circuit opinion. The court noted that absent its holding to the contrary, a copyright holder "could designate any disfavored conduct during software use as copyright infringement" and required there to be a nexus between any such clause and a right granted by § 106.¹⁷³

That right would be, in the Blizzard proponent's eyes, the core right to make copies under the Copyright Act. As the court explained: "The rationale would be that because the conduct occurs while the player's computer is copying the software code into RAM in order for it to run, the violation is copyright infringement. This would allow software copyright owners far greater rights than Congress has generally conferred on copyright owners."¹⁷⁴

This is an innovative challenge to the copyright status quo. The court first requires a nexus between a contractual clause and a right protected under the Copyright Act.¹⁷⁵ The court then implies that, as a matter of law, the copy created by copying the software from hard drive to RAM does not satisfy this requirement.¹⁷⁶ This is frankly difficult reasoning to square with the court's upholding of *MAI* and the RAM copy doctrine in its discussions of ownership, first sale, and the essential step defense. In short, the court states that it supports the RAM copy doctrine while simultaneously holding that *MAI* RAM copies do not satisfy the nexus requirement of tying the contractual clause to a right granted by the Copyright Act.¹⁷⁷

Thus, although *MDY* has been criticized in legal academic literature as just another application of the RAM copy doctrine, bad licensee/ownership intuitions, and the failure of the First Sale doctrine online,¹⁷⁸ it appears to me to offer instead a real chance for pro-consumer doctrines to crystallize even in the Ninth Circuit,

172. See *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 519 (9th Cir. 1993) ("[W]e hold that the loading of software into the RAM creates a copy under the Copyright Act.").

173. *MDY Indus. v. Blizzard Entm't, Inc.*, 629 F.3d 928, 941 (9th Cir. 2010).

174. *Id.*

175. *Id.*

176. *Id.* at 954.

177. See *id.* at 938, 941 (reiterating the RAM copy doctrine and later rejecting that it can tie a contractual clause to a right under the Copyright Act as it would go against congressional intent under copyright).

178. See Shikowitz, *supra* note 42, at 1035–53.

the heart of the *MAI* doctrine.¹⁷⁹ The *MDY* holding directly undermines *MAI* by holding that a rule, unrelated to a right protected by copyright, cannot be redrafted so as to become a condition on a grant of an intellectual property license. Doing so, the court plainly states, would be beyond the power granted to copyright holders by Congress.¹⁸⁰ This removes corporations' greatest tool in denying legal rights to consumers: the power, even in a losing case, to simply redraft the contract so that it clearly (and even more abusively) restates in the corporation's favor whatever clause the court had interpreted in the case.

The court's holding in *MDY* constitutes, if not a functional overturning of *MAI*, a practical retrenchment and severe narrowing of the grounds on which consumers can be found liable for copyright infringement for performing actions that are outside of the scope of their EULAs. Further, this holding offers some serious hope to third-party providers of software that they will not be liable for copyright infringement for the actions of their customers that are in contravention of a contract the third-party software provider may not even be aware of.

The holding is even more exciting for gamers and third-party software providers because it has ramifications for the DMCA. First, I should reiterate that for § 1201(a) claims, the Ninth Circuit in *MDY* rejected a nexus requirement and held that access to copyrighted material can be conditioned on any requirement (e.g., you must wear hot pink while logging in) that the copyright holder deems appropriate, expedient, or even hilarious.¹⁸¹ But the court's

179. The Ninth Circuit is where *MAI* and its progeny were decided. *See, e.g.,* *Wall Data Inc. v. L.A. Cnty. Sheriff's Dep't*, 447 F.3d 769, 769 (9th Cir. 2006). Other circuits have approached the issue of copies in RAM differently. *See, e.g.,* *Cartoon Network LP v. CSC Holdings, Inc.*, 536 F.3d 121, 127–29 (2d Cir. 2008) (finding that both the Copyright Act's embodiment and durational requirements need to be met in order for a data stream to be fixed). The Second Circuit's decision presented a circuit split with the Ninth Circuit in that it looked at the Ninth Circuit's holding in *MAI* that RAM copies *are* made to where they *can* be made. *Id.* at 128.

180. *MDY Indus.*, 629 F.3d at 941.

181. *See id.* at 952 (“[W]e conclude that a fair reading of the statute . . . indicates that Congress created a distinct anti-circumvention right under § 1201(a) without an infringement nexus requirement.”). When an EULA becomes a technological measure, a contract can then condition access on its terms, say wearing a specific color or refraining from certain behavior in order to gain access, and such access is also agreement to the terms. *See ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1452 (7th Cir. 1996) (describing that U.C.C. § 2-204(1) provides for different formations of contracts, such as a prompt on a computer screen, which can prevent access). “ProCD proposed a contract that a buyer

holding that WoW players do not commit any intellectual property infringement whatsoever when they break the EULA's "play nice" rules does in fact limit the ability of copyright holders to bring some claims under the DMCA.¹⁸² Unlike § 1201(a), which the court held applies to any condition placed on access to works protected under the Copyright Act,¹⁸³ § 1201(b) directly references technological measures that protect a right of a copyright holder under the Act.¹⁸⁴

The court took this to mean that while § 1201(a) access can be conditioned on any condition the copyright holder might dream up, § 1201(b) copy protection measures must be targeted at protecting a right protected under the Act.¹⁸⁵ And under the same analysis, the court determined that there was no nexus between a clause requiring players not to cheat in a game and any right granted under § 106 of the Copyright Act.¹⁸⁶ The *MDY* court likewise held that § 1201(b) claims could not be brought when players breach licenses because, again, the Warden program was not a copy protection program and did not protect any right granted to the copyright holder under the Act.¹⁸⁷

In short, only Blizzard's § 1201(a) claims remain (besides the state law interference with contract claims). This is important because although the Ninth Circuit decided that the Warden program "allowed access" to a protected work, that reasoning is decidedly both in the minority and against the common sense reading of the statute as explained in *Lexmark* and *Chamberlain*.¹⁸⁸

would accept by *using* the software after having an opportunity to read the license at leisure. This Zeidenberg did. He had no choice, because the software splashed the license on the screen and would not let him proceed without indicating acceptance." *Id.* If you fail to click agree and still use the software, then you have circumvented a technological measure. *See* 17 U.S.C. § 1201(a)(1)(A) (2006) ("No person shall circumvent a technological measure that effectively controls access to a work protected under this title.").

182. *MDY Indus.*, 629 F.3d at 941.

183. *Id.* at 944.

184. *Id.*

185. *See id.* at 945–46.

186. *Id.* at 940–41.

187. *Id.* at 954–55.

188. *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 387 F.3d 522, 528, 533, 550 (6th Cir. 2004) (analyzing the relationships between rights under the Copyright Act and the DMCA's anti-circumvention provisions, and determining that the anti-circumvention provisions do not grant a new right); *Chamberlain Grp., Inc. v. Skyline Techs., Inc.*, 381 F.3d 1178, 1192–1201 (Fed. Cir. 2004) (interpreting the provisions of the DMCA's anti-circumvention provisions, looking to the Copyright Act and congressional intent, and finding that the anti-circumvention provisions created a new cause of action and not a new property

The court in *MDY* correctly stated that a customer does not gain access to the WoW component, its service, or any of its elements, through the Warden program.¹⁸⁹ The customer gains access to the copyrighted works in all of their forms by buying a copy of the game.¹⁹⁰ This argument has generally done quite well in courts nationwide,¹⁹¹ and thus the last ground for DMCA liability in the Ninth Circuit hangs by a fairly slender jurisprudential thread.

2. *Antitrust and Copyright Misuse*

I have focused here on what there is to celebrate in the *MDY* decision. This is because the response to the case has been generally critical—a “glass half empty” approach.¹⁹² There is certainly much about the case to criticize. The court continues the mistaken Ninth Circuit approach in *MAI* and *Wall Data* with respect to first sale and essential step analyses.¹⁹³ These deprive buyers of software from the basic protections of ownership that Congress intended to extend to software purchasers.

Similarly, there is much to criticize in the Ninth Circuit’s treatment of copyright misuse and antitrust issues in the case. The Ninth Circuit seems to have misunderstood its own precedent and the facts of the current case. *MDY*’s argument on appeal was that Blizzard was misusing its state-granted copyright monopoly to extend its control to the aftermarket for third-party modifications.¹⁹⁴ The Ninth Circuit inexplicably determined that *MDY* had not raised issues of fact regarding Blizzard’s actions because, the court noted, Blizzard was not using its copyright

right where circumvention is infringement and copyright protection would be implicated).

189. *MDY Indus.*, 629 F.3d at 953.

190. *Id.*

191. *Id.*; see, e.g., *Lexmark*, 387 F. 3d at 546 (“It is not Lexmark’s authentication sequence that ‘controls access’ to the Printer Engine Program It is the purchase of a Lexmark printer that allows ‘access’ to the program.”).

192. See, e.g., Shikowitz, *supra* note 42, at 1015–16; Corynne McSherry, *A Mixed Ninth Circuit Ruling in MDY v. Blizzard: WoW Buyers Are Not Owners—But Glider Users Are Not Copyright Infringers*, ELECTRONIC FRONTIER FOUND. (Dec. 14, 2010), <http://www.eff.org/deeplinks/2010/12/mixed-ninth-circuit-ruling-mdy-v-blizzard-wow>; Venkat & Eric Goldman, *Ninth Circuit’s Mixed Opinion in Glider/WoW Bot Case—MDY Industries v. Blizzard*, TECH. & MARKETING L. BLOG (Dec. 21, 2010, 9:41 AM), http://blog.ericgoldman.org/archives/2010/12/messy_follow_up.htm.

193. See *MDY Indus.*, 629 F.3d at 938–39 (outlining that defenses based on ownership, such as essential step, are not available if a user licenses the software instead of owning it).

194. *Id.* at 941.

control to drive out another maker of an MMORPG.¹⁹⁵ This is simply wrong because it focuses on the primary market rather than the aftermarket. A well-known, relevant precedent, *Eastman Kodak Co. v. Image Technical Services*, held that an industry-dominating camera manufacturer could not leverage its position in the camera market to take over the aftermarket for film.¹⁹⁶ Kodak was not using its market position to control the camera market but to extend its control into the aftermarket.¹⁹⁷ Similarly, the *Chamberlain* and *Lexmark* courts, although they did not base their holdings on antitrust or anticompetition, were clearly concerned about permitting a garage door maker to leverage its position into control of the generic remote control market¹⁹⁸ or permitting a printer manufacturer to leverage its market position into control over the printer cartridge market.¹⁹⁹ Even *MAI* itself was superseded in its actual, narrow holding by Congress in the DMCA out of a concern that copyright holders would seize control of the aftermarket for repairs or computer servicing.²⁰⁰ All of these cases have been about

195. *Id.* at 951, 957.

196. *Eastman Kodak Co. v. Image Technical Servs.*, 504 U.S. 451, 452–53 (1992).

197. *Id.* at 481–82 (identifying the following two separate markets affected by Kodak: products and service). “Kodak . . . contends that, as a matter of law, a single brand of a product or service can never be a relevant market under the Sherman Act. We disagree. The relevant market for antitrust purposes is determined by the choices available to Kodak equipment owners.” *Id.*

198. *See Chamberlain Grp., Inc. v. Skylink Techs., Inc.*, 381 F.3d 1178, 1201 (Fed. Cir. 2004) (discussing Chamberlain’s arguments as effectively granting control of aftermarkets based upon the addition of a “single copyrighted sentence or software fragment to its product”). “Chamberlain’s construction of the DMCA would allow virtually any company to attempt to leverage its sales into aftermarket monopolies—a practice that both the antitrust laws . . . and the doctrine of copyright misuse . . . normally prohibit.” *Id.* (citing *Eastman Kodak Co.*, 504 U.S. at 455; *Assessment Techs. of WI, LLC v. WIREdata, Inc.* 350 F.3d 640, 647 (7th Cir. 2003)). The court rejects this based on the doctrine of fair use as *Chamberlain*’s DMCA construction would allow two parties to contract around the fair use right “through a combination of contractual terms and technological measures, to repeal the fair use doctrine with respect to an individual copyrighted work.” *Id.* at 1202.

199. *See Lexmark Int’l, Inc. v. Static Control Components, Inc.*, 387 F.3d 522, 551 (6th Cir. 2004) (Merritt, J., concurring) (“Automobile manufacturers, for example, could control the entire market of replacement parts for their vehicles by including lock-out chips. Congress did not intend to allow the DMCA to be used offensively in this manner, but rather only sought to reach those who circumvented protective measures ‘for the purpose’ of pirating works protected by the copyright statute.”).

200. *See Limitations on Exclusive Rights: Computer Programs*, 17 U.S.C. § 117(c) (2006) (creating an exemption from infringement for computer repair and maintenance).

a manufacturer seeking to control the aftermarket, not the manufacturer's primary market. Thus, for the court to have held MDY's copyright misuse and antitrust claims inactionable as a matter of law seems to be an amateur mistake.

But the court's error is not merely one of ignoring or misstating precedent. It is a particularly dangerous mistake given Blizzard's history.²⁰¹ Blizzard has in fact used its power over its copyrights in its video games to leverage control over extremely different industries.²⁰² One case in point is Blizzard's takeover of the electronic sports market. Blizzard's original StarCraft game was not only enjoyable to play, but enjoyable to watch. Organizations in other countries began to develop StarCraft (and the StarCraft sequel, Brood War) into an electronic sport (e-sport). The Korean Electronic Sports Association (KeSPA) developed StarCraft sportscasting into a mega-hit industry with professional leagues of players and prime time broadcasting of matches.²⁰³

However, once this market for e-sports was sufficiently developed, Blizzard took it over. It revoked KeSPA's licensing approval on the grounds that KeSPA had permitted broadcast of Blizzard's intellectual property without proper permission; arranged licenses with a different, more pliable set of organizations; and set out to take the e-sport global with the release

201. Blizzard does not hesitate to enforce the terms of its agreements (EULAs and TOU). See, e.g., *MDY Indus. v. Blizzard Entm't, Inc.*, 629 F.3d 928, 939 (9th Cir. 2010) (seeking to enforce a "no cheating" provision in a license agreement and TOU, and essentially driving a company out of business); *Davidson & Assocs., Inc. v. Internet Gateway*, 334 F. Supp. 2d 1164, 1181 (E.D. Mo. 2004), *aff'd sub nom. Davidson & Assocs. v. Jung*, 422 F.3d 630, 633-37 (8th Cir. 2005) (suing a company for creation of a rival online forum to play Blizzard games for free in violation of copyright and license agreement terms); *Consent Permanent Injunction at 2, Blizzard Entm't, Inc. v. In Game Dollar, LLC*, No. 07-589 (C.D. Cal. Jan. 28, 2007), available at http://virtuallyblind.com/files/Peons_Injunction.pdf (dealing with a suit over what Blizzard found to be cheating by a company that facilitated enhanced gold farming in WoW).

202. See *MDY Indus.*, 629 F.3d at 939; *Davidson*, 422 F.3d at 633-37. Blizzard exercised its legal muscle to control the aftermarket in add-on programs and to eliminate spamming on in-game chatting by preventing Peons4hire from continuing to do business. See *Consent Permanent Injunction*, *supra* note 201, at 2; see also Don Southerton, *Legal Battle—Korea's MBC Game vs. Blizzard Entertainment's StarCraft*, KOREA LEGAL.ORG (Dec. 5, 2010), <http://www.koreaexpertwitness.com/blog/tag/blizzard-entertainment/> (discussing the popularity of StarCraft in South Korea, the league, its history, and the emerging legal battle over control of the emerging lucrative market of StarCraft as a professional sport).

203. See Southerton, *supra* note 202.

of the equally popular StarCraft II title.²⁰⁴ Thus, Blizzard has a proven track record of waiting to see how markets for their products develop, including industries and aftermarket uses that are quite different from what Blizzard originally anticipated, and then taking the market over. It is as if the inventor of baseball suddenly laid claim to the World Series or if the inventor of basketball suddenly revoked the ability of the NBA to broadcast games or even film backyard pickup games of HORSE.

The same is true of the aftermarket add-on market. Blizzard has routinely taken the best add-ons—for example, CTRaid or the various aggression meters used to measure which party member a monster would attack next—and incorporated them into Blizzard's own WoW interface.²⁰⁵ The new ruling went against the Ninth Circuit's prior decision. Blizzard uses the add-on market as a test bed for its UI and incorporates the most successful add-ons into its interface.²⁰⁶ Given this background and history, especially Blizzard's history of encouraging interface add-on innovation, and then retracting rights to those innovations for its own purposes, the court should have looked more deeply at the anticompetition and copyright misuse claims in this case.

C. *Crystallizing Limits on Contractual Control*

In this section, I offer an analysis of the contractual holdings of *MDY* in light of the broader issues at stake in the arena of contractual control of online communities.²⁰⁷

There are several competing ways to view the cases. One approach, described earlier, is to lump together all cases that have a pro-DMCA bent and separate them all from those that seem to be trying to limit the ambit of the DMCA. Broadly, the pro-DMCA cases have the easier statutory reading job and the harder job reconciling the statutory language with Congress's stated intention not to negatively impact fair use or imbalance copyright rights.²⁰⁸

204. *Id.*

205. See, e.g., Yong Ming Kow & Bonnie Nardi, *Who Owns the Mods?*, FIRST MONDAY (May 3, 2010), <http://firstmonday.org/htbin/cgiwrap/bin/ojs/index.php/fm/article/view/2971/2529>; Matthew McCurely, *Addon Spotlight: Blizzard's Built-in Raid Profiles*, WOW INSIDER (July 7, 2011, 1:00 PM), <http://wow.joystiq.com/2011/07/07/addon-spotlight-blizzards-built-in-raid-profiles/#continued>.

206. *Patch 1.3.5 Now Available on PTR*, STARCRRAFT II: WINGS OF LIBERTY (July 13, 2011), <http://us.battle.net/sc2/en/blog/2983578#blog>.

207. *MDY Indus.*, 629 F.3d at 939–41.

208. See 17 U.S.C. § 1201(c)(1) (2006).

The anti-DMCA cases have the harder statutory job but an easier time explaining why the entire market for generic television remote controls should not disappear because of some incautious statutory wording. This is the familiar sorting of cases and I raise it because I think that it is not as good of a sorting mechanism as the approach I outline here.

It may be better to view the law unfolding in this area as courts contributing tools to a toolbox rather than as courts taking sides in a game of backyard football with the DMCA as a scrimmage line. In the broader context, courts have been groping for tools to control significant overreaches in online contracts, especially mass-market consumer contracts that purport to govern significant portions of users' everyday lives or effect mass transfers of consumers' intellectual property interests.²⁰⁹ For example, one can easily imagine a court grasping at contractual straws to invalidate an agreement between Microsoft and its users that transfers to Microsoft the IP rights in any creative works written with Microsoft Word or purports to ban users from using any non-approved third-party programs in conjunction with a Microsoft operating system. This is of course what the Blizzard EULA does, and it is only the fact that Microsoft has a *passé* reputation for antitrust violations—and Blizzard does not yet—that keeps the Blizzard EULA alive.

The broader context has seen the revival of nearly-defunct contract doctrines, such as adhesion, unconscionability, illusoriness, and now the distinction between covenants and conditions,²¹⁰ as slowly coalescing limits on contractual overreaching online. These doctrines sometimes become stronger than their old common-law origins. For example, recent cases have held that online TOUs that reserve the right to unilaterally change the agreement are illusory, since the service provider in fact is making no promises.²¹¹ Similarly, in a well-known 2007 decision,

209. See *MDY Indus.*, 629 F.3d at 938–41 (stating the court's approach using conditions and covenants and a nexus between any such condition and a right granted by § 106); *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1110–12 (9th Cir. 2010) (establishing a three point framework to determine if a purchaser of software is an owner or licensee); see also *Wall Data, Inc. v. L.A. Cnty. Sheriff's Dep't*, 447 F.3d 769, 785 (9th Cir. 2006) (illustrating the same framework as *Vernor*).

210. See *MDY Indus.*, 629 F.3d at 939.

211. See *Harris v. Blockbuster Inc.*, 622 F. Supp. 2d 396, 399 (N.D. Tex. 2009) (“[T]here is nothing in the Terms and Conditions that prevents Blockbuster from unilaterally changing any part of the contract other than providing that such changes will not take effect until posted on the website.”); *Bragg v. Linden Research, Inc.*, 487 F. Supp. 2d 593, 607–08 (E.D. Pa. 2007).

the Eastern District of Pennsylvania held that the TOUs governing a virtual world—Second Life—were unconscionable in part because the game creator reserved to itself the unilateral right to ban players and expropriate all of their virtual property.²¹²

This is the context in which *MDY* is properly situated: one in which courts have increasingly gotten questions of online contract right but have persisted in misinterpreting Copyright Act congressional protections of consumers against overreaching by copyright holders. *MDY* is the latest in this series of cases. The Ninth Circuit persists in refusing first sale and essential step rights to consumers on the shaky legal grounds that a customer who buys software in fact buys nothing other than a license right which may be taken away at any time and the scope of which may be unilaterally altered by the copyright holder on a whim.

Consistent with the broader trend in Internet law, what the Ninth Circuit gets quite wrong as a matter of intellectual property law, it gets right as a matter of contractual interpretation.²¹³ The Ninth Circuit noted that these sorts of use restrictions cannot be enforced as intellectual property conditions unrelated to the exercise of any right protected under the Copyright Act.²¹⁴ This is a curious holding, given Ninth Circuit precedent in *MAI* and *Wall Data* stating that any copying of the software into RAM is a copy and thus any condition that governs the terms under which that RAM copy may be made is properly deemed a condition of the license.²¹⁵ The Ninth Circuit has therefore indeed adopted a nexus requirement—between a clause of a contract purporting to be a condition and some right granted under the Copyright Act—and has held that a RAM copy cannot satisfy that requirement. There is no other way to make sense of the court's holding.

212. *Bragg*, 487 F. Supp. 2d at 595–97, 608–10.

213. *Compare MDY Indus.*, 629 F.3d at 939–41 (outlining the difference between covenants and conditions in a license agreement, and explaining that terms in a license agreement unrelated to a protected right under the Copyright Act can't be enforced under copyright law), *with id.* at 942–48 (interpreting the anti-circumvention statutory regime and finding a new right of access, yielding copyright protection, created under 17 U.S.C. § 1201(a)).

214. *Id.* at 940–42.

215. *See MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 519 (9th Cir. 1993) (finding that a copy made by a licensee is a violation of the license agreement and is also a copyright infringement); *supra* note 16 and accompanying text (discussing RAM copy doctrine); *see also Wall Data Inc. v. L.A. Cnty. Sheriff's Dep't*, 447 F.3d 769, 784–86 (9th Cir. 2006) (finding that defendant was a licensee of the software and therefore infringed the plaintiff's copyright by copying the software and installing it on several computers in violation of the license agreement).

It is, of course, entirely possible that the Ninth Circuit will lapse back into a rote acceptance of the characterization of the license itself of what constitutes a covenant and what constitutes a condition. If that were the case, *MDY Industries, LLC v. Blizzard Entertainment, Inc.* would be merely a flash in the pan, a one-shot interpretation of a contract that would be promptly papered over by making the contractual clause at issue expressly a condition of the grant of the license. But I do not think that is the likely or the proper reading of the case. First, Blizzard's license did purport to condition the grant of the license on compliance with all terms in the EULA and TOU.²¹⁶ The court found that that express language was not enough, given the lack of a nexus between the right claimed (the right to control consumers' ability to do business with other software providers) and the exercise of any right granted under the Copyright Act.²¹⁷

Equally important, I do not think the Ninth Circuit will shy away from looking to the realities of a transaction and past the formal characterization of the license agreement. On the same day that the Ninth Circuit heard arguments in *MDY Industries, LLC v. Blizzard Entertainment, Inc.* the same panel heard another first sale case, *Vernor v. Autodesk*.²¹⁸ The court asked in *Vernor* whether a buyer of software who purchases in contravention of the seller's promise to the copyright holder not to sell may then resell the software free and clear on eBay. Although that case also denied the buyer any first sale rights and denied the eventual downstream purchaser any essential step defense, *Vernor* did set out a three-prong test for the determination of first sale.²¹⁹ The court treated the characterization of the transaction as a license as only the beginning of the inquiry.²²⁰ Thus, the growing trend, even where courts are giving copyright holders the most leeway, is to look to the underlying realities of the transaction and not give dispositive weight to the characterization of the agreement itself.²²¹

216. See *MDY Indus.*, 629 F.3d at 938–39.

217. *Id.* at 940–41.

218. 621 F.3d 1102 (9th Cir. 2010).

219. *Id.* at 1111–12.

220. *Id.* at 1112–15 (addressing policy implications and four additional arguments advanced by Vernor, notably the circuit split and the underlying economic realities of the transaction, which were all rejected).

221. See *Vernor v. Autodesk, Inc.*, 555 F. Supp. 2d 1164, 1169–72 (W.D. Wash. 2008) (discussing the precedent in *Wise* and contrary results in subsequent Ninth Circuit decisions and the *MAI* Trio which gave dispositive weight to agreements and deciding in line with *Wise*). “Taking direction solely from *Wise*, the court . . . concludes that the transfer . . . was a sale.” *Id.* at 1170–72. The court based this

There is another challenge to my analysis based on *Vernor* that is worth noting. *Vernor* was an after-market control.²²² It required the buyer of Autodesk software not to resell that software.²²³ This seems to run directly counter to *Lexmark* and *Chamberlain*. Thus, a hypothetical interlocutor might ask: “How is it possible to align—as I do—*MDY* with *Chamberlain* and *Lexmark* when it is so very clear that the Ninth Circuit intends to keep rubber-stamping copyright holders’ use of copyright powers to extract control over secondary markets (as did *Autodesk* when it shut down *Vernor*’s eBay resales of the AutoCAD software)?”

I have three answers. First, the Ninth Circuit has since further tacked back toward limiting direct aftermarket resale control by reaffirming the first sale doctrine’s application to digital music stored on CDs in *UMG v. Augusto*.²²⁴ That case held that a “Not for Sale” license slapped onto promotional music CDs could not prevent their eventual resale by the recipients.²²⁵ Second, the aftermarket controls in *Autodesk* were different from those in *MDY*, *Chamberlain*, and *Lexmark*. It’s an easy distinction to miss—in fact the *MDY* court itself missed it and, thus, gave the anticompetition claims in the case short shrift. *Autodesk* deals with the ability of a copyright holder to control aftermarket sales of *its own* copyrighted material. *Lexmark*, *Chamberlain*, and *MDY* deal with the attempt by a copyright holder to wipe out someone else’s business plan based on interoperability: a generic garage door opener that works with your garage, a refilled printer cartridge that works with your printer, or a software add-on that works with your video game. Thus, the case that stands most in opposition to *Lexmark*, *Chamberlain*, and *MDY* in this case would not be *Vernor*; rather, it would be *Blizzard*

determination on the underlying facts of the transaction and the terms in the agreements. *Id.*; see also *United States v. Wise*, 550 F.2d 1180, 1190–91 (9th Cir. 1977) (identifying the license given but then proceeding to analyze the transactions to determine if any of them may be considered sales for the purpose of the first sale doctrine); Shikowitz, *supra* note 42, at 1016–17 (describing Ninth Circuit precedent in *Wise* and *Vernor* and their focus on the underlying economic realities—instead of relying upon a software provider’s EULA exclusively—of a software purchase and whether it leads to a license or ownership).

222. See *Vernor*, 621 F.3d at 1111–12 (stating that Autodesk reserved title to release fourteen copies and imposed significant transfer and use restrictions). These transfer and use restrictions effectively control the aftermarket by limiting the purchase to a license and restricting what the user may do.

223. *Id.*

224. See *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175, 1180 (9th Cir. 2011) (holding on first sale grounds that license purporting to restrict use of CDs to promotional use only did not prohibit recipients from selling the CDs).

225. *Id.* at 1182–83.

Entertainment's own prior victory over creators of an interoperable server for the fabulously successful Starcraft game, as set out in *Davidson & Associates v. Internet Gateway*,²²⁶ better known below (and more descriptively titled) as *Blizzard Entertainment v. BnetD*.²²⁷

But the most important distinction of all is the cleanest and the clearest. The district and circuit courts in *MDY* agreed that certain kinds of contractual rules—social rules regarding how to behave and play the game—were not enforceable as copyright infringements but merely as breaches of contract. The district court and Ninth Circuit came to different conclusions merely because they differed in their characterization of whether a ban on “botting” was a social rule governing game play or an intellectual property condition controlling the conditions under which a copy of the software (again, from hard disk into RAM) could be made.

To the software industry, this difference between social rule and intellectual property use restriction might not matter much; but the difference matters more to consumers. Online communities are heavily regulated by these kinds of social rules. As noted above, Facebook's TOU restrict what citizens can and cannot say via one of the (currently) top communications media.²²⁸ The public has stopped communicating on public street corners or via content-neutral telephone lines. More people use Facebook to communicate—and more people therefore communicate under Facebook's rules—than use e-mail.²²⁹ These rules need to be pruned back to protect consumers, to protect communications, and to protect communities.

It is precisely this distinction that both the district court below and the Ninth Circuit noted. There is a difference in kind between rules like “don't resell” and rules like “don't cheat.” Courts may vacillate over enforcing “don't resell,” but the tide appears to be turning against rules like “don't cheat” or “don't discuss certain topics using our service.” Companies can, of course, enforce these

226. See *Davidson & Assocs., Inc. v. Internet Gateway*, 334 F. Supp. 2d 1164, 1181 (E.D. Mo. 2004), *aff'd sub nom. Davidson & Assocs. v. Jung*, 422 F.3d 630, 632 (8th Cir. 2005).

227. *Davidson & Associates, Inc.* is now *Blizzard* and *Internet Gateway* was the creator of *BnetD*.

228. See *Statement of Rights and Responsibilities*, FACEBOOK, para. (5)(2) (Apr. 26, 2011), <http://www.facebook.com/terms.php?ref=pf> (“We can remove any content or information you post on Facebook if we believe that it violates this Statement.”).

229. See *Facebook More Popular than E-mail, Study Shows*, FOXNEWS.COM (Mar. 13, 2009), <http://www.foxnews.com/story/0,2933,509033,00.html> (explaining that networking sites, of which Facebook is the most popular, account for ten percent of time spent online, which is greater than e-mail).

rules as individual breaches of contract but decreasingly as infringements upon copyright.

There is one final potential challenge to the lens through which I view these cases. This competing approach simply sorts the cases according to whether they involve physical objects or intangible intellectual property. So, interoperable garage door openers and printer cartridges are fine; interoperable game servers and botting add-ons are not. The problem with this approach is that it turns on a distinction with utterly no difference.²³⁰ There is little difference between an MP3 on a CD and an MP3 on a computer hard drive. Ninth Circuit precedent demonstrates the tensions in these cases. The Ninth Circuit recently enforced after-market controls on eBay sales of AutoCAD CDs (in *Vernor*) but refused to enforce after-market controls on sales of promotional music CDs (in *Augusto*).²³¹ One kind of CD is just as tangible as the other.

Instead of turning on tangibility, the cases may instead turn on the kind of control that the copyright holder was trying to assert and what the copyright holder offered in return. In *Vernor*, Autodesk offered its customer a discounted ability to upgrade to new software in return for the promise not to sell the old software. That is not a bad trade. On the other hand, in *UMG v. Augusto*, one gets the sense that the court does not approve of “drive-by” contracting in which a music promoter sends out the CDs with license terms attached and the recipient gets nothing in return nor has any say in the matter.

The question for purposes of the current analysis is whether the mass-market video game contract at issue in *MDY* is more like the upgrade contract in *Vernor* or the drive-by contract of adhesion in *Augusto*. Reasonable minds may differ on that question while still reaching consensus that the CDs in *Augusto* were no more intrinsically tangible than were the CDs in *Vernor*. The sorting of cases along a tangibility-intangibility axis lacks explanatory power.

Each of these considerations militates, I believe, against the *MDY* holding by acting as a mere flash in the pan or merely chalking the case up as another win for the copy-control camp. Of course, *MDY* is one case. But it is important not to underestimate

230. See, e.g., Juliet M. Moringiello, *False Categories in Commercial Law: The (Ir)relevance of (In)tangibility*, 35 FLA. ST. U. L. REV. 119 (2007); see also Joshua A.T. Fairfield, *Virtual Property*, 85 B.U. L. REV. 1047 (2005).

231. See *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175, 1182–83 (9th Cir. 2011).

the power of the holding. Few academics would miss the significance of a case severely limiting Microsoft's or Google's power to constrain its consumers' everyday lives via software license agreements. Video games still suffer when it comes to being taken seriously, although they have been a larger industry than Hollywood for the better part of a decade.²³² Blizzard is a major player in video game circles and has become a recognized name in legal circles as well. Under its prior name of Davidson & Associates, Blizzard has previously set important precedent on the interaction of EULAs and the DMCA.²³³ A holding that Blizzard customers did not commit any kind of copyright infringement whatsoever when they contravened express terms of the WoW EULA not only lifts the cloud of copyright infringement from over the heads of the 11–12 million players of WoW, but also substantially impacts the balance of power between international corporations and hundreds of millions of video game players worldwide.

IV. CONCLUSION

The *MDY* court held that between 11 and 12 million WoW players cannot be held liable for copyright infringement if they violate the terms of Blizzard's EULA because they would merely violate a contractual covenant not a condition of an intellectual property license. The legal world has, in response, largely shrugged because the case seems to align with the depressing run of cases that run roughshod over the first sale doctrine and essential step defense.

This article has attempted to demonstrate the value of an alternative approach. It has suggested a shift in focus toward

232. See Tom Chatfield, *Videogames Now Outperform Hollywood Movies*, THE GUARDIAN, Sept. 27, 2009, <http://www.guardian.co.uk/technology/gamesblog/2009/sep/27/videogames-hollywood> (noting that in Britain in 2008, gaming eclipsed combined sales of DVD and music and was over four times the cinema box office take home, and further noting the recognition that gaming has received as an industry while concerns of its recognition as a legitimate medium remain). "A game, it's understood, can look spectacular, but it will have little to offer its audience in the way of values, insights or craftsmanship." *Id.*; see also *FACTBOX-Initial Sales of Video Games vs. Movie Blockbusters*, REUTERS (Nov. 10, 2009, 3:01 pm), <http://www.reuters.com/article/2009/11/10/videogames-idUSN1032711620091110> (comparing side-by-side sales of videogames and movies in the United States with movies slightly ahead).

233. See *Davidson & Assocs. v. Jung*, 422 F.3d 630, 639 (8th Cir. 2005) (holding that a software developer gave up its fair use right to reverse engineer software for interoperability purposes when an employee clicked "I Agree" on a Blizzard EULA).

contract interpretation as an alternative and equally viable means for shielding consumers from overreaching mass-market contracts. This contractual interpretation approach appears to have been persuasive to a court that otherwise continues to lead the charge in denying Copyright Act protections to consumers. Further, the contract approach led the Ninth Circuit to seriously undermine *MAI* and its progeny through its assertion that a contractual clause must both be expressly stated as a condition and must have a nexus with the assertion of some right protected under the Copyright Act in order to act as a condition on an intellectual property license. Although the Ninth Circuit splits from the Federal and Sixth Circuits by holding that DMCA claims need not be based on core rights granted in the Copyright Act, it nevertheless joins a nationwide trend in looking to the realities of a purported license transaction in order to limit the untrammelled ability of a corporation to assert control over aftermarket consumer behavior through threat of copyright infringement. What remains to be seen is whether the decision will act as a catalyst to bridge some of the doctrinal gaps between circuits and thus accelerate the trend toward limiting mass-market contractual control over online communities.