

COPYRIGHT ENFORCEMENT OF NON-COPYRIGHT TERMS: *MDY V. BLIZZARD* AND *KRAUSE V. TITLESERV*

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ABSTRACT

The rise of software and software licensing has led to another phenomenon: the attempted enforcement of software licenses through copyright law. Over the last fifteen years, content creators have begun to bring copyright suits against licensees, arguing that violation of license terms withdraws the permission needed to run the software, turning the use of the software into copyright infringement. Not surprisingly, courts have rejected this argument, and both the Ninth Circuit, in MDY v. Blizzard, and the Second Circuit, in Krause v. Titleserv, have developed new legal rules to prevent copyright enforcement of contract terms. This iBrief explores software licensing in detail, analyzes the courts' responses, and concludes that the Ninth Circuit's approach to copyright enforcement of license terms is preferable to the Second Circuit's approach because it is supported by legislative history, more straightforward, and more likely to prevent future content creators from enforcing their licenses through contract.

INTRODUCTION

¶1 In February 2007, Blizzard, the owner of a popular on-line game called World of Warcraft (WoW), sued MDY Industries for contributory and vicarious copyright infringement.² Unlike defendants of other secondary copyright suits, MDY was involved in neither peer-to-peer distribution nor the production of unauthorized Blizzard content. Instead, Blizzard sued MDY for producing Glider, a program that automatically played the early levels of WoW for purchasing players and was therefore considered cheating by Blizzard.³

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² MDY Indus., LLC v. Blizzard Entm't, Inc., 629 F.3d 928, 937 (9th Cir. 2010). Blizzard's suit was actually a counterclaim; MDY originally sued for a declaration that Glider did not infringe Blizzard's copyrights. *Id.*

³ *Id.* at 935–36.

¶2 How did the use of Glider violate Blizzard's copyright? Blizzard argued that it violated WoW's software license,⁴ which prohibited cheating. As a result, users of Glider no longer had Blizzard's permission to make copies of WoW's software and code. Because WoW, like most computer programs, creates copies of itself in the user's computer when it runs,⁵ Blizzard's withdrawal of permission turned the mere use of WoW into a copyright violation. In sum, Blizzard argued that the violation of a contract term about gaming behavior (namely, cheating), with no relation to copyright, created a copyright violation because software copies itself when it runs.

¶3 Blizzard was not the first plaintiff to make this argument. In *Krause v. Titleserv*, a disgruntled ex-employee contractually prohibited his employer from making any changes to his software.⁶ The employer eventually did make small changes along with copies necessary to run the programs.⁷ The ex-employee then sued his old employer for copyright violations due to the employer's copying and modifications.⁸

¶4 Courts have responded to prevent rightsholders from enforcing their non-copyright license terms through copyright. The Second Circuit did so by "sensibly consider[ing] [a licensee] the owner" of his software copies, bringing his creation of incidental copies within the safe harbor of 17 U.S.C. § 117(a).⁹ The Ninth Circuit, on the other hand, categorized the same individuals as licensees,¹⁰ but limited copyright enforcement to where there is a nexus between contract terms and copyright.¹¹

¶5 The issue of whether, and to what extent, copyright holders should be allowed to sue under copyright law due to license violations is not likely to remain rare. This problem will only expand as software use and licensing continue to develop, and it is important to analyze and understand the two circuits' approaches. Overall, the Ninth Circuit's test is vastly preferable

⁴ In general, a license is less than full ownership and grants "[a] permission . . . to commit some act that would otherwise be unlawful." *License Definition*, BLACK'S LAW DICTIONARY (9th ed. 2009). The kinds of permissions and types of licenses can vary widely. *See id.*

⁵ *MDY Indus., LLC*, 629 F.3d at 938. This automatic play is "cheating" both because it allows purchasing players to advance without having to put time into the game and because players using Glider disrupt real players' play. *Id.* at 935–36.

⁶ *Krause v. Titleserv*, 402 F.3d 119, 121 (2d Cir. 2005).

⁷ *Id.*

⁸ *Id.*

⁹ *Id.* at 124.

¹⁰ *See infra* ¶311.

¹¹ *MDY Indus., LLC v. Blizzard Entm't, Inc.*, 629 F.3d 928, 941 (9th Cir. 2010).

because it is more supported by the legislature, is clearer, and it better prevents copyright holders from enforcing their licenses through contract.

I. SOFTWARE LICENSING

¶6 Before examining the Ninth and Second Circuits' tests in more detail, it is important to develop a preliminary understanding of software licenses—how they work, why and how they are used, how they are limited, and what future problems may arise from their use.

A. How Licensors Try To Enforce Their Non-Copyright License Terms Through Copyright

¶7 Two unique features of software, one functional and one legal, create the potential for rightsholders to enforce their licenses through copyright law. Functionally, running software creates a temporary copy of the program in the computer's random access memory (RAM).¹² When the program is closed or the computer is shut down, the RAM is emptied and the temporary copy is deleted.¹³ Software is unique because it requires the creation of copies to be meaningfully used.¹⁴

¶8 This creation of copies, even temporary ones, implicates copyright law and interacts with the second unique feature of software. Unlike for other copyrighted works, a software licensee needs permission to access his copy of the program. This feature is the result of legislative and judicial action.

¶9 First, Congress only protected the *owners* of a copy of software from copyright infringement liability from copies made as “essential step in the utilization of the computer program.”¹⁵ As a result, a *licensee* of a copy of software could theoretically violate copyright simply by running a program if, for *any* reason, the use fell outside the permissions of the license.

¶10 Second, courts turned this theory of copyright violation into reality by finding that temporary RAM copies fit within the definition of copies

¹² Jeff Tyson, *How Computer Memory Works*, COMPUTER MEMORY BASICS, <http://computer.howstuffworks.com/computer-memory1.htm> (last visited Mar. 10, 2011).

¹³ *Id.*

¹⁴ See Christian H. Nadan, *Software Licensing In The 21st Century: Are Software “Licenses” Really Sales, And How Will The Software Industry Respond?*, 32 AIPLA Q.J. 555, 562 (2004) (“[T]o use software is to make a copy of it.”).

¹⁵ 17 U.S.C. § 117(a) (2006).

under 17 U.S.C. § 101.¹⁶ Owners of a copyrighted program were protected from this holding under § 117(a), but licensees of a copyrighted program could be sued under copyright law for breaching a license term. Breach of the license terms withdraws the copyright holder's permission to create copies and turns the use of the software into a copyright violation.

B. Why Copyright Holders Try To Use Copyright To Enforce Their Licenses

¶11 Copyright holders prefer to enforce their licenses through copyright for three primary reasons. First, copyright damages tend to be higher than contract damages. Contract damages are “generally limited to the value of the actual loss caused by the breach,”¹⁷ which is often negligible. Copyright violations, however, could include statutory damages up to \$150,000, regardless of actual damages.¹⁸

¶12 Second, copyright remedies have broader reach. Contract claims are limited to the parties of the contract. Copyright is not so limited, and reaches any party that violates the plaintiff's copyright.¹⁹

¶13 Third, and most significantly, copyright law provides for a variety of remedies. Contract claims are limited to monetary damages and, occasionally, specific performance.²⁰ Copyright allows “injunctive relief, seizure of infringing articles, and awards of costs and attorneys' fees,” giving content owners effective means to deter and stop breaching actors.²¹

C. How Copyright Holders Use Licenses

¶14 Copyright holders generally use licenses in three broad ways. First, they use them to establish contract terms that mimic copyright protections, such as a prohibition against unauthorized copying.²² This practice may be a holdover from the early days of software, when it was unclear whether software was eligible for copyright protection.²³ Alternatively, content

¹⁶ See, e.g., *MAI Sys. Corp. v. Peak Computer*, 991 F.2d 511, 519 (9th Cir. 1993) (finding that RAM copies implicated copyright).

¹⁷ *MDY Indus., LLC v. Blizzard Entm't, Inc.*, 629 F.3d 928, 941 n.3 (9th Cir. 2010).

¹⁸ *Id.*

¹⁹ *Id.*

²⁰ ROBERT E. SCOTT & JODY S. KRAUS, *CONTRACT LAW AND THEORY* 93 (4th ed. 2007).

²¹ *MDY Indus., LLC*, 629 F.3d at 941 n.3.

²² Maureen A. O'Rourke, *Drawing The Boundary Between Copyright And Contract: Copyright Preemption Of Software License Terms*, 45 DUKE L.J. 479, 490 (1995).

²³ See *id.* at 488–489 (“[I]n the earliest days of software distribution, it simply was not clear that software was protected by copyright law. Thus, software

holders may be using these terms to put users on notice regarding the copyright protection of their works.²⁴ Regardless, because the licenses merely duplicate copyright, there is little problem if the rightsholder uses copyright to enforce his contract.

¶15 Second, copyright holders use licenses to protect their business interests. Licenses can forbid actions that would devalue the copyright holder's business (such as cheating in an on-line game²⁵) and, at the same time, would allow the copyright holder to gain valuable information about the consumer,²⁶ ensure compatibility,²⁷ and limit liability.²⁸ In these situations, the license terms have nothing to do with copyright and, therefore, copyright enforcement is problematic.

¶16 Third, copyright holders use licenses to prohibit certain acts explicitly allowed by the Copyright Act,²⁹ such as reverse engineering.³⁰ Although this is also done to protect business interests—to inhibit competition—this third use is distinguishable from the second in that it falls within fair use, a specific positive exception of the Copyright Act.³¹ Such license terms are especially problematic, and they touch upon other issues, such as preemption, that go beyond the scope of this paper.³²

D. Limitations to Software Licenses Terms

¶17 Even before *Krause* and *MDY*, rightsholders were limited in their ability to enforce software licenses through copyright by counterclaims or

providers perceived a need for contracts to serve as a type of 'private legislation' of copyright-type rights in the absence of certainty that copyright protection extended to this new subject matter." (citations omitted)).

²⁴ *Id.* at 490.

²⁵ *E.g.*, *World of Warcraft Terms of Use*, BLIZZARD ENTERTAINMENT, http://us.blizzard.com/en-us/company/legal/wow_tou.html (last visited Mar. 10, 2011).

²⁶ *E.g.*, MICROSOFT SOFTWARE LICENSE TERMS, MICROSOFT OFFICE 2010 DESKTOP APPLICATION SOFTWARE 5 (last visited Mar. 10, 2011), available at http://download.microsoft.com/download/1/6/6/16630C2A-E42E-4A07-BB92-1DB5563634D9/Microsoft%20Office%202010%20pdf/clientallup_eula_english.pdf.

²⁷ *See id.* (allowing for automatic updates).

²⁸ *Id.* at 8–9.

²⁹ Copyright Act of 1976, 17 U.S.C. §§ 101–810 (2006).

³⁰ O'Rourke, *supra* note 22, at 490–492.

³¹ 17 U.S.C. § 107 (2006).

³² For a paper that addresses the role of preemption in overriding license terms that prohibit fair use, *see generally* O'Rourke, *supra* note 22.

defense claims of copyright misuse, the unconscionability doctrine, and fair use.³³

¶18 The copyright misuse claim prohibits companies from leveraging copyright power to create a monopoly in another market.³⁴ Unfortunately, this defense's prevention of copyright enforcement of license terms is limited. Copyright misuse is rooted in antitrust principles³⁵ and simply would not apply to the large number of cases where rightsholders try to use copyright to enforce license terms that are not anti-competitive. Furthermore, even in the antitrust context, the counterclaim of copyright misuse is "weakened by the controversies and lack of doctrinal cohesion that plague antitrust laws in general,"³⁶ and is "more difficult to apply than the doctrine of preemption."³⁷ Although misuse is a potentially powerful tool, it has limited applicability in most circumstances.

¶19 Under the doctrine of unconscionability, a court may void a contract if it is "unfair or oppressive because of procedural abuses during contract formation or because of overreaching contractual terms, esp[ecially] terms that are unreasonably favorable to one party while precluding meaningful choice for the other party."³⁸ Although this doctrine "has proved its worth as a roving consumer protection measure, [] it has yielded less satisfactory and more controversial results in other settings, especially . . . transactions between merchants."³⁹ Unconscionability is also a state doctrine, which means that the enforceability of a particular contract may vary from state to state. Egregiously unfair contracts can be struck down, but the limited use of the doctrine in most cases and state-to-state variance limit this remedy's ability to deal with the more general problem of copyright enforcement of license terms.

³³ Preemption was another potentially powerful defense, especially in fair use/reverse engineering cases, but "most courts and many commentators have rejected preemption as the appropriate doctrinal tool for addressing challenges to these provisions." Viva R. Moffat, *Super-Copyright: Contracts, Preemption, and the Structure of Copyright Policymaking*, 41 U.C. DAVIS L. REV. 45, 45 (2007). Further analysis of the preemption issue is beyond the scope of this paper.

³⁴ Jennifer R. Knight, *Copyright Misuse v. Freedom Of Contract: And The Winner Is*, 73 TENN. L. REV. 237, 240 (2006).

³⁵ J.H. Reichman & Jonathan A. Franklin, *Privately Legislated Intellectual Property Rights: Reconciling Freedom Of Contract With Public Good Uses Of Information*, 147 U. PA. L. REV. 875, 922 (1999).

³⁶ *Id.* at 924. One of these problems is the current circuit split over whether copyright misuse itself is a valid defense. Knight, *supra* note 34, at 266.

³⁷ Reichman & Franklin, *supra* note 35, at 922–23.

³⁸ *Unconscionability Definition*, BLACK'S LAW DICTIONARY (9th ed. 2009).

³⁹ Reichman & Franklin, *supra* note 35, at 927–28.

¶20 Fair use, the “duct tape of the copyright system,”⁴⁰ is an expensive affirmative defense⁴¹ that excuses copyright infringement in certain public interest cases.⁴² It is difficult to determine, without specific facts, whether a fair use defense will succeed, and the licensees in these cases face uphill battles—they agree to license terms and subsequently argue that it is fair use to violate. This stance, coupled with the expense of the defense, would probably limit fair use defenses to a handful of cases clustered around certain public policy interests like promoting reverse engineering.⁴³

E. Future Problems with Licenses

¶21 Products like garage openers⁴⁴ and printers,⁴⁵ into which software has been incorporated, are universally available and could easily be subject to licensing issues. If noninfringing use of the software hinged on a license, and use of the physical product required use of the software, then failure to abide by the license at some point in the product’s life cycle (for example, when one purchases a generic replacement part) could make the use of the product an infringement of copyright. This result seems ridiculous, but the scenario is only one step away from the current suits where rightsholders try to enforce license terms through copyright.

II. CIRCUIT SPLIT: SENSIBLE OWNERS AND A NEXUS TO COPYRIGHT

¶22 Circuit courts have developed new legal theories to stop licensors from using copyright to enforce non-copyright terms.

¶23 One of the first cases to address this issue was *Krause v. Titleserv, Inc.*⁴⁶ Krause, the author of several computer programs, got into a dispute with his employer, Titleserv, and forbade it from modifying the source code of his programs, effectively making the programs useless.⁴⁷ Titleserv

⁴⁰ JAMES BOYLE, *THE PUBLIC DOMAIN: ENCLOSING THE COMMONS OF THE MIND* 120 (2008).

⁴¹ Fred H. Cate, *The Technological Transformation of Copyright Law*, 81 IOWA L. REV. 1395, 1457–58 (1996).

⁴² 17 U.S.C. § 107 (2006).

⁴³ See, e.g., *Sega Enters. v. Accolade, Inc.*, 977 F.2d 1510, 1523 (9th Cir. 1992) (arguing that reverse engineering for the purpose of compatibility served the goals “the Copyright Act was intended to promote”).

⁴⁴ E.g., *Chamberlain Grp., Inc. v. Skylink Techs., Inc.*, 381 F.3d 1178 (Fed. Cir. 2004).

⁴⁵ E.g., *Lexmark Int’l, Inc. v. Static Control Components, Inc.*, 387 F.3d 522 (6th Cir. 2004).

⁴⁶ *Krause v. Titleserv, Inc.*, 402 F.3d 119 (2d Cir. 2005).

⁴⁷ See *id.* at 121 (“Inability to modify the source code would have severely limited the value of those programs to Titleserv. Many routine functions, such as the addition of a new customer or a change of a customer address, could be

modified the source code anyway, and Krause sued for copyright infringement because copies and derivative works were created in this process.⁴⁸ Titleserv argued that its actions were allowed under 17 U.S.C. § 117, and that it owned the copies of the programs it had modified because it paid Krause a considerable sum to develop them and had an undisputed right to use them indefinitely.⁴⁹

¶24 The Second Circuit resolved this dispute by clarifying the definition of “owner” in § 117(a).⁵⁰ The court noted that the original drafted language for § 117(a)—“rightful possessor”—was incredibly broad, and suggested that Congress’s shift to “owner” was an attempt to rein in, but not completely restrict, the application of this clause.⁵¹ Furthermore, the question of whether formal title was granted would typically be a state law issue, and it would undermine the uniformity of copyright to construe § 117(a) as hinging on state law.⁵² Finally,

it seems anomalous for a user whose degree of ownership of a copy is so complete that he may lawfully use it and keep it forever, or if so disposed, throw it in the trash, to be nonetheless unauthorized to fix it when it develops a bug, or to make an archival copy as backup security.⁵³

¶25 For these reasons, the court held that § 117(a) ownership should hinge on “whether the party exercises sufficient incidents of ownership over a copy of the program to be sensibly considered the owner of the copy for purposes of § 117(a).”⁵⁴ Here, “Titleserv’s right, for which it paid substantial sums, to possess and use a copy indefinitely without material restriction, as well as to discard or destroy it at will, gave it sufficient incidents of ownership to make it the owner of the copy for purposes of applying § 117(a).”⁵⁵ Even though it had licensed the software from its

performed only by changing the source code. In addition, changes were required to fix bugs from time to time to keep the system from crashing.”).

⁴⁸ *Id.*

⁴⁹ *Id.* at 122.

⁵⁰ *Id.* at 121–122.

⁵¹ *Id.* at 122–123.

⁵² *Id.* at 123.

⁵³ *Id.*

⁵⁴ *Id.* at 124.

⁵⁵ *Id.* at 124–25. In its opinion, the court “considered” a few additional factors: “Titleserv paid Krause substantial consideration to develop the programs for its sole benefit. Krause customized the software to serve Titleserv’s operations. The copies were stored on a server owned by Titleserv. Krause never reserved the right to repossess the copies” *Id.* at 124.

employee, as an owner under § 117(a), Titleserv could not be liable in copyright for violating non-copyright license terms.⁵⁶

¶26 The Ninth Circuit has taken a different approach. In *MDY v. Blizzard*,⁵⁷ MDY argued, like Titleserv, that the licensor's use of the game was protected by § 117.⁵⁸ This assertion was not accepted by the court, however, because the defense was effectively eliminated in an earlier Ninth Circuit case, *Vernor v. Autodesk, Inc.*⁵⁹ There, the court held that a software transfer is a license, rather than a sale, when the license "(1) specifies that the user is granted a license; (2) significantly restricts the user's ability to transfer the software; and (3) imposes notable use restrictions."⁶⁰

¶27 Here, Blizzard specified that the user is granted a license, required transferees to transfer all original documentation and accept Blizzard's license (transfer restrictions), and reserved the right terminate service if a player violated the terms of use (use restrictions).⁶¹ As such, Blizzard's transfers were licenses, and § 117(a) did not apply.⁶²

¶28 Determining whether users are owners did not end the inquiry into whether there was direct infringement. The court noted⁶³ that "[t]o recover for copyright infringement based on breach of a license agreement, (1) the copying must exceed the scope of the defendant's license and (2) the copyright owner's complaint must be grounded in an exclusive right of copyright (e.g., unlawful reproduction or distribution)."⁶⁴ To prevent

⁵⁶ 17 U.S.C. § 117(a). The court subsumed the unauthorized copies analysis into unauthorized modification analysis, and the rest of the opinion is devoted to whether Titleserv's modifications fell under § 117(a). *Titleserv*, 402 F.3d at 125–130.

⁵⁷ *MDY Indus., LLC v. Blizzard Entm't, Inc.*, 629 F.3d 928 (9th Cir. 2010).

⁵⁸ *Id.* at 937.

⁵⁹ *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010).

⁶⁰ *Id.* at 1111.

⁶¹ *MDY Indus., LLC*, 629 F.3d at 938–39.

⁶² *Id.* at 939.

⁶³ It is unclear whether this language—or the language that follows—is dicta. Immediately prior to this analysis, the court held that Blizzard's "prohibitions against bots and unauthorized third-party software are covenants rather than copyright-enforceable conditions." *Id.* at 939–40. As covenants, their breach "is actionable only under contract law." *Id.* at 939. It is hard to see how this does not definitively resolve the issue. Furthermore, later in the opinion, the court treats the contract/covenant analysis as dispositive: "We have explained that [Blizzard's] bot prohibition is a license covenant rather than a condition. Thus, a Glider user who violates this covenant does not infringe by continuing to copy code into RAM." *Id.* at 954. As such, the court's "nexus of copyright" language is probably technically dicta, but, given the amount of time the court spent on the issue, extremely persuasive.

⁶⁴ *Id.* at 940. This is also the view espoused by Nimmer:

copyright holders from using copyright law to enforce their license terms, the court went one step further.⁶⁵ “for a licensee’s violation of a contract to constitute copyright infringement, there must be a nexus between the [contract] condition and the licensor’s exclusive rights of copyright.”⁶⁶

¶29 Here, the license provision that WoW players had violated was one that prohibited cheating through unrelated add-on software. The activity Blizzard was trying to regulate through this clause did not affect any of Blizzard’s copyrights under § 106, so the violation of the clause could not be enforced through copyright.⁶⁷ As a result, there was no copyright infringement, and MDY was not secondarily liable.⁶⁸

If the grantee’s violation consists of a failure to satisfy a condition to the grant (as distinguished from a breach of a covenant), it follows that the rights dependent on satisfaction of that condition have not been effectively granted, rendering any use by the grantee without authority from the grantor. The legal consequence is that the grantee’s conduct¹⁰ may constitute copyright infringement.

3-10 MELVIN B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT §10.15[A][2] (2010). Furthermore, “[t]o be actionable as infringement, the conduct must implicate one of the copyright owner’s enumerated rights.” *Id.* at n.10.

⁶⁵ *MDYIndus., LLC*, 629 F.3d at 941 (“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.”).

⁶⁶ *Id.*

⁶⁷ *Id.* at 941.

⁶⁸ *Id.* The Federal Circuit, the only other circuit to explicitly address this issue, has taken a slightly different approach. Dealing first with the question of whether a licensee can use 17 U.S.C. § 117(a), the Federal Circuit held that a transfer was a license if it “imposed more severe restrictions on [the licensee’s] rights . . . than would be imposed on a party who owned copies of the software subject only to the rights of the copyright holder under the Copyright Act.” *DSC Commc’n Corp. v. Pulse Commc’n, Inc.*, 170 F.3d 1354, 1360 (Fed. Cir. 1999). As a result, a license that prohibited transfer and restricted the buyer from using the software on third-party hardware constituted a license, not a sale. *Id.* at 1360–63. However, like the Ninth Circuit, the Federal Circuit then turns to the two-step analysis of whether the defendant’s actions were both 1) outside the scope of the license and 2) within copyright. *Storage Tech. Corp. v. Custom Hardware Eng’g & Consulting, Inc.*, 421 F.3d 1307, 1315–16 (Fed. Cir. 2005).

III. THE DIFFERENCE BETWEEN THE TWO APPROACHES

¶30 Although both the Ninth and Second Circuits prevented content creators from enforcing their licenses through copyright, they chose different approaches. The Ninth Circuit's approach is better supported by the legislature, clearer, and better able to stop future content creators from using copyright to enforce their licenses.

A. Legislative Support

¶31 The statutory language and legislative history of 17 U.S.C. § 117 strongly support the Ninth Circuit's approach. A buyer qualifies as an owner for the purposes of § 117(a) under very limited circumstances: when he has been granted title, or when his use or transfer of the copy is unrestricted.⁶⁹ Conversely, the Second Circuit considers almost every licensee an owner. Although the court purports to limit owners under § 117(a) to those with the right to possess and use their software "without material restriction,"⁷⁰ a closer examination reveals that this condition has little practical effect. In *Titleserv*, the licensee was prohibited from modifying the software's source code, which, in the court's own language, "would have severely limited the value of those programs"⁷¹ If a limitation that prevents the licensee from doing basic, essential tasks (such as adding customers) in his program is not a material restriction, it is unclear if anything qualifies as such.⁷² As a result, a buyer is an owner for the purposes of § 117(a) when he pays for the software and has the right to possess and use copies of the programs forever or destroy them at will.⁷³

¶32 The statutory language better supports the Ninth Circuit's approach. Section 117(a) protects "owners," not "licensees." The Second Circuit's expansive definition of "owner" practically eliminates the distinction between the two. Furthermore, Congress's use of both "owner"⁷⁴ and "lessee"⁷⁵ in the copyright statute demonstrates that it was quite capable of making this distinction if it wanted to do so. The Second Circuit's expansive definition of "owner" appears to be unjustified.

⁶⁹ *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1111 (9th Cir. 2010).

⁷⁰ *Krause v. Titleserv, Inc.*, 402 F.3d 119, 124–25 (2d Cir. 2005).

⁷¹ *Id.* at 121.

⁷² *Id.* at 124–25.

⁷³ *Id.*

⁷⁴ *See, e.g.*, 17 U.S.C. § 117(a) ("[I]t is not an infringement for the *owner* of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program" (emphasis added)).

⁷⁵ *See, e.g.*, 17 U.S.C. § 117(c) ("[I]t is not an infringement for the owner or *lessee* of a machine to make or authorize the making of a copy of a computer program" (emphasis added)).

¶33 The Second Circuit's approach is further discredited by legislative history. One point is clear: The National Commission on New Technological Uses of Copyrighted Works (CONTU) drafted § 117(a) to protect "rightful possessors."⁷⁶ Without comment, Congress adopted almost all of CONTU's suggested language—but changed "rightful possessors" to "owners."⁷⁷ Some commentators have suggested that this change was a typo,⁷⁸ while the Second Circuit has argued that Congress merely wanted more restrictive language that would prevent "a messenger delivering a program, a bailee, or countless others temporarily in lawful possession of a copy" from taking advantage of § 117(a).⁷⁹

¶34 It is likely that Congress did not want § 117(a)⁸⁰ to be available to all rightful possessors, and there is no evidence that it wanted to adopt the Second Circuit's approach and open § 117(a) to the largest category of software users—licensees. Software licenses were common when the law was revised,⁸¹ and if Congress intended to limit § 117(a)'s reach yet still allow licensees to use it, it seems much more likely that Congress would have used the phrase "owners or lessee"⁸² as it did in § 117(c). This choice is especially significant because § 117(c) was adopted after § 117(a), and also after the MAI case that created this potential problem.⁸³ The fact that Congress could have but did not mention lessees, and instead focused on owners, strongly supports the Ninth Circuit's approach.

⁷⁶DSC Commc'n Corp. v. Pulse Commc'n, Inc., 170 F.3d 1354, 1360 (Fed. Cir. 1999).

⁷⁷*Id.*

⁷⁸Katrine Levin, *Intellectual Property Law: Mai v. Peak: Should Loading Operating System Software Into RAM Constitute Copyright Infringement?*, 24 GOLDEN GATE U. L. REV. 649, 676 (1994).

⁷⁹Krause v. Titleserv, Inc., 402 F.3d 119, 123 (2d Cir. 2005).

⁸⁰17 U.S.C. § 117(a). The statute reads as follows:

Notwithstanding the provisions of section 106 [17 USCS § 106], it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided:

(1) that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner, or

(2) that such new copy or adaptation is for archival purposes only and that all archival copies are destroyed in the event that continued possession of the computer program should cease to be rightful.

⁸¹Levin, *supra* note 78, at 674.

⁸²17 U.S.C. § 117(c).

⁸³Mark A. Lemley, *Cultural Environmentalism @ 10: Should A Licensing Market Require Licensing?*, 70 LAW & CONTEMP. PROB. 185, 200 n.85 (2007).

B. Certainty and Ambiguity

¶35 The Ninth Circuit's approach provides more certainty than that of the Second Circuit with regard to determining whether a license term can be enforced through copyright. Under the Ninth Circuit's approach, a license term will be enforced through copyright if the software transfer is a license, rather than a sale, and if there is a nexus between the license term regulating an activity and copyright.⁸⁴

¶36 It is important to note that the first inquiry (whether there is a license or a sale) is irrelevant. If the transfer is a sale, the buyer can only be sued under copyright for acts that violate the rightsholder's copyright, such as permanent copying or derivative works. If the transfer is a license, the licensee can only be sued under copyright for violating license terms that protect the rightsholder's copyrights, such as a prohibition on creating permanent copies or derivative works. Thus, a court adhering to the Ninth Circuit's approach need only ask whether there is a nexus between the term and the content creator's copyright. This is a relatively straightforward inquiry that leaves little room for ambiguity. It is, therefore, easy under the Ninth Circuit's doctrine for rightsholders and consumers to determine whether a license term can be enforced through copyright.

¶37 The Second Circuit's test, on the other hand, is weighed down by ambiguous language and an uncertain standard. *Titleserv* proposed that a transferee does not violate copyright for transitory copies of software programs, even if they are created without the copyright holder's permission, if the transferee "exercises sufficient incidents of ownership over a copy of the program to be sensibly considered the owner."⁸⁵ This language, especially the words "sufficient" and "sensibly considered" provides little guidance to rightsholders and consumers to determine whether a particular license can be enforced through copyright.

¶38 Furthermore, the Second Circuit's elaboration of this test provides little clarification. In *Titleserv*, the court initially "considers" a wide variety of factors in determining whether the defendants were sensibly considered owners—some of which would be fairly restrictive (such as *Titleserv*'s substantial expenditures to *develop* the software in question).⁸⁶ The court's final holding, however, seems to encompass a much broader set of circumstances (paying for the right to "use and possess" the software).⁸⁷ As a result, it is unclear whether subsequent cases will adopt *Titleserv*'s broad or narrow interpretation, creating further ambiguity around the question of

⁸⁴ MDY Indus., LLC v. Blizzard Entm't, Inc., 629 F.3d 928, 938–41 (9th Cir. 2010).

⁸⁵ Krause v. Titleserv, Inc., 402 F.3d 119, 124 (2d Cir. 2005).

⁸⁶ *Id.* at 124.

⁸⁷ *Id.* at 124–25.

when license terms can be enforced through copyright in the Second Circuit.

C. Solving the Problem: Preventing Copyright Holders From Enforcing Contract Terms Through Copyright

¶39 Although there is little difference between the two Circuits in their ability to prevent copyright holders from enforcing contract terms through copyright, the Ninth Circuit's approach is still preferable because it is more difficult to circumvent.

¶40 In the Second Circuit, most license holders will probably be considered owners for the purposes of § 117(a).⁸⁸ As a result, they cannot be held liable in copyright for the temporary copies their software produce incidental to running. They can, however, be held liable for any other copyright-significant act—the creation of permanent copies or derivative works.

¶41 In the Ninth Circuit, most software transferees will probably be considered licensees, not owners. These licensees, however, can only be sued in copyright for violating a license term that is tied to a copyright, such as the creation of permanent copies or derivative works. They cannot be sued in copyright just for the temporary copies their software produce incidental to running, even if they lack the copyright holder's permission. Under both Circuits' approaches, then, license terms that do not protect a copyright cannot be enforced through copyright—in the Second Circuit, because licensees are considered owners, and in the Ninth Circuit, through judicial rulemaking.

¶42 While these results are similar, there remains one crucial difference between the two approaches: the Second Circuit's test is far easier to circumvent. The Ninth Circuit, in *MDY*, has explicitly created a rule against rightsholders using copyright to enforce non-copyright terms,⁸⁹ and has based this rule in unequivocal policy arguments that copyright should not be expanded by contract.⁹⁰ Even if a rightsholder were somehow able to circumvent the exact language of *MDY*, a future court would be guided by *MDY*'s policy rationale to prevent that rightsholder from enforcing a contract term through copyright. *Titleserv* has no such explanation, and the test that it uses—"sufficient incidents of ownership" to "be sensibly considered the owner"⁹¹ of a software copy—is based on technicalities that could be easily circumvented by an entrepreneurial rightsholder who adds the requirement that the software be returned after use.

⁸⁸ See *supra* ¶31.

⁸⁹ *MDY Indus., LLC*, 629 F.3d at 940.

⁹⁰ *Id.* at 941.

⁹¹ *Krause*, 402 F.3d at 124.

CONCLUSION

¶43 As software and the practice of software licensing continue to develop, courts will have to formulate new rules to prevent rightsholders from enforcing their contracts through copyright. Two courts, the Ninth Circuit and the Second Circuit, have both faced this problem head on, and each has developed its own response. These two responses, however, are not equal. The Second Circuit tries to sidestep the heart of the issue by adhering to a technical definition of “owner,” and in doing so, creates a rule that is unsupported by the legislature, ambiguous, and easy to circumvent. The Ninth Circuit directly faces the question of when to enforce license terms through copyright by using a new rule that is easy to apply and difficult to avoid. Going forward, it is important for courts to understand the approaches taken by these circuit courts and the merits of each, and ultimately to better develop their own responses to rightsholders that try to enforce their license terms through copyright.