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***317 MDY INDUSTRIES, L.L.C. v. BLIZZARD ENTERTAINMENT, INC.: SOFTWARE “CONTRACTS” THAT EXPAND COPYRIGHTS HAVE GONE TOO FAR**

Jordan Christopher Redman [FN1]

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ABSTRACT: The recent decision in *MDY Industries, LLC. v. Blizzard Entertainment, Inc.* [FN1] is a setback for copyright law. In this case, MDY Industries, L.L.C., an Arizona Limited Liability Company, created a “bot” software program that works in coordination with Blizzard’s Massively-Multiplayer Online Role-Playing Game, World of Warcraft (WoW). Blizzard’s End-User License Agreement (EULA) and Terms of Use (TOU) for WoW, which all users must adhere to before installing WoW, insist that purchasers of the game may not install any third-party software which can be used in conjunction with WoW unless Blizzard authorizes such use. After agreeing to the EULA and TOU, some users installed Glider, MDY’s third-party software to use with WoW, leading Blizzard to give MDY an ultimatum--stop the sale of MDY’s Glider software, or Blizzard would file a lawsuit against MDY on multiple claims. MDY declined the offer and preemptively filed a declaratory judgment action in Arizona, claiming that the offer and sale of Glider did not infringe any of Blizzard’s rights. The Arizona court granted summary judgment in favor of Blizzard on its tortious interference claim, which may have been proper. But the court also granted Blizzard summary judgment on its copyright claims, and this could lead to disastrous results not only for copyright law, but for users of software generally and third-party software developers. The key issue in the decision was whether users of the WoW software were “owners” of the software, or mere “licensees.” The court ruling that the users were “licensees” inappropriately allows the EULA and TOU, contracts governed by state law, to supersede federal copyright law. Section 109 and section 117 of the *318 U.S. Copyright Act give users who purchase software the status of “owner” with respect to the copies they own. In addition, policy strongly supports treating these users as “owners.” Allowing contract to determine the owner or licensee issue for mass-marketed products would essentially allow the manufacturer of any such product containing software that is reexecuted on each use to regulate the use of the product by copyright law, whether or not the use in question violates any of the exclusive rights of copyright. For these reasons, the MDY court improperly decided this case, with potentially broad, detrimental repercussions.

CITATION: Jordan Christopher Redman, Note, *MDY Industries, L.L.C. v. Blizzard Entertainment, Inc.:* Software “Contracts” That Expand Copyrights Have Gone Too Far, 49 Jurimetrics J. 317-342 (2009).

In *MDY Industries, L.L.C. v. Blizzard Entertainment, Inc.*, [FN2] the United States District Court for the District of Arizona granted summary judgment on copyright claims in favor of Blizzard Entertainment, Inc. (Blizzard). Blizzard is the creator of the popular Massively-Multiplayer Online Role-Playing Game, World of Warcraft (WoW). MDY Industries, L.L.C, is the creator of a third-party software program that interacts with WoW. [FN3] The central issue was whether a violation of non-copyright-related terms in an End User License

Agreement (EULA) and Terms of Use Agreement (TOU) terminated the user's license to load the game software into random-access memory (RAM), so that further play constituted copyright infringement. [FN4] The court determined that user play in violation of the EULA and TOU was copyright infringement, making MDY liable for contributory and vicarious copyright infringement. [FN5] The court also held MDY liable for tortious interference with contract. The court's determination that WoW users are "licensees," rather than "owners" of their copies of WoW, however, is inconsistent with the federal Copyright Act of 1976. The court, moreover, failed to consider the policy ramifications of its decision.

The Copyright Act of 1976 [FN6]--federal legislation authorized by the Copyright Clause of the United States Constitution [FN7]--was passed to (1) reward authors who contribute their intellectual works to society, and (2) to "foster the creation and dissemination of intellectual works for the public welfare." [FN8] The Act grants copyright protection to "original works of authorship fixed in any tangible medium of expression." [FN9] Since the inception of this latest, comprehensive copyright legislation, the packaged software industry has seen revenue *319 grow substantially to an estimated \$179 billion in 2004. [FN10] In 1974, in anticipation of modernizing federal copyright law, Congress established a National Commission on New Technological Uses of Copyrighted Works (CONTU) [FN11] that studied computers and copyrights in order to make recommendations to Congress concerning the protection of computer programs. The House Report to the 1976 Copyright Act made it clear that computer programs were meant to be included under copyright protection, and CONTU recommended that Congress maintain this approach. [FN12]

Although computer programs are now granted copyright protection, the battle was not won for software developers. The Ninth Circuit Court of Appeals held in 1993 that copying software code into Random Access Memory (RAM) constituted making a copy, [FN13] which meant that the unauthorized usage of any computer program would inevitably result in copyright infringement. But the 1980 amendment to the Copyright Act allows "the owner of a copy of a computer program" to make a copy of that software so long as creation of the copy is an "essential step in the utilization of the computer program." [FN14] In response, copyright owners began drafting "licenses," or End User License Agreements (EULAs), authorizing users to make copies in RAM without threat of infringement if the users adhered to specific provisions. These EULAs were designed to supplant users' copyright rights by treating users who buy software as "licensees" and not "owners." The programs themselves required that the end user click a box on his or her computer screen, thereby assenting to the terms before the programs would place a copy into RAM, which is an essential step for the program to run.

Courts have split on whether the purchaser of software containing a license agreement is an owner, and thereby allowed under the 1980 amendment to the Copyright Act to make copies to utilize the program, [FN15] or a licensee, and thereby held to the EULA created by the developer. [FN16] This distinction is crucial*320 to copyright law, as EULAs can be drafted to include virtually any provision imaginable, with the stipulation that, as a licensee, a user may not copy the software underlying the EULA into RAM unless the user consents to *all* terms of the EULA, including terms that have nothing to do with copyright.

For strong policy reasons, acquiring a particular copy of software by paying money at a software store, or by downloading it online, should result in a purchase of the software, making the purchaser the owner of the copy of the software, and should not result merely in a license. These purchasers still will be contractually bound to the EULA terms. But allowing copying to be contingent on assent to these terms, and then calling continued play in breach of these terms copyright infringement, will have dire consequences on the software industry, end users, and copyright law as a whole. These EULAs can be drafted very broadly, including eliminating all of the users' rights under copyright law, such as the right to make use of ideas found in the work and the right to make

a fair use of the work. It is difficult to believe that Congress intended software developers to have the ability to make people who acquire software copies on a mass market, pursuant to a one-time payment with no durational limit on possession, mere licensees. Such an interpretation restricts the scope of the rights users otherwise have under the Copyright Act. Furthermore, the problem is not limited to the arena of computer games or the voluntary elimination of users' rights by copyright owners. If the reasoning of *MDY* is upheld, the use of any product containing software that must be rebooted upon use--including automobiles and household appliances--can be controlled by a EULA whose breach makes the user a copyright infringer.

Part I of this note explains the facts, reasoning, and holding of *MDY Industries, L.L.C. v. Blizzard Entertainment, Inc.*, [FN17] and discusses the court's view of copyright law as applied to this case with respect to applicable precedent. Part II explains that WoW users are in fact "owners" of their copies of WoW, and not merely "licensees." This is so because: (1) the question of whether someone is an owner or a licensee is a matter of federal copyright law, not state contract law, and the relevant federal law and policy are consistent with viewing purchasers as owners; (2) sections 109 and 117 of federal copyright law expressly give "owners" certain rights with respect to the copies they own; (3) allowing the EULA and TOU to govern in the case of software like WoW, which cannot be used for its intended purpose by anyone anywhere in the world who does not agree to the EULA and TOU, allows one state's contract law wholly to supersede federal copyright law on these user rights of copyright; and (4) if the *MDY* decision is allowed to stand, manufacturers of any product containing software that is rebooted upon each use can regulate the use of the product not simply by contract, as has been done throughout history, but now by copyright law. This would be an untoward expansion of copyright that has never been expressly approved by Congress and for which *321 we have utterly no evidence of congressional intent. For multiple reasons the court in *MDY* erred.

I. *MDY INDUSTRIES, L.L.C. V. BLIZZARD ENTERTAINMENT, INC.* [FN18]

MDY Industries, L.L.C., an Arizona Limited Liability Company, filed a declaratory judgment action claiming that the offer and sale of Glider did not infringe any of Blizzard's rights. [FN19] But the United States District Court for the District of Arizona granted Blizzard summary judgment [FN20] on its contributory and vicarious copyright infringement claims [FN21] and on a state-law tortious interference claim. [FN22]

A. Facts of the Case

In November of 2004, Blizzard Entertainment, Inc. and Vivendi Games, Inc. (Blizzard) created a Massively-Multiplayer Online Role-Playing Game named World of Warcraft (WoW), which allows players to create characters in an online, virtual world and interact with other players who also create characters. [FN23] WoW has become immensely popular, having gained a total of 10 million subscribers as of January 2008. [FN24] With the help of other online players, a WoW player amasses weapons, talents, and experience along a gaming journey from level 1 to level 70. [FN25] Players become subscribers to WoW by purchasing the client-side software from either a retail store or on Blizzard's website, and accepting clickwrap agreements--TOU and EULA agreements--which are displayed to the player as a requirement to install the client-side software on a personal computer. [FN26] These clickwrap agreements detail very specific requirements a purchaser must follow before installation, and the first paragraph of the EULA explicitly states: "IF YOU DO NOT AGREE TO THE TERMS OF THIS AGREEMENT, YOU ARE NOT PERMITTED TO INSTALL, COPY, OR USE THE GAME." [FN27] Then, even after purchasing the *322 game and assenting to the TOU and EULAs, a user is required to pay a \$14.95 monthly fee before logging onto a server to play the game and becoming a member of the world's

largest online gaming community. [FN28]

Given the popularity of WoW and the somewhat tedious aspects of some game play, [FN29] third-party developers started to create software programs to automate some of the more repetitious aspects for paying users. Michael Donnelly, for example, founder of MDY Industries, L.L.C. (MDY), [FN30] developed a software program, known as a “bot,” short for robot, called WoWGlider (Glider). [FN31] Glider automates some of the monotonous phases of WoW, so that a user is able to acquire resources and experience while not at the computer. Hence, Glider lets a player attain levels more efficiently and quickly without spending time at the computer. MDY started selling Glider software to users in 2005, and by the time of filing had sold more than 100,000 copies. [FN32]

Blizzard was not happy with the popularity of MDY's software, believing the “bot” cost Blizzard subscribers and, ultimately, revenue. According to Blizzard, Glider upsets the careful balance of the WoW environment and frustrates users who are not using Glider. [FN33] In essence, Blizzard claims that Glider gives users an unfair advantage, akin to that of “cheating,” which has led to a decline in new subscribers, cancellation of current subscribers, and an overall loss of revenue. [FN34]

MDY, on the other hand, asserts that Glider enhances the game experience for users. [FN35] It does so by allowing users to complete the repetitive tasks more easily and allows some disabled users to play WoW. [FN36] Also, MDY claims that Glider has a negligible economic effect on WoW and that users of Glider are a minute fraction of the millions of WoW players. [FN37] Lastly, MDY “characterizes itself as an innovator and entrepreneur, and claims that Blizzard seeks improperly to use the copyright laws to squelch competition and stifle innovation.” [FN38]

On October 25, 2006, Blizzard informed MDY's Donnelly that his production and sale of Glider for use with WoW violated Blizzard's rights. [FN39] Blizzard gave MDY an ultimatum--stop the sale of MDY's Glider software, *323 or Blizzard would file a lawsuit against MDY on multiple claims. [FN40] MDY declined the offer and preemptively filed a declaratory judgment action in Arizona, claiming that the offer and sale of Glider did not infringe any of Blizzard's rights. [FN41]

Blizzard answered and counterclaimed asserting several causes of action. This note analyzes three such claims: tortious interference with contract, contributory copyright infringement, and vicarious copyright infringement. [FN42] Blizzard and MDY each moved for summary judgment on all of the claims. [FN43]

B. Reasoning of the Court

1. Tortious Interference with Contract Claim

Blizzard alleged that MDY committed tortious interference with the contract between WoW users and Blizzard with respect to Blizzard's WoW product, [FN44] and the Arizona court agreed. [FN45] The contracts at issue were the EULA and TOU, which, according to Blizzard, were breached by users when purchasing and using Glider as part of WoW game play. [FN46] In order to establish tortious interference, the court applied a four-part test: “Blizzard must show: (1) a valid contractual relationship exist[ed] between Blizzard and its customers, (2) MDY kn[ew] of the relationship, (3) MDY ha[d] intentionally and improperly interfered in the relationship and caused a breach or termination of the relationship, and (4) Blizzard ha[d] been damaged as a result.” [FN47]

There was no dispute about the first two elements, so the court analyzed whether MDY's actions were improper and whether Blizzard had been damaged as a result of the users' contractual breach. [FN48] MDY argued that Blizzard showed no evidence of damage to Blizzard caused by MDY's conduct. [FN49] The court disagreed with MDY, pointing to Blizzard's evidence that Glider consumed more resources in WoW than any other "bot" program, and that users were cancelling subscriptions because of Glider's presence in the game. [FN50] Therefore, the court concluded that "MDY's contention that Blizzard can present no evidence of harm is without merit." [FN51]

*324 The remaining issue regarding liability for tortious interference with contract was whether MDY's actions were improper. The court applied Arizona's test from *Restatement (Second) of Torts § 767*. [FN52] That test identifies seven factors in finding improper action. [FN53] In analyzing these factors, the MDY court concluded that a reasonable jury could not find that MDY acted properly. [FN54]

Under the test, a court looks first to the nature of the defendant's conduct. [FN55] The MDY court pointed to undisputed facts that MDY "knowingly aid[ed] WoW players in breaching their contracts with Blizzard." [FN56] Second, the court considered the defendant's motive; [FN57] here MDY's clear motive was profit. [FN58] Third, regarding the interests of the plaintiff with which the conduct interferes, [FN59] the MDY court reasoned that "Blizzard's interests are fully deserving of the protection the law affords legitimate contracts." [FN60] Fourth, the court examined the interests sought to be advanced by the defendant. [FN61] The MDY court reasoned that even though MDY exercised considerable programming talent to create an innovative product, Glider's success is expressly contingent on WoW's success. [FN62] The fifth factor examines the social interests in protecting the freedom of action of the defendant and the contractual interests of the plaintiff. [FN63] The MDY court reasoned this factor balanced in WoW's favor, and not in favor of promoting competition, because MDY is not a competitor, but just an exploiter of the WoW software. [FN64] The sixth factor concerns the proximity or remoteness of the defendant's conduct to the interference. [FN65] The MDY court found a direct link between MDY's "development, marketing, and sale of Glider" and the breach of the contract. [FN66] Finally, the court examined the relationship between the parties. [FN67] The MDY court reasoned that MDY and Blizzard were not competitors, and therefore MDY's only relationship was exploitation for a commercial advantage. [FN68]

*325 Therefore, applying all seven of the *Restatement* factors, the court granted summary judgment in favor of Blizzard with respect to MDY's tortious interference with contract. [FN69]

2. Contributory and Vicarious Copyright Infringement Claims

Blizzard also alleged that MDY committed contributory and vicarious copyright infringement of its WoW copyright. [FN70] Under the MDY court's language, a person who "intentionally induc[es] or encourage[es] direct infringement" [FN71] commits contributory copyright infringement. A person who "profit[s] from direct infringement while [failing] to exercise a right to stop or limit it" [FN72] commits vicarious infringement. Showing direct infringement is essential to a showing of both contributory and vicarious infringement.

Direct copyright infringement, in turn, involves a two-prong test. First, the party claiming infringement must show ownership of the copyright in question. [FN73] Second, the party claiming infringement must show that at least one of the party's rights afforded under the Copyright Act has been violated by the alleged infringer. [FN74]

The first prong of the direct infringement test was not contested, as both parties agreed that Blizzard owned a valid copyright in WoW. [FN75] On the crucial second prong, Blizzard argued that WoW players, who necessarily agreed to the provisions of the EULA and TOU, were licensees, and not owners of the copies of WoW software in their possession. As such, they were allowed to make copies of the game into RAM, which was necessary every time they played the game, only if they complied with the terms of the license. [FN76] Therefore, according to Blizzard, once Glider was installed and accessed by these WoW licensees, any copying of WoW into RAM was direct copyright infringement because playing WoW with Glider revoked the license. The EULA and TOU expressly provided that the license was revoked whenever any of the EULA and TOU terms were breached. Therefore, because playing WoW requires continual loading of pieces of WoW software into and out of RAM, playing WoW with Glider, in violation of the license, violated Blizzard's exclusive rights as the copyright owner to make copies under section 106 of the Copyright Act. Users who played WoW together with Glider were therefore direct infringers. [FN77] Blizzard claimed, then, that MDY was liable for contributory copyright infringement by selling Glider to WoW subscribers knowing that they would directly infringe by using Glider while playing WoW, in violation*326 of the EULA and TOU. [FN78] Blizzard also argued that MDY was liable for vicarious copyright infringement, claiming that MDY sold Glider for a profit, MDY had control over the distribution of the Glider software, and Glider was dependent on WoW software. [FN79]

In response to Blizzard's claims, MDY admitted that it profited from Glider, promoted the use of Glider for WoW, and controlled the distribution of the Glider software. [FN80] MDY claimed, however, that contributory or vicarious liability cannot apply because there was no direct infringement. [FN81] MDY argued that Glider users might have violated terms of the EULA and TOU--a breach of contract--but they did not infringe any of Blizzard's copyright rights in WoW. [FN82] MDY further asserted copyright misuse and the "essential step" exception under 17 U.S.C. § 117 as defenses. [FN83]

a. Direct Infringement Argument

On the direct infringement issue, MDY conceded that Blizzard owned a valid copyright in WoW. [FN84] MDY also accepted that the WoW game client software is copied into RAM when a user plays WoW. [FN85] The court applied Ninth Circuit precedent to explain that copying of software to RAM does constitute "copying" as far as section 106 of the Copyright Act is concerned. [FN86] Section 106 states that, "[s]ubject to sections 107 through 122, the owner of copyright under this title has the exclusive right[] to ... reproduce the copyrighted work in copies." [FN87] Because this section 106 exclusive right to make copies of the work is expressly given to the owner of the WoW copyright, which in this case was Blizzard, any copying of WoW into RAM, according to the court, constitutes copyright infringement unless a user is authorized to make copies, either through a license or pursuant to the section 117 exception. [FN88]

MDY argued that Blizzard users were licensed to make a copy of WoW onto RAM by purchasing the game at the store and installing the game onto their hard drives. [FN89] While it is true that users must have agreed to the EULA and TOU agreements before playing the game, MDY contended that the agreements, which expressly prohibited the use of "bots," were mere contractual agreements and therefore not "limitations on the scope of the license granted by Blizzard." [FN90]

*327 The Arizona district court, however, focused on Ninth Circuit precedent. In *Sun Microsystems, Inc. v. Microsoft Corp.* the Ninth Circuit maintained that it is true that "[g]enerally, a copyright owner who grants a nonexclusive license to use his copyrighted material waives his right to sue the licensee for copyright infringe-

ment and can sue only for breach of contract.” [FN91] The Ninth Circuit continued, however, adding that if “a license is limited in scope and the licensee acts outside the scope, the licensor can bring an action for copyright infringement.” [FN92] So, a plaintiff who grants a license may not bring an action for copyright infringement unless the plaintiff proves that the license terms are “limitations on the scope of the license rather than independent contractual covenants,” and that the defendant’s actions exceeded the scope of the license. [FN93]

Applying this precedent, the court in *MDY* pointed out that Blizzard requires that all of the use of WoW is subject to the terms of the EULA and TOU. [FN94] The EULA expressly grants the license “[s]ubject to [the user’s] agreement to and continuing compliance with [the] License Agreement.” [FN95] This, the court reasoned, showed that the license granted was meant to be limited in nature. [FN96] But even if the license is limited, the Ninth Circuit test also requires that the particular provisions violated by Glider are not separate contractual covenants, which would make this a contract dispute, but are “limitations on the scope of the license, which would mean that [the users] had infringed the copyright by acting outside the scope of the license.” [FN97] Analyzing the EULA and TOU in their entirety, the court noted that some sections were mere independent contract terms, but that the section that was violated by Glider--the section prohibiting the use of “bots” or any “third-party software designed to modify the [WoW] experience” [FN98]--“establishe[d] limitations on the scope of the license.” [FN99] Because these limitations were violated when playing Glider together with WoW, the user was playing beyond the scope of the license. The court therefore concluded that the users’ continued copying of pieces of WoW into RAM, as required for game play, constituted copyright infringement. [FN100]

MDY argued that the Federal Circuit’s decision in *Storage Technology Corp. v. Custom Hardware Engineering & Consulting, Inc.* [FN101] defined a better test, namely that use of a work in breach of a license was not copyright infringement unless the breaching activity itself would have been infringing one *328 of the exclusive rights granted by the Copyright Act in the absence of a license. [FN102] Relying on this decision, MDY contended that although a user might have been liable for breach of contract by installing Glider in conjunction with WoW, the user is not engaged in copyright infringement. [FN103] The Arizona district court, however, was quick to abandon this approach, arguing that MDY had no Ninth Circuit authority to validate its argument. [FN104] The court further stated that, even under the Federal Circuit test, copying the game client software into RAM after installing and using Glider violates the section 106 right to reproduce the copyrighted work in copies anyway. [FN105] Therefore, “the act that exceeds the scope of the license and the act that violates Blizzard’s copyright are the same.” [FN106]

b. Copyright Misuse Defense

MDY also asserted a copyright misuse defense. Under Ninth Circuit law, a copyright misuse defense “prevents copyright holders from leveraging their limited monopoly to allow them control of areas outside the monopoly.” [FN107] MDY argued that Blizzard, by prohibiting “bots,” controlled areas outside of its limited monopoly, namely, independent third-party software such as Glider. [FN108] The court, however, noted that use of Glider together with WoW infringed Blizzard’s copyright in WoW; therefore, MDY was not entitled to a copyright misuse defense. [FN109] Further, the court suggested that copyright misuse was not a defense because Blizzard’s copyright did not prevent third-parties such as MDY from developing competing games. [FN110]

c. 17 U.S.C. § 117 “Essential Step” Defense

Section 117 of the Copyright Act allows the “owner” of a copy of a computer software program to copy a

program into RAM so long as the copy is an “essential step” in the utilization of the program. [FN111] If section 117 applies, there would be no direct infringement by users of WoW and thus no contributory or vicarious liability of MDY. But for MDY to be able to use this defense, it is essential that purchasers of WoW be defined as owners, and not licensees.

MDY argued that users who enter a store and purchase WoW are owners of their particular copies of WoW. Furthermore, section 117 allows these users to make copies of the game into RAM because doing so, even in connection *329 with Glider, is a necessary step in the use of the game. [FN112] The district court again turned to Ninth Circuit law to analyze this argument. The court noted that at least three cases in the Ninth Circuit, *MAI Systems Corp. v. Peak Computer, Inc.*, [FN113] *Triad Systems Corp. v. Southeastern Exp. Co.*, [FN114] and *Wall Data, Inc. v. Los Angeles County Sheriff's Department*, [FN115] hold that licensees of a computer program are not owners and therefore are unable to use a section 117 “essential step” defense. [FN116] The most recent of these cases, *Wall Data Inc. v. Los Angeles County Sheriff's Department*, [FN117] provides a two-part test to determine whether a user who purchases a copy of software is a mere licensee or an owner. [FN118] The Los Angeles County Sheriff's Department purchased 3,663 licenses to Wall Data's RUMBA computer software, but eventually installed the software onto 6,007 computers. [FN119] Under the test from this case, the transaction to obtain software is a license, rather than a sale, thereby making the purchaser of the software a licensee rather than an owner entitled to a section 117 “essential step” defense, if (1) the copyright holder makes it clear that a license is being granted to copy the software; and (2) the copyright holder imposes considerable restrictions on the use or transfer of the copy. [FN120]

The MDY court applied this test and concluded that Blizzard users who purchase a copy of the WoW software are mere licensees and not owners of the copies in their possession. [FN121] The first paragraph of the EULA made it clear that only a limited license was granted, and later in the EULA Blizzard stated that it owned all intellectual property rights in the software. [FN122] Next, the court concluded that Blizzard imposed considerable restrictions on the use or transfer of WoW. Not only must a user adhere to all terms of the EULA and TOU before playing WoW, but a user can transfer any rights and obligations under the EULA only by giving the copy of the original game, including packaging and other documentation, to another person and by deleting any memory of the WoW software from one's computer. [FN123] The new recipient, however, would still be bound by the EULA and TOU. [FN124] Blizzard therefore passed the *330 two-part test outlined in *Wall Data*. So the court concluded that WoW users are mere licensees not entitled to a section 117 “essential step” defense. [FN125]

MDY argued that a purchaser of WoW software should be defined as an owner of the software and not a mere licensee. [FN126] More specifically, MDY argued that a purchaser of the WoW game client software would have viewed him or herself as an owner. [FN127] After all, “[t]he person could dispose of the software copy as he chose, throwing it in the trash, giving it to a friend, or installing it on his computer--all consistent with ownership.” [FN128] Blizzard responded that the license was apparent from “notices on the box purchased at the retailer and from a paper copy of the EULA contained in the box, as well as from the online notices that appear when the game client software is installed on a personal computer.” [FN129] The court found Blizzard's analysis more compelling, noting that nothing more could be done to indicate clearly that a purchaser is a mere licensee. [FN130]

MDY also argued that the court should abandon the Ninth Circuit precedent Blizzard relied on, [FN131] and instead follow the recent approach adopted by the United States District Court for the Western District of Washington, which is within the Ninth Circuit. [FN132] There, the Washington court declined to follow the recent

Ninth Circuit precedent on the issue of a licensee or owner, and instead relied on an earlier Ninth Circuit case, *United States v. Wise*. [FN133] The *Wise* court applied the “first sale” doctrine, under 17 U.S.C. § 109, to determine that a transaction was a sale, and not a license, even in light of contracts to the contrary, so long as the transferee kept the original copy of the copyrightable material from the copyright holder. [FN134] Under the “first sale” doctrine, the sale of a lawfully made copy terminates a copyright holder's ability to interfere with subsequent sales or distribution of that copy. [FN135] MDY claimed that because the purchasers of the WoW software are entitled to keep their copy of the software, under the “first sale” doctrine and relying on *Wise*, the purchasers are owners, and not mere licensees. [FN136] The Arizona court, however, declined to follow MDY's reasoning, stating that “[t]he Court is not free to *331 disregard Ninth Circuit precedent directly on point.” [FN137] Therefore, MDY was not entitled to a section 117 “essential step” defense.

C. Case Conclusion and Holding

With regard to the tortious interference with contract claim, the court reached the following conclusions: it was undisputed that a valid contractual relationship existed between Blizzard and its customers, MDY had knowledge of the relationship, MDY had intentionally and improperly obstructed the relationship and caused a breach of the relationship, and Blizzard had been damaged as a consequence. [FN138] Therefore, the court granted summary judgment in favor of Blizzard with respect to MDY's tortious interference with contract. [FN139]

With regard to the contributory and vicarious copyright infringement claims, the court reached the following conclusions: MDY intentionally induced or encouraged direct infringement of Blizzard's copyright in WoW and therefore committed contributory infringement, and MDY profited from direct infringement of Blizzard's copyright in WoW and declined to stop such infringement. In holding the way it did, the Arizona court rejected MDY's contentions that MDY was entitled to a copyright misuse defense or a section 117 defense, and that the court could rely on other precedent and public policy to find no direct infringement by WoW users. [FN140] Therefore, the court granted summary judgment in favor of Blizzard on the issues of contributory and vicarious copyright infringement. [FN141]

II. IMPLICATIONS OF THE MDY DECISION

Granting summary judgment in favor of Blizzard on the copyright claims greatly undermines the policy goals of copyright law. In particular, courts should acknowledge that the technical “copying” of computer programs that necessarily occurs when they are put to their intended uses is not the type of activity copyright law is designed to control. Courts then should ask whether granting software copyright owners the ability to restrict or condition such copying is consistent with the users' rights of copyright: fair use, the first sale doctrine, and the right to make a copy for oneself. The Copyright Act expressly provides for these rights, indicating congressional intent that copyright law balance copyright owners' rights with users' rights. [FN142] Software requires a new approach because software must always be “copied” in order to be put to its intended purpose. This distinguishes software in a crucial way from all other types of copyright subject matter.

*332 Keeping in mind the basic need for balance, this section analyzes the implications of the *MDY* decision, and how the decision fails to adequately address Congress's original intent of the Copyright Act. While the decision does supply a remedy to copyright owners against users who breach their contracts, and against entities such as MDY who create products designed to aid in such a breach, the court goes too far in undermining the rationale of copyright law and allowing Blizzard a scope of copyright Congress neither granted nor intended.

Part A explains that the question of whether users who purchase software are “owners” and not merely “licensees” is a question of federal copyright law, not state contract law. Part B furthers this explanation by discussing [section 109](#) and [section 117](#) of the Copyright Act of 1976, which expressly give “owners” certain rights with respects to the copies they own. Part C discusses how allowing EULAs and TOUs--involving mass market shrink-wrap or clickwrap licenses and not negotiated licenses between a few parties--to govern software allows state contract law to supersede federal copyright law with respect to the rights of users, who are essentially forced to adhere to the agreements in order to use the software for its intended purpose. Lastly, Part D argues that the *MDY* decision also is wrong for broader policy reasons because it essentially allows any manufacturer of any product containing rebooted software the ability to regulate the use of the product through copyright law, something that has never been done and was never intended by Congress.

A. The Owner-Licensee Question: A Matter of Federal Copyright Law, Not State Contract Law

As the *MDY* can recognize, whether a purchaser of WoW is an owner of the underlying software or just licensed to use the underlying software is a crucial question whose answer is of utmost importance to copyright law. [\[FN143\]](#) Allowing a copyright owner to make mass-market transfers of possession of physical copies of a program pursuant to a one-time fee, with no time duration on possession and no obligation to return, while yet still claiming that the copies are merely “licensed,” allows state contract law to supersede, and undeniably negate, crucial user's rights under federal copyright law.

Recently, software companies have begun to “license,” rather than “sell,” copies of their software in attempt to negate “ownership” by purchasers and thus give protections to software developers exceeding the scope of copyright law. This trend has not yet commonly occurred in other product realms, partly because such a trend is in direct conflict with ownership rights under copyright law. For example, someone who purchases a book from a bookstore is clearly the “owner” of the tangible book for copyright purposes. Yet because of the digital nature of software, and the inevitability of copying such software into RAM, courts, focusing on a number of factors and taking into account purchaser expectations, have split on the question of whether purchasers are owners*[333](#) or licensees. [\[FN144\]](#) Courts reach different outcomes on the owner-licensee issue and about whether the question of “ownership” is decided by the Copyright Act. The general test, however, is that the parties' intent and the authenticity of the transaction are the most important factors in determining whether there is a transfer of ownership in the copy or merely a transfer of possession of the copy subject to a license. [\[FN145\]](#)

Factors weighing into this analysis include whether there is a one-time sale of the software [\[FN146\]](#) and whether the purchaser may keep the copy for an unlimited time. [\[FN147\]](#) And “absence of formal title may be outweighed by evidence that the possessor of the copy enjoys sufficiently broad rights over it to be sensibly considered its owner.” [\[FN148\]](#) In the *MDY* example, if a person wants to purchase a copy of WoW, all he or she has to do is go to a retail or online store and purchase WoW for a one-time fee. There is no expectation on the part of the user that the user does not retain title to the physical copy of WoW when paying this one-time flat fee. While it is true that a user must pay a monthly fee to connect to the server software and play the game, retention of the game client software itself does not require any subscription on behalf of the purchaser. There is also no indication in the EULA, the TOU, or anywhere else that a purchaser must return the copy to the copyright holder at any time. Based on this, there is an expectation by the user that the copy of the software, purchased for a single price for an unlimited duration, is “owned” by the purchaser and not merely “licensed.”

But even taking into account intent and expectations, one should ask the basic question: which result is bet-

ter for copyright law? If a purchaser is a licensee, the purchaser loses the rights granted to owners of the copy, specifically including the rights defined in the “first sale” doctrine of [section 109 \[FN149\]](#) *334 and the “essential step” defense of [section 117. \[FN150\]](#) If a purchaser is an owner, the purchaser's expectations are satisfied, and the purchaser retains the rights given to any other owner of a physical copy under copyright law. [\[FN151\]](#) These rights granted by federal copyright law to “owners” are precisely the rights consumers should want users of WoW to have. Suppose Blizzard's license explicitly said, “[t]he parties agree that the user is not to be deemed an ‘owner’ under [section 117](#) of the Copyright Act.” It is clear that a court would not defer to such a characterization, and interpretation, of the federal statute. Thus, given the intent and expectations of the purchaser, the lack of restrictions on the software after purchase with regard to payment and duration, and the rights any other owner can enjoy under copyright law, the owner or licensee question is one of federal copyright law.

B. “Owners” Rights with Respect to the Copies They Own: The “First Sale” Doctrine and “Essential Step” Defense

Because federal copyright law dictates the owner-licensee distinction, what federal rights do “owners” have in the underlying copies they possess? Owners have federal rights over their copy defined in the “first sale” doctrine of [section 109 \[FN152\]](#) and the “essential step” defense of [section 117. \[FN153\]](#)

The “first sale” doctrine permits the owner of a copy of a work, even though owning none of the copyright rights in the work, to distribute, sell, or otherwise transfer the copy without any consent on the part of the copyright owner. [\[FN154\]](#) Congress, then, made it explicit that ownership of a copyright differs from ownership of a copy, and that this partition of ownership is necessary so that purchasers of copyrighted material and owners of the underlying copyright both have their respected rights protected, but with limits. These rights and limitations are exemplified in the functioning of a library, which has the right to loan out physical copies of the books on its shelves--that is, make a public distribution of its physical copies--but does not have the right to make copies of the books. [\[FN155\]](#)

The “essential step” defense similarly attempts to strike a balance between the interests of software users and software developers. It does so by permitting the owner of a copy of a copyrighted program to make another copy, provided that the copy is created as an essential step in the utilization of the computer program in connection with the computer, and is used in no other *335 manner. [\[FN156\]](#) This is necessary because, without the essential step defense, a software user would infringe the copyright holder's copyright every time the user “copied” the software from a hard drive onto active memory. [\[FN157\]](#) When the Ninth Circuit declared in *MAI v. Peak* that loading software into RAM constituted making a “copy” for copyright purposes, it created a considerable dilemma for copyright law. [\[FN158\]](#) In order to use software, it must be loaded onto a computer, and, consequently, copies are created each time parts of the software pass through RAM, essentially creating multiple “infringing,” but temporary, copies. [\[FN159\]](#) While dicta in *MAI* continue to cause difficulties, the *MAI* case involved the loading of software into RAM by a third-party repair company, and there was no ground for asserting that the repair company was the “owner” of the copy involved. [\[FN160\]](#)

Also, in *MAI* the entire program was loaded into RAM each time the computer was turned on. [\[FN161\]](#) In *MDY*, however, the entire WoW program was legally loaded onto the user's hard drive, because Glider was not running at that initial point. There was no evidence whatsoever that any of the “copying” by users led to unauthorized copies of WoW (or any of its individually protected elements) beyond what was necessary simply to play the game. To deal with the necessity of loading programs into RAM in order to put them to their intended

use, and following the recommendation of CONTU, Congress in 1980 completely amended [section 117](#) of the Copyright Act to its present form. [\[FN162\]](#) The one change Congress made from CONTU's recommendation was that the new rights were available only to "owners" of copies, whereas CONTU had recommended that the language cover all "lawful possessors." No one seems to know what reasons underlay the change from CONTU's recommendation, but it seems conceivable that Congress was trying to preserve the rights of copy-right owners to negotiate express user rights with licensees, as opposed to persons who purchase the software outright. Even under this interpretation, however, the issue still remains of who is an "owner" and who is a mere "licensee," and this issue necessarily is one of federal copyright law, not state contract law.

C. Overstepping Their Bounds: Blizzard's EULA and TOU Allow State Contract Law to Supersede Federal Copyright Law with Respect to "Owners" in Cases of Software

Some end-user license agreements, such as WoW's EULA, accompany shrink-wrapped software that occasionally is offered to a user on paper but [*336](#) generally is presented electronically during the installation process. Rejection of the on-screen agreement prevents use of the software for its intended purpose because, as in the case of WoW, users will not be able to play the game. [\[FN163\]](#) This is because installation of the software is contingent on acceptance of the terms of the agreement. [\[FN164\]](#) These license agreements can take a variety of forms, and may contain virtually any imaginable clause. It is common for copyright owners to include "a number of definitions, limitations, and restrictions regarding permissible software use in their software license agreements" [\[FN165\]](#) as well as prohibitions against reverse engineering and modification of code. [\[FN166\]](#)

In 2000, the Electronic Signatures in Global and National Commerce Act (E-SIGN) determined that electronic signatures and documents have the same lawful force and effect as conventional signatures and documents. [\[FN167\]](#) E-SIGN focuses primarily on intent, stating that a valid electronic signature includes "an electronic sound, symbol, or process, attached to or logically associated with a contract or other record and executed or adopted by a person with the intent to sign the record." [\[FN168\]](#)

Unfortunately, E-SIGN focuses on what constitutes a valid electronic signature and is silent about the formation stage of electronic "contracts." This has forced United States courts to analyze, in connection with license agreements, common law principles and the Uniform Commercial Code's position that an agreement is not binding unless there is mutual assent. Such mutual assent is defined as any "manifest[ation] by written or spoken words, or by conduct" [\[FN169\]](#) or expression by "a signature, [] handshake, or [] click of a computer mouse." [\[FN170\]](#) So long as this manifestation or expression relates to the proposed agreement, any action or inaction may form a contract. [\[FN171\]](#) Because of this, courts have commonly held that a user who is presented with an option box to accept a license agreement and clicks and checks the box to accept such agreement has expressed assent to the terms. [\[FN172\]](#) But is a person who merely clicks a box before installing WoW assenting to all terms within a license agreement, and thereby allowing the license agreement to supersede important "ownership" rights granted under federal copyright law?

[*337](#) In answering in the affirmative, the *MDY* court failed to properly distinguish *Sun Microsystems* [\[FN173\]](#) and *Wall Data Inc.*, [\[FN174\]](#) mentioned above in the direct infringement analysis, which involved negotiated contracts between large enterprises that were well represented in the negotiations. Such agreements bind only the parties, and thus anyone outside of the scope of the agreement can still use the software for its intended purpose. Clickwrap licenses of the type involved in *MDY*, however, bind the entire world of WoW players, because no one can play WoW without "agreeing" to all of the license terms without negotiations. Thus,

“contract” becomes a right against the world, like a property right, and state contract law has the effect of nullifying crucial aspects of federal copyright law.

Not only did the decision fail to take into account the nature of the license--a mass-market shrinkwrap or clickwrap versus a negotiated license--but allowing state contract law to supersede federal copyright law in the case of software like WoW undermines the “first sale” doctrine and eliminates the “essential step” defense for users of WoW. An example outside the realm of software illustrates how the *MDY* court went too far in granting copyright owners broader rights than Congress intended. Imagine if the purchaser of a book must assent to terms, printed on the first page, stating that such purchaser may not transfer the book to any other individual without express written consent of the copyright owner. Such a license, especially one whose terms were made expressly available only after purchase, would be in direct opposition to the “first sale” doctrine and, consequently, the intent of Congress. [FN175] The intent of Congress was that an owner of a copy may use such a copy in any way so long as none of the copyright holder's section 106 rights [FN176]--such as the right to “reproduce the copyrighted work in copies” [FN177]--are undermined by that use.

The *MDY* court's decision, however, also undermines the “essential step” defense in section 117 of the Copyright Act. [FN178] If considered an “owner,” a WoW user clearly meets all the criteria of section 117(a)(1) and thus is entitled to make a copy into RAM even if WoW is used in conjunction with Glider in *338 contractual violation of the EULA. [FN179] The *MDY* holding that purchasers of software are mere “licensees” instead of owners, pursuant to state law “licenses” drawn up by the copyright owner with respect to mass-marketed software, circumvents this defense and therefore undermines Congress's policy intent. Under the *MDY* court's rationale, software users lose one of the essential defenses they should have when purchasing software and may be forced by copyright law to use the work in ways that are not governed by copyright at all.

Whether the purchaser can be bound by such licensing language, as stated above, is a matter of state contract law. Copyright is unconcerned with whether states enforce such contracts, except to the extent that those terms collide with copyright rights. If someone promises through such licensing language not to play WoW with Glider, state contract law can enforce that agreement. By downloading or buying the game client, however, the WoW user is an owner of the copy, despite the *MDY* court's classification otherwise. Section 117 allows owners like WoW users to make RAM copies necessary to utilize the program. Thus these licensing agreements, such as Blizzard's EULA, represent an effort to control by contract areas that federal copyright law has clearly reserved to “owners.” As one commentator observed, “[w]here the licensor fails to consider the implications of the relation between [federal copyright law and contract law], the licensor's attempts to maximize contractual protection while restricting the licensee's activities regarding the licensed software may result in overreaching.” [FN180] Therefore, even though a license agreement might be valid as far as contract law is concerned, breach of non-copyright-related terms of mass-market license agreements such as Blizzard's should not be deemed copyright infringement.

But how can one determine if a software license agreement involves overreaching? It is important to look first to the Copyright Act and see how Congress defined the careful balance between the rights and limitations of copyright owners and the rights and limitations of the public as a whole. The Copyright Act grants all the section 106 rights to copyright holders. [FN181] It also includes, however, some crucial limitations on those rights. For example, the “first sale” doctrine [FN182] allows owners of copies of copyright-protected works to sell, transfer and use the copies in noninfringing ways. The “fair use” doctrine [FN183] legitimizes certain “fair” uses of protected works that otherwise would be infringing. And, the “idea-expression” dichotomy [FN184] denies copyright protection*339 to ideas. These express statutory limits on the exclusive rights of copyright represent

an important part of Congress's attempt to balance copyright owners' rights and users' rights under copyright law.

The question, then, is how to handle attempts by copyright owners to work around the limitations of the Copyright Act through their supposed license agreements. Allowing copyright owners to abrogate all users' rights would have a drastic impact on copyright law. One commentator's example regarding a "license" on a history book illustrates this point. [FN185] The example imagines a history book wrapped in cellophane such that a license agreement can be seen through the packaging. The agreement states that "by purchasing (or 'licensing') the book and opening the wrapper, the buyer agrees not to use any of the historical theories contained in the book either in teaching or in the development of a competing book and the buyer further agrees not to transfer the book or convey any of its ideas to third parties." [FN186] Even if such a contract is valid under state law, it raises troubling issues with regard to the interoperability of federal copyright law and state contract law. As the commentator demonstrates, "[t]he harm is subtle, but real." [FN187] Validating such a "contract" would override one of copyright's most basic principles: the fact that ideas cannot be protected because allowing copyright of ideas would take crucial "cultural building blocks" out of the public domain. [FN188] It might be true that the majority of purchasers of the history book will never try to use the ideas to expand cultural progress and instead will just buy the book for the pleasure of reading. Similarly, it might be true that most purchasers of WoW will never download third-party software in connection with playing, and instead will buy the game simply to install and play it as is.

But copyright law clearly allows for book purchasers to use the underlying ideas freely to develop new expression, and software purchasers to make a copy into RAM for the utilization of the software. Just as the ability to use ideas freely is "one of the most important of the public benefits provided by the copyright tradeoffs," [FN189] the ability to make a necessary RAM copy is an equally important public benefit in the digital age. The only difference between the hypothetical book shrinkwrap and the WoW clickwrap license situations is that violation of the book "license" generally does not involve infringement of any copyright right, and the purchaser of the book does not need any copyright license to read or allow others to read it (unless the latter somehow involves a public distribution). On the other hand, making a technical "copy" in RAM is a necessary artifact of digital technology. Consequently, the book "licensee" can be sued only under contract law while, under the *MDY* court's unfortunate decision, the WoW licensee can be sued under federal copyright law. There is nothing in basic federal copyright policy to justify *340 such disparate treatment between these two situations, only a difference in the means by which works are made available to and used by the public. Consequently, the WoW users are entitled to a section 117 defense as owners and are not primary infringers, although they may be breachers of contract. Then, because there is no primary infringement from using Glider, MDY was wrongfully held liable for contributory infringement and also wrongfully held vicariously liable.

As Stanford Law School Professor Lawrence Lessig states, courts should "[d]eregulate 'the copy.' Copyright law is triggered every time there is a copy. In the digital age, ... that makes as much sense as regulating breathing." [FN190] In *MDY*, this means that the tortious interference claim would hold, but not the dangerous precedent of copyright infringement, which could be extended to mean that every user of Glider conceivably could be charged with copyright infringement. Indeed, every breach of a EULA by a software licensee could subject that person to a copyright infringement conviction and other criminal penalties, and this result is simply untenable. Following the *MDY* precedent in making software purchasers mere licensees would "thwart the careful balance of rights struck by Congress." [FN191]

D. Further Policy Implications of the *MDY* Decision: Copyright Law's Reach Grows Dangerously

The *MDY* decision is troubling enough when applicable just to software companies such as Blizzard who wish to control the rights and activities of users. But the reasoning of the *MDY* court applies to other manufacturers as well. The decision will permit the manufacturer of *any* product containing software that is rebooted upon each use--and we have an ever increasing number of such products whose use no one ever thought was regulated by copyright law-- to regulate the use of the product not simply by contract, as has been done throughout history, but now by copyright law.

To illustrate this point, it is crucial to note the underlying breaching activity involved in the *MDY* case--playing WoW *together* with Glider. Suppose, though, that the program were a book and the "license" said "no using dictionaries while reading this book." Under such a license, using a dictionary while reading would not infringe any copyright because reading a book does not require making any copies. But suppose it's an eBook, [FN192] large enough so that only parts of it are loaded into RAM at any one time, and the license says the same thing. Now, using a dictionary while reading the eBook would violate the license and, according to the *MDY* court's reasoning, result in a loss of the license to "copy" the next part of the book into RAM. Using the dictionary and continuing to read the book now becomes copyright infringement. It is hard to *341 imagine any court sanctioning such a result. The *MDY* decision similarly and inappropriately allows the WoW copyright to control the use of an independently written and noninfringing program, namely, Glider.

If the purchaser of a book violates a promise not to write in the margins, the book publisher has at most a breach-of-contract claim against him. Copyright has nothing to do with the issue. The same result should occur when copies of mass-marketed computer software are acquired by people who intend to install and use it on their computers. If they also promise not to comment on the quality of the program, or not to use it together with other software made by other companies, the owner of the program copyright should have no more than a contract claim. The technological change in medium in going from printed books to electronic software that technically requires the making of "copies" when the program is used should make no difference. These "copies" are not the kind of copies copyright law is designed to regulate, because they cannot be used in place of any other copy the copyright owner would have sold.

Congress cannot have intended copyright owner control to extend so far. The copyright owner is fully protected in his copyright interests so long as no one can make or distribute copies usable for their intended purpose. Here, the loading into and out of RAM is purely a technical artifact. Copyright is not intended to protect all aspects of the business models of firms who market copyrighted works. Contract, unfair competition, and related areas of law are designed to protect these matters. To the extent these areas of law do not adequately protect a given business model--here, Blizzard's desire to control how the software it markets is used--either those laws should be changed or, more likely, we should recognize the general value of competition. The failure of contract and unfair competition to regulate certain behavior likely indicates that such regulation would be counterproductive. If so, copyright should not be pressed into service for which it is not designed. Copyright law is designed to regulate the markets for copyright-protected works. It is not designed to protect competition within those markets that does not involve the copyright rights in such works (such as the right of reproduction and public performance).

The United States District Court for the District of Arizona's decision in *MDY* is a serious setback for copyright law. The court's decision to classify WoW users as "licensees" and not "owners" of their copies of the WoW program is wrong because (1) the question of owner-licensee is one of federal copyright law, not state

contract law; (2) federal copyright law expressly gives “owners” certain rights with respect to the copies they own, under [sections 109](#) and [117](#); and (3) in the case of software like WoW, which cannot be used for its intended purpose by anyone anywhere in the world who does not agree to the EULA and TOU, allowing the EULA and TOU to govern the issue allows state contract law wholly to supersede federal copyright law on these user *342 rights of copyright. Because the WoW users are “owners,” they are entitled to a [section 117](#) “essential step” defense and are not primary infringers. Although there may be a breach of contract, the court wrongfully held MDY liable for contributory and vicarious infringement. Beyond the doctrinal analysis, policy further dictates that MDY not be held liable for copyright infringement, specifically because if allowed to stand, the reasoning of the MDY court will permit an untoward expansion of copyright that has never been expressly approved by Congress. The court in MDY erred badly and its opinion should not be followed.

[FN1]. J.D. Candidate, Pedrick Scholar, and Law, Science, and Technology Center Scholar, Sandra Day O'Connor College of Law, Arizona State University; B.S., 2006, *summa cum laude*, Computer Science, Arizona State University.

[FN1]. MDY Indus., L.L.C. v. Blizzard Entm't, Inc., No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988, at *1 (D. Ariz. July 14, 2008).

[FN2]. *Id.*

[FN3]. *Id.* at *2-4.

[FN4]. *Id.* at *8-9.

[FN5]. *Id.* at *8-9, 31-32.

[FN6]. U.S. Copyright Act, [17 U.S.C. §§ 101-810 \(2006\)](#).

[FN7]. U.S. CONST. art I, § 8, cl. 8 (“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”).

[FN8]. ROBERT A. GORMAN & JANE C. GINSBURG, COPYRIGHT: CASES AND MATERIALS 14 (7th ed. 2006).

[FN9]. [17 U.S.C. § 102 \(2006\)](#).

[FN10]. SOFTWARE & INFO. INDUS. ASS'N, PACKAGED SOFTWARE INDUSTRY REVENUE AND GROWTH 1 (2005), http://www.siiia.net/software/pubs/growth_software05.pdf.

[FN11]. National Commission on New Technological Uses of Copyrighted Works (CONTU), [Pub. L. No. 93-573, 88 Stat 1873 \(1974\)](#).

[FN12]. GORMAN & GINSBURG, *supra* note 8, at 181.

[FN13]. [MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511, 518-19 \(9th Cir. 1993\)](#).

[FN14]. [17 U.S.C. § 117 \(2006\)](#).

[FN15]. *Id.*

[FN16]. *See* [Wall Data, Inc. v. Los Angeles County Sheriff's Dep't](#), 447 F.3d 769, 784-85 (9th Cir. 2006) (stating that the copyright owner made it clear that she or he is granting only a license to the copy of software and imposed significant restrictions on the purchaser's ability to redistribute or transfer that copy; therefore the purchaser is considered a licensee, not an owner, of the software); [Krause v. Titleserv, Inc.](#), 402 F.3d 119, 123-24 (2d Cir. 2005) (holding that defendant was an owner and, therefore, entitled to a section 117 “essential step” defense); [DSC Commc'n Corp. v. Pulse Commc'n, Inc.](#), 170 F.3d 1354, 1360-61 (Fed. Cir. 1999) (holding that the transferee of a copy of software should not necessarily be considered an “owner” simply because the software was transferred for a single payment and an unlimited term); [Advent Sys. Ltd. v. Unisys Corp.](#), 925 F.2d 670, 676 (3d Cir.1991) (holding that the sale of software conforms with the Uniform Commercial Code and thus conveys ownership); [Step-Saver Data Systems, Inc. v. Wyse Tech.](#), 939 F.2d 91, 99-100 (3d Cir. 1991) (holding that, despite a license to the contrary, actions and intent of the parties constituted ownership passing to the purchaser of software).

[FN17]. *MDY Indus., L.L.C. v. Blizzard Entm't, Inc.*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988. at *1 (D. Ariz. July 14, 2008).

[FN18]. *Id.*

[FN19]. *Id.* at *5.

[FN20]. The court has now also held that Mike Donnelly, the creator of MDY Industries, L.L.C, is personally liable. *See* Order at *22, *MDY Indus., L.L.C. v. Blizzard Entertainment, Inc.*, (D. Ariz. Jan. 28, 2009) (No. CV-06-2555-PHX-DGC, Filing 108), available at <http://docs.justia.com/cases/federal/district-courts/arizona/azdce/2:2006cv02555/322017/108/>.

[FN21]. *MDY Indus., L.L.C.*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988 at *31-32.

[FN22]. *Id.* at *51.

[FN23]. *Id.* at *2-3.

[FN24]. Press Release, Blizzard Entertainment, World of Warcraft Reaches New Milestone: 10 Million Subscribers (Jan. 22, 2008), [http:// eu.blizzard.com/en/press/080122.html](http://eu.blizzard.com/en/press/080122.html).

[FN25]. *MDY Indus., L.L.C.*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988 at *2-3. After this case, Blizzard released an expansion, “Wrath of the Lich King,” which raises the level cap from 70 to 80. *See* World of Warcraft: Wrath of the Lich King, <http://www.worldofwarcraft.com/wrath/>.

[FN26]. *Id.* at *3.

[FN27]. *Id.* at *12.

[FN28]. Mike Smith, *WoW, Inc.--Video Game Feature*, YAHOO GAMES, Apr. 11, 2008, <http://videogames.yahoo.com/feature/wow-inc-/1203104>.

[FN29]. Some aspects of WoW are very repetitive for a gamer, such as gathering resources, obtaining gold,

killing the same monsters countless times to obtain one particular item, or “leveling” a character.

[FN30]. *MDY Indus., L.L.C.*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988 at *3.

[FN31]. *Id.* at *3-4.

[FN32]. *Id.* at *4.

[FN33]. *Id.*

[FN34]. *Id.*

[FN35]. *Id.* at *4-5.

[FN36]. *Id.*

[FN37]. *Id.* at *5.

[FN38]. *Id.*

[FN39]. *Id.*

[FN40]. *Id.*

[FN41]. *Id.*

[FN42]. *Id.* at *5-6.

[FN43]. *Id.* at *6.

[FN44]. *Id.* at *43.

[FN45]. *Id.* at *51.

[FN46]. *Id.* at *43.

[FN47]. *Id.* at *43-44 (citing *Antwerp Diamond Exch. of Am., Inc. v. Better Bus. Bur. of Maricopa County, Inc.*, 637 P.2d 733, 740 (Ariz. 1981); *Wagenseller v. Scottsdale Mem'l Hosp.*, 710 P.2d 1025, 1043 (Ariz. 1985), *superseded in other respects by statute*, ARIZ. REV. STAT. ANN. § 23-1501 (2001)).

[FN48]. *MDY Indus., L.L.C.*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988 at *45-46.

[FN49]. *Id.* at *45.

[FN50]. *Id.*

[FN51]. *Id.*

[FN52]. *Id.* at *46 (citing RESTATEMENT (SECOND) OF TORTS § 767 (1979)).

[FN53]. *Id.* at *45-46; *see also* *Wagenseller v. Scottsdale Mem'l Hosp.*, 710 P.2d 1025, 1042-43 (Ariz. 1985).

[FN54]. *MDY Indus., L.L.C.*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988 at *51.

[FN55]. *Id.* at *45-46; *see also* [Wagenseller, 710 P.2d at 1042-43](#).

[FN56]. *MDY Indus., L.L.C.*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988 at *46-47.

[FN57]. *Id.* at *45-46; *see also* [Wagenseller, 710 P.2d 1042-43](#).

[FN58]. *MDY Indus., L.L.C.*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988 at *47.

[FN59]. *Id.* at *45-46; *see also* [Wagenseller, 710 P.2d 1042-43](#).

[FN60]. *MDY Indus., L.L.C.*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988 at *47.

[FN61]. *Id.* at *45-46; *see also* [Wagenseller, 710 P.2d 1042-43](#).

[FN62]. *MDY Indus., L.L.C.*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988 at *47-48.

[FN63]. *Id.* at *45-46; *see also* [Wagenseller, 710 P.2d at 1042-43](#).

[FN64]. *MDY Indus., L.L.C.*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988 at *48-49.

[FN65]. *Id.* at *45-46; *see also* [Wagenseller, 710 P.2d at 1042-43](#).

[FN66]. *MDY Indus., L.L.C.*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988 at *49-50.

[FN67]. *Id.* at *45-46; *see also* [Wagenseller, 710 P.2d at 1042-43](#).

[FN68]. *MDY Indus., L.L.C.*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988 at *50.

[FN69]. *Id.* at *51.

[FN70]. *Id.* at *8-9.

[FN71]. *Id.* at *8.

[FN72]. *Id.* (citing [MGM Studios Inc. v. Grokster, Ltd.](#), 545 U.S. 913, 930 (2005)).

[FN73]. *Id.* at *7-8; *see* [A&M Records, Inc. v. Napster, Inc.](#), 239 F.3d 1004, 1013 (9th Cir. 2001).

[FN74]. *MDY Indus., L.L.C.*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988 at *7-8.

[FN75]. *Id.* at *10.

[FN76]. *Id.* at *8.

[FN77]. *Id.*

[FN78]. *Id.*

[FN79]. *Id.* at *8-9.

[FN80]. *Id.*

[FN81]. *Id.*

[FN82]. *Id.*

[FN83]. *Id.*

[FN84]. *Id.* at* 10.

[FN85]. *Id.*

[FN86]. *Id.* (citing *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 518-19 (9th Cir. 1993).

[FN87]. 17 U.S.C. § 106 (2006).

[FN88]. *MDY Indus., L.L.C.*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988 at *10-11 (citing 17 U.S.C. § 117 (2007)).

[FN89]. *Id.* at *11.

[FN90]. *Id.* at *14-16.

[FN91]. *Id.* at *12 (citing *Sun Microsystems, Inc. v. Microsoft Corp.*, 188 F.3d 1115, 1121 (9th Cir. 1999)).

[FN92]. *Id.* Note that *Sun Microsystems* involved a negotiated agreement between sophisticated parties. The mass-market situation is very different. *Sun Microsystems*, 188 F.3d at 1117.

[FN93]. *MDY Indus., LLC*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988 at *12.

[FN94]. *Id.* at *3.

[FN95]. *Id.* at *14.

[FN96]. *Id.*

[FN97]. *Id.* at *18. (citing *Sun Microsystems*, 188 F.3d at 1119.

[FN98]. *Id.* at *19.

[FN99]. *Id.* at *18.

[FN100]. *Id.* at *21.

[FN101]. 421 F.3d 1307 (Fed. Cir. 2005).

[FN102]. *MDY Indus., LLC*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988 at *19-20.

[FN103]. *Id.* at * 11.

[FN104]. *Id.* at *20-21.

[FN105]. *Id.* (citing 17 U.S.C. § 106 (2007)).

[FN106]. *Id.*

[FN107]. *Id.* at *23 (citing *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1026 (9th Cir. 2001) (citing *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 979 (4th Cir. 1990))).

[FN108]. *Id.* at *23.

[FN109]. *Id.* at *23-24.

[FN110]. *Id.* at *49, *49 n. 11.

[FN111]. 17 U.S.C. § 117 (2006).

[FN112]. *MDY Indus., L.L.C.*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988 at *21-22, *24-25.

[FN113]. 991 F.2d 511,519 (9th Cir. 1993).

[FN114]. 64 F.3d 1330, 1333-34 (9th Cir. 1995).

[FN115]. 447 F.3d 769, 784-85 (9th Cir. 2006).

[FN116]. *MDY Indus., L.L.C.*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988 at *25, *29-30.

[FN117]. 447 F.3d at 784-85.

[FN118]. *MDY Indus., L.L.C.*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988 at *25-26.

[FN119]. 447 F.3d at 774-75.

[FN120]. *Id.* at 784-85.

[FN121]. *MDY Indus., LLC*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988 at *26-28.

[FN122]. *Id.* at *26-27.

[FN123]. *Id.* at *27.

[FN124]. *Id.*

[FN125]. *Id.* at *29-30.

[FN126]. *Id.* at *28.

[FN127]. *Id.*

[FN128]. *Id.*

[FN129]. *Id.*

[FN130]. *Id.* at *28-29.

[FN131]. *Id.* at *29-30 (declining to follow *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 518 n.5 (9th Cir. 1993); *Triad Sys. Corp. v. S.E. Express Co.*, 64 F.3d 1330, 1333 (9th Cir. 1995); *Wall Data, Inc. v. Los Angeles County Sheriff's Dep't*, 447 F.3d 769, 784-85 (9th Cir. 2006)).

[FN132]. *Id.* at *29 (citing *Vernor v. Autodesk, Inc.*, 555 F. Supp. 2d 1164, 1170-71 (W.D. Wash. 2008)).

[FN133]. *Vernor*, 555 F. Supp. 2d at 1172-74 (declining to follow *MAI*, 991 F.2d at 511, *Triad*, 64 F.3d at 1333 and *Wall Data*, 447 F.3d at 784-85, and instead applying *United States v. Wise*, 550 F.2d 1180 (9th Cir. 1977)).

[FN134]. *Wise*, 550 F.2d at 1187-92.

[FN135]. *Allison v. Vintage Sports Plaques*, 136 F.3d 1443, 1443 (11th Cir. 1998).

[FN136]. *MDY Indus., L.L.C.*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988 at *30.

[FN137]. *Id.*

[FN138]. *Id.* at *51.

[FN139]. *Id.*

[FN140]. *Id.* at *31-32.

[FN141]. *Id.*

[FN142]. 17 U.S.C. §§ 107, 109, 117 (2006).

[FN143]. *MDY Indus., L.L.C.*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988 at *10-11.

[FN144]. *See Wall Data, Inc. v. Los Angeles County Sheriff's Dept.*, 447 F.3d 769, 785 (9th Cir. 2006) (considering whether a software purchaser is an owner or licensee, and holding that “if the copyright owner makes it clear that she or he is granting only a license to the copy of software and imposes significant restrictions on the purchaser's ability to redistribute or transfer that copy, the purchaser is considered a licensee, not an owner, of the software.”); *Krause v. Titleserv, Inc.*, 402 F.3d 119, 123-24 (2d Cir. 2005) (holding that software purchaser was an owner and, therefore, entitled to a section 117 “essential step” defense); *DSC Commc'n Corp. v. Pulse Commc'n, Inc.*, 170 F.3d 1354, 1360-61 (Fed. Cir. 1999) (holding that licensing agreements between the parties “severely limit the rights of the [purchaser] with respect to the ... software in ways that are inconsistent with the rights normally enjoyed by owners of copies of software”); *Advent Sys. Ltd. v. Unisys Corp.*, 925 F.2d 670, 676 (3d Cir. 1991) (holding that the sale of software conforms with the Uniform Commercial Code and thus conveys ownership); *Step-Saver Data Systems, Inc. v. Wyse Tech.*, 939 F.2d 91, 99-100 (3d Cir. 1991) (holding that, despite a license to the contrary, actions and intent of the parties constituted ownership passing to the purchaser of software).

[FN145]. *See Wall Data*, 447 F.3d at 785 (observing that likely no ownership transferred where transaction as a whole imposed severe restrictions on use).

[FN146]. *SoftMan Prods. Co. v. Adobe Sys.*, 171 F. Supp. 2d 1075, 1085 (CD. Cal. 2001); *DSC Commc'n*

Corp., 170 F.3d at 1362 (“[t]he fact that ... the possessor's rights were obtained through a single payment, is certainly relevant to whether the possessor is an owner”); *Telecomm Tech. Svcs., Inc. v. Siemens Rolm Commc'ns., Inc.*, 66 F. Supp. 2d 1306, 1325 (N.D. Ga. 1997).

[FN147]. *Krause*, 402 F.3d at 124 (stating that absent a provision that allows the seller to retain possession of the copy, the transaction is a sale, and thus the purchaser is an owner).

[FN148]. *Id.*

[FN149]. 17 U.S.C. § 109 (2006).

[FN150]. 17 U.S.C. § 117 (2006).

[FN151]. See Nancy S. Kim, *The Software Licensing Dilemma*, 2008 BYU L. REV. 1103, 1103 (explaining that “if software is sold and not licensed, the licensor's ability to control unauthorized uses of its product is significantly curtailed; on the other hand, if software is licensed and not sold, the licensee's rights under the agreement are unduly restricted.”).

[FN152]. 17 U.S.C. § 109 (2006).

[FN153]. 17 U.S.C. § 117 (2006).

[FN154]. *Id.* Without this provision, the owner of a copy who transfers its ownership would violate the copyright holder's distribution right under section 106(3). 17 U.S.C. § 106(3) (2006).

[FN155]. See *Hotaling v. Church of Jesus Christ of Latter-Day Saints*, 118 F.3d 199, 201 (4th Cir. 1997) (holding that making a copy of a work, which was available in a library collection, constituted a distribution of a copy of the work to the public).

[FN156]. 17 U.S.C. § 117 (2006).

[FN157]. *Wall Data, Inc. v. Los Angeles County Sheriff's Dept.* 447 F.3d 769, 784 (9th Cir. 2006).

[FN158]. *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 518-19 (9th Cir. 1993).

[FN159]. *Sony Computer Entm't, Inc. v. Connectix Corp.*, 203 F.3d 506, 600 n. 1 (9th Cir. 2000).

[FN160]. *MAI*, 991 F.2d at 511-13. Congress has since amended section 117 to allow such loading as necessary for hardware repairs. 17 U.S.C. § 117 (2006).

[FN161]. *MAI*, 991 F.2d at 518-19.

[FN162]. 17 U.S.C. § 117 (2006).

[FN163]. *MDY Indus., L.L.C. v. Blizzard Entm't, Inc.*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988, at *12-13 (D. Ariz. July 14, 2008).

[FN164]. *Id.* at *12-14.

[FN165]. Lothar Determann, *Dangerous Liaisons-Software Combinations as Derivative Works? Distribution*,

Installation, and Execution of Linked Programs Under Copyright Law, Commercial Licenses, and the GPL, 21 BERKLEY TECH. L.J. 1421, 1469 (2006).

[FN166]. *Id.*

[FN167]. 15 U.S.C. §§ 7001-7006, 7021, 7031 (2006).

[FN168]. 15 U.S.C. §§ 7006 (2006).

[FN169]. *Specht v. Netscape Commc'n Corp.*, 150 F. Supp. 2d 585, 591-92 (S.D.N.Y. 2001) (citing *Binder v. Aetna Life Ins. Co.*, 75 Cal. App. 4th 832, 850 (Cal. Ct. App. 1999)).

[FN170]. *Id.* at 587.

[FN171]. *Id.*

[FN172]. *Id.* at 595.

[FN173]. *MDY Indus., L.L.C. v. Blizzard Entm't, Inc.*, No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988, at *12 (D. Ariz. July 14, 2008) (citing *Sun Microsystems, Inc. v. Microsoft Corp.*, 188 F.3d 1115, 1121 (9th Cir. 1999)).

[FN174]. *Id.* at *25-26 (citing *Wall Data, Inc. v. Los Angeles County Sheriff's Dep't*, 447 F.3d 769, 784-85 (9th Cir. 2006)).

[FN175]. James A.D. White, *Misuse or Fair Use: That is the Software Copyright Question*, 12 BERKLEY TECH. L.J. 251, 307 (1997), available at: <http://www.law.berkeley.edu/journals/btlj/articles/vol12/White/htrnl/reader.html>; see *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908) (holding that the right to vend a book does not grant the owner of the copyright in the book the right to restrict the resale of the book after purchase by placing a notice inside the book restricting that resale).

[FN176]. 17 U.S.C. § 106 (2006).

[FN177]. *Id.* § 106(1).

[FN178]. 17 U.S.C. § 117 (2006).

[FN179]. *Id.* § 117(a) (1). It is necessary to make a copy of WoW into RAM, on the user's computer, in order to play WoW. The RAM copy is only used for playing WoW, a use within the scope of normal utilization. Therefore, a lawful copy of WoW is created when a user loads WoW into the RAM.

[FN180]. Michael Liberman, *Overreaching Provisions in Software License Agreements*, 1 RICH J.L. & TECH. 4, para. 1 (1995).

[FN181]. 17 U.S.C. § 106 (2006).

[FN182]. 17 U.S.C. § 109 (2006).

[FN183]. 17 U.S.C. § 107 (2006).

[FN184]. 17 U.S.C. § 102(b) (2006); *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 556 (1985).

[FN185]. Dennis S. Karjala, *Federal Preemption of Shrinkwrap and On-line Licenses*, 22 U. DAYTON L. REV. 511, 520-21 (1997).

[FN186]. *Id.* at 520.

[FN187]. *Id.*

[FN188]. 17 U.S.C. § 102 (2006).

[FN189]. Karjala, *supra*, note 185, at 521.

[FN190]. Lawrence Lessig, *In Defense of Piracy*, WALL ST. J., Oct. 11, 2008, at W3, available at <http://online.wsj.com/article/SB122367645363324303.html>.

[FN191]. White, *supra* note 175.

[FN192]. The digital equivalents of conventional print books are called eBooks.
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