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NEXT GENERATION COPYRIGHT MISUSE

Rebecca Sundin^{*}

INTRODUCTION

Identify a problem and determine a solution. When a new invention hits the market, innovators race to be the first to fill a unique niche in that market or to find a way to enhance the way the user experiences that new invention. This race has long benefitted the public by providing alternatives and upgrades at a relatively fast pace.¹ Intellectual property (IP) law is designed to reward inventors and artists with certain rights to control their works, but at the same time it limits those rights so others can use copyrighted works and the knowledge associated with them as a springboard to further innovation.²

In the past, IP has always manifested itself in tangible goods.³ However, the development of the Internet has led to the proliferation of intangible, digital services and media,⁴ exposing the content creators to new threats of attack, like piracy, which can occur at lightning speed.⁵ In response to this new threat of online piracy, Congress quickly passed the Digital Millennium Copyright Act (DMCA) in 1998 to prohibit the circumvention of access controls to online content.⁶ Access controls use various technological means to prevent unauthorized users from accessing a particular work.⁷ Examples of access

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¹ Zoe Argento, *Interpreting Chamberlain's "Reasonable Relation" Between Access and Infringement in the Digital Mill*, 2008 B.C. INTELL. PROP. & TECH. F. 102902 1, 10–11 (2008).

² Mark A. Lemley, *Ex Ante Versus Ex Post Justifications for Intellectual Property*, 71 U. CHI. L. REV. 129, 129–30 (2004).

³ Peter S. Menell, *Envisioning Copyright Law's Digital Future*, 46 N.Y.L. SCH. L. REV. 63, 64–66 (2003).

⁴ *Id.*

⁵ *See id.* at 66–67.

⁶ S. REP. NO. 1121 (1997).

⁷ Ryan Mitchell, *A Holistic Approach to the Digital Millennium Copyright Act*, 23 SYRACUSE SCI. & TECH. L. REP. 1, 5 (2010).

controls include password screens⁸ and encryption software,⁹ which prevent unauthorized downloading. However, Congress did not consider how this legislation would be used by copyright holders to extend copyright protection to ideas and information not traditionally protected under copyright law.¹⁰

To combat this unintended extension of copyright protection, some courts have adopted the infringement nexus standard, which requires that a plaintiff show that the defendant not only circumvented access controls, but that the defendant then engaged in some form of illicit copying.¹¹ The infringement nexus standard provides strong protection against the abuse of the DMCA's anti-circumvention provisions;¹² but, in recent software cases involving licensing and intangible goods, courts have been willing to abandon the nexus requirement. Software infringement often involves third-party developers who write software programs that are improvements or additions to software already on the market. By developing unauthorized improvements, third-party developers open themselves up to liability as contributory infringers.¹³ In order to find a third-party developer liable for contributory infringement, courts find themselves in the awkward position of first finding customers liable for direct infringement—an absurd finding that comes with high statutory damages against

⁸ U.S. v. Andrus, 483 F.3d 711, 718 (10th Cir. 2007) *decision clarified on denial of reh'g*, 499 F.3d 1162 (10th Cir. 2007).

⁹ Junger v. Daley, 209 F.3d 481, 482–83 (6th Cir. 2000).

¹⁰ See Dan L. Burk, *Anticircumvention Misuse*, 50 UCLA L. REV. 1095, 1097 (2003) (arguing that owners of digital copyright can use access controls, rather than “look to copyright infringement as a hedge against content infringement,” thus enabling them absolute protection without considering whether all content behind the access control is copyrightable subject matter).

¹¹ *Id.*

¹² See generally Brandon T. Crowther, *Keep Your Program Out of My Game: The Ninth Circuit's Convoluted Copyright Analysis in MDY Industries, Inc. v. Blizzard Entertainment, Inc.*, B.Y.U. L. REV. 461 (2012).

¹³ To illustrate, a third-party developer focuses on improving a software program that has already gone to market by creating an add-on product. This third-party developer then relies on selling its add-on software to the same customers using the original software. Customers must then login, or circumvent access controls, in order to use the original program and the add-on program together. In this way, the customers actually become the infringers because they must circumvent the access control. The third-party developer then becomes a secondary infringer by creating a program that can only be used if the customer circumvents the access controls on the original program.

a group that is mostly judgment-proof.¹⁴ Consequently, courts are more willing to recognize a copyright holder's nearly absolute right to access controls.¹⁵

Courts seem to have good intentions in avoiding that absurd result by abandoning the nexus, but this abandonment has led to a very powerful right that can easily be abused by the copyright holder.¹⁶ This Note argues that, in cases where copyright plaintiffs are using anti-circumvention provisions to keep competitors out of emerging software aftermarkets, courts must adopt a palatable standard of copyright misuse to allow defendants a valid defense.

In Part I, this Note discusses the principles of copyright, the evolution of the affirmative defense of copyright misuse, the basics of the DMCA anti-circumvention provisions, and the problems that result when these provisions are upheld without a nexus requirement. Part II recommends that courts adopt a narrowed version of copyright so that case law precedent can be established that fairly balances the rights of both second-comer innovators and copyright holders. Finally, Part III addresses the consequences of narrowing the defense and whether doing so will ultimately reduce its effectiveness as a deterrent against overexpansion of monopoly rights by copyright holders.

I. BACKGROUND

The Constitution gives Congress the power to grant authors a limited monopoly on the expression of their ideas through copyright with the intent of furthering the progress of the arts and science.¹⁷ Pursuant to the Copyright Clause, United States copyright law seeks to balance the rights of copyright holders to control their works with the desire to allow the public to access and use those works to further innovation.¹⁸ The purpose is to grant enough incentive for "writers" to create new works to add to the body of knowledge that will ultimately benefit the public. Without this incentive, many individuals would be unable to invest their time and resources into creating new works.¹⁹ As part of this limited monopoly, copyright holders are granted a bundle of rights that include reproduction rights, distribution rights, public display rights, public

¹⁴ See, e.g., *MDY Indus., LLC v. Blizzard Entm't, Inc.*, 629 F.3d 928, 941–42 (9th Cir. 2010) (discussing the technical differences between covenants and conditions; finding that without a nexus between a condition and an exclusive copyright, no infringement occurs, thus declining to find Blizzard's customer base liable for copyright infringement).

¹⁵ See generally Christopher Soghoian, *Caveat Venditor: Technologically Protected Subsidized Goods and the Customers Who Hack Them*, 6 *NW. J. TECH. & INTELL. PROP.* 46 (2007).

¹⁶ Burk, *supra* note 10, at 1135–36.

¹⁷ U.S. CONST., art. I, § 8, cl. 8.

¹⁸ Lemley, *supra* note 2, at 129–30.

¹⁹ *Id.*

performance rights, and rights in the control and development of derivative works.²⁰

Once creators receive a copyright, they are guaranteed protection from others who would infringe upon their rights through various forms of copying.²¹ Infringement occurs when an individual makes an unauthorized reproduction, distribution, display, public performance, or derivative work.²² Direct infringement occurs when an individual engages in one of these unauthorized forms of copying.²³ Additionally, when an individual induces or makes it possible for others to infringe a copyright, they may be liable for contributory infringement.²⁴

A. *Technological Circumvention of Copyrighted Works*

Technological advances have presented new challenges for courts and copyright holders. This section will consider these new challenges brought on by increased consumer demand for digital content and consider the reasons for introducing access controls.

Prior to the internet and the subsequent distribution of digital copies, it was very cumbersome to produce high-quality copies of books and music. While consumers have had access to copy machines and portable music players with copying capabilities,²⁵ consumers only received high-quality hard-copy versions by purchasing them from a store. Infringement of high-quality hard copies was less of a problem because it took a much longer time to create and distribute the product. Therefore, when an attempt to produce a high-quality hard-copy was made, copyright holders had more time to respond before losing control of their works. Now, however, pirates can produce and distribute digital copies across the internet almost instantaneously.²⁶

The media-consuming public has become more sophisticated and increasingly prefers content in digital format.²⁷ A recent report by Deloitte states

²⁰ 17 U.S.C. § 106 (2012).

²¹ MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 7.21[B][2] (Matthew Bender, rev. ed.) (2013).

²² *Definitions*, COPYRIGHT.GOV, <http://www.copyright.gov/help/faq/faq-definitions.html> (last visited Dec. 1, 2013).

²³ NIMMER & NIMMER, *supra* note 21.

²⁴ *Id.*

²⁵ *Types of Copyright Infringement*, SOFTWARE & INFORMATION INDUSTRY ASSOCIATION, http://www.siiia.net/index.php?option=com_content&view=article&id=353:types-of-content-infringements&catid=162:anti-piracy-articles&Itemid=385 (last visited Dec. 1, 2013).

²⁶ *Id.*

²⁷ *Digital Content Demand Rising as More Americans Use Mobile Devices*, BRAFTON (Jan. 10, 2012), <http://www.brafton.com/news/content-demand-rising-as-more-americans-use-mobile-devices>.

that thirty-three percent of Americans would prefer to access content on their smart phones or tablets and that forty-two percent of households own at least one device.²⁸ As a result, creators feel an ever-increasing pressure to provide content in digital formats.

Digital formats provide a wealth of benefits to users and publishers:²⁹ digital content is easier to deliver, less costly to produce, and can be customized by the individual user.³⁰ However, this format also exposes copyright holders to greater risk of illicit copying by others. Copies are much easier to reproduce and there is no discernible loss of quality.³¹

In order to protect the interests of copyright holders, media industries needed a new technological means for controlling their content so as to distinguish between pirates and legitimate customers.³² Various password protections, encryptions, and handshake technologies were introduced to ensure that only legitimate users are allowed access to their works. As new methods were introduced for controlling access to works, pirates and “hackers” worked diligently to overcome or circumvent these access restrictions, leading to an “arms race” in technology.³³ The threat of digital piracy across the globe captured the attention of the international community, and ultimately Congress, as it sought to work with the World Intellectual Property Organization (WIPO) to pass a treaty intended to protect United States copyright holders from international piracy.³⁴

B. The Legal Prohibition Against Circumvention

The rise in international piracy of digital works prompted Congress to pass the Digital Millennium Copyright Act (DMCA) in 1998. Courts have struggled to remain faithful to Congress’ intent, which has resulted in the adoption of several different standards of analysis. Initially, courts required a “nexus” between the circumvention of access controls and copyright violations.³⁵ However, courts have made an artificial distinction between cases involving hardware and software.³⁶ This section discusses the anti-circumvention provisions set forth in the DMCA, and the resulting expansion of control copyright holders have over their digital content. Next, the approaches

²⁸ *Id.*

²⁹ 5 *Benefits of Going Digital*, VITRIUM (Mar. 21, 2011), <http://www.vitrium.com/digital-content/5-benefits-of-going-digital/>.

³⁰ *Id.*

³¹ NIMMER & NIMMER, *supra* note 21.

³² H.R. REP. NO. 105-551 (1998) (Conf. Rep.).

³³ Mitchell, *supra* note 7, at 24 (describing how Sony added an access control to prevent “hackers” from accessing their technology and creating interoperable software).

³⁴ *Id.*

³⁵ MDY Indus., LLC v. Blizzard Entm’t, Inc., 629 F.3d 928, 949 (9th Cir. 2010).

³⁶ Soghoian, *supra* note 15, at 81–82.

taken by courts when faced with this expansion of rights are examined followed by a discussion of the problems associated with the differing standards. Finally, this section examines the affirmative defense of copyright misuse used to fight overreaching plaintiffs.

1. DMCA Prohibitions Against Circumvention

The DMCA was enacted to bring the United States into compliance with international WIPO treaties that address the problem of online piracy.³⁷ At the time of passage, copyright industries comprised six percent of the nation's GDP.³⁸ Additionally, approximately \$18 to \$20 billion dollars per year were lost to international piracy.³⁹

The prime motivation for passing the anti-circumvention provisions was to harmonize the efforts of the United States with those of the international community to prevent piracy of digital intellectual property. Three core provisions of the DMCA were adopted as anti-circumvention measures:⁴⁰ (1) a bar on circumventing access controls,⁴¹ (2) a prohibition on trafficking of devices and other technologies designed to circumvent access controls,⁴² and (3) a prohibition on the trafficking of devices and other technologies designed to circumvent rights controls.⁴³ Essentially, the prime motivation for passing the anti-circumvention provisions in 1201(a) and (b) was to have leverage with the international community to prevent piracy of digital intellectual property.⁴⁴

Access controls prevent people from accessing a digital format, regardless of whether the content is protected by copyright or not.⁴⁵ The DMCA provisions cited above were intended to prohibit people from circumventing the technical protection measures (TPMs) put into place by copyright holders. Many were alarmed that these provisions would provide a strong "right of access" to the copyright holder while seriously restricting the public domain.⁴⁶ Another

³⁷ H.R. REP. NO. 105-551 (1998) (Conf. Rep.).

³⁸ *Id.*

³⁹ *Id.*

⁴⁰ Mitchell, *supra* note 7, at 7.

⁴¹ 17 U.S.C. § 1201(a)(1)(A) (2012); Mitchell, *supra* note 7, at 7.

⁴² 17 U.S.C. § 1201(a)(2); Mitchell, *supra* note 7, at 7.

⁴³ 17 U.S.C. § 1201(b)(2); Mitchell, *supra* note 7, at 7.

⁴⁴ 143 Cong. Rec. S8582-83 (daily ed. July, 31, 1997) (statement of Sen. Hatch).

⁴⁵ Mitchell, *supra* note 7, at 7.

⁴⁶ *Digital Rights Management: A Failure in the Developed World, a Danger to the Developing World*, ELECTRONIC FRONTIER FOUNDATION, available at http://w2.eff.org/IP/DRM/drm_paper.php (last visited Dec. 1, 2013).

concern was the effect on fair use because the DMCA provisions are silent as to traditional copyright limitations.⁴⁷

2. Courts' Treatment of DMCA Violations

As a way to guard against a broadening of access rights, courts traditionally required both an access violation and a violation of a copyright granted under § 106.⁴⁸ To prove infringement, the circumvention of TMP had to result in the infringement of one of the default rights listed in § 106.⁴⁹ By interpreting the DMCA to require a “nexus” of violations, courts placed limitations on the anti-circumvention provisions by refusing to grant a broad “right of access” to the copyright holder, which would have given the copyright holder an absolute right to control access to digital content.⁵⁰ Instead, to prove infringement, the circumvention of TMP had to result in the infringement of one of the default rights listed in § 106. Without a violation of one of these default rights, courts were unwilling to find infringement based on access circumvention.⁵¹

For example, in *Chamberlain v. Skylink Tech.*,⁵² the Federal Circuit was presented with the question of whether creating a universal remote for garage door openers violated the copyright on the software that Chamberlain created to control its garage door openers.⁵³ Chamberlain added software to its openers to prevent a theoretical security issue in which a burglar could hide and copy the signal transmitted from the Chamberlain remote to the opener.⁵⁴ The software randomly created a new signal each time, making it impossible to copy.⁵⁵ While there were no incidents of burglars ever engaging in this type of break-in, the scrambled signal did make it much harder for aftermarket competitors to create compatible remotes.⁵⁶

In order to create the universal remote, Skylink had to bypass the garage door opener's access controls so that it could reverse engineer the software and

⁴⁷ Fred von Lohmann, *Fair Use and Digital Rights Management: Preliminary Thoughts on the (Irreconcilable?) Tension Between Them*, ELECTRONIC FRONTIER FOUNDATION, available at http://w2.eff.org/IP/DRM/fair_use_and_drm.html (last visited Dec. 31, 2013) (concluding that Congress has failed to provide limiting principles for DRM that will ultimately erode the public's right to fair use).

⁴⁸ 17 U.S.C. § 106 (2012) (including reproduction, distribution, display, and derivative works rights).

⁴⁹ *Id.*

⁵⁰ *Chamberlain Group, Inc. v. Skylink Tech., Inc.*, 381 F.3d 1178, 1197–98 (Fed. Cir. 2004).

⁵¹ *Id.*

⁵² *Id.*

⁵³ *Id.*

⁵⁴ *Id.* at 1183–85.

⁵⁵ *Id.*

⁵⁶ *Id.*

create its universal remote.⁵⁷ The court ultimately found that because customers purchased the garage door system, including the software, they were the new copyright holders and that purchasing the universal remote constituted their consent to allow Skylink to copy the software.⁵⁸ Notably, the court reasoned that if it held otherwise, anyone would be able to add a few lines of copyright notice to code and effectively bar competitors from being able to enter into a hardware aftermarket.⁵⁹ By requiring a “nexus” between access violations and infringement, the court found that even though Skylink circumvented Chamberlain’s access controls, Skylink did not engage in illicit copying.⁶⁰ Thus, the court was able to limit the rights granted by the anti-circumvention provisions of the DMCA and prevent them from being misused to prevent competition.

Courts have required an infringement nexus for hardware devices that run software because they can recognize that an abuse of access rights would prevent legitimate competition within hardware aftermarkets.⁶¹ However, Christopher Soghoian has noted that there is a disconnect in the way courts interpret the laws governing software aftermarkets.⁶² Most notably, in *MDY v. Blizzard Entertainment*, the Ninth Circuit abandoned the nexus requirement and recognized Blizzard’s access rights to its game, *World of Warcraft*, without finding that MDY had violated any of Blizzard’s § 106 rights.⁶³

In *MDY*, a *World of Warcraft* player named Michael Donnelly became frustrated with the amount of time required to “level up” alternate characters. Donnelly decided to create “Glider,” a program, or “bot,” that automatically played the character for the *Warcraft* subscriber, thereby freeing up the subscriber to work on other things.⁶⁴ Realizing its utility, Donnelly formed a company, MDY Industries, and made the bot available to other players for a subscription fee.⁶⁵ When Blizzard Entertainment became aware of the bot, it created its own detection software to restrict access to the server by preventing users from logging on if the bot was found running on the users’ systems.⁶⁶ This TPM would also run periodically throughout the game session to ensure that the player had not begun using the bot after successfully logging on to the Blizzard server.⁶⁷

⁵⁷ *Id.*

⁵⁸ *Id.*

⁵⁹ *Id.*

⁶⁰ *Id.* at 1203–04.

⁶¹ *Id.*

⁶² Soghoian, *supra* note 15, at 81–82.

⁶³ *MDY Indus., LLC v. Blizzard Entm’t, Inc.*, 629 F.3d 928, 935–36 (9th Cir. 2010).

⁶⁴ *Id.*

⁶⁵ *Id.*

⁶⁶ *Id.*

⁶⁷ *Id.*

In response, Donnelly continued to tweak his bot each time Blizzard modified its access controls, thereby resulting in competition between the parties to control Blizzard's customers' behavior.⁶⁸ Unlike the customers in *Chamberlain*, however, Warcraft players did not own the multiplayer world they were entering; they merely purchased a license to access this environment. Therefore, Blizzard wanted to classify its customers' behavior as copyright infringement, not to punish its customer base (which would be absurd),⁶⁹ but to enable them to pursue MDY as a secondary infringer.⁷⁰

The court seemed reluctant to classify customers as infringers,⁷¹ possibly because it realized that it would open the door for large companies to seek large statutory damages from its customers. Instead, the court made a formalistic distinction between covenants and conditions within a contract in order to find that Blizzard's customers had not infringed its copyright.⁷² However, the court made a surprising move when it found that the circumvention of Blizzard's access controls was wrongful, even though MDY had not illicitly copied.⁷³ By abandoning the nexus requirement, the Ninth Circuit recognized a new "right of access," bringing Dan Burk's fears to life—namely that large content providers would grow so powerful that they could engage in anti-competitive behaviors and dominate their own aftermarkets.⁷⁴

C. Problems with Abandoning the Nexus Requirement

Blizzard Entertainment is not the only large content provider that has attempted to stifle second-generation development. Other large content providers have also faced similar challenges from second-generation developers. In these cases, courts have found in favor of a copyright holder's independent right to control access and have largely avoided performing a misuse analysis.⁷⁵ For example, in *Craigslist, Inc. v. Naturemarket, Inc.*,⁷⁶ the Northern District of California found in favor of Craigslist and enjoined Powerpostings.com from

⁶⁸ *Id.*

⁶⁹ Soghoian, *supra* note 15, at 92.

⁷⁰ *MDY Indus.*, 629 F.3d at 939–40.

⁷¹ *Id.*

⁷² *Id.* (The court held that customers had violated copyright license terms. Since those terms do not limit the license's scope, the court held that these were "covenants" and that Blizzard could only act on the breach by bringing an action under contract law, not copyright infringement.)

⁷³ *Id.*

⁷⁴ Burk, *supra* note 10, at 1135–36.

⁷⁵ *MDY Indus.*, 629 F.3d at 941; *see also* Sony Computer Entm't Am., Inc. v. GameMasters, 87 F. Supp. 2d 976, 989 (N.D. Cal. 1999); *see also* Apple, Inc. v. Psystar Corp., 673 F. Supp. 2d 931, 940 (N.D. Cal. 2009).

⁷⁶ *See generally* Craigslist, Inc. v. Naturemarket, Inc., 694 F. Supp. 2d 1039 (N.D. Cal. 2010).

licensing its auto-posting software.⁷⁷ Powerpostings.com had overcome the CAPTCHA encryption⁷⁸ embedded on the Craigslist listing pages. This holding still stands despite the fact that the Ninth Circuit recently found that the content on the Craigslist site is not copyrightable.⁷⁹ Further, in *Facebook, Inc. v. Power Ventures, Inc.*, the Northern District of California again found in favor of the copyright holder, holding that Power Ventures could not create a third-party application that allowed users to voluntarily provide their Facebook logins and passwords in order to scrape⁸⁰ the user's own content⁸¹—content that Facebook states users own and to which it claims no copyright.⁸²

Additionally, when courts hold in favor of a copyright holder's rights of access, the controversies do not end there. As a result of such holdings, some software companies have relocated to countries with more favorable copyright laws. In *MDY*, the court found for Blizzard and assessed damages at \$6.5 million, enough to put MDY permanently out of business.⁸³ Yet, defeating this second-generation developer did not end the controversy. Instead, a new company, HonorBuddy, was formed in Germany.⁸⁴ HonorBuddy programs and sells licenses to second-generation bots that essentially perform the same function as the "Glider" bot built by MDY.⁸⁵ Further, although the *Craigslist* court enjoined Powerposter.com from licensing its bots, other software developers continue to provide these services from other countries.⁸⁶

⁷⁷ Powerpostings.com wrote a program that would automatically create multiple advertisements on Craigslist, going against the Craigslist end license user agreement which requires users to manually post ads. *See id.* at 1049. The manual posting requirement was to ensure that spammers would not flood the site with frivolous ads, but did not address the business needs of larger distributors capable of distributing products nationwide.

⁷⁸ CAPTCHA stands for "Completely Automated Public Turing test to tell Computers and Humans apart. *Id.* at 1048. This field requires a user to manually type the letters that appear in an image, a task that is difficult for bots to overcome. *See id.*

⁷⁹ Derek Khanna, *Craigslist's Allegations Of "Copyright" Violations Thrown Out*, FORBES (Apr. 30, 2013, 7:17 PM), <http://www.forbes.com/sites/derekkhanna/2013/04/30/craigslist-allegations-of-copyright-violations-thrown-out/>.

⁸⁰ "Scrape" is a word that programmers use when they write a program that automatically grabs information from one web page and inserts it into a database for display or use on another web page.

⁸¹ *See generally* Facebook, Inc. v. Power Ventures, Inc., 844 F. Supp. 2d 1025, 1031 (N.D. Cal. 2012).

⁸² *Statement of Rights and Responsibilities*, FACEBOOK, <https://www.facebook.com/legal/terms> (last visited Dec. 1, 2013).

⁸³ *MDY Indus., LLC v. Blizzard Entm't, Inc.*, 629 F.3d 928, 958 (9th Cir. 2010).

⁸⁴ HONORBUDDY, <http://www.honorbuddy.com/> (last visited Dec. 1, 2013).

⁸⁵ HONORBUDDY, [https://bossladgmbh.zendesk.com/attachments/token/niva0ozwn0ml0ag/?name=HonorBuddy+User+Manual+\[EN\].pdf](https://bossladgmbh.zendesk.com/attachments/token/niva0ozwn0ml0ag/?name=HonorBuddy+User+Manual+[EN].pdf) (last visited Dec. 1, 2013).

⁸⁶ For example, Clad Genius is a popular provider located out of Hong-Kong. CLAD GENIUS, <http://www.cladg.com/> (last visited Dec. 1, 2013).

If courts are going to abandon the nexus requirement, it is imperative that they find a way to give defendants a reasonable defense. This reasonable defense should support the rights of second-generation developers to participate in a robust software aftermarket and also honor the spirit of the DMCA. Moreover, given the above-mentioned ramifications, courts should reconsider their reluctance to perform a misuse analysis. By performing this analysis, courts can more readily separate defendants who illicitly copy from those simply attempting to compete in the software aftermarket.

D. The Defense of Copyright Misuse and Its Shortcomings

Copyright misuse is based on the contractual doctrine of unclean hands,⁸⁷ which denies equitable relief to a plaintiff who has also engaged in unfair behaviors.⁸⁸ Traditionally, defendants claim a plaintiff has unclean hands and attempt to show that the relief sought by the plaintiff was “illegal, fraudulent, or unfair”⁸⁹ because the plaintiff had also engaged in some type of wrongful conduct.⁹⁰ Upon a finding of unclean hands, courts could refuse to reward a plaintiff’s wrongful conduct by denying equitable.⁹¹

In order to invoke a defense of copyright misuse, a defendant must show that (1) a plaintiff violated antitrust laws, (2) a plaintiff attempted to extend its copyright over content or material not traditionally protected by copyright, or (3) the enforcement of the copyright goes against public policy for granting a copyright.⁹² A finding of misuse will also render a plaintiff’s copyright completely unenforceable.⁹³ This unique doctrine has evolved over the past thirty years, and courts have only considered it when the defendant has engaged in copyright infringement.

When a court considers misuse, it generally looks only for a relationship between the relief requested by the plaintiff and any attempt by the plaintiff to improperly expand the scope of its copyright.⁹⁴ Whether the defendant has been harmed by the plaintiff’s improper enforcement of its copyright does not factor into the analysis. Some have suggested that if copyright misuse were a formal cause of action, the plaintiff claiming misuse would have to show injury-in-fact stemming from the offensive use of copyright.⁹⁵ However, since copyright

⁸⁷ See James B. Kobak Jr., *A Sensible Doctrine of Misuse for Intellectual Property Cases*, 2 ALB. L.J. SCI. & TECH. 1, 3 (2013); see also Burk, *supra* note 10, at 1114–15.

⁸⁸ Kobak, *supra* note 87, at 10–11.

⁸⁹ *Id.*

⁹⁰ *Id.*

⁹¹ *Id.*

⁹² Burk, *supra* note 10, at 1124.

⁹³ *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970, 979 (4th Cir. 1990).

⁹⁴ *Id.*

⁹⁵ Meg Dolan, *Misusing Misuse: Why Copyright Misuse is Unnecessary*, 17 DEPAUL-LCAJ. ART & ENT. L. 207, 236–37 (2007).

misuse is an affirmative defense, the defendant is not required to show injury-in-fact. Moreover, if a court finds that one defendant has successfully asserted a copyright misuse defense, then any subsequent infringer can succeed by asserting this defense. As a practical matter, a finding that a plaintiff has engaged in copyright misuse renders its copyright completely unenforceable, though it does not invalidate the copyright itself.⁹⁶

The first modern recognition of copyright misuse was in *Lasercomb v. Reynolds*.⁹⁷ The Fourth Circuit made a landmark decision that rendered all claims of copyright infringement unenforceable if a company entered into any license agreement that was construed as misuse, regardless of whether or not the infringer was affected by the license.⁹⁸ In *Lasercomb*, the plaintiff wrote a piece of die-cutting software called Interact and informally licensed it to Holiday Steel who proceeded to make unauthorized copies and tried to resell the product as its own.⁹⁹ Even though Holiday never entered into a formal license agreement with Lasercomb, Holiday claimed copyright misuse because Lasercomb's standard license prohibited development of similar software.¹⁰⁰ The court found that there was an implied license and that because the standard agreement amounted to copyright misuse, the copyright was unenforceable for the entire period of the misuse.¹⁰¹ This finding is unusual because it appears that a defendant who normally would not have had standing to sue the plaintiff was able to assert a defense against the plaintiff's actions that had not caused the defendant injury.¹⁰²

After *Lasercomb*, courts have been hesitant to allow this affirmative defense, even though they are willing to recognize the important policy considerations behind the doctrine.¹⁰³ Courts are not unjustified in their reluctance to apply copyright misuse within this context. A finding of copyright misuse imposes a severe penalty on the plaintiff as it prevents copyright holders from enforcing their copyrights until misuse has been cured.¹⁰⁴ This has a significant impact on large companies because it renders many clear instances of infringement unactionable, opening a huge window for piracy and other bad conduct.

When used improperly, the anti-circumvention provisions of the DMCA acts as a sword to discourage competition instead rather than as a shield to

⁹⁶ NIMMER & NIMMER, *supra* note 21, § 13.09.

⁹⁷ *Lasercomb America*, 911 F.2d at 979.

⁹⁸ *Id.*

⁹⁹ *Id.* at 971.

¹⁰⁰ *Id.* at 972.

¹⁰¹ *Id.* at 979.

¹⁰² Dolan, *supra* note 95, at 236–37.

¹⁰³ *MDY Indus., LLC v. Blizzard Entm't, Inc.*, 629 F.3d 928, 941 (9th Cir. 2010); *see also Sony Computer Entm't Am., Inc. v. GameMasters*, 87 F. Supp. 2d 976, 989 (N.D. Cal. 1999); *Apple, Inc. v. Psystar Corp.*, 673 F. Supp. 2d 931, 940 (N.D. Cal. 2009).

¹⁰⁴ *Id.*

protect against piracy.¹⁰⁵ Courts have a responsibility to protect the rights granted to large content providers, but they also have an equal responsibility to make sure that protection is not used inappropriately. Acknowledging the viability of a misuse defense without actually engaging in the factual analysis does little to protect legitimate second-generation developers.

One scholar describes two categories of copyright misuse,¹⁰⁶ both of which occur when large content providers improperly restrict second-generation development through the use of access controls. The first category of misuse¹⁰⁷ occurs when copyright holders assert their rights in order to prevent others from participating in the market, which violates antitrust laws.¹⁰⁸ The second category occurs when a copyright holder attempts to extend its copyright beyond the scope of the rights granted by Congress.¹⁰⁹ In cases involving the software aftermarket, both categories of misuse work in concert to prevent the second-generation developer from competing in the market. All a copyright holder has to do is place its content behind an access control as defined in the DMCA. If the content would otherwise not be protected by copyright, then the copyright holder has essentially used its “right of access” to prevent others from developing additions that would otherwise have been permissible but for the implementation of an access control. Accused second-generation developers must be afforded an affirmative defense to protect themselves from copyright misuse so as to prevent them from being unfairly shut out of the software aftermarket.

II. MODIFIED COPYRIGHT MISUSE AS A SOLUTION

A narrowed approach to copyright misuse would ease the courts’ reluctance to impose stiff penalties on plaintiffs, as well as satisfy the defendants’ need for an affirmative defense. First, this Part advocates that courts should require defendants to show actual injury before allowing them to assert the affirmative defense of copyright misuse. Next, this Part argues that courts should sever from an agreement any terms or practices that constitute misuse. Finally, this Part asserts that a narrow approach to copyright misuse would remove unfair impediments to competition, improve efficiency of litigation, and rebalance power between large content providers and new developers entering an emerging software after-market.

¹⁰⁵ Burk, *supra* note 10, at 1135–36.

¹⁰⁶ Kathryn Judge, *Rethinking Copyright Misuse*, 57 STAN. L. REV. 901, 903–04 (2004).

¹⁰⁷ *Id.*

¹⁰⁸ See *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970, 979 (4th Cir. 1990) (holding that Lasercomb’s anticompetitive clauses in its standard licensing agreement constitute misuse of copyright).

¹⁰⁹ Judge, *supra* note 106, at 904.

A. Discussion of Tailored Version of Copyright Misuse

Courts should require defendants to show evidence of a harm resulting from a specific contract provision or actual act of alleged copyright misuse on the part of the plaintiff. One critic of the copyright misuse doctrine, Meg Dolan, has rightfully argued that under the current copyright misuse doctrine, a copyright pirate can claim the affirmative defense without showing that it has been harmed by the overreaching term or practice.¹¹⁰ Dolan calls this “representative standing” and claims that it falls short of the standing requirements imposed by article III of the Constitution¹¹¹ because an infringer would not have to show injury-in-fact from the alleged copyright misuse in order to allege that the copyright holder has engaged in misuse.¹¹² It is difficult to imagine a court affording this kind of defense to a wrongdoer because it may serve to encourage infringers to find fault with an otherwise proper copyright. The stiff penalty imposed on the plaintiff for misuse seems overly harsh in instances where the defendant has not been harmed and would otherwise be found to have illicitly copied protected content.

By requiring the defendant to show that it has actually been harmed by the overbroad term or practice, the court will not be faced with the strange situation of penalizing an otherwise righteous plaintiff and rewarding an otherwise infringing defendant. While this change seems to abandon the doctrine of unclean hands, it really only serves to focus the court’s review on the specific controversy before it. A plaintiff’s terms or practices that constitute copyright misuse would only become relevant if they are applicable to the case at hand. If they apply, the plaintiff can then rightfully be deemed to have entered the court with unclean hands. If not, the terms or practices should be considered moot. This doctrinal change would protect copyright holders who seek to legitimately enforce their rights and allow courts to focus solely on the facts presented.

Next, when courts are presented with a licensing agreement that contains a violative term, courts should have the ability to sever that copyright term from the agreement. For example, in *MDY*, Blizzard Entertainment revised its end-user license agreement to include the use of second-generation bots under behavior it classified as copyright infringement:¹¹³

The license granted to you in Section 1 is subject to the limitations set forth in Sections 1 and 2 (collectively, the “License Limitations”). Any use of the Game in violation of the License Limitations will be regarded as an

¹¹⁰ Dolan, *supra* note 95, at 236–37.

¹¹¹ U.S. CONST. art. III, § 1. In *Lujan v. Defenders of Wildlife*, the court found that standing requirements include injury-in-fact, causation, and redressability. *See generally* 504 U.S. 555 (1992).

¹¹² Dolan, *supra* note 95, at 236–37.

¹¹³ *MDY Indus., LLC v. Blizzard Entm’t, Inc.*, 629 F.3d 928, 936 (9th Cir. 2010).

infringement of Blizzard's copyrights in and to the Game. You agree that you will not, under any circumstances . . . use cheats, automation software (bots), hacks, mods or any other unauthorized second-generation software designed to modify the World of Warcraft experience.¹¹⁴

The court in this case engaged in a highly technical and time-consuming analysis of contract law in order to find that Blizzard's customers were not actually copyright infringers.¹¹⁵ It would have been much more efficient for the court to simply look at this particular term, find that it was overbroad in its attempt to protect Blizzard's copyright, and strike it from the end-user license agreement. Striking the offensive term on grounds that it constitutes copyright misuse would leave the remainder of the copyright protections enforceable and allow legitimate second-generation developers the ability to continue to innovate and compete. Once the term or practice has been declared invalid, the court can then analyze the facts before it to determine whether infringement has occurred. This solution will allow courts to conduct a misuse analysis without being faced with the prospect of rendering a large content provider's copyright entirely unenforceable.

In sum, this solution would ultimately protect the interests of both plaintiffs and defendants. Plaintiffs would be free to litigate against accused infringers without fearing the loss of all copyright protection, and defendants would be assured an affirmative copyright misuse defense provided they can prove actual harm resulted from that misuse.

B. Advantages of a Narrowed Approach to Copyright Misuse

The advent of online communities, products, and services has given rise to the belief that developers have an absolute right to control every aspect of the new world, or "walled garden," that they have created.¹¹⁶ After all, copyright law considers software a literary expression,¹¹⁷ and so it seems instinctively fair that the right to control upgrades and additions belongs to the original creator under a derivative works right.

However, this is an overly simplistic view. Courts have long acknowledged that aspects of software are purely functional,¹¹⁸ and that

¹¹⁴ *World of Warcraft End User License Agreement*, BLIZZARD (last updated Aug. 22, 2012), http://us.blizzard.com/en-us/company/legal/wow_eula.

¹¹⁵ *MDY Indus.*, 629 F.3d at 939–41.

¹¹⁶ *Walled Garden*, TECHOPEDIA, <http://www.techopedia.com/definition/2541/walled-garden-technology> (last visited Nov. 30, 2013).

¹¹⁷ *Definitions*, 17 U.S.C § 101 (2012).

¹¹⁸ *See generally* Computer Assoc. Int'l, Inc. v. Altai, Inc., 982 F.2d 693 (2d Cir. 1992).

functional copyrights are typically thin.¹¹⁹ The addition of anti-circumvention provisions provide courts with a tempting, but ultimately damaging, shortcut by allowing them to simply find infringement of this new absolute right instead of performing the misuse analysis.

A review of the past fifteen years has shown that the DMCA circumvention protections have helped copyright holders protect their digital content from piracy, but they have also enabled copyright holders to expand the scope of the protections to include non-copyrighable materials.¹²⁰ These holdings have unintentionally encouraged abuse by allowing copyright holders to corner their respective aftermarkets by allowing them to build a walled garden where they can develop enhancements exclusively and at their own pace.¹²¹

Courts have a responsibility to make sure that the public interest is served by removing unfair impediments to competition, even in difficult technical cases. By narrowing the scope of misuse, courts should be more willing to find in favor of defendants who adequately plead the affirmative defense. Allowing this defense prevents copyright holders from abusing their anti-circumvention rights, which ultimately benefits the public by way of additional competition and a wider variety of available products and services.

Courts can also provide a certain amount of predictability for innovators who seek to enter the software aftermarket. By narrowing the misuse defense, a finding in favor of defendants would avoid destruction of all of the plaintiffs' copyright protections. Not only would a narrowed misuse defense protect plaintiffs' from harsh penalties, it would simultaneously acknowledge that new innovators also occupy a legitimate space in the market. As a result, copyright law would encourage second-generation innovators to enter the software aftermarket and would avoid forcing these innovators to take drastic measures such as moving their businesses overseas.

Additionally, recognizing misuse would ultimately result in fewer lawsuits. Once the courts apply the narrowed standard in a few cases and establish a solid precedent, the law will become clear to copyright holders and second-generation innovators alike. A clear precedent will act as a guide to potential plaintiffs looking to file suit and simultaneously discourage them from filing meritless DMCA complaints.

Finally, these improvements rebalance the shift in power between copyright holders and second-generation innovators—a shift that has occurred since the passage of the DMCA anti-circumvention provisions. As Dan Burk predicted, large corporate copyright holders like Blizzard, Craigslist, and Facebook have been able to protect portions of the intangible market that, had

¹¹⁹ *Unintended Consequences: Fifteen Years under the DMCA*, ELECTRONIC FRONTIER FOUNDATION (Mar. 2013), <https://www.eff.org/pages/unintended-consequences-fifteen-years-under-dmca>.

¹²⁰ *Id.*

¹²¹ *Id.*

they existed in the physical world, would likely not have been protected under copyright law.¹²² Courts will serve the public interest by encouraging software improvements if they permit second-generation developers to assert copyright misuse when these developers circumvented access controls, not to copy, but to provide additional supporting programs that complement an existing application. When additional programmers are encouraged to participate in the market, more programs are created, thereby creating a greater selection of online products and services. Additionally, more minds working on problems contribute to the “Progress of Science” as the founders intended.¹²³

III. A NARROWED VERSION OF COPYRIGHT MISUSE STRIKES THE RIGHT BALANCE BETWEEN RELUCTANT COURTS AND COPYRIGHT ABUSERS

Although approaches and reactions to the misuse doctrine have varied greatly over the last twenty-five years, courts must recognize the copyright misuse defense in order to restore a proper balance to copyright law in the digital age.

Critics like Megan Dolan have suggested that copyright misuse is an inappropriate affirmative defense. In her article *Misusing Misuse*, Dolan points out that misuse is a common law doctrine never codified or sanctioned by Congress.¹²⁴ Without this recognition by Congress, she argues that courts should not be allowed to apply a body of common law that is seemingly contrary to Congressional intent.¹²⁵

While it is true that copyright misuse is a common law doctrine, it has evolved because Congress did not adequately articulate its intent. Courts have varied widely in their opinions of how the language in §§ 1201(a) and (b) ought to be interpreted, resulting in a circuit split between the Federal and Ninth Circuits.¹²⁶ Without clear guidance from Congress, courts are forced to rely on common law doctrine and public policy in order to interpret these provisions in good faith.

Courts, therefore, must look to two centuries of copyright policy that has consistently required the protection of the rights of copyright holders. However, the Supreme Court has ruled that protection does not extend to ideas and

¹²² Burk, *supra* note 10, at 1139 (Burk actually pointed to Microsoft and Intel, but his point is just as applicable in these more recent examples.).

¹²³ U.S. CONST., art. I, § 8, cl. 8.

¹²⁴ Dolan, *supra* note 95, at 243.

¹²⁵ *Id.*

¹²⁶ *Compare* Chamberlain Group, Inc. v. Skylink Tech., Inc., 381 F.3d 1178, 1192–94 (Fed. Cir. 2004) *with* MDY Indus., LLC v. Blizzard Entm’t, Inc., 629 F.3d 928, 950–52 (9th Cir. 2010).

functionality.¹²⁷ In this light, the *Chamberlain* court's reasoning is persuasive in that the DMCA anti-circumvention provisions were not intended to cover subject matter or functionality not traditionally protected.

Additionally, Dolan reasons that misuse should be rejected completely because it provides ill-advised economic incentives for copyright infringers.¹²⁸ However, her reasoning fails to consider the possibility of narrowing the defense, which would alleviate her concerns about incentives. Kathryn Judge has offered one proposal for making the doctrine more palatable to courts.¹²⁹ She argues that upon a finding of misuse, the copyright should be suspended with the right to cure.¹³⁰ In other words, if a defendant succeeds in his copyright misuse defense, the copyright holder is then given the opportunity to fix the misuse before proceeding with the infringement claims.¹³¹ The merits to such an approach are not insubstantial. This approach would have the practical effect of allowing a copyright holder to update its policies or offending practices before resuming its infringement suit in an attempt to attain damages. Infringers would also have notice that while their infringing activities might not be punishable at the moment, they could face suits after the copyright holder cures its bad practices.

This approach might ease some of the apprehension courts have in finding misuse, but, ultimately, such an approach may add administrative burden and costs to all parties involved based on the second suit brought after misuse is cured. Although other approaches have some merit, adopting the narrowed approach to copyright misuse provides the best solution. It allows courts to act quickly to render overreaching terms invalid; thus, the narrowed approach provides relief that addresses only the harmful terms without invalidating or suspending protection to legitimate subject matter.

CONCLUSION

The time has come for the courts to recognize the next generation of copyright misuse. While the DMCA provides strong copyright protections against online piracy of digital content, these same protections are being exploited by copyright holders to lock out competition by barring access to material not traditionally protected by copyright.

Courts, therefore, should adopt a narrow doctrine of copyright misuse that restricts the affirmative defense to defendants who can show they have been harmed by the misuse. Additionally, courts should have the flexibility to strike

¹²⁷ See *Baker v. Selden*, 101 U.S. 99 (1879) (codified under 17 U.S.C. § 102(b) (2012)).

¹²⁸ Dolan, *supra* note 95, at 230–32.

¹²⁹ Judge, *supra* note 106, at 950–52.

¹³⁰ *Id.*

¹³¹ *Id.*

terms or practices that copyright holders have adopted to unfairly protect ideas that would otherwise be available to second-generation developers. Adopting this modified form of misuse will recalibrate the balance of power between copyright holders and second-generation developers by allowing courts to minimize penalties on copyright holders when merited, while, at the same time, allowing second-generation developers access to the information needed to compete in emerging software aftermarkets.