

**ENFORCEMENT OF OPEN SOURCE SOFTWARE LICENSES:  
THE *MDY TRIO*'S INCONVENIENT COMPLICATIONS**

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**ABSTRACT**

*The Federal Circuit's ruling in Jacobsen v. Katzer finally settled the question of whether open source licenses are enforceable. Unfortunately, three recent cases from the Ninth Circuit have complicated matters. I call this trio of cases the "MDY Trio" in honor of the Ninth Circuit's prior trio of licensing cases known as the "MAI Trio." On the surface, the MDY Trio provides a boost for the enforceability of software licenses, but the MDY Trio also creates two significant complications for open source licenses. First, the MDY Trio's test for distinguishing between licenses and copyright "first sales" does not fit open source licenses. Second, the MDY Trio's method of delineating between contractual covenants and license conditions will prevent many open source licensors from obtaining injunctive relief. This complication is particularly dire because injunctive relief is the most critical remedy in enforcing open source licenses. My article proposes a modification to the MDY Trio's test for determining whether a transaction is a license or first sale that better fits open source licenses. The article also proposes a more effective approach to distinguishing between contractual covenants and license conditions by focusing on remedies. My alternative approach capitalizes on the experience of trial courts in granting injunctive relief, serves the public policies underlying copyright and contract law, and better fits open source licenses. Given the importance of licensing as a transaction model in the information economy, other federal courts soon will be deciding whether to follow or diverge from the MDY Trio's lead in future licensing cases.*

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## INTRODUCTION

In the past, if a software “hacker”<sup>1</sup> happened to meet an American lawyer, the first question the hacker would ask the lawyer is this: “Are open source software licenses enforceable in the United States?” Lawyers usually gave three answers to that question. First, since courts in the United States enforced other types of mass-market software licenses, a lawyer might say that surely courts would enforce open source licenses as well. Second, a lawyer might say that some courts outside the United States enforced them. And finally, a lawyer might say that because people are abiding by the terms of open source licenses as if they were enforceable, for all intents and purposes the licenses are self-enforcing. These answers seldom satisfied software hackers who retorted, “Give me a clear ‘yes’ or ‘no’ answer!” Now lawyers can give a clear “yes” answer, thanks to the Court of Appeals for the Federal Circuit’s ruling in *Jacobsen v. Katzer*.<sup>2</sup> Or at least lawyers *could* until three recent cases decided by a single 3 judge panel of the Court of Appeals for the Ninth Circuit: *Vernor v. Autodesk*, *MDY Industries v. Blizzard Entertainment*, and *UMG Recordings v. Augusto*.<sup>3</sup> I call these cases the “MDY Trio”<sup>4</sup> to honor the Ninth Circuit’s prior trio of licensing cases known as the “MAI Trio” (so named for the *MAI Systems v. Peak Computer* case<sup>5</sup>).

*Vernor v. Autodesk* arose when Autodesk attempted to enforce a software license prohibiting the resale of copies of its AutoCAD software. *MDY Industries v. Blizzard Entertainment* focused on Blizzard Entertainment’s attempt to enforce its software license and on-line terms of use that prohibited gamers from deploying robots to play the World of Warcraft game for them in order to move up game levels. *UMG Recordings v. Augusto* involved an attempt by a music record company to enforce an “evaluation only” condition that accompanied music

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<sup>1</sup> Software developers with a passion for programming are called “hackers.” See THE NEW HACKER’S DICTIONARY 233-34 (3d ed. 1996). In common parlance the word hacker often refers to programmers who create software viruses and worms but among serious programmers the term carries a positive connotation as in “I’m hacking some code to fix that bug.” See *id.* at 234; STEVEN LEVY, HACKERS: HEROES OF THE COMPUTER REVOLUTION (1984).

<sup>2</sup> *Jacobsen v. Katzer*, 535 F.3d 1373, 1385 (Fed. Cir. 2008).

<sup>3</sup> *Vernor v. Autodesk*, 621 F.3d 1102 (9th Cir. 2010); *MDY Industries v. Blizzard Entertainment*, 629 F.3d 928 (9th Cir. 2010); *UMG Recordings v. Augusto*, 628 F.3d 1175 (9th Cir. 2010). The three judges sitting on the panel were William C. Canby, Jr., Consuelo M. Callahan, and Sandra S. Ikuta.

<sup>4</sup> “MDY,” of course, refers to *MDY Industries v. Blizzard Entertainment*.

<sup>5</sup> 991 F.2d 511 (9th Cir. 1995). The other two cases in the trio are *Wall Data, Inc. v. Los Angeles County Sheriff’s Dept.*, 447 F.3d 769 (9th Cir. 2006) and *Triad Sys. Corp. v. Se. Express Co.*, 64 F.3d 1330 (9th Cir. 1995).

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CDs sent unsolicited by the record company to professional music reviewers.

The Ninth Circuit panel released the *Vernor* decision first. In enforcing Autodesk's software license, the court articulated a new test for determining when a transaction should be characterized as a license and when it should be characterized as a Copyright Act "first sale." The Ninth Circuit panel released the *MDY* decision next. In *MDY*, the court applied the *Vernor* test and ruled that Blizzard Entertainment had licensed its game software rather than sold a copy of it.<sup>6</sup> The *MDY* court then turned its attention to the actual license terms to decide whether the court would grant injunctive relief for breach of the license. This determination rested on whether a given license term could be characterized as a "condition" on the grant of copyrights or, instead, a run-of-the-mill contractual covenant. The court's *MDY* opinion articulated a new test for evaluating whether a license term is a license condition or, instead, a contractual covenant. Last, the panel released the *Augusto* decision. In a relatively brief opinion, the court simply applied the *Vernor* test to hold that the transaction amounted to a Copyright Act first sale rather than a license, based on all the facts and circumstances surrounding the transaction.

The *MDY Trio* addresses two important issues in software licensing. First, it addresses the issue of when a software transaction should be characterized as a Copyright Act "first sale"<sup>7</sup> and when it should be characterized as a "license."<sup>8</sup> This determination affects the software user's right to use or redistribute a software copy that he or she acquired. If a transaction is a license, then the software user must abide by the scope of use and distribution described in the license agreement; if the transaction is a first sale, then the user can ignore any such restrictions on use or distribution of the copy. Second, even if a software transaction qualifies as a license, certain terms of the license can be characterized as contractual covenants and other terms as license

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<sup>6</sup> Even though this Article points out the importance of the *MDY Industries* case in the context of software licensing, it is equally notable for its application of the Digital Millennium Copyright Act in a manner that differs from the Federal Circuit's approach in *Chamberlin Group, Inc. v. Skylink Techs.*, 381 F.3d 1178 (Fed. Cir. 2004) and *Storage Tech. Corp. v. Custom Hardware*, 421 F.3d 1307 (Fed. Cir. 2005). See also Jessica Gallegos, Note, *A New Role for Tortious Interference in the Digital Age: A Model to Enforce End User License Agreements*, 38 FLA. ST. U. L. REV. 411 (2011) (discussing *MDY*'s treatment of tortious interference with contract).

<sup>7</sup> See 17 U.S.C. §109(a) (2006).

<sup>8</sup> See generally JAY DRATLER, LICENSING OF INTELLECTUAL PROPERTY (1999); ROGER MILGRIM, MILGRIM ON LICENSING (1999); RAYMOND T. NIMMER & JEFF C. DODD, MODERN LICENSING (2005); XUAN-THAO NGUYEN, ROBERT W. GOMULKIEWICZ & DANIELLE M. CONWAY, INTELLECTUAL PROPERTY, SOFTWARE & INFORMATION LICENSING: LAW & PRACTICE (2006).

conditions. This characterization affects the remedies available for breach of the license contract. If a licensee violates a covenant, then the licensee is liable to pay damages for breach of contract; however, if the licensee violates a license condition, then this breach may also infringe the licensor's rights under the Copyright Act, giving the licensor the ability to obtain injunctive relief.

On the surface, the *MDY Trio* appears to provide a boost for the enforceability of software licenses. Some commentators have argued that most end user software transactions should be treated categorically as first sales rather than (to use software industry parlance) End User License Agreements ("EULAs"), but the *MDY Trio* rejects that argument. The *MDY Trio*, like most software licensing cases in the United States, upholds a software developer's ability to choose mass-market end user licensing as a transaction model. Indeed, open source licensing is one of the most valuable software licensing practices that benefits from a policy that upholds licensing as a transaction model. As articulated by the Federal Circuit in *Jacobsen v. Katzer*, "Open source licensing has become a widely used method of creative collaboration that serves to advance the arts and sciences in a manner and at a pace that few could have imagined just a few decades ago."<sup>9</sup>

Below the surface, however, the *MDY Trio* creates inconvenient complications for open source licensing. First, the *MDY Trio*'s test that distinguishes between licenses and copyright first sales does not fit open source licensing because it focuses too much on use and transfer restrictions, neither of which are present in open source licenses. Under the *MDY Trio*'s test, many popular open source licenses such as the GNU General Public License ("GPL") will not qualify as licenses. Second (and more dire), the *MDY Trio*'s method of delineating between contractual covenants and license conditions will prove problematic for open source licensing, depriving open source licensors of the ability to obtain injunctive relief for breach of key open source licensing terms. For example, the all-important "share alike" term in the GPL may not qualify as a license condition. Consequently, a GPL licensor's only useful remedy—injunctive relief—would not be available if a licensee fails to "share alike."

This Article argues that the best way to reconcile the *MDY Trio*'s license/first sale test with open source licensing is to read the test as one way, but not the only way, to prove that a transaction is a license. In other words, if a transaction meets the test it certainly qualifies as a license; however, there may be other

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<sup>9</sup> 535 F.3d 1373, 1378 (Fed. Cir. 2008). "There are substantial benefits, including economic benefits, to the creation and distribution of copyrighted works under public licenses that range far beyond traditional license royalties." *Id.* at 1379.

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ways to demonstrate that a transaction is a license, such as by showing that the user received permission to exercise more copyrights than the user would have under a first sale. If the user gets more rights, as the user naturally would under an open source license, then the transaction is not a first sale.

This Article also critiques the *MDY Trio*'s test for determining whether a particular term in a license should be deemed a contractual covenant rather than a license condition. In particular, it argues that the *MDY Trio*'s test puts trial courts in the difficult position of drawing critical bright lines based on sketchy criteria, namely whether a purported condition has a “nexus” with or “grounding” in an exclusive copyright. Instead, the Article proposes shifting the analysis to the remedies aspect of the case, where the court is better situated to consider the “nexus” and “grounding” factors along with other important factors such as whether granting injunctive relief would promote copyright and contract-related policies. In other words, since the condition/covenant distinction really only matters as it relates to the availability of injunctive relief, it is better to focus there. This approach also capitalizes on trial courts' experience in weighing a variety of facts and circumstances in granting injunctive relief. Depending on the strength of the licensor's showing that granting relief meets various licensing-related equitable factors, especially the factors highlighted in the *MDY Trio* and whether granting relief advances the public policies underlying contract and copyright law, then the trial court could grant (or refuse to grant) injunctive relief as appropriate to a particular license transaction. This sliding scale approach works better for all software licenses but especially open source licenses. The impact can be illustrated by using an example from the GPL. In a dispute between two sophisticated hackers, if the trial court finds a breach of the “share alike” obligation of the GPL, the court would be likely to grant injunctive relief using this Article's approach; using the *MDY Trio*'s test, it would not.

Section I of the Article provides a general description of open source licensing, including the importance of injunctive relief as a remedy for breach of open source licenses. Section II describes the debate about whether software transactions should be characterized as licenses or first sales and the implications of the characterization, the *MDY Trio*'s approach to delineating between the two, the complications this approach creates for open source licensing because of the court's focus on use and distribution restrictions, and my analysis for reading the *MDY Trio*'s test in a manner that better fits open source licensing. Section III delves into the distinction between contractual covenants and license conditions, the implications this distinction has for injunction

remedies, the *MDY Trio's* approach to making the distinction, which forces a trial court to identify a clear boundary based on relatively sketchy criteria, and my proposal for an alternative approach which deploys the court's test (along with other criteria) in a more useful fashion and in a more appropriate setting—at the remedies phase of a case.

## I. OPEN SOURCE LICENSES: THEIR NATURE AND ENFORCEABILITY

### A. *The Nature of Open Source Licenses*

Use of the “open source” terminology can be confusing. Sometimes open source simply refers to a basic philosophy of freely sharing ideas, research, and materials. In this usage, people “open source” everything from classroom materials to information about distant solar systems.<sup>10</sup> Other times open source refers to the software development model that is typically used in the open source community. In that model, a programmer creates software and posts the source code on the Internet, and a community grows up around the software as developers exchange bug fixes and new features.<sup>11</sup> For purposes of this Article, however, the term open source refers to licensing software under open source licensing principles. Although open source licensing used to be obscure, many commentators now have described its nature and purposes.<sup>12</sup>

In open source licensing the word “source” refers to software in its source code form. Programmers write software in source code form using a computer language such as Basic or C. Anyone proficient in the computer language can read and understand the source code.<sup>13</sup>

The word “open” refers to the Open Source Definition (OSD).<sup>14</sup> An organization called the Open Source Initiative<sup>15</sup>

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<sup>10</sup> See generally CHRISTOPHER M. KELTY, *TWO BITS: THE CULTURAL SIGNIFICANCE OF FREE SOFTWARE* (2008).

<sup>11</sup> See generally STEVEN WEBER, *THE SUCCESS OF OPEN SOURCE* (2004).

<sup>12</sup> See generally HEATHER J. MEEKER, *THE OPEN SOURCE ALTERNATIVE: UNDERSTANDING RISKS AND LEVERAGING OPPORTUNITIES* (2008); LAWRENCE ROSEN, *OPEN SOURCE LICENSING: SOFTWARE FREEDOM AND INTELLECTUAL PROPERTY LAW* (2005); Robert W. Gomulkiewicz, *How Copyleft Uses License Rights to Succeed in the Open Source Software Revolution and the Implications for Article 2B*, 36 HOUS. L. REV. 179, 185 (1999) [hereinafter “How Copyleft Uses License Rights”].

<sup>13</sup> See *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240, 1243 (3d Cir. 1983) (describing source and object code).

<sup>14</sup> See Ken Coar, *Open Source Initiative*, THE OPEN SOURCE DEFINITION, <http://www.opensource.org/docs/osd> (last visited May 24, 2011).

<sup>15</sup> Michael Tiemann, *Open Source Initiative*, ABOUT THE OPEN SOURCE INITIATIVE, <http://www.opensource.org/about> (last visited May 24, 2011).

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created the OSD, which sets out general principles that a license must meet to be considered open source. For example, the OSD requires that an open source license grant the unencumbered right to use, make modifications, and distribute the licensed software.<sup>16</sup> The Free Software Foundation (FSF) prefers the term “free” rather than “open” to emphasize that the goal is to keep the software “free as in freedom.”<sup>17</sup> Some programmers use the term “FOSS” to refer to free and open source software. Other names for open source licenses include “public,” “community,” “copyleft,” and “share and share alike.”<sup>18</sup> From here, this Article adopts the FOSS nomenclature.

FOSS stands in contrast to binary use software (BUS),<sup>19</sup> typically called proprietary<sup>20</sup> or commercial<sup>21</sup> software, which is software licensed in object code form primarily for end use only.<sup>22</sup> Binary (or object) code is software in machine-readable form that cannot be understood by humans. When distributed in binary form, software retains the secrecy of its inner workings (bolstered by provisions in the license contract against decompiling); this is important because some programmers view these inner workings as a valuable trade secret.<sup>23</sup> Beyond retention of trade secrets, programmers employ BUS licensing because so few software users have skill or interest in looking at or modifying source code.<sup>24</sup>

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<sup>16</sup> *Id.*

<sup>17</sup> See RICHARD M. STALLMAN, *Why “Free Software” is Better than “Open Source,”* in FREE SOFTWARE, FREE SOCIETY: SELECTED ESSAYS OF RICHARD M. STALLMAN 55, 56–58 (Joshua Gay ed., 2002).

<sup>18</sup> See Robert W. Gomulkiewicz, *Debugging Open Source Software Licensing*, 64 U. PITT. L. REV. 75, 76 n.8 (2002) [hereinafter Gomulkiewicz, *Debugging*]; see also *Jacobsen v. Katzer*, 535 F.3d 1373, 1378 (Fed. Cir. 2008) (referring to “public” licenses); Richard M. Stallman, *What is Copyleft?*, in FREE SOFTWARE, FREE SOCIETY, *supra* note 18, at 89-90 (describing “copyleft” licenses).

<sup>19</sup> Robert W. Gomulkiewicz, *General Public License 3.0: Hacking the Free Software Movement’s Constitution*, 42 HOUS. L. REV. 1015, 1021 (2005) (introducing the “BUS” nomenclature and explaining how it provides the most useful contrast to the open source software nomenclature).

<sup>20</sup> “Proprietary” is misleading in that open source licensing relies on a proprietary right, namely copyright. As open source programmers like to put it, you need a copyright before you can have a copyleft.

<sup>21</sup> “Commercial” is misleading because many open source programmers make a business of it. See Robert W. Gomulkiewicz, *Entrepreneurial Open Source Software Hackers: MySQL and Its Dual Licensing*, 9 COMPUTER L. REV. & TECH. J. 203, 205–07 (2004). Richard Stallman advocates against use of the “commercial” terminology as well. Richard M. Stallman, *Words to Avoid*, in FREE SOFTWARE FREE SOCIETY, *supra* note 17, at 187.

<sup>22</sup> Not surprisingly, the FOSS community refers to BUS code as “non-free” or “closed source.”

<sup>23</sup> See NGUYEN ET AL., *supra* note 8, at 522.

<sup>24</sup> See Robert W. Gomulkiewicz & Mary L. Williamson, *A Brief Defense of Mass Market Software License Agreements*, 22 RUTGERS COMPUTER & TECH. L. J. 335, 360-61 (1996).



Despite the differences between FOSS and BUS, they share one important characteristic: a copyright on the software code, combined with a license of the code, creates the legal framework for the transaction model.<sup>25</sup> As one prominent open source group says: “To stay free, software must be copyrighted and licensed.”<sup>26</sup> FOSS relies on license contracts and so does BUS; they only differ in the particular contract terms used.<sup>27</sup>

Software developers who license BUS use a wide variety of license contracts with their software.<sup>28</sup> When it comes to FOSS license contracts, the Open Source Initiative has approved over 70 licenses as complying with the OSD.<sup>29</sup> Despite this diversity,<sup>30</sup> most open source programmers use<sup>31</sup> either the GPL<sup>32</sup> or some variation of the BSD License.<sup>33</sup>

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<sup>25</sup> Gomulkiewicz, *How Copyleft Uses License Rights*, *supra* note 12, at 185–86, 189–94.

<sup>26</sup> *What Does Free Mean? Or What Do You Mean by Free Software?*, DEBIAN GROUP, <http://www.debian.org/intro/free> (last visited May 24, 2011).

<sup>27</sup> There are many similarities in the terms as well, including warranty disclaimers, limitations of liability, and choice of law. Gomulkiewicz, *How Copyleft Uses License Rights*, *supra* note 12, at 185-93 (1999). Indeed, some BUS license contracts also grant rights to source code and allow derivative works. *See* NGUYEN ET AL., *supra* note 8, at 531–32.

<sup>28</sup> The software industry calls these end user license agreements (EULAs) or mass-market software licenses; in popular terminology, shrinkwrap or clickwrap licenses. *See, e.g.*, *Specht v. Netscape Commc’ns Corp.*, 306 F.3d 17 (2d Cir. 2002); *Bowers v. Baystate Techs., Inc.*, 302 F.3d 1334 (Fed. Cir. 2002); *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996). *See generally* Robert W. Gomulkiewicz, *Getting Serious About User-Friendly Mass Market Licensing For Software*, 12 GEO. MASON L. REV. 687 (2004) [hereinafter Gomulkiewicz, *Getting Serious*].

<sup>29</sup> *Open Source Licenses*, OPEN SOURCE INITIATIVE, <http://www.opensource.org/licenses/index.html> (last visited June 24, 2011).

<sup>30</sup> For a discussion of whether this proliferation of licenses represents a positive or negative development, see Robert W. Gomulkiewicz, *Open Source License Proliferation: Helpful Diversity or Hopeless Confusion?*, 30 WASH. U. J.L. & POL’Y 261(2009) [hereinafter Gomulkiewicz, *Open Source License Proliferation*].

<sup>31</sup> Evidence of this can be found by checking license use statistics on popular open source code repositories such as SourceForge, <http://sourceforge.net/> (last visited June 24, 2011), and FreshMeat, Statistics, <http://freshmeat.net/search?q=statistics&submit=Search> (last visited June 24, 2011).

<sup>32</sup> For instance, Linus Torvalds licenses the Linux kernel under GPL 2.0. *See* Steven Vaughan-Nichols, *The Linux Operating System Will Remain Under Version 2 of the General Public License Rather than Migrate to GPLv3, According to the Kernel’s Creator*, EWEEK.COM (Jan. 26, 2006), <http://www.eweek.com/c/a/Linux-and-Open-Source/Torvalds-No-GPL-3-for-Linux/>.

<sup>33</sup> In addition, the Apache Foundation licenses its Apache web server under a permissive license like the BSD License.

**B. *The Enforceability of Open Source Licenses***

Until the Federal Circuit decided *Jacobsen v. Katzer*, hackers and commentators had long debated the enforceability of FOSS licenses.<sup>34</sup> These debates centered on two aspects of enforceability. First, did FOSS licenses hold together as enforceable contracts based on their offer, acceptance, and consideration? And second, would courts enforce the terms of FOSS licenses with injunctive relief? The Federal Circuit answered a resounding “yes” to both questions in *Jacobsen v. Katzer*.

In addressing whether FOSS licenses hold together as enforceable contracts, the Federal Circuit focused on the question of whether adequate consideration had been exchanged. The court ruled that the exchange of non-monetary consideration easily and appropriately provided adequate consideration: “The choice to exact consideration in the form of compliance with the open source requirements of disclosure and explanation of changes, rather than as a dollar-denominated fee, is entitled to no less legal recognition.”<sup>35</sup> Professors Robert Hillman and Maureen O’Rourke, authors of the American Law Institute’s *Principles of Software Contracts*,<sup>36</sup> concur that FOSS licenses provide adequate consideration to form a contract.<sup>37</sup>

The *Jacobsen* court did not address the adequacy of the licensee’s opportunity to review and manifest assent to the license because it was not contested. That is not surprising. In most FOSS licensing contexts, notice and assent will not be an issue because users of open source code know the ground rules. As such, and in light of liberal modern rules of contract formation, most commentators agree that FOSS licenses should not be unenforceable on grounds of inadequate offer and acceptance.<sup>38</sup>

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<sup>34</sup> See generally Brian W. Carver, *Share and Share Alike: Understanding and Enforcing Open Source and Free Software Licenses*, 20 BERKELEY TECH. L.J. 443 (2005).

<sup>35</sup> *Jacobsen v. Katzer*, 535 F.3d 1373, 1382 (Fed. Cir. 2008). The open source license at issue in the *Jacobsen* case was the Artistic License which emphasizes attribution of the original author’s work and disclosure of changes made to the work by subsequent authors.

<sup>36</sup> Am. Law Inst., *PRINCIPLES OF SOFTWARE CONTRACTS* (2009). See generally Maureen A. O’Rourke, *An Essay on the Challenges of Drafting a Uniform Law of Software Contracting*, 10 LEWIS & CLARK L. REV. 925 (2006).

<sup>37</sup> See Robert A. Hillman & Maureen A. O’Rourke, *Rethinking Consideration in the Electronic Age*, 61 HASTINGS L.J. 311 (2009).

<sup>38</sup> See, e.g., Robert W. Gomulkiewicz, *Conditions and Covenants in License Contracts: Tales from a Test of the Artistic License*, 17 TEX. INTELL. PROP. L.J. 335, 346 (2009) [hereinafter Gomulkiewicz, *Conditions and Covenants*]; Daniel B. Ravicher, *Facilitating Collaborative Development: The Enforceability of Mass-Market Public Software Licenses*, 5 VA. J.L. & TECH. 11, ¶¶ 81-82 (2000); Jason B. Wacha, *Taking the Case: Is the GPL Enforceable?*, 21 SANTA CLARA

Focusing on the issue of enforcing FOSS licenses via injunctive relief, the Federal Circuit ruled that injunctive relief is available when a licensee exceeds the scope<sup>39</sup> of a license grant.<sup>40</sup> This ruling followed the approach of other U.S. federal courts in copyright licensing cases.<sup>41</sup> According to the Federal Circuit, “[c]opyright licenses are designed to support the right to exclude; money damages alone do not support or enforce that right.”<sup>42</sup> The Federal Circuit explained how injunctive relief is particularly appropriate for FOSS licenses where the software is often provided to the public at no charge.<sup>43</sup> Injunctive relief<sup>44</sup> is a particularly critical remedy because the standard remedy for breach of contract, monetary damages, normally is beside the point in FOSS licensing.<sup>45</sup> Instead, FOSS licensors hope to prevent further copying, distribution, or modification of their software by those who fail to abide by open source license terms or, better yet, to obtain an affirmative injunction to require public release of the

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COMPUTER & HIGH TECH. L.J. 451, 473-75 (2005). *See generally* Gomulkiewicz, *Getting Serious*, *supra* note 28 (describing how, despite scholarly criticism, courts generally uphold the enforceability of mass market software licenses when licensors provide a reasonable opportunity to review license terms and the licensee provides a meaningful manifestation of assent); Mark A. Lemley, *Terms of Use*, 91 MINN. L. REV. 459, 459-60 (2006) (“Every court to consider the issue has found ‘clickwrap’ licenses . . . enforceable. A majority of courts in the past ten years have enforced shrinkwrap licenses.”).

<sup>39</sup> Examples of exceeding the scope of a license in the open source licensing context might include, for example, failing to release source code, failing to provide attribution, or failing to specify changes made to the underlying software.

<sup>40</sup> *Jacobsen*, 535 F.3d at 1382 (“Indeed, because a calculation of damages is inherently speculative, these types of license restrictions might well be rendered meaningless absent the ability to enforce through injunctive relief.”).

<sup>41</sup> *See, e.g.*, *Apple Computer, Inc. v. Microsoft Corp.*, 35 F.3d 1435, 1441 (9th Cir. 1994); *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1089 (9th Cir. 1989).

<sup>42</sup> *Jacobsen*, 535 F.3d at 1381–82.

<sup>43</sup> *Id.* at 1382.

<sup>44</sup> The licensor might seek other copyright remedies as well, such as impoundment or destruction of infringing software, statutory damages, enhanced damages for willful infringement, and attorneys’ fees. *See* 17 U.S.C. § 101 *et seq.* (2006) (describing remedies for copyright infringement).

<sup>45</sup> Making money is not necessarily beside the point. *See* RICHARD STALLMAN, *Selling Free Software*, in *FREE SOFTWARE, FREE SOCIETY*, *supra* note 17, at 65 (“Many people believe that the spirit of the GNU project is that you should not charge money for distributing copies of software, or that you should charge as little as possible—just enough to cover the cost. Actually, we encourage people who redistribute free software to charge as much as they wish or can . . . . Distributing free software is an opportunity to raise funds for development. Don’t waste it!”). Open source is now big business for many companies, including IBM, Google, RedHat, and Intel. Rather than charge royalties, these companies charge for hardware, services, value-added BUS software, and advertising.

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licensee's source code<sup>46</sup> or proper attribution.<sup>47</sup> As articulated by the Federal Circuit, "these types of license restrictions might be rendered meaningless absent the ability to enforce through injunctive relief."<sup>48</sup>

**II. END USER LICENSE AGREEMENTS AND  
COPYRIGHT FIRST SALES: THE *VERNOR* TEST AND  
ITS INCONVENIENT COMPLICATIONS FOR OPEN  
SOURCE LICENSING**

**A. *Defining Copyright First Sales***

The Supreme Court articulated the copyright first sale doctrine in the 1908 case *Bobbs-Merrill v. Straus*.<sup>49</sup> According to the Court, a copyright holder's exclusive right to distribute copies ends for any given copy after the owner's sale of that copy.<sup>50</sup> Congress codified the first sale doctrine the year after *Bobbs-Merrill*.<sup>51</sup> Now codified in Section 109(a) of the Copyright Act, the modern first sale doctrine allows the "owner of a particular copy" to sell or dispose of the copy without the copyright holder's permission.<sup>52</sup>

The first sale doctrine only applies to *owners* of copies; it does not apply to a person who possesses a copy without owning it, such as a licensee.<sup>53</sup> A licensee only has permission to use or distribute a copy as spelled out in the license agreement. As a consequence, a court's evaluation of whether a given transaction is a license or a first sale is critical to determining whether someone can claim the benefits<sup>54</sup> of the first sale doctrine. But, in practice,

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<sup>46</sup> For example, the GPL requires licensees to publicly release the source code of any work based on the licensor's work, which the licensee distributes. *See GNU General Public License 2.0*, FREE SOFTWARE FOUNDATION, Sections 2 and 3, <http://www.gnu.org/licenses/gpl-2.0.html> (last visited December 24, 2011).

<sup>47</sup> *See Jacobsen*, 535 F.3d at 1376.

<sup>48</sup> *Id.*

<sup>49</sup> *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908).

<sup>50</sup> *Id.* at 350-51.

<sup>51</sup> 17 U.S.C. § 41 (2006).

<sup>52</sup> 17 U.S.C. § 109(a) (2006).

<sup>53</sup> *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1107-08 (9th Cir. 2010); *see* 17 U.S.C. § 109(d) (2006); *Bobbs-Merrill*, 210 U.S. at 350; *cf.* *Quality King Distribs., Inc. v. L'anza Research Int'l Inc.*, 523 U.S. 135, 146-47 (1998).

<sup>54</sup> This Article does not delve into the spirited debate about the relative benefits of licenses versus first sales. Many commentators have weighed in on that topic. *See, e.g.*, Robert W. Gomulkiewicz, *The License Is the Product: Comments on the Promise of Article 2B for Software and Information Licensing*, 13 BERKELEY TECH. L.J. 891 (1998) [hereinafter Gomulkiewicz, *The License Is the Product*]; Anne Layne-Farrar, *An Economic Defense of Flexibility in IPR Licensing: Contracting Around "First Sale" in Multilevel Production Settings*, 51 SANTA CLARA L. REV. 1149 (2011); Joseph P. Liu, *Owning Digital Copies: Copyright*

this evaluation is difficult to make—not every transaction that a software vendor labels as a “license” qualifies and some transactions that do not mention the word “license” explicitly still should be treated as licenses under the law. Courts have developed tests for making the evaluation, and the *MDY Trio* provides a current example.

### **B. The First Sale Versus EULA Debate**

While sales of goods dominated the economy in the industrial age, now we live in an information economy dominated by software and information products.<sup>55</sup> Sales contracts no longer provide the primary transaction model. Instead, software and information producers often use licenses.<sup>56</sup> Licenses underlie two important aspects of the information economy. First, they enable creators and inventors to share intellectual property and collaborate in the development of new works and products, from the production of complex software to the creation of new multimedia works. Second, licensing (including the use of EULAs) enables parties of all sizes to bring information products to market through many different channels, in a multitude of configurations, and at a variety of price points.<sup>57</sup>

Despite the importance and ubiquity of licensing in the software industry, there has been a long-running debate about the enforceability of EULAs. Commentators have criticized EULAs on numerous grounds, but despite fierce academic criticism, courts have enforced EULAs on a regular basis.<sup>58</sup> One aspect of this

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*Law and the Incidents of Copy Ownership*, 42 WM. & MARY L. REV. 1245 (2001); Raymond T. Nimmer, *Copyright First Sale and the Over-Riding Role of Contract*, 51 SANTA CLARA L. REV. 1311 (2011); Aaron Perzanowski & Jason Schultz, *Digital Exhaustion*, 58 UCLA L. REV. 889 (2011); R. Anthony Reese, *The First Sale Doctrine in the Era of Digital Networks*, 44 B.C. L. REV. 577 (2003); Michael Seringhaus, Comment, *E-Book Transactions: Amazon “Kindles” the Copy Ownership Debate*, 12 YALE J.L. & TECH. 147 (2009); Elizabeth I. Winston, *Why Sell What You Can License? Contracting Around Statutory Protection of Intellectual Property*, 14 GEO. MASON L. REV. 93 (2006). For a pragmatic approach to choosing a license or a first sale as a transaction model depending upon the circumstances, see ROBERT W. GOMULKIEWICZ, XUAN-THAO NGUYEN & DANIELLE CONWAY, LICENSING INTELLECTUAL PROPERTY: LAW & APPLICATION 473-74 (2d ed. 2010). See also *Vernor*, 621 F.3d at 1114-15 (outlining the policy pros and cons of licenses and first sales).

<sup>55</sup> NGUYEN ET AL., *supra* note 8, at 2-3, 511-12.

<sup>56</sup> *Id.*

<sup>57</sup> *Id.*

<sup>58</sup> See Gomulkiewicz, *Getting Serious*, *supra* note 28 (describing the various criticisms of EULAs and showing that, despite scholarly criticism, courts generally uphold the enforceability of mass market software licenses when licensors provide a reasonable opportunity to review license terms and the

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debate relates to whether EULAs simply can be ignored because mass-market software transactions really amount to first sales rather than licenses.<sup>59</sup> Whether this claim is correct, categorically or in any given case, depends on the test for determining whether a EULA-based transaction presents a license or first sale transaction.<sup>60</sup>

The “is it really a license?” issue arises in a variety of contexts in the software industry,<sup>61</sup> three of which are useful to highlight for purposes of providing background for the *MDY Trio*. Some of the earliest cases arose in what I will call the “unbundling” context. Some software publishers distribute packages or suites of software at a discount compared to the price of the individual components. Sometimes a party in the chain of distribution unbundles the software packages to sell the components separately, hoping to profit from the higher prices that can be charged for the individual components. Software vendors use license contracts to prevent this unbundling. Courts have enforced these licenses on many occasions<sup>62</sup> although not when the transaction more resembled a first sale than a license.<sup>63</sup>

A second context deals with limitations placed on software use. A common example is discounted software licensed for academic use only.<sup>64</sup> Another common example is software

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licensee provides a meaningful manifestation of assent); Lemley, *supra* note 39, at 459-60 (“Every court to consider the issue has found ‘clickwrap’ licenses . . . enforceable. A majority of courts in the past ten years have enforced shrinkwrap licenses.”).

<sup>59</sup> See *Vernor*, 621 F.3d at 1106-07.

<sup>60</sup> See *infra* for a discussion of the *MDY Trio*'s test.

<sup>61</sup> Increasingly, patent law's “first sale” doctrine, known as “patent exhaustion,” has become important in software licensing transactions. See *Quanta Computer, Inc. v. LG Electronics, Inc.*, 128 S.Ct. 2109 (2008); see also Robert W. Gomulkiewicz, *The Federal Circuit's Licensing Law Jurisprudence: Its Nature and Influence*, 84 WASH. L. REV. 199 (2009) [hereinafter Gomulkiewicz, *Licensing Law Jurisprudence*] (analyzing the *Quanta* case in the context of the license transaction at issue); Amelia S. Rinehart, *Contracting Patents: Modern Patent Exhaustion Doctrine*, 23 HARV. J.L. & TECH. 483 (2010).

<sup>62</sup> See, e.g., *Apple, Inc., v. Pystar Corp.*, 92 U.S.P.Q. 2d 1917 (N.D. Cal. 2009); *Adobe Sys. Inc. v. Stargate Software, Inc.*, 84 F. Supp. 2d 1086 (N.D. Cal. 2000); *Microsoft Corp. v. Grey Computer*, 910 F. Supp. 1077 (D. Md. 1995) (unbundling operating system software from computer hardware); *Microsoft Corp. v. Harmony Computers & Electronics, In.*, 846 F. Supp. 208 (E.D.N.Y. 1994) (same).

<sup>63</sup> See, e.g., *SoftMan Products Co. v. Adobe Sys. Inc.*, 171 F. Supp. 2d 1075 (C.D. Cal. 2001). Sophisticated software publishers can avoid the result in *SoftMan* by observing more careful and robust licensing practices, as outlined for example in the *Stargate* case. See generally Christian H. Nandan, *Software Licensing in the 21<sup>st</sup> Century: Are Software “Licenses” Really Sales and How Will the Software Industry Respond?*, 32 AIPLA Q.J. 555 (2004) (commenting on the practical implications of the *SoftMan* and *Stargate* cases).

<sup>64</sup> See NGUYEN ET AL., *supra* note 8, at 20-21.

licensed at one price for business use and at a lower price for personal use.<sup>65</sup> And a final example is software licensed for evaluation purposes only.<sup>66</sup> The litigation in *MDY Industries v. Blizzard Entertainment* arose in the context of use restrictions in Blizzard Entertainment's EULA for its software and online gaming service. In *MDY*, the license prohibited World of Warcraft gamers from using robots to play the game in order to advance to higher game levels and acquire additional game assets.<sup>67</sup> If the software had been sold as a copyright first sale rather than licensed, then the end user could ignore the use limitations.<sup>68</sup>

A third context concerns EULA restrictions imposed on end user redistribution of the software. These restrictions are often placed on high priced software;<sup>69</sup> EULAs for many consumer-oriented, mass-market software products allow redistribution (so long as the original user does not keep a copy).<sup>70</sup> If a software transaction is fundamentally a first sale rather than a license, then the software may be freely transferred even if a EULA purports to say otherwise. The dispute in *Vernor v. Autodesk* arose in this context. We turn now to the *Vernor* case because that is where the Ninth Circuit announced its test for distinguishing between licenses and first sales, with its inconvenient complications for open source licensing.

### ***C. The MDY Trio's License Test and Its Inconvenient Complications for Open Source Licensing***

#### ***1. Vernor v. Autodesk's Test For Distinguishing First Sales From Licenses***

Autodesk, Inc. develops computer-aided design software called "AutoCAD" which is used by manufacturers, architects, and engineers. Autodesk provides AutoCAD to its customers pursuant to a EULA. This license prohibits transfer of the software without Autodesk's permission.<sup>71</sup> Without permission, one of Autodesk's customers sold copies of AutoCAD to Mr. Vernor who, in turn, re-

<sup>65</sup> See *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996).

<sup>66</sup> See *Arizona Retail Sys. Inc. v. Software Link, Inc.*, 831 F. Supp. 759 (D. Ariz. 1993); cf. *UMG Recordings v. Augusto*, 628 F.3d 1175 (9th Cir. 2011) (music CD sent for evaluation purposes).

<sup>67</sup> *MDY Industries v. Blizzard Entertainment*, 629 F.3d 928, 935 (9th Cir. 2010).

<sup>68</sup> Note that there was no issue about notice of or assent to the EULA. *MDY*, 629 F.3d at 928. The sole defense was that the EULA could be ignored because of the first sale doctrine.

<sup>69</sup> See *Vernor v. Autodesk*, 621 F.3d 1102, 1106-07 (9th Cir. 2010) (regarding the AutoCAD software at issue).

<sup>70</sup> See *Gomulkiewicz & Williamson*, *supra* note 24, at 357 n.89.

<sup>71</sup> *Vernor*, 621 F.3d at 1105.

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sold the copies on eBay. Litigation ensued and Mr. Vernor argued<sup>72</sup> that Autodesk could not enforce its prohibition on the transfer of copies of AutoCAD because Autodesk's right to control distribution was exhausted under the first sale doctrine.<sup>73</sup> The District Court agreed with Mr. Vernor, but the Ninth Circuit reversed, relying on its *MAI Trio* of cases.

The Ninth Circuit spelled out the distinction between a license and a first sale in two separate parts of its opinion. In the first instance, the court read its *United States v. Wise*<sup>74</sup> and the *MAI Trio* precedents to "prescribe three considerations that we may use to determine whether a software user is a licensee, rather than an owner of a copy."<sup>75</sup> The court went on to list the considerations: "First, we consider whether the copyright owner specifies that a user is granted a license. Second, we consider whether the copyright owner significantly restricts the user's ability to transfer the software. Finally, we consider whether the copyright owner imposes notable use restrictions."<sup>76</sup> Later in the opinion, the court recapitulated these considerations, seemingly turning them into a test: "We hold today that a software user is a licensee rather than an owner of a copy where the copyright owner: (1) specifies that the user is granted a license; (2) significantly restricts the user's ability to transfer the software; and (3) imposes notable use restrictions."<sup>77</sup>

Although unnecessary to the resolution of the case, the court noted that the legislative history of both Section 109 and Section 117 of the Copyright Act supported its conclusion.<sup>78</sup> It also rejected the argument that *Bobbs-Merrill*<sup>79</sup>, the common law predecessor to Section 109(a), compelled a different conclusion:

Decided in 1908, *Bobbs-Merrill* did not and could not address the question of whether the right to use software is distinct from the ownership of copies of software. Moreover, the Supreme Court in *Bobbs-Merrill* made it explicit that its decision did not address the use of restrictions to create a license.<sup>80</sup>

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<sup>72</sup> Note that Mr. Vernor was aware of AutoCAD's EULA so there was no argument that he lacked notice of the license terms. *Vernor*, 621 F.3d at 1105.

<sup>73</sup> *Id.*

<sup>74</sup> *United States v. Wise*, 550 F.2d 1180 (9th Cir. 1977).

<sup>75</sup> *Vernor*, 621 F.3d at 1110-1111.

<sup>76</sup> *Id.*

<sup>77</sup> *Id.* at 1111.

<sup>78</sup> *Id.* at 1112.

<sup>79</sup> *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908).

<sup>80</sup> *Vernor*, 621 F.3d at 1114. *Cf.* *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 146-47 (1998) ("[T]he first sale doctrine would not



Finally, the court noted that both sides had mustered important policy arguments in favor of their positions, but that these arguments “do not alter our conclusion that our precedent from *Wise* through the *MAI Trio* requires the result we reach.”<sup>81</sup>

## ***2. Inconvenient Complications for Open Source Licensing***

At first glance, *Vernor*'s license test works well for many software licensors. Most BUS licensors provide their software under license models that readily fall within the Ninth Circuit's definition of a license transaction. Indeed, the court found that Autodesk's license met its definition.<sup>82</sup> However, complications arise for open source licensing.

FOSS licenses do not “significantly restrict” the user's ability to transfer the software.<sup>83</sup> Open source licensing does not restrict transfer at all; in fact, FOSS licenses affirmatively grant the unencumbered freedom to transfer the software.<sup>84</sup> Free transferability of software, in both source and object code forms, lies at the very heart of open source licensing.<sup>85</sup>

In addition, FOSS licenses do not “impose notable use restrictions.” For instance, the GPL says that it does not limit use in any way.<sup>86</sup> The BSD license essentially tells the licensee “you can do anything you want with the software” and does not restrict use in any way, shape or form.<sup>87</sup>

The basic flaw in the *Vernor* license test is that it assumes software licenses only grant fewer rights than a first sale would

provide a defense to a §602(a) action against any non owner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful.”)

<sup>81</sup> *Vernor*, 621 F.3d at 1115.

<sup>82</sup> By contrast, a music company's attempt to “license” promotional CDs did not meet the test. *See* UMG Recordings v. Augusto, 628 F.3d at 1179-83.

<sup>83</sup> This may also be a complication for BUS. As mentioned, many BUS licenses *permit* transfer of the software although the transfer often comes with certain conditions that could be called restrictions, such as the condition that the transferor inform the transferee of the terms of the license, that the transferee agrees to abide by the terms of the license, and that the transferor transfer all physical copies and documentation to the transferee. Do these conditions “significantly restrict” the ability to transfer BUS licenses? The answer seems to be “yes” based on the Ninth Circuit's decision in *MDY Industries*. *See* MDY Industries v. Blizzard Entertainment, 629 F.3d 928, 938-39 (9th Cir. 2010) (emphasis added).

<sup>84</sup> *See* THE OPEN SOURCE DEFINITION, *supra* note 14, at Section 1.

<sup>85</sup> *Id.*

<sup>86</sup> *See* GPL 2.0, *supra* note 46, at section 0; *GNU General Public License Version 3*, FREE SOFTWARE FOUNDATION, Section 2, <http://www.gnu.org/licenses/gpl.txt> (last visited May 24, 2011).

<sup>87</sup> *See* Gomulkiewicz, *Debugging*, *supra* note 18, at 93.

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provide. A first sale, of course, is not a sale of the copyright itself and can best be characterized as a limited license, namely permission to use and redistribute one copy of a work.<sup>88</sup> Often software licenses grant more rights than a first sale would provide; open source licensing presents the classic case. Even in BUS licensing, the license tends to provide a package of rights, in some respects granting less than first sale rights (e.g., by restricting use or transferability) and in other respects granting more than first sale rights (e.g., rights to create derivatives or make additional copies).<sup>89</sup>

The best way to reconcile the *Vernor* test with FOSS licensing is to read the *Vernor* license test as one way, but not the only way, to prove that a transaction is a license. In other words, if a transaction meets the *Vernor* test it certainly qualifies as a license; however, there may be other ways to demonstrate that a transaction is a license, such as by showing that the user received permission to exercise more copyrights than the user would have under a first sale. If the user gets more rights, then clearly the transaction is not a first sale. This interpretation of the license test is consistent with language in the early part of the *Vernor* opinion, which sets out “three considerations that we *may* use to determine whether a software user is a licensee” (emphasis added). Perhaps that is precisely what the *Vernor* court intended<sup>90</sup>—but even if it did not, that seems the better approach for future Ninth Circuit panels and other Circuits to adopt.

In practice, the mismatch between FOSS license principles and the *Vernor* license definition probably amounts to a complication in theory only for FOSS licensors. Defendants raise first sale as a defense in lawsuits in which the plaintiff challenges a user’s unauthorized distribution or use of its software. Rarely, if ever, will a defendant need to assert a first sale defense in an FOSS licensing context because these licenses grant unbounded rights to use and transfer the software. Nonetheless, the open source complication helpfully illustrates that the *Vernor* license test will prove inadequate in many software licensing contexts. End user software licenses provide a more complex transaction model than the court’s test accounts for.<sup>91</sup>

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<sup>88</sup> In the software context, 17 U.S.C. § 117 (2006) provides additional rights relating to archival copies and copies made as an essential step to using the software.

<sup>89</sup> See Robert W. Gomulkiewicz, *The License Is the Product*, *supra* note 54; Gomulkiewicz & Williamson, *supra* note 24.

<sup>90</sup> See Nimmer, *supra* note 54, at 1341.

<sup>91</sup> As more software and information transactions occur digitally and do not involve physical copies (e.g., cloud computing), some scholars predict that the first sale doctrine will become less and less relevant as time goes by. See Aaron Perzanoski & Jason Schultz, *Digital Exhaustion*, 58 UCLA L. REV. 889 (2011).

From a policy point of view, the *Vernor* case continues the trend followed by most courts in the United States of upholding a software developer's ability to use mass market end user licensing as a transaction model<sup>92</sup> rather than characterizing most end user transactions as copyright first sales as urged by some scholars.<sup>93</sup> Indeed, FOSS licensing is but one of the many valuable software licensing practices that benefit from a policy that upholds licensing as a transaction model. Of course, as demonstrated by the *UMG Recordings v. Augusto* case in the *MDY Trio*, not all transactions bearing the "license" label will or should be so characterized.<sup>94</sup> However, many software licenses will meet the *Vernor* test (as modified by my proposal above), thus enabling flexibility, diversity, and choice in the software industry, including the creative distribution and collaboration models provided by FOSS licensing. As the court put it in *Jacobsen v. Katzer*, "[o]pen source licensing has become a widely used method of creative collaboration that serves to advance the arts and sciences in a manner and at a pace that few could have imagined a few decades ago."<sup>95</sup>

### III. *MDY'S* DISTINCTION BETWEEN COVENANTS AND CONDITION: INCONVENIENT AND DIRE COMPLICATIONS FOR OPEN SOURCE LICENSING

While the *Vernor* license test may be an inconvenient complication for FOSS licensing in name only, the *MDY* case's complication related to the covenant/condition distinction is dire. Breach of a license condition differs from breach of a pure

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<sup>92</sup> See, e.g., *Register.com, Inc. v. Verio, Inc.*, 356 F.3d 393 (2d Cir. 2004); *Bowers v. Baystate Tech., Inc.*, 320 F.3d 1317 (Fed. Cir. 2003); *Specht v. Netscape Comm'ns Corp.*, 306 F.3d 17 (2d Cir. 2002); *Micro Star v. Formgen Inc.*, 154 F.3d 1107 (9th Cir. 1998); *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1455 (7th Cir. 1996); *Adobe Sys., Inc. v. Stargate Software, Inc.*, 216 F. Supp. 2d 1051 (N.D. Cal. 2002); *i.Lan Sys., Inc. v. Netscout Serv. Level Corp.*, 183 F. Supp. 2d 328 (D. Mass. 2002); *Storm Impact, Inc. v. Software of the Month Club*, 13 F. Supp. 2d 782 (N.D. Ill. 1998); *Ariz. Retail Sys., Inc. v. Software Link, Inc.*, 831 F. Supp. 759 (D. Ariz. 1993); *I-A Equip. Co., Inc. v. I-Code, Inc.*, 43 U.C.C. Rep. Serv. 2d 807 (Mass. Dist. Ct. 2000); *M.A. Mortenson Co., Inc. v. Timberline Software Corp.*, 140 Wash. 2d 568, 998 P.2d 305 (2000).

<sup>93</sup> E.g., John A. Rothchild, *The Incredible Shrinking First Sale Rule: Are Software Resale Limits Lawful?*, 57 RUTGERS L. REV. 1 (2004); Winston, *supra* note 54; see also Cody Gillians, Recent Development, *Is This Mine or Yours? The Effect of the Rulings in Vernor v. Autodesk and The Library of Congress on the Determination of Who Owns Software Copies*, 12 N.C. J. L. & TECH. 205 (2010) (criticizing the *Vernor* court's approach to the license/first sale distinction because it makes it easier to characterize transactions as licenses).

<sup>94</sup> See *UMG Recordings v. Augusto*, 628 F.3d at 1179-83.

<sup>95</sup> 535 F.3d 1373, 1378 (Fed. Cir. 2008).

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contractual covenant because when a licensee fails to abide by a license condition, the licensee not only breaches the software contract, but also infringes the licensor's intellectual property rights.<sup>96</sup> Thus, the distinction between license conditions and pure contractual covenants<sup>97</sup> affects whether a FOSS licensor can get copyright remedies, especially injunctive relief, the critical remedy in most open source settings. *Jacobsen v. Katzer* did not provide much guidance on when a license term falls into one category or the other.<sup>98</sup> Most importantly, the court did not address the extent to which the parties, by careful drafting, can dictate or influence the categorization.<sup>99</sup> This Section describes the general distinction between contractual covenants and license conditions. Then, it sets out the *MDY* case's approach to making the distinction. Finally, the Section critiques the *MDY* approach and argues for the adoption of a different framework.

**A. *Illustrating the Distinction Between Contractual Covenants and License Conditions***

Software contracts contain a collection of terms that describe the contractual relationship between a licensor and licensee with respect to the licensor's software. We normally call this entire contract a "license" but, to be more precise, we should call it a "license contract" because it contains not only a permission-granting license<sup>100</sup> but also other contractual terms such as choice of law, payment, and warranties.<sup>101</sup> The license grant portion of the contract consists of both a grant of rights under the licensor's intellectual property and any conditions that the licensor chooses to impose on that grant. These license conditions create the parameters for exploitation of the licensor's intellectual property rights.

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<sup>96</sup> See, e.g., *Apple Computer, Inc. v. Microsoft Corp.*, 35 F.3d 1435, 1441 (9th Cir. 1994); *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1089 (9th Cir. 1989); *Fantastic Fakes, Inc. v. Pickwick Int'l, Inc.*, 661 F.2d 479, 483–84 (5th Cir. 1981).

<sup>97</sup> See generally Yamini Menon, *Jacobsen Revisited: Conditions, Covenants, and the Future of Open Source Licensing*, 7 WASH. J.L. TECH. & ARTS 311 (2011).

<sup>98</sup> The final word from the *Jacobsen v. Katzer* court on the distinction is, essentially, that context matters. Referring to an attribution requirement, the court in a footnote said that failure to provide attribution only triggers a copyright infringement if so provided in the license. *Jacobsen*, 535 F.3d at 1382 n.5.

<sup>99</sup> I discussed this issue at length in an article published before the court decided the *MDY Trio*. See Gomulkiewicz, *Conditions and Covenants*, *supra* note 38.

<sup>100</sup> See *Tips v. U.S.*, 70 F.2d 525, 526-27 (5th Cir. 1934) (license is a "permission").

<sup>101</sup> See Gomulkiewicz, *Conditions and Covenants*, *supra* note 38, at 346.

Sometimes identifying a license condition will be easy. Many complex license contracts have an entire section devoted to describing license conditions and the section is labeled as such. Often license drafters use words such as “provided that,” “only if,” or “on condition that” to signify that the license grant contains conditions.<sup>102</sup> For example, the BSD License’s license grant states, “Redistribution and use in source and binary forms, with or without modification, are permitted provided that the following conditions are met . . . .” The “share alike” license grant of GPL 2.0 states, “You may modify your copy or copies of the Program or any portion of it . . . and copy and distribute such modifications or work under the terms of Section 1 above, provided that you also meet all these conditions . . . .”<sup>103</sup>

Other terms in license contracts clearly are identifiable as pure covenants because they do not bear directly on the grant of rights. As mentioned previously, choice of law clauses, payment provisions, and warranties and disclaimers of warranty typically fall into the category of contractual covenants. An interesting open source-related example comes from the newest version of the GPL, GPL 3.0 (GPLv3).<sup>104</sup> GPLv3 contains a provision whose purpose is to thwart the use of digital rights management (DRM) technology.<sup>105</sup> Let’s call this the “Anti-DRM Section.” The Anti-DRM Section follows a provision labeled “2. Basic Permissions” and comes before provisions labeled “4. Conveying Verbatim Copies,” “5. Conveying Modified Source Versions,” and “6. Conveying Non-Source Forms.”<sup>106</sup> The latter four provisions clearly read like license grants with accompanying license conditions. The Anti-DRM Section, though nested in the midst of licenses, is not connected to the licenses in any obvious way.<sup>107</sup> Thus, it appears to be a standalone contractual covenant.

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<sup>102</sup> See *id.* at 348.

<sup>103</sup> *GNU General Public License 2.0*, *supra* note 46, at Section 2.

<sup>104</sup> See Clark D. Asay, *The General Public License Version 3.0: Making or Breaking the FOSS Movement?*, 14 MICH. TELECOMM. & TECH. L. REV. 265 (2008); Robert W. Gomulkiewicz, *A First Look at General Public License 3.0*, 24 COMPUTER & INTERNET L. 15 (2007).

<sup>105</sup> See *GNU General Public License Version 3*, *supra* note 86, at Section 3.

<sup>106</sup> *Id.* at Sections 2, 4–6.

<sup>107</sup> One possibility is that Section 8, “Termination,” ties the DRM Clause to the license grants. It provides: “You may not propagate or modify a covered work except as expressly provided under this License. Any attempt otherwise to propagate or modify it is void, and will automatically terminate your rights under this License (including any patent licenses granted under the third paragraph of section 11).” *GNU General Public License Version 3*, *supra* note 105, at Section 8. However, the best reading of this provision is that it is simply a garden variety termination provision, providing that, in the event the licensee breaches the license contract, the licensee has no further rights to exercise the rights granted in the license grant provisions. Another possibility is Section 9,

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Sometimes the license contract's plain wording does not clearly identify whether a particular provision is a license condition or a pure covenant.<sup>108</sup> In that situation, courts will try to determine the intent of the parties.<sup>109</sup> If in doubt, however, courts presume that a provision is a pure covenant rather than a license condition.<sup>110</sup>

Sometimes the issue is not ambiguity—it's that very clear drafting has framed a provision that is normally a pure covenant as a license condition. To illustrate, assume that the Free Software Foundation ("FSF") decided to revise the current Anti-DRM Section by adding the following language to the Anti-DRM clause: "The licenses in Sections 2, 4, 5, and 6 are expressly conditioned on your compliance with the terms and conditions of Section 3 [The Anti-DRM Section]." On the surface, the FSF has re-drafted a pure covenant into a license condition.

Consider a second illustration concerning royalty-related provisions.<sup>111</sup> A BUS license may contain a term that requires payment of a certain royalty. By contrast, some FOSS licenses prohibit royalties, such as GPLv3 in its § 10. Both of these royalty-related provisions normally would be considered contractual covenants. However, the license contract could be drafted to make the license grant conditional on either the payment or non-payment of royalties. In the context of a hypothetical BUS license: "Subject to the timely payment of royalties under the license contract,

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"Acceptance Not Required for Having Copies." Midway through Section 9 it says, "However, nothing other than this License grants you permission to propagate or modify any covered work. These actions infringe copyright if you do not accept this License. Therefore, by modifying or propagating a covered work, you indicate your acceptance of this License to do so." *Id.* at § 9. In context, the best reading of this provision is that it serves three purposes: first, it explains what actions signify manifestation of assent to the license contract; second, it explains the consequences if you do not manifest assent; and third, it serves as friendly advice that no license is needed to simply receive or run the software.

<sup>108</sup> See *Harmon Cable Comm. v. Scope Cable Television*, 468 N.W.2d 350, 358 (Neb. 1991) ("Courts have struggled for centuries with differentiating between conditions and promises.").

<sup>109</sup> See, e.g., *Henning v. Mainstreet Bank*, 538 F.3d 975, 978 (8th Cir. 2008). See also *Jacobsen v. Katzer*, 535 F.3d 1373, 1382 n.5 (Fed. Cir. 2008) (noting that context matters).

<sup>110</sup> See *Grand Union Co. v. Cord Meyer Dev. Co.*, 761 F.2d 141, 146-47 (2d Cir. 1985).

<sup>111</sup> Normally "permission precedes payment." *Madison River Mgmt. Co. v. Bus. Mgmt. Software Corp.*, 387 F. Supp. 2d 521, 534 (M.D.N.C. 2005); see also *Graham v. James*, 144 F.3d 229, 237 (2d Cir. 1998); *Jacob Maxwell, Inc. v. Veeck*, 110 F.3d 749, 753-54 (11th Cir. 1997).

licensor grants you the following rights . . . .”<sup>112</sup> Or, in the context of a re-drafted GPLv3: “Sections 2, 4, 5, and 6 are expressly conditioned on your compliance with the requirements in Section 10.” Taken at face value, clever drafting successfully changed these royalty-related covenants into a license conditions.

It is against this complex backdrop that the Ninth Circuit in the *MDY* case created its test for distinguishing between pure covenants and license conditions. Next, we turn to the *MDY* case and its test, followed by a critique of that test and a proposal for a different approach.

### ***B. MDY’s Approach to the Covenant/Condition Distinction and Its Complications***

In the *MDY* case, the court examined whether the defendant’s violation of Blizzard Entertainment’s EULA (which governs its World of Warcraft software) and its Terms of Use (which govern the corresponding online gaming service) infringed Blizzard’s copyrights. The court’s decision turned, in part, on whether the EULA or TOS terms that the defendant violated were contractual covenants or license conditions.<sup>113</sup>

The court held that copyright infringement may occur “only where the licensee’s action (1) exceeds the license’s scope (2) in a manner that implicates one of the licensor’s exclusive statutory rights.”<sup>114</sup> Addressing purported license grant conditions, the court went on to conclude that “for a licensee’s violation of a contract to constitute copyright infringement, there must be a nexus between the [license] condition and the licensor’s exclusive rights under copyright.”<sup>115</sup> The court emphasized the need to ground copyright infringement in this way: to hold otherwise would allow any software copyright holder to “designate any disfavored conduct during software use as copyright infringement by purporting to condition the license on the [licensee’s] abstention from the disfavored conduct.”<sup>116</sup>

Many purported license conditions in FOSS licenses would not be classified as such under the *MDY* approach, even though the license drafters clearly intended to treat them as license conditions and they are fundamental to open source licensing. For example,

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<sup>112</sup> See *McRoberts Software, Inc. v. Media 100, Inc.*, 329 F.3d 557, 562 (7th Cir. 2003) (concerning a license grant that provided: “subject to [Media 100] timely paying all amounts owing hereunder, upon payment of the \$75,000 license fee”).

<sup>113</sup> *MDY Industries v. Blizzard Entertainment*, 629 F.3d 928, 939 (9th Cir. 2010).

<sup>114</sup> *Id.* at 940.

<sup>115</sup> *Id.* at 941.

<sup>116</sup> *Id.*

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the Artistic License 1.0's attribution conditions arguably fall into a gray area because they relate to moral rights<sup>117</sup> but not directly to copying, distribution, or derivative works. Many of the "share alike" provisions of the GPL might not qualify—they do not invoke copyrights, and instead simply require a set of reciprocal promises<sup>118</sup> given in exchange for a broad license of all copyrights (the so-called copyleft which reverses all copyrights). And finally, it is hard to see how the BSD License's condition that a licensee reproduce warranty disclaimers or, for that matter, its condition that the licensee reproduce copyright notices would qualify as a license condition, because neither of those terms have a nexus to "exclusive rights" under copyright as required by *MDY*.<sup>119</sup>

Software presents a unique complication for identifying the nexus between a purported license condition and an exclusive copyright because software's very use causes multiple copies to be made in a computer's random access memory (RAM). If the user acquires the software as a copyright first sale, Section 117 of the U.S. Copyright Act provides that these RAM copies are not infringing. By contrast, in a license transaction, the license contract governs the making of these RAM copies during software use, so any properly drafted condition on the license grant could be characterized as a copyright-implicating license condition. In other words, in the software context, the parties could have considerable flexibility about whether to characterize a term as a covenant or a condition.

Rather than wrestle deeply with this issue,<sup>120</sup> the *MDY* court brushed it off with a terse policy observation: "The rationale would

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<sup>117</sup> Protection of moral rights under copyright law is relatively weak in the United States, relating primarily to the visual arts. See 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT 8D.02[D][2] (2005); see also IRINI A. STAMATOUDI, COPYRIGHT AND MULTIMEDIA PRODUCTS: A COMPARATIVE ANALYSIS 160–64 (2002) (discussing varied treatment of moral rights as they relate to software); MIRA T. SUNDARA RAJAN, MORAL RIGHTS 283–318 (2011) (same).

<sup>118</sup> For example, in exchange for the license grant, the licensee agrees to release source code and relicense royalty free on the same terms as the GPL. While these conditions do have something to do with copyright, they do not place direct conditions on copying, distribution, or the creation of derivative works.

<sup>119</sup> See *MDY*, 629 F.3d at 941; see also *Fantastic Fakes, Inc. v. Pickwick Int'l, Inc.*, 661 F.2d 479, 487 (5th Cir. 1981). But see *County of Ventura v. Blackburn*, 362 F.2d 515, 520 (9th Cir. 1966); *National Comics Publications v. Fawcett Publications*, 191 F.2d 594, 600 (2d Cir. 1951). In addition, the requirement to retain copyright notices may be largely superfluous after passage of 17 U.S.C. § 1202 (b), which prohibits the removal of copyright management information such as copyright notices.

<sup>120</sup> For example, the court could have revisited the oft-criticized *MAI Systems v. Peak Computer* decision, which treats RAM copies as infringing copies. See *Cartoon Network v. CSC Holdings, Inc.*, 536 F.3d 121 (2d Cir. 2008); Melissa A. Bogden, Comment, *Fixing Fixation: The RAM Copy Doctrine*, 43 ARIZ. ST.



be that because the conduct occurs while the [licensee's] computer is copying the software code into RAM in order for it to run, the violation is copyright infringement. This would allow software copyright owners far greater rights than Congress has generally conferred on copyright owners."<sup>121</sup> Taken literally, this observation is not correct. Software copyright holders who use licenses simply do not have "greater rights" than other copyright holders—all possess the same exclusive statutory rights and the same remedies for breach of those rights.

To be fair, perhaps the *MDY* court is suggesting that software licensors *may* have a greater ability to enforce their copyrights for breach of a license contract if they have greater flexibility to create license conditions than other copyright licensors. The critical word, however, is "may." Remedies ultimately come down to what a court will award, especially when it comes to affirmative or emergency injunctive relief. If courts exercise caution in granting injunctive relief<sup>122</sup> for breach of a license condition that is not well grounded in copyright law or policy, then, in practice, software copyright holders will have little or no greater power than other copyright holders.

To complicate matters further, the *MDY* court carved out a *sui generis* exception for monetary payments: "A licensee arguably may commit copyright infringement by continuing to use the licensed work while failing to make required payments, even though a failure to make payments otherwise lacks a nexus to the licensor's exclusive statutory rights."<sup>123</sup> The court justified its exception "because of the distinct nexus between payment and all commercial copyright licenses, not just those concerning software."<sup>124</sup>

The court appears to be saying that license grants which are conditioned on the payment of money may be remedied by copyright remedies even though payments are not grounded in copyright's exclusive rights. The court's rationale for its *sui generis* exception is a bit obscure because it uses the word "nexus" twice but in two different senses. The best reading seems to be that if all copyright licenses (software as well as non-software) could benefit from conditioning license grants on payment, then the

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L.J. 181 (2011); Daniel J. Buller, Note, *Copyright Infringement in the Ether: RAM Buffering and the Copyright Act's Duration Requirement*, 59 U. KANS. L. REV. 659 (2011); Aaron Perzanowski, *Fixing RAM Copies*, 104 NW. U. L. REV. 1067 (2010).

<sup>121</sup> *MDY*, 629 F.3d at 941.

<sup>122</sup> Or any other copyright remedies, for that matter. *See* 17 U.S.C. §§ 502-505 (2006) (describing remedies such as statutory damages, seizure of infringing copies, and attorneys' fees).

<sup>123</sup> *MDY*, 629 F.3d at 941 n.4.

<sup>124</sup> *Id.*

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court's concern about "far greater rights" accruing to software licensors would not come into play. However, software and non-software commercial copyright licenses share many terms in common, not just payment.<sup>125</sup> Under the court's reasoning could these "in common" terms also be drafted as copyright-invoking license conditions?

Moreover, the court's *sui generis* exception disfavors licenses, such as FOSS licenses,<sup>126</sup> for which payment is not the operative consideration. After *MDY*, parties can draft a license so that the payment of royalties is treated as a license condition,<sup>127</sup> but they cannot draft a license where "payment" of non-monetary consideration (such as attribution or "share alike") is a license condition.<sup>128</sup> Neither contract nor copyright policy justifies favoring monetary consideration over non-monetary consideration.<sup>129</sup> Such a distinction even runs afoul of the court's concern about giving some copyright licensors "far greater rights" than others, but, ironically, the court's exception favors commercial non-software licensors over non-commercial open source software licensors.

***C. A Multifactor, Sliding Scale Approach that Addresses the MDY Complication***

The Ninth Circuit's attempt to limit the ability of copyright licensors to turn contractual covenants into license conditions is based on a sound policy concern, namely the fear of unduly extending copyright's power through contracts, especially in the context of software licenses. Unfortunately, the court's approach encroaches on three competing policies, namely authorial control, certainty in contracting, and the freedom of contracting parties to structure their transactions and allocate risk as they think best under the circumstances. There is a better way to balance all of these important copyright and contract policies.

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<sup>125</sup> See generally GOMULKIEWICZ ET AL., *supra* note 54, at 51-80 (chapter discussing terms common in most license contracts).

<sup>126</sup> "There are substantial benefits, including economic benefits, to the creation and distribution of copyrighted works under public licenses that range far beyond traditional license royalties." *Jacobsen v. Katzer*, 535 F.3d 1373, 1378 (Fed. Cir. 2008).

<sup>127</sup> See *McRoberts Software, Inc. v. Media 100, Inc.*, 329 F.3d 557, 562 (7th Cir. 2003) ("[S]ubject to [Media 100] timely paying all amounts owing hereunder, upon payment of the \$75,000 license fee. . .").

<sup>128</sup> Furthermore, it is doubtful that a licensor could create a license condition based on a promise not to charge a royalty such as the critical license condition of this nature found in the GPL.

<sup>129</sup> *Jacobsen*, 535 F.3d at 1382.

The difficulty with the *MDY* approach is that it places so much emphasis on identifying the absolute definitional boundary between contractual covenants and license conditions,<sup>130</sup> determined by examining the “grounding” in or “nexus” with copyright’s exclusive rights. The trial court faces a high stakes “either/or” choice based on relatively sketchy criteria; if the court lands on the side of defining a given license agreement term as a contractual covenant, the copyright holder cannot receive injunctive relief.<sup>131</sup>

There is a better way to utilize the “grounding” and “nexus” criteria identified in the *MDY* decision. The better approach is to shift the focus to the remedies aspect of the case. Leading up to and following the Supreme Court’s decision in *eBay v. MercExchange*,<sup>132</sup> there has been a renewed appreciation for the impact of remedies in intellectual property cases,<sup>133</sup> particularly as they relate to maintaining a fair balance in the intellectual property bargain between exclusive rights and public use.<sup>134</sup> I propose what I will call a “sliding scale” approach to contrast it with the *MDY* court’s “either/or” approach, applied when a licensor seeks injunctive relief.

It makes more sense for courts to use the “grounding” and “nexus” criteria as critical factors in deciding whether to grant injunctive relief, based on a sliding scale. Indeed, this is precisely

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<sup>130</sup> Determining this boundary is notoriously difficult. See MELVILLE B. NIMMER & DAVID NIMMER, 3 NIMMER ON COPYRIGHT 12.01[A] at 12-5 (2010); Omri Ben-Shahar, *Damages For Unlicensed Use*, 78 U. CHI. L. REV. 7, 11-13 (2011).

<sup>131</sup> See David McGowan, *The Tory Anarchism of F/OSS Licensing*, 78 U. CHI. L. REV. 207, 216 (2010) [hereinafter McGowan, *Tory Anarchism*] (pointing out the issue in harkening back to and criticizing the 9th Circuit’s decision in *Sun Microsystems v. Microsoft Corp.*, 188 F.3d 1115 (9th Cir. 1999)).

<sup>132</sup> 547 U.S. 388, 391 (2006).

<sup>133</sup> See Orit F. Afori, *Flexible Remedies as a Means to Counteract Failures in Copyright Law*, 29 CARDOZO ARTS & ENT. L.J. 1 (2011).

<sup>134</sup> See, e.g., Omri Ben-Shahar, *supra* note 130; Engy Elrefaie, *Injunctive Relief Post eBay and the Various Applications of the Four-Factor Test in Differing Technological Industries*, 2 HASTINGS SCI. & TECH. L.J. 219, 239 (2010); H. Tomas Gomez-Arostegui, *What History Teaches Us About Copyright Injunctions and the Inadequate-Remedy-At-Law Requirement*, 81 S. CAL. L. REV. 1197 (2008) (arguing that the historical record suggests that in copyright cases legal remedies (damages) were deemed categorically inadequate); David McGowan, *Irreparable Harm*, 14 LEWIS & CLARK L. REV. 577 (2010) [hereinafter McGowan, *Irreparable Harm*]; ; Jake Phillips, Comment, *eBay’s Effect on Copyright Injunctions: When Property Rules Give Way to Liability Rules*, 24 BERKELEY TECH. L.J. 405 (2008); Pamela Samuelson & Krzysztof Bebenek, *Why Plaintiffs Should Have to Prove Irreparable Harm in Copyright Preliminary Injunction Cases*, 6 I/S: J.L. & POL’Y FOR INFO. SOC’Y. 67 (2010). To sample cases and commentary prior to the Supreme Court’s *eBay* case, see *Cordis Corp. v. Medtronic, Inc.*, 835 F.2d 859, 864 (Fed. Cir. 1987) (effect on patent system) and Mark A. Lemley & Eugene Volokh, *Freedom of Speech and Injunctions in Intellectual Property Cases*, 48 DUKE L.J. 147 (1998).

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when and where the condition/covenant distinction really matters—where the proverbial rubber meets the road. In this sliding scale approach, the more a license condition has grounding in and nexus to copyright's exclusive rights, the more likely it is that the court will award injunctive relief. This relieves trial courts of the pressure to make precise, binary “either/or” decisions about whether a term should be called a license condition or not, and puts trial judges in the accustomed role of using their experience<sup>135</sup> in evaluating and weighing a variety of facts and circumstances to craft a nuanced remedy based on the particular ones before it.<sup>136</sup> Indeed, trial courts should examine other copyright related criteria and contract related factors as part of its assessment of whether granting an injunction promotes the public interest. This respects the Supreme Court's reminder in the *eBay* case to weigh the public interest in the injunctive relief equation.<sup>137</sup>

From a copyright policy standpoint, trial courts should give weight to the authorial control inherent in copyright protection,<sup>138</sup> but courts should also examine the extent to which the license contract fosters the creation and distribution of works. Many

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<sup>135</sup> See *General Instrument Corp. v. Nu-Tek Electronics & Manufacturing, Inc.*, 197 F.3d 83, 90 (3d Cir. 1999).

<sup>136</sup> “Perhaps the most significant single component in the judicial decision whether to exercise equity jurisdiction and grant permanent injunctive relief is the court's discretion.” WRIGHT, MILLER & KANE, *FEDERAL PRACTICE AND PROCEDURE* 37-38 (1995). “[I]n most cases the determination whether to issue an injunction involves a balancing of the interests of the parties who might be affected....” *Id.* at 39. “Not surprisingly, therefore, the court's decision depends on the circumstances of each case.” *Id.* at 42. See generally MOORE'S *FEDERAL PRACTICE* 3d § 65.03 (2010). For a sample of district courts exercising their discretion, see, e.g., *Designer Skin, L.L.C. v. S&L Vitamins, Inc.*, 2008 WL 4174882 (D. Ariz. Sept. 5, 2008); *Warner Bros. v. RDR Books*, 575 F.Supp.2d 513 (S.D.N.Y. 2008) (Harry Potter Encyclopedia case); *Ticketmaster L.L.C. v. RMG Technologies, Inc.*, 507 F. Supp.2d 1096 (C.D. Cal. 2007) (website terms of use); *Microsoft Corp. v. McGee*, 490 F. Supp.2d 874 (S.D. Ohio 2007) (software counterfeiting); *Propet USA, Inc. v. Shugart*, 2007 WL 4376204 (W.D. Wash Dec. 13, 2007). See also *Coxcom, Inc. v. Chaffee*, 536 F.3d 101, 112 (1st Cir. 2008).

<sup>137</sup> Decisions about injunctive relief should include consideration of the impact on the public interest. See *eBay Inc.*, 547 U.S. at 391 (2006). See also Elrefaie, *supra* note 134, at 239 (“Although the public interest factor may not be explicitly stressed in most cases, it is a major factor in the Supreme Court's reversal of the Federal Circuit's holding in *eBay*.”).

<sup>138</sup> See *Jacobsen v. Katzer*, 535 F.3d 1373, 1375, 1378, 1381 (Fed. Cir. 2008) (referring numerous times to the author's need to control its works); McGown, *Tory Anarchism*, *supra* note 131, at 222 (“[E]ven if one despises the authorial authority embedded in property rules and presumptive injunctive relief, it is naïve to believe that cutting back such authority inevitably yields net gains in anything. It certainly does not produce inevitable net gains in “freedom” or “liberty,” because the freedom to take and use comes at the expense of a freedom to structure production and distribution as one wishes.”).

license contracts do protect valuable authorial rights (such as moral rights) and demonstrably provide the legal tool to increase creative collaboration and business model innovation.<sup>139</sup> But not all attempts to assert authorial control via license contracts are created equal at all times or in all settings—some promote the overall purposes of copyright law better than others.<sup>140</sup>

From a contract policy standpoint, as mentioned, license contracts help the parties allocate risk and provide certainty about the terms of their business relationship.<sup>141</sup> The *MDY Trio's* test threatens these goals in situations where the license contract has been drafted specifically to identify a term as a license condition. But freedom of contract is not the same at all times or in all settings. As suggested by the *Jacobsen* case, assessing “context” factors<sup>142</sup> matters. For example, trial courts should weigh: Did the parties truly intend for the licensor to be able to take advantage of copyright remedies for breach of a particular provision?<sup>143</sup> Was the license contract drafted clearly to reflect that fact? Was the contract negotiated or a standard form? How sophisticated are the parties?<sup>144</sup> How robust was the licensee’s opportunity to review and manifest assent?<sup>145</sup>

This multifactor, sliding scale approach has an additional benefit: it eliminates the need for *MDY's* analytically awkward *sui generis* exception for monetary payments serving as license

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<sup>139</sup> See Gomulkiewicz, *Licensing Law Jurisprudence*, *supra* note 61, at 204-08 (describing how licensing can promote technological and business model innovation).

<sup>140</sup> Even though open source licensing often promotes the goals of copyright, whether and to what extent this is so varies from case to case. See generally Christian H. Nadan, *Open Source Licensing: Virus or Virtue?*, 10 TEX. INTELL. PROP. L.J. 349 (2002); Greg R. Vetter, “*Infectious*” *Open Source Software: Spreading Incentives or Promoting Resistance?*, 36 RUTGERS L.J. 53 (2004).

<sup>141</sup> See *PCTV Gold, Inc. v. Speednet LLC*, 508 F.3d 1137, 1145 (8th Cir. 2007) (weighing freedom of contract as a public interest factor to be weighed in assessing injunctive relief).

<sup>142</sup> See diagram *infra* for examples of factors that might help the court tease out the intent of the parties.

<sup>143</sup> See *Texas Instruments Inc. v. Tessera, Inc.*, 231 F.3d 1325, 1329 (Fed. Cir. 2000) (sophisticated parties form license contracts with knowledge of how remedies will operate in the context of their licenses, including possibility of injunctive relief).

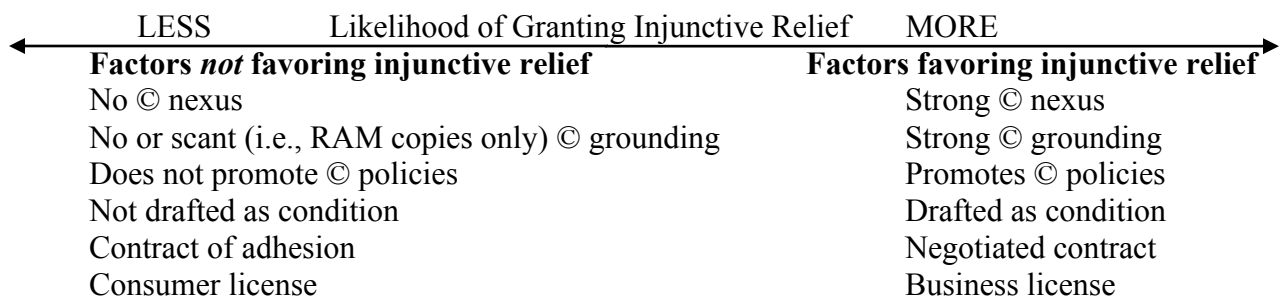
<sup>144</sup> See Lemley, *supra* note 38, at 459-60 (pointing out that, surprisingly, most EULA cases have involved sophisticated parties rather than consumers); see also *MDY Industries v. Blizzard Entertainment*, 629 F.3d 928, 935-37 (9th Cir. 2010) (litigants clearly sophisticated parties); *Register.com, Inc. v. Verio, Inc.*, 356 F.3d 393 (2d Cir. 2004) (discussed by Professor Lemley as illustrative of his point about EULA cases).

<sup>145</sup> See, e.g., the *Register.com* and *MDY* cases, where the licensee viewed the EULA multiple times.

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conditions.<sup>146</sup> Under the multifactor, sliding scale approach, a payment-related license condition can be treated like any other term drafted as a license condition. There will no longer be a need for trial courts to treat royalty payments as special, unique, always actionable conditions when other consideration-related conditions (such as attribution, cross-licensed code, or “share alike”) fulfill the same objective as royalties in many licenses.

Use of the multi-factor, sliding scale approach described above can be illustrated in the diagram below:



With this approach, licensing law can allow parties to order their business affairs freely, rationally, and predictably by drafting license contracts that best fit their circumstances, while keeping the power of copyright holders in check when it comes to enforcing the license contract. This works well for FOSS licensors, who often can show that their specified license conditions ultimately serve the goals of copyright law even though they may not fit neatly into the test for license conditions set out in the *MDY* case.<sup>147</sup> Taking a fresh look at the availability of equitable relief for breach of copyright licenses through the lens of open source licensing seems to be just what Justice Kennedy had in mind in the *eBay* case when he admonished trial courts to bear in mind the economic impact of new ways to exploit intellectual property that “present conditions quite unlike earlier cases.”<sup>148</sup>

<sup>146</sup> Using the sliding scale approach, continued use of software without payment might be enjoined in certain cases (e.g., business license, payment clearly drafted as license condition, negotiated transaction) but not others (e.g., consumer license, payment not clearly drafted as license condition, contract of adhesion).

<sup>147</sup> See McGown, *Tory Anarchism*, *supra* note 131 (showing strong need for authorial control in open source licensing because it increases creative works).

<sup>148</sup> *eBay Inc. v. MercExchange*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring). Justice Kennedy was talking specifically about so-called patent trolls, but his general point goes beyond patents and the licensing practices of patent trolls.

For instance, in the FOSS context, a court might grant injunctive relief<sup>149</sup> for violating the “share alike” requirement of the GPL or the attribution requirement<sup>150</sup> of the Artistic License if: (1) the licensee knew about or had a fair opportunity to review the requirement; (2) in the text of the license, the requirement was described as a license condition; (3) there is some grounding in or nexus to copyright beyond RAM copies, *e.g.*, related to the creation of derivative works in the case of the GPL or the protection of moral rights in the case of the Artistic License; (4) it is a non-consumer transaction;<sup>151</sup> or (5) it strongly promotes the greater creation and distribution of works (key goals of copyright).<sup>152</sup>

I conclude this Section with a brief note of caution. Even though FOSS licensing can be a highly beneficial licensing practice that promotes the goals of copyright, whether and to what extent this is true varies from case to case. A decade ago, the discussion about FOSS<sup>153</sup> in the software industry seemed polarized—FOSS was either the end of intellectual property or the

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<sup>149</sup> This Article does not weigh in on the important question of whether irreparable harm should be presumed in copyright cases post-*eBay*. According to some scholars, lower courts have split on the issue. *See* Gomez-Arostegui, *supra* note 134, at 1209. For whether irreparable harm should be presumed from a normative point of view, *compare* Samuelson, *Why Plaintiffs*, *supra* note 134, with McGowan, *Irreparable Harm*, *supra* note 134.

<sup>150</sup> *See* McGowan, *Irreparable Harm*, *supra* note 134, at 590 (“Although it is often said that U.S. copyright law does not recognize moral rights as such, the law does recognize reputation as relevant to infringement remedies and treats reputational harm as irreparable. This is true even when the relevant aspect of reputation is honor rather than fame . . .”); *id.* at 593 (“[T]he presence of attribution requirements in even undemanding software licenses such as the BSD, MIT, and Artistic licenses is evidence that attribution plays an important role in the sociology of production for projects that employ such licenses (the same is true of licenses such as the GPL, that add an ideological component to attribution).”).

<sup>151</sup> *See* *Texas Instruments, Inc. v. Tessera, Inc.*, 231 F.3d 1325, 1329 (Fed. Cir. 2000). In the open source context, many if not most hackers are sophisticated about the expectations surrounding open source licenses. *See generally* Gomulkiewicz, *Open Source License Proliferation*, *supra* note 30 (describing hacker participation in the Open Source Initiative’s process of certifying licenses as complying with the Open Source Definition).

<sup>152</sup> *See* *Jacobsen v. Katzer*, 535 F.3d 1373, 1382 (Fed. Cir. 2008); *cf.* *Wallace v. IBM Corp.*, 467 F.3d 1104 (7th Cir. 2006) (discussing how the GPL advances competition law policies).

<sup>153</sup> *See* Greg R. Vetter, *Exit and Voice in Free and Open Source Software Licensing: Moderating the Rein Over Software Users*, 85 OR. L. REV. 183 (2006); David McGowan, *SCO What? Rhetoric, Law and the Future of F/OSS Production*, 2-3, 14-15 (Univ. of Minn. Law Sch. Research Paper No. 04-9, 2004).

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THE *MDY TRIO*'S INCONVENIENT COMPLICATIONS

savior of innovation.<sup>154</sup> Today, a more pragmatic mood prevails. As the use of open source licensing takes on more permutations and as large public companies such as Apple, Amazon.com, Google, IBM, Intel, Microsoft, and RedHat reap great profits using open source as part of their business model, it has become clear that FOSS licensing is no more inherently good than BUS licensing is inherently evil.<sup>155</sup> Indeed, many firms now use a combination of FOSS and BUS licensed software, leading many to conclude that “mixed source” is the best approach.<sup>156</sup> In the final analysis, trial courts should soberly examine each use of FOSS and BUS licensing in its particular context, ignoring both vaporous platitudes<sup>157</sup> and overwrought prognostications of doom.<sup>158</sup>

### CONCLUSION

Just as quickly as *Jacobsen v. Katzer* seemed to create clarity about the enforcement of open source licenses, the *MDY Trio* introduced inconvenient complications. These complications should not be surprising because they sit at the often-turbulent intersection of copyright and contract law. We should admire the *MDY Trio*'s attempt to address the tricky distinction between copyright first sales and licenses and the elusive distinction between contractual covenants and license conditions. Our admiration should not get in the way of refining and adjusting the *MDY Trio*'s approach, however, and that is what this Article proposes to do.

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<sup>154</sup> See generally Ronald J. Mann, *Commercializing Open Source Software: Do Property Rights Still Matter?*, 20 HARV. TECH. L.J. 1 (2006).

<sup>155</sup> See generally Jonathan Zittrain, *Normative Principles for Evaluating Free and Proprietary Software*, 71 U. CHI. L. REV. 265 (2004).

<sup>156</sup> See generally Greg R. Vetter, *Commercial Free and Open Source Software: Knowledge Production, Hybrid Appropriability & Patents*, 77 FORDHAM L. REV. 2087 (2009).

<sup>157</sup> See Richard Stallman & Eben Moglen, *GPL Version 3: Background to Adoption*, FREE SOFTWARE FOUNDATION (June 10, 2005), <http://www.fsf.org/news/gpl3.html> (arguing that “free software . . . is the only ethically satisfactory form of software development”).

<sup>158</sup> See Joseph Miller, *Allchin's Folly: Exploding Some Myths About Open Source Software*, 20 CARDOZO ARTS & ENT. L. J. 491 (2002) (describing anti-FOSS rhetoric of former Microsoft executive Jim Allchin).