Caught in a Blizzard

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In *Davidson & Associates v. Jung*, 2005 U.S. App. LEXIS 18973 (8th Cir. 2005), the U.S. Court of Appeals for the Eighth Circuit held that the defendants breached a click-on license prohibition on reverse engineering, and that the Digital Millennium Copyright Act's interoperability exception did not apply to the defendants' circumvention activities. However, because the opinion reflects obvious misunderstandings of fact and law, other courts are unlikely to accord it much weight.

Facts

Blizzard Entertainment, a subsidiary of Vivendi Universal Games, provides the Battle.net service, which allows owners of Blizzard games to play one another online. Some users of Battle.net grew dissatisfied the service, so they developed an open source alternative called bnetd. They designed the bnetd software to emulate much of the functionality of Battle.net. In particular, owners of Blizzard games could log onto the bnetd server and play against other Blizzard gamers also logged onto the bnetd server.

To develop the bnetd software, the gamers reverse engineered the Blizzard game and its communications with the Battle.net software after clicking-on End-User License Agreements (EULA) in both the games and the Battle.net website that prohibited reverse engineering. Additionally, the bnetd software did not contain an authentication feature present in Battle.net. Blizzard assigned a unique identifier to each copy of its games. Battle.net would not allow a gamer to log on if another gamer with the same number was already logged on. This made it difficult for possessors of infringing copies to log on to the Battle.net, for the infringing copies had the same identifier as the original from which they were copied. Because bnetd did not contain this authentication feature, bentd interoperated freely with infringing copies of Blizzard games.

The District Court Decision

Blizzard alleged that the bnetd developers breached the EULAs prohibiting reverse engineering. Following the Federal Circuit's decision in *Bowers v. Baystate*, 320 F.3d 1317 (Fed. Cir. 2003), the district court found that the EULAs were not preempted by Section 301(a) of the Copyright Act and that the bnetd developers had breached them.

Blizzard also claimed the bnetd developers enabled the circumvention of a technological protection measure in violation Section 1201 of the Digital Millennium Copyright Act (DMCA). Specifically, bnetd allowed owners of Blizzard games to circumvent a technological protection in the game so that the gamers could play their

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games in the Battle.net mode on a bnetd server rather than the Battle.net server. After finding that bnetd enabled the circumvention of the technological protection, the district court considered, and rejected, the interoperability defense contained in Section 1201(f) of the DMCA.

Section 1201(f)(2) permits software developers to provide consumers with the means of circumventing technological protection measures for the purpose of achieving interoperability between two computer programs. The district court dismissed the interoperability defense on the grounds that the bnetd developers' "actions constituted more than enabling interoperability" and "extended into the realm of copyright infringement." The district court, however, did not clearly explain how the defendants' actions "extended into the realm of copyright infringement."

The bnetd developers appealed the district court's ruling concerning preemption and the DMCA's interoperability exception.

The Eighth Circuit's Preemption Holding

The Eighth Circuit correctly recognized that two forms of preemption come into play when considering contractual restrictions on a privilege granted under the Copyright Act: express preemption under Section 301(a) of the Copyright Act, and conflict preemption, which arises when state law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress. Courts have interpreted Section 301(a) as not preempting a state cause of action that requires proof of "extra elements" not present in a copyright claim. Several courts have held that contract claims survive Section 301(a) challenge because they require proof of an extra element – the existence of an enforceable contract. *See, e.g., ProCD v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996).[2]

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[2] *But see Symantec Corp. v. McAffee Assocs., Inc.*, No. C-97-20367, 1998 WL 740798 (N.D. Cal. June 9, 1998), where the court declined to enforce a contractual restriction on reverse engineering, finding that the mere existence of an agreement was insufficient to transform "what essentially is a copyright infringement claim" into "something more." Id. at *5. *See also Kabehie v. Zoland*, 125 Cal. Rptr. 721 (Cal.App.2d Dist. 2002) ("The promise alleged to have been breached in a breach of contract action does not always make the contract action qualitatively different from a copyright infringement action. If the promise was simply to refrain from copying the material or infringing the rights protected by copyright, then the promisor has promised nothing more than that which was already required under federal copyright law. The promise not to infringe adds nothing to a breach of contract action for copyright infringement. A breach of contract action based on this type of promise must be preempted in order to prevent parties from circumventing federal copyright law and nullifying the preemption provided for in section 301."); 1 Melville B. Nimmer & David Nimmer, NIMMER ON COPYRIGHT, § 1.01[B][1][a] at 1-19 and 1-22 (2001).

This leaves conflict preemption, which was the focus of the bnetd developers' preemption argument. A circuit split on this issue exists between the Fifth Circuit and the Federal Circuit (interpreting the law in the First Circuit). The Fifth Circuit in *Vault v. Quaid*, 847 F.2d 255 (5th Cir. 1988), considered a Louisiana statute that provided that shrinkwrap licenses prohibiting reverse engineering were enforceable. The court found that a reverse engineering prohibition in a shrinkwrap license conflicts with the rights of computer program owners under 17 U.S.C. 117 and clearly "touches upon an area" of federal copyright law. 847 F.2d at 270. Accordingly, the Fifth Circuit refused to enforce the Louisiana statute and the shrinkwrap prohibition.

In contrast, the Federal Circuit in *Bowers v. Baystate* found that the First Circuit permits the waiver of statutory privileges by contract. The Eighth Circuit agreed with the Federal Circuit, quoting its statement that "private parties are free to contractually forego the limited ability to reverse engineer a software product under the exemptions of the Copyright Act." 320 F.3d at 1325-26.

But the Eighth Circuit did not explain why it preferred the Federal Circuit's rule over the Fifth Circuit's. Rather, it simply asserted that "[u]nlike in *Vault*, the state law issue here neither conflicts with the interoperability exception under 17 U.S.C. 1201(f) nor restricts rights given under federal law." *Davidson* at *21. This, however, makes no sense. Numerous courts have interpreted 17 U.S.C. 107 as excusing the reproductions made during the course of reverse engineering, and 17 U.S.C. 1201(f)(1) specifically permits circumvention to effectuate reverse engineering for purposes of achieving interoperability. Thus, enforcing the EULA here creates a direct conflict with the Copyright Act.[3]

Conceivably the Eighth Circuit was attempting to distinguish *Vault* on the ground that *Vault* concerned a state statute, but it was a statute dealing with the enforcement of contracts. There is no difference between refusing to enforce a contractual term and refusing to enforce a statute that provides that a contractual term is enforceable. As Judge Dyk wrote in his dissent in *Bowers*, "[f]rom a preemption standpoint, there is no distinction between a state law that explicitly validates a contract that restricts reverse engineering (Vault) and general common law that permits such a restriction (as here)." 320 F.3d at 1337.

Moreover, the Eighth Circuit cited a statement in Judge Dyk's dissent as support for its position. It evidently did not realize that Judge Dyk's statement actually undercuts its position. The Eighth Circuit quoted Judge Dyk as stating: "a state can permit parties to contract away a fair use defense or to agree not to engage in uses of

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[3] *See DVD Copy Control v. Bunner*, 31 Cal. 4th 864, 901 n.5 (Sup. Ct. Cal. 2003)(J. Moreno, concurring) ("[I]f trade secret law did allow alleged trade secret holders to redefine 'improper means' to include reverse engineering, it would like be preempted by federal patent law, which alone grants universal protection for a limited time against the right to reverse engineer. *See Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 155 (1989).")

copyrighted material that are permitted by the copyright law if the contract is freely negotiated." *Davidson* at *21. The last clause – "if the contract is freely negotiated" -- is Judge Dyk's critical point. Judge Dyk was suggesting a way of reconciling *Vault* with the First Circuit precedent on which the *Bowers* majority relied. In Judge Dyk's view, a person could waive his privileges under the Copyright Act by contract, provided that the contract was freely negotiated. But a software firm could not eliminate such privileges simply "by printing a few words on the outside of its product…." 320 F.3d at 1337. Such an approach "permits state law to eviscerate an important federal copyright policy reflected in the fair use defense…." 320 F.3d at 1335.

The Eighth Circuit did not grasp Judge Dyk's proposed reconciliation of the First and Fifth Circuits. It incorrectly concluded that Judge Dyk agreed that contract overrides copyright in all cases. Thus, it enforced the prohibition on reverse engineering in the Blizzard EULAs although they were not the product of negotiations between the parties. Rather, the EULAs were adhesion contracts imposed by Blizzard; the bnetd developers had to agree to the EULAs' terms before they could use the Blizzard games and the Battle.net server. Had the Eighth Circuit understood Judge Dyk's differentiation between negotiated and non-negotiated contracts, it may have reached a different result.[4]

The Eighth Circuit's DMCA Holding

The Eighth Circuit correctly acknowledged that the DMCA "contains several exceptions, including one for individuals using circumvention technology 'for the sole purpose' of trying to achieve 'interoperability' of computer programs through reverse engineering." *Davidson* at *29. The court then accurately listed the requirements of the exception, including that "the alleged circumvention did not constitute infringement."

The Eighth Circuit then stated that "Appellants' circumvention in this case constitutes infringement." It proceeded to describe the bnetd developers' actions, but *none of these constitute infringement by the developers*. The court observed

> [t]he bnetd.org emulator enabled users of Blizzard games to access Battle.net mode features without a valid or unique CD Key to enter Battle.net. The bnetd.org emulator did not determine whether the CD Key was valid or currently in use by another player. As a result, unauthorized copies of the Blizzard games were freely played on the bnetd.org servers.

Davidson at *30-31. The Eighth Circuit failed to recognize that the bnetd developers did not making the copies of the Blizzard games; the gamers did. Moreover, the bnetd

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[4] Judge Dyk also drew a distinction between commercial and non-commercial contracts: "The Copyright Act does not confer a right to pay the same amount for commercial and personal use. It does, however, confer a right to fair use…." 320 F.3d at 1338. Thus, Judge Dyk might conclude that a prohibition on reverse engineering in a non-commercial license is not preempted, provided that reverse engineering was permitted under a more expensive commercial license.

developers did not contributing to this infringement; at most, they provided a venue for the infringing copies to be used *after* the infringement had occurred.

But even if the bnetd developers had infringed or induced the infringement of the copyright in Blizzard games under *MGM Studios v. Grokster*, 125 S. Ct. 2764 (2005), that would not affect the availability of the Section 1201(f) defense with respect to bnetd. Under Sections 1201(f)(2) and (3), a person may develop, employ, and make available to others a technological means of circumventing a protection for purposes of achieving interoperability, so long as the development, employment, or distribution of the technology does not constitute infringement. Thus, there relevant inquiry is whether the bnetd program itself infringes any Blizzard copyright.

Interestingly, the defendants entered into a consent decree under which they admitted that they copied Blizzard code, files, and images in bnetd. In their brief on appeal, the developers argued that these were "a few small, unrelated icon files" that were included in bnetd "to help players recognize others when they 'chatted' on the system." Appellants' Brief at 45. The developers claimed that this "de minimus" copying had nothing to do with accessing the Battle.net mode or any circumvention. Blizzard highlighted this copying in its brief to the Eighth Circuit: "Appellants copied into their final product original works of Blizzard – its images and code were unnecessary for an independent work and unnecessary to achieve interoperability – solely because Appellants wanted to recreate Battle.net Mode as faithfully as possible." Appellees' Brief at 37-38.

It is hard to understand why the Eighth Circuit ignored this admitted copying by the bnetd developers, and instead based its rejection of the 1201(f) defense on infringements by unknown third parties. Conceivably the Eighth Circuit did not fully comprehend the complex technical facts before it, or it misread the statute. Surely the Eighth Circuit did not intend to deprive software developers of the 1201(f) safe harbor on account of infringements by unaffiliated third parties.

Consider the following example. Company X develops accounting software which users can install in their computers to maintain their household finances. When taxes are due, a user can log onto Company X's website where a program calculates the amount of taxes the user owes. The website and the accounting software have an authentication protocol -- a "secret handshake" – that ensures that only authorized owners of the accounting software can log onto the website and use the tax calculator. Although the accounting software is well designed, the tax calculator makes serious errors. Accordingly, Company Y designs its own tax calculator which users of X software can access. In order to interoperate with the users' X software, the Y calculator emulates the X calculator's handshake. However, because the Y calculator's handshake is somewhat simpler than the X calculator's, it allows allows users of infringing copies of X accounting software to access the Y calculator.

From a policy perspective, it makes no sense to deny the 1201(f) safe harbor to Y just because some users have made unauthorized copies of X's accounting software.

Legitimate users of X accounting software should not be denied the use of a superior tax calculator just because infringers of the accounting software can also use the superior tax calculator. The plain language of 1201(f) does not require such an absurd result.

In any event, given the confusing facts in this case, subsequent courts are likely to focus on the Eighth Circuit's statement that "Appellants' circumvention in this case constitutes infringement," and not worry about the details. Future defendants will be able to distinguish this case if they are able to convince courts that their acts of circumvention did not constitute infringement. And if a court does try to probe into how the circumvention in this case constituted infringement, the record does indicate that bnetd copied original Blizzard material.

Conclusion

From the Eighth Circuit's discussion of conflict preemption, it is not clear that the court understood the conflict between the Fifth and Federal Circuits, nor Judge Dyk's effort to find a compromise based on the distinction between negotiated and non-negotiated contacts. It also is not clear that the Eighth Circuit understood that the bnetd developers' acts of circumvention did not involve infringement, although bnetd did copy some elements of Battle.net. Had the Eighth Circuit understood these points, it may well have reached the opposite result.