

Open Source Licensing and the Viability of the Free Software Movement

by Sean Hogle

Free and open source software consists of computer program source code made available over the Internet, under a license that permits, without charge, use, modification, and redistribution. The free software movement depends in part on the use of licenses that obligate users of open source to take certain steps in furtherance of the movement's objectives. These obligations include posting copyright notices and ensuring developer attribution to preserve the pride of authorship that motivates the open source community, and, in the case of certain open source licenses, mandating that any modifications or derivative works of open source code be made available under the same terms under which the original code is licensed. The latter is oftentimes referred to as the "copyleft" obligation, in that the proprietary rights of copyright law, traditionally employed to restrict use, are instead used as a means of enforcing the liberalization ideals of the free software movement. The most popular open source license in use today, the General Public License (GPL), contains such an obligation. The GPL permits the licensee to modify GPL-licensed code and distribute such modified code, provided that the entire derivative work thereby created by such modification is licensed as a whole under the terms of the GPL itself.¹

Characterization of these license obligations as either conditions on the scope of the license or independent covenants is of extreme importance with respect to the practical enforceability of open source licenses. As a general matter, a licensee under a software license infringes the copyright to the licensed software if the licensee exceeds the scope of the license.² Scope is defined by conditions to the exercise of the licensed rights. The remedies available for copyright infringement are available where the scope of the license is exceeded. Conversely, independent contractual covenants are not limitations on the scope of the license, and thus violation of such covenants gives rise to breach of contract remedies only.

For example, if the license agreement states, "*Subject to and conditioned on Licensee's compliance with the royalty payment obligations of this agreement*, Licensee is granted a license to use, copy, distribute, [etc.] . . .," then violation of the payment obligation qualifies as a failure of satisfaction of the condition of the license, and thus amounts to copyright infringement. However, if the license agreement omits the italicized portion quoted above, such that payment of royalties is not an express condition of the license, then the licensee's failure to pay would entitle the licensor to claim breach of contract but would not give rise to a claim for copyright infringement.

Copyright law allows for recovery of lost profits or a reasonable royalty, as well as statutory damages (even where concrete proof of harm may be lacking) and attorneys' fees in exceptional cases.³ Furthermore, injunctive relief is commonly awarded in copyright infringement cases and is, in fact, facilitated by the irreparable harm presumption that applies if

the plaintiff is likely to succeed on the merits of the copyright infringement claim.⁴ Remedies for breach of contract, on the other hand, generally do not include injunctive relief,⁵ and are available only against parties to the contract—lacking privity, downstream users are not subject to contract claims.⁶ Furthermore, breach of contract remedies are for the most part limited to compensation for direct economic loss.⁷ In the open source context, where software is licensed without charge, establishing such losses would prove challenging if not impossible. Injunctive relief and statutory damages under the Copyright Act are essentially the only meaningful remedies available to open source licensors.

In December 2010, the Court of Appeals for the Ninth Circuit issued a ruling in *MDY Industries, LLC v. Blizzard Entertainment, Inc.*,⁸ in which the court elucidated a new rule that a contract obligation will be considered a license condition only if the obligation contains a "nexus" to the exclusive rights accorded to the copyright owner via the U.S. Copyright Act. The Ninth Circuit's reasoning as applied to open source licenses would render notice, attribution, and copyleft obligations in those licenses as mere contract covenants and not conditions that are limiting the license scope, foreclosing the possibility of copyright remedies. The ruling, therefore, casts considerable doubt on the ability of open source licensors to effectively enforce these obligations.

This article explores the "intersection between contract and copyright law"⁹ in open source licensing by examining *MDY Industries* and analyzing its impact, and explains how the Ninth Circuit's decision poses a significant threat to the viability of free and open source software licensing. By requiring license conditions to be restatements of the copyright holder's exclusive rights under copyright in order for breach of such conditions to trigger copyright remedies, the Ninth Circuit has essentially rendered conditions meaningless and has eliminated an important tool copyright owners have long enjoyed to control the use and distribution of their works. Without this control, achieving the objectives of the free software movement via open source licensing becomes untenable.

The MDY Industries Decision

The case concerns Blizzard Entertainment's popular multiplayer online role-playing game World of Warcraft and a software cheat program (a "bot") created by MDY Industries. This bot allows players to automatically gain virtual currency and experience points so that players need not play through all of the levels of the game in order to amass advanced powers, armor, and weapons.¹⁰ Blizzard claimed that MDY's bot program constituted a violation of the game service's terms of use to which all players must agree prior to installing the client-side (PC or Mac) software needed to connect to the Blizzard game servers.¹¹ Blizzard maintained that by inducing players to

violate the terms of use, MDY was in fact inducing players to infringe the copyright to the client-side program by exceeding the scope of the license contained in the terms of use.

Blizzard's terms of use contained the following restrictions ("Limitations on Your Use of the Service"):

You agree that you will not . . . (ii) create or use cheats, bots, "mods," and/or hacks, or any other third-party software designed to modify the World of Warcraft experience; or (iii) use any third-party software that intercepts, "mines," or otherwise collects information from or through the Program or Service.¹²

The court analyzed whether use of the MDY bot program exceeded the scope of the license Blizzard granted in the terms of use, thus constituting copyright infringement.¹³

As a pure drafting matter, the authors of the Blizzard terms of use (as they existed during the relevant time period¹⁴) plainly failed to articulate the anti-bot restrictions as conditions to the license to use the software. The Ninth Circuit exerted little effort in pointing out that nowhere in the terms of use was there any statement conditioning use or access of the software on compliance with any anti-bot requirement on the part of the user.¹⁵ Given state law's natural inclination against conditions (which are "disfavored" as they "tend to work forfeitures"; therefore, ambiguous provisions should be construed as covenants rather than conditions),¹⁶ the Ninth Circuit could have readily based its decision on the deficient drafting of the Blizzard terms of use and ended its analysis there.

Unfortunately, the court did not rest its decision solely on its construction of the terms in question. Rather, the court articulated a new requirement that contractual terms must have a "nexus" to copyright's exclusive rights of reproduction, distribution, or the creation of derivative works in order for such terms to be considered license conditions.¹⁷ Infringement arising from violation of licensing terms occurs "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.*"¹⁸

The court proceeded to observe that some of the Blizzard terms of use were "grounded" in Blizzard's exclusive rights of copyright, and others, particularly the anti-bot obligation, were not.

For instance, ToU [terms of use] § 4(D) forbids creation of derivative works based on WoW [World of Warcraft] without Blizzard's consent. A player who violates this prohibition would exceed the scope of her license and violate one of Blizzard's exclusive rights under the Copyright Act. In contrast, ToU § 4(C) (ii) prohibits a player's disruption of another player's game experience. *Id.* A player might violate this prohibition while playing the game by harassing another player with unsolicited instant messages. Although this conduct may violate the contractual covenants with Blizzard, *it would not violate any of Blizzard's exclusive rights of copyright.* The anti-bot provisions at issue in this case, ToU § 4(B)(ii) and (iii), are similarly covenants rather than conditions. A [bot] user violates the covenants with Blizzard, but does not thereby commit copyright infringement because [the bot] does not infringe any of Blizzard's exclusive rights. For instance, the use does not alter or copy WoW software.¹⁹

Accordingly, the appellate court reversed the district court's \$6.5 million judgment and award of injunctive relief in favor of Blizzard, concluding that MDY may have induced breach of contract but it did not induce copyright infringement.²⁰

Impact

The law in the Ninth Circuit now is such that the only contractual "conditions" whose violation is the appropriate subject of copyright remedies are those for which violation would result in an independent claim of copyright infringement in the absence of any license at all. In other words, the act constituting a violation of the contractual restriction must also qualify as an independent infringement of one of the exclusive rights of copyright for that restriction to be deemed a condition limiting in scope.²¹

Under this reasoning, breach will result in copyright recovery only for those conditions that are essentially restatements of the copyright owner's exclusive rights. This is an extremely crabbed and restrictive view of license conditions, and essentially renders them superfluous. To illustrate, the prohibition in Blizzard's terms of use on the creation of derivative works, the court observed, is a proper "condition" of the license. A license stating, "I grant you the right to reproduce and perform this work, provided that you do not create derivative works," contains a license condition (prohibiting derivatives), the breach of which is redressable by copyright because breach also amounts to direct copyright infringement, in that creating derivative works is one of the exclusive rights under copyright.²² But, in fact, conditioning reproduction and performance rights on refraining from creating derivative works is superfluous and unnecessary; the right to create derivative works need only be omitted from the license grant.

On the other hand, if the license states, "I grant you the right to reproduce, perform, and make derivative works, provided that [you do x]," the license does not contain a condition redressable by copyright unless violation of "x" itself infringes one of the exclusive rights granted the copyright owner under the Ninth Circuit's logic. If "x" is, for example, "preserve copyright notices in all copies and give credit to the original developers of this code," as set forth in the open source Artistic License,²³ or "license derivative works under the same terms as licensed to you," as expressed in the GPL,²⁴ the Ninth Circuit would hold that "x" is a mere contractual covenant and not a license condition because violation of "x" is not an infringement of one of the exclusive rights of copyright. Notice, attribution, and copyleft terms in open source licenses are simply not redressable via copyright remedies, regardless of how those conditions are expressed.

What if "x" is "pay me royalties"? Can a copyright owner in a license agreement condition the license on payment of royalties, such that failure to pay results in copyright infringement? After all, the right to remuneration is not one of the exclusive rights granted to the copyright owner. Yet, it is fairly settled law that failure to pay royalties can be considered to exceed the scope of a license, entitling the copyright owner to copyright infringement remedies.²⁵ The Ninth Circuit summarily disposed of this rather inconvenient fact in a footnote, essentially by dismissing payment as a singular, one-off exception:

Sean Hogle is managing attorney and founder of Sean Hogle PC (<http://www.epiclaw.net>). He practices in the areas of technology, intellectual property, and commercial law for clients in the software and wireless industries worldwide. Sean is a frequent lecturer and writer on open source. The views expressed in this article are the author's alone and do not necessarily represent the positions of the author's law firm or clients. He can be reached at sean@epiclaw.net.

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. We view payment as *sui generis*, however, because of the distinct nexus between payment and all commercial copyright licenses, not just those concerning software.²⁶

Obviously this is a weak and unsatisfying explanation for why breach of payment conditions are redressable via copyright remedies but breach of all other conditions that are not basically mere restatements of exclusive rights under copyright are not. The court's ruling evinces a viewpoint that only royalty payment obligations in license agreements should be redressable via copyright remedies. The court did not have in mind the possibility that some copyright owners—such as open source developers—may be motivated by considerations of openness, collaboration, and development freedom, rather than payment of royalties.

A license is nothing more than permission to do that which is normally reserved to the copyright owner. Fundamentally, exceeding the scope of this permission results in that permission being revocable and therefore results in copyright infringement. The parties to a license agreement should be free to negotiate what the scope of the license should be. Scope may be defined in different ways, either by limiting the permitted activities in the license grant itself or by subjecting the license to a set of external conditions. Whether scope is defined as “I license the right for you to create and distribute derivative works, provided that your derivative works are made freely available under these same terms” or “I license the right for you to create only those derivative works that are made freely available under these same terms,” the parties have defined the permissible scope of use and exploitation, the violation of which should be remediable by copyright laws. Copyright laws are intended to give copyright owners this exact power and control. The Ninth Circuit failed to explain why such control may be employed in the service of royalty payment obligations but not other obligations.

The Ninth Circuit has seemingly failed to recognize that copyright may be employed for more than direct pecuniary gain. However, the Court of Appeals for the Federal Circuit has upheld licensing conditions in open source software, specifically holding that notice and copyleft obligations in open source licenses are license conditions and not mere contractual covenants. In *Jacobsen v. Katzer*,²⁷ the Federal Circuit compared the open source model with traditional copyright business models calling for payment of royalties in exchange for licenses. In doing so, the court emphasized the “substantial benefits, including economic benefits, to the creation and distribution of copyrighted works under public licenses that range far beyond traditional license royalties,” including increased market share, reputational benefits, and rapid product development and improvement that the free and open source software movement confers.²⁸ The court's explanation in this regard is instructive:

Copyright holders who engage in open source licensing have the right to control the modification and distribution of copyrighted material. . . . Copyright licenses are designed to support the right to exclude; money damages alone do not support or enforce that right. The choice to exact consideration in the form of compliance with the open source requirements

. . . , rather than a dollar-denominated fee, is entitled to no less legal recognition. 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.²⁹

Conclusion

The Ninth Circuit's holding in *MDY Industries* is a significant threat to the practical enforceability of conditional obligations in open source licenses. Because violation of these conditions does not itself constitute an infringement of one of the exclusive rights of copyright (i.e., obligations to give notice and attribution and to license derivative works under the same terms originally licensed), under the Ninth Circuit's reasoning their breach is redressable solely by contract remedies against those in direct privity with the licensor. Recovery is limited to direct compensatory damages—for code that is licensed free of charge. As a result, open source licensors are now in a considerably weaker position in enforcing the notice, attribution, and copyleft obligations of open source licenses, to the long-term detriment of the free software movement. ■

Endnotes

1. *GNU General Public License*, GNU.ORG (2007), <http://www.gnu.org/licenses/gpl.html>. See also *Copyleft*, WIKIPEDIA, <http://en.wikipedia.org/wiki/Copyleft> (last visited May 3, 2011).

2. *Sun Microsystems, Inc. v. Microsoft Corp.*, 188 F.3d 1115, 1121–1122 (9th Cir. 1999); *Fantastic Fakes, Inc. v. Pickwick Int'l, Inc.*, 661 F.2d 479, 483–84 (5th Cir. 1981).

3. U.S. Copyright Act, 17 U.S.C. § 501 *et seq.*; see generally II PAUL GOLDSTEIN, GOLDSTEIN ON COPYRIGHT § 13.01 (2005).

4. *Sun*, 188 F.3d at 1119; but see *MGM Studios, Inc. v. Grokster, Ltd.*, 518 F. Supp. 2d 1197, 1212 (C.D. Cal. 2007) (noting that the presumption of irreparable harm in copyright cases may have to be reevaluated in light of *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006)).

5. See generally 24 RICHARD A. LORD, WILLISTON ON CONTRACTS § 65:1 (4th ed. 2007); RESTATEMENT OF THE LAW OF CONTRACTS §§ 357, 359 (Supp. 2007).

6. *ProCD, Inc. v. Zeiderberg*, 86 F.3d 1447, 1454 (7th Cir. 1996).

7. See *supra* note 5.

8. Nos. 09-15932, 09-16044 (9th Cir. filed Dec. 14, 2010, amended Feb. 17, 2011), available at <http://www.ca9.uscourts.gov/datastore/opinions/2010/12/14/09-5932.pdf>.

9. *Sun*, 188 F.3d at 1122.

10. *MDY Indus.*, Nos. 09-15932, 09-16044, at 19986.

11. *Id.* at 19987.

12. *Id.* at 19992.

13. *Id.* at 19991–92. “Use” in this context is shorthand for copying.

Using a computer program is not itself an exclusive right under copyright law, but use of software is impossible without making a copy via booting into memory. See generally *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 517–19 (9th Cir. 1993).

14. Blizzard has apparently updated their terms in an attempt to more explicitly tie the license rights to the limitations. *WORLD OF WARCRAFT TERMS OF USE*, http://us.blizzard.com/en-us/company/legal/wow_tou.html (last visited May 3, 2011) (“Any use of the Service or the Game Client in violation of the License Limitations will be regarded as an infringement of Blizzard's copyrights in and to the Game.”). Under the Ninth Circuit's logic, this change in the language would have no effect on the analysis.

15. *MDY Indus.*, Nos. 09-15932, 09-16044, at 19995.

16. *Id.*

17. *Id.* at 19998.

18. *Id.* at 19996 (emphasis added).

19. *Id.* at 19997 (emphasis added).

20. *Id.* at 19998–99.

21. In support of this ruling, the Ninth Circuit cited favorably (*id.* at 19996 n.2) three cases in which the defendant is accused of having exceeded the scope of the license at issue: *LGS Architects, Inc. v. Concordia Homes, Inc.*, 434 F.3d 1150 (9th Cir. 2006), *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081 (9th Cir. 1989), and *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F.2d 505, 511 (9th Cir. 1985). None of these cases presents factual scenarios where the disputed use was licensed but for failure of satisfaction of one or more conditions; rather the defendants' use in each case was completely unlicensed. The court also relied heavily on *Storage Technology Corporation v. Custom Hardware Engineering & Consulting, Inc.*, 421 F.3d 1307 (Fed. Cir. 2005). In the *Storage Technology* decision, the license agreement at issue disallowed use of maintenance code, but did permit customers to load (i.e., copy) maintenance code into memory. *Id.* at 1315. Of course, use of this code in violation of the license agreement constituted breach of contract and not infringement of copyright—because, fundamentally, *use* of a copyrighted work, as opposed to copying a copyrighted work, is not an infringement of any of the exclusive rights afforded to a copyright owner. *See supra* note 13. The licensed rights that were granted to the user were not conditioned on compliance with the prohibition on use of maintenance code. *Storage Tech.*, 421 F.3d at 1315. Thus, the only possible remedies for violation of the use condition in that case were contract remedies. *Storage Technology* is thus completely inapposite to the facts at issue in *MDY Industries*.

22. 17 U.S.C. § 106.

23. *Artistic License*, OPEN SOURCE INITIATIVE, <http://www.opensource.org/licenses/artistic-license-1.0.php> (last visited May 3, 2011). This license is the subject of the *Jacobsen v. Katzer* decision, *infra* note 26 and accompanying text. The Ninth Circuit did not cite the *Jacobsen* case.

24. *GNU General Public License*, *supra* note 1. Section 2 of the GPL states, “You may modify your copy of the Program or any portion of it, thus forming a work based on the Program, **provided that . . . you must cause any work that you distribute or publish, that in whole or in part contains or is derived from the Program . . . to be licensed as a whole at no charge to all third parties under the terms of this License**” (emphasis added).

25. *See, e.g.*, *Frankel v. Stein & Day, Inc.*, 470 F. Supp. 209, 213 (S.D.N.Y. 1979), *aff'd*, 646 F.2d 560 (2d Cir. 1980) (cited in I GOLDSTEIN, *supra* note 3, § 5.3.5).

26. *MDY Indus.*, Nos. 09-15932, 09-16044, at 19998 n.4.

27. 535 F.3d 1373 (Fed. Cir. 2008).

28. *Id.* at 1382.

29. *Id.* at 1381–82 (emphasis added). *See also* Sean Hogle, *Jacobsen v. Katzer: A Significant Victory for Open Source*, JURIDIKO BY SEAN HOGLE (Oct. 23, 2008), <http://www.epiclaw.net/blog/2008/10/23/jacobsen-v-katzer-significant-victory-open-source>.