

NEW DECISION SUPPORTS ENFORCEMENT OF END USER LICENSE AGREEMENTS

End user license agreements (EULAs) are frequently used by computer software companies to impose terms and conditions on use of the software and any intellectual property embodied in the software. EULAs often include restrictions on the user's right to make copies of the software, to access or reverse engineer the source code, or to make or use other software applications that might interact with the licensed software. EULAs may also contain provisions fixing the forum or mandating arbitration of disputes. Because EULAs generally are presented on a "take it or leave it" basis, courts frequently grapple with questions about enforcement.

The enforceability of EULAs has received particular attention in recent years in the field of massively multiplayer online games (MMOs), sometimes referred to as "virtual worlds." Examples of popular MMOs are World of Warcraft (run by Blizzard Entertainment) and Second Life (run by Linden Labs). In most MMOs, users run a client program on their own computer that allows them to connect to servers on which the game actually runs. Users interact with one another in this virtual world through personalized avatars or characters, which can accumulate virtual money, used to purchase items within the game, and experience, used to access higher levels of gameplay. Incredibly popular in recent years, these games boast millions of users around the world and generate billions of dollars in revenue.¹ MMO providers have a strong interest in enforcing the terms of EULAs because breaches could result in violations of third party intellectual property rights and affect the game experience for other users.

Take the case of *MDY Industries, LLC v. Blizzard Entertainment, Inc.*² for example. The operator of the popular World of Warcraft (WoW) MMO, objected to MDY's development of a software add-on, called WoW Glider, that allowed a user's character in the game to play the game (and earn money and experience) even after the user signs off.³ Such add-ons (known as "bots") were explicitly prohibited by the World of Warcraft Terms of Use (TOU), incorporated by reference into the EULA, which granted users a limited license to use the copyrighted World of Warcraft software so long as the user complied with the provisions of the EULA and TOU.⁴

Blizzard claimed that the copy of the World of Warcraft client software loaded into RAM by a user running WoW Glider was an infringement because the copy was a violation of the TOU and therefore of the EULA.⁵ Blizzard further accused MDY of contributory copyright infringement because it induced users to breach the EULA and TOU.⁶ MDY argued that the provisions of the TOU were separate contractual provisions, not limitations on the

scope of the license granted to use the copyrighted software.⁷ The *MDY* court sided with Blizzard, holding that the TOU limited the license granted by the EULA, and that any operation of the client software contrary to the TOU, such as running bots like the WoW Glider, constituted copyright infringement.⁸

MDY argued that users of the World of Warcraft client software were "owners" of copies of that program and, therefore, were entitled to copy the program into RAM under Section 117 of the Copyright Act because copying was an essential step in using the program.⁹ The court disagreed, holding that World of Warcraft software users were licensees, not purchasers, and therefore were not covered by Section 117.¹⁰ In reaching this conclusion, the MDY court followed a series of Ninth Circuit decisions holding that a transfer is a license rather than a sale if the owner of the copyright in the software clearly specifies that the software is being licensed and subjects the user to substantial restrictions.¹¹

The *MDY* court rejected the decision in *Vernor v. Autodesk, Inc.*, in which the federal district court for the Western District of Washington held that a user's acquisition of a software program was a sale rather than a license because the transferee retained a copy of the software.¹² The *Vernor* court, however, relied on an interpretation of Section 109 of the Copyright Act, not Section 117.¹³ The *MDY* court recognized that both sections use the same language ("owner of a copy"), but held that the inconsistency was for the Ninth Circuit to resolve.¹⁴

The *MDY* decision represents a substantial victory not only for MMO providers, but for those who distribute software subject to EULAs generally, as the *MDY* court accepted the copyright owner's characterization of the relationship between itself and end-users at face value. However, as shown by the *Vernor* decision just months before *MDY*, courts are now confronted with inconsistent frameworks for determining whether a transaction is a license or a sale. Because the *MDY* case is presently going forward with a trial on other issues in the case, any appeal to the Ninth Circuit may not take place for several months, if at all. Until the Ninth Circuit has a chance to squarely address the inconsistency in its jurisprudence, parties seeking to enforce rights under EULAs in that circuit face substantial uncertainty as to which framework a district court will adopt.

– Sanjiv D. Sarwate¹⁵

The "PRO-IP Act" enhancing remedies for counterfeiting and a new evidentiary rule limiting waivers of attorney-client and work product privilege have been enacted.

For more information, please call your firm contact or 312-554-8000.

1. *MDY Industries, LLC v. Blizzard Entertainment, Inc.*, 2008 U.S. Dist. LEXIS 53998 at *3 (D. Ariz. Jul. 14, 2008) (World of Warcraft, according to a Blizzard Entertainment court filing, has over 10 million users and generates \$1.5 billion in revenue annually).

2. *Id.*

3. *Id.* at *4.

4. *Id.* at **13-14, 19.

5. *Id.* at **8.

6. *Id.* at *9.

7. *Id.* at *11.

8. *Id.* at *19.

9. *Id.* at **24-25.

10. *Id.* at *26.

11. *Id.* at *25, citing *Wall Data, Inc. v. Los Angeles County Sheriff's Dept.*, 447 F. 3d 769 (9th Cir. 2006); *Triad Systems Corp. v. Southeastern Express Co.*, 64 F. 3d 1330 (9th Cir. 1995); *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F. 2d 511 (9th Cir. 1993).

12. *Vernor v. Autodesk, Inc.*, 555 F. Supp. 2d 1164, 1170 (W.D. Wash. 2008).

13. *Id.* at 1171-72.

14. *Id.* at **30-31 n. 7

15. The author is extremely indebted to Katherine McGavin, Northwestern University Law School Class of 2010, for the research used in this article.

FIRM UPDATE / ANNOUNCEMENTS

NEW ASSOCIATES

The Pattishall McAuliffe firm is pleased to announce that **Daniel Hwang** and **Jake Linford** have joined the firm as associates.

Daniel Hwang received his J.D. cum laude from the University of Illinois College of Law in 2007, where he was an Articles Editor for the *Journal of Law, Technology & Policy*. Daniel joins us from another law firm in Chicago.

Jake Linford received his J.D. with high honors from the University of Chicago in 2008, where he was a member of the Law Review.

PRESENTATIONS

Ashly Iacullo and **Kristen S. Knecht** hosted and moderated the "Careers in IP Seminar," on September 16, 2008, at the Chicago Bar Association, Young Lawyers Section, Intellectual Property Committee.

Jonathan S. Jennings spoke on "Trademark Basics" at the Chicago Bar Association's Intellectual Property Basics for Non-IP Attorneys Seminar on October 1, 2008, in Chicago. This past summer he spoke on "Careers in Intellectual Property Law" before the ABA's Judicial Intern Opportunity Program, which provides minority and/or financially disadvantaged law student a chance to work with judges.

Janet A. Marvel was a panelist on the "Protecting Consumer Products" panel at the Product Authentication & Brand Security Conference, September 12, 2008, in Rosemont, Illinois. **Janet** and **Uli Widmaier** spoke before the Intellectual Property Law Committee of the Chicago Bar Association Young Lawyers' Section on October 1, 2008, on Issues of Fraud in the United States Patent and Trademark Office. On October 22, 2008, **Janet** was the host for the Intellectual Property Law Association of Chicago's Joint U.S. and International Trademark Committees panel on "Tales From The Front: What Works and What Doesn't In Trademark Enforcement."

J. Michael Monahan gave a presentation entitled "My Game, My Rules: the Power and Pitfalls of End User License Agreements in Games" at the 2008 Austin Game Developers Conference, September 15, 2008, in Austin, Texas.

Mark V. B. Partridge was a panelist at the "Current Issues in the Field of Domain Names" Workshop during the AIPPI Congress in Boston, Massachusetts, September 6 to 11, 2008. On November 8, 2008, **Mark** will give a presentation entitled "From 'Aha!' to Profitability: Building A Business Around the Big Idea" at the American Medical Informatics Association (AMIA) 2008 Annual Symposium in Washington, D.C. On November 21, 2008, **Mark** will be at the National Speakers Association (NSA) 2008 Fall Conference, in Scottsdale, Arizona, speaking on "Protecting Your B.R.A.N.D. Without Losing Your Shirt: Learn Low Cost Strategies for Protecting Your Intellectual Property and Growing the Value for Your Speaking Business."

Uli Widmaier will give a presentation entitled "U.S. Trademark Law – A Practical Introduction," at the FORUM Institut for Management, in Munich, Germany, on November 24, 2008, and on November 26, 2008, **Uli** will speak on "U.S. Trademark Litigation," at the FORUM Institut for Management, in Munich, Germany.

APPOINTMENTS

Brett A. August is the U.S. delegate to the Committee on Trademark Harmonization of AIPPI. The work of this Committee is ever more important as even small to mid-sized companies are entering the international marketplace and need to protect their valuable brands from infringement worldwide in an efficient and affordable manner.

Thad Chalomentiarana was appointed Vice-Chair of the Special Committee on Trademarks and the Internet (Committee 254) of the ABA Section of Intellectual Property Law.

Ashly Iacullo was made Co-Chair of the Technology and Education Committee of the Chicago IP Alliance.

Jonathan S. Jennings was appointed to serve on the 2009 Chicago Annual Meeting Planning Committee for the ABA Section of Intellectual Property Law while continuing to serve on the Leadership Council and Books Editorial Board for the Section. Earlier this summer he was also appointed to serve on a Special ABA IPL Section Committee on Fashion Design legislation.

J. Michael Monahan was appointed Chairman of Committee 205 – Trade Identity and Unfair Competition, of the American Bar Association's Intellectual Property Section. **Mike** has also been appointed to serve a 3-year term on the American Bar Association's Intellectual Property Section Books Editorial Board.

Robert W. Sacoff was appointed to the AIPPI Bureau Advisory Committee on Membership.

Uli Widmaier was elected to the Executive Committee of the United States Group of AIPPI. **Uli** was also the Global Chair of AIPPI Q203, Damages for Infringement, Counterfeiting and Piracy of Trademarks, at the AIPPI Congress in Boston, Massachusetts from September 6 to 11, 2008.

PUBLICATIONS

David C. Hilliard, **Joseph N. Welch II** and **Uli Widmaier's** new 300 page *Teacher's Manual for the Seventh Edition of Trademarks and Unfair Competition* was published this month by Lexis Nexis.

Mark V. B. Partridge is co-author of a Chapter entitled "Intellectual Property: Protect What Is Yours and Avoid Taking What Belongs to Someone Else" in the ASTD Handbook for Workplace Learning Professionals (2008), edited by Elaine Biech, published by the American Society for Training & Development.

NOTEWORTHY

Pattishall attorneys **Brett A. August**, **Bradley L. Cohn**, **Raymond I. Geraldson, Jr.**, **David C. Hilliard**, **Jonathan S. Jennings**, **Mark V. B. Partridge**, **Robert W. Sacoff**, **Joseph N. Welch II**, and **Uli Widmaier** were recognized by the publishers of *Law & Politics* as Super Lawyers in the 2008 Corporate Counsel Edition magazine. In addition, **David C. Hilliard** was recognized by the publishers of *Law & Politics* as one of the Top 100 Illinois Super Lawyers.

Pattishall attorneys **Raymond I. Geraldson, Jr.**, **David C. Hilliard**, **Janet Marvel**, **Jeremiah D. McAuliffe**, **Mark V. B. Partridge**, **Robert W. Sacoff**, and **Joseph N. Welch II** were recognized in the 2008 Edition of *Who's Who Legal International Business Law* and *Who's Who Legal Illinois*. *Who's Who Legal Illinois* described **Ray Geraldson** as a "star in the courtroom," **David Hilliard** as "the *éminence grise* of Illinois trademarks," **Jerry McAuliffe** as someone who "has seen everything," **Mark Partridge** as having "unparalleled expertise" in Internet issues, **Bob Sacoff** as "wonderfully astute," and **Joe Welch** as a "seasoned litigator." The Firm had more attorneys recognized for their expertise in trademark law than any other law firm in Illinois.

Jonathan S. Jennings was awarded a recognition certificate at the ABA Annual Meeting in New York in August for his "exemplary contribution to the charter year of the new publications program of the American Bar Association Section of Intellectual Property Law."

TEACHING

Mark V. B. Partridge and **Sanjiv Sarwate** are currently teaching a course on Trademark Law and Practice at The John Marshall Law School.

J. Michael Monahan will be teaching a course on video gaming law at Chicago-Kent College of Law in the Spring of 2009.

This newsletter is offered for general informational purposes only. It does not constitute legal advice and your receipt of it does not create an attorney-client relationship. Under the Illinois Rules of Professional Conduct, the content of this newsletter may be considered advertising material. ©2008 PMNH&G



PATTISHALL
McAULIFFE
NEWBURY
HILLIARD &
GERALDSON LLP

311 South Wacker Dr.
Suite 5000
Chicago IL 60606