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Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

Case Study: MDY Industries V. Blizzard

Law360, New York (January 4, 2011) -- A United States appeals court recently made it easier for owners of copyright in digital works to attack products and activities designed to circumvent or impair access controls, encryption or scrambling features known as digital rights management (DRM) in video games, DVD movies, music download sites, electronic books and other digital works. Also, potentially affected by this decision are providers of movie download services of encrypted movies. Even operators of movie review websites that use decrypting software to create movie clips will be affected by this decision.

In *MDY Industries LLC v. Blizzard Entertainment Inc.*, No. 09-15932 (9th Cir. Dec. 14, 2010), the Ninth Circuit addressed a dispute between the creator of the popular online game "World of Warcraft" and a manufacturer of a software program (called a "bot") that automatically plays the game for users to help them progress through the game's levels. While the case contained other rulings as well, the court's most significant holding concerns its interpretation of the Digital Millennium Copyright Act (DMCA), 17 U.S.C. § 1201 et seq.

In upholding a DMCA verdict against the bot seller, the court held that §§ 1201(a)(1) & (2) created a brand new "copyright" — the right to prevent circumvention of measures designed to prevent or control access to a copyrighted work. The court held that § 1201 (b), by contrast, prohibited trafficking in devices and software that circumvent measures that prevent traditional types of copyright infringement, such as copying, displaying or performing a work.

The Anti-Circumvention Provisions of the DMCA

The three sections at issue concern circumvention of technological measures that prevent access to or reproduction of copyrighted works.

Section 1201(a)(1) provides: "No person shall circumvent a technological measure that effectively controls access to a work protected under this title."

Section 1201(a)(2) provides: "No person shall import, offer to the public, provide or otherwise traffic in any technology, product, service, device, component or part thereof, that — is primarily designed or produced for the purpose of circumventing a technological measure that effectively controls access to a work protected under this title."

Section 1201(b) provides: "No person shall manufacture, import, offer to the public, provide or otherwise traffic in any technology, product, service, device, component or part thereof, that — is primarily designed or produced for the purpose of circumventing protection afforded by a technological measure that effectively protects a right of the copyright owner under this title in a work or portion thereof."

The Ninth Circuit's Analysis

Reading these three provisions together, the Ninth Circuit determined that both subsections (1) and (2) of § 1201(a) protect measures designed to prevent or control access to a protected work. The court noted that § 1201(b) did not refer to measures that controlled "access," but instead referred to measures that protected the rights of the copyright owner under the Copyright Act.

Referring to § 106 of the Copyright Act, the court noted that the rights mentioned in § 1201(b) include the rights of reproduction (i.e., copying), distribution, public performance, public display and creation of derivative works. For confirmation that it was reading these three provisions correctly, the court turned to the report on the DMCA of the Senate Judiciary Committee, which the court believed was consistent with its textual reading.

Split of Authority

The Ninth Circuit acknowledged that its reading of these provisions created a split among the federal courts of appeals because it differed from the analysis previously undertaken by the Federal Circuit in *Chamberlain Group Inc. v. Skylink Techs. Inc.*, 381 F.3d 1178 (Fed. Cir. 2004) and subsequent decisions of that court.

In *Chamberlain*, the Federal Circuit held that, to prove a § 1201(a) violation, claimants must prove that the circumventing technology infringes, or facilitates the infringement of, a copyright (i.e., an "infringement nexus requirement"). See *Chamberlain Group*, 381 F.3d at 1203.

In contrast, the Ninth Circuit believed that there was no textual support for requiring proof of an "infringement nexus" under § 1201(a) because the rights that are protected from infringement are mentioned only in § 1201(b). Subsections (1) and (2) of § 1201(a) mention only circumventing controls over "access."

Implications of the Ninth Circuit's Ruling

The first implication of the Ninth Circuit's reading, where it applies, is to make it easier to prove violations of §§ 1201(a) and (b) because no infringement of the work itself need be proved where the copyright owner's claim concerns only the circumvention of access control measures.

Without the need to find proof of infringement of the work itself, a court is free under DMCA § 1203, to provide quick and effective relief for violation of the DMCA access restrictions, namely, impounding of both a device or software for removing encryption and copies of the video game or movie with encryption removed. Also, under § 1203 the court can grant a permanent and a temporary injunction against the DMCA access violations and award actual damages and statutory damages up to \$2,500 for each act of violation. In its discretion, a court is authorized to grant attorneys' fees to the prevailing party.

Because the Ninth Circuit is only one of the 12 regional circuits that together cover all the nation's states and territories, however, its ruling is binding only on federal courts in the states of California, Arizona, Nevada, Oregon, Washington, Montana, Idaho, Alaska and Hawaii. Federal courts in other states and territories remain free to choose the Federal Circuit's reading of the statutes (or another interpretation).[1]

Because it is not one of the 12 regional circuits, the Federal Circuit's reading in *Chamberlain Group* is not technically binding on federal courts in any other specific state or territory. In these other states, however, the impact of the split between the Ninth and Federal Circuits is complicated because of the Federal Circuit's unique jurisdiction.

The Federal Circuit's jurisdiction over an intellectual property case depends upon whether the case includes a patent claim. Because its jurisdiction relates to patent claims, the

Federal Circuit has acknowledged that it must apply the copyright standards of the regional circuit that would otherwise have had jurisdiction over the case had it not contained a patent claim. Thus, ironically, in patent/copyright cases appealed to the Federal Circuit from courts within the Ninth Circuit, the Federal Circuit would be required to follow the Ninth Circuit's MDY Industries ruling and reject its own previous Chamberlain ruling.

As to cases originating in district courts within other regional circuits, however, it is noteworthy that the Federal Circuit has subsequently followed its own holding in Chamberlain Group (which originated in a court within the Seventh Circuit, which encompasses Illinois, Indiana and Wisconsin) in a case originating in the First Circuit (Maine, Massachusetts, New Hampshire, Rhode Island and Puerto Rico).

Thus, claimants asserting "access" claims who file in any of those states (or Puerto Rico) and who potentially also have patent claims may want to consider the effect on their DMCA "access" claim of linking it with a patent claim, because if a patent claim is asserted, any appeal would be to the Federal Circuit.

Finally, the new circuit split created by the Ninth Circuit's MDY Industries decision may prompt the Supreme Court to review this issue if the losing party (the seller of the "bot") seeks to challenge the Ninth Circuit's easing of the proof required under § 1201(a).

--By Thomas L. Casagrande and Paul C. Van Slyke, Locke Lord Bissell & Liddell LLP

Thomas Casagrande (tcasagrande@lockelord.com) is of counsel in Locke Lord's Houston office. Paul Van Slyke (pvanslyke@lockelord.com) is a litigation partner in Locke Lord's Houston office and national leader of the firm's trademark, copyright and branding practice.

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[1] The Eighth Circuit's decision in Davidson & Assoc. v. Jung, 422 F.3d 630, 639-40 (8th Cir. 2005) appears to view § 1201(a) & (b) in a manner similar to the Ninth Circuit. The Eighth Circuit covers federal district courts in Arkansas, Iowa, Minnesota, Missouri, Nebraska, North Dakota and South Dakota.

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