**Covenants and Conditions: Beyond Drafting**

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MDY Industries, LLC v. Blizzard Entertainment, Inc., --- F.3d ----, 2010 WL 5141269 (9th Cir. 2010) (*MDY*) turns in part on whether provisions in copyright licenses are covenants or conditions. That was also a central issue in Jacobsen v. Katzer, a dispute finally resolved by settlement; 2010 WL 2985829 (N.D. Cal.) (*Jacobsen IV*).

When a provision is a "covenant," only contract remedies are available. If it is a "condition," remedies may also include "destruction or other reasonable disposition" of infringing articles and articles used to make them under 17 U.S.C. § 503, "profits… not taken into account in computing the actual damages," under § 504(a) and costs under § 505.

Recoveries may also include statutory damages up to $150,000 per infringement under § 504(c) and attorney fees under § 505. But § 412 conditions the latter remedies on registration within three months of publication.

Jacobsen did not register within three months of publication. 609 F.Supp.2d 925, 935 (N.D. Cal. 2009) (*Jacobsen III*). But that was unnecessary for the preliminary injunction he sought. He was initially refused because the district court regarded the license provisions in issue as creating contract duties rather than copyright liability. As discussed below, the Federal Circuit, applying Ninth Circuit and California state law, reversed.

It is unclear when Blizzard registered. It made difference, however, after the Ninth Circuit concluded that the provisions in issue gave rise only to contract duties.

In *Jacobsen I*, 2007 WL 2358628, the district court referred to provisions in an open source license as "conditions." Treating that portion of the case as an action for breach of contract, however, it refused to issue a preliminary injunction.

Because Jacobsen had also challenged a Katzer patent, the Federal Circuit had

jurisdiction over an appeal. 535 F.3d 1373 (*Jacobsen II*). First, the court emphasized the importance of open source licensing. *Id.* at 1378-79. Then it pointed out that the license not only states that it imposes "conditions," but it also grants various rights "provided that" those conditions are met. *Id.* at 1381. Applying California law, the Federal Circuit found that the district court had erred in treating limitations as covenants subject only to contract remedies. *Id.* It therefore remanded for reconsideration of the request for preliminary injunction. *Id.* at 1383.

Provisions at issue in *MDY* govern players of a multi-player video game. They provide that they are to be interpreted under Delaware law, so the Ninth Circuit did so before considering the implications under federal copyright law. *MDY* at *5. It is significant that state law is found to favor covenants over conditions. Moreover, besides exceeding the scope of licenses, defendants' acts must "be grounded in an exclusive right of copyright (e.g., unlawful reproduction or distribution)." *Id.* at *6 (citation omitted).

Because *Jacobsen II* was primarily concerned with rights grounded in copyright, the court did not need to consider alternatives. Relevant provisions in *MDY*, however, forbid players' use of robots to rack up experience points while they engage in unrelated activities. Such obligations, not being central to copyright ownership, were found enforceable only as covenants.

Indeed, *MDY* states, "Were we to hold otherwise, Blizzard — or any software copyright holder — could designate any disfavored conduct during software use as copyright infringement, by purporting to condition the license on the player's abstention from the disfavored conduct. …. This would allow software copyright owners far greater rights than Congress has generally conferred on copyright owners." *MDY* at *7 Appended to that statement is a note pointing out the remedial advantages of copyright over contract suits.

Thus, although *Jacobsen II* stresses the importance of drafting, *MDY* shows that it cannot, for example, obligate players of computer games to pony up statutory

damages for behavior unrelated to copyright interests.

Ultimately, *Jacobsen III* also demonstrates that careful drafting must be coupled with prompt registration, particularly in open source licensing. Because Jacobsen did not register within three months, the Federal Circuit's finding that relevant provisions were conditions, not covenants, made Jacobsen no better off.

On remand, *Jacobsen III* first took note of Winter v. Natural Resources Defense Council, 129 S.Ct. 365 (2008). Because the Court there "found that the Ninth Circuit's standard of the likelihood of irreparable injury was too lenient," 609 F.Supp.2d at 936, and because Jacobsen had not demonstrated the requisite degree of injury, the district court again denied a preliminary injunction. *Id.* at 937-38.

Beyond *Winter*, the court confronted Jacobsen's failure "to identify with the requisite particularity the extent of his copyright ownership over the disputed underlying material. …. Even if Jacobsen's heavy burden to warrant injunctive relief had been met, it is unclear how the Court would fashion an injunction which would be narrowly tailored to enjoin only those allegedly infringing uses of Jacobsen's copyrighted content." *Id.* at 938.

Whenever multiple authors contribute to infringed works, that and other remedial problems seem likely. Such authors should therefore accompany careful license drafting with prompt registration in accordance with § 412. If so, wayward licensees faced with the threat of statutory damages and attorney fees may conform without the need for suit, much less injunctions.