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Court Preserves Aftermarket Competition Under the DMCA – The Lexmark Case

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While 2004 saw the proliferation of lawsuits that relied on copyright law to stem the unauthorized duplication of music and movies, it also marked the issuance of two important judicial decisions that put limits on copyright law. Both cases specifically examined the Digital Millennium Copyright Act, or DMCA – a law passed in 1998 to help beleaguered owners of electronic content battle the threat of rampant digital piracy. The DMCA legally protects technological measures used to safeguard content from unauthorized access and duplication. Under the DMCA, it became illegal to circumvent these technological measures (such as encryption) or to disseminate products designed to circumvent them (such as decryption software). The DMCA was first used, for example, to prevent the distribution of software capable of breaking the content scrambling system that encrypts most commercial DVDs.

The law was not enacted without its detractors, though, who noted that traditional copyright law already protected electronic content against illegal copying. To use an analogy, they asked why it was necessary to institute a broad new legal framework making it illegal to pick locks or sell lock picks, since it was already illegal to steal the valuables those locks secured. Many worried that the sweeping DMCA would upset the delicate balance that had developed between content creators and consumers, undermining legal doctrines such as “fair use” that put limits on the preclusive nature of copyright. They feared that the statute’s radical approach to copyright enforcement could establish monopolies wholly unintended by traditional copyright law, and it was therefore open to abuse.

To an extent, their fears were realized when some manufacturers saw the “anti-lock picking” provisions of the DMCA as a tool to prevent aftermarket competition. While the precise methods differ, the basic concept was to marry the physical components of one’s product with embedded software code. Software in the product would be programmed to disable operation unless it was paired with a component

containing a software key to unlock it. A third-party manufacturer would have to bypass the lock-out software or duplicate the key to make its component compatible with the product. And these acts would potentially run afoul of the DMCA.

Printer company Lexmark provided a textbook example of how to implement this approach. Lexmark’s laser printer toner cartridges contain a computer chip with a small amount of software code. Lexmark’s laser printers only work if their own software detects the correct code on the toner cartridge.

Lexmark did not license its code to third-party manufacturers, to preclude competitors from making toner cartridges that were compatible with its printers.

From a technical standpoint, the strategy was not very successful.

Another company, Static Control Components, easily copied the computer chip from the Lexmark toner cartridges and sold its duplicate chip to third-party manufacturers. Those manufacturers were then able to make aftermarket toner cartridges that passed the Lexmark printers’ authorization routine.

Lexmark responded by filing suit against Static Control, claiming the company infringed its copyright in the toner cartridge software and violated the DMCA by circumventing the authorization process built into its printers.

The trial Court issued a preliminary injunction in Lexmark’s favor – agreeing that Static Control had both infringed Lexmark’s copyright and violated the DMCA. Static Control appealed, and in October 2004, the Sixth Circuit Court of Appeals overturned the lower Court’s ruling. The Appeals Court’s decision in *Lexmark International v. Static Control Components* seems very results-driven. This is particularly true in its treatment of the DMCA, where the Court seems willing to judicially limit the effect of the extraordinarily broad language found in the DMCA, presumably to prevent what it sees as the misuse of the statute.

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Court Preserves Aftermarket Competition Under the DMCA

(cont'd from page 1)

Looking first to the copyright infringement claim, the Appeals Court noted the toner cartridge software code at issue was very short (55 bytes) and dictated largely by function (it was a simple formula used to estimate the amount of toner remaining in the cartridge). Based on these factors, the Court questioned whether the program was sufficiently creative and expressive to merit copyright protection.

The Court also rejected the copyright infringement claim by pointing out that exact duplication of the software code was essentially required to unlock the printers' authentication sequence. The Court stated that, to the extent such duplication is necessary to generate a required key, it does not offend traditional copyright law. To borrow an example from the Court, a poem may enjoy copyright protection generally, but it is not entitled to such protection if it is functioning as the only key to unlock some other program or device.

But rejecting Lexmark's copyright claim did not automatically moot its DMCA claim. Other courts had already concluded that one could violate the DMCA without engaging in actual copyright infringement. Lexmark argued that it was sufficient that Static Control's chips simply bypassed the authentication routine built into its printers. Since the authentication routine was a technological measure that effectively restricted access to its copyrighted (and concededly copyrightable) printer program, it contended that Static Control's chips were impermissible "circumvention devices" under the DMCA.

While the argument seemed facially persuasive given the language of the statute, the Appeals Court adopted a peculiar reading, which resulted in the rejection of Lexmark's remaining claim. To understand the Court's reasoning, it is necessary to understand a bit about the structure of the DMCA. Under the statute, a "technological measure" (such as Lexmark's authentication routine) is only protected against circumvention if it "effectively controls access" to a copyrighted work (here, the program embedded in Lexmark's printer). The term "access" is not defined in the statute. Applying the dictionary definition of the word, the lower Court had no trouble concluding the authentication routine controlled "access" since it controlled "the consumer's ability to make use of [the embedded printer] program."

The Appeals Court rejected that approach. Pointing out that the printer program was not itself encrypted, the Court asserted that anyone (given the requisite technical expertise and equipment) could read the printer program from the printer's memory – even

without the software key incorporated into the toner cartridge chip. The Court contended that, from a copyright perspective, the authentication routine did not "effectively control access" to the program, and therefore the DMCA did not apply.

There are two major consequences of this reading of the DMCA. First, it suggests that, practically speaking, encryption may be the only "technological measure" protected by the DMCA. Any other measure will almost certainly be vulnerable to the same critique voiced by the Appeals Court here. Second, it means that Lexmark presumably could have prevailed in its effort to thwart aftermarket competition under the DMCA if only it had encrypted its embedded printer program. Given how unlikely it was that anyone would try to read the printer program – whether or not encrypted – it is peculiar that this factor should play a pivotal role in the outcome of the case. In the end, the Appeals Court accomplished what it apparently set out to do – prevent the use of the DMCA to limit aftermarket competition – but did so in a way that leaves the door open for other manufactures' attempts in the future.

In Judge Merritt's concurrence, he suggests a more straightforward approach. He notes that devices (such as Static Control's chip) are covered by the statute only to the extent that they are designed or produced "for the purpose of circumventing a technological measure. . . ." He contends that Static Control did not copy the toner cartridge code for the purpose of copying or accessing Lexmark's software, but merely to achieve interoperability of its cartridges with Lexmark's printers. Thus, he would find that the DMCA was not offended.

Similarly, Judge Feikens, in a partial concurrence, found that owners of Lexmark's laser printers had an implied license to use the embedded printer program for the life of the product. Since Lexmark had no right to prevent the printer owner from using the embedded printer program, he reasoned that it had no right under the DMCA to restrict their use of the program with an aftermarket cartridge. (This is similar to the *Chamberlain* case approach, discussed next.)

TLB Comment: *The Lexmark decision shows how judges are struggling to limit the DMCA to the anti-piracy context, and rein in some of its more aggressive uses. But their struggles show how hard the job is, given the broad language of the statute. While there may be a place for judicial opinions which restrict the scope of the DMCA to its widely understood intent, legislative action may be appropriate to bring its language more in line with its interpretation.*

Court Limits Reach of DMCA – The *Chamberlain* Case

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The *Lexmark* case represents one approach to reining in manufacturers' efforts to use the DMCA to hamper aftermarket competition, but it is not the only one. In August 2004, the Federal Circuit Court of Appeals issued a ruling against a manufacturer of garage door openers that had been trying to stop the sale of compatible aftermarket remote controllers. The case, *Chamberlain Group v. Skylink Technologies*, takes a different route to reach the same end.

The DMCA was famously used to prohibit the dissemination of so-called "DeCSS" software, which cracked the Content Scrambling System encryption scheme used on most commercial DVDs. While the purveyors of the software insisted it was intended solely for the non-infringing purpose of permitting DVDs to play on certain computers, the Court responded that such a "fair use" argument was no defense to a DMCA violation.

It was on this precedent that the plaintiff in *Chamberlain* built its case. The garage door opener manufacturer made much of the fact that it employed a special "rolling code" to prevent unauthorized operation of its products. The aftermarket remote controller at issue in the case used a technique that sidestepped Chamberlain's "rolling code" protection scheme. Just as the DeCSS computer program violated the DMCA by bypassing the DVD encryption scheme and permitting unauthorized access to copyrighted movies, Chamberlain contended that the aftermarket remotes violated the DMCA by bypassing its "rolling code" system and permitting the unauthorized triggering of its copyrighted software program to operate the garage door. If adopted, this reading of the DMCA could conceivably permit manufacturers of electronic products to eliminate aftermarket competition in many instances.

The Appeals Court soundly rejected Chamberlain's position on two grounds. First, it focused on the question of whether the circumvention was "unauthorized" – an element required by the DMCA. Putting the burden of proof on Chamberlain, the Court noted that the company could not prove that it had expressly prohibited its customers from using third-party remotes. Customers who programmed their garage door openers to accept the aftermarket remote necessarily "authorized" that remote to access Chamberlain's embedded software program. The Court therefore reasoned that Chamberlain could not satisfy the "unauthorized circumvention" element of its DMCA claim.

By itself, this holding might have been of limited significance. In theory, Chamberlain could impose mandatory license terms with its new garage door openers, expressly prohibiting their use with non-Chamberlain remote controllers. If such "shrink wrap" licenses were upheld in this context, the company could presumably sustain its burden in a future case, showing that the defendant's access to its embedded software program was not authorized. If the Court's decision rested exclusively on the "authorization" issue, Chamberlain could thus avoid the holding of the case with minimal effort.

But the Appeals Court also voiced a second, independent basis for rejecting Chamberlain's claim. It said the circumvention must facilitate infringement in some manner to fall within the scope of the DMCA. That is, since the aftermarket remote did not potentially enable any copying or other infringement of the embedded software program, its circumvention of Chamberlain's "rolling code" protection scheme could not be the basis for a DMCA claim.

At first, this seems to contradict the decisions in the DeCSS cases, which explain that actual infringement is not an element of a circumvention claim. The *Chamberlain* Court reconciled its holding with them, however, pointing out that the DeCSS software had the ability to enable or facilitate infringement of DVD content. In contrast, the aftermarket remote controller at issue in the *Chamberlain* case introduced no danger of infringing the plaintiff's copyright. In other words, the anti-circumvention provisions of the DMCA are intended as an additional way to protect a copyright owner's content, but they did not create a new and independent property right. To the extent a circumvention is wholly divorced from the content owner's copyrights, there can be no liability for bypassing a technical measure whose purpose is to protect those rights.

TLB Comment: *The Court's strong desire in Chamberlain was to balance the rights of consumers (both consumers of content as well as electronics consumers) against those of providers. By threading the needle between prior DMCA-related decisions and traditional consumer-based protections such as those found in anti-trust law, it has largely succeeded. Electronics manufacturers may devise new technical schemes for driving out aftermarket competitors, but for now, decisions such as Chamberlain may limit their ability to accomplish that feat through statute alone.*



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GU Events & Announcements

EVENTS

On January 16, 2005, **Andrew Updegrove** addressed the National Information Standards Organization on the impact of current patent developments on the business and standards communities.

On January 20, 2005, **Joseph Laferrera** participated in a roundtable hosted by the firm's client, everyNetwork, regarding electronic document retention issues.

On February 10, 2005, the firm will host a briefing of the heads of the major ICT standard setting consortia by the American National Standards Institute on the revised American National Standards Strategy (NSS), which will be released later this year. **Andrew Updegrove** is a member of the NSS Revision Committee.

On March 30, 2005, **Andrew Updegrove** will be a speaker in Washington, D.C. at the annual meeting of the American Bar Association Antitrust Section, taking part in a program entitled "Structuring and Counseling Special Purpose Consortia, Forums, and Alliances."

ANNOUNCEMENTS

John Ellis has joined the firm as a partner in the corporate tax and estate planning areas. John has practiced in the areas of estate planning, trust administration and gift taxes since 1984. He has also worked extensively with entrepreneurs in all aspects of business structuring and tax planning.

Patrick Jones and **Sam Kim** have been made partners in the firm. They will both continue their practices in corporate, transactional and technology law.

Patrick Jones, Sam Kim, Joseph Laferrera and **Sarah Richmond** were recently selected Massachusetts Super Lawyers -- Rising Stars. The list will appear in an upcoming addition of Boston Magazine.

Bill Contente has been elected to the Board of Directors of the Enterprise Development Resource Center, a new initiative sponsored by the Massachusetts Medical Device Industry Council (Mass-MEDIC). The EDRC provides resources and know-how to founders of medical device companies at the early stages of the company's conceptualization, formation and development.