# *The Failure of the Nexus Requirement as a Legal Epicycle*

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In 2010, in *MDY v. Blizzard*, the Ninth Circuit held that a breach of a contract is also a failure of a condition and therefore copyright infringement only if there is a nexus between the contractual promise and the licensor's exclusive rights under the Copyright Act. The Ninth Circuit did not explain what the nexus test entails, but it clearly deviates and ignores well-established (and highly litigated) principles of contract law that are designed to identify conditions and distinguish between them and other contractual promises. That nexus test, the article suggests, failed. Since 2010, courts within the Ninth Circuit jurisdiction, including the appellate court itself, produced a series of inconsistent decisions that were unable to define the scope of the nexus requirement is any predictable or logical way.
While the nexus test failed, and while its failure, this article explains, could have been predicted, it seems to be supported by a solid policy goal. Without it, the Ninth Circuit explicitly warned, software companies will be able to impose any post-sale restrictions they wish and enforce them, including against third parties, through copyright law.

While this motivation is understandable and reasonable, this is the wrong solution to a self-created wound. The nexus requirement prevents software companies from exercising the ultimate post-sale power that the Ninth Circuit itself gave them just three months earlier in *Vernor v. Autodesk*. In Vernor, the Ninth Circuit concluded a long shift in its own caselaw by holding that a seller can classify a transaction as a license by just including a certain language in the contract between the parties. In other words, a transaction that operates in all ways like a sale will not be considered a sale if the contract suggests it is a pure license. This holding---again---deviated from established principles of commercial and the U.C.C. principles that identify sales. This deviation, however, allows sellers to circumvent the first sale doctrine and the related essential step defense, which apply only to sales but not to pure licenses. That first sale doctrine and the essential step defense are the legal tools that limit copyright owner from exercising the ultimate post-sale control. Their de-facto extinction in *Vernor* in September 2010, required the Ninth Circuit to come up with the (failed) nexus requirement in December.
The Ninth Circuit approach is, in many respects the legal equivalent of the geocentric model in astronomy. The model, which dominated the scientific and religious world for more than 2,000 years, held, as an axiom, that Earth is the center of the world and that all planets circulate around it. When future observations cast doubt on that geocentric model, ancient scientists rescued that model by coming up with epicycles---additional geometric motion for each planet that could explain the observation. By the time that geocentric model was abandoned in the 17th century, each planet was assumed to simultaneously circle around a series of points in the sky and Earth. The adoption of the heliocentric model, where the sun is the center of the solar system, simplified and streamlined astronomy for centuries.

The same fallacy exists in the Ninth Circuit caselaw. The court took the wrong first step, in the caselaw leading to *Vernor*, by ignoring commercial law and allowing software companies to classified sales as licenses. But preserving that initial fallacy forced the court to create an exemption---a legal epicycle---by requiring an unclear and unexplained nexus between the contract breach and copyright law. In *MDY* itself the court already acknowledged an exemption to the nexus requirement---another legal epicycle---by holding that a duty to pay is not subject to the nexus requirement. Later caselaw tried to identify additional rules concerning that requirement. The result is a complex and unworkable system of tangled

legal rules.

The solution, like the solution to the problem of the geocentric model, is not by adding additional epicycles---i.e., tweaking the nexus requirement and adding more subcategories to it. Instead, the entire approach needs to be abandoned. The original sin is *Vernor*. If *Vernor* is still the law, no legal exception---no epicycles---will allow the Ninth Circuit to define the scope of post-sale rights of software companies reasonably. With *Vernor* overruled, and with the return to the rules of commercial law, the problem of excessive post-sale control is eliminated. Without *Vernor*, software companies can either engage in real non-sale licenses, or, more likely, sell their products and exercise the now-limited control that is allowed under the first sale control and the essential step defense.

The article concludes by pointing to a possible earlier fallacy. Maybe the real root of the problem in the Ninth Circuit caselaw is not *Vernor* but the much earlier *MAI v. Peak* (and its progeny), where the court held that unlicensed copying of software to the computer's RAM is a prima facie copyright infringement. That decision allows software companies to control any use of their software even though "use" is not an exclusive right under copyright law. It is possible, the article suggests, that much of the following Ninth Circuit convoluted caselaw is best understood as an attempt to rein in the excessive power that *MAI* provided.