CA No. 09-35969
DC No. 2:07-cv-01189-RAJ

UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

TIMOTHY S. VERNOR, an individual,
Plaintiff-Appellee,

v.

AUTODESK, INC., a Delaware corporation,
Defendant-Appellant.

Appeal From Judgment Of The United States District Court
For The Western District Of Washington
(Hon. Richard A. Jones, Presiding)

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INTRODUCTION

Under this Court's controlling precedents of *Wall Data*, *MAI* and *Triad*, the first sale and essential step defenses do not apply here because Autodesk retained ownership of its software copies. AOB 24-43.[1] Vernor tries to skirt these decisions by erroneously dismissing their holdings as *dicta*; and his supporting *amici curiae* ignore them altogether. While Vernor and *amici* do not say so, the result they seek requires this Court to overrule these controlling decisions. But under *Wall Data*, *MAI* and *Triad*, Vernor's defenses fail, and the judgment must be reversed.

Because they have no effective response to these controlling cases, Vernor and his *amici* advance a variety of policy arguments, urging that software developers should be deemed to have sold their software products outright regardless of agreed-upon license terms that include retention of title and material restrictions on use and transferability. This would be a profound and disruptive change to the long-standing marketing practices of a vital sector of the American economy. Unlike tangible copies of books, CDs and DVDs, computer software is almost always universally distributed by

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[1]Autodesk's opening brief is cited as "AOB ___" and Appellee Vernor's brief as "AB ___." We refer to the Brief of *Amici Curiae* American Library Association *et al*. as "EFF Amici Brf. ___"; to the Brief of *Amicus Curiae* EBay Inc. as "EBay Amicus Brf. ___"; to the Brief of *Amicus Curiae* Software & Information Industry Association as "SIIA Amicus Brf. ___"; and to the Brief of *Amicus Curiae* The Motion Picture Association of America, Inc. as "MPAA Amicus Brf. ___."

licensing a copy for specified uses, often with restrictions on subsequent transfers. As this Court has recently observed, "the first sale doctrine rarely applies in the software world because software is rarely 'sold.'" *Wall Data Inc. v. Los Angeles County Sheriff's Dep't*, 447 F.3d 769, 786 n.9 (9th Cir. 2006); *see also Adobe Sys. Inc. v. One Stop Micro, Inc.*, 84 F. Supp. 2d 1086, 1091 (N.D. Cal. 2000) ("[V]irtually all end-users do not buy—but rather receive a license for—software. . . . [A]ll software . . . is distributed under license"). Vernor wants this Court to impose a new rule that stands these descriptions on their head—*i.e.*, a regime under which the first sale doctrine will invariably apply to a typical software transaction.

Congress could mandate that, of course; but this is an extraordinary, and profoundly inappropriate, request to make to the judicial branch. There are compelling reasons, many of which are forcefully argued by the *amici* urging reversal, why the policy appeals of Vernor and his *amici* are unwise. But this appeal does not call upon the Court to determine the preferable public policy or to choose between the competing interests that would be affected by the change in law urged by Vernor and his *amici*. Instead, it presents an issue of statutory interpretation: whether, under the Copyright Act, Vernor is the "owner of a particular copy" (17 U.S.C. §109(a)) and "owner of a copy" (17 U.S.C. §117(a)) for purposes of the "first sale" and "essential step" defenses created by those sections.

This Court already has provided a clear answer to that question. Because the contract between Autodesk and Cardwell/Thomas & Associates ("CTA")[2] reserved Autodesk's title to the copies of AutoCAD®, Release 14 ("AutoCAD R14") software provided to CTA, characterized CTA's interest as a "license," prohibited any transfers, granted additional rights to CTA, and imposed significant restrictions on CTA's use of the software copies, Autodesk is the owner of the software copies, and the first sale and essential step defenses do not apply.

The Court should adhere to *Wall Data*, *MAI* and *Triad*, and reverse the judgment.

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[2]Although Vernor's brief contains some gratuitous references to license agreements contained in a shrinkwrapped box (AB 35), the transaction between Autodesk and CTA was governed by a written contract, negotiated at arm's-length between counsel for CTA and counsel for Autodesk, that attached and incorporated the Software Licensing Agreement ("SLA"). *See* AOB 9-10. In addition, CTA agreed to the provisions of the SLA by clicking its acceptance on a click-through screen when installing the software on its computers. AOB 10. No issue is presented in this appeal concerning the formation or binding effect of the SLA. *See* note 15, *infra*.

ARGUMENT

I.

THE FIRST SALE AND ESSENTIAL STEP DEFENSES ARE INAPPLICABLE BECAUSE AUTODESK DID NOT TRANSFER OWNERSHIP OF COPIES OF ITS AUTOCAD R14 SOFTWARE.

Vernor and his *amici* incorrectly assert that Autodesk fails to distinguish between ownership of a copyright in a work and ownership of a particular copy of that work. AB 14; EFF Amici Brf. 12. As we repeatedly made clear in our opening brief, Autodesk agrees that the relevant issue here is whether CTA was the owner of the AutoCAD R14 software copies, not the copyright in the software program. *See, e.g.*, AOB 23 n.7. The SLA, incorporated into the Autodesk-CTA Settlement Agreement, said that Autodesk is the owner of the copies furnished to CTA, and imposed material restrictions on use and transfer that were inconsistent with the usual rights of an owner. AOB 9-12. And, under the applicable precedents of this Court, the parties' contractual definition of their relationship is controlling.

A. Under The Controlling Ninth Circuit Rule, Autodesk Retained Ownership Of Its AutoCAD R14 Software Copies Because It Expressly Retained Title To The Copies, Barred Any Transfer Of The Copies, And Imposed Material Restrictions On Use Of The Copies.

1. *Wall Data* Is The Controlling Case.

Vernor gives short shrift to this Court's controlling precedent on the issue of who is the "owner" of a software copy. *Wall Data Inc. v. Los Angeles County Sheriff's Dep't*, 447 F.3d 769 (9th Cir. 2006) crystallized this Court's bright-line test for determining whether the acquirer of a software copy is a licensee or an owner of that copy:[3]

> Generally, if the copyright owner makes it clear that she or he is granting only a license to the copy of software and imposes significant restrictions on the purchaser's ability to redistribute or transfer that copy, the purchaser is considered a licensee, not an owner, of the software. (447 F.3d at 785)

Vernor mistakenly claims that "[t]he primary authority on which Autodesk relies is a one-sentence footnote from *MAI* . . . ." AB 36. To be sure, the *MAI* footnote is squarely on point, holding that since the plaintiff in that case had "licensed its software" to its customers, they did "not qualify as 'owners' of the software and [were] not eligible for protection under § 117." *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 518 n.5 (9th Cir. 1993). But the more recent opinion in *Wall Data* reaffirmed *MAI* with a two page analysis and clearly articulated the rule discussed at length in our opening brief (AOB 25-26, 30-31) that Vernor all but ignores.

To make matters worse, Vernor asserts that "this Court has itself questioned the *MAI* footnote in an opinion authored by one of the judges on the *MAI* panel." AB 40 (citing *Wall Data*). That mischaracterizes *Wall Data*, which in no way criticized the conclusion *MAI* reached on the applicability

[3]Vernor and his *amici* do not contest that the term "owner" has the same meaning for both Sections 109 and 117. *See* AOB 25 n.8; EFF Amici Brf. 4-5 n.2. As a result, this Court's holdings for determining who is an owner of a software copy under Section 117 apply equally to Vernor's first sale and essential step defenses.

of the Section 117 defense. In a footnote, *Wall Data* acknowledged that the Federal Circuit had observed that the *MAI* footnote failed to acknowledge the possibility that a copyright owner *could* retain title to the copyright (while licensing it) and yet sell a copy of the software[4]—a proposition that we do not for a moment dispute. *Wall Data*, 447 F.3d at 785 n.9. But in the text of the opinion, the Court held that in the case before it, the copyright owner had licensed *both* the copyright *and* the copies of the software. *See id. at* 785 ("These restrictions were sufficient to classify the transaction as a grant of license to Wall Data's software, and not a sale of Wall Data's software"); *id.* at 774 n.2 ("we conclude that the Sheriff's Department bought licenses to, not copies of, Wall Data's software").[5] Vernor's assertion that the Court has

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[4]We discuss the Federal Circuit case in question at pp.21-24, *infra*.

[5]Vernor argues that Autodesk cannot retain ownership of its software copies via a "license" and instead must rent, lease, or loan these copies to avoid application of the first sale defense. AB 2, 15. Wrong. The privileges of the first sale defense "do not, unless authorized by the copyright owner, extend to any person who has acquired possession of the copy or phonorecord from the copyright owner, by rental, lease, loan, *or otherwise, without acquiring ownership of it*." 17 U.S.C. §109(d) (emphasis added). The "or otherwise" language of Section 109(d) makes clear that a copyright owner can retain ownership of a copy of its copyrighted work by transactions other than a "rental, lease, [or] loan." Vernor cannot suggest any meaningful difference between "rental, lease, [or] loan" and a license subject to restrictions on use and transferability; and the "or otherwise" language certainly is broad enough to include such licenses. In any event, the Supreme Court recognized in *Quality King Distributors, Inc. v. L'Anza Research International, Inc.*, 523 U.S. 135 (1998), that copies of copyrighted works can be transferred by license, and the first sale defense does not apply to such transfers: "because the protection afforded by (continued . . .)

manifested doubt as to the rule adopted in *MAI* and *Wall Data* therefore is false.

Vernor's other strategy for dealing with adverse precedents is to label them "*dicta*." AB 36, 38, 40-41. The portions of *Wall Data* and *MAI* on which we rely are not *dicta*. "[W]here a panel confronts an issue germane to the eventual resolution of the case, and resolves it after reasoned consideration in a published opinion, that ruling becomes the law of the circuit, regardless of whether doing so is necessary in some strict logical sense." *United States v. Johnson*, 256 F.3d 895, 914 (9th Cir. 2001) (en banc) (Kozinski, J. concurring); *see also Barapind v. Enomoto*, 400 F.3d 744, 751 (9th Cir. 2005).

In *Wall Data*, relying on *MAI* in connection with an extensive, detailed analysis of the parties' license agreements, this Court concluded that "under *MAI*, the Sheriff's Department is not the 'owner' of copies of Wall Data's software for purposes of § 117." 447 F.3d at 785. Indeed, the Court rejected the very same rule that Vernor proposes here. The appellant had argued that "[b]ecause it paid lump sums for its purchases, and is permitted to use the software in perpetuity, LASD is an owner of its copies under

(. . . continued)
§ 109(a) is available only to the 'owner' of a lawfully made copy (or someone authorized by the owner), the first sale doctrine would not provide a defense to a § 602(a) action against any nonowner such as a bailee, *a licensee*, a consignee, or one whose possession of the copy was unlawful." *Id*. at 146-47 (emphasis added).

Softman Products v. Adobe Systems, 171 F. Supp. 2d 1075, 1084-85 (C.D. Cal. 2001), regardless of any gratuitous license form included with the CD's." Appellants' Brief at 21-22, *Wall Data Inc. v. Los Angeles County Sheriff's Dep't*, No. 03-56559, 2004 WL 2085188, at *46-*47 (9th Cir. Aug. 17, 2004). The Court disagreed and held that the Sheriff's Department was not an owner, and instead was a mere licensee, of the software copies.

While it is true that the Court *also* rejected the essential step defense because the Sheriff's Department's decision to make the software copies "was not an essential step, but a matter of convenience" (*Wall Data*, 447 F.3d at 785), the fact that the Court gave two alternative reasons for its disposition of the appeal does not turn its rule for determining the owner of a software copy into *dicta*. *Woods v. Interstate Realty Co.*, 337 U.S. 535, 537 (1949) ("[W]here a decision rests on two or more grounds, none can be relegated to the category of obiter dictum"); *Operating Eng'rs Pension Trust v. Charles Minor Equip. Rental, Inc.*, 766 F.2d 1301, 1304 (9th Cir.), *amended on other grounds*, 778 F.2d 538 (9th Cir. 1985) (same).

Vernor also asserts that *Wall Data* is not on point because "the issue there did not involve ownership of particular copies." AB 42. This is wrong. The Sheriff's Department had purchased licenses to install the Wall Data software on 3,663 computers. It argued that its installation of the software on 6,007 computers did not infringe Wall Data's copyright because the essential step defense protected it as the owner of the software copies that it received. The Court rejected this defense—squarely holding that "*the Sheriff's Department is not the 'owner' of copies of Wall Data's software* for purposes of § 117." 447 F.3d at 785 (emphasis added).

Nor was *MAI dicta*. The Court's conclusion that plaintiff's customers did "not qualify as 'owners' of the software and [were] not eligible for protection under § 117" because plaintiff "licensed its software" to its customers was essential to the Court's finding of liability because it foreclosed an entire defense. *MAI*, 991 F.2d at 518 n.5. If plaintiff's customers had been owners, the RAM copies that the Court found to be infringing would have been permissible under the essential step defense. Instead, the Court found that the defense did not apply and that plaintiff's customers were "not eligible for protection under § 117." 991 F.2d at 518 n.5. Not surprisingly, courts that have interpreted *MAI* have recognized that its conclusion regarding the applicability of the essential step defense was a binding holding, not merely *dicta*. *See, e.g.*, *DSC Commc'ns Corp. v. Pulse Commc'ns, Inc*, 170 F.3d 1354, 1360 (Fed. Cir. 1999) (calling *MAI* "instructive" and finding that *MAI* "was proper to *hold* that Peak was not an 'owner' of copies of the copyrighted software for purposes of section 117" (emphasis added)); *MDY Indus., LLC v. Blizzard Entm't, Inc.*, No. CV-06-2555-PHX-DGC, 2008 WL 2757357, at *8 (D. Ariz. July 14, 2008) (recognizing that "[a]t least three cases—*MAI, Triad*, and *Wall Data* . . .—*hold* that licensees of a computer program do not 'own' their copy of the program and therefore are not entitled to a section 117 defense" (emphasis added) (citation omitted)).[6]

Vernor further misstates the record in arguing that this Court can ignore its holding in *MAI* because "defendants in *MAI* did not raise the question of ownership under § 117" (AB 38) and that the Court did not hear evidence or argument on that question. In fact, the parties and *amici curiae* in the case extensively briefed this question of whether Section 117 protected defendants from liability because plaintiff had transferred ownership of its software copies via its license agreements. *See* Request for Judicial Notice, filed herewith ("RJN") Ex. A (*MAI* Appellee's Brief) at 27, 28 (arguing "*MAI's Software Licensees Do Not 'Own' the Copy Of The Software Licensed To Them*" and "*A Software License Is Not A Sale For The Purpose Of §117 Of The Copyright Act*"); *id*. Ex. B (*MAI* Appellant's Reply Brief) at 2 (arguing that MAI's copyright claim failed because MAI's customers were "owners of a copy of the software, free to grant Peak the permission to use and copy MAI computer programs incidental to the maintenance, service and

[6]Contrary to Vernor's assertion (AB 38), *Cartoon Network LP v. CSC Holdings, Inc*., 536 F.3d 121, 127-28 (2d Cir. 2008), does not state that *MAI*'s holding on the applicability of the essential step defense is *dicta*. Instead, the case merely suggests that *MAI* did not rule on a separate question—the meaning of the duration requirement of 17 U.S.C. §101 for determining whether a copy is sufficiently "fixed" to be a basis for a copyright infringement action. *Id.*

repair of MAI computers (17 U.S.C. Section 117)"); *id*. Ex. C (*MAI* Brief for *Amici Curiae* Business Systems, Inc. *et al*.) at 7-12.

Vernor's claim that "Congress's disapproval of the result in *MAI* also calls the remainder of the Court's analysis into doubt" (AB 39) likewise has no merit. In fact, while Congress created a new limited defense under Section 117(c) for copies made in connection with the repair or maintenance of a computer, it left in place *MAI*'s twin holdings that RAM copies created during maintenance are reproductions under the Copyright Act and that licensees of a software copy are not "owners" under Section 117(a). H.R. REP. NO. 105-551, pt. 1, at 27 (1998) (citing *MAI*), *reprinted in* NIMMER ON COPYRIGHT at App. 52-35 (2006). Where, as here, an "interpretation of a statute has been brought to the attention of Congress, and Congress has not sought to alter that interpretation although it has amended the statute in other respects, then presumably the legislative intent has been correctly discerned." *United States v. Colahan*, 635 F.2d 564, 568 (6th Cir. 1980). Far from undermining *MAI*'s holding that a licensee of a software copy is not an owner of that copy, Congress's leaving this holding intact while enacting Section 117(c) in response to the decision demonstrates that Congress impliedly approved of this holding.[7] AOB 42-44.

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[7]Vernor's attempts to minimize *Triad Systems Corp. v. Southeastern Express Co.*, 64 F.3d 1330 (9th Cir. 1995) (AB 40 n.16) also fail. In *Triad*, the Court could not have reached the conclusion that defendant had infringed (continued . . .)

MAI, *Triad* and *Wall Data* are Circuit precedents on the "ownership" issue presented by this case, which are binding on this panel. *See, e.g.*, *United States v. Alferahin*, 433 F.3d 1148, 1156 n.3 (9th Cir. 2006).

2. *Wise* Supports The Controlling Rule.

Vernor argues that the Court should not follow *Wall Data*, *MAI* and *Triad* because they assertedly are "in direct conflict with this Court's earlier decision in *Wise*." AB 42. Because *Wise* actually *supports* the rule articulated in these cases, no such conflict exists. Instead, *Wise* is additional authority for Autodesk's position that it retained ownership of its software copies.

In *every* contract where the copyright holder expressly retained title, *Wise* found that the movie studio had licensed the movie print while retaining ownership. AOB 33-34. By contrast, for the two contracts where the copyright owner had not retained title in the movie prints, the Court held that the government had failed to meet its burden of proving beyond a reasonable doubt the absence of a first sale. *See United States v. Wise*, 550 F.2d 1180,

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(. . . continued)
plaintiff's copyright without determining that the plaintiff had retained ownership over its software copies by distributing them pursuant to a license agreement. *Id.* at 1333, 1336-37; *see* AOB 27-28.

1191 (9th Cir. 1977) (television distribution contract for *Funny Girl*); *id*. at 1192 (Redgrave Contract).[8]

Vernor selectively quotes from *Wise* to claim that the opinion held that "[e]ven when a license 'expressly reserves title,' the court should examine the 'terms of the agreements' to determine whether the 'general tenor' of the transaction is a license or sale. *Wise*, 550 F.2d at 1191." AB 43; *see also* AB 44-45 (advancing "*Wise*'s explicit holding that the Court should examine the 'general tenor' of the agreement even when the copyright owner 'expressly reserves title'"). But in fact *Wise* only holds that a court should look at the "general tenor" of the transaction when the contract *fails to* specify whether it is a sale or a license. *See* 550 F.2d at 1191 ("The mere *failure* to expressly reserve title to the films does not require a finding that the films were sold, where the general tenor of the entire agreement is inconsistent with such a conclusion") (emphasis added). Nothing in *Wise* supports the proposition that where the parties have unambiguously defined their

[8]With respect to the *Wise* salvage contracts, the Court's decision was not based on whether the movie companies had retained ownership of the prints. Instead, *Wise* held that even if the movie studios sold its movie prints to the salvage companies for destruction, these sales could not provide the basis for a first sale defense "because the evidence in this case proved that the prints which are sold for salvage cannot be pieced together to produce a copy of the film." 550 F.2d at 1193. Accordingly, regardless of whether the salvage prints were sold or licensed, the first sale defense did not apply because as a factual matter, the movie prints sold by the defendant could not have been the prints previously sold to the salvage companies.

relationship as a license of limited rights to a copy, a court can recharacterize the transaction as an outright sale.

In fact, whether the movie studio had retained title in the prints was a key factor in the Court's determination of whether a first sale had occurred. *Wise* stated that "[i]f title has been retained by the copyright proprietor, the copy remains under the protection of the copyright law, and infringement proceedings may be had against all subsequent possessors of the copy who interfere with the copyright proprietor's exclusive right to vend the copyrighted work." 550 F.2d at 1188 (quoting *United States v. Wells*, 176 F. Supp. 630, 633-34 (S.D. Tex. 1959)). This fact is also demonstrated by *Wise*'s reliance on *Hampton v. Paramount Pictures Corp*., 279 F.2d 100 (9th Cir. 1960) as informing its application of the first sale doctrine. 550 F.2d at 1190 (characterizing its decision as "[i]n accordance with the holding and reasoning of [*Hampton*]"); *see id*. at 1190 n.17 ("with respect to the meaning of 'first sale' we adhere to the reasoning of *Hampton*"). *Hampton* held that where the parties' contract unambiguously established that it was a "license" of the copyright's public exhibition right, the copyright owner retained ownership of that right even though (1) the license was perpetual; (2) there was a one-time lump sum payment; and (3) there was no requirement to return the outstanding prints and negatives. 279 F.2d at 103.

Wise is therefore consistent with a rule that the copyright holder's reservation of title in a license agreement is itself sufficient to preclude a finding of a sale.[9] *A fortiori*, it certainly is consistent with *Wall Data's* holding that a copyright owner retains ownership when it transfers possession of a copy while both retaining title *and* imposing limitations on use and transferability.

Vernor misstates the facts and holding in *Wise* to support his reading of the case. He claims that "[i]n *Wise* . . . the Court concluded that every agreement allowing the transferee to retain indefinite possession was a sale, and every agreement that required the transferee to return the copy was a license or a loan." AB 32. This is wrong. In fact, as discussed in our opening brief (AOB 40), in at least two instances, *Wise* held that the transferee of a movie print was a licensee, not a purchaser, even where there was no requirement to return the print and no mechanism for the movie studio to repossess the print. *Wise*, 550 F.2d at 1192 (finding VIP contracts for *The Sting* and *Funny Girl* to be licenses, not sales, despite agreement requiring licensee "to retain the film print in his possession at all times").[10]

[9]The EFF brief wrongly asserts that *United States v. Atherton*, 561 F.2d 747, 750 (9th Cir. 1977), held "that a transaction denominated as a 'licensing agreement' nonetheless amounted to a first sale." EFF Amici Brf. at 16. Copies of the films in question (*The Way We Were*, *Young Winston* and *Forty Carats*) were transferred to ABC, for permanent retention, under a contract that "fail[ed] specifically to retain title." 561 F.2d at 750. (The opinion does not mention a retention of title as to the fourth film (*Airport*), but it was the government's burden in that criminal prosecution to prove that title had been retained in order to establish that there had been no "sale" so that the first sale doctrine would not apply.)

[10]The VIP contract for *The Sting* provided that the movie studio's consent to use the print was "revocable" (550 F.2d at 1192), but it provided no way for the studio to regain possession of the print once this permission was (continued . . .)

Vernor also claims that "[w]hether the copyright owner had received full value for its copyrighted works was another factor relevant to these agreements. The studios . . . generally did not sell prints 'until all readily obtainable license revenue ha[d] been extracted from them.'" AB 47. However, the portion of *Wise* cited by Vernor had nothing to do with the Court's analysis of whether the relevant contracts constituted licenses or sales of the movie prints for first sale purposes. Instead, the passage supported the Court's conclusion on a completely different issue: that defendant's infringement was willful because the Government proved that he "knew that films . . . are not generally sold but licensed for exhibition," and so he was aware that the films that he sold had not been first sold by the copyright owner. 550 F.2d at 1194-95.

Finally, Vernor makes unsupported assertions about the terms of the individual contracts in *Wise*. For example, for the television distribution contract for *Camelot*, Vernor claims that "[t]he terms required return of the

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revoked. In fact, the SLA similarly provides that Autodesk's permission to use AutoCAD R14 is automatically terminated upon violation of the SLA's license restrictions. 2-ER-171 at "COPYRIGHT." So, if revoking a permission to use the copy of the copyrighted work is the equivalent of a requirement to return the copy to the copyright holder, then such a requirement exists in the SLA as well. In any event, the VIP contract for *Funny Girl* had no provision stating that the license to use the print was revocable (*see* 550 F.2d at 1192), so it is untrue that every agreement in *Wise* allowing the transferee to keep indefinite possession of the movie print constituted a sale.

print at the end of the license period unless the copyright holder agreed otherwise." AB 46 (citing 550 F.2d at 1191). But, in fact, none of the language of the *Camelot* television distribution contract cited in the opinion stated that the transferee was required to return the movie print.[11] Similarly, Vernor claims that "[a] key factor" for determining that the *Funny Girl* television distribution contract was a sale was that the contract "allowed the network at its sole discretion the option of retaining the print indefinitely." AB 47. However, this contract also not only failed to expressly reserve title in the movie print, but also did not place any restrictions on the use or resale of the print. *Wise*, 550 F.2d at 1191 n.20.

3. *Hampton* Supports The Controlling Rule.

Hampton supports the controlling rule with its holding that where an agreement unambiguously designates a transfer of a copyright interest (there, the public exhibition right) as a license, and not a sale, then the copyright owner retains ownership of the copyright interest. *Hampton v. Paramount Pictures Corp.*, 279 F.2d 100, 103 (9th Cir. 1960). While *Hampton* did not involve a first sale defense, there is no reason that the principle of looking to the parties' express agreement to determine ownership of a copyright interest

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[11] While the Court states that the movie studios generally required the return of movie prints at the end of the license period (*Wise*, 550 F.2d at 1184 (emphasis added)), the opinion nowhere states whether the *Camelot* television distribution contract was consistent with this general practice.

should not apply equally to determining whether a copyright owner has transferred ownership of a copy of a copyrighted work. AOB 28-29, 38-39.

B. *Bobbs-Merrill* Does Not Support Vernor's Position.

Vernor claims that in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908), the Supreme Court "rejected a book publisher's use of a license materially indistinguishable from Autodesk's" (AB 2); that *Bobbs-Merrill* "prohibits copyright owners from using a limited license to restrict distribution of 'particular copies' of their works" (*id.*); and that Autodesk's use of a license in this case "is . . . in direct conflict with *Bobbs-Merrill*." *Id.* Each of those statements is wrong, and *Bobbs-Merrill* does not address the issue presented here.

Vernor's brief does not describe the terms of the "license materially indistinguishable from Autodesk" that purportedly was at issue in *Bobbs-Merrill*. That omission undoubtedly was not oversight because in fact there was no license of any kind between the book publisher and the bookseller (R.H. Macy & Company). As the opinion states, "[t]he facts disclose a sale of a book at wholesale by the owners of the copyright, at a satisfactory price, *and this without agreement between the parties to such sale* . . . ." 210 U.S. at 343 (emphasis added). Bobbs-Merrill claimed that because it had unilaterally printed in the flyleaf of the book that it could not be resold for less than "one dollar net," Macy's sale of the books for 89 cents was an infringement of Bobbs-Merrill's copyright. *See id.* at 341-43 ("It is contended that this power to control further sales *is given by statute* to the owner of such a copyright in conferring the sole right to 'vend' a copyrighted book" (emphasis added)). The Court held that the first sale rule applies where the copyright holder has attempted to place a price restriction "after the owner had *parted with the title* to one who had acquired *full dominion* over it . . . ." *Id.* at 350 (emphases added). The Court added that "it is to be remembered that this is purely a question of statutory construction. *There is no claim in this case of contract limitation, nor license agreement controlling the subsequent sales of the book.*"[12] *Id.* (emphasis added).

Many cases have held that the first sale doctrine that was declared in *Bobbs-Merrill*, and later codified, applies only where there has been a "sale" (or gift) but not where there has been a transfer pursuant to license. *See* AOB 25-28 and cases cited; pp.4-11, *infra*. There was no claim in *Bobbs-Merrill* that the transfer of the books at issue was anything but an outright sale. The case is, therefore, entirely unhelpful to Vernor on the question presented here: who is the "owner" of a software copy where the transfer of the

[12]Vernor seizes on the publisher's unilateral assertion in the book that "'[n]o dealer is licensed to sell it at a less price.'" AB 22 (quoting 210 U.S. at 341). The publisher must have been using the term "licensed" as a synonym for "permitted," because (as the quotations from the opinion in the text above make clear) there was no license agreement—or contract of any kind—between Bobbs-Merrill and Macy's.

copy was not an outright sale of all rights to the copy but, rather, was made pursuant to an arm's-length negotiated agreement, which reserved title to the copy, stated that the transferee's rights were those of a licensee, and imposed material restrictions on use and transfer?

Bobbs-Merrill does not address that question. But, as discussed in the prior section, controlling Ninth Circuit cases provide that Autodesk is the owner.

C. Vernor's Claim Of A Circuit Split Is Baseless.

Vernor asserts that if the Court adheres to *MAI* (and *Wall Data*), that "would create a split with the two other circuits that have addressed the issue." AB 40. Even if the *Wall Data-MAI* rule conflicted with decisions of other circuits, ruling in accordance with those precedents would not "create" a split. Instead, that split would already exist, and overruling Ninth Circuit precedents would require *en banc* review. But, in fact, no such conflict exists.

The first asserted conflict is *Krause v. Titleserv, Inc.*, 402 F.3d 119 (2d Cir. 2005), which Vernor inaccurately characterizes as "disregarding a 'license' designation when the circumstances indicated a sale." AB 40; *see also* EFF Amici Brf. 16. There was no "license designation" in that case and, indeed, no license agreement at all. Titleserv hired Krause to work for it, and he wrote 35 software programs in connection with that engagement.

402 F.3d at 120. At issue were eight programs written by Krause and installed on Titleserv's computer network. *Id.* at 120-21. After that relationship was terminated, Krause sued Titleserv, claiming that its modifications of the programs on its own computers were an infringement of his copyright. *Id.* at 121. Krause claimed that Titleserv never owned the copies of the programs in its possession that he created for it but was only a licensee. There was no written license agreement; there was no contract under which Krause reserved ownership of the copies; and there was no agreement limiting Titleserv's rights to use and modify the programs. Under the circumstances, the court had no contractual basis for resolving the dispute, and so it looked at the relevant circumstances and found that Titleserv was the owner. *Id.* at 124.[13] Not a word in the opinion suggests that if Krause and Titleserv had entered into a contract providing that Krause was the owner of the copies of the software installed on Titleserv's computers, that Titleserv was only a licensee, and that Titleserv's rights to use and transfer the software were materially restricted, the court would have nonetheless held that Titleserv was an "owner" under the Copyright Act. There is no conflict between *Krause* and this Court's decisions in *MAI* and *Wall Data*.

Vernor's claim of a conflict with *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354 (Fed. Cir. 1999), is inexplicable. DSC

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[13]No issue regarding transferability was presented in *Krause*.

manufactured and sold hardware used in telephone systems in which the software at issue resided in volatile memory. *Id.* at 1357-58. The agreements with the telephone companies that purchased this equipment "contain provisions that license, under a variety of restrictions, the . . . software to the [telephone companies]." *Id.* at 1358. Pulsecom made a competing card that, when installed in the telephone companies' systems, downloaded the DSC software into its resident memory upon power-up. *Id.* DSC claimed that this copying by the telephone companies that used the Pulsecom card was an act of infringement; Pulsecom claimed that it was authorized by Section 117 because it was an "essential step" in the utilization of the software. *Id.* at 1359-60. One would not know it from Vernor's description of the case, but the Federal Circuit's holding was that Section 117 was inapplicable because the telephone companies were licensees, not owners, of the DSC software. *Id.* at 1361. The court noted that each of the DSC-telephone company agreements reserved "[a]ll rights, title and interest in the Software" to DSC. *Id.* It expressly found that these reservations of ownership applied to "the copies of the software in the [telephone companies'] possession, not [to] DSC's copyright interest in the software." *Id.* In addition, the court found that the "restrictions imposed on the [telephone companies'] rights with respect to the software are consistent with that characterization." *Id.* These included limits on (1) the right to transfer copies of the software; (2) the right to disclose the details of the software to third parties; and (3) use of the software on hardware other than that provided by DSC. *Id*.

Like Vernor here, Pulsecom argued (and the District Court had agreed) that the telephone companies were owners of the copies because they made only a single payment and retained possession of the software (embodied in the cards) for an unlimited period of time. *Id*. at 1362. The Federal Circuit rejected this argument:

> That view has not been accepted by other courts . . . and we think it overly simplistic. The concept of ownership of a copy entails a variety of rights and interests. The fact that the right of possession is perpetual, or that the possessor's rights were obtained through a single payment, is certainly relevant to whether the possessor is an owner, but those factors are not necessarily dispositive if the possessor's right to use the software is heavily encumbered by other restrictions that are inconsistent with the status of owner. (*Id*.)

DSC is, therefore, contrary to the District Court's holding in this case and consistent with this Circuit's prevailing rule, as enunciated in *MAI* and *Wall Data*.

Vernor also says that in *DSC*, the Federal Circuit "declin[ed] to adopt the Ninth Circuit's characterization of all licensees as non-owners." AB 40 (internal quotation marks omitted). There is a grain of truth to that statement, but it is misleading. What the Federal Circuit actually said *supports* the *Wall Data-MAI* rule:

> The Ninth Circuit stated [in *MAI*] that it reached the conclusion that Peak was not an owner because Peak had licensed the software from MAI. That explanation of the court's decision has been criticized for failing to recognize the distinction between ownership of a copyright,

> which can be licensed, and ownership of copies of the copyrighted software. Plainly, a party who purchases copies of software from the copyright owner can hold a license under a copyright while still being an "owner" of a copy of the copyrighted software for purposes of section 117. We therefore do not adopt the Ninth Circuit's characterization of all licensees as non-owners. Nevertheless, the *MAI* case is instructive, because the agreement between MAI and Peak, like the agreements at issue in this case, imposed more severe restrictions on Peak's rights with respect to the software than would be imposed on a party who owned copies of software subject only to the rights of the copyright holder under the Copyright Act. And for that reason, it was proper to hold that Peak was not an "owner" of copies of the copyrighted software for purposes of section 117. (170 F.3d at 1360 (citations omitted))

In sum, neither Vernor nor its supporting *amici* cite a single Ninth Circuit or other federal appellate decision in which the parties had contractually agreed that the software developer (or, for that matter, motion picture copyright owner) had retained title, and that the copy provided was licensed and not sold, but the court nevertheless held that the terms of the contract were trumped by "economic realities" or other considerations.[14]

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[14]Vernor's reliance on *In re DAK Industries, Inc.*, 66 F. 3d 1091 (9th Cir. 1995) (AB 26-29) is misplaced. In *DAK*, no issue of copyright law (let alone the first sale or essential step defenses) was presented. Rather, the Court was interpreting the Bankruptcy Code to determine whether a transaction should be considered a prepetition sale: "*When applying the bankruptcy code to this transaction*, we must look through its form to the 'economic realities of th[e] particular arrangement.'" *Id*. at 1095 (emphasis added).

The other cases on which Vernor relies (AB 28-29) to claim that the Copyright Act trumps the parties' agreement do not support that position. *Bauer & Cie v. O'Donnell*, 229 U.S. 1, 8 (1913) has no relevance here because, as in *Bobbs-Merrill*, title already had been transferred, and the issue was only whether subsequent sales could be controlled: "The question, therefore, now before this court for judicial determination, is: May a patentee

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D. Even If The Parties' Contractual Arrangements Could Be Trumped By "Economic Realities," Vernor Has Identified No Such Dispositive "Realities" In This Case.

We have shown that under the controlling precedents, CTA was a licensee, not an owner, of the AutoCAD R14 copies because the SLA said it was a license; reserved title to the software copies to Autodesk; imposed significant restrictions on use; and also prohibited transfers of the software copy.[15]

(. . . continued)
by notice limit the price at which future retail sales of the patented article may be made, such article being in the hands of a retailer by purchase from a jobber who has paid to the agent of the patentee the full price asked for the article sold?" *Id*. at 11; *UMG Recordings, Inc. v. Augusto*, 558 F. Supp. 2d 1055, 1060 (C.D. Cal. 2008) (AB 27 n.9) is currently before this Court; its articulation of the proposed "economic realities" test is based on the same cases Vernor relies on and likewise is defective. *Novell, Inc. v. Network Trade Center, Inc.*, 25 F. Supp. 2d 1218 (D. Utah 1997), *vacated in part*, 187 F.R.D. 657 (D. Utah 1999), was vacated with respect to the copyright infringement claim (the relevant claim here) and was decided on the basis of the validity of the shrinkwrap license—an issue not presented in this appeal. AB 27-28 n.9.

[15]The briefs of Vernor and his *amici* are replete with criticisms of shrinkwrap licensing and contracts of adhesion, suggesting that no true contract exists here. AB 27 n.9; EFF Amici Brf. 12, 20. But no issue of the validity of Autodesk and CTA's contract—and the legal validity of shrinkwrap contracting—is presented in this appeal. The agreement between Autodesk and CTA was negotiated by counsel, and was not a clickwrap or shrinkwrap license. *See* AOB 9.

In an appropriate case challenging a more typical software licensee, Autodesk would have no difficulty establishing the enforceability of the SLA. The packages of AutoCAD R14 provided by Autodesk to its customers contained a printout of the SLA. 2-ER-164 ¶14; 170-71. Each package of AutoCAD R14 also contained a CD-ROM jewel case, which was sealed with a warning sticker that provided that the software was being "licensed subject to the license agreement that appears during the installation process or is included in the package" and that the consumer could return the copy of the software if it did not wish to accept the terms of this agreement.
(continued . . .)

Vernor argues that all of this is somehow trumped by "economic realities," of which he points to just two: (1) the absence of any requirement that CTA return the software disc to Autodesk when it was no longer using it; and (2) the fact that there was a single payment for the software. AB 29-30. Vernor's argument is meritless.

1. The Economic Realities Establish That CTA Acquired A License And Not An Ownership Interest In The AutoCAD R14 Copies.

Autodesk and CTA did not merely label the transaction a license: the substantive terms of the SLA themselves establish that it was a license. CTA

(. . . continued)
2-ER-163-64 ¶¶11-12; 173. When installing the copies of the software on its computers' hard drives, the consumer again agrees to the terms and conditions of the SLA by clicking its acceptance on a click-through screen. 2-ER-164 ¶13; 174.

It bears mention that courts have found that clickwrap and shrinkwrap licenses are enforceable contracts. *See, e.g.*, *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1452-53 (7th Cir. 1996); *Koresko v. RealNetworks, Inc.*, 291 F. Supp. 2d 1157, 1162-63 (E.D. Cal. 2003); *Feldman v. Google, Inc.*, 513 F. Supp. 2d 229, 236-38 (E.D. Pa. 2007); *DeJohn v. The .TV Corp. Int'l*, 245 F. Supp. 2d 913, 918-20 (N.D. Ill. 2003). Nor is there any basis for *amici*'s claim that software licenses are typically an unenforceable "contract of adhesion." EFF Amici Brf. 20. California law requires that "the elements of procedural and substantive unconscionability must *both* be present before a court may refuse to enforce a contract." *Marin Storage & Trucking, Inc. v. Benco Contracting & Eng'g, Inc.*, 89 Cal. App. 4th 1042, 1054 (2001). In this case, the contract was not procedurally unconscionable because it was negotiated by counsel. Nor is there anything substantively unconscionable about a restriction on transfer that is presented along with a lower price for the software than would be charged if the software were sold without restrictions.

was not permitted to "rent, lease, or transfer" the software copies and agreed to significant use restrictions, including prohibitions against (1) modifying, translating, reverse-engineering, decompiling, or disassembling the software; (2) removing proprietary notices, labels or marks from the software or documentation; and (3) using the software outside of the Western Hemisphere. AOB 12. Some Autodesk software licenses impose additional restrictions (*e.g.*, an educational license limiting use to educational purposes). 2-ER-150 ¶¶13-15. Such restrictions are not typical of a sale.[16] *See, e.g.*, *DSC*, 170 F.3d at 1361 (noting that licensing agreements' transfer and use restrictions are "inconsistent with the rights normally enjoyed by owners of copies of software"). CTA also agreed that its rights to use the software would terminate if CTA failed to comply with the license restrictions (2-ER-171 at "COPYRIGHT" ("Unauthorized copying of the Software or Documentation, or failure to comply with the above restrictions, will result in automatic termination of the license"))—another provision that is not characteristic of ownership.

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[16]Vernor claims that "[c]ontractual restrictions on use imposed by contract also generally do not demonstrate a lack of ownership, even if those restrictions are severe." AB 28. The cases to which Vernor cites do not provide examples of a sale with severe restrictions on use. AB 28-29 & n.10. More to the point, this proposition provides no support for Vernor's claim that the Court should reach beyond the terms of an unambiguous contract to find a first sale where the copyright owner has retained title in a copy and imposed significant restrictions on transferability and use.

In addition, the SLA gave CTA rights it would not have by sale alone. For instance, CTA had a conditional right to make one additional copy for use on a second computer. 2-ER-170 at "GRANT OF LICENSE" ("This License Agreement permits you to install the Software on your primary computer, and to make one additional copy for use on a second computer you may have"). Autodesk would not have granted this extra right if individual copies could be transferred without restriction, because that would result in multiple users where only one was intended. Unlike a book, where original acquirers give up the value of the book when they sell their physical copy, software users can easily retain what is valuable or useful, namely the identical working copy of the software loaded on their computers, even after they transfer the physical medium. 2-ER-150-51.[17]

Taken as a whole, all of these factors confirm the parties' own determination that Autodesk retained ownership of its software copies, and preclude Vernor's attempt to secure a judicial transfer of ownership where CTA and Autodesk agreed otherwise.

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[17]Vernor, in fact, admitted that he did not know whether CTA had kept copies of the AutoCAD R14 software on its computers. 2-ER-245.

2. The Absence Of A Return Requirement And The One-Time Payment Are Neutral Facts That Provide No Support For Vernor's "Sale" Theory.

Vernor's argument that CTA was the owner of the software copies is based entirely on two factors.[18] AB 29-30. The argument is simplistic: purchasers of products ordinarily can keep them indefinitely with no obligation to return them when no longer needed, and pay for them with a single payment; since CTA had no return obligation and made a single payment, it must be an owner of the copies. On more careful examination, however, these are neutral facts that do not support Vernor's theory.

As a practical matter, in the software context, the physical media has almost no value (unlike expensive motion picture film prints) independent from the software contained on the media. 2-ER-152 ¶19; 259 ¶15.

[18]The EFF Amici Brief suggests that "this Court need not establish a bright line 'return requirement' for all future digital media transactions." EFF Amici Brf. 18 n.10. But the District Court, Vernor and his supporting *amici* all focus on just two factors: the single payment and the lack of any requirement that the software copy be returned. *See, e.g.*, 1-ER-15 ("the court finds no basis for the conclusion that an agreement to permit perpetual possession of property can be construed as reserving ownership"). While *amici* talk of evaluating "the economic realities of the transaction at issue . . . 'holistically,'" they fail to identify what other factors as applied to software licensing transactions they believe are likely to be meaningful. EFF Amici Brf. 18 n.10. *Amici*'s suggestion that whether the license terms were negotiated, or whether the copyright owner actively enforces the license's restrictions (*id.*), are also relevant is unexplained: those factors shed no meaningful light on whether there has been a sale. In any event, the Settlement Agreement here between Autodesk and CTA was negotiated at arms'-length between counsel and resulted from Autodesk's enforcement of limitations in its license agreement. 2-ER-163 ¶7.

Autodesk's AutoCAD R14 customers were therefore not acquiring the physical media employed to distribute the licensed software but rather a license to use the software contained on the disc. 2-ER-148 ¶¶6-7; 259 ¶15. It is the licensed content that has value. Once the software is installed and activated on the computer, some customers do not even retain the media.[19] *Id*. Any minor benefit to Autodesk from requiring the return of the physical media would also be far outweighed by the costs of postage and processing returns of the discs. 2-ER-152 ¶19. This is one reason why software installation discs are inherently different from other media containing copyrighted works. 2-ER-148 ¶¶6-7.

Nor is the fact that software is licensed in return for a single payment meaningful. As explained in our opening brief (AOB 41-42), any ongoing series of payments such as annual rents or royalties can be given a present economic value; consequently, as an economic matter, requiring copyright owners to choose a deferred payment scheme (and its corresponding costs)

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[19]Vernor argues that "[t]he reason that return of particular copies would serve no purpose is precisely because Autodesk retains no real-world interest in those copies once they have been sold." AB 32. But Autodesk does retain a "real world" interest in these copies—namely, that its licensee will obey the SLA's use and transfer restrictions—and enforces this interest by providing that its permission to use these copies automatically terminates if its licensee violates these restrictions. 2-ER-171 at "COPYRIGHT." The fact that Autodesk does not take the economically nonsensical step of requiring return of these copies when it revokes its permission says nothing about whether it remains the owner of the copies.

would certainly be, to use Vernor's words, a "legal fiction" with no financial significance. Moreover, there is no basis for the proposition that ownership is defined by the way consideration is paid. For example, many consumer products are purchased with installment payments; conversely, one does not become an owner of a DVD movie rented from a local video store because payment was made in a lump sum. The payment structure is not dispositive of ownership. *See Hampton*, 279 F.2d at 103; *DSC Commc'ns Corp*., 170 F.3d at 1362.[20]

E. Any Limitations On The Ability Of Copyright Owners And Their Licensees To Agree To Limitations On Use Or Transferability Must Come From Congress.

Vernor and his *amici* seek to upend the software industry's long-standing practice, supported by the Copyright Act and this Court's precedents, of licensing its software copies on terms that define the permitted uses of the software. In addition to disregarding this Court's precedents, they

[20]Vernor's claim that Autodesk's website supports a conclusion that its customers are purchasing an ownership interest in the software copies is based on a cherry-picking of quotes. AB 35. That contention is irrelevant to any issue presented in this case because CTA obtained its copies through the negotiated Settlement Agreement, not Autodesk's website. AOB 9-10. But even so, Autodesk would have no difficulty defeating this contention in a different case. For example, under the "How to Buy" section of the Autodesk website, there is a web page entitled "Licensing, Registration and Activation" which explains: "Learn about the various types of Autodesk software licenses, and decide which one is right for you and your organization. If you have already obtained licenses, learn how to activate the type of license you've purchased." 1-Supplemental Excerpts of Record ("SER")-26; *see also* 1-SER-14-15; 18-20.

inappropriately invite this Court to wade into disputes of public policy that have enormous economic and practical implications that are the responsibility of Congress.

There are powerful reasons why Congress has not tied the hands of software developers and their customers by forcing all transfers of copyrighted software copies into the rigid box of outright sale with unrestricted rights of use and transfer and why allowing software companies and users to agree to limitations on use and transfer serves the public interest:[21]

- Licensing permits different markets and users to obtain software at varying prices. For example, when CTA upgraded its AutoCAD R14 licenses to a newer version of the program, Autodesk granted it a significant discount for the upgrade licenses: it paid only $495 per license compared to $3,750 for a new license. 2-ER-162 ¶4; 183-84 ¶7. Different prices also can be charged for commercial users, students, educational institutions, and nonprofits, with greater or fewer restrictions as appropriate. *See* AOB 6-7; Brief of Software &

[21]The Business Software Alliance amicus brief filed in *MDY Industries, LLC v. Blizzard Entertainment, Inc.*, which has been assigned to the same merits panel for oral argument, discusses the settled licensing model of the software industry and the likely consequences for software users of any limitations on the ability of copyright owners and their licensees to define their relationship. Brief of Business Software Alliance as *Amicus Curiae* Supporting Appellees, *MDY Indus. LLC v. Blizzard Entm't, Inc.*, No. 09-15932 (9th Cir. Nov. 16, 2009) ("BSA *MDY* Amicus Brf."), at 20-28.

Information Industry Association as *Amicus Curiae* Supporting Appellees, *MDY Indus. LLC v. Blizzard Entm't, Inc.*, No. 09-15932 (9th Cir. Nov. 17, 2009) ("SIIA *MDY* Amicus Brf."), at 14-15.[22] Likewise, pricing can vary depending on the number of computers in which the customer is licensed to install the software. If reduced-rate software provided to a student or educational institution could only be sold (thereby triggering the first sale doctrine), software developers would be unwilling to distribute their products on that basis. 2-ER-262-63 ¶¶33-34. The result would be a higher average price for the software, to the detriment of many consumers. AOB 44-45; *see also* MPAA Amicus Brf. 19.[23]

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[22]The SIIA *MDY* Amicus Brief points out that (at varying prices) a license may authorize use by one user on one computer; academic use limited to educational purposes, with transfer prohibited or restricted; use by a limited number of persons; or use at a specified site or company. SIIA *MDY* Amicus Brf. 14-15; *see also ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1449 (7th Cir. 1996) (licensing of software for commercial purposes sold at higher price than licensing of the same software restricted to personal, non-commercial use).

[23]The EFF Amici Brief asserts that the availability of resold software would result in lower prices because the new software would have to compete with the resale market. EFF Amici Brf. 11. This unproven theory is certainly an argument appropriately presented to Congress, but it is not a proper basis for asking a court to adopt a judicially-determined rule. Moreover, even if true, EFF's point perfectly illustrates why this is a matter for legislative judgment: prohibition of licensing would at best benefit some (for example, those who—like Vernor—earn money by reselling software, or those who—like eBay—earn commissions or fees for the online sales of second-hand goods, and purchasers of second-hand software) to the

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- Licensing allows consumers to sample software to find the best fit for them. Some companies allow consumers to use their software for a short time for free or little cost. Others allow a product version with limited functionality but require payment to license a version with more features. Licensing makes these models possible by ensuring that consumers do not use the products beyond the terms of the license.
- Licensing ensures that there will be a direct relationship between software companies and consumers, which facilitates the companies' providing software patches and updates that improve performance, add new functions, provide security enhancements, and fix minor problems known as "bugs."
- Licensing allows companies to provide additional benefits to consumers beyond what they otherwise would possess under the Copyright Act as owners of software copies by, for example, providing that users can install their software on more than one

(. . . continued)
detriment of others (software developers, but also commercial purchasers of new software who will end up paying a higher price, as will those, such as students, who under the licensing model are presently able to obtain software subject to restrictions acceptable to them at a greatly reduced price). Likewise, purchasers of software who would take advantage of a resale market as a means of eventually recouping a part of the cost would be advantaged; those who would not bother with resale will be disadvantaged to the extent software prices rise. The balancing of the competing interests is quintessentially a task for Congress.

computer. *See, e.g.*, 2-ER-170 at "GRANT OF LICENSE" (granting such rights to CTA under the SLA).

- Licensing protects software companies by allowing them to agree with consumers on risk-allocating provisions such as limitation of liability—provisions that permit lower pricing than would be the case were liability unlimited. If software could be resold, the resale purchaser would not be in privity with the software company and would not be bound by any contractual restrictions agreed to by the first purchaser. *See* AOB 47.
- Licensing protects against unauthorized reproductions of the software. If resale of software were permitted, the initial purchaser could install the software on its computer and resell the tangible copy while continuing to use the copy resting on its computer's hard drive. *See* AOB 48.
- Licensing is essential to software developers' ability to use the notice and takedown provisions of the Digital Millennium Copyright Act ("DMCA") to shut down sales of pirated software copies online. The DMCA permits a copyright owner to send an online service provider a notice that a website contains material that infringes the owner's copyright; the provider then takes down the infringing material, subject to specific notification and appeal procedures, because following these procedures shields the provider from liability. 17

> U.S.C. §512. Licensing permits a software developer to use the DMCA notice and takedown procedures based on an infringement of the copyright owner's distribution right. It is impossible from most online sales listings to determine whether the copies being sold are authorized copies or pirated copies made in violation of the copyright owner's reproduction right. For this reason, if software developers could not rely on their distribution right to send DMCA notices to online re-sellers, then they would have no simple, cost effective way of using the DMCA to stop infringers who are selling pirated copies online.

Ignoring decades of industry practices, Vernor suggests a "parade of horribles" that includes putting "used book and music stores out of business with the simple expedient of attaching the proper licensing language to their copyrighted works." AB 5. The EFF Amici Brief sounds the same alarm. EFF Amici Brf. 3-4, 8.[24] Book publishers and recording companies do not market their tangible products that way, and never have. Tangible copies of books and music CDs are sold—not licensed—and there is no evidence in the record—or in any of the briefs—to suggest that there is any realistic risk

[24]The EFF Amici Brief also claims that Autodesk's position would "undermine Section 109(b)(2), which permits nonprofit libraries to lend software." EFF Amici Brf. 21. This claim is specious because the rights under Section 109(b)(2) do not require "ownership"—merely possession.

that book publishers or record companies will suddenly attempt to destroy the secondary market for used books and recordings by using shrinkwrap licenses prohibiting resale. The issue in this case concerns computer software, and the very different, long-standing marketing practices that are commonly used in that industry. BSA *MDY* Amicus Brf. 20-28.

Our point, of course, is not that the Court should weigh the competing interests and decide for itself whether software licensing arrangements should be precluded. That task is for Congress. *Quality King Distribs*., 523 U.S. at 153 ("whether or not we think it would be wise policy to provide statutory protection . . . is not a matter that is relevant to our duty to interpret the text of the Copyright Act"). Until now, Congress has not seen fit to embrace the regime advocated by Vernor and some academic writers. That decision is not by happenstance or inertia. Congress revised Section 117 in light of *MAI* and added Section 117(c), but did *not* revise the statute to preclude licensing or broaden the definition of "owner of a copy." H.R. REP. NO. 105-551, pt. 1, at 27 (1998) (citing *MAI*), *reprinted in* NIMMER ON COPYRIGHT at App. 52-35 (2006). That is compelling evidence of Congress's approval of the rule confirmed in *MAI* that restrictions imposed on use or transfer in a software license are valid and enforceable despite the first sale doctrine. *Colahan*, 635 F.2d at 568.

Vernor and his *amici* offer a rule that essentially provides that a sale occurs whenever a copyright holder transfers a copy of a copyrighted work in return for a single fixed payment of money without specifying a date by which the copy must be returned—regardless of the parties' mutually-agreed determination of the relationship and the agreed-to limitations on use and transferability. The consequences of this rule would be profound. Unlike tangible copies of books, music CDs and video DVDs, computer software is almost always distributed by licensing a copy for specified uses, often with restrictions on subsequent transfers. As this Court has recently observed,

> the first sale doctrine rarely applies in the software world because software is rarely "sold." . . . By licensing copies of their computer programs, instead of selling them, software developers maximize the value of their software, minimize their liability, control distribution channels, and limit multiple users on a network from using software simultaneously. (*Wall Data Inc. v. Los Angeles County Sheriff's Dep't*, 447 F.3d 769, 786 n.9 (9th Cir. 2006) (citation omitted))

See also Adobe Sys. Inc. v. One Stop Micro, Inc., 84 F. Supp. 2d 1086, 1091 (N.D. Cal. 2000) ("[V]irtually all end-users do not buy—but rather receive a license for—software. The industry uses terms such as 'purchase,' 'sell,' 'buy,' . . . because they are convenient and familiar, but the industry is aware that all software . . . is distributed under license").

Those who advocate legislation that would prohibit software creators from licensing specified uses of copies of their intellectual property, at prices lower than the prices that would be charged for an outright "sale" in which uses and transfers are unrestricted, would face a formidable challenge to so drastic a change to the current understanding of the Copyright Act. Were amendments to the Copyright Act to impose a rigid, sweeping definition of "owner" along these lines proposed, the battle in Congress would be fierce. Substantial arguments would be presented concerning the adverse impacts of such a change for this important area of economic activity. While some might benefit from that proposed rule, others (*e.g.*, students and others who could obtain a lower-priced license for limited uses; software users who do not intend to resell the software copy in the future) would be disadvantaged, to say nothing of the software industry itself. No one—not the parties, not their lawyers, and not the judges of this Court—could predict with confidence that Congress would agree to so momentous an amendment to the Copyright Act.

What one *can* say with confidence is that Congress has yet to agree to such a regime. Sections 109 and 117 contain no definition of the term "owner of a copy," let alone a non-traditional definition that would be imposed on the parties despite their contractual efforts to define their relationship as a license and their agreement to material limitations on the rights of the transferee of a copy of a copyrighted work to use or resell that copy. Nothing in the legislative history evidences intent to do so. And given the Constitution's express delegation to Congress in Article I, Section 8, Clause 8 to define the scope of copyright protection, Vernor and his *amici* have come to the wrong branch of government to impose radical new limitations on the ability of copyright holders and their licensees to define their relationship and to specify the rights that a licensee does—and does not—obtain pursuant to their contract.

CONCLUSION

For the foregoing reasons, the decision of the District Court should be reversed and judgment entered in favor of Autodesk on Vernor's claim for declaratory and injunctive relief.

DATED: February 26, 2010.

Respectfully,

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CERTIFICATE OF COMPLIANCE PURSUANT TO FED. R. APP. P. 32 (a)(7)(C) AND CIRCUIT RULE 32-1 FOR CASE NUMBER 09-35969.

1. This brief, which contains 10,660 words, is subject to "Appellant's Motion to Exceed Page Limitation on Appellant's Reply Brief," filed herewith.

2. This brief substantively complies with the typeface requirements of Federal Rule of Appellate Procedure 32(a)(5) and the type style requirement of Federal Rule of Appellate Procedure 32(a)(6) because it has been prepared in a proportionally spaced typeface in 14.5 point Times New Roman.

DATED: February 26, 2010.

/s/ Jerome B. Falk, Jr.
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