

No. 10-1421

IN THE

Supreme Court of the United States

TIMOTHY S. VERNOR,

Petitioner,

v.

AUTODESK, INC.,

Respondent.

On Petition for a Writ of Certiorari to the
United States Court of Appeals for the Ninth Circuit

REPLY BRIEF FOR THE PETITIONER

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REPLY BRIEF FOR PETITIONER

Autodesk does not dispute that, given the software industry's near universal adoption of restrictive "license agreements," the Ninth Circuit's decision below would almost always prohibit software users from selling, giving away, or even using copies of software without the copyright owner's permission. *See Opp.* 1-2, 25-26. Indeed, Autodesk argues that allowing consumers to use or transfer software without obtaining such permission would "upend the distribution practices of the computer software industry," which "distribute[s] most copies of software" with "restrictions on ... use and transfer." *Id.* at 1-2. At the same time, Autodesk urges the Court not to concern itself with the industry's evisceration of the statutory first-sale and essential-step doctrines. *Id.* at 25-27. Those concerns, Autodesk writes, are "policy arguments" that must be addressed—if at all—by Congress. *Id.* at 26.

The interpretation of the Copyright Act that Autodesk advocates, however, is not the product of Congress's policy judgment, but of the Ninth Circuit's statutory interpretation. Congress provided in the Copyright Act that, "[n]otwithstanding" the copyright owner's exclusive distribution rights, the "owner of a particular copy" of a copyrighted work may sell or otherwise dispose" of that copy "*without the authority of the copyright owner.*" 17 U.S.C. § 109(a) (emphasis added). Aside from a limit on the right to *rent* computer programs, *id.* § 109(b)(1)(A), Congress has not exempted the software industry from this rule. On the contrary, Congress created an additional protection for owners of software copies by allowing the "owner of a copy" of software to make additional copies that are essential to the software's use. *Id.* § 117(a).

As Vernor’s petition explains (at 20), the right of an owner of a copy to transfer and use that copy “without the authority of the copyright owner” is rendered effectively powerless by the Ninth Circuit’s interpretation of the word “owner”—which depends for its meaning on whether a license agreement grants or withholds authority to transfer and use the copy. This Court’s intervention is warranted to prevent these statutory protections from being “so narrowly construed as to deprive those entitled to their benefit of the rights Congress intended to grant.” *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 346 (1908).

I. The Ninth Circuit’s Decision Conflicts with Decisions of the Second and Federal Circuits.

A. The Ninth Circuit’s Test Seeks to Answer a Question That the Second and Federal Circuits Consider Irrelevant.

1. Autodesk contends that “every appellate decision” to have considered the issue “has held that Sections 109(a) and 117(a) are inapplicable to licensees of copies of computer software or other copyrighted works.” Opp. 2. In fact, only the Ninth Circuit has accepted Autodesk’s position that the Copyright Act authorizes copyright owners to “license” individual copies of a copyrighted work. Beginning in *MAI Systems Corp. v. Peak Computer, Inc.* and continuing through the decision below, the Ninth Circuit has held that when the owner of a copyright “licenses its software,” users of that software “do not qualify as ‘owners’ of the software and are not eligible for protection under § 117.” 991 F.2d 511, 518 n.5 (9th Cir. 1993).

Autodesk attempts to distance the decision below from *MAI*’s holding, arguing that the Ninth Circuit

has since “stated the test in a narrower, more refined way.” Opp. 13. To be sure, the court below elaborated on *MAI*’s holding by articulating factors for courts to consider in determining whether a person in possession of a copy of software is “a licensee rather than owner of a copy.” Pet. App. 17a. But the court considered *MAI* to be “controlling” authority, and thus reaffirmed *MAI*’s holding that the critical question is whether the copyright owner “licensed the copies to its customers.” Pet. App. 9a, 14a.

2. The Federal Circuit expressly declined to “adopt the Ninth Circuit’s characterization [in *MAI*] of all licensees as non-owners.” *DSC Commc’ns Corp. v. Pulse Communications, Inc.* 170 F.3d 1354, 1360 (Fed. Cir. 1999); see *Wall Data Inc. v. Los Angeles County Sheriff’s Department*, 447 F.3d 769, 785 n.9 (9th Cir. 2006) (acknowledging the conflict).

Although the decision below acknowledged that *DSC Communications* takes a “narrower” view of a copyright owner’s rights than *MAI*, it considered its decision in *this* case to be consistent with the Federal Circuit’s decision. Pet. App. 22a. The court read *DSC Communications* as holding “that the agreements there in issue were licenses”—a holding that the court thought to be consistent with its conclusion “that a software customer bound by a restrictive license agreement may be a licensee of a copy not entitled to the first sale doctrine or the essential step defense.” *Id.* The court, however, misconstrued the Federal Circuit’s reasoning. While *DSC Communications* held that the defendants were “non-owners” of the copies at issue, it did not base that conclusion on a belief that the software agreements “were licenses.” *Id.* Rather, the Federal Circuit found nothing inconsistent between holding a “license [to software] under copyright” and “being an ‘owner’ of a copy of the

copyrighted software for purposes of section 117.” 170 F.3d at 1360. Moreover, *DSC Communications* did not hold—as the Ninth Circuit thought—that the defendant there was a “licensee of a copy.” Pet. App. 22a. On the contrary, the court concluded that, although “a copyright . . . can be licensed,” particular “copies of the copyrighted software” cannot be. 170 F.3d at 1360. Indeed, the Federal Circuit’s conclusion on this point formed the basis of the court’s disagreement with *MAI*. *See id.*

3. The Second Circuit in *Krause v. Titleserv* also rejected a copyright owner’s argument that the alleged infringer “possessed the copies as a licensee.” 402 F.3d 119, 122 (2d Cir. 2005). Like *DSC Communications*, the court concluded that the argument “confuses ownership of a copyright with ownership of a copy of the copyrighted material.” *Id.* at 124.

Autodesk attempts to distinguish *Krause* on the ground that it did not involve a written license agreement. Opp. 16. The copyright owner in *Krause*, however, argued that the alleged infringer had “*orally* agreed to possess the copies as a mere licensee.” *Id.* at 124 (emphasis added). In declining to consider the copyright owner’s evidence of such an agreement, the Second Circuit did not rely on a distinction between oral and written contracts. Rather, the court held that, while evidence of a “license” may be relevant to whether the copyright owner transferred any portion of its exclusive rights under the Copyright Act, it “is irrelevant to [the alleged infringer’s] rights under § 117(a), which depend on ownership of a copy of the copyrighted material.” *Id.*

B. The Ninth Circuit’s Reliance on the Copyright Owner’s Formalistic Reservation of Rights Conflicts With the Second and Federal Circuits’ Reliance on the Realities of the Exchange.

1. In addition to arguing that it “licensed” rather than sold particular copies of its copyrighted software, the copyright owner in *Krause*—like Autodesk here—argued that its reservation of formal title in copies of its work was sufficient to withhold ownership under § 117(a). *Id.* at 123. The Second Circuit again rejected the copyright owner’s argument, holding that Congress did not intend to base the rights granted by § 117(a) on a “narrow, formalistic definition of ownership dependent on title.” *Id.* The court thus looked beyond the copyright owner’s characterization of the transaction, to whether the possessor of the copy has “sufficient functional incidents of ownership, regardless of title.” *Id.* at 124 n.3.

The court considered the strongest evidence of ownership under § 117 to be the copyright owner’s lack of a right to repossess the copies, and the alleged infringer’s corresponding “right to continue to possess and use the programs forever.” *Id.* at 124. As the court wrote: “[I]t would be anomalous for a user whose degree of ownership of a copy is so complete that he may lawfully use it and keep it forever, or if so disposed, throw it in the trash, to be nonetheless unauthorized to fix it when it develops a bug, or to make an archival copy as backup security.” *Id.* In addition, the court looked to the copyright owner’s receipt of consideration for the copy as evidence of a sale. *Id.*; see also *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir. 1963).

2. The Ninth Circuit’s three-part test is exactly the sort of “narrow, formalistic definition of ownership” that *Krause* rejected. 402 F.3d at 123. The court declined to look to the “economic realities of the transaction,” Pet. App. 23a, instead basing its determination entirely on the language of the license agreement. *See id.* at 17a-18a. In concluding that Autodesk granted a “license” in copies of its software, the court relied on the same factors that *Krause* had rejected as a basis for determining ownership under § 117—the copyright owner’s statement “that the user is granted a license” and formal reservation of title. *Id.*

On the other hand, the Ninth Circuit gave no weight to the factors that *Krause* considered dispositive—the copyright owner’s acceptance of a one-time payment and permanent relinquishment of possession. Although the court acknowledged that the right to permanently possess a copy had been “one factor in [its] analysis” in *United States v. Wise*, 550 F.2d 1180, 1190-92 (9th Cir. 1977), the court omitted that factor from its three-part test. Pet. App. 17a-18a. As a result, it concluded that Autodesk remained the “owner” of particular copies of its software, even though the company had permanently relinquished possession of those copies in exchange for payment of the copies’ full price.

3. Autodesk is correct that *DSC Communications*, unlike *Krause*, relied in part on the license agreement’s prohibitions on redistribution and use—the second and third factors of the Ninth Circuit’s test—in concluding that the copyright owner had not “sold” the particular copies at issue. 170 F.3d at 1361. Like *Krause*, however, the Federal Circuit also considered “[t]he fact that the right of possession is perpetual, or that the possessor’s rights were obtained through a

single payment” to be relevant to the ownership question—although the court ultimately found those factors to be outweighed by other considerations. *Id.* at 1362. Moreover, having rejected *MAI*’s distinction between “licenses” and “sales,” the court gave no weight to the copyright owner’s characterization of the transaction as a “license”—the first factor in the Ninth Circuit’s test. *Id.* at 1360. Thus, despite consideration of some similar factors, the decision below is incompatible with *DSC Communications*.

4. To base ownership under §§ 109(a) and 117(a) on the realities of the exchange rather than the copyright owner’s characterization of the transaction does not—as Autodesk argues—“effectively nullify[] the parties’ agreement.” Opp. 1. Nothing in *Krause* or *DSC Communications* would prohibit copyright owners from enforcing the terms of their license agreements as a matter of *contract* law. As amici point out (at 24-27), that approach provides copyright owners with a remedy against their customers for breach of the agreement, without the need to deprive those customers of an ownership interest in their property. Moreover, contract law comes with a set of doctrines—such as privity, unconscionability, and limitations on damages—that the Copyright Act is not equipped to handle. *Id.*

Here, Autodesk sued and obtained a consent judgment against the architecture firm that originally purchased the software at issue (Cardwell/Thomas & Associates). Pet. App. 30a. The decision below, however, gives Autodesk *additional* causes of action—without regard to privity of contract—against anyone who, like Vernor, possesses, transfers, or even uses copies of Autodesk’s software without permission. The first-sale doctrine is designed to

prevent just such burdens on the stream of commerce. *See Bobbs-Merrill*, 210 U.S. at 350.

II. The Register of Copyrights' Inability to Reconcile the Competing Tests Demonstrates the Importance of the Circuit Split.

Autodesk's argument that the courts of appeals are "in harmony" on the question of ownership, Opp. 1, is directly contradicted by the opinion of the Register of Copyrights, which, after concluding that the "case law interpreting [§ 117] is inconsistent," was unable to determine whether license agreements distributed with cellular phones deprive consumers of ownership of the software on those phones. U.S. Copyright Office, *Recommendation of the Register of Copyrights in RM 2008-8* 89, 124, 128, 132 (June 11, 2010), available at <http://www.copyright.gov/1201/>.

The confusion noted by the Register did not—as Autodesk suggests—arise from the district court's decision in this case, but from "the variety of approaches adopted by different courts that have considered who may be the 'owner' of a copy." *Id.* at 124-32. Although noting that the district court's decision created uncertainty about the state of the law *within* the Ninth Circuit, the Register focused primarily on the divergence of opinions among the Second and Ninth Circuits, concluding that the Ninth Circuit's approach was "less generous to the licensee" than the Second Circuit's "nuanced" analysis. *Id.* at 89, 125.

Autodesk is also wrong that the confusion identified in the Register's rulemaking is limited to software that is "embedded" in hardware devices like cellular phones. Opp. 21. The Register's analysis did not tie its discussion of ownership under the Copyright Act to whether software is embedded in hardware. And far from minimizing the divergence of authority,

the Register’s inability to apply § 117 in the context of embedded software highlights the importance of the issue in this case. Although there is no dispute that a consumer who buys a mobile phone is an owner of the phone itself, that ownership interest is meaningless without a corresponding right to use the software required for the device to function. As amici explain (at 12), the Ninth Circuit’s decision thus opens the door to restrictions on the use and distribution of a large and growing number of consumer products—“from baby toys to cars to refrigerators”—that include some form of embedded software.

III. The Ninth Circuit’s Decision Cannot Be Reconciled with *Bobbs-Merrill*.

This Court in *Bobbs-Merrill* rejected an argument materially indistinguishable from Autodesk’s argument in this case. 210 U.S. 341. The copyright owner there—the book publisher Bobbs-Merill Co.—attempted to forbid resale of its copyrighted novel for less than \$1. *Id.* at 341. Like Autodesk, Bobbs-Merrill argued that transfers of the work in violation of its restriction infringed the company’s exclusive distribution right. *Id.* at 343. This Court, however, disagreed, holding that Congress did not intend the distribution right to include “the authority to control all future retail sales.” *Id.* at 351.

Autodesk argues that *Bobbs-Merrill* does not apply to cases “where there has been a transfer pursuant to license.” Opp. 23. But if the transfer in *Bobbs-Merrill* was not “pursuant to license,” it is not clear how the transfer in this case could have been either. Just as Autodesk includes a statement in its software packaging purporting to grant a “nontransferable *license* to use the enclosed program,” Pet. App. 62a (emphasis added), Bobbs-Merill included a

statement on the book's copyright page stating that "[n]o dealer is *licensed* to sell it at a less price, and a sale at a less price will be treated as an infringement of the copyright." *Id.* at 341 (emphasis added). Yet, this Court held that violation of Bobbs-Merrill's terms did not infringe the company's copyright. As the Court wrote, the Copyright Act does not "create the right to impose, by notice ... a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract." *Id.* at 349-50.

If Autodesk were correct that this Court's refusal to enforce restrictions on distribution was based on the lack of sufficient licensing language, Bobbs-Merrill could presumably have changed that result by rewording that language to read more like what Autodesk uses in its license agreements today. For example, the language "Bobbs-Merrill grants a non-transferable license to distribute this book for a price no less than \$1" would satisfy the first two prongs of the Ninth Circuit's test because it (1) deems the transaction a "license," and (2) imposes significant restraints on distribution. To enforce its restraint on trade, Bobbs-Merrill would at most have had to add a restriction on use of the book analogous to those the Ninth Circuit below found sufficient to satisfy the third factor of its test—by, for example, restricting use of the book to the Western Hemisphere. Pet. App. 18a. That reading of *Bobbs-Merrill*, however, would transform the decision from a fundamental limit on the scope of the distribution right to a case about bad draftsmanship.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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