No. 09-35969

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

TIMOTHY S. VERNOR,

Plaintiff-Appellee,

v.

AUTODESK, INC.,

Defendant-Appellant.

Appeal from the United States District Court
for the Western District of Washington
Hon. Richard A. Jones

APPELLEE'S BRIEF

Gregory A. Beck
Deepak Gupta
PUBLIC CITIZEN LITIGATION GROUP
1600 20th St., NW
Washington, DC 20009
Phone: (202) 588-1000
Fax: (202) 588-7795

Counsel for Plaintiff-Appellee

TABLE OF CONTENTS

TABLE OF AUTHORITIES

Cases

Statutes and Statutory Materials

Miscellaneous

INTRODUCTION AND SUMMARY OF ARGUMENT

Plaintiff Timothy Vernor sells used comic books, collectibles, and software on the online auction site eBay. Defendant Autodesk, Inc. sent eBay several notices of claimed infringement asserting that Vernor's online resale of its software infringed the company's copyright. In response to Autodesk's claims, eBay terminated Vernor's pending sales and eventually shut down his online business, closing off his primary source of income.

The basis for Autodesk's copyright infringement claim is not that Vernor was selling pirated copies of its software. Instead, the company claims the right to prohibit resale of *authentic*, lawfully purchased copies based on a "license agreement" in the software's packaging. This license, according to Autodesk, makes the software "nontransferable" and binds all future possessors. Autodesk argues that, despite distributing copies of its software in transactions that are indistinguishable from sales, it in fact retains ownership of those copies, and its customers do not buy the software but enter into an arrangement that is more akin to a lease or a loan. Any subsequent resale of the software—or even the act of giving it away—would thus become copyright infringement, subjecting the infringer to statutory damages and potential criminal penalties. 17 U.S.C. §§ 504, 506(a)(1).

More than a century ago, the Supreme Court in *Bobbs-Merrill Co. v. Straus* rejected a book publisher's use of a license materially indistinguishable from Autodesk's to recharacterize the nature of its sales. 210 U.S. 339, 350 (1908). The Court held that the Copyright Act did not "create the right to impose, by notice . . . a limitation at which the book shall be sold at retail by future purchasers." *Id.* The "first-sale doctrine" established by *Bobbs-Merrill*, and since codified in the Copyright Act, 17 U.S.C. § 109, prohibits copyright owners from using a limited license to restrict distribution of "particular copies" of their works.

Autodesk's claim that it "licenses" its software rather than selling it confuses its *copyright*, which is licensed, with *particular copies* of its copyrighted works, which are sold or leased. That Autodesk licenses its software says nothing about whether Autodesk sold any particular copy of that software. Autodesk's attempt to use a "license" to control downstream sales of particular copies is not only in direct conflict with *Bobbs-Merrill*, but would render meaningless Congress's careful balance between the rights of copyright holders and consumers.

Autodesk uses the term "license" in a vague sense to characterize a transaction in which all the circumstances closely resemble a sale of copies of its software, but in which it purports to retain ownership of those copies, as in lease. What is important, however, is not how Autodesk chooses to *characterize* the nature of its software transfers, but what the nature of those transfers actually *is*.

To answer that question, courts look beyond labels to the economic realities of the exchange, examining whether the transaction is more like a sale or more like a lease. Courts particularly focus on whether the copyright owner (1) permanently gives up possession of the particular copies, and (2) requires a lump-sum, up-front payment. Here, Autodesk's permanent relinquishment of copies of its software in exchange for a one-time payment conclusively demonstrates a sale. Autodesk's claim that it never sells its software but rather "licenses" it to the public is a fiction designed to circumvent statutory limits on its copyright, and should be given no weight.

Autodesk's primary authority for its position is one sentence of dicta in a footnote to *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 519 n.5 (9th Cir. 1993)—an early software copyright case later overruled by statute. In that footnote, the Court only described the parties' undisputed characterization of the particularly restrictive business contract in that case. It did not announce a categorical rule for *every* agreement labeled a "license." If the *MAI* footnote were read as broadly as Autodesk proposes, the Court's statement—made without analysis or citation to authority in the course of discussing a different issue—would be in direct conflict with earlier precedent and two other circuits that have decided the question. Indeed, this Court itself has cast doubt on the continuing validity of the *MAI* footnote in *Wall Data, Inc. v. Los Angeles County Sheriff's Department*, 447 F.3d 769, 786 n.9 (9th Cir. 2006).

In any case, this Court's decision in *United States v. Wise*, as the earlier decided case, is the controlling precedent. *Wise* held that the character of a transaction, rather than the label attached to it, determines whether the Court should accept the copyright owner's characterization of an exchange as a "license." 550 F.2d 1180, 1188-89 (9th Cir. 1977). Autodesk's tortured reading of *Wise* (at 3-4) as holding that the "dispositive factor was a formal reservation of title" flies in the face of both the Court's explicit holding and its application of that holding to the facts of the case. The agreements at issue in *Wise*—limited and carefully controlled distributions of films to networks and celebrities—were far more restrictive and resembled a sale far less than the retail transactions in which Autodesk typically sells copies of its software. Nevertheless, the Court examined the nature of each agreement and concluded that two of them were sales, noting that those agreements, unlike the others, allowed a one-time payment in exchange for permanent possession of the film. As to each agreement, *Wise* looked beyond boilerplate statements to the realities of the underlying transaction.

Autodesk's policy arguments for giving special treatment to software copyrights should also be rejected. Congress already addressed the software industry's concerns about illegal copying in the Computer Software Rental Act, where it prohibited rental of software but did *not* restrict resale. The rule Autodesk proposes would create a much larger exception by judicial fiat, rendering Congress's amendment superfluous. Although Autodesk is undoubtedly correct that the software industry would profit from the ability to impose more restrictive licensing terms, its argument is not easily limited to the context of software. Other industries could just as easily argue that widespread piracy of *their* products entitles them to special protection. *See, e.g.*, Br. of Amicus Curiae MPAA. If such arguments were credited, publishers could put used book and music stores out of business with the simple expedient of attaching the proper licensing language to their copyrighted works. That result, however, is exactly what the Supreme Court in *Bobbs-Merrill* refused to accept.

STATEMENT OF THE ISSUES

1. Can the owner of a copyright in a work withhold the right of an owner of a copy of that work to (a) redistribute that copy under 17 U.S.C. § 109, or (b) make another copy of that work that is an essential step in the utilization of the work under 17 U.S.C. § 117?

2. Can the owner of a copyright in a work withhold ownership of a copy of that work with a statement that the owner is licensing or reserving title in that copy?

STATEMENT OF THE CASE

I. Autodesk's Interference with Vernor's Resale of Authentic, Used Copies of AutoCAD Software

The relevant facts are undisputed. Vernor makes the majority of his income selling used books, games, and collectibles on eBay under the name Happy Hour Comics. 2-ER-298 ¶¶ 2-3. Typically, Vernor finds things to resell at garage sales, office sales, and flea markets. 2-ER-298 ¶ 3. During the eight years he has operated an eBay-based store, Vernor has built a reputation as a reliable seller, completing more than 10,000 transactions and accumulating a positive feedback rating of 99.4 percent. 2-ER-298 ¶¶ 2-3.

The events giving rise to this case began in May 2005, when Vernor purchased an authentic, used copy of Autodesk's AutoCAD Release 14 software (a software package used by architects and engineers for design and drafting) at a garage sale and posted it for sale on eBay. 2-ER-298 ¶ 6, 9. When Autodesk discovered Vernor's eBay auction, it sent a notice of claimed infringement to eBay under the Digital Millennium Copyright Act ("DMCA"), claiming that Vernor's listing infringed its copyright. 2-ER-298 ¶ 10.

To take advantage of the DMCA's safe harbor against claims of secondary liability for copyright infringement, 17 U.S.C. § 512, an Internet service provider like eBay must act "expeditiously" to remove allegedly infringing content upon receiving a notice of claimed infringement and maintain a policy providing for termination of the accounts of repeat infringers. *See* 17 U.S.C. § 512(c)(1)(C), (i)(1)(A); *Perfect 10, Inc. v. Cybernet Ventures, Inc.*, 213 F. Supp. 2d 1146, 1179 (C.D. Cal. 2002). eBay regularly complies with these requirements by automatically terminating any auctions for which it receives a notice of claimed infringement. 2-ER-298 ¶ 4. If the targeted eBay seller has a record of previous unresolved terminations, eBay also suspends the seller's account. *Id*.

As Autodesk intended, its notice of claimed infringement caused the automatic termination of Vernor's auction. 2-ER-298 ¶ 10. Believing that Autodesk must have made a mistake, Vernor called Autodesk's counsel and explained that he was selling an authentic, used copy of the software. 2-ER-298 ¶¶ 10-11. Autodesk nevertheless refused to withdraw its notice of claimed infringement, telling Vernor that it does not allow any resale of its software on eBay or otherwise. 2-ER-298 ¶¶ 10-11. In a letter that followed, Autodesk told Vernor that AutoCAD software is "licensed, not sold" and that AutoCAD licenses are "'nontransferable,' meaning that they cannot be sold or transferred by any other means." 2-ER-298 ¶ 12. The letter asserted that a violation of Autodesk's licensing agreements constituted copyright infringement. 2-ER-298 ¶ 12.

Vernor then submitted a counter notice to eBay contesting the validity of Autodesk's copyright claim. 2-ER-298 ¶ 13. Under the DMCA, a subscriber who is targeted by a notice of claimed infringement can contest the notice with an Internet service provider by submitting a counter notice stating that the subscriber has a good faith belief that the material was removed as a result of mistake or misidentification of infringing material. *See* 17 U.S.C. § 512(g)(3). The Internet service provider will continue to enjoy a safe harbor from liability if it notifies the party who filed the notice of claimed infringement that it will reinstate the removed material in ten business days, unless it receives notice that there is a pending legal action to restrain the subscriber from continuing to post the allegedly infringing content. *Id.* § 512(g)(2). When Autodesk did not respond to Vernor's counter notice within the required period, eBay reinstated the auction, and Vernor sold the software. 2-ER-298 ¶ 13.

In April 2007, Vernor bought four more copies of AutoCAD Release 14 at an office sale at Cardwell/Thomas & Associates, an architectural firm in Seattle. 2-ER-298 ¶ 14. Soon after the purchase, Vernor put a copy up for sale on eBay. 2-ER-298 ¶ 15. In response, Autodesk filed another notice of claimed infringement. 2-ER-298 ¶ 15. Vernor again submitted a counter notice, and, when Autodesk failed to respond, the listing was reinstated. 2-ER-298 ¶ 15. This pattern was repeated for the next two copies of the software. 2-ER-298 ¶ 16. As to each, Autodesk filed a notice of claimed infringement and Vernor filed a counter notice. 2-ER-298 ¶ 16. When Vernor listed his final copy in June 2007, Autodesk filed yet another notice of claimed infringement, and this time eBay suspended Vernor's account for repeat infringement. 2-ER-298 ¶ 17.

While his account was suspended, Vernor filed a final counter notice and sent a letter to Autodesk and its counsel contesting the company's interference with his business. 2-ER-298 ¶ 18. Vernor told Autodesk that he was selling an authentic copy of AutoCAD that he was entitled to resell under 17 U.S.C. § 109. 2-ER-298 ¶ 18. He also wrote that he had never installed the software or agreed to any license agreement, and demanded that Autodesk contact eBay to withdraw its notices of claimed infringement. 2-ER-298 ¶ 18. Autodesk's counsel responded by letter, writing: "Please refrain from any further attempts at the unauthorized sale of Autodesk software. If you do not, then I will have no choice but to advise my client to take further action regarding this matter." 2-ER-298 ¶ 19. When Autodesk again failed to respond to Vernor's counter notice, eBay reinstated Vernor's eBay account on July 5, 2007. 2-ER-298 ¶ 20. Vernor was unable to earn income on eBay while his account was suspended between June 5, 2007, and July 5, 2007. 2-ER-298 ¶ 21.

Vernor then filed suit in the U.S. District Court for the Western District of Washington, seeking a declaratory judgment that the resale of authentic, used copies of Autodesk software does not infringe Autodesk's copyright and injunctive relief against further interference with his business.

II. The District Court's Decisions Below

Autodesk filed a motion to dismiss or for summary judgment (Doc. No. 20), arguing that Vernor's sale of AutoCAD on eBay infringed the company's copyright in the software. The district court denied Autodesk's motion, holding that, despite Autodesk's characterization of the transaction as a "license," it was in fact a sale that was protected by the first-sale doctrine. 1-ER-70.

Relying on *Wise*, 550 F.2d 1180, the court held that "[t]he label placed on a transaction" does not determine whether the transaction is a license or sale. 1-ER-62. Rather, the court in each case "must analyze the arrangement at issue and decide whether it should be considered a first sale." 1-ER-62 (internal quotation omitted). The Court rejected Autodesk's reliance on *MAI*, holding that the decision irreconcilably conflicted with *Wise*, and that *Wise*, as the earlier decision, controlled. 1-ER-67-68.

Although "[n]o bright-line rule distinguishes mere licenses from sales," the district court concluded that the "critical factor" in this case was that Autodesk's license agreement did not require that the AutoCAD disks ever be returned to the company. 1-ER-62, 64. Because Autodesk distributed AutoCAD software without any expectation that it would regain control of it, the court held that the transfer, regardless of label, was in essence a "sale with restrictions on use." 1-ER-64-65. The court thus rejected Autodesk's argument that resale of the AutoCAD software infringed the company's copyright. 1-ER-64-65. As an owner, Vernor was "entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy." 17 U.S.C. § 109.

The court also rejected Autodesk's secondary argument that Vernor was liable for contributory copyright infringement because whoever purchased the software from him would likely make incidental copies in a computer's memory during the process of installing and running it. ER-1-71-72. The court held that anyone who purchased the software from Vernor would also be an "owner" of the software, entitled by the Copyright Act to make any copies necessary for installation and operation of that software on a computer. ER-1-71-72; *see* 17 U.S.C. § 117.

Following discovery, the parties filed cross-motions for summary judgment. Noting that the motions presented the same issues that the court decided in denying Autodesk's motion to dismiss and that discovery had "revealed no facts materially different than those before the court" in deciding its prior order, the court denied Autodesk's motion and granted summary judgment to Vernor. ER-1-4-5.

ARGUMENT

I. The First Sale Doctrine Prohibits Use of a Limited License to Restrict Distribution of Particular Copies of a Copyrighted Work.

Autodesk does not claim that Vernor made unauthorized copies of its AutoCAD software. Instead, it argues that Vernor infringed its exclusive right to "distribute" its software under § 106 of the Copyright Act, 17 U.S.C. § 106(3), by distributing authentic, lawfully purchased copies of the software, which Autodesk had already distributed and for which it received full value.

Autodesk has no right to control the secondary market for its software in this way. Since 1908, the Supreme Court has held that a copyright owner's distribution right protects the owner's right to distribute each copy of a copyrighted work *one time*. *See Bobbs-Merrill*, 210 U.S. 339; *see also* H.R. Rep. No. 94-1476, at 62 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5693 ("House Report") (describing the distribution right as extending only to "the first public distribution of an authorized copy"). Congress codified this rule, known as the "first-sale doctrine," in the Copyright Act by providing that the "owner of a particular copy" of a copyrighted work is entitled to resell that copy "without the authority of the copyright owner." 17 U.S.C. § 109. As explained below, Autodesk cannot, through the purported grant of a limited license, circumvent this fundamental limit on the scope of its copyright.

A. Whether Autodesk "Licensed" a Copyrighted Work Sheds No Light on Whether It Sold a Particular Copy of that Work.

Autodesk argues that the limitation in § 109 does not apply to the particular copies of AutoCAD at issue because it packaged those copies with a "software license agreement" that characterizes the apparent sale of the copies as a "license." Autodesk also argues that, because the software is licensed rather than sold, Vernor is not an owner, but a mere "licensee" of the copies in his possession, and therefore is not entitled to the rights guaranteed to owners under § 109. Autodesk, however, fails to distinguish between ownership of a *copyright* in a work and ownership of a *particular copy* of that work. Autodesk's failure to appreciate this distinction fatally undermines its contention that labeling a transaction a "license" trumps the first-sale doctrine. *See* 17 U.S.C. § 202 ("Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied."); *see* John A. Rothchild, *The Incredible Shrinking First Sale Rule*, 57 Rutgers L. Rev. 1, 28-29 (2004).[1]

Autodesk's "license agreement" states that it grants a "nonexclusive . . . license to use the enclosed program." 2-ER-308. To "license" a copyrighted work under the Copyright Act is to grant a portion or all of the copyright owner's exclusive rights, such as the right to make copies of a work or to perform it publicly. 17 U.S.C. §§ 101, 106. An "exclusive" license is a transfer of one or more of a copyright owner's exclusive rights under § 106—in other words, a transfer of all or a portion of ownership in the copyright itself. *Id.* § 101 ("transfer of copyright ownership"). A "nonexclusive license," on the other hand, transfers

[1] Autodesk does acknowledge the distinction (at 23 n.7), but consistently fails to apply it. For example, Autodesk lists the first issue presented (at 5) as whether the first-sale defense "is available only to an 'owner' of copyrighted material." But "owner of copyrighted material" could mean either (1) the owner of a copyright in a work, or (2) the owner of a copy of that work. Although the distinction is critical, Autodesk's question could be read either way.

only a limited portion of one or more of a copyright owner's rights, such as the right to make a limited number of copies. *Id.* With a nonexclusive license, the licensee does not become the owner of the copyright, and the copyright owner retains the right to grant the same license to others. *Id.* Here, because Autodesk's license agreement grants only a limited license, it undoubtedly retains ownership of its copyright in AutoCAD, and the exclusive rights that the copyright entails.

Section 109, however, grants the right of resale not to the owner of the *copyright* or the owner of the right to distribute a copyrighted work, but to the "owner of a *particular copy*" of that work. 17 U.S.C. § 109 (emphasis added). As opposed to a copyright, which is an incorporeal concept, a "copy" is a "*material object* . . . in which a work is fixed." *Id.* § 101 (emphasis added). The Copyright Act anticipates that copyright owners will distribute particular copies of their work not by "license," but in the ways that physical goods are typically distributed—"by sale or other transfer of ownership, or by rental, lease, or lending." 17 U.S.C. § 106; *see also* House Report at 62 (distribution right includes the right to distribute "by sale, gift, loan, or some rental or lease arrangement").

For example, the owner of a particular copy of a book is the "owner" of the physical book itself—including the paper and binding that make up that copy of that book and the printed words inside. The first-sale doctrine means that the owner of a particular copy of a book has the right to read it, sell it, lend it to a friend, give it to a library, or destroy it without permission of the copyright owner. *See Krause v. Titleserv, Inc.*, 402 F.3d 119, 122 (2d Cir. 2005); Rothchild, *The Incredible Shrinking First Sale Rule*, 57 Rutgers L. Rev. at 28-29. Absent an additional license, however, the owner of the copy does not become the owner of any portion of the copyright owner's exclusive rights under § 106, and thus has no right to make additional copies of the book or to distribute those additional copies to the public. *See* 17 U.S.C. § 202 ("Transfer of ownership of any material object . . . does not of itself convey any rights in the copyrighted work embodied in the object . . . .").[2]

Thus, the relevant question in this case is not whether Autodesk transferred the exclusive right to copy or distribute its software, but whether it transferred the "material objects" that constitute the "particular copies" of AutoCAD at issue. Here, as would be expected, Autodesk's license states that it grants a license in its copyrighted "software," or, in other words, the "products contained in the media," *not* the physical media itself. 2-ER-308. As the district court recognized, the

[2] The Copyright Act makes clear that there is no difference between books and software in this regard, providing that a "copy" includes fixation of a work not only by printing on paper, but "by any method now known or later developed," and regardless of whether the purchaser can read the copyrighted material "directly or with the aid of a machine or device" such as a computer. 17 U.S.C. § 101. The owner of a "particular copy" of software thus owns the compact disc on which the software is stored and the magnetic bits that make up the software, and has the right to use, transfer, or destroy that copy. However, the owner of a particular copy needs a license from the copyright owner to make additional copies or to sell those copies to the public.

question whether Autodesk granted a license in its software says nothing about ownership of particular copies, because "software copies can be licensed while the copies themselves are sold." 1-ER-17-18. Thus, transfer of a copyrighted work often includes *both* a license in the work and a transfer of a particular copy of that work. *See* Rothchild, *The Incredible Shrinking First Sale Rule*, 57 Rutgers L. Rev. at 28-29. For this reason, Autodesk's labeling of the relevant transactions as "licenses" does not illuminate the question of whether Vernor is an "owner" under § 109. To answer that question, the Court must examine ownership of particular copies. *See* Part II, *infra*.[3]

B. *Hampton* Is About Transfer of Copyright, Not Transfer of Particular Copies.

Autodesk's confusion between copyright and particular copies leads it to misread a decision that is central to its argument, *Hampton v. Paramount Pictures Corp.*, 279 F.2d 100 (9th Cir. 1960). *Hampton* was a suit by Paramount Pictures over *The Covered Wagon*, a silent movie in which it owned the copyright. *Id.* at 101. Paramount contracted with Kodascope Libraries to produce prints of the

[3] Autodesk relies on district court decisions in which the courts appear to have uncritically accepted a software company's characterization of a sale as a "license." *See Adobe Sys., Inc. v. One Stop Micro, Inc.*, 84 F. Supp. 2d 1086 (N.D. Cal. 2000); *Microsoft Corp. v. Harmony Computers & Elecs., Inc.*, 846 F. Supp. 208 (E.D.N.Y. 1994). These decisions confuse the distinction between copyright and particular copies, and have been widely criticized. *See, e.g.*, 2 *Nimmer on Copyright* § 8.12[B][1][d][i] (describing *Adobe v. One Stop* as "untenable" and suggesting that *Microsoft v. Harmony* "entirely misunderstood the first sale doctrine").

movie and rent them for home viewing. *Id.* at 102. Years later, after the decline of silent films, Kodascope sold one of the copies it had produced to the defendants, who began showing it to the public at a movie theater. *Id.* This Court held that the defendants infringed Paramount's copyright by publicly displaying the movie and upheld the district court's injunction against further public display.[4]

As the district court noted, and as this Court recognized in *Wise*, *Hampton* is not comparable to a first-sale case. *See Wise*, 550 F.2d at 1189 (noting that *Hampton* was not "precisely in point factually"). Paramount did not transfer copies of its film to Kodak, but a license to *produce* copies. Because no "particular copies" were at issue, Paramount did not argue that its distribution right had been infringed. Paramount's argument was instead that the defendants had infringed its exclusive right to publicly display the film, and the defendants' response was that the agreement between Paramount and Kodascope "amounted to an assignment of the right to exhibit" the films, not "a mere restricted license." 279 F.2d at 103. In other words, the defendants claimed that rather than assigning to Kodak a nonexclusive license to produce copies, Paramount had assigned its exclusive right to publicly display the film, and had thus "los[t] the power to restrict the use of the picture." *Id.*

[4] Kodascope libraries were predecessors of video-rental stores. The libraries, established in camera stores and Kodak's regional offices, allowed customers to rent original 16mm silent-film prints for home viewing. *See* David Pierce, *Silent Movies and the Kodascope Libraries*, American Cinematographer 36 (Jan. 1989).

The question in *Hampton* was thus not whether Paramount had transferred ownership of a particular copy—Paramount presumably was not concerned about whether the theater owner played the movie for his personal use—but whether it had transferred ownership of its *copyright*, and it thus makes sense that the Court insisted on a clear indication of Paramount's intent. Indeed, the Copyright Act requires that transfer of an exclusive license be in writing. 17 U.S.C. § 201. But the same level of skepticism is not justified as to the question of whether a transaction that looks like a sale is in fact a sale. *Hampton* would be more analogous to this case if Vernor were arguing that Autodesk's license agreement not only conveyed a license to make and sell additional copies of the software, but that Autodesk had permanently relinquished its right to control copying. Vernor, however, is arguing only that he has the right to transfer particular copies of AutoCAD in his possession. *Hampton* has nothing to say on that question.

C. Purporting to Grant a License That Is "Nontransferable" Does Not Restrict the Right to Distribute a Particular Copy.

Autodesk also attempts to circumvent the limits of its copyright under § 109 by specifying that its license is "nontransferable" and by including terms that purport to withhold the right to distribute copies of its software. But Autodesk's argument that it can limit distribution of *particular copies* of its software by granting a purported limited license in the *copyright* of that software is flatly inconsistent with the Supreme Court's decision in *Bobbs-Merrill*, 210 U.S. 339.

Indeed, it was in the course of rejecting the precise argument advanced by Autodesk here that the Court in *Bobbs-Merrill* first recognized the existence of the first-sale doctrine.

In *Bobbs-Merrill*, a book publisher attempted to prop up the prices of its novels by printing a statement below the copyright notice stating: "The price of this book at retail is $1 net. No 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. Admitting that it knew about the printed statement, Macy's department store purchased the books from a wholesaler and sold them at retail for 89 cents per copy. *Id.* at 342. The publisher then sued for copyright infringement, arguing that Macy's had exceeded the scope of its granted license. *Id.* at 341-42. The publisher argued that the Copyright Act's grant of the exclusive right to distribute copyrighted works "vested the whole field of the right of exclusive sale in the copyright owner; that he can part with it to another to the extent that he sees fit, and may withhold to himself, by proper reservations, so much of the right as he pleases." *Id.* at 349. The publisher's position was that, because the copyright statute granted it the right to sell its books, it necessarily had the right to limit the right of downstream purchasers to sell them.

The Supreme Court disagreed. The Court held that Congress did not intend to include in the distribution right "the authority to control all future retail sales."

Id. at 351. It concluded that the Copyright Act did 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.* Since then, the *Bobbs-Merrill* rule has been reaffirmed by more than a century of Supreme Court and lower court precedent. *See Quality King Distribs. v. L'anza Rsch. Int'l., Inc.*, 523 U.S. 135, 140 & n.4 (1998); *see also, e.g.*, *Am. Int'l Pictures v. Foreman*, 576 F.2d 661, 664 (5th Cir. 1978) ("Even if the copyright holder places restrictions on the purchaser in a first sale . . . , the buyer's disregard of the restrictions on resale does not make the buyer or the person who buys in the secondary market liable for infringement."); *Wise*, 550 F.2d at 1187 n.10 (holding that a purchaser violating a contractual agreement prohibiting resale "may be liable for the breach but he is not guilty of infringement").[5]

The argument rejected in *Bobbs-Merrill* is materially indistinguishable from the argument Autodesk advances here. The publisher in *Bobbs-Merrill* purported to limit the grant of its license to exclude certain kinds of resale ("[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") (emphasis added), just as Autodesk purports to

[5] The current version of the Copyright Act replaces the right to "vend" with the right to "distribute." 17 U.S.C. § 109(a). "Like the exclusive right to 'vend' that was construed in *Bobbs-Merrill*, the exclusive right to distribute is a limited right." *Quality King Distribs.*, 523 U.S. at 144; *see also id.* at 152 ("There is no reason to assume that Congress intended either § 109(a) or the earlier codifications of the doctrine to limit its broad scope").

limit the grant of its license here ("Autodesk . . . grants you a nonexclusive, nontransferable *license* to use the enclosed program . . . .") (emphasis added). In either case, "a copyright owner cannot, with a printed statement, qualify the title of a future purchaser" by reserving certain rights. *Id.* at 351. The first-sale doctrine recognized in *Bobbs-Merrill* means that, for example, "Toni Morrison . . . cannot stymie the aftermarket for *Beloved* by wrapping all copies in cellophane and insisting that her readers obtain only a 'license' over the books in which they read her words." 2 Nimmer & Nimmer, *Nimmer on Copyright* § 8.12[B][1][d][ii] (2008).

Autodesk's only attempt to reconcile its position with *Bobbs-Merrill* (at 38 n.16) is to note the Court's statement that the case involved "no claim . . . of contract limitation, nor license agreement controlling the subsequent sales of the book." 210 U.S. at 350. Seizing on the second part of this sentence, Autodesk reasons that if the transaction was not a "license agreement" then it must instead have been a sale. But Autodesk is again blending the concepts of licenses in copyright and ownership of particular copies. There is no question that the publisher in *Bobbs-Merrill* was attempting to use a license to impose a restriction on resale. *Id.* at 351 ("No dealer is licensed to sell it at a less price."). Indeed, the central issue in the case was whether the copyright owner's license would be given effect. When the Court said there was "no contract or license agreement," it meant only that there was no *agreement*—i.e., the downstream purchaser (Macy's) had never agreed to the license terms. *Id.* at 350 (noting that Macy's "made no agreement as to the control of future sales of the book, and took upon [itself] no obligation to enforce the notice printed in the book"). The only significance of the language Autodesk quotes is to make clear that the case was about copyright, not contract law.[6]

If labeling a transaction as a "license" were enough to restrict downstream distribution, the first-sale doctrine would be reduced to meaninglessness. Indeed, software companies devised the concept of "license agreements" for the purpose of getting around the doctrine. *See Step-Saver Data Sys., Inc. v. Wyse Tech.*, 939 F.2d 91, 96 n.7 (3d Cir. 1991). Under that view of the law, a copyright owner could always eliminate the protections of the first-sale doctrine by stating that resale is prohibited. Other policies of the Copyright Act could also just as easily be circumvented. The owner of a copyright in a book could specify, for example, that the book may not be checked out from a library.

Autodesk's interpretation of the law also turns § 109 on its head. Section 109 guarantees that particular copies of copyrighted works may be resold "*without the authority of the copyright owner*." 17 U.S.C. § 109 (emphasis added). A

[6] This is the reading that the Supreme Court itself gave to *Bobbs-Merrill*. In *Quality King*, the Court quoted the same passage that Autodesk quotes here, explaining that it "emphasized the critical distinction between statutory rights and contract rights." 523 U.S. at 143.

"license" is usually understood as a grant of authority to do something that is otherwise prohibited. *See* Black's Law Dictionary (7th ed. 1999) ("[R]evocable permission to commit some act *that would otherwise be unlawful*.") (emphasis added). Saying that Vernor needs a license from Autodesk to redistribute AutoCAD is therefore the same as saying that Vernor needs Autodesk's "authority" to redistribute the software. Autodesk's "limited license," rather than *granting* any rights, thus purports to take them away.

Autodesk's backward view of licensing is not the law. Violation of a license agreement infringes a copyright only if it "involve[s] one of the acts reserved to the copyright holder under § 106, without a license to do so." *Nat'l Car Rental Sys., Inc. v. Computer Assocs. Int'l, Inc.*, 991 F.2d 426, 432 (8th Cir. 1993). Autodesk has no right under § 106 to restrict resale, so Vernor needs no authorization from Autodesk to sell an authentic copy of a copyrighted work under § 109. Put simply, Autodesk cannot, by purportedly granting a limited license, withhold something that it does not own.[7]

---

[7] For the same reason, a copyright owner could not use a "license" to expand its authority in other ways beyond the scope of its copyright. A license agreement could not, for example, provide that it would be copyright infringement to copy Autodesk's software after its copyright in the software had expired, or to copy things that are not subject to copyright protection (such as uncopyrightable facts). Nor could a license agreement convert fair use of a copyrighted work into copyright infringement by withholding permission to use limited excerpts of the work for a purpose like writing a negative review. *See* 17 U.S.C. § 107. Even assuming that a contract limiting fair use in these ways would be enforceable as a

II. The Transfer of the Particular Copies of AutoCAD at Issue Was a Sale, And Vernor Therefore Has the Right to Redistribute Those Copies.

As described in the previous section, whether Autodesk "licenses" its software is irrelevant to the nature of its transfer of particular copies of that software. No matter how many exclusive rights Autodesk purports to withhold under a license agreement, Vernor is an "owner" for purposes of § 109 if he is the owner of the material objects that constitute "particular copies" of AutoCAD.

Autodesk blurs the distinction between copyright and particular copies, sometimes using the word "license" to describe not a grant of authority under its copyright, but a method of transferring physical objects in which title is withheld, as in a loan or a lease. It is unusual to "license" material goods, *see* Rothchild, *The Incredible Shrinking First Sale Rule*, 57 Rutgers L. Rev. at 34-35, but parties and courts sometimes use the word, especially in software cases, in the sense Autodesk uses it here. *See, e.g.*, *Softman Prods. Co. v. Adobe Sys., Inc.*, 171 F. Supp. 2d 1075 (C.D. Cal. 2001). Thus, when used in reference to the transfer of particular copies, as opposed to the transfer of copyright, Autodesk's argument that it licenses its software appears to be essentially the same as its argument that it "reserves title" in

---

matter of contract law, violation of the contract would not constitute copyright infringement. *See Davidson & Assocs. v. Jung*, 422 F.3d 630, 639 (8th Cir. 2005) (holding that a contract restricting fair use rights would fall outside the scope of copyright); *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317, 1325 (Fed. Cir. 2003) (same).

that software. Both arguments amount to the contention that Autodesk is not in the business of selling software.[8]

Whether described as "licensing" or "reserving title," Autodesk's characterization of the relevant transactions is nothing but a legal fiction designed to expand its copyright beyond its legal bounds. This Court should refuse to give the fiction legal effect.

A. The Economic Realities of the Exchange Determine the Nature of the Relevant Transactions.

When determining the nature of a transfer of physical goods, the label attached to the transaction by the copyright owner "does not control [the] analysis." *Microsoft Corp. v. DAK Indus., Inc.*, 66 F.3d 1091, 1095 n.2 (9th Cir. 1995). Rather, courts look beyond labels to "the economic realities of the agreement" to determine whether a transfer is "basically a sale." *Id.* at 1095 n.2, 1096; *see also Softman*, 171 F. Supp. 2d at 1085 (examining "[t]he reality of the business environment" in concluding that the "evidence suggests a transfer of title in the good").

---

[8] Lothar Determann & Aaron Xavier Fellmeth, *Don't Judge a Sale by Its License: Software Transfers Under the First Sale Doctrine in the United States and the European Community*, 36 U.S.F.L. Rev. 1, 7 (Fall 2001) ("[T]he proper issue for analysis is not whether a 'sale of a copy' of software or a 'license' of the software has occurred, but whether the terms of the license constitute the transaction as a 'sale of a copy' or a 'lease of a copy' of software.").

When the economic realities indicate a sale, merely recharacterizing the transaction as a "lease" or a "license" has no effect on the rights conferred by § 109 and § 117. *See Krause*, 402 F.3d at 122. Congress did not intend owners' rights under the Copyright Act to hinge on a "narrow, formalistic definition of ownership dependent on title." *Id.* If the first-sale doctrine could be circumvented by the inclusion of formalistic language like the word "license" or the claim to "reserve title," copyright owners would inevitably include that language in their license agreements, and could thus put an end to used bookstores, music stores, and libraries.

In *Softman*, for example, the defendant had purchased a packaged set of Adobe software, divided the set, and resold the individual software titles in violation of a "license agreement" specifying that the software must be resold together. 171 F. Supp. 2d at 1087-88. The court nevertheless refused to accept Adobe's characterization of the transaction as a "license," a term that the copyright owner used, like Autodesk, to designate something similar to a lease. *Id.* The court noted that the transaction more closely resembled a typical retail transaction. *Id.*[9]

---

[9] *See also UMG Recordings, Inc. v. Augusto*, 558 F. Supp. 2d 1055, 1060 (C.D. Cal. 2008) (holding that "[l]icensing [l]anguage" did not create a license); *Novell, Inc. v. Network Trade Ctr., Inc.*, 25 F. Supp. 2d 1218, 1230 (D. Utah 1997), *vacated pursuant to settlement*, 25 F. Supp. 2d 1218 (D. Utah 1997) (concluding that transactions were sales and that the "shrinkwrap license included with the software [was] therefore invalid as against such a purchaser insofar as it purports to maintain title to the software in the copyright owner"). The Supreme Court has

Contractual restrictions on use imposed by contract also generally do not demonstrate a lack of ownership, even if those restrictions are severe. As the district court recognized, the law imposes numerous limitations on use of property that do not affect the possessor's ownership. The Copyright Act, for example, imposes restrictions on use even in the absence of an agreement, including restrictions on copying and public performance. 17 U.S.C. § 106. Those restrictions, however, do not deprive the possessor of ownership. *See Wise*, 550 F.2d at 1192 (concluding that a transaction was a "sale with restrictions on use"). It is sufficient that "the party exercises sufficient incidents of ownership over a copy of the program to be sensibly considered the owner of the copy." *Krause*, 402 F.3d at 124.[10]

---

also rejected efforts by patent owners to expand their rights by characterizing a "sale" as a "license." In *Bauer & Cie. v. O'Donnell*, a patent owner sold a patented product with the notice: "This [package] is licensed by us for sale and use at a price not less than one dollar ($1). Any sale in violation of this condition, or use when so sold, will constitute an infringement of our patent." 229 U.S. 1, 8 (1913). The Court refused to accept the notice's characterization, noting that the product was purchased for a one-time price and that the patent owner was entitled to no royalties or any other profit from subsequent use or sale of the product. *Id.* at 16. The Court concluded: "[T]o call the sale a license to use is a mere play upon words." *Id.*

[10] *See also United States v. Atherton*, 561 F.2d 747, 750-51 (9th Cir. 1977) (even a "sale to a purchaser with restrictions that are subsequently breached constitutes a first sale"); *Quality King*, 523 U.S. at 143 (noting "the critical distinction between statutory rights and contract rights"); Restatement (First) of Prop. §10 cmt. c (1936) ("The owner may part with many of the rights, powers, privileges and immunities that constitute complete property and his relation to the thing is still termed ownership both in this Restatement and as a matter of popular

To hold that contractual terms of use impose restrictions on ownership rights would conflict with a core policy interest behind the first-sale doctrine—the law's aversion to restraints on alienation of personal property. *See Parfums Givenchy*, 832 F. Supp. at 1388. Anyone purchasing a used book under such a system would be forced to trace the chain of title before reading it, giving it as a gift, or doing anything else with it to ensure that ownership has been properly transferred and that no agreement against such use has attached at some time in the copy's history. Unlike real property, for which transfer of titles are recorded, there is no practical way for a purchaser of consumer goods to obtain this information. Moreover, if violation of contractual terms is treated as copyright infringement, those restrictions would be backed up by the high statutory damages and criminal penalties of the Copyright Act. 17 U.S.C. §§ 504, 506(a)(1). Such costly burdens on the stream of commerce are the basis for the common law's hostility to restrictions on alienation.[11]

B. The Economic Realities of the Exchange in This Case Conclusively Demonstrate That the Relevant Transactions Were Sales.

Here, Autodesk's claim to "reserve title" or to "license" its software ignores the economic realities of the exchange. Although Autodesk characterizes

---

usage.").

[11] *See* Thomas F. Merrill & Henry E. Smith, *Optimal Standardization in the Law of Property, the Numerous Clauses Principle*, 110 Yale L.J. 1, 26-34 (2000).

transactions in copies of its software as akin to leases, it permanently releases those copies into the stream of commerce, without any expectation that they will be returned, in exchange for payment of the software's full price up front. Such a transaction looks nothing like a lease, but, to the contrary, is materially indistinguishable from a sale. *See Softman*, 171 F. Supp. 2d at 1086 (holding that "a single payment for a perpetual transfer of possession is, in reality, a sale of personal property and therefore transfers ownership of that property, the copy of the software").

1. Autodesk Permanently Released Possession of the Copies.

Autodesk's license agreement establishes that the company maintains no real interest in "particular copies" of AutoCAD software after it parts with them. The agreement does not require recipients to return the copies at the end of a license period, and Autodesk makes no effort to reclaim them. The license agreement does not provide a limitation on the duration of use or a provision for eventual license renewal. If the software is lost or destroyed, the license agreement imposes no consequences. The recipient can thus keep the software forever or throw it away without restriction. Put simply, once a particular copy of AutoCAD is out of Autodesk's hands, Autodesk's only interest in the copy is its purported interest in prohibiting it from being transferred or sold.

The Copyright Act gives three examples of cases where transfer of possession does not also transfer ownership: rentals, leases, and loans. 17 U.S.C. § 109. The common thread among these forms of transfer is that each involves temporary possession of a copyrighted work with the expectation that the copy will ultimately be returned. The House Report on § 109 gives a prototypical example of such a transfer, noting that "a person who has rented a print of a motion picture from the copyright owner would have no right to rent it to someone else without the owner's permission." House Report at 80. Other examples of non-ownership transfers are borrowing a book from a library, consigning a work of art to a consignment shop, and lending a CD to a friend. *See Quality King.*, 523 U.S. at 146-47 ("[T]he first sale doctrine would not provide a defense . . . against any nonowner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful."); House Report at 80 ("Acquisition of an object embodying a copyrighted work by rental, lease, loan, or bailment carries with it no privilege to dispose of the copy under section 109(a)").

On the other hand, the *permanent* transfer of a particular copy is one of the best indications that a sale has occurred. The true owner of an object would not permanently relinquish ownership of it with no means of regaining control. A video store, for example, would expect the borrower of a DVD to return it at the end of a rental period, and, if the DVD is lost or destroyed, to pay the price of replacement media. Courts thus recognize that a copyright owner's permanent loss of possession over a particular copy is strong evidence that the transaction is a sale. *See Krause*, 402 F.3d at 124-25 (finding ownership despite the presence of a purported "license" where the purchaser had the right "to possess and use a copy indefinitely without material restriction, as well as to discard or destroy it at will"). In *Wise*, for example, 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 loan. *See* Part II.C, *infra*.[12]

Autodesk argues that requiring return of its software would not be cost effective and would serve no purpose. That may be true, but Autodesk gets the significance of those points backward. The 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. Indeed, Autodesk's argument is a

[12] *See also Atherton*, 561 F.2d at 750 (following *Wise* and rejecting the argument that the first-sale doctrine did not apply to works "licensed . . . for limited purposes and for limited periods of time"); *Augusto*, 558 F. Supp. 2d at 1061 ("[T]he music industry insiders' ability to indefinitely possess the Promo CDs is a strong incident of ownership through a gift or sale."); *Novell, Inc. v. Unicom Sales, Inc.*, No. 03-2785, 2004 WL 1839117, at *9 (N.D. Cal. Aug. 17, 2004); *United States v. Drebin*, 557 F.2d 1316, 1326 (9th Cir. 1977) (holding that transfer agreements created licenses rather than sales where the agreements "required return of the films at the end of the license period").

virtual admission that the economic realities of the exchange do not support the conclusion that the software has been leased.

2. Autodesk Received Full Payment at the Time of the Transaction.

The method by which Autodesk collects payment for AutoCAD also strongly indicates a sale. Unlike a typical lease, a purchaser of AutoCAD pays the full price up front, and the agreement provides no obligation to make future payments. Moreover, the license term is perpetual, without any requirement of periodic license renewal. As this Court recognized in *DAK Industries*, 66 F.3d 1091, licenses are typically characterized by repeating royalty payments rather than payment in a single lump sum. It is very rare that a "lease" requires only a one-time payment without any future renewals. *Id.* Whether an agreement required payment up front was also another important consideration in *Wise. See* 550 F.2d at 1191 (finding a transfer of ownership where the agreement permitted the transferee to retain a film print at its "election and cost").[13]

---

[13] *See also Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 351 (1908) ("The owner of the copyright in this case did sell copies of the book in quantities and at a price satisfactory to it. It has exercised the right to vend."); *Softman*, 171 F. Supp. 2d at 1085; *Parfums Givenchy, Inc. v. C&C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1389 (C.D. Cal. 1993) ("[T]he distribution right and the first sale doctrine rest on the principle that the copyright owner is entitled to realize no more and no less than the full value of each copy . . . upon its disposition."); *Burke & Van Heusen, Inc. v. Arrow Drug, Inc.*, 233 F. Supp. 881, 884 (E.D. Pa. 1964) ("[T]he ultimate question under the 'first sale' doctrine is whether or not there has been such a disposition of the copyrighted article that it may fairly be said that the copyright proprietor has

To be sure, it is possible for title to transfer even in the absence of payment. In *UMG Recordings v. Augusto*, for example, the court held that music companies had relinquished their rights in promotional CDs that they mailed to potential reviewers. 558 F. Supp. 2d 1055. Although the companies distributed the CDs for free, the court determined that the transactions transferred ownership because the companies sent them out with no expectation of reclaiming them in the future. *Id.* In a case like *Augusto*, where there is a permanent transfer of possession and no requirement of a payment, the transaction most resembles a gift. When, however, a company requires a one-time payment in exchange for perpetual possession, it is strong evidence of a sale.

3. The Other Circumstances Surrounding the Transaction Resemble a Typical Retail Sale.

As already noted, contractual restrictions on use are a poor indicator of ownership. In any case, the restrictions in Autodesk's license agreement are far milder than the restrictions this Court held to be consistent with a sale in *Wise*. Where the agreement regarding the movie *Camelot*, examined in *Wise*, restricted use to the user's home, Autodesk's agreement allows use anywhere in the Western Hemisphere; and where the *Camelot* license restricted *any* use that was not personal or non-commercial, Autodesk's license purports to restrict reverse

received his reward for its use.").

engineering and removal of proprietary notices. 550 F.2d at 1192. As in *Wise*, these provisions show only a "sale with restrictions on use."[14]

The conclusion that Autodesk sells, rather than leases, its software is further bolstered by the circumstances typically surrounding those sales. Autodesk sells the relevant AutoCAD software in shrinkwrapped boxes, with the license agreement inside and no indication on the outside of the box that the buyer is acquiring anything less than full ownership. 2-ER-298 ¶ 6. Autodesk's software can be purchased at online stores, such as CDW and Dell, like any other software. *Id.* ¶ 7. The software is also available from Autodesk's own website, which encourages visitors to "purchase software online." *See* Vernor Decl., Exh. 1. A consumer who logs onto Autodesk's website, clicks a link to "buy AutoCAD software," and charges the full price of the software on a credit card would not be unreasonable to assume, when the software arrived two days later, that a purchase had occurred. The "economic realities" of that situation indicate only a sale, and

[14] Because its license agreement is phrased in somewhat generic terms, some provisions of the agreement are inapplicable to the software at issue here. First, the agreement includes a restriction on "utiliz[ing] any computer or hardware or software designed to defeat any hardware copy-protection device, should the software you have licensed by equipped with such protection." The version of AutoCAD at issue here is not equipped with any "hardware copy-protection device." Second, the agreement prohibits use of the software "for commercial or other revenue-generating purposes if the Software has been licensed or labeled for educational use only." The software at issue here is not licensed or labeled for educational use. Even if these terms were applicable to the software at issue, they would be, at most, additional contractual restrictions on the terms of the sale.

the inclusion of a sheet of fine print "license" terms inside the box does nothing to change that.

III. Not *MAI*, But *Wise*, Is the Controlling Precedent.

The primary authority on which Autodesk relies is a one-sentence footnote from *MAI*, 991 F.2d at 519 n.5, which Autodesk reads as creating a per se rule that agreements called "licenses" can never be sales for purposes of § 109 and § 117. The *MAI* footnote, however, cannot bear the weight that Autodesk puts on it. First, the decision is dicta and does not purport to announce a broad new rule on the question of ownership. And second, this Court's decision in *Wise* is the older case and, to the extent the decisions are inconsistent, *Wise* is thus the controlling authority.

A. The *MAI* Footnote Does Not Create a Categorical Rule that an Agreement Labeled a "License" Can Never Convey Ownership.

In *MAI*, the plaintiff (MAI) manufactured specialized business computers and wrote the proprietary software that ran them. *Id.* at 520. The defendant (Peak Computer) specialized in repairing MAI computers, a service that MAI also provided to its customers for a charge. *Id.* In an attempt to stave off competition in the repair market from Peak, MAI filed suit for copyright infringement, contending that Peak technicians were violating its copyright. *Id.* MAI's argument was that turning on the computer loaded its software into the computer's memory, which it contended was an unauthorized copy of that software. *Id.*

Peak's primary defense to infringement was that software temporarily stored in a computer's memory is not "fixed" and therefore is not a "copy" under the Copyright Act. *See* 17 U.S.C. § 101 (providing that "[c]opies" are "material objects . . . in which a work is fixed"). The issue before the Court was therefore not whether the software was licensed or whether Peak owned it, but whether Peak was making copies that could subject it to a claim for infringement. To answer that question, *MAI* turned to a district court decision, *Apple Computer, Inc. v. Formula International, Inc.*, 594 F. Supp. 617 (C.D. Cal. 1984). Unlike *MAI*, *Apple Computer* was primarily about the proper application of § 117, but the *MAI* court was interested instead in the court's brief discussion of computer memory, in which the district court held that copying software into memory created a "temporary fixation." *Id.* at 622.

In the course of explaining the decision in *Apple Computer*, *MAI* set out a brief description of § 117, including its limitation to "owner[s] of a copy" of software. In a footnote—without analysis or citation to authority—the opinion stated that, "[s]ince MAI licensed its software, the Peak customers do not qualify as 'owners' of the software and are not eligible for protection under § 117." *Id.* at 519 n.5. The Court then quickly moved on to the question at issue in the case, ultimately concluding that Peak had made unauthorized copies. The upshot of the decision was that computer technicians could not turn on a computer without exposing themselves to liability for copyright infringement. A few years later, in direct response to *MAI*, Congress amended § 109 to overrule that result in the Computer Maintenance Competition Assurance Act, which "allow[ed] the making of a copy of a computer program in connection with the maintenance or repair of a computer." Pub. L. No. 105-304, 112 Stat. 2860, 2887 (1998) (codified at 17 U.S.C. § 117 (c)).

Autodesk reads *MAI*'s one-sentence footnote as holding that *any* transaction labeled a "license" forecloses the possibility of ownership, and therefore removes the statutory protections of both § 109 and § 117. There is no basis, however, for reading *MAI* so broadly. To begin with, the footnote on which Autodesk relies is dicta. Because the defendants in *MAI* did not raise the question of ownership under § 117, the Court did not need to decide that question and did not have the opportunity to "hear[] evidence and argument from both parties." *United States v. Johnson*, 256 F.3d 895, 915 (9th Cir. 2001) (en banc) (discussing the meaning of dicta). The footnote was "merely a prelude to another legal issue that command[ed] the panel's full attention"—whether software loaded into a computer's memory is a "copy" under the Copyright Act. *Id.* As a brief aside made in the course of answering the real question in the case, the footnote is dicta. *See id.*; *see Cartoon Network LP v. CSC Holdings, Inc.*, 536 F.3d 121, 127-28 (2d Cir. 2008) (noting that *MAI* had no occasion to decide anything beyond the question of fixation).

The one-sentence statement in the footnote was also "made casually and without analysis," "without due consideration of the alternatives," and without any explanation, legal reasoning, or citation to authority. *Id.* The Court did not acknowledge, much less distinguish, the controlling authority in *Bobbs-Merrill* and *Wise*. Nor did it acknowledge the far-reaching ramifications that Autodesk sees in the footnote or give any indication that the Court intended to establish a rule of ownership to govern all transactions under the Copyright Act.[15]

There are particular reasons not to read the *MAI* footnote as a holding here. First, Congress overruled the result in *MAI* by statute, specifically citing *MAI* as the basis for amending § 109 to allow computer technicians to copy software into memory. H.R. Rep. No. 105-551 pt. 1, at 27 (1998). Congress's disapproval of the result in *MAI* also calls the remainder of the Court's analysis into doubt. *See Liriano v. Hobart Co.*, 170 F.3d 264 (2d Cir. 1999) (giving reduced persuasive

---

[15] To the extent *MAI* considered the question at all, there is no reason to believe it intended to issue a rule that extended any more broadly than the facts of the case before it. *MAI* involved specialized business computers pre-installed with proprietary software. The transactions were between sophisticated business entities and involved comprehensive restrictions on access to and use of that software, including a restriction that limited access to three employees. 991 F.2d at 513-16. At most, the *MAI* footnote can be read to hold that the particular facts of the transaction in *that case* more closely resembled a lease than a sale. The decision cannot be read to apply equally to *every* software transaction, including transactions that like the one at issue here more closely resemble a typical retail sale. *See Storage Tech. Corp. v. Custom Hardware Eng'g & Consult., Inc.*, 421 F.3d 1307, 1317 (Fed. Cir. 2005) (noting that the Court in *MAI* rested its decision on the "severe, explicit restrictions" in the agreement there).

value to a statement that "was dicta in a case whose primary holding has been squarely overruled"); *cf. Baker v. Delta Air Lines, Inc.*, 6 F.3d 632, 637 (9th Cir. 1993) (noting that precedent loses binding force when "subsequent legislation" undermines it).

Moreover, adopting a broad reading of the *MAI* footnote would create a split with the two other circuits that have addressed the issue. *See Krause*, 402 F.3d at 124-25 (disregarding a "license" designation when the circumstances indicated a sale); *DSC Commc'ns Corp. v. Pulse Commc'ns, Inc.*, 170 F.3d 1354, 1360 (Fed. Cir. 1999) (declining to "adopt the Ninth Circuit's characterization of all licensees as non-owners"); *see also Telecomm Technical Servs., Inc. v. Siemens Rolm Commc'ns, Inc.*, 66 F. Supp. 2d 1306, 1325 (N.D. Ga. 1998); *Applied Info. Mgmt., Inc. v. Icart*, 976 F. Supp. 149, 153 (E.D.N.Y. 1997). This Court does not "create a circuit split lightly." *Sternberg v. Johnston*, 582 F.3d 1114, 1124 (9th Cir. 2009).[16]

Finally, this Court has itself questioned the *MAI* footnote in an opinion authored by one of the judges on the *MAI* panel. *Wall Data*, 447 F.3d at 786 n.9 (Pregerson, J.). In *Wall Data*, the Court acknowledged the criticism of the footnote,

[16] Autodesk also relies on *Triad Sys. Corp. v. Southeast Express Co.*, but the issue of licensing there was mentioned in the course of recounting the case's factual background. 64 F.3d 1330, 1333-34 (9th Cir. 1995). The Court briefly cited *MAI*, but only for its central holding that loading software into a computer's memory constitutes copying under the Copyright Act. *Id.* at 1333-34, 1335. The Court's only legal conclusion on the merits of the copyright infringement claim was that the defendant had copied the plaintiff's work. *Id.* at 1335. Like *MAI*, *Triad* was a computer repair case, so it too has been overruled by statute.

conflicting precedent from another circuit, and the troubling implication that the "first sale doctrine rarely applies in the software world." *Id.* The Court avoided the need to contend with *MAI* directly, however, by deciding the case on a separate ground. *Id.* The Court's retreat from *MAI* and consequent decision on other grounds not only signals the Court's own doubts about whether *MAI* was a valid basis for deciding the case, but shows that the Court's discussion of *MAI* was itself dicta. *See Johnson*, 256 F.3d at 916 n.9 ("Where a panel tells us it's not deciding the question, of course, we take it at its word.").

Autodesk ignores the doubts *Wall Data* expressed, instead reading the case as independent authority in support of its position. To be sure, *Wall Data* cited the *MAI* footnote and stated that, "under *MAI*, the [defendant] is not the 'owner' of copies of Wall Data's software for purposes of § 117." 447 F.3d at 786. But the Court then immediately recited the criticisms of *MAI*, and, without resolving the controversy, decided the case on another, "more fundamental" ground. *Id.* at 786 n.9 ("We recognize that our decision in MAI has been criticized. . . . We decline to revisit our precedent in this case, because the [defendant's] 'essential step' defense fails for a more fundamental reason."). If *Wall Data* had intended to adopt *MAI*'s dicta, it would not have expressly declined to address that issue. *See Johnson*, 256 F. 3d at 915 (holding that a panel's statement of law is not binding on future panels if the "panel did not make a deliberate decision to adopt the rule of law it announced”). Far from independently supporting Autodesk’s position, *Wall Data* only casts it into further doubt.

In any case, *Wall Data* is not on point here because the issue there did not involve ownership of particular copies. The defendant in *Wall Data* (a sheriff’s office) bought eight individual copies of the copyrighted software on CD from the defendant (Wall Data), but the case was not about whether the sheriff’s office was an owner of those eight copies. The sheriff’s office was a “licensee” under the Copyright Act because the copyright owner had granted it a nonexclusive license to make extra copies—up to 250 from each CD—that it would not otherwise have had a right to make. 447 F.3d at 774-75. But the license allowed the sheriff’s office the right to make only enough copies to install the software on 3,663 computers, and the sheriff’s office far exceeded the terms of the license by installing the software on 6,007 computers. *Id.* The case was thus not about ownership of *particular copies*, but about rights under a limited license.

B. *Wise*, as the First Decided Case, Is the Controlling Precedent.

Even if the Court in *MAI* intended to adopt the broad holding that Autodesk attributes to it, that holding would be in direct conflict with this Court’s earlier decision in *Wise*. As the district court observed, “[t]he court must follow the oldest precedent among conflicting opinions from three-judge Ninth Circuit panels.” *United States v. Rodriguez-Lara*, 421 F.3d 932, 943 (9th Cir. 2005).

This Court's central holding in *Wise* was that the character of a transaction, rather than the label attached to it, determines whether that transaction should be considered a license or a sale. 550 F.2d at 1188-89. Instead of relying on the label placed on a transaction by the copyright owner, *Wise* held that, "[i]n each case, the court must analyze the arrangement at issue and decide whether it should be considered a first sale." *Id.* (internal quotation omitted). Even 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 a sale. *Wise*, 550 F.2d at 1191; *see Atherton*, 561 F.2d at 750 ("The 'sale' embodied in the first sale concept is a term of art . . . not limited to voluntary sales of a copyrighted work for a sale price that takes into account both the value of the materials upon which the copyrightable idea is affixed together with the idea itself."); *Softman*, 171 F. Supp. 2d at 1087-88 ("It is well-settled that in determining whether a transaction is a sale, a lease, or a license, courts look to the economic realities of the exchange.").[17]

---

[17] *See also Krause v. Titleserv, Inc.*, 402 F.3d 119, 124 (2d Cir. 2005) (holding that the "possessor of the copy enjoys sufficiently broad rights over it to be sensibly considered its owner"); *Augusto*, 558 F. Supp. 2d at 1062 (holding that where a transfer was a "gift or sale, not a license, . . . title to the CDs transferred"); *Novell, Inc. v. Unicom Sales, Inc.*, No. C-03-2785, 2004 WL 1839117 at *9 (N.D. Cal. Aug. 17, 2004) ("In determining whether a transaction is a sale or license, the Court reviews the substance of the transaction, rather than simply relying on the plaintiff's characterization of the transaction."); *Sagent Tech., Inc. v. Micros Sys., Inc.*, 276 F. Supp. 2d 464, 467 (D. Md. 2003); *Applied Info. Mgt. Inc. v. Icart*, 976

The defendant in *Wise* was accused of paying studio insiders to steal prints of movies that were not yet available on the market. *Wise*, 550 F.2d at 1185. To prove that the film prints the defendant was selling had not been acquired legally, the government attempted to prove that no copies of the films had ever been sold on the open market. The government's evidence showed that the studios had distributed copies only to trusted individuals and companies, and that even then the distribution was only temporary and for specified, limited purposes. *Id.* at 1190. In almost every case, recipients of prints were required to return them after the specified use was complete. Moreover, to ensure that used copies of its prints did not end up on the market, the studios sold worn-out prints to a salvage company for destruction. *Id.* at 1192-93. These transactions in *Wise* look nothing like traditional retail sales—indeed, the purpose of the licenses was to prevent creation of a retail market for the prints. *Id.* at 1195.

Autodesk contends (at 4) that the "dispositive factor" in *Wise* "was whether the copyright owner had retained title." The Court, however, never articulated the holding that Autodesk attributes to it, and Autodesk's strained reading runs headlong into *Wise*'s explicit holding that the Court should examine the "general

---

F. Supp. 149, 154 (E.D.N.Y. 1997) ("Ownership of a copy should be determined based on the actual character, rather than the label, of the transaction by which the user obtained possession."); *Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1389 (C.D. Cal. 1993) (noting that courts use a "functional" approach to determining whether a sale has occurred).

tenor" of the agreement even when the copyright owner "expressly reserves title." *Id.* Moreover, the Court did not rely on formal reservation of title as the deciding factor in *any* of the transactions it examined. Even in the sections of the opinion that Autodesk singles out (at 33), the Court stated that it was looking beyond the face of the agreements. *See id.* at 1190 (holding that certain agreements were not sales "both on their face *and by their terms*") (emphasis added); *id.* at 1191 (holding that "language [reserving title] *and the entire contract*" indicated that a transfer was not a sale).[18]

The film studios in *Wise* used three primary forms of transactions to control distribution. First, they "licensed" prints of the film to movie theaters, television networks, and similar outlets, generally providing a limited right to display the film but requiring return of the print after completion of the license term. *Id.* at 1190-91. Second, on rare occasions they loaned individual copies of a film to celebrities, generally without charge and for the limited purpose of home viewing. *Id.* at 1192. Third, to ensure that used copies of their prints did not end up on the open market,

[18] *See also Wise*, 550 F.2d at 1190 (examining contracts "both on their face and by their terms"); *id.* at 1191 ("[T]he remaining terms of the agreements were . . . inconsistent with the concept of a sale."); *id.* (looking to the "general tenor of the entire agreement"); *id.* at 1191 (holding that "language [reserving title] and the entire contract" indicated that a transfer was not a sale); *id.* at 1192 ("[T]he *language of the agreement . . . reveals a transaction strongly resembling a sale.");* *id.* ("We find the terms of these agreements to be consistent with their designation as loans or licenses.").

the studios sold worn-out prints to a salvage company, which destroyed them in an elaborate process designed to prevent duplication. *Id.* at 1192-93. In each case, the Court looked to the realities of the underlying transactions, focusing specifically on whether the agreements required the copyrighted works to be returned after a period of use and whether payment was required.

1. The Broadcast and Performance Licenses

The first category of licenses examined in *Wise* involved temporary transfer of film prints to movie theaters and television networks for the purpose of performance or broadcast. In almost every case, these transfers were made "for limited purposes and for limited periods of time" and "required [the films'] return at the expiration of the license period." *Id.* at 1184. The agreement regarding the movie *Camelot* is an example. That contract allowed the network to retain copies of the print under certain circumstances, but only if both parties agreed and the network paid an additional sum. *Id.* at 1191. The terms required return of the print at the end of the license period unless the copyright holder agreed otherwise. *Id.*

Of the agreements examined by the Court, only one in this category—the agreement with ABC regarding *Funny Girl*—created a sale. *Id.* Autodesk claims that the basis for the Court's decision was the agreement's lack of a formalistic reservation of title. However, although the Court did mention the lack of reservation of title, it expressly declined to decide the case on that basis. *Id.* ("We need not so hold . . . ."). Instead, the Court relied on the fact that, unlike the other agreements at issue, the *Funny Girl* license allowed the network at its sole discretion the option of retaining the print indefinitely. *Id.* A key factor was thus, as the district court recognized, whether the agreement allowed retention of the print or required its eventual return. *See id.*; *see also Augusto*, 558 F. Supp. 2d at 1060-61 (noting that *Wise* "demonstrates the importance of regaining possession of the licensed product").

Whether the copyright owner had received full value for its copyrighted works was another factor relevant to these agreements. The studios charged television networks only for the right to broadcast films and generally did not sell prints "until all readily obtainable license revenue ha[d] been extracted from them." *Wise*, 550 F.2d at 1195.

2. The V.I.P. Contracts

Under the V.I.P. contracts, individual copies of movies were "loan[ed]," free of charge, to identified "actors of major stature on rare occasions." *Id.* at 1192. The contracts under which the prints were distributed required the recipients to keep the films in their possession at all times and limited use of the films to personal use. *Id.* Individual studios also imposed additional restrictions. The transfer agreement for *The Sting* specified that the license there was "revocable," thus allowing the studio to take back possession of the film at any time. *Id.* Peter Bogdonavich, who received a copy of *Paper Moon*, was required to return it at the end of the license period. *Id.* The license for *Funny Girl*, which was distributed to Barbara Streisand, among others, prohibited all use of the film except for private exhibitions at the V.I.P.'s residence. *Id. Wise* held that each of these restrictive agreements created a limited license rather than a sale. *Id.*

In contrast, the Court held that a studio's agreement with actress Vanessa Redgrave to provide her with a print of the movie *Camelot* was in fact a sale. *Id.* Like the other contracts, the Camelot license required Redgrave to keep the movie in her possession and prohibited transfer to anyone else. *Id.* Unlike those agreements, however, the contract did not require that Redgrave return the movie. Moreover, unlike the other V.I.P. contracts, which were loaned for free, the Camelot agreement required Redgrave to pay the cost of the print. *Id.* Although the Court stated that the payment did not, "standing alone," establish a sale, the cost of the print was nevertheless the only factor that the Court singled out in explaining the basis for its decision. *Id.*

Autodesk ignores these distinctions between *Camelot* and the other V.I.P. film contracts, arguing instead that it was the failure of the studio to expressly reserve title that led the Court to conclude that the *Camelot* agreement was a sale. Autodesk's argument, however, flies in the face of Wise's own characterization of its holding. Not only did the Court make no mention of whether the *Camelot* contract expressly reserved title, it explicitly stated that its decision was based on the requirement of payment, "taken with the rest of the language of the agreement." *Wise*, 550 F.2d at 1192. In accordance with its earlier holding, the Court thus explicitly looked to the agreement as a whole before concluding that the transaction "strongly resembl[ed] a sale with restrictions on . . . use." *Id.* It was the functional resemblance of the agreement to a sale rather than any formalistic statement regarding title that determined the nature of the transaction.

Autodesk's argument hinges on its conclusion that the agreement regarding *Funny Girl* reserved title, while the agreement regarding *Camelot* did not. There are two additional problems with this analysis. First, the *Funny Girl* agreement did not include language formally reserving title. *Id.* Instead, it purported to reserve "all rights in, to and with respect to" the film "subject to such limited rights" granted by the agreement. *Id.* That statement says nothing about formal title and, taken on its own, is no more restrictive than the "all rights reserved" statement that regularly appears in the copyright notice of books. If a generic reservation of rights like that is enough to strip book purchasers of their ownership rights, book ownership is already largely a thing of the past.

Second, the Court did not mention whether the *Camelot* contract formally reserved title. Autodesk submits the briefs from *Wise* as evidence that there was no formal reservation, but Autodesk's argument still depends on the assumption that the Court based its entire decision on a fact that it did not bother to mention. Ironically, Autodesk also argues (at 35) that *Wise* would not have disregarded the legal effect of a title "without comment or explanation." But given that *Wise* did not mention the formal reservation of title or hold that such a reservation has legal effect, the Court would have had no reason to comment on the subject. The Court *would* have had a reason, however, to comment on *Camelot*'s failure to reserve title if, as Autodesk contends, that fact were the key to its decision. As Autodesk writes, "cases are not authority for *implied* propositions not actually considered and discussed."

3. The Salvage Contracts

Finally, *Wise* examined contracts to sell worn-out film to salvage companies, which removed the movie images from the film and resold it as raw stock. In examining these transactions, the Court noted that the sale of the movies embedded on film—even for the limited purpose of destruction—"would of course be a 'first sale.'" *Wise*, 550 F.2d at 1193.

Autodesk does not comment on the salvage contracts, but, paradoxically, points to a provision in its license agreement requiring media be destroyed after an upgrade as evidence that the agreement is a license rather than a sale. But a company with a true ownership interest in a *particular copy*, would be unlikely to demand that the copy be destroyed. Moreover, as the district court recognized, Autodesk's destruction provision does not govern the software that is the subject of the license agreement because, "[u]nless its customers choose to upgrade, . . . Autodesk has no right to demand either the return of older copies of the software or their destruction." 1-ER-64-65.[19]

* * *

If the dispositive factor in *Wise* was, as Autodesk suggests, the formal reservation of title, the bulk of the Court's opinion would have been unnecessary. Although almost all the examined licenses expressly reserved title, *Wise*, 550 F.2d at 1184, the Court did not rest on that basis. As to each license, the Court "analyze[d] the arrangement at issue" to determine whether the "general tenor" of the transaction was a license or a sale. *Wise*, 550 F.2d at 1188-89.

[19] *See also Krause*, 402 F.3d at 124-25 (finding a sale where the purported licensee had the right to "discard or destroy it at will"); *Atherton*, 561 F2d 747 ("The first sale doctrine includes involuntary transfers, and sales of the copyrighted work for salvage, or other purposes unrelated to the transfer of the intangible creation or idea which is the subject of the copyright."); *Indep. News Co. v. Williams*, 293 F.2d 510 (3d Cir. 1961) (Comic books given to a salvage dealer for use as paper stock only were resold by the dealer in violation of the restricted use.); *Augusto*, 558 F. Supp. 2d at 1061 (finding a transfer of promotional CDs to be a sale where "[t]here were no consequences for the recipient should she lose or destroy the Promo CDs—which [the copyright owner] allegedly considers its property").

IV. Whether Software Should Be Given Special Protection Is a Question to Be Answered by Congress, Not the Courts.

Autodesk's final argument (at 44) is that special considerations regarding software justify treating the industry differently for purposes of the first-sale doctrine. There is no way, however, to limit such arguments to software. Owners of copyrights in music, for example, could argue that their copyrighted works are far more easily copied than boxed software of the sort sold by Vernor. *See, e.g.*, Br. of Amicus Curiae MPAA.

Congress can and does modify the Copyright Act to resolve problems inherent to certain types of media, including software. In fact, it already responded to the software industry's concerns with the Computer Software Rental Amendments Act of 1990, Pub.L. No. 101-650, 104 Stat. 5134 (codified at 17 U.S.C § 109(b)). That amendment limits the first-sale doctrine to prohibit the *lending* and *leasing* of software except by nonprofit libraries and educational institutions. *Id.* The amendment, however, did not restrict *sales* of software. If a policy judgment to further scale back the first-sale doctrine in the context of software is to be made, it should be made by Congress.

CONCLUSION

The district court's decision should be affirmed.

Respectfully submitted,

/s/Gregory A. Beck
Gregory A. Beck
Deepak Gupta
PUBLIC CITIZEN LITIGATION GROUP
1600 20th St., NW
Washington, DC 20009
Phone: (202) 588-1000
Fax: (202) 588-7795

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 complies with the type-volume limitation of Federal Rule of Appellate Procedure 32(a)(7)(B) because this brief contains 13,541 words, excluding the parts of the brief exempt by Federal Rule of Appellate Procedure 32(a)(7)(B)(iii).

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 point Times New Roman.

/s/Gregory A. Beck
Gregory A. Beck

CERTIFICATE OF SERVICE

I hereby certify that on February 4, 2010, I electronically filed the foregoing with the Clerk of the Court for the United States Court of Appeals for the Ninth Circuit by using the appellate CM/ECF system.

I certify that all participants in the case are registered CM/ECF users and that service will be accomplished by the appellate CM/ECF system.

/s/Gregory A. Beck
Gregory A. Beck