

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
in Case No. C-07-1189-RAJ (Hon. Richard A. Jones)

**BRIEF OF AMICI CURIAE AMERICAN LIBRARY ASSOCIATION,
ASSOCIATION OF COLLEGE AND RESEARCH LIBRARIES,
ASSOCIATION OF RESEARCH LIBRARIES, CONSUMER
FEDERATION OF AMERICA, ELECTRONIC FRONTIER
FOUNDATION, PUBLIC KNOWLEDGE, AND U.S. PIRG
IN SUPPORT OF PLAINTIFF AND AFFIRMANCE**

Fred von Lohmann
ELECTRONIC FRONTIER
FOUNDATION
454 Shotwell Street
San Francisco, CA 94110
Telephone: (415) 436-9333 x123
Facsimile: (415) 436-9993

Sherwin Siy
John Bergmayer
PUBLIC KNOWLEDGE
1818 N Street NW, Suite 410
Washington, DC 20036
Telephone: (202) 861-0020
Facsimile: (202) 861-0040

Attorneys for Amici Curiae
February 11, 2010

TABLE OF CONTENTS

	<u>Page</u>
TABLE OF AUTHORITIES	iii
STATEMENTS OF IDENTITY AND INTEREST OF AMICI CURIAE	1
ARGUMENT	3
I. Introduction	3
II. The First Sale Doctrine is Well-Established and Serves Critical Economic and Democratic Values Central to the Balance Struck by Copyright Law.	4
A. The First Sale Doctrine Reconciles Copyright Law With Property Law Policies That Disfavor Restraints On Alienation.	5
B. The First Sale Doctrine Promotes Access to Knowledge, Preservation of Culture, and Resistance to Censorship.....	7
C. The First Sale Doctrine Supports Vibrant Secondary Markets That Increase Competition and Yield Lower Prices and Increased Access For Consumers.	10
III. Autodesk’s Approach to Ownership is Inconsistent With This Court’s Precedent, the Weight of Authority, and Would Leave Sections 109 And 117 A Dead Letter.	12
A. The Central Question is Not “License Versus Sale,” but Rather Who Owns the Physical Media in Which the Copyrighted Work is Fixed.....	12
B. Ownership is Determined by an Examination of the Economic Realities of the Transaction, not Self-Serving Reservations of Title or Similar Contract Provisions.	15

C. Permitting Rightsholders to Unilaterally Trump Sections 109 and 117 Would Upset the Traditional Balance of Copyright Law to the Detriment of the Public Interest.	19
IV. Reaffirming Traditional First Sale Principles will Not Upset the Settled Expectations of the Software Industry.	22
A. Copyright Law, Buttressed By Contract Law and Technological Methods, Provides Strong Protections for Software Vendors.	22
1. Copyright Law Continues to Protect Software Vendors from Piracy.	23
2. Contract Law Continues to Apply to Post-Sale Use Restrictions.	24
3. Technological Mechanisms are Available to Protect the Interests of Software Vendors.	27
B. Neither Section 109 nor 117 Prejudice Free or Open Source Licensing of Software	29
CONCLUSION	30

TABLE OF AUTHORITIES

Cases

Applied Info. Mgt. Inc. v. Icart, 976 F. Supp. 149 (E.D.N.Y. 1997)..... 16

Bobbs-Merrill Co. v. Straus, 210 U.S. 339 (1908)..... 4, 5, 6

Brilliance Audio, Inc. v. Haight Cross Commc’ns, Inc., 474 F.3d 365 (6th Cir. 2007) 6

Buck v. Jewell-LaSalle Realty Co., 283 U.S. 191 (1931) 25

DSC Commc’ns Corp. v. Pulse Commc’ns, Inc., 170 F.3d 1354 (Fed. Cir. 1999) 12

EEOC v. Waffle House, 534 U.S. 279 (2002) 25

Krause v. Titleserv, Inc., 402 F.3d 119 (2d Cir. 2005)..... 14, 16

Microsoft Corp. v. DAK Indus., Inc., 66 F.3d 1091 (9th Cir. 1995) 15

Novell, Inc. v. Unicom Sales, Inc., No. C-03-2785, 2004 WL 1839117 (N.D. Cal. Aug. 17, 2004) 16

Quanta Computer, Inc. v. L.G. Elec., Inc., 128 S.Ct. 2109 (2008)..... 6

RCA Mfg. Co. v. Whiteman, 114 F.2d 86 (2d Cir. 1940)..... 21

Softman Prods. Co. v. Adobe Sys., Inc., 171 F. Supp. 2d 1075 (C.D. Cal. 2001) 16, 22

UMG Recordings, Inc. v. Augusto, 558 F. Supp. 2d 1055 (C.D. Cal. 2008)..... 16

United States v. Atherton, 561 F.2d 747 (9th Cir. 1977)..... 16

United States v. Wise, 550 F.2d 1180 (9th Cir. 1977) 16, 26

Statutes

17 U.S.C. § 109 passim
17 U.S.C. § 117 passim
17 U.S.C. § 202 13
17 U.S.C. § 502 26
17 U.S.C. § 504 26
17 U.S.C. § 506 26
17 U.S.C. § 1201 27

Other Authorities

Anthony Kaufman, *The Vanishing: the Demise of VHS, and the Movies
Disappearing Along with It*, Museum of the Moving Image, Feb. 26,
2009 9
Brooks Barnes, *Movie Studios See a Threat in Growth of RedBox*, N.Y.
TIMES, Sept. 6, 2009 22
Joseph P. Liu, *Owning Digital Copies: Copyright Law and the Incidents
of Copy Ownership*, 42 WM. & MARY L. REV. 1245 (2001) 6, 9
LAWRENCE LESSIG, FREE CULTURE (2004) 8, 9
MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT (2009)7, 13, 17, 19

Molly Shaffer Van Houweling, <i>The New Servitudes</i> , 96 GEORGETOWN L.J. 885 (2008)	11
Pamela Brannon, <i>Reforming Copyright to Foster Innovation: Providing Access to Orphaned Works</i> , 14 J. INTEL. PROPERTY L. 145 (2006)	8
R. Anthony Reese, <i>The First Sale Doctrine in the Era of Digital Networks</i> , 44 B.C. L. REV. 577 (2003)	8, 10, 11, 20
REST. (2D) OF CONTRACTS	26
TARLETON GILLESPIE, <i>WIRED SHUT: COPYRIGHT AND THE SHAPE OF DIGITAL CULTURE</i> (2007)	28
U.S. COPYRIGHT OFFICE, LIBRARY OF CONG., <i>DMCA SECTION 104 REPORT</i> (2001)	15
Wendy Gordon, <i>Intellectual Property as Price Discrimination</i> , 73 CHI- KENT L. REV. 1367 (1998).....	11
WILLIAM F. PATRY, <i>PATRY ON COPYRIGHT</i> (2009)	passim

STATEMENTS OF IDENTITY AND INTEREST OF AMICI CURIAE

This brief is filed pursuant to Fed. R. App. Proc. 29(a) with the consent of all parties.

The Association of Research Libraries (ARL) is a nonprofit organization of 123 research libraries in North America, including university, public, governmental, and national libraries. The American Library Association (ALA) is a nonprofit professional organization of more than 67,000 librarians, library trustees, and other friends of libraries dedicated to providing and improving library services and promoting the public interest in a free and open information society. The Association of College and Research Libraries (ACRL), the largest division of the ALA, is a professional association of academic and research librarians and other interested individuals. Collectively, these three library associations represent over 139,000 libraries in the United States. Libraries provide access to copyrighted works in all formats (e.g. print, digital, microform). Many of these libraries rely on provisions in the Copyright Act such as first sale to accept donations of special collections and, in the case of research and academic libraries, to preserve these works when possible.

The Consumer Federation of America (CFA) is composed of over 280 state and local affiliates representing consumer, senior, citizen, low-income, labor, farm, public power and cooperative organizations, with more than 50

million individual members. CFA has a deep commitment to and history of ensuring that copyright laws protect consumer interests and ensure a fair marketplace.

The Electronic Frontier Foundation (EFF) is the nation's leading nonprofit civil liberties organization working to protect consumer interests, innovation, and free expression in the digital world. EFF and its more than 14,000 dues-paying members have a strong interest in assisting the courts and policy-makers in striking the appropriate balance between copyright law and the public interest.

Public Knowledge (PK) is a Washington, D.C. based not-for-profit public interest advocacy and research organization. PK promotes balance in intellectual property law and technology policy to ensure that the public can benefit from access to knowledge and the ability to freely communicate and innovate in the digital age.

U.S. Public Interest Research Group (U.S. PIRG) is a not for profit consumer advocacy organization that stands up to powerful special interests on behalf of the American public. With a strong network of researchers, advocates, organizers and students across the country, it takes on the special interests when they stand in the way of reform and progress.

ARGUMENT

I. INTRODUCTION

The first sale doctrine has been a critical part of the statutory balance struck between the interests of copyright owners and the public for more than a century. On the one hand, copyright's exclusive right of distribution gives copyright owners control over the first vending of their works. On the other hand, the first sale doctrine steps in after an individual copy has been sold and puts further dispositions of the copy beyond the reach of the copyright owner. The first sale doctrine thus ensures a "second life" for copyrighted works in libraries, archives, used bookstores, online auctions, and hand-to-hand exchanges.

In this appeal, however, appellant Autodesk and its supporting *amici* urge this Court to turn its back on this historical balance, instead permitting software vendors to evade the first sale doctrine by intoning "magic words" in contractual "license agreements." If this incantation trumps the first sale doctrine for software, however, there is no limiting principle that would prevent other copyright owners from employing the same trick on books, CDs, DVDs, and other media. Consequently, the position pressed by Autodesk here would jeopardize not only the interests of consumers of software, but also those who rely on libraries, used bookstores, video rental services, and online auctions to

borrow, buy, or sell books, music, films, videogames, and other copyrighted works.

Rather than endorsing Autodesk's effort to undermine the first sale doctrine, the Court should affirm the lower court ruling, recognizing that a proper application of the first sale doctrine here requires a ruling in favor of Mr. Vernor's right to resell the four AutoCAD CD-ROMs at issue.

II. THE FIRST SALE DOCTRINE IS WELL-ESTABLISHED AND SERVES CRITICAL ECONOMIC AND DEMOCRATIC VALUES CENTRAL TO THE BALANCE STRUCK BY COPYRIGHT LAW.

For more than a century, the courts and Congress have repeatedly recognized and guarded the first sale doctrine against encroachment by copyright owners. The doctrine traces its origins to the Supreme Court ruling in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908), and since that time has been codified in every statutory revision of the Copyright Act. In 1980, Congress enacted Section 117,¹ concluding that the first sale privilege should be supplemented by additional ownership privileges where software is concerned.²

¹ All statutory citations are to Title 17 of the U.S. Code, unless otherwise noted.

² The term "first sale" generally is understood to refer to the limitation on a copyright owner's distribution right as set forth in Section 109(a). However, Section 109(a) is of little value in the software context without Section 117(a)(1)'s corresponding limit on the reproduction and adaptation rights, as made plain by Autodesk's argument that Mr. Vernor should be contributorily
(continued...)

The first sale doctrine reconciles the tangible property interests of consumers and the intangible property interests of copyright owners, thus vindicating a number of important economic and democratic values, including:

- Accommodating traditional property law policies against restraints of trade and restraints on alienation;
- Promoting access to knowledge, preservation of culture, and resistance to censorship; and
- Supporting vibrant secondary markets that lower prices for consumers.

Autodesk and its supporting *amici* threaten to undermine these values by suggesting that software vendors (and thus, by necessity, copyright owners generally) can trump the first sale doctrine by simply including a reservation of title clause in a “license agreement.”

A. The First Sale Doctrine Reconciles Copyright Law With Property Law Policies That Disfavor Restraints On Alienation.

From its inception, the first sale doctrine has reconciled the limited statutory monopoly granted to copyright owners with traditional property law policies favoring free alienability. *See Bobbs-Merrill*, 210 U.S. at 349-50;

liable for reproductions made by his customers in the course of using the software he sells, *see Autodesk Br.* at 20-21. Thus, where software is concerned, secondary markets depend upon the conjunction of *both* Section 109(a) and 117(a)(1). Accordingly, this brief will use the term “first sale doctrine” to refer to both provisions, unless otherwise stated.

Brilliance Audio, Inc. v. Haight Cross Commc'ns, Inc., 474 F.3d 365, 374 (6th Cir. 2007) (“The first sale doctrine ensures that the copyright monopoly does not intrude on the personal property rights of the individual owner, given that the law generally disfavors restraints of trade and restraints on alienation.”); Joseph P. Liu, *Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership*, 42 WM. & MARY L. REV. 1245, 1291 (2001) (“Historically, the source of the first sale doctrine appears to have been the common law reluctance to enforce restraints on the alienation of physical property.”).³

This limitation on a copyright owner’s distribution right is a natural consequence of the purposes behind the distribution right. Congress did not create the distribution right to empower copyright owners to control disposition of tangible property. Rather, Congress created the distribution right as a buttress for the reproduction right, giving copyright owners recourse against illegitimate distributors of piratical copies who might otherwise escape punishment. *See Bobbs-Merrill*, 210 U.S. at 350-51 (distribution right was intended to make the

³ The U.S. Copyright Act is not alone in recognizing the importance of accommodating property law’s policies in favor of free alienability. Patent law has its own judge-made first sale doctrine, referred to as “patent exhaustion.” *See, e.g., Quanta Computer, Inc. v. L.G. Elec., Inc.*, 128 S.Ct. 2109 (2008). International copyright law also recognizes the importance of first sale, referring to it as “copyright exhaustion.” *See* 4 WILLIAM F. PATRY, PATRY ON COPYRIGHT § 13:15 (2009).

reproduction right “effectual,” not to grant the power to “qualify the title of a future purchaser”); 2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.12[A] (2009) (distribution right exists to protect copyright owners against sellers of stolen inventory or counterfeit copies). In the words of Professor Nimmer,⁴ this gap-filling rationale has no application where resales of genuine, legitimately produced copies are concerned:

In such circumstances, continued control of the distribution of copies is not so much a supplement to the intangible copyright, but is rather primarily a device for controlling the disposition of the tangible personal property that embodies the copyrighted work. Therefore, at this point, the policy favoring a copyright monopoly for authors gives way to the policy opposing restraints of trade and restraints on alienation.

Id.

B. The First Sale Doctrine Promotes Access to Knowledge, Preservation of Culture, and Resistance to Censorship.

Libraries, used bookstores, and hand-to-hand exchanges of copyrighted works between individuals are established and accepted features of our cultural landscape. In fact, it is difficult to conceptualize the lifecycle of most copyrighted works without imagining copies being lent, resold, or gifted.

⁴ All citations to “Nimmer” in this brief refer to Prof. David Nimmer, author of the copyright treatise, NIMMER ON COPYRIGHT, who is no relation to Prof. Raymond T. Nimmer, the expert witness retained by Autodesk in the proceedings below.

Without a robust first sale doctrine, however, each of these activities would be imperiled by a copyright owner's distribution right. As a result, if copyright owners are able to trump the first sale doctrine using self-serving language tucked into a license agreement, these established institutions could be put in jeopardy.

While the grant of exclusive rights serves as an engine driving the *creation* of expressive works, it is the first sale doctrine that has guaranteed the *preservation and continued availability* of those works. *See* R. Anthony Reese, *The First Sale Doctrine in the Era of Digital Networks*, 44 B.C. L. REV. 577, 583-610 (2003) (discussing the salutary impact of first sale on availability and preservation of copyrighted works). An average book today goes out of print within 12 months of initial release. *See* LAWRENCE LESSIG, *FREE CULTURE* 225 (2004). Software often has an even shorter shelf life. *See* Pamela Brannon, *Reforming Copyright to Foster Innovation: Providing Access to Orphaned Works*, 14 J. INTEL. PROPERTY L. 145, 154-55 (2006) (“The rapid rate of technological change in the computer industry often results in computer software being orphaned after only a few months or years, giving rise to a category of out-of-print computer programs known as ‘abandonware.’”). Similarly, the majority of recorded music remains out of print today. *See* Reese, *The First Sale Doctrine*, at 593 (citing estimates that 60% of sound recordings

are out of print). Most films also go out of print after a short commercial lifespan. See Anthony Kaufman, *The Vanishing: the Demise of VHS, and the Movies Disappearing Along with It*, Museum of the Moving Image, Feb. 26, 2009 (“[O]f the 157,068 titles listed [with Turner Classic Movies] as of late February 2009, fewer than 4 percent are available on home video.”), available at <http://www.movingimagesource.us/articles/the-vanishing-20090226>. After their in-print lives end, it is libraries, archives, video rental establishments, and second-hand markets that continue to make these titles available and accessible. See LESSIG, FREE CULTURE 113 (describing the “two lives” of the typical book, first as a commercial object, then in libraries and used bookstores).

Copyright scholars have also pointed out that the first sale doctrine decentralizes control over copyrighted works, thereby protecting consumer privacy and preventing censorship. With copies scattered among libraries, second-hand stores, and personal collections, researchers are able to access works without revealing their reading and viewing choices to copyright owners or other central authorities. See Liu, *Owning Digital Copies*, at 1330 (first sale prevents a copyright owner from being able to “control or monitor by whom the work is read, how many times it is read, in what context it is read or used, or to whom it is subsequently transferred”). Moreover, this decentralization makes it more difficult for a copyright owner to censor or suppress particular works after

their commercial release. *See* Reese, *The First Sale Doctrine*, at 595-602 (collecting examples of copyright owners attempting to withdraw or suppress works after initial publication).

C. The First Sale Doctrine Supports Vibrant Secondary Markets That Increase Competition and Yield Lower Prices and Increased Access For Consumers.

Vibrant secondary markets for copyrighted works also save consumers money, as any student who has ever purchased used textbooks can attest. *See id.* at 625-27 (concluding that first sale tends to reduce the price of copyrighted works for consumers). In recent years, moreover, the Internet has increased the reach and efficiency of these traditional secondary markets, enabling millions of customers to buy and sell books, CDs, DVDs, and software using online marketplaces like eBay, craigslist, and Amazon.com. The rise of these efficient secondary markets has unlocked new value in the personal libraries that consumers have amassed—unwanted books, CDs, DVDs, and software can now be resold or traded rather than consigned to the attic, trash, or recycling.

In the face of this evidence, Autodesk points to the example of low-cost “educational user licenses” for otherwise costly software packages and concludes that the first sale doctrine *harms* consumers by preventing price discrimination by copyright owners. Autodesk Br. at 44. Autodesk’s economic analysis is fatally flawed. As a general matter, it is true that a monopolist that is

able to charge different prices to different groups of consumers will increase output as compared to a monopolist that cannot price discriminate. In copyright markets, however, the first sale doctrine itself ameliorates the problem of monopoly by forcing copyright owners to compete with used, rental, and library copies. In other words, while a price-discriminating monopolist may be preferable to a single-price monopolist, there is no evidence that a price-discriminating monopolist is preferable to the partially competitive market that the first sale doctrine has protects. *See* Reese, *The First Sale Doctrine*, at 627 (“[T]he presence of such partial competition by means of the first sale doctrine may result in lower price and greater quantity—that is, increased affordability of copyrighted works.”); *accord* Wendy Gordon, *Intellectual Property as Price Discrimination*, 73 CHI-KENT L. REV. 1367, 1390 (1998).⁵

⁵ The implications of Autodesk’s argument reach beyond prohibitions on resale. If Autodesk is correct that Section 117(a) has no application to “licensed” software, then *any* use of the software would arguably infringe unless expressly authorized by the license agreement, insofar as the use required reproductions in computer memory. This would open the door to all kinds of post-sale use restrictions on software, running roughshod over not only the traditional property doctrines against restraints on alienation, but also property doctrines against equitable servitudes on chattel. *See* Molly Shaffer Van Houweling, *The New Servitudes*, 96 GEORGETOWN L.J. 885, 909-911(2008) (examining the recent efforts to use contract and intellectual property to impose servitudes on personal property).

III. AUTODESK’S APPROACH TO OWNERSHIP IS INCONSISTENT WITH THIS COURT’S PRECEDENT, THE WEIGHT OF AUTHORITY, AND WOULD LEAVE SECTIONS 109 AND 117 A DEAD LETTER.

The common theme that unites Autodesk and its supporting *amici* is that the issue of “ownership” for purposes of the first sale doctrine should be determined solely by the words contained in the “license agreement” that accompanies the AutoCAD software. This blinkered view is inconsistent with (1) this Court’s precedents, (2) leading precedents from other courts, and (3) the views of leading copyright commentators. All of these sources agree that the ownership analysis properly focuses on the economic realities of the transaction, rather than simply on self-serving language contained in a contract of adhesion. If the first sale doctrine is to retain any meaning, copyright owners cannot be permitted to evade it by merely affixing “license agreements” to their works.

A. The Central Question is Not “License Versus Sale,” but Rather Who Owns the Physical Media in Which the Copyrighted Work is Fixed.

As an initial matter, this Court should reject Autodesk’s misguided view that “licensee” and “owner” are mutually exclusive terms. As courts and commentators have pointed out, “a party who purchases copies of software from the copyright owner can hold a license under the copyright while still being an owner of the copyrighted software.” *DSC Commc’ns Corp. v. Pulse Commc’ns, Inc.*, 170 F.3d 1354, 1360 (Fed. Cir. 1999); *accord* 2 NIMMER ON COPYRIGHT §

8.12[B][1][d][i] (“[I]f the court inferred simply from the fact that the copyright to the software was licensed to end-users that Section 109(a) was therefore somehow inapplicable, then it entirely misunderstood the first sale doctrine.”); 4 PATRY ON COPYRIGHT § 13:25 (“Restrictions on the terms of a sale do not by themselves mean a sale has not occurred.”).

It is axiomatic that “ownership of a copyright . . . is distinct from ownership of any material object in which the work is embodied.” 17 U.S.C. § 202. The first sale doctrine is solely concerned with ownership of the material object; if ownership in a particular copy of software has changed hands, Section 109(a) extinguishes the exclusive right of distribution over that particular copy, and Section 117(a)(1) entitles the owner of the copy to make “essential step” reproductions in the course of using it. In other words, “[t]he question of ownership under the first sale doctrine deals with physical goods. Reference to a ‘license’ of a ‘product’ is, at best, ambiguous to its physical reference.” 2 NIMMER ON COPYRIGHT § 8.12[B][1][d][ii].⁶ The central inquiry is not whether a transaction is denominated a “license,” but rather whether, considering the “economic realities,” the recipient “exercises sufficient incidents of ownership

⁶ *Amicus Software & Info. Industry Ass’n (SIIA)* makes precisely this mistake in its brief when it asserts that “a software license is just that, a license, not a sale.” SIIA Br. at 4.

over a copy . . . to be sensibly considered an owner of the copy.” *Krause v. Titleserv, Inc.*, 402 F.3d 119, 124 (2d Cir. 2005).

A 21st century example makes this clear—consider the purchase of a song from Apple’s iTunes Store. In the digital context, copyright owners are delivering copies of music, video, text, and software by digital download—not selling “copies” at all, but rather authorizing transmissions and reproductions that result in physical copies that reside on the hard drive of the purchaser’s personal computer. Who “owns” these material copies—i.e., the relevant sectors of the purchaser’s own hard drive? The answer is obvious: if the user owned her hard drive before the download occurred, she must still own it after the authorized download has been completed. Any other result would be bizarre, suggesting that copyright owners obtain an ownership interest in every hard drive on which an authorized download appears. Put another way, the fact that the iTunes purchaser may also possess a “license” (e.g., to make copies for use on her iPod⁷), does not alter her continuing ownership of her own hard drive, just as photocopying a newspaper article would not change who owns the piece of paper onto which it was copied. Thus, where authorized downloads are

⁷ The “terms of service” that govern downloads from the iTunes Store permit purchasers to make additional copies for personal use. *See* iTunes Store Terms of Service § 10.b.(xii) (Sept. 9, 2009), *available at* <http://www.apple.com/legal/itunes/us/terms.html>.

concerned, it is clear that purchasers own the resulting copies, and thus the first sale doctrine applies to those copies.⁸ *See* U.S. COPYRIGHT OFFICE, LIBRARY OF CONG., DMCA SECTION 104 REPORT 79 n.270 (2001) (“a lawful copy created as a result of an authorized digital transmission” is “well within the current language of [§ 109(a)]”), *available at* http://www.copyright.gov/reports/studies/dmca/dmca_study.html; 4 PATRY ON COPYRIGHT § 13:23 (concluding that purchasers of authorized downloads own the resulting copies for first sale purposes).

B. Ownership is Determined by an Examination of the Economic Realities of the Transaction, not Self-Serving Reservations of Title or Similar Contract Provisions.

In determining whether a purchaser “owns” a copy for purposes of the first sale doctrine, this Court has repeatedly looked behind the form to the substance of a transaction. *See Microsoft Corp. v. DAK Indus., Inc.*, 66 F.3d 1091, 1905 n.2 (9th Cir. 1995) (“Because we look to the economic realities of the agreement, the fact that the agreement labels itself a ‘license’ . . . does not

⁸ *Amicus* MPAA’s claim that online media stores are “methods of dissemination that are not sustainable through outright sales of motion pictures in digital form,” MPAA Br. at 1-2, is belied by its members’ own practice of authorizing sales of permanent movie downloads from Apple’s iTunes Store. Nothing in the contractual terms governing that transaction suggest that purchasers have anything less than ownership of the resulting copies residing on their own hard drives. *See* iTunes Store Terms of Service (Sept. 9, 2009), *available at* <http://www.apple.com/legal/itunes/us/terms.html>.

control our analysis.”); *United States v. Wise*, 550 F.2d 1180, 1190-92 (9th Cir. 1977) (holding that a transaction denominated as a “licensing agreement” nonetheless amounted to a first sale); *United States v. Atherton*, 561 F.2d 747, 750 (9th Cir. 1977) (same).

The Second Circuit has also embraced this approach, as have a number of lower courts. *See Krause v. Titleserv*, 402 F.3d at 124 (examining substance of software “licensing” transaction and concluding that defendant was the owner of a copy); *UMG Recordings, Inc. v. Augusto*, 558 F. Supp. 2d 1055, 1060 (C.D. Cal. 2008) (examining “economic realities” of transaction and concluding that first sale doctrine applied)⁹; *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.”); *Softman Prods. Co. v. Adobe Sys., Inc.*, 171 F. Supp. 2d 1075, 1084 (C.D. Cal. 2001) (distribution of software triggered first sale, notwithstanding plaintiff’s claim that software was only “licensed”); *Applied Info. Mgt. Inc. v. Icart*, 976 F. Supp. 149, 154 (E.D.N.Y. 1997) (“Ownership of a

⁹ As of the filing date of this brief, *UMG v. Augusto* is pending on appeal before this Court. *See UMG Recordings, Inc. v. Augusto*, No. 08-55998 (briefing completed Feb. 25, 2009).

copy should be determined based on the actual character, rather than the label, of the transaction by which the user obtained possession.”).

Leading commentators also endorse an inquiry focused on the economic realities of the transaction, rather than relying solely on recitations in a contractual license agreement. “Toni Morrison, in short, 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 ON COPYRIGHT §8.12[B][1][d][ii]; *accord* 4 PATRY ON COPYRIGHT § 13:25 (concluding that “[f]ar too often, courts merely accept plaintiff’s description of the transaction as a license,” and approving the reasoning employed by the district court in this case).

The district court in this case properly applied these principles by weighing a number of factors in an effort to “look at [the] transaction holistically,” including the terms of the license agreement, whether purchasers enjoyed perpetual possession of the physical media, and whether purchasers pay a single up-front price. *Vernor v. Autodesk, Inc.*, 2009 WL 3187613 at *8 (W.D. Wash. filed Sept. 30, 2009). The district court also sought additional briefing from the parties regarding Autodesk’s “business practices other than the license.” *Id.* at *8 n.5.

In short, the district court did not look solely at the question of perpetual possession, contrary to the representations of Autodesk and its supporting *amici*. Nevertheless, the lower court was correct in recognizing that perpetual possession is an important factor.¹⁰ Where mass-marketed packaged software is sold for a single up-front price, without any provision for return of the physical media or penalty for its loss or destruction, the first sale inquiry is not a difficult one. In such cases, it is only by actively *ignoring* the economic realities of the transaction and rewarding legal fiction over substance that a court could conclude that the typical software vendor retains eternal ownership of the millions of discs it sells throughout the world. After evaluating typical mass-market, packaged software transactions, the leading copyright law treatise had this to say:

¹⁰ In cases that present different fact patterns, courts may consider other factors, such as whether the terms of the license agreement were negotiated by the parties, whether the copyright owner has ever made attempts to recover copies from purchasers, or whether the copyright owner actively enforces restrictions on use contained in the license agreement. Accordingly, there is no need for the Court to reach the question of whether a copyright owner must *always* insist on the return of the original media on which a work is delivered. Autodesk and its supporting *amici* complain bitterly about the “requirement of return,” a formality that they characterize as “outmoded and irrelevant,” MPAA Br. at 21, and “pointless and inefficient,” Autodesk Br. at 46. Because the lower court properly evaluated the economic realities of the transaction at issue here “holistically,” this Court need not establish a bright line “return requirement” for all future digital media transactions.

There was no pretense incident to sale that the acquirers were under an obligation to return the physical media to Microsoft or Adobe or were otherwise limited in the usages they were permitted to make. In short, the first sale defense would seem as operational in the software setting as it is in comparable circumstances to the millions of videotapes, books, and other physical media that have been sold.

2 NIMMER ON COPYRIGHT § 8.12[B][1][d][i]. Autodesk’s contrary view—that the boilerplate provisions of its license agreement should control without regard to the economic realities of the transaction—would “transform a contractual term that software purveyors unilaterally include in their contracts into a binding provision on the world—even on parties who are not in privity of contract—and one that, moreover, undoes the dictates of Congress by undermining an essential feature of the Copyright Act!” *Id.*

C. Permitting Rightsholders to Unilaterally Trump Sections 109 and 117 Would Upset the Traditional Balance of Copyright Law to the Detriment of the Public Interest.

Autodesk and its supporting *amici* contend that a naked reservation of title provision contained in a “license agreement” should be dispositive of the question of ownership for purposes of the first sale doctrine. Autodesk Br. at 24; SIIA Br. at 4. Arguing in the alternative, Autodesk suggests that the combination of contractual provisions that reserve title, prohibit transfer, and “severely” restrict use should definitively preclude a purchaser from being treated as an owner of the material objects in which software is embodied. Autodesk Br. at 29; MPAA Br. at 15. What both of these positions have in

common is an exclusive focus on the formal provisions contained in the four corners of a contract of adhesion—the ultimate triumph of form over substance. These arguments, if adopted by this Court, would inflict serious harm on the traditional balance that Congress set forth in the Copyright Act.

As applied to software, Autodesk’s position would cripple secondary markets, hinder preservation efforts, and leave purchasers subject to infringement suits for any breaches of license provisions. Autodesk and *amicus* SIIA are forthright in their view that copyright law should prevent independent resellers like Mr. Vernor from selling “licensed” software second-hand. Autodesk Br. at 47-48 (arguing for elimination of secondary markets at vendor’s option); SIAA Br. at 7 (characterizing secondary markets for software as “illicit”). This outcome would not only result in the elimination of the software resale market, but would also require sellers of used computer *hardware* to delete legitimately installed software prior to sale (an outcome that would reduce the value of computer hardware in secondary markets). The disruption of software and computer resale markets would increase prices for consumers by eliminating an important source of price competition for software vendors. *See* Reese, *The First Sale Doctrine*, at 585-92 (explaining that first sale increases affordability of copyrighted works). It would also leave consumers and

enterprises who depend on software that is out-of-print (“abandonware”) with no replacement options.

This outcome would also undermine Section 109(b)(2), which permits nonprofit libraries to lend software. Adopting Autodesk’s view would effectively read this provision out of the statute, making it impossible for libraries to lend packaged mainstream software, nearly all of which is subject to license agreements. It would also hamper efforts by nonprofit groups like the Internet Archive to collect and preserve obsolete software that has gone out of print. *See* Internet Archive, The Classic Software Preservation Project (CLASP) (<http://www.archive.org/details/clasp>).

Autodesk’s view that boilerplate contained in a license agreement definitively settles the matter of ownership would also be an invitation for other copyright owners to burden copyrighted works with post-sale use restrictions. For example, book publishers could begin affixing license agreements to books to price discriminate between “library users” and “non-lending users.” Record labels could revive the practice of charging higher prices to radio stations than to consumers. *See RCA Mfg. Co. v. Whiteman*, 114 F.2d 86 (2d Cir. 1940) (rejecting enforcement of “not licensed for radio broadcast” restriction on records). Movie studios could control the pricing and practices of video rental services by reserving title and labeling DVDs as “not for lending.” *Cf.* Brooks

Barnes, *Movie Studios See a Threat in Growth of RedBox*, N.Y. TIMES, Sept. 6, 2009 (describing movie studio efforts to block \$1 rentals of DVDs by Redbox rental kiosks). Tomorrow's vendors of digital music, movies, and e-books could use "license agreements" to impose whatever post-sale use and transfer restrictions might suit their fancy, secure in the knowledge that they could pursue copyright infringement remedies against any transgressors.

IV. REAFFIRMING TRADITIONAL FIRST SALE PRINCIPLES WILL NOT UPSET THE SETTLED EXPECTATIONS OF THE SOFTWARE INDUSTRY.

Autodesk and its supporting *amici* contend that affirming the district court's ruling will disrupt distribution channels for software and digital media. Autodesk Br. at 45-46; MPAA Br. at 6; SIIA Br. at 4. This concern is belied by the success of many different software and digital media business models and the fact that the district court here is not the first to hold that the sale of boxed software for a one-time price triggers Section 109(a). *See, e.g., Softman v. Adobe*, 171 F. Supp. 2d at 1085-87.

A. Copyright Law, Buttressed By Contract Law and Technological Methods, Provides Strong Protections for Software Vendors.

Contrary to *amicus* SIIA, the district court's application of the first sale doctrine in this case hardly threatens "far-reaching, adverse consequences" on the software industry. SIIA Br. at 3. Ownership of a lawfully-made copy

triggers a limited set of copyright exceptions, set forth in Sections 109 and 117, that do not hamper a rightsholder's ability to pursue unauthorized piratical reproductions. Nor does the first sale doctrine interfere with a vendor's ability to enter into contracts with customers. Additionally, for software and other digital media, technological measures can supplement contract law to support differentiated business models.

1. Copyright Law Continues to Protect Software Vendors from Piracy.

The first sale doctrine does not override the exclusive rights that protect software vendors from infringing uses of their works, no matter how many times a particular copy has been sold.

Most importantly, the reproduction right stands ready to prevent software piracy.¹¹ Nothing about Sections 109 or 117 would permit an owner of a particular copy of software to multiply and distribute copies of the software in competition with the copyright owner. Therefore, *amicus* SIIA's discussion of "an international, illicit trade in unauthorized software," SIIA Br. at 7, is misguided—where Mr. Vernor's authentic AutoCAD packages are concerned, the trade is not "illicit," nor the software "unauthorized." Nothing about the first

¹¹ *Amicus* MPAA admits that "the first sale doctrine provides no defense to unauthorized reproduction." MPAA Br. at 20 n.9.

sale doctrine would permit him or a downstream purchaser to duplicate and sell piratical copies.¹²

Similarly, software rightsholders have the right to restrict public performances and adaptations of their works, as well as circumvention of technological protection measures used on their works, without regard to the ownership of the particular copy that is being used. These rights (subject to their applicable statutory limitations and exceptions) are backed by the penalties of copyright law no matter who owns a given copy.¹³

2. Contract Law Continues to Apply to Post-Sale Use Restrictions.

Although the first sale doctrine represents a decision by Congress to limit distribution rights under copyright law, it leaves copyright owners with as much

¹² Autodesk contends that the first sale doctrine must give way because software is easy to duplicate, thus tempting software purchasers to install software onto their computers and then resell the original media. Autodesk Br. at 48 n.19. But the same could be said of music CDs, which are even easier to purchase, copy, and resell. It is telling that Congress has stepped in to statutorily limit commercial rental of both software and sound recordings, *see* 17 U.S.C. §109(b)(1)(A), but has not chosen to otherwise abrogate the first sale doctrine with respect to these works.

¹³ In 1990, Congress amended §109(b) to prohibit the commercial renting, leasing, or lending of software. *See* 4 PATRY ON COPYRIGHT § 13:28. While the amendment curtailed commercial rentals, it expressly permitted nonprofit library lending and made no change to § 109(a) with respect to resales, thereby indicating Congress' approval of those practices.

contractual recourse over physical copies as any seller of goods. A car rental firm relies upon contract to ensure that customers return its cars on time and without damage. Blockbuster and Netflix likewise do not need copyright law when patrons fail to return movies on time or in usable condition. Even in outright sale situations, buyers will often agree to limitations on uses. For example, consumers may refrain from using appliances in certain ways in order to qualify for warranties. A software vendor may similarly contract with its customers as to the limits of the software's use and resale.

Contract law has the advantage of having well-developed doctrines that prevent many of the difficulties that would result from the needless conscription of copyright law into the service of post-sale restrictions. For example, the doctrine of privity in contract law acts to prevent unforeseen claims against downstream purchasers who had no notice of the contractual restrictions. *Cf. EEOC v. Waffle House*, 534 U.S. 279, 294 (2002) (“It goes without saying that a contract cannot bind a nonparty.”). Copyright, in contrast, is a strict liability regime apt to penalize owners far removed from any initial agreement or transaction with the copyright holder. *See Buck v. Jewell-LaSalle Realty Co.*, 283 U.S. 191, 198 (1931) (“Intention to infringe is not essential under the act.”).

Contract law also provides a balanced regime of remedies for breach, generally limiting the injured party to actual damages. REST. (2D) OF

CONTRACTS § 347. Bringing what are essentially contract disputes within the realm of copyright law, on the other hand, subjects the breaching party to statutory damages that can be as high as \$150,000, even in the absence of proof regarding actual damages. 17 U.S.C. § 504. In copyright cases, moreover, the copyright owner will also have the ability to enjoin the infringement, in contrast to the general rule against specific performance of contracts. *Compare* 17 U.S.C. § 502 *with* REST. (2D) OF CONTRACTS § 359(1). Finally, copyright claims can give rise to criminal liability, an exigency almost never necessary for a simple breach of contract. 17 U.S.C. § 506.

If copyright owners would like to rely on their distribution rights under copyright law, rather than on contract law, the law permits them to do so by entering into genuine rental, bailment, or lease arrangements with customers, as the movie studios did for decades with film prints. *See United States v. Wise*, 550 F.2d at 1184-85. If the first sale doctrine is to have any remaining vitality, however, establishing such an arrangement must require more than the inscription of magic words in a “license agreement” as part of a transaction that in all other respects constitutes a sale. Otherwise, book publishers, record labels, and movie studios would all be free to trump the first sale doctrine and prohibit resales by affixing “license agreements” to their works. Since the 1909 Copyright Act, however, Congress has opted instead to deny copyright owners

the right to control the resale markets for their works, a decision that has yielded the public benefits described above. Autodesk has identified no statutory or policy basis to support “software exceptionalism” where the first sale doctrine is concerned.

3. Technological Mechanisms are Available to Protect the Interests of Software Vendors.

Software vendors also have technological means to ensure post-sale limitations on software use. In fact, software vendors and the sellers of digital media here have a distinct advantage over the vendors of more traditional goods since the devices that permit the uses of the works—such as computers or media players—can themselves be designed to restrict uses. Many of these technological measures are backed by legal remedies enacted by Congress as part of the Digital Millennium Copyright Act (DMCA). *See* 17 U.S.C. § 1201 (prohibiting circumvention of technical protection measures used on copyrighted works).

Autodesk itself notes that it employs measures to ensure that a particular registered copy is being used as stipulated in the agreement with the customer (i.e. that the copy being used had not previously been registered or upgraded). Autodesk Br. at 8. The registration system available to Autodesk in this case is merely one of countless methods available to software vendors. For example, software vendors may employ time-limited authorization codes, requiring

periodic renewal of the registration and confirmation of the user's identity, or mechanisms that impose royalty obligations based on intensity of use.¹⁴

Technological restrictions on reproduction and distribution are extremely common on software and digital media; the debate on the merits and detriments attendant on these systems rages daily. *See generally* TARLETON GILLESPIE, WIRED SHUT: COPYRIGHT AND THE SHAPE OF DIGITAL CULTURE (2007) (examining controversies surrounding use of technical protection measures on copyrighted works). The first sale doctrine would not interfere with these technological restrictions or the DMCA's legal prohibition on tampering with them.

The application of the first sale doctrine in this case, far from upsetting settled expectations and practices in the software industry, simply confirms established statutory limits on the reach of copyright law. If Autodesk wants to control the downstream disposition of genuine, packaged copies of AutoCAD, it may employ contract law (subject to the constraint of federal preemption) and technological measures, but may not invoke its exclusive right of distribution.

¹⁴ Software vendors frequently make "trial" versions of their software available for a limited period of time (e.g., 30 days), after which the software will not longer function unless a purchase code is supplied. *See, e.g.*, Adobe Software License Agreement, "Tryout Software," § 2.11, *available at* http://www.adobe.com/products/eulas/pdfs/Gen_WWCombined-combined-20080623_1026.pdf.

The same applies if Autodesk wants to enforce its post-sale use restrictions on those who purchase those same copies of AutoCAD from Mr. Vernor. This is precisely the outcome that the first sale doctrine has traditionally imposed on vendors of books, vinyl albums, CDs, DVDs, and video games—nothing more or less.

B. Neither Section 109 nor 117 Prejudice Free or Open Source Licensing of Software

Amicus SIIA makes the additional argument that free and open source (FOSS) licensing depends on denying software users ownership of copies. SIIA Br. at 1-2 (incorporating by reference an argument made in another pending appeal before this Court, Br. of the Software & Info. Indus. Ass’n, *MDY Indus. LLC, et al. v. Blizzard Entm’t, Inc. et al.*, Nos. 09-15932, 09-16004, at 10-12 (filed Nov. 17, 2009)).¹⁵ This is false.

While SIIA is correct that “[t]he use of software licenses sustains the open source model,” SSIA MDY Br. at 12, that model does not depend on stripping users of their rights under Sections 109 and 117. FOSS licenses grant copyright

¹⁵ Because SIIA incorporates this argument by reference from a brief filed in another appeal, in contravention of this Court’s rules, the argument should be disregarded. *See* Ninth Circuit Rule 28-1(b) (“Parties must not...incorporate by reference briefs submitted to...this Court in a prior appeal, or refer this Court to such briefs for the arguments on the merits of the appeal.”). *Amici* briefly address it here in an abundance of caution, should the Court consider it.

permissions to licensees that they would not otherwise have. For example, FOSS licenses typically grant users the right to modify, reproduce, and distribute copies of software (all activities that might otherwise be infringing), provided that the terms of the license are followed. These licensed rights exist *in addition to* the rights that owners of copies already have under the law. Critically, FOSS licenses generally do *not* purport to restrict the simple *use* (i.e., reproductions and adaptations necessary as an essential step) of the software as permitted under Section 117(a). *See, e.g.*, GNU General Public License, version 3, § 2 (license “affirms your unlimited permission to run the unmodified Program,” and “acknowledges your rights of fair use or other equivalent, as provided by copyright law,” clarifying that “[y]ou are not required to accept this License in order to receive or run a copy of the Program”), *available at* <http://www.gnu.org/licenses/gpl-3.0.txt>.

CONCLUSION

For the foregoing reasons, this Court should affirm the district court ruling in favor of Mr. Vernor.

February 11, 2010

Respectfully submitted,

AMERICAN LIBRARY ASS'N
ASS'N OF RESEARCH LIBRARIES
ASS'N OF COLLEGE AND RESEARCH LIBRARIES
CONSUMER FEDERATION OF AMERICA
ELECTRONIC FRONTIER FOUNDATION
PUBLIC KNOWLEDGE
U.S. PUBLIC INTEREST RESEARCH GROUP

By /s/ Fred von Lohmann

Fred von Lohmann
ELECTRONIC FRONTIER
FOUNDATION
454 Shotwell Street
San Francisco, CA 94110
Telephone: (415) 436-9333 x123
Facsimile: (415) 436-9993

Sherwin Siy
John Bergmayer
PUBLIC KNOWLEDGE
1818 N Street NW, Suite 410
Washington, DC 20036
Telephone: (202) 861-0020
Facsimile: (202) 861-0040

Attorneys for Amici Curiae

**CERTIFICATE OF COMPLIANCE
WITH TYPE-VOLUME LIMITATION,
TYPEFACE REQUIREMENTS, AND TYPE STYLE REQUIREMENTS
PURSUANT TO FED. R. APP. P. 32(a)(7)(C)**

I hereby certify as follows:

1. The foregoing Brief of *Amici Curiae* complies with the type-volume limitation of Fed. R. App. P. 32(a)(7)(B). The brief is printed in proportionally spaced 14-point type, and there are 6,945 words in the brief according to the word count of the word-processing system used to prepare the brief (excluding the parts of the brief exempted by Fed. R. App. P. 32(a)(7)(B)(iii), that is, the tables of contents and citations, and certificates of counsel, and by Fed. Cir. R. 32(b), that is, the certificate of interest, the statement of related cases, and the addendum in an initial brief of an appellant).

2. The brief complies with the typeface requirements of Federal Rule of Appellate Procedure 32(a)(5), and with the type style requirements of Federal Rule of Appellate Procedure 32(a)(6). The brief has been prepared in a proportionally spaced typeface using Microsoft Word 2004 for the Mac version 11.5.6 in 14-point Times New Roman.

February 11, 2010

/s/ Fred von Lohmann
Fred von Lohmann
Attorney for Amici Curiae

CERTIFICATE OF SERVICE

I hereby certify that on February 11, 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.

February 11, 2010

/s/ Fred von Lohmann
Fred von Lohmann
Attorney for Amici Curiae