

Supreme Court, U.S.
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No.

IN THE

Supreme Court of the United States

TIMOTHY S. VERNOR,

Petitioner,

v.

AUTODESK, INC.,

Respondent.

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

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Under the Copyright Act's first-sale doctrine, "the owner of a particular copy" of a copyrighted work "is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy." 17 U.S.C. § 109(a). As to computer programs, the Act further entitles the "owner of a copy" to make additional copies that are "essential step[s]" in the program's use. *Id.* § 117(a). In the decision below, the Ninth Circuit held that a person is not an "owner" of a copy under § 109(a) and § 117(a) when the copyright owner distributes the copy under a "license" that purports to impose limits on distribution and use. The question presented is:

Whether the Ninth Circuit correctly held that the owner of a copyright in a work, by granting a limited license, can withhold ownership of particular copies of that work and thus deprive the public of

(1) the right to "sell or otherwise dispose" of those copies under § 109(a) and

(2) as to computer programs, the right to make additional copies that are essential steps in the program's use under § 117(a).

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INTRODUCTION

More than a century ago, this Court in *Bobbs-Merrill Co. v. Straus* rejected a book publisher's attempt to impose a license restricting the resale of books, holding that the Copyright Act did not "create the right to impose ... a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract." 210 U.S. 341, 350 (1908). Congress later codified this fundamental limit on the scope of the copyright monopoly, known as the "first-sale doctrine," by providing that the "owner of a particular copy" of a copyrighted work may resell that copy "without the authority of the copyright owner." 17 U.S.C. § 109(a). Moreover, recognizing that a copy of software is worthless without the right to install and run that copy on a computer, Congress codified the "essential-step" defense—entitling the "owner of a copy of a computer program" to make additional copies that are "essential step[s]" in the program's operation. *Id.* § 117(a).

The Ninth Circuit in this case held that a person is not an "owner" of a copy under §§ 109(a) and 117(a)—and thus is not entitled to the benefits of the first-sale doctrine or the essential-step defense—when the copyright owner distributes the copy with a "license" purporting to limit the copy's distribution and use. The Ninth Circuit's decision flies in the face of *Bobbs-Merrill* and the plain language of the Copyright Act, and adds to what the district court described as a "cacophony" of divergent opinions in an area of law where Congress has found national uniformity to be of paramount importance. Pet. App. 57a-58a. As the Register of Copyrights recently observed, "[g]iven the variety of approaches adopted by different courts that have considered who may be the 'owner' of a copy," determining whether consumers own copies of computer programs "is a difficult task." U.S. Copyright Office, *Recommendation of the*

Register of Copyrights in RM 2008-8 128 (June 11, 2010), available at <http://www.copyright.gov/1201/>.

Because nearly all commercial software is packaged with “license agreements” that would satisfy the Ninth Circuit’s test, the decision below has the immediate effect of depriving almost all consumers of ownership of their software—effectively abolishing the first-sale doctrine for the software industry and rendering the essential-step defense meaningless. And by holding that copyright owners can “license” material goods, the decision gives other industries the means to impose restrictions that “run with” personal property and are backed up by the Copyright Act’s provisions for statutory damages, attorneys’ fees, and even criminal liability. Such onerous restraints on trade are the precise problem that the first-sale doctrine was intended to prevent.

OPINIONS BELOW

The Ninth Circuit’s decision below is reported at 621 F.3d 1102 and is reproduced in the appendix at 1a. The district court’s order denying respondent’s motion to dismiss and first motion for summary judgment is reported at 555 F. Supp. 2d 1164 and is reproduced in the appendix at 27a. The district court’s order granting petitioner’s motion for summary judgment and denying respondent’s second motion for summary judgment is unreported and is reproduced in the appendix at 60a.

JURISDICTION

The Ninth Circuit’s judgment below was entered on September 10, 2010. Pet. App. 1a. The court denied rehearing on January 18, 2010. *Id.* at 85a. On April 13, 2011, Justice Kennedy granted a 30-day extension of time in which to file the petition for certiorari until May 18, 2011. This Court has jurisdiction under 28 U.S.C. § 1254(1).

RELEVANT STATUTES

17 U.S.C. § 106 provides in relevant part:

Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following: ...

(1) to reproduce the copyrighted work in copies or phonorecords;

...

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending

17 U.S.C. § 109(a) provides in relevant part:

Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. § 117(a) provides in relevant part:

Notwithstanding the provisions of section 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided:

(1) that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner

17 U.S.C. § 202 provides in relevant part:

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. Transfer of ownership of any material object, including the copy or phonorecord in which the work is first fixed, does not of itself convey any rights in the copyrighted work embodied in the object; nor, in the absence of an agreement, does transfer of ownership of a copyright or of any exclusive rights under a copyright convey property rights in any material object.

17 U.S.C. § 101 defines “copies” as

material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. The term “copies” includes the material object, other than a phonorecord, in which the work is first fixed.

STATEMENT

A. Autodesk’s Interference with Resale of Authentic, Used Copies of AutoCAD Software

Petitioner Timothy S. Vernor makes his living selling used copies of books, games, software, and collectibles on eBay, an online auction website. Pet. App. 28a. The events giving rise to this case began when Vernor purchased at a garage sale an authentic, used copy of Autodesk’s AutoCAD Release 14 software, a computer program used by architects and engineers for design and

drafting. *Id.* at 5a. Vernor later purchased four additional copies at an office sale held by a Seattle architectural firm. *Id.* Vernor posted each copy for sale on eBay, but each time he posted a copy Autodesk sent eBay a notice of claimed infringement under the Digital Millennium Copyright Act (DMCA), claiming that resale of its software constituted copyright infringement. *Id.* at 6a-7a. Autodesk's repeated notices of claimed infringement caused the automatic termination of Vernor's sales and, eventually, a one-month suspension of his eBay account. *Id.* at 7a¹

Autodesk based its claim of copyright infringement on a two-page "license agreement" that it packaged with its software, stating that Autodesk grants a "nonexclusive, nontransferable license to use the enclosed program according to the terms and conditions herein." *Id.* at 28a, 62a. The license's terms provide that the user may not "rent, lease, or transfer all or part of the Software, Documentation, or any rights granted hereunder without Autodesk's written consent." *Id.* at 62a-63a. The terms also prohibit reverse-engineering, removing "proprietary notices, labels, or marks;" and using the software outside the Western Hemisphere. *Id.* at 3a. The license states that users must accept the license agreement before installing the software. *Id.* at 3a. Vernor, who purchased the software for the purpose of reselling it, did

¹ 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).

not install the software or otherwise agree to Autodesk's terms. *Id.* at 5a.

B. The Proceedings Below

Vernor 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 did not infringe Autodesk's copyright and injunctive relief against further interference with his business. *Id.* at 7a-8a. Autodesk moved to dismiss, or in the alternative for summary judgment, on the ground that Vernor's resale of authentic copies of its software in violation of its license agreement constituted copyright infringement. *Id.* at 8a. Autodesk argued that because it "licensed" its software rather than selling it, Vernor was not an "owner" of the software entitled to the benefits of the first-sale doctrine under § 109(a) of the Copyright Act. *Id.* at 67a. Autodesk also argued that Vernor's resale of the software was contributory infringement because anyone who purchased the software from him would, as non-owners, not be entitled under § 117(a)'s essential-step defense to install and use the software on a computer. *Id.* at 79a-80a.

The district court denied the motion. *Id.* at 8a. Although acknowledging a "great divergence of opinion among courts," *id.* at 78a, the court concluded that Autodesk's characterization of the transaction as a "license" did not have the effect of withholding ownership of particular copies under §§ 109(a) and 117(a). *Id.* The court held that "[t]he label placed on a transaction" does not determine the nature of the transaction, but rather that courts in each case "must analyze the arrangement at issue and decide whether it should be considered a first sale." *Id.* at 68a-69a (internal quotation marks omitted). Noting that "[n]o bright-line rule" exists for identifying a sale, the district court concluded that the "critical factor"

in this case was that Autodesk's license agreement did not require particular copies ever to be returned to the company. *Id.* at 68a, 70a. Because Autodesk distributed copies of its software without any expectation of regaining possession of those copies, the court held that, regardless of label, the transfer was in essence a "sale with restrictions on use." *Id.* at 71a. The court thus concluded that Vernor was an "owner" of the copies and that resale did not infringe Autodesk's copyright. *Id.* at 78a.

The district court also rejected Autodesk's secondary argument that Vernor was liable for contributory copyright infringement. The court held that anyone who purchased the copies from Vernor would be an "owner," entitled by the essential-step defense to make any copies necessary for installation and operation of that software on a computer. *Id.* at 79a-80a; *see* 17 U.S.C. § 117(a).

Following discovery, the parties filed cross-motions for summary judgment. Pet. App. 8a. The district court denied Autodesk's motion and granted summary judgment to Vernor. *Id.* The court first clarified the relevant question, noting that the dispute was not "about whether Autodesk 'sold' rather than 'licensed' its software." *Id.* at 36a. As the court observed, "[t]hat dispute is not determinative, because the use of software copies can be licensed while the copies themselves are sold." *Id.* Instead, the court held that the question was whether Autodesk had sold the *particular copies* of software in Vernor's possession. *Id.* at 38a. The court held that Autodesk distributed its software in transactions that were essentially sales because Autodesk accepted payment of a single price at the outset of the transaction and "made no provision ... to regain possession of the copy." *Id.* at 42a. Although Autodesk's license purported to "reserve title" in the software and contained limitations on use, the court could not "characterize Autodesk's decision to let its licensees retain possession of the software forever

as something other than a transfer of ownership.” *Id.* at 43a.

The Ninth Circuit vacated the district court’s judgment. *Id.* at 2a. Unlike the district court, the Ninth Circuit considered the relevant question to be “whether Autodesk sold ... or licensed the copies to its customers.” *Id.* at 9a. The court held that the first-sale doctrine under § 109(a) and the essential-step defense under § 117(a) do not apply when “a software user is a licensee, rather than an owner of a copy.” *Id.* at 16a. The court rejected the district court’s reliance on Autodesk’s acceptance of the copies’ full price and permanent relinquishment of possession to determine whether a user is a “licensee” or an “owner.” *Id.* at 20a-21a. Instead, the court fashioned a three-part test for determining, as a matter of federal copyright law, whether a particular transaction constitutes a “license” or a “sale.” *Id.* at 17a-18a. Under that test, a transaction is a “license” when the copyright owner “(1) specifies that the user is granted a license; (2) significantly restricts the user’s ability to transfer the software; and (3) imposes notable use restrictions.” *Id.*

Applying its new test, the Ninth Circuit held the first prong satisfied here because Autodesk’s “license agreement” characterized the transaction as a “license” and “retained title to the software.” *Id.* at 18a. It also held the second prong satisfied because Autodesk’s license prohibited all transfers without prior authorization. *Id.* Finally, the court held the third prong to be satisfied because the license prohibited modification or reverse engineering, use outside the Western Hemisphere, and removal of proprietary marks. *Id.* Based solely on these factors, the court concluded that “Autodesk’s direct customers are licensees of their copies of the software rather than owners,” and that Vernor was therefore not

an “owner” entitled to resell copies under § 109(a). *Id.* at 2a.

For the same reasons, the court held that anyone who bought the software from Vernor would also be a non-owner and would not be entitled to § 117(a)’s essential-step defense. *Id.* While acknowledging that it “may seem intuitive that every lawful user of a copyrighted software program, whether they own their copies or are merely licensed to use them, should be entitled to an ‘essential step defense,’” the court concluded that “the Copyright Act confers this defense only on owners of software copies” and that a “licensee’s right to use the software, including the right to copy the software into [a computer’s memory], is conferred by the terms of its license agreement.” *Id.* at 19a n.13. The court therefore held that any use of the software by Vernor’s customers would infringe Autodesk’s copyright and that Vernor’s resale of the software was contributory infringement. *Id.* at 19a.

Although the court “recognize[d] the significant policy considerations raised by the parties and amici on both sides of [the] appeal,” it did not address those considerations because circuit precedent “require[d] the result” it reached. *Id.* at 24a.

REASONS FOR GRANTING THE PETITION

I. The Ninth Circuit’s Decision Conflicts With Decisions of Other Circuits and Numerous District Courts.

Under the Copyright Act’s first-sale doctrine, “the owner of a particular copy” of a copyrighted work “is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy.” 17 U.S.C. § 109(a). The Act further entitles the “owner of a copy” of a computer program to make additional copies that are “essential step[s]” in the program’s use. *Id.*

§ 117(a). As the district court observed, there is a “great divergence of opinion among courts” about the effect of a software “license” on ownership under §§ 109(a) and 117(a). Pet. App. 78a; *see also id.* at 58a (describing decisions as a “cacophony”).

The various interpretations of ownership under the Copyright Act have created so much confusion that the Register of Copyrights in rulemaking last year was unable to “clearly determine whether the various versions of [Apple’s] iPhone contracts with consumers constituted a sale or license of a copy of the computer programs contained on the iPhone,” and thus whether consumers are entitled to operate the software in ways that Apple has not authorized. *Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies*, 75 Fed. Reg. 43825, 43829 (July 27, 2010). Noting that the Ninth Circuit had applied a test for ownership under § 117 that was “less generous to the licensee” than the Second Circuit’s test, the Register concluded that the “case law interpreting [§ 117] is inconsistent.” *Recommendation of the Register of Copyrights in RM 2008-8*, at 89, 124. After struggling with the “variety of approaches adopted by different courts that have considered who may be the ‘owner’ of a copy under Section 117,” the Register concluded that it could not resolve the issue. *Id.* at 128, 132. Numerous courts and commentators have also noted the deep division in authority. *See, e.g.*, Melville B. Nimmer & David Nimmer, 2

Nimmer on Copyright § 8.08(B)(1)(d) (2006) (noting “confusion”).²

The split means that individual software users’ liability for copyright infringement depends on the state in which they live, undermining the Copyright Act’s “express objective of creating national, uniform copyright law.” *Cnty. for Creative Non-Violence v. Reid*, 490 U.S. 730, 740 (1989). The division is especially troubling because it involves the three most influential courts of appeals in copyright cases—the Ninth Circuit, whose geographical jurisdiction is the hub of the nation’s software and movie industries; the Second Circuit, which includes much of the nation’s publishing industry; and the Fed-

² See also *Stuart Weitzman, LLC v. MicroComputer Res., Inc.*, 510 F. Supp. 2d 1098, 1103 (S.D. Fla. 2007), *vacated on other grounds*, 542 F.3d 859 (11th Cir. 2008) (recognizing the split in authority); *Madison River Mgmt. Co. v. Bus. Mgmt. Software Corp.*, 387 F. Supp. 2d 521, 543 (M.D.N.C. 2005) (noting conflicting tests); *Applied Info. Mgmt., Inc. v. Icart*, 976 F. Supp. 149, 153 (E.D.N.Y. 1997) (same); Vivian F. Wang, *Sale or License? UMG v. Augusto, Vernor v. Autodesk, and the First Sale Doctrine*, 19 Tex. Intell. Prop. L.J. 1, 6-7 (2010) (noting the “substantial but conflicting list of cases that address the license-versus-sale question in the context of the first sale doctrine”); Logan Marc, *The Section 117 Adaptation Defense and Krause v. Titleserv, Inc.: An Analysis of the Various Circuits’ Approaches*, 26 Cardozo Arts & Ent. L.J. 269, 282 (2008) (discussing various approaches); William W. Fisher III, *When Should We Permit Differential Pricing of Information?*, 55 UCLA L. Rev. 1, 15 (2007) (“[T]he law governing the permissibility of resales of software is, to an unusual degree, inconsistent and unpredictable.”); John A. Rothchild, *The Incredible Shrinking First-Sale Rule: Are Software Resale Limits Lawful?*, 57 Rutgers L. Rev. 1, 48 (2004) (“[C]ourts, as well as commentators and even the Copyright Office, have evinced a good deal of confusion in applying the first-sale doctrine to software copies.”).

eral Circuit, which often hears copyright claims related to its mandatory, national jurisdiction over patent claims.

In determining whether a person who obtains a copy of software under a “license” is entitled to the benefits of §§ 109(a) and 117(a), the federal courts have split into three camps.

A. The Ninth Circuit’s Approach

The Ninth Circuit holds that a person in possession of a particular copy is not an “owner” when the copyright owner “licensed” rather than “sold” that copy. This approach originated with the Ninth Circuit’s decision in *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 518 n.5 (9th Cir. 1993)—a case that the court below found controlling here. Pet. App. 16a. Several district courts outside the Ninth Circuit have also adopted this view. See *Davidson & Assocs. v. Internet Gateway, Inc.*, 334 F. Supp. 2d 1164, 1177-78 (E.D. Mo. 2004), *aff’d*, 422 F.3d 630 (8th Cir. 2005); *Microsoft Corp. v. Software Wholesale Club, Inc.*, 129 F. Supp. 2d 995, 1007 (S.D. Tex. 2000); *Microsoft Corp. v. Harmony Computers & Elecs., Inc.*, 846 F. Supp. 208, 212-13 (E.D.N.Y. 1994); *Advanced Computer Servs. v. MAI Sys. Corp.*, 845 F. Supp. 356, 367 (E.D. Va. 1994); *CMAX/Cleveland, Inc. v. UCR, Inc.*, 804 F. Supp. 337, 356 (M.D. Ga. 1992); *ISC-Bunker Ramo Corp. v. Altech, Inc.*, 765 F. Supp. 1310, 1331 (N.D. Ill. 1990).

In *MAI*, the Ninth Circuit concluded that a computer-maintenance company committed copyright infringement because, by using the computer in the course of maintenance, the company caused a temporary copy of software to be automatically loaded into the computer’s memory. 991 F.2d at 517-19. The primary question in the case was whether copying software into a computer’s memory constitutes a “copy” under the Copyright Act. *Id.* *MAI* answered that question in the affirmative, con-

cluding that the maintenance company infringed the software owner's copyright—a result that Congress later overruled by statute. H.R. Rep. No. 105-551 pt. 1, at 27 (1998) (citing *MAI* as the basis for creating a right for computer technicians to copy software into a computer's memory). In the course of its holding, *MAI* addressed the meaning of “owner” in a one-sentence footnote, without analysis or citation to authority, stating that, “[s]ince *MAI* licensed its software, [its] customers do not qualify as ‘owners’ of the software” under § 117(a). 991 F.2d at 518 n.5.

The Ninth Circuit below held that *MAI*'s brief discussion of ownership remained binding law in the circuit because, despite having overruled the result in *MAI*, “Congress did not disturb *MAI*'s holding that licensees are not entitled to the essential step defense.” Pet. App. 17a. The court articulated a new three-part test to determine whether a person in possession of software is an “owner” or “licensee” under *MAI* based on the copyright owner's characterization of the transaction and reservation of rights in the license agreement. Under the Ninth Circuit's test, a person is a “licensee ... of a copy” when the copyright owner distributes the copy under a license that “(1) specifies that the user is granted a license; (2) significantly restricts the user's ability to transfer the software; and (3) imposes notable use restrictions.” *Id.* at 17a-18a. No other court has adopted the Ninth Circuit's three-part test.

B. The Second and Federal Circuits' Approach

The Federal Circuit in *DSC Communications Corp. v. Pulse Communications, Inc.* expressly declined to “adopt the Ninth Circuit's characterization [in *MAI*] of all licensees as non-owners.” 170 F.3d 1354, 1360 (Fed. Cir. 1999). The court criticised *MAI*'s conclusion that particular copies could be “licensed” for “failing to rec-

ognize the distinction between ownership of a copyright, which can be licensed, and ownership of copies of the copyrighted software.” *Id.* It concluded that, “[p]lainly, a party who purchases copies of software from the copyright owner can hold a license under a copyright while still being an ‘owner’ of a copy of the copyrighted software for purposes of section 117.” *Id.*

Similarly, the Second Circuit in *Krause v. Titleserv, Inc.* rejected a copyright owner’s argument that an alleged infringer “never owned the program copies ... but rather possessed the copies as a licensee.” 402 F.3d 119, 122 (2d Cir. 2005). Like *DSC Communications*, *Krause* held that to ask whether an alleged infringer “possessed the copies as a licensee” “confuses ownership of a copyright with ownership of a copy of the copyrighted material.” *Id.* at 124. As *Krause* explained, “[o]wnership of a copy” under the Copyright Act “is something distinct from copyright ownership.” *Id.* at 122. Whether a copyright owner grants a license in its copyrighted work is thus, the court held, “irrelevant to [the alleged infringer’s] rights under § 117(a), which depend on ownership of a copy of the copyrighted material.” *Id.* at 124 (emphasis added); see also *Softtech Worldwide, LLC v. Internet Tech. Broad. Corp.*, 2011 WL 223594, at *3 (E.D. Va. Jan. 24, 2011) (following *Krause*); *Stuart Weitzman, LLC*, 510 F. Supp. 2d at 1103 & n.10 (same).

The Ninth Circuit’s three-part test cannot be squared with *DSC Communications* or *Krause*. Under the decision below, ownership under §§ 109 and 117 turns on whether the alleged infringer “is a licensee, rather than an owner of a copy.” Pet. App. 16a. In contrast, the Second and Federal Circuits hold that, because the Copyright Act does not authorize the “licensing” of material objects, a copyright owner’s grant of a license is irrelevant to the question of ownership of particular copies. Indeed, the Ninth Circuit has itself recognized the con-

flict between its precedent and *DSC Communications*. See *Wall Data Inc. v. Los Angeles County Sheriff's Dept.*, 447 F.3d 769, 785 n.9 (9th Cir. 2006).

Although the decision below attempted to distinguish *Krause*, its effort is unpersuasive. The court explained that, in *Krause*, “the parties did not have a written license agreement, the defendant-employer had paid the plaintiff-employee significant consideration to develop the programs for its sole benefit, and the plaintiff had agreed to allow the defendant to use the programs ‘forever,’ regardless of whether the parties’ relationship terminated.” Pet. App. 22a. Of those facts, the first and third also exist in this case—the “parties did not have a written license agreement” because Vernor never agreed to Autodesk’s terms, and Autodesk relinquished possession of the copies permanently (i.e., “forever”). The remaining factor—the payment of “significant consideration” to develop software for the defendant’s “sole benefit”—might be relevant to the question of who owns the *copyright* in software, but it sets far too high a bar for ownership of particular copies. Nobody would suggest that ownership of a particular copy of a book depends on whether there were payment of “significant consideration” or whether the book were written for one’s “sole benefit.”

The decision below conflicts with *Krause* and *DSC Communications* for another reason. Both the Second and Federal Circuits reject “a narrow, formalistic definition of ownership dependent on title.” *Krause*, 402 F.3d at 124; see also *DSC Commc’ns*, 170 F.3d at 1361. In *Krause*, the Second Circuit looked to whether the alleged infringer “exercise[d] sufficient incidents of ownership over a copy of the program to be sensibly considered the owner of the copy.” 402 F.3d at 123. Foremost among the relevant “incidents of ownership” was the fact that the copyright owner had “never reserved the right

to repossess the copies,” leaving the possessor free “to continue to possess and use the programs forever” and “to discard or destroy the copies any time it wished.” *Id.* As the court observed, “it seems anomalous for a user whose degree of ownership of a copy is so complete that he may lawfully use it and keep it forever, or if so disposed, throw it in the trash, to be nonetheless unauthorized to fix it when it develops a bug, or to make an archival copy as backup security.” *Id.* at 123.

Similarly, the Federal Circuit in *DSC Communications* looked beyond the copyright owner’s purported reservation of title to ensure that the surrounding circumstances were “consistent with that characterization.” 170 F.3d at 1361. Noting that “[t]he concept of ownership of a copy entails a variety of rights and interests,” *id.* at 1362, the court examined whether the alleged infringer’s rights over the copies were “inconsistent with the rights normally enjoyed by owners of copies of software.” *Id.* at 1361. Like *Krause*, the court considered the alleged infringer’s right of perpetual possession as a factor indicating ownership of the copies, though it held that factor to be outweighed by other considerations in the case. *See id.* (holding that perpetual possession obtained through a single payment was a relevant, though not dispositive, indication of ownership); *see also Krause*, 403 F.3d at 123 (describing *DSC Communications* as “attach[ing] less importance to formal title” and “looking rather at the various incidents of ownership”).

C. The Third, Fifth, Sixth, Seventh, and Eighth Circuits’ Approach

Although the Ninth, Second, and Federal Circuits reached different conclusions about the effect of restrictive software licenses, each treats the nature of a transaction in copies of software as a question of federal law that turns on the meaning of “owner” under the Copy-

right Act. *See Krause*, 403 F.3d at 123 (rejecting reliance on state-law definitions of ownership). Other courts, however, treat the nature of the transaction as a question of state law, and this had led to varying results.

The Fifth Circuit in *Vault Corp. v. Quaid Software Ltd.* treated a restrictive software license as an enforceable contract under state law, but held that the state law was preempted by the Copyright Act. 847 F.2d 255 (5th Cir. 1988). Like Autodesk's license here, the license at issue in *Vault* purported to reserve title in the software and to prohibit certain uses, including reverse engineering. *Id.* at 265. Unlike the Ninth Circuit here, however, *Vault* held that the license's reverse-engineering restriction conflicted with the right to install and use the software under § 117's essential-step defense. *Id.* The court thus concluded that the Copyright Act preempted state law holding software licenses enforceable. *Id.* *Vault's* holding that a license restriction on reverse engineering could not be enforced under § 117 is irreconcilable with the Ninth Circuit's holding here that Autodesk's similar restrictions deprived Vernor of ownership and thus of the essential-step defense under § 117.

The Sixth, Seventh, and Eighth Circuits also treat software licenses as contracts under state law. *Davidson & Assocs. v. Jung*, 422 F.3d 630 (8th Cir. 2005); *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1451 (7th Cir. 1996); *Nat'l Car Rental Sys., Inc. v. Computer Associates Int'l, Inc.*, 991 F.2d 426 (8th Cir. 1993). In contrast to *Vault*, these courts hold that state-law contract claims to enforce restrictive licenses are not preempted by the Copyright Act because they involve an extra element—agreement of the parties—that is not “equivalent to any of the exclusive rights within the general scope of copyright.” *Davidson & Assocs.*, 422 F.3d at 638-39; *ProCD*, 86 F.3d at 1454; *Nat'l Car Rental Sys.*, 991 F.2d at 430-35. These cases, however, did not involve copyright

claims, and thus did not address the effectiveness under the Copyright Act of software licenses on parties—like Vernor—who have never agreed to the license’s terms. The Seventh Circuit has expressly left unresolved the legitimacy of such a claim under the first-sale doctrine. *See ProCD*, 86 F.3d at 1450 (“Whether there are legal differences between ‘contracts’ and ‘licenses’ (which may matter under the copyright doctrine of first sale) is a subject for another day.”).

Finally, the Third Circuit holds that the transfer of software constitutes the sale of goods under the Uniform Commercial Code. *See Advent Sys. Ltd. v. Unisys Corp.*, 925 F.2d 670, 675 (3d Cir. 1991) (“That a computer program may be copyrightable as intellectual property does not alter the fact that once in the form of a floppy disc or other medium, the program is tangible, moveable and available in the marketplace.”). The court has recognized that the software industry devised the concept of licensing as a means to circumvent the first-sale doctrine, and applies the UCC to look through a copyright owner’s characterization of the transaction as a “license.” *See Step Saver Data Sys., Inc. v. Wyse Tech.*, 939 F.2d 91, 95 n.6, 101 n.27 (3d Cir. 1991). Although the Third Circuit has not definitively addressed the impact of its holding on the question of ownership under §§ 109 and 117, its conclusion that the transfer of software is a sale of goods even when the software is distributed under burdensome “license” terms is incompatible with the Ninth Circuit’s conclusion that licensed software is not “sold.” And indeed, district courts applying the UCC have held that a purchaser of software pursuant to a “license agreement” is the “owner” of that software under the Copyright Act.³

³ *See Novell, Inc. v. Network Trade Ctr., Inc.*, 25 F. Supp. 2d 1218, 1229-31 (D. Utah 1997), *vacated as result of settlement*, 187 (continued ...)

II. The Decision Below Ignores the Plain Language of the Copyright Act and Is Flatly Inconsistent With This Court's Decision in *Bobbs-Merrill*.

A. Relying on *MAI*, 991 F.2d 51, the Ninth Circuit below held that the first-sale doctrine as codified in § 109 does not apply when “a software user is a licensee, rather than an owner of a copy.” Pet. App. 16a. Commentators and courts have harshly criticized *MAI* for ignoring the Copyright Act's distinction between ownership of a copyright and ownership of a copy. *See, e.g., 2 Nimmer on Copyright* § 8.08(B)(1)(c) (describing *MAI*'s logic as “inadequate”); *see also Recommendation of the Register of Copyrights in RM 2008-8* 128 (stating that “the distinction between the owner of the work and the owner of a copy of a work is critical”).

The Copyright Act expressly provides that “[o]wnership of a copyright ... is distinct from ownership of any material object in which the work is embodied.” 17 U.S.C. § 202; *see Krause*, 402 F.3d at 122 (“Ownership of a copy is something distinct from copyright ownership.”). To “license” a copyrighted work under the Copyright Act is to transfer a portion or all of the copyright owner's exclusive rights under 17 U.S.C. § 106, including the ex-

F.R.D. 657 (D. Utah 1999); *ProCD, Inc. v. Zeidenberg*, 908 F. Supp. 640, 651 (W.D. Wis. 1996), *rev'd on other grounds*, 86 F.3d 1447; *Synergistic Techs., Inc. v. IDB Mobile Commc'ns, Inc.*, 871 F. Supp. 24, 29 (D.D.C. 1994); *Arizona Retail Sys. v. Software Link, Inc.*, 831 F. Supp. 759, 762 (D. Ariz. 1993); *Hosp. Computer Sys. v. Staten Island Hosp.*, 788 F. Supp. 1351, 1360 (D.N.J. 1992); *In re Amica, Inc.*, 135 B.R. 534, 552-53 (N.D. Ill. 1992); *see also 2 Nimmer on Copyright* § 8.08(B)(1) (arguing that courts should refer to the UCC to determine whether a person is the owner of a copy). *Cf. Foresight Res. Corp. v. Pfortmiller*, 719 F. Supp. 1006, 1009-10 (D. Kan. 1989) (concluding without explanation that an alleged infringer was an “owner” under § 117 and applying the UCC).

clusive right to make copies of a work, to distribute it, or to perform it publicly. *See* 17 U.S.C. § 101 (“transfer of copyright ownership”). The first-sale doctrine, however, does not apply to the owner of a license to distribute a copyrighted work, but to the “owner of a *particular copy*” of that work. *Id.* § 109(a) (emphasis added); *see also id.* § 117(a) (“owner of a copy”). Unlike the incorporeal rights granted by § 106, a “copy” is a “*material object ... in which a work is fixed.*” *Id.* § 101 (emphasis added). The Copyright Act does not grant copyright owners the right to “license” material objects—rather, it anticipates that copyright owners will distribute copies of their works in the ways that physical goods are typically distributed—“by sale or other transfer of ownership, or by rental, lease, or lending.” *Id.* § 106.

The Ninth Circuit here, however, held that copyright owners can “license” material objects that embody particular copies of their works. Pet. App. 16a. The Ninth Circuit’s holding not only ignores the Copyright Act’s distinction between ownership of copyright and ownership of particular copies in § 202, but also runs headlong into § 109’s guarantee that the “owner of a particular copy” may redistribute that copy “*without the authority of the copyright owner.*” *Id.* § 109(a) (emphasis added). By defining “owner of a particular copy” to depend on the copyright owner’s decision to grant or withhold permission to distribute copies in a license agreement, the Ninth Circuit allows copyright owners to prohibit resale simply by providing in a license agreement that resale is prohibited. The Ninth Circuit’s test transforms § 109’s guarantee of a right to dispose of copies “without the authority of the copyright owner” into a right to dispose of copies “only if the copyright owner does not prohibit it.”

B. The Ninth Circuit’s decision also flies in the face of *Bobbs-Merrill*, 210 U.S. 341. Just as the publisher in *Bobbs-Merrill* purported to grant a “license” that limited

subsequent distribution, *id.* (“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.” (emphasis added)), Autodesk purported to grant a license that limited subsequent distribution here. Pet. App. 62a (“Autodesk ... grants you a nonexclusive, nontransferable *license* to use the enclosed program.” (emphasis added)). But unlike the Ninth Circuit below, *Bobbs-Merrill* refused to give effect to the purported restriction on distribution, holding that Congress did not intend the copyright owner’s exclusive distribution right to include “the authority to control all future retail sales.” 210 U.S. at 351. This Court concluded that the Copyright Act does not “create the right to impose, by notice ... a limitation at which [a copy] shall be sold at retail by future purchasers, with whom there is no privity of contract.” *Id.* at 350.

The Ninth Circuit attempted to distinguish *Bobbs-Merrill* on two grounds. First, it stated that, because the case was “[d]ecided in 1908, *Bobbs-Merrill* did not and could not address the question of whether the right to use software is distinct from the ownership of copies of software.” Pet. App. 23a. But the Copyright Act does not distinguish books and software in this way. On the contrary, it provides 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. Moreover, Congress has already spoken directly to the first-sale doctrine’s applicability to software in § 109 by providing that software cannot be *rented*, but has not imposed any similar limitation on whether software can be sold or given away. *Id.* § 109(b).

Second, the decision below looked to this Court's statement in *Bobbs-Merrill* that the case involved "no claim ... of contract limitation, nor license agreement controlling the subsequent sales of the book." 210 U.S. at 350; Pet. App. 23a. The Ninth Circuit apparently read the lack of a license *agreement* in *Bobbs-Merrill* to mean that there was no *license*. But the publisher in *Bobbs-Merrill* was unquestionably attempting to use a license to impose a restriction on resale. 210 U.S. at 341 ("No dealer is licensed to sell it at a less price ..."). When *Bobbs-Merrill* said there was "no contract or license agreement," it meant only that there was "no privity of contract" between the copyright owner and the alleged infringer. *Id.* at 350; see *Quality King Distribs. v. L'anza Rsch. Int'l, Inc.*, 523 U.S. 135, 143 & n.10 (1998) (noting that the quoted language "emphasiz[es] the critical distinction between statutory rights and contract rights"). That is precisely the situation in this case: Vernor was a third party who did not agree to the copyright owner's license agreement and thus could not be bound by the license terms as a matter of contract law. Because Autodesk and Vernor had no contract, the existence of an agreement between Autodesk and a third party is irrelevant under *Bobbs-Merrill*.

III. The Ninth Circuit's Rule Undermines Consumers' Personal Property Rights and Destroys the Balance Created by the First-Sale Doctrine and Essential-Step Defense.

The first-sale doctrine is one of the key components of the balance of interests under the Copyright Act, reconciling copyright's interest in encouraging creative works with the countervailing individual interests in property ownership and societal interests in free alienability. See *Bobbs-Merrill*, 210 U.S. at 349-51. The doctrine reflects "the traditional bargain between the rights

of copyright owners” and “ensures that the copyright monopoly does not intrude on the personal property rights of the individual owner” by providing that owners of particular copies of a copyrighted work have the same right to sell, give away, or destroy those copies as they traditionally have with other personal property. *Brilliance Audio, Inc. v. Hights Cross Commc'ns, Inc.*, 474 F.3d 365, 373-74 (6th Cir. 2007); see *Sebastian Int'l v. Consumer Contacts*, 847 F.2d 1093, 1096 (3d Cir. 1988) (“The first sale rule is statutory, but finds its origins in the common law aversion to limiting the alienation of personal property.”).

By giving copyright owners the authority to control disposition of physical goods by “license” after releasing them into the stream of commerce, the Ninth Circuit’s decision cuts deeply into traditional rights of ownership and converts a wide range of otherwise innocent activities into copyright infringement. Because almost all commercial software is distributed under licenses similar to the one at issue in this case, the immediate effect of the decision is effectively to abolish the first-sale doctrine for software. See *Adobe Sys. Inc. v. One Stop Micro, Inc.*, 84 F. Supp. 2d 1086, 1091 (N.D. Cal. 2000) (“[V]irtually all end-users do not buy—but rather receive a license for—software.”). Indeed, the Ninth Circuit has acknowledged that, under its precedent, “the first sale doctrine rarely applies in the software world because software is rarely ‘sold.’” *Wall Data*, 447 F.3d at 785 n.9.

The Ninth Circuit’s decision below also renders the essential-step defense valueless because it requires software users to obtain the copyright owner’s permission before installing or running software on their computers. Section 117 thus cannot fulfill the purpose for which it was adopted—to ensure that “persons in rightful possession of copies of programs [should] be able to use them freely without fear of exposure to copyright liability.”

Aymes v. Bonelli, 47 F.3d 23, 26 (2d Cir. 1995). As the Second Circuit has observed, “[n]o buyer would pay for a program without such a right.” *Id.*

Following the decision below, any software licenses that do not already satisfy the decision’s three-part test will quickly be brought into line. Lawyers representing the software industry have already recommended that software companies review their licenses to ensure that the Ninth Circuit’s test is satisfied. One Silicon Valley firm described the decision below as “a template for software licensors who wish to make sure that their software is ... not deemed to have been ‘sold.’” Fenwick & West LLP, *Copyright Alert: I Bought It; I Own It—Or Do I?*, available at http://www.fenwick.com/docstore/publications/ip/copyright_alert_09-13-10.pdf.⁴ The Ninth Circuit’s test also provides a roadmap for owners of other kinds of copyrights to follow the software industry’s example. Nothing under the test would prevent book publishers, for example, from printing a “license agreement” on the copyright page of their books imposing the same prohibition that this Court refused to allow in *Bobbs-Merrill*. Moreover, such restrictions could appear on any product that is sold with labels, logos, packaging, or instruction manuals in which the copyright owner claims a copyright interest. See, e.g., *Quality King*, 523 U.S. at 138 (copyrighted shampoo label);

⁴ See also, e.g., Skadden, Arps, Slate, Meagher & Flom LLP, *Ninth Circuit Hands Software Vendors Significant Victory Against Resellers*, Oct. 6, 2010, available at <http://www.skadden.com/Index.cfm?contentID=51&itemID=2241> (“Software vendors that wish to maintain control over further sales and modifications of the software should ensure that their purchasers assent to the terms of an end-user license agreement” that comply with the Ninth Circuit’s test).

Omega, S.A. v. Costco Wholesale Corp., 541 F.3d 982 (9th Cir. 2010), *aff'd by an equally divided Court*, 562 U.S. ____ (2010) (copyrighted watch logo); *Denbicare U.S.A. Inc. v. Toys R Us, Inc.*, 84 F.3d 1143 (9th Cir. 1996) (copyrighted diaper packaging); *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994) (copyrighted perfume boxes).

To avoid the risk of liability under the Ninth Circuit's holding, consumers would be forced to trace the chain of title of copyrighted works to ensure that ownership has been properly transferred and that no licensing terms have been imposed in the copy's history. A consumer purchasing a package of new software from a computer store, for example, would face copyright liability for installing and running the software if either the store or its suppliers breached licensing terms in their distribution agreements. But unlike real property, for which transfer of titles is recorded, there is no practical way for a purchaser of consumer goods to obtain such information. Moreover, a mistake in determining a product's ancestry could subject the purchaser to severe liability, including up to \$150,000 in statutory damages per infringing work, plus attorneys' fees. In the case of willful infringement, criminal penalties could apply. *See* 17 U.S.C. §§ 504, 506(a)(1).

The Ninth Circuit below "recognize[d] the significant policy considerations raised by the parties and amici on both sides" of the appeal but declined to consider them in light of its own precedent. Pet. App. 24a. This Court should correct the Ninth Circuit's mistaken and harmful interpretation of the Copyright Act.

CONCLUSION

The petition for a writ of certiorari should be granted.

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