No. 10-1421

In The
Supreme Court of the United States

TIMOTHY S. VERNOR,

Petitioner,

v.

AUTODESK, INC.,

Respondent.

On Petition For A Writ Of Certiorari To The United States Court of Appeals For The Ninth Circuit

BRIEF IN OPPOSITION

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QUESTIONS PRESENTED

The AutoCAD®, Release 14 ("AutoCAD R14") software copies in controversy here were transferred from Respondent Autodesk, Inc. to Cardwell/Thomas & Associates, Inc. ("CTA") pursuant to a Software License Agreement that was incorporated into a settlement agreement negotiated by the parties as a result of CTA's unauthorized use of Autodesk's software products. As most software vendors do, Autodesk distributed those software copies under a limited license specifying that Autodesk retained title to the copies. The license also delineated CTA's entitlements to install and use the software copies on a computer and restricted transfer of those copies. Section 109(a) of the Copyright Act gives the "owner" of a copy of a copyrighted work the right to resell it, and Section 117(a) gives the "owner" of a computer software copy the right to make additional copies that are "essential step[s]" in the software program's use. The questions presented are:

Where a computer software license provides that the software developer retains title to the software copy, defines the software user as a licensee, and imposes significant restrictions on both use and transfer of the software copy:

1. Is the software user an "owner" of the software copy who, under the "first sale" doctrine codified in Section 109(a) of the Copyright Act, is statutorily authorized to retransfer the software copy despite the software license's prohibitions against retransfer?

2. Is a subsequent transferee of the software copy an "owner" of the copy who is authorized by Section 117(a) of the Copyright Act to install the licensed software onto its computer even though such installation is not authorized by the terms of the software license?

RULE 29.6 STATEMENT

Respondent Autodesk, Inc. has no parent corporation. No publicly held company owns 10% or more of its stock.

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INTRODUCTION

Based on a legal theory that no Court of Appeals has ever adopted, Petitioner asks this Court to grant certiorari to impose restrictions upon the computer software industry that Congress has never seen fit to enact. Petitioner seeks to find in the Copyright Act a new rule that would treat the grant of a limited software license to a copy of software as an outright "sale" despite a written agreement between the software developer and software user that the developer retains title and the user agrees to significant restrictions on use and transfer of the software copy. Consequently, the "first sale" doctrine (17 U.S.C. §109(a)) and the "essential step" defense (*id.* §117(a)) would apply, effectively nullifying the parties' agreement that the user would obtain a license to the software copy rather than outright ownership. Petitioner's proposed rule would upend the distribution practices of the computer software industry used by this vital sector of the American economy for at least the past three decades and restrict the ability of parties to negotiate contract terms of their own choosing.

Although the Petition asserts that the decision below conflicts with the decision of this Court in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 341 (1908), no such conflict exists. And although the Petition also asserts that the decision below conflicts with decisions of the Second and Federal Circuits, in fact the decisions of every Circuit to have considered the issues presented are in harmony. Petitioner cannot cite a single appellate decision adopting his theory that a software copy distributed pursuant to a license, with title to the copy reserved to the developer/copyright owner and subject to significant restrictions on use and transfer, has been "sold" for purposes of Sections 109 and 117(a) of the Copyright Act. There is no conflict for this Court to resolve.

Although every appellate decision considering the issue has held that Sections 109(a) and 117(a) are inapplicable to licensees of copies of computer software or other copyrighted works, and although Congress has never sought to overturn these precedents, Petitioner Vernor asks this Court to embrace a new rule that would treat virtually every transfer of a copy of computer software as a "sale" regardless of the terms of the transaction. But for more than thirty years, the software industry has distributed most copies of software under a licensing model, with restrictions on the licensee's use and transfer of the copies. Decisions of the Courts of Appeals have established that copies of copyrighted works such as motion pictures and computer software may be distributed by license, with title to the copies retained by the copyright owner. Those decisions held that the "first sale" doctrine codified in Section 109(a) of the Copyright Act and the "essential step" defense established by Section 117(a)—both of which apply only to an "owner" of a copy of the work—are inapplicable to copies distributed using a limited license. The decision below merely reaffirms those precedents.

As the Ninth Circuit acknowledged, there *are* policy arguments on both sides of the question of whether a user who obtains a computer software copy should be able to freely transfer ownership of the copy. Given the adverse impact on a vital sector of the American economy, those public policy considerations are matters for Congress to consider and any proposal to impose this new rule by legislation would generate spirited opposition. Neither party can say whether Congress would agree to the new regime advocated by Petitioner; for the present, however, it is enough to say that if any such dramatic change in economic and copyright policy is to come, it must be Congress—not the judicial branch—that brings it about. *See Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 153 (1998); *see also Microsoft Corp. v. i4i Ltd. P'ship*, —U.S.—, No. 10-290, 2011 WL 2224428, at *11-*12 (June 9, 2011).[1]

STATEMENT OF THE CASE

A. Autodesk's AutoCAD Software.

Autodesk makes computer-aided design ("CAD") software used by architects, engineers, manufacturers, and others. 2-ER-147 ¶3. Since Autodesk introduced its flagship product, AutoCAD (a software application for 2-D and 3-D design and drafting), almost thirty years ago, Autodesk has invested billions of dollars in research and development to improve its software products and has licensed them to more than nine million users worldwide. 2-ER-147 ¶4. Autodesk has registered its copyrights in the

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[1] *See Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 346 (1908) ("The copyright statutes ought to be reasonably construed, with a view to effecting the purpose intended by Congress. They ought not to be unduly extended by judicial construction to include privileges not intended to be conferred, nor so narrowly construed as to deprive those entitled to their benefit of the rights Congress intended to grant").

AutoCAD software programs, including the version at issue in this case, AutoCAD R14. 2-ER-147 ¶5.

B. Autodesk's Licensing Practices.

Autodesk makes copies of its software available to users through license agreements. 2-ER-148 ¶8. AutoCAD software users must accept the terms and conditions of the applicable license agreement before they can install the program on their computers. 2-ER-148-49 ¶8.

Like many software companies, Autodesk offers users a variety of options for use of its software. 2-ER-149 ¶10. One user may license AutoCAD for use on five computers, and another may license it for use on 200 computers. *Id.* Autodesk also uses a multi-tier licensing structure for different categories of users—such as commercial users, educational institutions, and students—enabling it to offer different terms for essentially the same software. 2-ER-149-50 ¶¶12-15. For example, the "commercial" license is the most expensive because it places the fewest restrictions on the licensee's use of the software and offers the user an opportunity to obtain upgrades to the software at a reduced price. 2-ER-149-50 ¶12. The license to educational institutions and students, on the other hand, is offered at a significantly reduced price and prohibits use of the software copies for commercial purposes. 2-ER-150 ¶¶13-14.

Over the years, Autodesk has modified the means by which it distributes AutoCAD to users. 2-ER-147-48 ¶6. Initially, in the 1980s and 1990s, Autodesk provided users with multiple floppy discs that had to be installed sequentially in order to load the entire program on their computers. *Id*; 2-ER-151-52 ¶19.

The applicable license agreement at that time required users to return the "No. 1 Disc," which was encoded with the product serial number, in order to upgrade to a newer version of the software. 2-ER-151-52 ¶19. Autodesk abandoned this practice because it was slow, unwieldy, and ultimately unworkable. *Id.* Autodesk's cost for processing the returns of the discs far outweighed the monetary value of the discs themselves, and the cost to create a new disc was negligible because of the digital nature of the software. 2-ER-148 ¶7; 152 ¶19. As technology evolved, Autodesk became better able to monitor product serial numbers through its database of registered licensees and could ensure licensee compliance following upgrades through technological measures. 2-ER-151-52 ¶19. Autodesk designed these measures to deter licensees from transferring copies of the older version of the AutoCAD software to third parties. 2-ER-152-53 ¶¶19-23.

For instance, in order to continue using AutoCAD R14 thirty days or more after installing the software on a computer hard drive, the program required the user to input an "activation" code. 2-ER-152-53 ¶¶20-22. The only authorized way to obtain this activation code was to register the software with Autodesk by providing the product's unique serial number and the user's information. 2-ER-153 ¶22. Autodesk would then provide the authorization code to the user only if Autodesk's database confirmed that the serial number was authentic, a prior user had not registered the product, and the product had not been upgraded (because, with an upgrade, Autodesk's license agreements required the user to destroy previously licensed software). *Id.*

Autodesk's activation code system helped both to ensure license compliance and to deter piracy of the software. After installation, a copy of the software would reside on the user's hard drive. 2-ER-150-51 ¶17. The requirement of an activation code supported the license agreement's prohibition on transferring copies of the software to a third party and, in particular, sought to prevent the user from transferring the CD-ROM containing the AutoCAD program to a third party while continuing to use the copy of the program previously installed on its hard drive. 2-ER-150-51 ¶17; 152-53 ¶¶19-23. Unless the original licensee saved the activation code that it received from Autodesk when registering the software copy and gave that code to a subsequent, unauthorized user, that user would be unable to use the software for more than thirty days. *Id.*

These measures made it possible for Autodesk to provide AutoCAD on CD-ROMs and DVDs. 2-ER-147-48 ¶6. Autodesk also now distributes copies of its software through Internet downloads. *Id.*

C. Autodesk Licensed Copies Of AutoCAD R14 Software To CTA.

The AutoCAD R14 software copies at issue here were transferred from Autodesk to CTA, an architecture firm, pursuant to a Software License Agreement ("SLA") that reserved Autodesk's ownership in those copies, prohibited their transfer, and significantly restricted CTA's rights to use them. The SLA governing the use of the AutoCAD R14 software copies was incorporated into a settlement agreement that Autodesk and CTA entered into in March 1999 as a result of CTA's unauthorized use of Autodesk's software products ("Settlement

Agreement"). 2-ER-163 ¶7; 165-72; 166-67 ¶4; 170-71. Under this Settlement Agreement, Autodesk licensed ten copies of AutoCAD R14 and one copy of AutoCAD LT to CTA. 2-ER-163 ¶8; 165-66 ¶1. CTA was represented by counsel in the arm's-length negotiation of the Settlement Agreement. 2-ER-163 ¶7.

CTA reaffirmed its assent to the SLA in several ways. Each of the ten AutoCAD R14 packages provided to CTA contained a printout of the SLA. 2-ER-164 ¶14; 170-71. Each package of AutoCAD R14 also contained a CD-ROM jewel case, which was sealed with a warning sticker providing that the software was being "licensed subject to the license agreement that appears during the installation process or is included in the package" and that the user could return the copy of the software if it did not wish to accept the terms of this agreement. 2-ER-163-64 ¶¶11-12; 173. When installing the copies of the software on its computers' hard drives, CTA again agreed to the terms and conditions of the SLA by clicking its acceptance on a click-through screen. 2-ER-164 ¶13; 174.

Retention Of Title And Copyrights. The SLA provided that "[t]itle and copyrights to the Software and accompanying materials and any copies made by you remain with Autodesk." 2-ER-171 at "COPYRIGHT."[2] The SLA also stated repeatedly that Autodesk is licensing, and not selling, copies of the AutoCAD R14 software. *See, e.g.*, 2-ER-170 at "IMPORTANT" ("BY OPENING THE SEALED SOFTWARE PACKET(S), YOU AGREE TO BE

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[2]Because the SLA contains no numbered paragraphs, Autodesk cites it by reference to its boldface headings.

BOUND BY THE TERMS AND CONDITIONS OF THIS LICENSE AGREEMENT. THESE ARE THE ONLY TERMS UPON WHICH AUTODESK SOFTWARE PRODUCTS ARE LICENSED"); *id.* at "GRANT OF LICENSE" ("Autodesk, Inc. ('Autodesk') grants you a nonexclusive, nontransferable license to use the enclosed program (the 'Software') according to the terms and conditions herein").

Transfer Restrictions. The SLA prohibited any transfer of the software copies without Autodesk's prior written consent: "YOU MAY NOT. . . . rent, lease, or transfer all or part of the Software, Documentation, or any rights granted hereunder to any other person without Autodesk's prior written consent . . . ." *Id.* at "RESTRICTIONS." Separately, the SLA prohibited transfer of the software outside of the Western Hemisphere. *See id.* ("YOU MAY NOT USE OR TRANSFER THE SOFTWARE OUTSIDE OF THE WESTERN HEMISPHERE . . .").

Use Restrictions. The SLA specified numerous restrictions on the licensee's use of the software: "YOU MAY NOT: (1) modify, translate, reverse-engineer, decompile, or disassemble the Software; . . . (3) remove any proprietary notices, labels, or marks from the Software or Documentation; (4) use or transfer the Software outside of the Western Hemisphere; (5) utilize any computer hardware or software designed to defeat any hardware copy-protection device . . . ; or (6) use the Software for commercial or other revenue-generating purposes if the Software has been licensed or labeled for educational use only." *Id.*

Termination Rights. So long as CTA complied with the terms and conditions of the SLA, it had a license to use the software copies and also to install them on two computers, provided that CTA used only one of the installed software copies at a time. *Id.* at "GRANT OF LICENSE." However, the SLA provided that failure to comply with the license restrictions and terms would automatically result in license termination: "Unauthorized copying of the Software or Documentation, or failure to comply with the above restrictions, will result in automatic termination of this license." 2-ER-171 at "COPYRIGHT." CTA's use of AutoCAD R14 was, therefore, conditioned on its compliance with the SLA.

2000 Upgrade Terms, Including Requirement That CTA Destroy Superseded Software: CTA later upgraded its ten AutoCAD R14 licenses to a newer version of the program, AutoCAD 2000. 2-ER-162 ¶4; 183-84 ¶7. CTA received a significant discount on these upgrade licenses: it paid only $495 per license compared to $3,750 for a new license. *Id.* The AutoCAD 2000 software license agreement to which CTA consented required CTA to destroy its AutoCAD R14 software copies. 2-ER-183-84 ¶7; 305 ¶3; 308 at "UPGRADES" (providing that "[i]f this Software is labeled as an upgrade to software previously licensed to you, you must destroy all copies of the software previously licensed to you replaced by this Software, including any copies resident on your hard disk drive").

D. CTA's Transfer Of Possession Of AutoCAD R14 Software Copies To Vernor.

Rather than destroying the AutoCAD R14 software copies after installing the upgraded software, as required by the SLA, CTA made them available at an office sale, where they were obtained by Petitioner Vernor. This transfer from CTA to Vernor, in violation of the terms of the SLA, led to the present litigation.

Vernor runs a business under the name Happy Hour Comics through which he purchases items such as software and comic books at garage sales, office sales, and flea markets and resells these items online on websites such as eBay.com. 2-ER-298 ¶¶2-3. In April 2007, at CTA's office sale, Vernor obtained four of the AutoCAD R14 software packages that had been transferred from Autodesk to CTA pursuant to the Settlement Agreement. 2-ER-156-57, 163 ¶9; 185 ¶11; 301 ¶14. The unique activation codes necessary to install and activate the software were handwritten on each of the CD-ROM jewel cases. 2-ER-153-54 ¶24; 156-57, 247-48.

Soon thereafter, Vernor listed these packages for sale on eBay. 2-ER-301 ¶¶14-15. While Vernor did not install the AutoCAD R14 software on any computer, he was aware of the terms of the SLA contained in the packages, including the provision restricting transfer of the software copies. 2-ER-236, 246. Vernor stated in his eBay listing for these packages that "[t]his software is not currently installed on any computer," but he did not know whether or not that was true. 2-ER-243-45, 252.

For each AutoCAD R14 copy listed for sale by Vernor, Autodesk sent a notice of claimed infringement to eBay, which requested that eBay discontinue Vernor's attempts to auction these items off through the eBay website. 2-ER-301 ¶¶15-17. Vernor responded by sending counter-notices to eBay claiming that his sales were non-infringing. *Id.* Prior to bringing suit against Autodesk, Vernor auctioned off two of the AutoCAD R14 software packages he obtained from CTA. 2-ER-238.

REASONS WHY THE PETITION SHOULD BE DENIED

I.

THE NINTH CIRCUIT'S DECISION DOES NOT CONFLICT WITH ANY DECISION OF ANY CIRCUIT COURT.

A major premise of the Petition is that the applicability of the first sale doctrine under Section 109(a) of the Copyright Act, and of the essential step defense under 117(a), are the subject of a confusing "cacophony" and that there is a fundamental conflict—a "deep division" (Pet. 10)—between the decision below and decisions of the Federal and Second Circuits. Pet. 10-16. The premise is false: there is no conflict.

By their terms, Sections 109(a) and 117(a) apply only to the "owner" of a copy of a copyrighted work. If CTA was not an owner, it had no "first sale" right under Section 109(a) and could not confer the status of owner on Vernor for purposes either of Section 109(a) or Section 117(a). This much is undisputed.

Accordingly, for there to be a material conflict in the decisions of the Courts of Appeal for this Court to resolve in this case, there would have to be a decision of a Court of Appeals that would support the proposition that CTA was an "owner" of the software copies within the meaning of Sections 109(a) and 117(a), even though Autodesk and CTA agreed that (1) Autodesk reserved title to the software copies; (2) CTA was a licensee of the software copies; (3) CTA could not transfer the software copies without Autodesk's prior written consent; (4) CTA could not modify, translate, reverse-engineer, or disassemble the software; (5) CTA could not use or transfer the software outside the Western Hemisphere; (6) CTA could not defeat any copy-protection device; (7) CTA could only install the software on two computers, and use only one of them at a time; and (8) any failure to comply with a license restriction would result in automatic license termination. *See* pp.7-9, *supra.* In addition, the agreement under which CTA obtained the 2000 upgrade required it to destroy all copies of the older software which the upgrade replaced—that is, to destroy the software copies obtained by Vernor from CTA that are at issue in this case. 2-ER-183-84 ¶7; 305 ¶3; 308 at "UPGRADES." *See* p.9, *supra*.

Vernor has not cited a single decision of a Court of Appeals from any Circuit that would support his contention that, in these circumstances, CTA was the "owner" of the software for purposes of Section 109(a) or Section 117(a). There is none. The decisions of the Second Circuit and Federal Circuit that Vernor claims conflict with the decision below—*Krause v. Titleserv, Inc.*, 402 F.3d 119 (2d Cir. 2005) and *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354 (Fed. Cir. 1999)—are entirely consistent with the Ninth Circuit's opinion.

1. The Petition begins with a misstatement of the Ninth Circuit's actual holding in this case. According to Vernor, "[t]he 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." Pet. 12. Not so. A footnote in an earlier case, *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 518 n.5 (9th Cir. 1993), had stated such a rule, and it was criticized by the Federal Circuit as overly simplistic. *DSC Commc'ns*, 170 F.3d at 1360. Thereafter, in *Wall Data, Inc. v. Los Angeles County Sheriff's Dep't*, 447 F.3d 769 (9th Cir. 2006), the Ninth Circuit acknowledged the

Federal Circuit's criticism (*id.* at 785 n.9) and stated the test in a narrower, more refined way: "if the copyright owner makes it clear that she or he is granting only a license to the copy of software *and imposes significant restrictions on the purchaser's ability to redistribute or transfer that copy*, the purchaser is considered a licensee, not an owner, of the software." *Id.* at 785 (emphasis added).

In the present case, the Ninth Circuit took note of its earlier decisions and embraced the *Wall Data* formulation. It also reviewed an even earlier decision, *United States v. Wise*, 550 F.2d 1180 (9th Cir. 1977), which involved copies of motion pictures, in which it held that some had been provided under license (and were not subject to the first sale rule) and that others had been sold (and therefore were subject to that rule). Surveying *Wise* and later decisions, including *Wall Data*, the Ninth Circuit "reconcile[d]" its prior decisions (App. 16a), articulating the rule that

> a software user is a licensee rather than an owner of a copy where 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. (App. 17a-18a)

Applying that rule, the Ninth Circuit held that CTA was a licensee, not an owner, of the software copies because the SLA denominated the agreement as a license, reserved to Autodesk title to the software copies, significantly restricted CTA's ability to transfer the software (by prohibiting transfers without Autodesk's consent), and imposed notable use restrictions. App. 18a-19a.[3] *That* holding, not the footnote in the 1993 *MAI* opinion, is what must be compared to decisions of the Federal and Second Circuits to determine whether there is a present conflict meriting resolution by this Court.[4]

2. The Petition also misdescribes the relevant precedents of the Federal and Second Circuits. In *DSC Communications*, the copyright owner (DSC) manufactured and sold hardware used in telephone systems in which the software at issue resided in volatile memory. 170 F.3d at 1357-58. Pulsecom made a competing card that, when installed in the systems, downloaded the DSC software into the telephone company computers' resident memory. *Id.* at 1358. DSC claimed that this copying was an act of infringement; Pulsecom countered that the copying was authorized by Section 117(a) because it was an "essential step" in the utilization of the DSC software. *Id.* at 1359-60.

The Federal Circuit held that Section 117(a) was *inapplicable* because the telephone companies were

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[3]*Amici* repeatedly disparage the decision below as turning on the use of "magic words" in the contract between Autodesk and CTA. They use this colorful rhetoric to suggest that there is something undesirable about allowing the commercial parties to define their respective rights—in this case to define who owns the software copy and the scope of the transferee's rights to use and resell it.

[4]While Congress subsequently enacted a new, narrow exemption that permitted licensees and other non-owners who lawfully possess a copy of software on their computers to make a copy of the computer program for repair or maintenance purposes under certain conditions, it accepted *MAI*'s premise—that licensees of software are not protected by Section 117(a). 17 U.S.C. §117(c); *see* pp.27-28, *infra*.

licensees, not owners, of the DSC software. *Id.* at 1361; *see id* at 1358 (noting the agreements "contain provisions that license, under a variety of restrictions, the . . . software to the [telephone companies]"). The court noted that each of the DSC-telephone company agreements reserved "[a]ll rights, title and interest in the Software" to DSC. *Id.* at 1361. It found that these reservations of ownership applied to "the copies of the software . . . , not [to] DSC's copyright interest in the software." *Id.* In addition, the court found that the "restrictions imposed on the [telephone companies'] rights with respect to the software are consistent with that characterization." *Id.* These included limits on the right to transfer the software copies. *Id.*

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

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

In short, *DSC,* like the decision in the present case, held—based on an agreement retaining title in the copyright owner and restricting transfer and use of the software copy and despite the user's single payment and possession for an unlimited period of time—that the software copy was licensed, not sold, and that the user was a licensee, not an "owner," for purposes of Section 117(a). *DSC* is in accord with the decision below, not in conflict with it.[5]

3. The other assertedly conflicting decision is *Krause*, which the Petition fails to accurately describe. While the Second Circuit held in that case that the software transfer in question was a sale, not a limited license, the facts were entirely different and the result is consistent with the decision below. Unlike the present case, there was no agreement between the parties that reserved title to the software copies to the copyright owner or designated the arrangement as a license; indeed, there was no written agreement at all. At issue were eight software programs written by Krause at his employer Titleserv's behest, which were then installed on Titleserv's computer network. 402 F.3d at 120-21. Krause claimed that Titleserv's modifications of the programs infringed his copyright interests. *Id.* at 121. Under the circumstances, the court had no agreement on which it could base a determination of whether Titleserv was a licensee or an owner of the software copies it installed. Looking at the relevant circumstances, the court found that Titleserv was the owner. *Id.* at 124. Not a word in the opinion suggests that if Krause and Titleserv *had* entered into a

[5]Unlike Vernor, *Amici* do not attempt to argue that the decision conflicts with *DSC*. Brief of Amici Curiae American Library Ass'n et al. in Support of Petition for Writ of Certiorari ("Amici Brf.") at 21-24.

contract providing that title to the software copies was reserved to Krause, that Titleserv was a licensee of the software copies, and that Titleserv's rights to use and transfer the software copies were significantly restricted, the court would nonetheless have held that Titleserv was an "owner" under the Copyright Act.[6]

4. Vernor mischaracterizes the decisions in *DSC Communications* and *Krause.* He says that those cases held 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." Pet. 14. That statement is wrong in every respect.

In the first place, the Copyright Act does not preclude the "'licensing' of material objects." *See* p.23-25, *infra*. Nor did the Federal Circuit or Second Circuit ever say that it did.

Moreover, neither the Federal nor the Second Circuit said that the grant of a license is *irrelevant* to the question of ownership. In *DSC Communications*, the software users *did* have a license applicable both to the copyright and the actual copies of the software, and the Federal Circuit carefully examined the terms of that license in concluding that the software users were *not* owners for purposes of Section 117.

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[6]Vernor acknowledges that there was no written license agreement in *Krause* and attempts to find a factual affinity with this case by noting that there was no license agreement between Autodesk and Vernor either. Pet. 15. This is a misguided comparison. The applicability of Sections 109(a) and 117(a) in this case depends on whether CTA—not Vernor—is an "owner" of the AutoCAD R14 software copies at issue pursuant to the terms of the agreement between Autodesk and CTA.

170 F.3d at 1360. In *Krause*, the software was created by an employee of the software possessor for the specific (and sole) purpose of installing it on the employer's computers.[7] There was no written agreement of either a sale or license.

5. *Amici* incorrectly assert that in *Krause*, "the software recipient orally agreed 'to possess the copies as a mere licensee" (Brief of Amici Curiae American Library Ass'n et al. in Support of Petition for Writ of Certiorari ("Amici Brf.") at 23); actually, the Second Circuit found as a fact that the evidence did not support this contention. *See* 402 F.3d at 124 & n.3. Given these facts, absent any agreement reserving title to the employee/copyright owner or any agreement restricting use and transfer, the employer which "paid substantial sums, to possess and use a copy indefinitely *without material restriction*, as well as to discard or destroy it at will, [had] sufficient incidents of ownership to make it the owner of the copy for purposes of applying §117(a)." *Id.* at 124-25 (emphasis added). That perfectly reasonable conclusion in *Krause* is not in conflict with the decision below. *Amici's* assertion that "applying the Ninth Circuit's *Vernor* rule to the facts of *Krause* would likely result in the opposite outcome" (Amici Brf. 23) is meritless.

6. Petitioner also claims a conflict between the decision below and the decisions in *DSC* and *Krause* in that the Federal and Second Circuits criticized a

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[7] As the court explained, the employer "paid Krause substantial consideration to develop the programs for its sole benefit. Krause customized the software to serve Titleserv's operations. The copies were stored on a server owned by Titleserv." 402 F.3d. at 124.

footnote in the Ninth Circuit's 1993 decision in *MAI* for failing to recognize the difference between licensing of the underlying software copyright and licensing of the software copy. Pet. 13, 14. Any criticism of the *MAI* footnote is rendered moot by subsequent Ninth Circuit authority and, in particular, by the decision in this case. As we have explained (*see* pp.12-14, *supra*), the Ninth Circuit's more recent decisions have recognized the criticism of the *MAI* footnote and have based their holdings on findings that the software transfers in question were licenses of the software copies. *Wall Data*, 447 F.3d at 785 (asking whether the copyright owner made it "clear that she or he is granting only a *license to the copy of software* and imposes significant restrictions on the purchaser's ability to redistribute or transfer that copy"; holding that "the Sheriff's Department is not the '*owner' of copies of Wall Data's software*") (emphases added); App. 17a (Court of Appeals below) (the test adopted determines whether "a software user is a licensee rather than an owner *of a copy*") (emphasis added); App. 18a (holding that "CTA was a licensee rather than an *owner of copies* of Release 14") (emphasis added).

7. Vernor also implies that there is a conflict between the Ninth, Second, and Federal Circuits and decisions of the Third, Fifth, Sixth, Seventh, and Eighth Circuits on the issue of whether federal or state law governs the issue of "the meaning of 'owner' under the Copyright Act." Pet. 16-17. That's wrong too.

All the relevant decisions—*and both parties here*—agree that the issue of whether one is an "owner" or a "licensee" for purposes of Sections 109(a) and 117(a) is a question of federal law. The decisions of the Third, Sixth, Seventh, and Eighth Circuits cited in the Petition (at pp.17-18)[8] deal with questions of state law, not federal copyright law.

In the Fifth Circuit case, *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255 (5th Cir. 1988), it appears to have been undisputed that the software user was an "owner" of the software copy for purposes of Section 117(a); the copyright holder (Vault) merely contended that the essential step doctrine was inapplicable because the software user copied the program into computer memory "for the express purpose of devising a means of defeating its protective function . . . ." *See id.* at 261.[9] The opinion therefore does not even consider the "owner" vs. "licensee" issue, let alone analyze the issue of whether state or federal law would have governed that unaddressed question.

8. Finally, the Petition cites two documents from the Register of Copyrights that supposedly demonstrate that the test for determining whether a software consumer is a licensee or an owner for purposes of Section 117(a) is uncertain and in need of clarification. *See* Pet. 10. The *Recommendation of the Register of Copyrights in RM 2008-8* (June 11, 2010) cited by Petitioner predates the decision in this case; the uncertainty referred to was largely

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[8] *Davidson & Assocs. v. Jung*, 422 F.3d 630 (8th Cir. 2005); *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996); *Nat'l Car Rental Sys., Inc. v. Computer Assocs. Int'l, Inc.*, 991 F.2d 426 (8th Cir. 1993); *Advent Sys. Ltd. v. Unisys Corp.*, 925 F.2d 670 (3d Cir. 1991).

[9] The Fifth Circuit held that if otherwise applicable, Section 117(a) could not be defeated by showing that it was used for a purpose not intended by the copyright owner. 847 F.2d at 261.

created by the District Court decision in the present case, now reversed by the Ninth Circuit. And the *Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies*, 75 Fed. Reg. 43,825 (July 27, 2010), makes no reference to it. The uncertainty referred to there concerned whether the purchaser of an iPhone, who is unquestionably the owner of the hardware device, is also the owner for purposes of Section 117(a) of the software hardwired into a chip. The Register could find no case addressing that particular factual circumstance, and based the opinion on another ground.[10] While the opinions in *Krause*, *DSC*, *MAI*, *Wall Data*, and now *Vernor* do not resolve *that* more difficult question, that is hardly a reason for granting certiorari in a case that resolves a more straightforward issue in a way consistent with other Circuit precedents.

II.

THE DECISION BELOW—AND THE COUNTERPART DECISIONS OF THE FEDERAL AND SECOND CIRCUITS—DO NOT CONFLICT WITH *BOBBS-MERRILL.*

The Petition also claims that Autodesk's use of a license "flies in the face" (Pet. 20) of *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908), because *Bobbs-*

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[10]"Although Apple retains ownership of the computer programs, the contracts also expressly grant users ownership of the device. Since the 'copy' of the computer program is fixed in hardware of the device, it is unclear what ownership status is to be given to the particular copy of the computer program contained in the device." 75 Fed. Reg. at 43,829.

Merrill "refused to give effect to [a] purported restriction on distribution." Pet. 21. Vernor contends that, like this case, *Bobbs-Merrill* involved an attempt by the copyright owner to create a license to the copies of the copyrighted work and, therefore, that the terms of a license agreement's restriction on resale or transfer cannot be enforced. Pet. 22. Vernor is wrong.

The Petition does not describe the terms of the "license" that was purportedly at issue in *Bobbs-Merrill*. And for good reason: in fact, there was no license of any kind between the book publisher and the bookseller (R.H. Macy & Company): "[t]he facts disclose a sale of a book at wholesale by the owners of the copyright, at a satisfactory price, *and this without agreement between the parties to such sale . . . .*" 210 U.S. at 343 (emphasis added). Bobbs-Merrill claimed that because it had unilaterally printed in the book's flyleaf that it could not be resold for less than "$1 net," Macy's sale of the books for 89 cents statutorily infringed Bobbs-Merrill's copyright. *See id.* at 341-43. The Court held that the first sale rule applies where the copyright holder has attempted to place a price restriction "after the owner ha[s] *parted with the title* to one who ha[s] acquired *full dominion* over it . . . ." *Id.* at 350 (emphases added). The Court added that "it is to be remembered that this is purely a question of statutory construction. *There is no claim in this case of contract limitation, nor license agreement* *controlling the subsequent sales of the book.*"[11] *Id.* (emphasis added).

Many cases have held that the first sale doctrine declared in *Bobbs-Merrill*, and later codified, applies only where there has been a "sale" (or gift) but not where there has been a transfer pursuant to license. *See* pp.12-19, *supra*. There was no claim in *Bobbs-Merrill* that the transfer of the books was anything but an outright sale. *Bobbs-Merrill* is, therefore, entirely unhelpful on the question presented here.

III.

AN ESSENTIAL PREMISE OF THE PETITION—THAT THE COPYRIGHT ACT DOES NOT AUTHORIZE LICENSING OF TANGIBLE COPIES OF COPYRIGHTED WORKS—IS WRONG.

A central premise of the Petition is that the Copyright Act only allows copyright holders to license the exclusive rights conferred by Section 106 of the Act, and

> does not grant copyright owners the right to "license" material objects—rather, it anticipates the copyright owners will distribute copies of their works in the ways that physical goods are

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[11]Vernor seizes on the publisher's unilateral assertion in the book that "'[n]o dealer is licensed to sell it at a less price.'" Pet. 22 (quoting 210 U.S. at 341). But on its face, this was not an assertion of a license, but rather an assertion that there was *no* license. The publisher apparently assumed that in the absence of a "license," it could control the terms of resale. The opinion rejected *that* assumption, but it is clear from the opinion that there was no license agreement—or contract of any kind—between Bobbs-Merrill and Macy.

> typically distributed—"by sale or other transfer of ownership, or by rental, lease, or lending." [17 U.S.C.] § 106. (Pet. 20)

It follows, Petitioner contends, that the Ninth Circuit erred by holding "that copyright owners can 'license' material objects that embody particular copies of their works" (*id.*) and that Autodesk's transfer of only limited rights to the software copies acquired by CTA pursuant to the SLA must therefore be deemed an outright sale.

Vernor's premise—unsupported by any citation of authority[12]—is wrong. Section 106(3) includes among the exclusive rights of the copyright owner the right 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* . . . ." (Emphasis added). Moreover, Section 109(d) broadly excludes all non-owners from the first sale doctrine, not just those who rent, lease, or lend: it provides that "[t]he privileges prescribed by subsections (a) and (c) do not, unless authorized by the copyright owner, extend to any person who has acquired possession of the copy . . . from the copyright owner, by rental, lease, loan, *or otherwise*, without acquiring ownership of it." (Emphasis added). Indeed, this Court recognized licensing of a copy of a copyrighted work as a form of possession outside the scope of Section 109(a) in *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, 523 U.S. 135, 146-47 (1998): "[B]ecause the protection afforded by §

[12]Elsewhere in the Petition, Vernor asserts that the Second and Federal Circuits have held that the Copyright Act does not allow the licensing of material objects. Pet. 13-14. Those courts have held no such thing. *See* pp.14-18, *supra*.

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

In short, Vernor's assertion that licensing of a copy of a copyrighted work is unauthorized by the Copyright Act, and must always and automatically be treated as a "sale" for purposes of the first sale doctrine, is preposterous.

IV.

PETITIONER'S POLICY ARGUMENTS ARE MATTERS FOR CONGRESS TO ADDRESS.

Petitioner argues that, under the decision below, software licensees would not be able to utilize Section 109(a) to assert a right to resell their software or Section 117(a) to establish the right to load their software into their computer. Pet. 22-25.

Petitioner and his *amici* made even more elaborate policy arguments in the Ninth Circuit briefing, which the Ninth Circuit summarized at App. 24a-25a.[13] The Court of Appeals properly did not

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[13]The Court of Appeals summarized those arguments as follows:

> Autodesk argues in favor of judicial enforcement of software license agreements that restrict transfers of copies of the work. Autodesk contends that this (1) allows for tiered pricing for different software markets, such as reduced pricing for students or educational institutions; (2) increases software companies' sales; (3) lowers prices for all consumers by spreading costs among a large number

(continued . . .)

undertake to resolve the debate between Petitioner's policy arguments and the contrary policy arguments of Autodesk and its *amici*, deeming them properly addressed to Congress: "Congress is free, of course, to modify the first sale doctrine and the essential step defense if it deems these or other policy considerations to require a different approach." App. 25a-26a. Petitioner's policy arguments would properly be weighed by Congress against forceful policy arguments to the contrary.

Petitioner does not claim that Congress has ever weighed the competing policy considerations and thereafter enacted legislation to preclude software developers from using a licensing model for the distribution of their software products. Instead, Petitioner seeks to bypass the legislative process altogether. He seeks a ruling from this Court resolving the competing policy arguments in favor of an unlimited right of transferability of computer software that for several decades has been distributed—

(. . . continued)

of purchasers; and (4) reduces the incidence of piracy by allowing copyright owners to bring infringement actions against unauthorized resellers. [Software & Information Industry Association] argues that a license can exist even where a customer (1) receives his copy of the work after making a single payment and (2) can indefinitely possess a software copy, because it is the software code and associated rights that are valuable rather than the inexpensive discs on which the code may be stored. Also, the [Motion Picture Association of America] argues that a customer's ability to possess a copyrighted work indefinitely should not compel a finding of a first sale, because there is often no practically feasible way for a consumer to return a copy to the copyright owner. (App. 24a) and priced—on a licensing model limiting or precluding resale.

Congress frequently has amended the Copyright Act, especially to address issues raised by new technologies. Indeed, Congress revised Section 117 in light of the Ninth Circuit's decision in *MAI*; in particular, it overruled the part of *MAI* that related to making a copy of software in connection with repair and maintenance of a computer by enacting Section 117(c).[14] Notably, however, Congress did *not* amend Section 117 to overrule *MAI's* holding that the licensee of computer software was not an "owner" entitled to the protections of Section 117(a), or to broaden the definition of "owner of a copy." That is compelling evidence that Congress agreed with the rule, confirmed in *MAI* and now reaffirmed in the present case, that a copyright owner can retain ownership of its software copies by distributing them through a license.[15]

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[14]The legislative history shows that Congress was aware of, and acted in response to, the decision in *MAI*. *See* H.R. REP. NO. 105-551, pt. 1, at 27 (1998) (citing *MAI*), *reprinted in* NIMMER ON COPYRIGHT at App. 52-35 (2006). *MAI* had held that copies of software created in a computer's random access memory during computer maintenance are reproductions under the Copyright Act and that software licensees are not "owners" under Section 117(a). Congress did not overrule these holdings or change the text of Section 117(a). Instead, Congress enacted a new, narrow exemption that permitted the owner or lessee of a computer to make a copy of authorized software for purposes of maintenance or repair of the computer. 17 U.S.C. §117(c).

[15]*See United States v. Heredia*, 483 F.3d 913, 918-19 (9th Cir. 2007) (Congress's inaction regarding judicial construction of statute construed as acquiescence, where statute was amended many times, but in a way that preserved court's ruling). After an "interpretation of a statute has been brought to the attention of Congress, and Congress has not sought to

(continued . . .)

At the very least, there is no possible basis to assume that Congress would approve Vernor's proposed rule—which would make virtually every transfer of a software copy a sale despite the parties' contractual agreement that it was a license—much less that Congress has already adopted it. The Ninth Circuit correctly left the responsibility for any change to the scope of Sections 109(a) and 117(a) to Congress. *See Quality King Distribs.*, 523 U.S. at 153 ("[W]hether or not we think it would be wise policy to provide statutory protection . . . is not a matter that is relevant to our duty to interpret the text of the Copyright Act"); *see also Microsoft Corp. v. i4i Ltd. P'ship*, —U.S.—, No. 10-290, 2011 WL 2224428, at *11-*12 (June 9, 2011) (noting policy arguments for and against the "clear and convincing" standard of proof on issue of patent validity, and holding "[a]ny recalibration of the standard of proof remains in [Congress'] hands").

V.

THE *AMICI CURIAE* BRIEF RAISES ISSUES NOT PRESENTED BY THE PETITION OR BY THE RECORD IN THIS CASE.

Amici raise issues not presented by the Petition For Certiorari or by the record in this case.

(. . . continued)
alter that interpretation although it has amended the statute in other respects, then presumably the legislative intent has been correctly discerned." *United States v. Colahan*, 635 F.2d 564, 568 (6th Cir. 1980); *accord*, *Bugenig v. Hoopa Valley Tribe*, 266 F.3d 1201, 1217 (9th Cir. 2001); *Brownell v. Morizo Nakashima*, 243 F.2d 787, 791 (9th Cir. 1957).

Licensing Of Software Embedded In A Tangible Device That Is Sold Outright. *Amici* argue that manufacturers of consumer goods such as cellphones, automobiles, and refrigerators commonly incorporate chips on which copyrighted software is embedded; if the software copyright owner purports to license the software, *Amici* suggest, the decision below might preclude resale of the automobile, refrigerator, or cellphone even though the product was originally sold outright. Amici Brf. 3, 11-12. That question was the subject of the inconclusive analysis of the Register of Copyrights referred to at pp.20-21, *supra.* But the Ninth Circuit did not address it; the Petition does not raise it; and that issue does not arise in this case, which does not involve the actual "sale" of a tangible and functional consumer product in which one component contains embedded software.

Validity Of License (Or Other Contract Terms) For Computer Software That Some Consumers Do Not Read. *Amici* disparage the terms of the license agreement. It is, they say, an adhesion contract that "few consumers read." Amici Brf. 5-6. While the validity of computer software license agreements—including "clickwrap" and "shrinkwrap" licenses—has been repeatedly upheld (*see, e.g.*, *ProCD v. Zeidenberg*, 86 F.3d 1447, 1452-53 (7th Cir. 1996); *Koresko v. RealNetworks, Inc.*, 291 F. Supp. 2d 1157, 1162-63 (E.D. Cal. 2003); *Feldman v. Google, Inc.*, 513 F. Supp. 2d 229, 236-38 (E.D. Pa. 2007); *DeJohn v. The .TV Corp. Int'l*, 245 F. Supp. 2d 913, 918-20 (N.D. Ill. 2003)), that issue is in any event not presented by the Petition or by the circumstances of this case. The contract by which the software copies in question were transferred to Vernor's predecessor (CTA) was a settlement agreement negotiated between counsel in arm's-length negotiations. *See* pp.6-7, *supra.*

Validity Of Restrictions On Transfer Of Books, CDs, and DVDs. Ignoring decades of industry practices, *Amici* conjure the specter of book, CD, and DVD publishers distributing their products by license rather than sale. Amici Brf. 11, 12, 13-18. But the principle that the first sale doctrine applies only to copies of works that have been sold, and not to leased, rented, or licensed copies, did not originate with the decision below; it has been an established rule for decades. *See* pp.13-14, *supra.* Yet recording companies, film studios, television producers, and book publishers have rarely, if ever, marketed their tangible products that way, and there is no evidence to suggest any realistic risk that they will suddenly destroy the secondary market for their products by using shrinkwrap licenses prohibiting transfer merely because the Ninth Circuit has reaffirmed a rule that it adopted long before. The issue in this case concerns computer software, and the very different, long-standing marketing practices that have traditionally been used in that industry.

CONCLUSION

The Petition for a Writ of Certiorari should be denied.

Respectfully,

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July 18, 2011