CA No. 09-35969
DC No. 2:07-cv-01189-RAJ

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

TIMOTHY S. VERNOR, an individual,
Plaintiff-Appellee,

v.

AUTODESK, INC., a Delaware corporation,
Defendant-Appellant.

Appeal From Judgment Of The United States District Court
For The Western District Of Washington
(Hon. Richard A. Jones, Presiding)

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CORPORATE DISCLOSURE STATEMENT

Appellant Autodesk, Inc. has no parent corporation, and T. Rowe Price Associates owns more than ten percent of its stock.

DATED: January 5, 2010.

/s/ Jerome B. Falk, Jr.
JEROME B. FALK, JR.

TABLE OF CONTENTS

TABLE OF CONTENTS

TABLE OF CONTENTS

TABLE OF AUTHORITIES

Page(s)

Cases

TABLE OF AUTHORITIES

TABLE OF AUTHORITIES

Page(s)

Statutes and Rules

Legislative Materials

Other Authorities

INTRODUCTION AND SUMMARY OF ARGUMENT

This appeal concerns a copyright owner's right to retain ownership of copies of its computer software so as to enforce its exclusive distribution and reproduction rights under the Copyright Act. The copyright owner, Autodesk, Inc. ("Autodesk"), transferred ten copies of AutoCAD®, Release 14 ("AutoCAD R14") software to Cardwell/Thomas & Associates, Inc. ("CTA"), an architecture firm, pursuant to a Software License Agreement ("SLA") that reserved Autodesk's ownership in those copies, prohibited their transfer, and restricted CTA's rights to use them. The District Court held that, despite the SLA's express reservation of title and designation of the transaction as a license, the transfer from Autodesk to CTA of the AutoCAD R14 software copies was an outright sale; CTA's subsequent transfer of possession of four copies to Appellee Timothy Vernor ("Vernor") made him the "owner" of these copies for purposes of the Copyright Act; and, as a result, Vernor could lawfully resell these software copies without infringing Autodesk's copyright in the software pursuant to the "first sale" and "essential step" doctrines (codified in 17 U.S.C. §109(a) and 17 U.S.C. §117(a), respectively).

That holding is contrary to controlling Ninth Circuit precedent. Vernor's proposed resales of the AutoCAD R14 software copies that he obtained from CTA would infringe Autodesk's exclusive rights under the Copyright Act. Part I, *infra*. The sales would directly infringe Autodesk's exclusive

distribution right under 17 U.S.C. §106(3). *Id.* They would also contributorily infringe Autodesk's exclusive reproduction right under 17 U.S.C. §106(1) because Vernor's customers would need to make additional copies of Autodesk's software in order to install the software on their computers and use it. *Id.*

As shown in Part II, *infra*, the District Court erred in holding that the first sale and essential steps defenses shielded Vernor from liability.[1] Those defenses would apply only if CTA were an "owner" of the AutoCAD R14 software copies, not a mere licensee. Part II(A), *infra.* Here, the SLA unambiguously provided that CTA was a licensee of these copies. And under this Court's controlling precedent, where "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" (*Wall Data, Inc. v. Los Angeles County Sheriff's Dep't*, 447 F.3d 769, 785 (9th Cir. 2006)). Part II(B), *infra*. Indeed, an earlier

[1]Section 109(a), the first sale defense, provides that a copyright owner's exclusive right to distribute a particular copy of a copyrighted work to the public is exhausted upon the copyright owner's authorized transfer of ownership of that copy. 17 U.S.C. §§106(3), 109(a). Section 117(a)(1), the essential step defense, carves out an exception to the copyright owner's exclusive right to make copies of a copyrighted work by providing that an owner of a computer program may make an additional copy of that program if the copy is created as an essential step in utilizing the program and is used in no other manner. 17 U.S.C. §§106(1), 117(a)(1).

Ninth Circuit decision held that if a contract for the transfer of a copyright interest characterizes the transaction as a license, that characterization controls, making the transfer a license, not an assignment or sale of the copyright interest. *Hampton v. Paramount Pictures Corp.*, 279 F.2d 100, 103 (9th Cir. 1960). Parts II(B) & II(C)(2), *infra*. Here, Autodesk retained ownership of the AutoCAD R14 software copies it licensed to CTA (copies that Vernor later obtained) because Autodesk made clear that it was providing only a license to the software, expressly reserved title in the copies, and materially restricted CTA's ability to transfer and use the copies. Part II(B), *infra*.

The District Court misread *United States v. Wise*, 550 F.2d 1180 (9th Cir. 1977), as having held that even though the applicable contract reserves to the copyright owner title to a copy of a copyrighted work, the transfer of the copy (in that case a movie print) is a sale, not a license, if there are no limitations on the length of time the transferee can retain the copy. Part II(C), *infra*. Based on that misreading, the court concluded that *Wise* cannot be reconciled with contrary rulings in *Wall Data*, and other precedents subsequent to *Wise* (*Triad Systems Corp. v. Southeastern Express Co.*, 64 F.3d 1330 (9th Cir. 1995); *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993)), and that *Wise*, as the earliest of the decisions, was the controlling precedent, trumping the later decisions.

The District Court's conclusion that *Wise* protects Vernor from liability was mistaken. Part II(C), *infra*. The dispositive factor in *Wise*, which

expressly followed *Hampton*, was whether the copyright owner had retained title in the movie print that it transferred. Part II(C)(1), *infra*. In every instance where the relevant contract had provided for an express retention of title to the movie print, *Wise* found that the copyright owner retained ownership of the movie print, and held the first sale defense inapplicable. *Id.* Conversely, in two instances where the Court found that the transfer was a sale, not a license, the applicable contract had failed to preserve the copyright owner's title to the movie print. *Id*. Moreover, even if *Wise* had reached the conclusion attributed to it by the District Court, it would have been inconsistent with this Court's earlier decision in *Hampton*; in that event, *Hampton*, as the earlier precedent, would control. Part II(C)(2), *infra.* The District Court therefore erred in concluding that *Hampton*, *Wall Data*, *MAI*, and *Triad* were not valid, binding precedents on the controlling issue of "ownership" of the AutoCAD R14 software copies in this case.

STATEMENT OF JURISDICTION

The District Court had jurisdiction over this matter pursuant to 28 U.S.C. §1331 and §1338. The court entered its Judgment on October 23, 2009. 1-ER-1. Appellant filed a timely Notice of Appeal on October 27, 2009. 2-ER-312-13. This Court has jurisdiction under 28 U.S.C. §1291.

STATEMENT OF ISSUES PRESENTED

Autodesk transferred copies of its AutoCAD R14 software to CTA under a "license" agreement that expressly retained title to the copies, barred any transfer of them, and imposed material restrictions on their use.

1. Does the "first sale" defense codified at 17 U.S.C. §109(a), which is available only to an "owner" of copyrighted material, excuse Vernor's direct infringement of Autodesk's exclusive distribution right under 17 U.S.C. §106(3)?

2. Does the "essential step" defense codified at 17 U.S.C. §117(a), which is available only to an "owner" of a copy of a computer program, permit Vernor's purchasers to make additional copies of Autodesk's AutoCAD R14 software by installing it on their computers, thereby exempting Vernor from contributory infringement of Autodesk's exclusive reproduction right under 17 U.S.C. §106(1)?

STATEMENT OF THE CASE

A. Autodesk's AutoCAD Software.

Autodesk makes computer-aided design or "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), over twenty-seven 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 customers

worldwide. 2-ER-147 ¶4. Autodesk has registered its copyrights in the 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 customers 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. A customer who does not agree to the terms of the license agreement can return the copy of the software. *Id*.

Like many software companies, Autodesk offers its customers a variety of options for use of its software. 2-ER-149 ¶10. One customer 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, enabling it to offer different terms—including commercial, educational institution, and student—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 customer's use of the software and offers the customer an opportunity to purchase 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 for commercial purposes. 2-ER-150 ¶¶13-14.

Autodesk has developed policies, procedures, and technology to ensure compliance with its software licenses and prevent unauthorized distribution and copying. Most significantly, Autodesk assigns a separate serial number to each package of AutoCAD software and tracks the registered licensee for each licensed software package. 2-ER-151 ¶18.

Over the years, Autodesk has modified the means by which it distributes AutoCAD to customers. 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 ensure that its licensees could not transfer copies of the older version of the AutoCAD software to third parties and that licensees would cease using previously licensed software following the purchase of an upgrade. 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 purchaser, that purchaser 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 and, then, from CTA to Vernor. The transfer of AutoCAD R14 from Autodesk to CTA was governed by a settlement agreement executed in March 1999 as a result of CTA's unauthorized use of Autodesk's software products ("Settlement Agreement"). 2-ER-163 ¶7; 165-72. In return for a settlement payment from CTA, Autodesk licensed ten copies of AutoCAD R14 and one copy of AutoCAD LT to CTA. 2-ER-163 ¶8; 165-66 ¶1. The Settlement Agreement attached and incorporated the SLA governing the use of the AutoCAD R14 software. 2-ER-163 ¶7; 166-67 ¶4; 170-71. 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 that provided 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 consumer 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.

1. AutoCAD R14 Software License Agreement Terms.

The SLA provided that although Autodesk was transferring possession of specific serialized copies of its AutoCAD R14 software to CTA, ownership of the software copies remained with Autodesk. The SLA also significantly restricted CTA's ability to use the software copies and prohibited their transfer without Autodesk's permission.

Retention Of Title And Copyrights. The SLA is explicit 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 states unambiguously and 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 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 forbids 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 forbids transfer of the software outside of the Western Hemisphere. *See id.* ("YOU MAY NOT USE OR TRANSFER THE SOFTWARE OUTSIDE OF THE WESTERN HEMISPHERE . . .").

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

Use Restrictions. The SLA specifies 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 nonexclusive license to use the software and also to install the software 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 provides that failure to comply with the license restrictions and terms will 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.

2. AutoCAD 2000 Upgrade Terms.

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, among other things, 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").[3]

Rather than destroying the AutoCAD R14 software copies, however, CTA made them available at an office sale.

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

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

[3]The AutoCAD R14 SLA had a similar "destroy upon upgrade" requirement: "If this Software is being licensed to you as an upgrade or update to software previously licensed to you, you must destroy the software previously licensed to you, including any copies resident on your hard disk drive . . . ." 2-ER-170 at "UPGRADES AND UPDATES."

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 resale 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.

E. District Court Proceedings.

1. The Complaints.

On August 1, 2007, Vernor filed a Complaint in the District Court requesting $7,000 in compensatory damages for lost sales during the time his eBay account was suspended, $10 million in punitive damages, and filing fees and costs. 2-ER-76-79. Relying on the first sale doctrine, Vernor alleged that Autodesk had illegally used the "take-down" provisions of the Digital Millennium Copyright Act ("DMCA") to remove his auction of the AutoCAD R14 software copies. 2-ER-78-79.

On November 14, 2007, Vernor filed a First Amended Complaint seeking, among other things, a declaratory judgment that his proposed "resale of authentic, used copies of AutoCAD software is lawful, protected by 17 U.S.C. §109, and does not infringe Autodesk's copyright or other rights." 2-ER-80, 92; *see* 2-ER-90-91 ¶¶30-34. Vernor also requested an injunction "prohibiting Autodesk from further interfering with Vernor's resale of Autodesk software" and "requiring Autodesk to rescind their DMCA notices of claimed infringement with eBay." 2-ER-93. Vernor further claimed that Autodesk's actions constituted unfair and deceptive practices in violation of Washington law. 2-ER-91-92 ¶¶35-37. Vernor sought actual, punitive, and treble damages. 2-ER-92.

2. The District Court's Order Denying Autodesk's Motion To Dismiss The Complaint Or, In The Alternative, For Summary Judgment.

On January 15, 2008, Autodesk moved to dismiss the First Amended Complaint or, in the alternative, for summary judgment. 2-ER-95. Autodesk argued that Vernor's proposed resale of the AutoCAD R14 software copies was not protected by the first sale doctrine and would infringe Autodesk's copyright because CTA was not an owner of the AutoCAD R14 software copies it transferred to Vernor and could not therefore have transferred ownership of the software copies to Vernor. 2-ER-95, 103-114.

By Order dated May 20, 2008, the District Court denied Autodesk's motion. 1-ER-55 (*Vernor v. Autodesk, Inc.*, 555 F. Supp. 2d 1164 (W.D. Wash. 2008)). "Taking direction solely from *Wise*," the court concluded "that the transfer of AutoCAD packages from Autodesk to CTA was a sale." 1-ER-64 (555 F. Supp. 2d at 1170). The court also distinguished a decision preceding *Wise* holding that a contract's characterization of a transfer of film rights as a "license" was controlling, *Hampton v. Paramount Pictures Corp.*, 279 F.2d 100 (9th Cir. 1960). 1-ER-64 n.4 (555 F. Supp. 2d at 1170 n.4). The District Court held that the first sale doctrine codified at 17 U.S.C. §109(a) permitted Vernor to sell authentic, used copies of AutoCAD R14 without copyright liability. 1-ER-70 (555 F. Supp. 2d at 1174). The District Court also held that Vernor's sales of AutoCAD R14 software would not contribute to copyright

infringement by his purchasers because their installation of copies of the software on their computers would be protected by the essential step defense codified at 17 U.S.C. §117(a). 1-ER-72 (555 F. Supp. 2d at 1175).

3. The District Court's Order Granting Vernor's Motion For Summary Judgment.

On February 20, 2009, Autodesk moved for summary judgment. 2-ER-117.[4] Autodesk argued that controlling Ninth Circuit precedent regarding similar licenses for computer software compels the conclusion that Vernor's proposed resale of the AutoCAD R14 software copies would infringe Autodesk's exclusive right to distribute copies of its software to the public and contributorily infringe its exclusive right to reproduce the software, and that *Wise* does not conflict with this precedent. 2-ER-129-44. On March 6, 2009, Vernor filed a cross-motion for summary judgment seeking, among other things, a declaratory judgment that his resale of used copies of AutoCAD R14 would not infringe Autodesk's rights. 2-ER-278.

On October 23, 2009, the District Court entered an Order denying Autodesk's motion for summary judgment and granting summary judgment in favor of Vernor except to the extent that he sought a judgment that

[4]The parties had reached a stipulation to dismiss with prejudice Vernor's state law claim, and the District Court had dismissed these claims at the parties' request as well as Vernor's demand for damages, fees, and expenses. 2-ER-115-16.

Autodesk engaged in copyright misuse. 1-ER-28, 54.[5] The District Court also enjoined Autodesk from asserting its rights under the Copyright Act as a basis for preventing Vernor's sales of AutoCAD software. 1-ER-1.

In its Order, the District Court observed that "[t]here is no dispute that Autodesk licensed its software to CTA" and framed the question before it as "whether the Autodesk License is a license that transfers ownership of the software copies included in AutoCAD packages." 1-ER-10. In ruling on this question, the court concluded that Ninth Circuit precedent gives two different answers to the question of what distinguishes an "owner" from a licensee to whom ownership has not been transferred. 1-ER-10-21.

According to the District Court, one answer comes from *United States v. Wise*, 550 F.2d 1180 (9th Cir. 1977), which the court read to hold that conclusive evidence of a transfer of ownership exists where "the transferee could, at his election, retain possession of the transferred copy indefinitely, and the copyright holder had no right to regain possession." 1-ER-13. Relying on *Wise*, the court found "no basis for the conclusion that an agreement to permit perpetual possession of property can be construed as reserving ownership." 1-ER-15. The court also determined that a licensee's payment of a single price to the copyright holder at the outset of the transaction was evidence of a transfer of ownership. 1-ER-14-15.

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[5]The District Court entered the October 23, 2009 Order to amend its September 30, 2009 Order. *See* 1-ER-2.

The District Court recognized that *MAI Systems Corp. v. Peak Computer, Inc*., 991 F.2d 511 (9th Cir. 1993), *Triad Systems Corp. v. Southeastern Express Co*., 64 F.3d 1330 (9th Cir. 1995), and *Wall Data Inc. v. Los Angeles County Sheriff's Department*, 447 F.3d 769 (9th Cir. 2006) point to a different answer. 1-ER-17-21. The court read *MAI* and *Triad* as suggesting that the mere labeling of a transfer agreement as a license is sufficient for a copyright holder to reserve ownership, and *Wall Data* as holding that a copyright owner retains ownership where it makes clear that it is providing only a license to the software copy and imposes restrictions on the purchaser's ability to redistribute or transfer that copy. 1-ER-17-19. The court acknowledged that, under *MAI*, *Triad*, and *Wall Data*, it "would have to conclude that the Autodesk License did not transfer ownership of any software copy to CTA." 1-ER-19.

The District Court held that *Wise* was controlling because (1) in its view, *Wise* could not be reconciled with *MAI*, *Triad*, and *Wall Data*; and (2) *Wise* preceded *MAI*, *Triad* and *Wall Data*. 1-ER-10-21. The court also did not mention *Hampton*, the decision prior to *Wise* holding that a contract's characterization of a transfer of film rights as a "license" was controlling even though the transfer was for an indefinite period (*Hampton*, 279 F.2d 100). *Id.* Accordingly, the court held that the Autodesk SLA transferred ownership of the AutoCAD R14 software copies to CTA despite the SLA's reservation

of title to Autodesk and prohibition on transfer. Appellant filed a timely Notice of Appeal on October 27, 2009. 2-ER-312.

STANDARD OF REVIEW

This Court reviews an order granting or denying summary judgment *de novo* and uses the same standard as the District Court under Federal Rule of Civil Procedure 56. *Padfield v. AIG Life Ins. Co.*, 290 F.3d 1121, 1124 (9th Cir. 2002). Viewing the evidence in the light most favorable to the non-movant, this Court must determine "whether there are any genuine issues of material fact and whether the district court correctly applied the relevant substantive law." *American Civil Liberties Union of Nevada v. City of Las Vegas*, 333 F.3d 1092, 1097 (9th Cir. 2003). In reviewing the District Court's ruling on the parties' cross-motions for summary judgment, this Court "evaluate[s] each motion separately, giving the nonmoving party in each instance the benefit of all reasonable inferences." *Id.*

ARGUMENT

I.

VERNOR'S PROPOSED SALES OF COPIES OF AUTOCAD R14 SOFTWARE WOULD CONSTITUTE DIRECT AND CONTRIBUTORY COPYRIGHT INFRINGEMENT UNLESS BOTH THE FIRST SALE AND ESSENTIAL STEP DEFENSES APPLY.

Unless *both* the first sale and essential step defenses apply—the issue addressed in Part II, *infra*—Vernor's proposed sales of the AutoCAD R14

software copies would infringe Autodesk's exclusive rights under the Copyright Act to distribute and reproduce copies of its copyrighted work. As the copyright owner of the AutoCAD R14 software program, Autodesk possesses the exclusive right to authorize distribution of copies of the program to the public "by sale or other transfer of ownership, or by rental, lease, or lending." 17 U.S.C. §106(3). Autodesk has not authorized Vernor (or CTA before him) to sell copies of its software. Instead, the SLA expressly forbids these transfers. *See* pp.11-12, *supra.*

Autodesk also possesses the exclusive right to make copies of its copyrighted software. 17 U.S.C. §106(1). In order to use the software program purchased from Vernor, the buyer would need to make an additional copy of AutoCAD R14 on its computer hard drive. 2-ER-148 ¶7; 150 ¶16; *see also MAI*, 991 F.2d at 518-19. Because Autodesk has not authorized the buyer to reproduce its copyrighted computer code, this copying would infringe Autodesk's exclusive reproduction right.[6] As a result, Vernor would be liable for contributory copyright infringement because he would be contributing to this infringement knowingly and materially through his sales.

[6]Autodesk did originally grant a license to CTA to use its copy of AutoCAD R14 and install a copy of the program on its computer. 2-ER-170 at "GRANT OF LICENSE." However, the SLA barred CTA from transferring its copies without Autodesk's consent, and when CTA violated this restriction, this license from Autodesk "automatically terminat[ed]." 2-ER-170-71 at "RESTRICTIONS" and "COPYRIGHT."

See, e.g., MGM Studios Inc. v. Grokster, Ltd., 545 U.S. 913, 930 (2005) ("[o]ne infringes contributorily by intentionally inducing or encouraging direct infringement . . ."); *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 264 (9th Cir. 1996).

II.

BECAUSE AUTODESK DID NOT TRANSFER OWNERSHIP OF COPIES OF ITS AUTOCAD R14 SOFTWARE, THE FIRST SALE AND ESSENTIAL STEP DEFENSES DO NOT APPLY.

The District Court upheld two defenses to Autodesk's claim that Vernor's proposed sales of the AutoCAD R14 software packages would infringe Autodesk's copyright. First, the court decided that the first sale defense (codified at 17 U.S.C. §109(a)) would excuse Vernor's direct infringement of Autodesk's exclusive distribution right. 1-ER-6-8, 10-21. Next, the court decided that Vernor's proposed sales would not contribute to any infringement of Autodesk's exclusive reproduction right because the "essential step" defense (codified at 17 U.S.C. §117(a)) allows Vernor's purchasers to install a copy of Autodesk's software program onto their computer hard drives. *Id.*

Vernor bears the burden of proof with respect to each of these defenses. *See, e.g., Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 590 (1994) (fair use defense); *Microsoft Corp. v. Software Wholesale Club, Inc.*, 129 F. Supp. 2d 995, 1002 (S.D. Tex. 2000) (first sale defense); *Microsoft Corp. v.*

Harmony Computers & Elecs., Inc., 846 F. Supp. 208, 212 (E.D.N.Y. 1994) (first sale defense); *In re Indep. Serv. Orgs. Antitrust Litig.*, 964 F. Supp. 1469, 1475 (D. Kan. 1997) (essential step defense).

A. The First Sale And Essential Step Defenses Apply Only To "Owners" Of Software Copies.

The first sale and essential step defenses apply only to owners, and not licensees, of copies of copyrighted software.[7] Section 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. §109(a) (emphasis added))

Section 109(a)'s first sale defense does not protect someone who has acquired lawful *possession* of a copy of a copyrighted work without acquiring *ownership* of that copy. *See* 17 U.S.C. §109(d) (providing that "[t]he privileges prescribed by subsections (a) and (c) do not . . . 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").

Similarly, Section 117(a)'s essential step defense "permits *the owner* of a copy of a copyrighted computer program to make (or authorize the making

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[7]Ownership of a particular copy of a copyrighted work is distinct from ownership of a copyright. *See* 17 U.S.C. §202 ("Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied").

of) another copy of the program, if the copy is created as an 'essential step in the utilization of the computer program in conjunction with a [computer, and] is used in no other manner.'" *Wall Data*, 447 F.3d at 784 (quoting 17 U.S.C. §117(a)(1)). However, if the copyright holder only licenses a copy of its computer program and itself retains ownership of the copy, then the essential step defense does not apply. *Id.* at 784-85 ("Section 117, by its own terms, applies only to 'the *owner of a copy* of the computer program' . . . . [I]f a software developer retains ownership of every copy of software, and merely licenses the use of those copies, § 117 does not apply").

Unless Vernor can show that Autodesk relinquished ownership of the AutoCAD R14 software copies to CTA, and that he subsequently acquired ownership of these copies from CTA, Vernor's essential step and first sale defenses fail.

B. Under Controlling Ninth Circuit Precedent, Autodesk Retained Ownership Of Its AutoCAD R14 Software Copies Because It Expressly Retained Title To The Copies, Barred Any Transfer Of The Copies, And Imposed Material Restrictions On Use Of The Copies.

Through the unambiguous terms of the SLA, Autodesk retained ownership of the AutoCAD R14 software copies. This Court's controlling precedent requires that those terms be respected.

In three cases, this Court has examined the applicable software transfer agreements to determine whether an acquirer of a copy of a computer

program was an owner of that copy under Section 117(a).[8] In all three cases, this Court held that the agreements constituted licenses, and not sales, of the software copies and that, as a result, the essential step defense did not apply. The District Court acknowledged that under these precedents, Vernor's defenses fail. *See* 1-ER-19 ("If the court were to follow the *MAI* trio, Autodesk would prevail").

Wall Data articulates a bright-line test for determining whether the acquirer of a software copy is a licensee or an owner of that copy:

> Generally, 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. (447 F.3d at 785)

In *Wall Data*, copyright owner Wall Data sued the Los Angeles County Sheriff's Department for copyright infringement after the Sheriff's Department installed copies of Wall Data's software on 6,007 computers even though Wall Data had only licensed the Sheriff's Department to install the

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[8]Because both Section 109(a) and Section 117(a) use the same "owner of a . . . copy" language, this Court must presume that the term has the same meaning in both sections of the Copyright Act. *See In re Cybernetic Servs., Inc.*, 252 F.3d 1039, 1051 (9th Cir. 2001) (interpreting Patent Act and noting that "we presume that words used more than once in the same statute have the same meaning throughout"). Also, as the District Court noted, while Section 117(a) uses the phrase "owner of a copy," and Section 109(a) uses the phrase "owner of a particular copy," there is no reason to believe that the word "particular" makes a material difference. 1-ER-68-69 (555 F. Supp. 2d at 1173).

software on 3,663 computers. *Id.* at 774-75. The parties' license agreement made clear that Wall Data had granted only a license to use the software copies. *Id.* at 775 n.5 ("Wall Data . . . grants you ('You'), the end user, a non-exclusive license to use the enclosed software program"). The agreement also limited the Sheriff's Department's ability to redistribute or transfer the software copies provided. *Id.* (allowing use of the software only on a "Designated Computer" and forbidding transfer of the software to a separate "Designated Computer" more than once every thirty days). This Court rejected the Sheriff's Department's contention that Section 117(a) excused its actions, holding that under the parties' agreement the Sheriff's Department was not the owner of the software copies that it had obtained from Wall Data. *Id.* at 784-85.

Wall Data is consistent with this Court's earlier decisions in *MAI* and *Triad*, which refused to apply Section 117(a) where the copyright holders had made clear that they were granting merely a license to the software copies provided[9] and had restricted transfer of the copies.[10] In *MAI*, the plaintiff

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[9]*See MAI*, 991 F.2d at 517 n.3 (providing that "[t]he provisions of this License . . . shall apply to all versions and copies of the Software furnished to Customer pursuant to this Agreement"); *Triad*, 64 F.3d at 1333 (noting that Triad changed its practice from selling its software to customers to licensing this software; "[i]n 1986, however, Triad began licensing rather than selling its software . . .").

[10]*See MAI*, 991 F.2d at 517 n.3 (providing that "[a]ny possession or use of the Software . . . not expressly authorized under this License . . . is prohibited" and requiring that the customer "keep the Software . . . confidential and (continued . . .)

alleged that the defendant made unauthorized copies of the plaintiff's computer software when performing repair and maintenance activities on computers owned by customers who had obtained the plaintiff's software pursuant to a license agreement. This Court agreed, holding that the defendant's loading of plaintiff's software into a computer's Random Access Memory ("RAM") created an infringing copy under the Copyright Act. 991 F.2d at 518-19. It then rejected a defense under Section 117(a) that those copies were not infringing because the plaintiff's customers (as alleged owners of copies of the plaintiff's software) had authorized the creation of those copies as an essential step in utilizing the software program. *Id.* at 518-19 & n.5. The Court held that since the plaintiff "licensed its software" to its customers, they did "not qualify as 'owners' of the software and [were] not eligible for protection under § 117." *Id.* at 518 n.5.

Likewise, in *Triad*, the plaintiff manufacturer of computers and distributor of software alleged that the defendant made unauthorized copies of the plaintiff's software in the computers' RAM when servicing and maintaining the plaintiff's computers and software for the plaintiff's customers. 64 F.3d at 1333. The Court found that whether these copies were infringing

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(. . . continued)
not make [it] available to others . . ."); *Triad*, 64 F.3d at 1333 (license agreement provided that Triad's customers could not "allow it to be used by third parties" and required "that licensees selling their computer systems pay Triad a license transfer fee").

depended on whether the plaintiff sold or licensed the copies of its software to its customers under three separate agreements. *Id.* Under the first agreement, the plaintiff "sold its software outright to customers," and as a result, these customers were owners who could authorize the defendant to make RAM copies pursuant to Section 117(a). *Id.* However, under the second and third agreements, where the plaintiff did not sell copies of its software, and instead licensed those copies with restrictions on their use, the Court held that the defendant's copying constituted infringement. *Id.* at 1333, 1336-37.

Earlier Ninth Circuit precedent interpreting an agreement regarding use of copyrighted material also is consistent with the *Wall Data* test. In *Hampton v. Paramount Pictures Corp.*, 279 F.2d 100 (9th Cir. 1960), the issue was whether a copyright holder had granted rights to commercially exhibit movie prints via a licensing agreement. *Id.* at 103. Although *Hampton* did not involve the first sale defense, it decided whether the transferee of the print was the owner of an intangible copyright interest—specifically, the right to exhibit the movie publicly—or a licensee. *Hampton* held that the parties' contract's unambiguous language designating it as a "license" was determinative even though (1) the license was perpetual; (2) there was a one-time lump sum payment; and (3) there was no requirement to return the outstanding prints and negatives. *Id.* Because the contract unambiguously provided that the copyright owner was licensing the transferred rights, and not assigning or selling them, the Court held that these

other provisions could not contradict the expressed intent of the parties regarding ownership:

> If the contract in question were ambiguous with regard to its nature as an assignment or a license . . . , the fact that provisions of the kind referred to above were present or absent would be helpful in construing the instrument. Here, however, *the contract expressly provides that Paramount 'licenses' Kodascope to do certain things, thereby precluding a construction that there was an assignment.* (*Id.* (emphasis added))

Under the foregoing authorities, Autodesk likewise retained ownership of its software copies. First, the SLA unambiguously provided that Autodesk retained title to and remained the owner of the AutoCAD software and the copies it provided to CTA, and that their relationship was licensor and licensee. *See* p.11, *supra* and contract provisions cited. Second, the SLA prohibited CTA from transferring the software copies without Autodesk's consent. *See* pp.11-12, *supra*.[11] Third, the SLA imposed significant restrictions on CTA's use of the software copies. *See* p.12, *supra*; pp.30-31, *infra*.

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[11]There is no dispute between the parties as to the meaning of the SLA's terms in any of the respects discussed in this brief. If there were, the Court would resolve them in accordance with contract interpretation principles of California law so long as these rules do not interfere with federal copyright law or policy. *See S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1088 (9th Cir. 1989); *Gardner v. Nike, Inc.*, 279 F.3d 774, 781 n.5 (9th Cir. 2002); *Yount v. Acuff Rose-Opryland*, 103 F.3d 830, 835 (9th Cir. 1996). In the Settlement Agreement, Autodesk and CTA provided that California law would govern interpretation of the contract. 2-ER-168 ¶10 (providing that the "Agreement shall be governed by and construed in accordance with California law, without regard to its conflict of laws rules"); 171 at "GENERAL." Here, there was no dispute as to the meaning of any of the SLA's provisions; and, *a fortiori*, no parol evidence was submitted on that question.

Wall Data also looked to the agreement's restrictions on *use* as an indicator that Wall Data had not relinquished ownership of the software copies that it provided to the Sheriff's Department. The Court discussed *MAI*, which it described as "the leading case on ownership under §117," and noted that in *MAI*, the defendant was a licensee, and not an owner, where it had received its software copies under an agreement that "imposed severe restrictions on [defendant's] rights with respect to those copies." 447 F.3d at 784-85. It then observed that, as in *MAI*, "[t]he Sheriff's Department's use of and rights to the RUMBA software products were restricted" under the parties' license agreement and that these severe restrictions on the licensee's rights "would not be imposed on a party who owned the software." *Id.* at 785. As a result, these use and transfer restrictions "were sufficient to classify the transaction as a grant of license to Wall Data's software," and the Sheriff's Department was not an owner of the software copies entitled to the protection of Section 117's essential step defense. *Id.* Similarly, the license agreements in both *MAI* and *Triad* restricted use of the acquired software copies. *See MAI*, 991 F.2d at 517 & n.3 (forbidding any use of the software not expressly authorized under the license agreement and barring unauthorized copying, modification, examination, or visual display of the software); *Triad*, 64 F.3d at 1333 (forbidding any software use by third parties or software duplication).

As the District Court acknowledged, Autodesk and CTA agreed to restrictions on CTA's use of the AutoCAD R14 copies that were at least as severe, if not more so, than the restrictions imposed by the license agreements in *MAI*, *Triad*, and *Wall Data*. *See* 1-ER-67 (555 F. Supp. 2d at 1172) ("The terms of the Autodesk License are either indistinguishably similar to or more restrictive than the licenses found not to be sales in the *MAI* trio"). In addition to the restrictions on CTA's ability to rent, lease, and transfer its software copies, the parties agreed that CTA would not "modify, translate, reverse-engineer, decompile, or disassemble the Software;" use the software outside of the Western Hemisphere; use any computer hardware or software designed to defeat any hardware copy-protection device; or "remove any proprietary notices, labels, or marks from the Software or Documentation."[12] 2-ER-170 at "RESTRICTIONS." Also, when CTA and Autodesk agreed to upgrade CTA's software in 2002, CTA agreed in the AutoCAD 2000 license agreement to destroy its AutoCAD R14 software copies. 2-ER-308 at "UPGRADES."

[12]In addition to these restrictions, the SLA also granted some additional rights to CTA beyond what CTA would have otherwise possessed—even assuming that it was an "owner" of the software copies—by granting CTA a right to install the software on two computers, provided that CTA only used one of the installed software copies at a time. *See* 2-ER-170 at "GRANT OF LICENSE."

Autodesk's use restrictions are greater than the restrictions in *MAI*, *Triad*, and *Wall Data* because the SLA also provided that CTA's failure to comply with these restrictions on use would result in "automatic termination" of CTA's license to use the software. 2-ER-171 at "COPYRIGHT" ("Unauthorized copying of the Software or Documentation, or failure to comply with the above restrictions, will result in automatic termination of this license"). Following a violation by CTA of these agreed upon restrictions, *any* future use of the software would be unauthorized and constitute copyright infringement. *See, e.g.*, *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1087 (9th Cir. 1989) ("A licensee infringes the owner's copyright if its use exceeds the scope of its license"). This limitation on CTA's use of the software copies is further evidence that Autodesk retained ownership of the software copies that it provided to CTA.

C. The District Court Misapplied *United States v. Wise.*

1. The District Court Erroneously Concluded That *Wise* Is Inconsistent With *MAI, Triad,* And *Wall Data*.

The District Court concluded that *Wise* was inconsistent with *MAI*, *Triad*, and *Wall Data* and that, as an earlier precedent, it was controlling. 1-ER-21. The court misread *Wise* which is, in fact, consistent with those precedents.

In *Wise*, the defendant was convicted of criminal copyright infringement for illegally distributing movie prints that copyright owners had licensed for exhibition through a variety of channels, including theaters, television, and

the homes of prominent individuals in the movie industry ("VIPs"). For each of the contracts examined in *Wise* in which the copyright owner had retained title in the movie prints, the Court held that the copyright holder had transferred possession of the prints via a license and retained ownership of the prints:

- Where the theatrical distribution agreements for *The Sting* and *American Graffiti* "'reserved title to the film prints in Universal,'" the Court found that neither "constituted first sales, since both on their face and by their terms, they were restricted licenses and not sales." *Wise*, 550 F.2d at 1190.
- Where the television licensing agreement for *Camelot* provided that "'[t]itle to all prints and tapes shall be and remain in Licensor [Warner] subject to the rights granted to NBC under this agreement,'" the Court found "this language and the entire contract to be a license and not a sale." *Id.* at 1191.
- Where the VIP agreement for *The Sting* "retained title in the print in Universal Pictures," the VIP agreement for *Paper Moon* was "'loaned' . . . pursuant to an agreement in which Paramount Pictures retained title to the print," and the VIP agreement for *Funny Girl* "was furnished . . . under an agreement which reserved to Columbia 'all rights in, to and with respect to' the film, 'subject to such limited rights' as were granted to the VIP's by the agreement," the Court

found that these agreements did "not effect sales of the motion pictures." *Id.* at 1192.

With two other contracts, the Court found that the government had failed to meet its burden of proving beyond a reasonable doubt the absence of a first sale.[13] In one of those contracts, the television distribution contract for *Funny Girl*, the movie studio did not expressly retain title in the movie print and did not designate the agreement as a license. *See Wise*, 550 F.2d at 1191 (noting that the television distribution contract for *Funny Girl* "fail[ed] to provide for the retention of title" and was "not phrased in terms of a license"). In the other, the VIP agreement for *Camelot* furnished to Vanessa Redgrave (the "Redgrave Contract"), the copyright holder also did not expressly reserve title in the print. Although this important fact is not made clear by the opinion, an examination of the parties' briefs in *Wise* confirms that the Court was informed that the studio did not reserve title to the print that it provided to Ms. Redgrave. *See* Request for Judicial Notice, filed herewith ("RJN") Ex. A (*Wise* Appellant's Opening Brief) at 41 ("TITLE TO PRINTS IS NOT RESERVED IN 'V.I.P.' SALES. For example, a print

[13]Because the government was prosecuting the defendant in *Wise* for criminal copyright infringement, it had the "burden of showing that there was no first sale." *Wise*, 550 F.2d at 1192. By contrast, Vernor has the burden of proving that the first sale defense protects him here. *Campbell*, 510 U.S. at 590 (fair use defense); *Software Wholesale Club*, 129 F. Supp. 2d at 1002 (first sale defense); *Harmony Computers*, 846 F. Supp. at 212 (first sale defense).

of 'CAMELOT' was sold to Miss Vanessa Redgrave for the sum of $401.59 under a 'V.I.P.' agreement. (Exh. 18) *No title was reserved therein.* (R.T. 575-76)") (emphasis added).[14]

The District Court thought it unlikely that the Redgrave Contract failed to include a reservation of title. 1-ER-13. This assumption that title was reserved in the Redgrave Contract was, as just shown, incorrect. The court went on to conclude, however, that, even where title is expressly reserved, "*Wise* requires the court to look at a transaction holistically . . . ." 1-ER-15. *Wise* provides no support for the proposition that even though an agreement purports to confer a license while retaining *ownership* in the copies provided, it may nevertheless constitute an outright sale.

Even if title had been reserved in the Redgrave Contract, the District Court's conclusion required it to assume that this Court had—without comment or explanation—decided that a reservation of title was ineffective where the transferee's possession of the movie print was indefinite, and that this unexpressed holding was a binding precedent that trumped *MAI, Triad,* and *Wall Data*. In the Ninth Circuit, however, as in most appellate jurisdictions, cases are not authority for *implied* propositions not actually considered and discussed in the opinion. *See, e.g.*, *Miller ex rel. NLRB v. California Pac. Med. Ctr.*, 991 F.2d 536, 541 (9th Cir. 1993) ("It is

[14]Appellee's Brief in *Wise* did not dispute that the Redgrave Contract did not expressly reserve title. *See* RJN Ex. B (*Wise* Appellee's Brief).

a venerable principle that a court isn't bound by a prior decision that failed to consider an argument or issue the later court finds persuasive").[15]

Wise is consistent with this Circuit's later precedent in *MAI*, *Triad*, and *Wall Data*. In *every* contract where the copyright holder expressly retained title, *Wise* found that the movie studio had only licensed the movie print while retaining ownership of the print. The Court found that the government failed in its burden of proving the absence of a first sale only with regard to those contracts in which the studio had not expressly retained title. *See Wise*, 550 F.2d at 1191 (television distribution contract for *Funny Girl*); *id.* at 1192 (Redgrave Contract). Moreover, the Court noted that a successful first sale defense "requires a transfer of title before a 'first sale' can occur." *Id.* at 1187.

Wise also made the point that even where a copyright owner did not expressly retain title in the copy of its copyrighted work, this failure did not automatically lead to a conclusion that the copy was sold and not licensed:

> Although some of the contracts did not provide expressly for reservation of title in the copyright owner, the remaining terms of the agreements were consistent with the theory of a limited license and inconsistent with the concept of a sale. The mere failure to expressly reserve title to the films does not require a finding that the films were

[15]The District Court acknowledged that, if the Redgrave Contract did not contain an express reservation of title, "then the *Wise* panel had no occasion to consider an agreement that both retained the copyright holder's title in transferred copies and permitted the transferee to retain the copies indefinitely." 1-ER-15.

> sold, where the general tenor of the entire agreement is inconsistent with such a conclusion. (*Id.* at 1191)

The Court's conclusion that "[t]he mere failure to expressly reserve title to the films" does not foreclose the possibility of a license suggests that expressly reserving title *does* result in a license.

This reading of *Wise* is bolstered by *Wise*'s citation, with approval, of *Hampton v. Paramount Pictures Corp.*, discussed on pp.18-29, *supra*. The Court cited *Hampton* as supportive of its determination that several of the agreements did not "constitute[] first sales, since both on their face and by their terms they were restricted licenses and not sales" and characterized its decision as "in accordance with the holding and reasoning of [*Hampton*]." 550 F.2d at 1190; *see id.* at 1190 n.17 ("with respect to the meaning of 'first sale' we adhere to the reasoning of *Hampton*"). As previously shown, *Hampton* found that the parties' contract's unambiguous language establishing that it was a "license" was determinative of ownership of the copyright owner's public exhibition right even though (1) the license was perpetual; (2) there was a one-time lump sum payment; and (3) there was no requirement to return the outstanding prints and negatives. *Id.*

For these reasons, *Wise* is consistent with both prior precedent (*Hampton*) and this Court's subsequent decisions in *MAI*, *Triad*, and *Wall Data*. Under those authorities, where the parties' agreement makes clear that the copyright holder is only licensing its property while retaining

ownership, and imposes restrictions on the licensee's use and right to transfer, the transaction is a license, not a sale.[16]

2. Even If (*Arguendo*) *Wise* Had Held That Despite A Clear Retention of Title, The Transfer Of The Film To Redgrave Was A Sale, The Binding Precedent Would Be *Hampton*—Not *Wise*.

The preceding section showed that the reason *Wise* was able to find that the Redgrave Contract was a sale was because the contract did not provide that the movie studio retained title; the holding in *Wise* is, therefore, fully consistent with prior and subsequent Ninth Circuit precedent. But even if that were not so—that is, even if *Wise* had squarely held that contract provisions retaining title and characterizing the relationship as one between licensor and licensee do not govern where perpetual possession is granted to the licensee—then the controlling precedent would be *Hampton*, not *Wise*. While *Hampton* did not involve a first sale defense, its holding is dispositive on the crucial issue of whether CTA was an owner or a licensee. *Hampton*

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[16]In arguing for application of the first sale defense before the District Court, Vernor relied heavily on the century-old case of *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908). However, *Bobbs-Merrill* is easily distinguished. It addressed only whether the copyright owner could restrict resale of a book "*after* a sale of the book to a purchaser" where there was "no claim . . . of contract limitation, nor license agreement controlling the subsequent sales of the book." *Id.* at 350 (emphasis added). Accordingly, it is not contrary to the Ninth Circuit rule holding that where the opposite is true, and the copyright owner retains title in a copy of a copyrighted work and restricts the transferee's ability to use and redistribute the copy, the first sale defense does not apply.

held that where a contract for the transfer of a copyright interest unambiguously provides that it is a license, not a sale or assignment, of that copyright interest, then it is a license, not a sale, of that interest. 279 F.2d at 103. There is nothing in the text of Sections 109(a) or 117(a), or in their legislative history, that would suggest Congress intended a different test for determining who is an "owner" of a software copy under these provisions. As a result, if *Wise* and *Hampton* were in conflict, *Hampton* would control because it is the earlier precedent. *United States v. Rodriguez-Lara*, 421 F.3d 932, 943 (9th Cir. 2005).

3. The District Court Erroneously Determined That Length Of Possession Determines Ownership Of The Software Copies.

Having erroneously decided that *MAI, Triad*, and *Wall Data* were not binding Ninth Circuit precedents, and that *Hampton* was distinguishable, the District Court concluded that the dispositive factor is whether the transferee is entitled to retain the copy indefinitely. 1-ER-15 ("the court finds no basis for the conclusion that an agreement to permit perpetual possession of property can be construed as reserving ownership"). The court based this conclusion on its interpretation of *Wise*:

> Only one characteristic was unambiguous in that it appeared only in agreements that the *Wise* panel deemed to be transfers of ownership. In each instance in which the transferee could, at his election, retain possession of the transferred copy indefinitely, and the copyright holder had no right to regain possession, the court found an ownership transfer. (1-ER-13)

The District Court was wrong. On at least two occasions, *Wise* held that the transferee of a movie print was a licensee, not a purchaser, even where there was no mechanism for the movie studio to repossess the print. *Wise*, 550 F.2d at 1192 (finding VIP contracts for *The Sting* and *Funny Girl* to be licenses despite agreement requiring licensee "to retain the film print in his possession at all times").[17] *Wise* never identified permanent possession as a dispositive factor. Nor did the Court attribute any significance to the length of possession. Instead, as explained above, *Wise* is consistent with the rule that where the copyright owner expressly retains ownership, makes clear that it is transferring possession of a copy pursuant to a license, and places restrictions on the transferee's ability to transfer or use that copy, the copyright owner retains ownership of that copy.

Moreover, as previously shown, this Court's decision in *Hampton*, which *Wise* declared that it was following, rejected an argument that the transfer of film rights was an outright assignment rather than a license because the transferee was entitled to retain possession of the film print indefinitely. *See* pp.28-29, *supra*. *Hampton* held that the contract language unambiguously

[17]The VIP contract for *The Sting* provided that the movie studio's consent to use the print was "revocable," but provided no explicit way for the studio to regain possession of the print. Similarly, the SLA provides that Autodesk's grant of permission to use AutoCAD R14 could cease, and the license to use the program would be automatically terminated if CTA violated the license restrictions in the SLA. 2-ER-171 at "COPYRIGHT."

characterized the transfer as a license, not an outright transfer, and that this was dispositive.

Likewise, the Federal Circuit has rejected an argument that perpetual possession of a copy necessarily leads to ownership of that copy. In *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354, 1362 (1999), the District Court had determined that the defendants were owners of software copies because they had "obtained their interests in the copies of the software through a single payment and for an unlimited period of time." *Id.* at 1362. The Federal Circuit reversed, characterizing the District Court's standard as "overly simplistic." *Id.* Instead, relying in part on *MAI*, which it called "instructive," the Federal Circuit found that the copyright holder retained ownership of the software copies because the parties' agreements designated the transferees "as non-owners of copies of the software" and placed restrictions on their rights to transfer and use the copies. *Id.* at 1360-62.

Additionally, while the District Court believed that the single payment structure of the SLA supported its conclusion that Autodesk sold its software copies (*see* 1-ER-14), the method of payment does not determine ownership. Any ongoing series of payments can be given a present economic value. There is no logical reason to require copyright owners who wish to license their software copies to choose a deferred payment scheme that imposes the additional logistical costs that arise from making and tracking a series of

payments. How a license structures payments determines *when* the copyright owner gets paid, not who owns the software copies. *See Hampton*, 279 F.2d at 103 (finding a license, not a sale of a copyright interest, even where the contract provided for "a flat lump-sum payment"); *DSC Commc'ns*, 170 F.3d at 1362 (rejecting argument that payment structure is dispositive of ownership of a software copy); *Adobe Sys. Inc. v. Stargate Software Inc.*, 216 F. Supp. 2d 1051, 1059 (N.D. Cal. 2002) (same).

D. The Legislative History Supports The Ninth Circuit's Controlling Precedent.

The legislative history of Sections 109 and 117 supports the rule for determining ownership of a software copy set forth in this Court's controlling precedent. The legislative history of Section 109(a) emphasizes Congress's intent to limit the first sale defense to transactions where all ownership rights in the copy of the copyrighted work are transferred. The House Report for Section 109(a) provided that the defense would only be available to someone who obtained a copy via an "outright sale." H.R. REP. NO. 94-1476 at 79 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5693.

The legislative history of Section 117(a) also supports interpreting the term "owner" in its conventionally understood sense. As the Federal Circuit has noted, this legislative history makes clear that simply possessing an authorized copy of a computer program is not a sufficient basis for the essential step defense:

> The National Commission on New Technological Uses of Copyrighted Works ("CONTU") was created by Congress to recommend changes in the Copyright Act to accommodate advances in computer technology. In its final report, CONTU proposed a version of section 117 that is identical to the one that was ultimately enacted, except for a single change. The proposed CONTU version provided that "it is not an infringement for the rightful possessor of a copy of a computer program to make or authorize the making of another copy or adaptation of that program . . . ." Congress, however, substituted the words "owner of a copy" in place of the words "rightful possessor of a copy." The legislative history does not explain the reason for the change, but it is clear from the fact of the substitution of the term "owner" for "rightful possessor" that Congress must have meant to require more than "rightful possession" to trigger the section 117 defense. (*DSC Commc'ns Corp*, 170 F.3d at 1360 (citations omitted))

Congress's decision to limit the scope of Section 117(a)'s protection to owners, as opposed to mere possessors, shows that it did not intend to extend Section 117(a)'s protection to a transferee who receives a software copy pursuant to a license and subject to restrictions on transfer and use.

The legislative history of a separate subsection of Section 117—Section 117(c)—also supports this Court's rule for determining ownership of a software copy. Congress impliedly approved of *MAI*'s interpretation of "owner" under Section 117(a) when it enacted Section 117(c) in 1998, in part, in response to *MAI*'s holdings that RAM copies created during maintenance are reproductions under the Copyright Act and that software licensees are not "owners" under Section 117(a). H.R. REP. NO. 105-551, pt. 1, at 27 (1998) (citing *MAI*), *reprinted in* NIMMER ON COPYRIGHT at App. 52-35 (2006). Congress did not overrule these holdings or change the

text of Section 117(a). Instead, Congress enacted a new, narrow exemption that permitted copying a computer program for repair or maintenance purposes where certain conditions were met. 17 U.S.C. §117(c). After an "interpretation of a statute has been brought to the attention of Congress, and Congress has not sought to 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).

E. The Controlling Ninth Circuit Rule Benefits Both Software Consumers And Companies.

The bright-line rule articulated in *Wall Data* benefits both software companies and users, and supports the statutory purposes of the Copyright Act to "enrich[] the general public through access to creative works" (*Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 527 (1994)), and to "*promote* the creation and publication of free expression" by rewarding authors. *Eldred v. Ashcroft*, 537 U.S. 186, 219 (2003) (emphasis in original).

First, allowing copyright holders and software users to define their relationship—and to specify that the user is merely licensing the software copy—permits software developers to price their software differently for different markets. As discussed at pp.6-7, *supra*, Autodesk uses a multi-tier licensing structure that allows it to offer different pricing depending on the customer's needs for essentially the same software. 2-ER-149 ¶11; 150 ¶15.

In contrast, as explained by Professor Raymond Nimmer, the rule adopted by the District Court would have the effect of raising prices for consumers:

> [S]oftware publishers use licenses to fit their software products to the relevant market and to the price charged. Because digital information does not change in quality when copied, a ruling that might limit the effect of license restrictions to only the immediate parties to a license would increase costs to consumers because licensors could not rely on enforcing copyright limits on the use of their software after the first, limited transfer. (2-ER-261 ¶26)

The current licensing model supported by the *Wall Data* rule is good for software companies (because it increases sales) as well as for consumers (because it decreases prices and thus expands access to software by spreading costs across a larger number of purchasers):

> If [the software creator] had to recover all of its costs and make a profit by charging a single price—that is, if it could not charge more to commercial users than to the general public—it would have to raise the price substantially . . . . If because of high elasticity of demand in the consumer segment of the market the only way to make a profit turned out to be a price attractive to commercial users alone, then all consumers would lose out—and so would the commercial clients, who would have to pay more . . . because [the software creators] could not obtain any contribution toward costs from the consumer market. (*ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1449 (7th Cir. 1996))

See also Adobe Sys., Inc. v. One Stop Micro, Inc., 84 F. Supp. 2d 1086, 1091-92 (N.D. Cal. 2000) (finding that where plaintiff licensed its software at a significant discount for sale to the educational market, defendant's sales of these software copies violated plaintiff's exclusive distribution right because plaintiff had retained ownership of the copies pursuant to its distribution agreement); *Stargate Software*, 216 F. Supp. 2d 1054-59 (same).

Second, as demonstrated by the evolution of Autodesk's business practices, the District Court's proposed rule would create a pointless and inefficient requirement of return of the software to create a license. As discussed at pp.7-8, *supra,* Autodesk abandoned its requirement that customers return the physical media of the software in order to upgrade to a newer version of the software because the practice was slow, unwieldy, and ultimately unworkable. In addition, return of the discs did not eliminate the copies of the programs that already had been installed on the users' computers. Once Autodesk established its control over the software copies by restricting its users' ability to use and transfer the software (backed by the "automatic termination" provision) and by requiring that new users employ an activation code to install the software, there was no reason to take the burdensome and wasteful step of requiring return of the discs. *See also* 2-ER-259 ¶15 ("In software licensing, the economic and business reality is that the medium on which the code is delivered loses significance as soon as the program is loaded on the computer. Requiring a return of that irrelevant tangible medium would impose large monitoring and enforcement costs without helping in enforcement of the license").

Third, as this Court has recognized:

> By licensing copies of their computer programs, instead of selling them, software developers maximize the value of their software, minimize their liability, control distribution channels, and limit

> multiple users on a network from using software simultaneously. (*Wall Data*, 447 F.3d at 785 n.9)[18]

If Autodesk's licensees could resell their software copies, the purchasers—who are not parties to the Autodesk SLA—might not be in privity with Autodesk and not be bound by the SLA. Autodesk would lose the benefit of provisions such as the limitation of liability clause, which allows the parties to the SLA to allocate risk. Because software developers like Autodesk would face considerable additional liability, they would be forced to raise their prices to compensate for this additional exposure. *See Software Licensing in the 21st Century: Are Software "Licenses" Really Sales, and How Will the Software Industry Respond?*, 32 AIPLA Q.J. 555, 572 (2004) ("[B]usiness users tend to place far greater reliance on software than on other copyrightable works. Often an entire business depends on properly working software (such as to process sales transaction, manage the books, or provide accurate data). The prospect of software failing is an enormous risk the software copyright owner must face. Software must be priced to account for these risks, and licensed to ensure some limitation of that liability") (footnote omitted).

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[18]The SLA contains these types of limitations. *See* 2-ER-171 at "LIMITATION OF LIABILITY" (agreement to limit Autodesk's liability); 170 at "RESTRICTIONS" (forbidding use or transfer outside of the Western Hemisphere); *id*. at "GRANT OF LICENSE" (limiting the number of users on a networked system).

Fourth, a copyright owner's retention of ownership of its software copies protects against unauthorized reproductions of the software. After installing the software, a licensee of Autodesk's software can transfer the tangible copy of the software while retaining and using the copy installed on its hard drive. 2-ER-150-51 ¶17. Autodesk's licensing of its software copies provides an enforcement mechanism against this possibility because it permits Autodesk to sue a downstream purchaser for copyright infringement. Indeed, Vernor admitted that he did not know whether CTA had retained on its computers copies of the AutoCAD R14 software that Vernor proposes selling to third parties. 2-ER-245.[19]

Finally, the *Wall Data* rule has the benefit of respecting the parties' freedom to structure the transaction to their own benefit:

> [N]o colorable reason exists in this case as to why [the parties] should be barred from characterizing the transaction that has been forged between them as a license. In light of the restrictions on title that have been incorporated into the [license agreement], as well as the Parties' free and willing consent to enter into and execute its terms, the Parties should be free to negotiate and/or set a price for the product being exchanged, as well as set the terms by which the product is exchanged. Fundamental to any free society is the liberty of its members to formulate contracts in accordance with the terms that

[19]The ease of making additional copies of software also distinguishes transfer of a software copy from the transfer of, for example, a book or a sculpture. *See* 2-ER-150-51 ¶17. The original purchaser of such a physical item gives up the value when it sells the physical copy. A software user, on the other hand, can retain what is valuable—a working copy of the software loaded on its computer—while selling the tangible copy of the software to a new user. *Id.*

> they agree and consent to mutually execute. (*Stargate*, 216 F. Supp. 2d at 1059 (citation omitted))

Here, the parties' agreement is clear. By the unambiguous terms of the SLA, Autodesk retained ownership of its AutoCAD R14 software copies because it expressly retained title in the copies, barred any transfer of the copies, and imposed numerous restrictions on use of the copies.

CONCLUSION

For the foregoing reasons, the decision of the District Court should be reversed and judgment entered in favor of Autodesk on Vernor's claim for declaratory and injunctive relief.

DATED: January 5, 2010.

Respectfully,

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CERTIFICATE OF COMPLIANCE PURSUANT TO FED. R. APP. P. 32 (A)(7)(C) AND CIRCUIT RULE 32-1 FOR CASE NUMBER 09-35969.

1. This brief complies with the type-volume limitation of Federal Rule of Appellate Procedure 32(a)(7)(B) because this brief contains 11,904 words, excluding the parts of the brief exempt by Federal Rule of Appellate Procedure 32(a)(7)(B)(iii).

2. This brief substantively complies with the typeface requirements of Federal Rule of Appellate Procedure 32(a)(5) and the type style requirement of Federal Rule of Appellate Procedure 32(a)(6) because it has been prepared in a proportionally spaced typeface in 14.5 point Times New Roman.

DATED: January 5, 2010.

/s/ Jerome B. Falk, Jr.
JEROME B. FALK, JR.

STATEMENT OF RELATED CASES

Pursuant to Circuit Rule 28-2.6, counsel for Autodesk identifies *MDY Industries LLC and Michael Donnelly v. Blizzard Entertainment, Inc. and Vivendi Games, Inc.*, Nos. 09-15932 and 09-16004 (on appeal from the United States District Court, District of Arizona, No. CV-06-2555-PHX-DGC), and *UMG Recordings, Inc. v. Augusto*, No. 08-55998 (on appeal from the United States District Court, Central District of California, No. CV-3106-SJO), now pending in the Ninth Circuit as related cases involving closely related legal issues.

DATED: January 5, 2010.

/s/ Jerome B. Falk, Jr.
JEROME B. FALK, JR.

CERTIFICATE OF SERVICE
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