09-35969
D.C. No. 2:07-cv-01189-RAJ

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

TIMOTHY S. VERNOR

Plaintiff-Appellee,

v.

AUTODESK, INC.

Defendant-Appellant,

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

BRIEF OF *AMICUS CURIAE* SOFTWARE & INFORMATION INDUSTRY ASSOCIATION (SIIA) IN SUPPORT OF APPELLANT AND REVERSAL

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CORPORATE DISCLOSURE STATEMENT

Pursuant to Federal Rule of Appellate Procedure 26.1, the Software & Information Industry Association has no parent corporation, and no publicly held company owns 10% or more of its stock.

STATEMENT OF CONSENT

All parties have consented to the filing of this amicus brief.

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INTEREST OF THE AMICUS

Amicus, the Software & Information Industry Association ("SIIA"), is the principal U.S. trade association of the software and digital content industries. SIIA is the nation's oldest and largest association representing software and content companies.[1] Its members range from start-up firms to some of the largest and most recognizable corporations in the world.[2] SIIA member companies are leading providers of, among other things:

- software publishing, graphics, and photo editing tools
- corporate database and data processing software
- financial trading and investing services, news, and commodities exchanges
- online legal information and legal research tools
- protection against software viruses and other threats
- education software and online education services
- open source software
- and many other products and services in the digital content industries.

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[1] The Software Publishers Association ("SPA") was founded in 1984. The increasing convergence of the software and information services industries led to a 1999 merger between SPA and the Information Industry Association ("IIA"), creating the SIIA.

[2] A list of the more than 500 SIIA member companies may be found at http://joomlatest.siia.net/index.php?option=com_wrapper&view=wrapper&Itemid=43.

SIIA has been an industry leader in addressing intellectual property issues in the software and content industries for many years. It has long been an active participant in legislative changes relating to copyright, such as the Digital Millennium Copyright Act, which included amendments to section 117 that are relevant to this case. And SIIA's members have extensive, real-world experience in: (1) distributing software as licensors, (2) acquiring software as licensees, (3) the distinct transaction of a *sale* of software (such as in a development agreement), and (4) the enormous challenge of enforcing their rights in a global electronic marketplace where copies are effortlessly distributed anywhere in an instant. SIIA offers a practical view of a multi-billion dollar industry that is built upon untold thousands of existing software licenses, and a legal enforcement regime that depends upon proper recognition of those licenses.

SIIA's interest in this case is to ensure the proper application of sections 109 and 117 of the Copyright Act. Both sections establish defenses to infringement that depend upon the distinction between "owning" and "licensing" copies of software. This distinction is of monumental importance to the software industry. For more than three decades, licenses have dictated the economics and legal structure of the software business, and the relationship and risk allocation between the software companies and their customers. A holding that suggests that the thousands of software licenses currently in force are effectively "sales," or otherwise convey ownership of copies,[3] would have far reaching, adverse consequences for the industry and the vast majority of its customers.

ARGUMENT

This case turns upon the same questions of licensing and ownership as in *MDY Industries LLC, et al. v. Blizzard Entertainment, Inc. et al.*, Nos. 09-15932, 09-16004, currently pending in this Court. The Court's December 23, 2009 Order assigned the present appeal to the same panel that will hear the *MDY* appeal, and expedited briefing in this case to align it closely with the *MDY* briefing schedule. Mindful of these developments, and having already filed a detailed *amicus* brief in *MDY*, SIIA will not burden the Court with a duplicative filing here. *See* Brief of the Software & Information Industry Association, *MDY Industries LLC, et al. v. Blizzard Entertainment, Inc. et al.*, Nos. 09-15932, 09-16004, filed November 17, 2009. The views expressed in SIIA's *MDY* Brief apply with equal force in this

[3] The district court took issue with both parties' assumption that a "license" necessarily meant no transfer in ownership. *See Vernor v. Autodesk*, No. C07-1189RAJ, 2009 WL 3187613 (W.D. Wash. 2009) at *5 ("[T]he parties and their witnesses too often suggest that their dispute is about whether Autodesk 'sold' rather than 'licensed' its software. That dispute is not determinative, because the use of software copies can be licensed while the copies themselves are sold."). But the parties simply were reflecting industry understanding that a "sale" equates to conveying ownership and a "license" does not. Industry practice is one tool of contract interpretation, thus the "license" label is relevant. That said, everyone understands that the dispute is whether the software transaction conveyed ownership of the copies.

case. SIIA submits the present filing simply to underscore the consistency of the issues in the two cases, and to highlight the following points.

First, the "mass market" consumer software industry has been built almost exclusively upon licensing, its economic foundations depend upon licensing, and "overriding" such licenses would have far-reaching, adverse effects on everything from the availability of educational software, to warranties and support services, to the development of new products. *See* SIIA *MDY* Br. at 4-10, 16. There are certain markets and types of transactions, such as some software development contracts, in which software *is* sold and sections 109 and 117 *do* apply. *See id.* at 26. But that is not the case for the transactions at issue in *MDY* and this case.

Second, the law is well established in this circuit, and throughout the country, that sections 109 and 117 do not apply to software licensees (*i.e.*, recipients of a copy of software under terms inconsistent with unfettered ownership). The *MAI*, *Triad*, and *Wall Data* cases held that a software license is just that, a license, not a sale.[4] *See id.* at 19-22. Countless hundreds of cases in other jurisdictions have consistently followed the same approach, implicitly or explicitly. Only the district court decision in this case, and the oft-criticized *Adobe v. Softman* district court case, stray from this approach. *See id.* at 27-29. The

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[4] Other circuits agree. *See Cincom Systems, Inc. v. Novelis Corp.*, 581 F.3d 431 (6th Cir. 2009) (software transaction was a license with a non-transfer provision, so subsequent acquiring entity infringed when it used the software); *DSC Commc'ns Corp. v. Pulse Commc'ns, Inc.*, 170 F.3d 1354, 1362 (Fed. Cir. 1999).

legislative history of sections 109 and 117 confirms that the results in *MAI*, *Triad*, and *Wall Data* were correct. *See id.* at 22-23. The legislative history, along with applicable canons of statutory construction, also establishes that "owner" has the same meaning in the two sections. *See id.* at 25. The district court was correct on this point, *see Vernor v. Autodesk*, 2009 WL 3187613 at *12-13, but erred in its conclusion that ownership was conveyed.

Third, the variation of actual and potential terms in software licenses is nearly limitless. *See* SIIA *MDY* Br. at 13-15. The Court should not require that a license must include certain terms to avoid conveyance of ownership, such as multiple payments or return of a worthless plastic CD. It is the code *and associated rights* that is valuable, not the vehicle of delivery or conveyance (whether CD, diskette, or wires on the Internet). While a licensor theoretically could require destruction of the disc or erasing its contents, the practicality and benefits of doing so are debatable, and it makes no sense to penalize software licensors that omit such requirement. *See id.* at 13-15; *DSC*, 170 F.3d at 1362 (analogy to sale of goods inapposite to software; no economic rationale for returning disc).[5] Instead, software licensors typically indicate non-conveyance of

[5] Moreover, at least one court has held it illegal for a software company to enforce a provision requiring destruction of a copy of software after license termination. *See Kalow & Springnut, LLP, v. Commence Corp.*, No. 07-3442, 2009 WL 44748 (D. N.J. 2009) (publisher's use of mechanism to deactivate code upon license expiration supports Computer Fraud and Abuse Act claim).

ownership (i) by saying so, *i.e.*, calling the transaction a "license" and/or reserving title, or (ii) limiting rights of use or distribution, such as geographically, or by term, or by type of user or field of use (academic, non-commercial), or by requiring certain hardware (OEM), or by prohibiting reverse engineering, or a variety of other limitations. An "owner," in contrast, would have no such limits by contract and could use the copy of software however he/she wanted consistent with applicable laws, statutes, ordinances, etc.

Fourth, the district court in *Vernor* appeared to misunderstand Autodesk's license provision stating the older versions must be destroyed upon upgrade to the new software – a provision critical to the district court's ruling.[6] The court focused on the fact that upgrade was optional and would occur later (if at all), long after the original software already had been conveyed and – in the court's view – owned by CTA. Thus, the court considered the promise to destroy the original (AutoCAD R14) merely to be consideration for the upgrade (AutoCAD 2000) *at the time of the upgrade*. *See Vernor v. Autodesk*, 2009 WL 3187613, slip op. at *8. But viewed in context, the provision describing what happens to the original copy upon potential upgrade only makes sense if the original transaction is a license – the software publisher is indicating that, despite the conveyance of a copy, it intends to

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[6] The court's focus on this term was misplaced to begin with, since the reservation of title and other limitations on use indicate that the transaction was a license, not conveying ownership.

continue to exercise some control over that copy and impose terms on the recipient's use thereof. The inclusion of that term is inconsistent with a "sale," regardless of whether the user actually ends up upgrading.

Fifth and finally, while Vernor himself may only have acquired a few copies of software from a flea market, he advocates a result that effectively would legalize an international, illicit trade in unauthorized software. The spread of illegal academic, OEM, and similar software purportedly "sold" on eBay (to any user, without restriction) and similar sites is beginning to rival outright counterfeiting. International B2B and trading sites "launder" such software through multiple, anonymous sales, so that the original source (such as an unscrupulous party in the publisher's licensed distribution chain; a university computer store employee or student "reselling" academic-licensed titles as unrestricted consumer software; an OEM manufacturer or disc fabricator; etc.) is effectively untraceable. In the typical case, at some point a U.S. user acquires the out-of-license software, sometimes multiple copies, from an international web site or B2B site, and attempts to "resell" it on a trusted consumer site such as eBay. The end consumer may not realize that his software is not a licensed, authorized copy, that his warranties may be void, that he may not be entitled to support, that his purchase may support unknown international "middlemen," etc. Vernor advocates a result that would handcuff software publishers' ability to combat this type of infringement.

CONCLUSION

The district court's ruling that the first sale and essential steps defenses shield Vernor from liability should be REVERSED.

Respectfully submitted,

/s Scott Bain

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January 14, 2010

CERTIFICATE OF COMPLIANCE

I hereby certify that pursuant to Federal Rule of Appellate Procedure 29(d) and 32(a)(7)(B) & (C) and Ninth Circuit Rule 32-1, the enclosed brief is proportionately spaced and has a typeface of 14-point Times New Roman including footnotes. It contains approximately 1,767 words. Counsel relies on the word count of the computer program used to prepare this brief.

/s Scott Bain

Scott E. Bain
Counsel of Record
Software & Information Industry Association

January 14, 2010

CERTIFICATE OF SERVICE VIA CM/ECF

I hereby certify under penalty of perjury that on January 14, 2010, I electronically filed the foregoing document entitled brief of *amicus curiae* Software & Information Industry Association (SIIA) in support of Appellee Blizzard and Affirmance on Appeal, with the Clerk of the Court for the United States Court of Appeals for the Ninth Circuit by using the Court's CM/ECF system. All parties in the case are registered CM/ECF users and service will be accomplished by the appellate CM/ECF System.

Signed,

/s Scott Bain

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