WSGR ALERT

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NINTH CIRCUIT RULING IN *VERNOR V. AUTODESK:* USERS DO NOT OWN THEIR COPIES – AND WHY THAT MATTERS

The Ninth Circuit, on September 10, 2010, issued a highly anticipated decision in the *Vernor v. Autodesk* case, No. 09-35969, holding that the acquirer of an authentic copy of Autodesk software is a mere licensee and not the owner of a copy, overturning the district court's decision. This is important because it means that licensees are in fact subject to the restrictions in the license agreement on both the transfer and use of the software and may be liable for infringement if they breach these terms, and the "first sale doctrine" in copyright law, which allows owners to freely transfer their software copies, does not apply.[1] The court eliminated a source of legal uncertainty for the software industry by confirming the enforceability of licensors' restrictions on use and transfer by users.

The Facts

The plaintiff in this case,[2] Timothy Vernor, sought a determination that his sale on eBay of authentic used copies of Autodesk software (which he had purchased from one of Autodesk's direct customers, Cardwell Thomas Associates, or CTA) was protected by the first sale doctrine of Section 109 of the Copyright Act and did not infringe Autodesk's copyright. Autodesk argued that it had only licensed, not transferred ownership of, the copies of its software to CTA, because the software license agreement between Autodesk and CTA expressly stated that Autodesk retained title to all copies and that CTA had only a non-exclusive, non-transferable license to use the software, and imposed significant transfer and use restrictions.[3]

District Court Decision

In its analysis, the district court looked at prior Ninth Circuit decisions and found two conflicting precedents. On the one hand, the view held by the *MAI*, *Triad,* and *Wall Data*[4] cases gave deference to a copyright holder's characterization of a software agreement as a mere license in the agreement text. This approach favors licensors such as Autodesk, as they can simply state that they retain title and limit what users can legally do with their copies by using specific language in their end-user software license agreements. On the other hand, the *Wise*[5] view requires the court to look at a transaction holistically: designating an agreement as a license does not determine whether it transfers ownership of the copy. Importantly, the court said that retaining title in a copy is meaningless unless the copyright holder has some means to regain possession of the copy. Other factors, such as getting a single copy for a single payment (rather than ongoing royalties) and the extent and severity of the use restrictions, are considered relevant in this approach, but not as determinative as whether the licensor retains the ability to regain possession of the copy, which of course is not typical of widely available end-user software license agreements. The district court found *Wise* to control and thus ruled in favor of Vernor, finding that the first sale doctrine applied and Vernor could transfer his copies of the software.

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[1] 17 U.S.C. § 109. The "essential step" clause of the Copyright Act (17 U.S.C. § 117) is another important protection for users who are considered owners of their copies, whereby an owner may reproduce the program when doing so is an essential step in the utilization of the computer program.

[2] Vernor brought this case as a declaratory action against Autodesk in August 2007. Autodesk moved to dismiss Vernor's complaint. The district court denied the motion, holding that Vernor's sales were non-infringing under the first sale doctrine and the essential step defense. *Vernor v. Autodesk*, 555 F. Supp. 2d 1164, 1170-71, 1175 (W.D. Wash. 2008). Following discovery, the parties filed cross-motions for summary judgment. The district court granted summary judgment to Vernor as to copyright infringement (declining to resolve Vernor's affirmative defense that Autodesk had misused its copyright, since Vernor had prevailed on copyright infringement) and entered judgment for Vernor in October 2009. Autodesk appealed. The Ninth Circuit reversed the summary judgment grant and remanded for the district court to consider Vernor's copyright misuse defense in the first instance.

[3] The Ninth Circuit had noted that the Autodesk software that Vernor had purchased from CTA were version 14, and that CTA had purchased an upgrade to version 15 at a discount on terms that required CTA to destroy the prior version 14 of the software. However, rather than destroying them, CTA had sold them to Vernor. *Vernor v. Autodesk*, No. 09-35969, slip op. at 13868 (9th Cir. Sept. 10, 2010).

[4] *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993); *Triad Sys. Corp. v. Southeastern Express Co.*, 64 F.3d 1330 (9th Cir. 1995); and *Wall Data Inc. v. Los Angeles County Sheriff's Dep't*, 447 F.3d 769 (9th Cir. 2006).

[5] *United States v. Wise*, 550 F.2d 1180 (9th Cir. 1977).

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Ninth Circuit Test

Rather than choosing between the two existing approaches addressed by the district court, the Ninth Circuit created a three-part test: (1) whether the copyright owner specifies that a user is granted a license; (2) whether the copyright owner significantly restricts the user's ability to transfer the software; and (3) whether the copyright owner imposes notable use restrictions. Under its software license agreement (SLA) Autodesk retained title to the software; imposed significant transfer restrictions; limited use of the software outside the Western Hemisphere; included restrictions against modifying, translating, and reverse-engineering the software; prohibited removal of any proprietary marks from the software and defeating any copy protection device; and provided for termination of the SLA upon the licensee's unauthorized copying or failure to comply with the other restrictions. As a result, using the three-part test, the Ninth Circuit concluded that Autodesk customers are licensees of their copies, rather than owners. Consequently, neither CTA nor Vernor, nor any subsequent transferee, had the benefit of the first sale doctrine, and is exposed to copyright infringement liability for transferring or using the software copies in ways not permitted by the SLA, such as on eBay.

Lessons Learned

An important, albeit not new, lesson of the Ninth Circuit ruling in *Vernor v. Autodesk* is that using the right legal language in a software license agreement matters, even in shrink-wrap and click-through end-user license agreements. The test provided by this Ninth Circuit decision is focused on the language of the agreement between the parties, rather than the "holistic" approach of the district court.

Stay Tuned

This year there are two other closely followed cases before the Ninth Circuit, *UMG Recordings v. Augusto* and *MDY Industries v. Blizzard Entertainment*, which will determine whether transactions involving books, music, films, games, and other copyrighted works are also subject to the three-prong test for determining whether users of a licensed work are considered to be owners or licensees. The *Vernor v. Autodesk* case itself may also not be over yet. Vernor's attorney may ask for a full-panel, *en banc* review by the Ninth Circuit of the September 10 ruling, and possibly consider an appeal to the Supreme Court.

Wilson Sonsini Goodrich & Rosati's technology transactions practice regularly advises clients on issues relating to the transfer and licensing of software and other copyrighted works, and we will continue to follow developments in this area. Please contact Suzanne Bell, Sara Harrington, Cathy Kirkman, Catalin Cosovanu, or any member of the firm's technology transactions practice to discuss any questions that you may have regarding *Vernor v. Autodesk* or any related matter.

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650 Page Mill Road
Palo Alto, CA 94304-1050
Tel: (650) 493-9300 Fax: (650) 493-6811
email: wsgr_resource@wsgr.com

www.wsgr.com