No. 10-1421

IN THE

Supreme Court of the United States

TIMOTHY S. VERNOR

Petitioner,

v.

AUTODESK, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF OF AMICI CURIAE AMERICAN LIBRARY ASSOCIATION, ASSOCIATION OF COLLEGE AND RESEARCH LIBRARIES, ASSOCIATION OF RESEARCH LIBRARIES, CONSUMER FEDERATION OF AMERICA, ELECTRONIC FRONTIER FOUNDATION, PUBLIC KNOWLEDGE, AND U.S. PIRG IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

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STATEMENT OF INTEREST[1]

The Association of Research Libraries (ARL) is a nonprofit organization of 123 research libraries in North America, including university, public, governmental, and national libraries. The American Library Association (ALA) is a nonprofit professional organization of more than 67,000 librarians, library trustees, and other friends of libraries dedicated to providing and improving library services and promoting the public interest in a free and open information society. The Association of College and Research Libraries (ACRL), the largest division of the ALA, is a professional association of academic and research librarians and other interested individuals. Collectively, these three library associations represent over 139,000 libraries in the United States increasingly being called upon to serve the needs of their patrons in the digital age. As a result, the associations share a strong interest in the balanced application of copyright law to new digital dissemination technologies.

The Electronic Frontier Foundation (EFF) is the nation's leading nonprofit civil liberties organization working to protect consumer interests, innovation, and free expression in the digital world. EFF and its more than 14,000 dues-paying members have a strong interest in assisting the courts and policy-makers in striking the appropriate balance between copyright law and the public interest.

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1. No counsel for a party authored this brief in whole or in part, and no person other than the amici curiae, or their counsel, made a monetary contribution intended to fund its preparation or submission. Amici curiae provided at least ten days' notice of their intent to file this brief to counsel of record for all parties. The parties have consented to the filing and such consents are being submitted herewith.

Public Knowledge (PK) is a Washington, D.C. based not-for-profit public interest advocacy and research organization. PK promotes balance in intellectual property law and technology policy to ensure that the public can benefit from access to knowledge and the ability to freely communicate and innovate in the digital age.

The Consumer Federation of America (CFA) is composed of over 280 state and local affiliates representing consumer, senior, citizen, low-income, labor, farm, public power and cooperative organizations, with more than 50 million individual members. CFA has a deep commitment to and history of ensuring that copyright laws protect consumer interests and ensure a fair marketplace.

U.S. PIRG (Public Interest Research Group) is a federation of twenty-five state-based, citizen-funded, non-profit, non-partisan organizations that advocate for the public interest. With its staffs of researchers, advocates, organizers and students, the PIRG federation supports citizen interest in opposition to commercial or governmental wrongdoing that threatens the health or safety of Americans, or violates fundamental principles of fairness and justice. Specifically, with respect to consumer rights, U.S. PIRG takes action on issues including consumer protection from unfair and deceptive practices, unconscionable fees and charges, product safety, warranties, monopolization, investor protection, utilities regulation, healthcare, and consumer privacy. U.S. PIRG conducts investigative research, publishes reports and exposés, and advocates for legislation and regulatory changes at the local, state and federal levels. It supports procedural rights that allow consumers to seek redress for violations of consumer protection laws and to enjoin illegal practices. The PIRG federation has been active for 38 years. The federation is supported by hundreds of thousands of citizens via membership contributions and receives a significant portion of its funding from foundation grants.

SUMMARY OF ARGUMENT

Amici urge the Court to grant Mr. Vernor's petition for certiorari because this case raises a question of extraordinary importance: will the first sale doctrine remain viable in an age when an increasing number of products are nominally licensed rather than sold?

For more than a century, the first sale doctrine has been a critical part of the statutory balance struck by courts and Congress between the interests of copyright owners and the public. On the one hand, copyright's exclusive right of distribution gives copyright owners control over the first vending of their works. On the other hand, individuals have rights over the physical objects they have purchased and now own. After an individual copy has been sold, the first sale doctrine puts further dispositions of the copy beyond the reach of the copyright owner. The first sale doctrine thus ensures a "second life" for copyrighted works in libraries, archives, used bookstores, online auctions, and hand-to-hand exchanges.

The Ninth Circuit's decision in *Vernor v. Autodesk*, 621 F.3d 1102 (9th Cir. 2010) upends this historical balance, with potential ramifications far beyond this particular case. Software is embedded in an extraordinary array of content and devices, from video to music to goods such as phones, picture frames, book readers, etc. And much of this software is made available subject to an end-user license agreement, or "EULA" – an agreement that only an infinitesimal number of consumers will read. Given the ubiquity of EULAs, we should be doubly wary of allowing "magic words" to deprive a consumer of the ability to own a product she has legally purchased, including a particular copy of software embedded in that product. Contracts of adhesion should not be allowed to transform America from a nation of owners and tinkerers into a nation of sharecroppers.

The case may also have unfortunate effects on other intellectual property jurisprudence, given that the first sale doctrine is motivated by many of the same principles that animate the doctrine of patent exhaustion. This Court's unanimous 2008 decision in *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008) followed a line of patent exhaustion cases stretching back to at least *Motion Picture Patents Co. v. Universal Film Mfg. Co.,* 243 U.S. 502 (1917). These cases hold that an authorized first sale of a patented article exhausts the patent owner's rights in that article and nullifies any "conditions" that the patent owner has tried to attach to its use or resale. While exhaustion principles may sometimes differ in the copyright and patent contexts, the *Vernor* decision could be read to approve a means of avoiding exhaustion that this Court has consistently denied to both copyright and patent holders.

Finally, the decision below conflicts with both this Court's first sale precedent, as first elaborated in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908), which firmly rejected label-based efforts to expand the distribution right, and the Second Circuit's sensible "economic realities" test set forth in *Krause v. Titleserv, Inc.*, 402 F.3d 119 (2d Cir. 2005), which looks beyond formalities to determine whether a license exists.

In short, this case presents a crucial opportunity to clarify and affirm the viability of the first sale doctrine in the digital age, and Amici urge the Court to take it.

ARGUMENT

I. The *Vernor* Decision Raises Questions of Extraordinary Importance

The Ninth Circuit's decision in *Vernor* reduced what should be an analysis of the economic realities of a given transaction to a three-factor test that looks only to one-sided terms purportedly imposed by the distributor. While simplicity has its appeal, it is dangerous to consumers given the fact that the decision may be cited in contexts that bear little resemblance to the market for high-end software such as AutoCAD. In a world where myriad products incorporate software and come laden with purported "end-user license agreements," encouraging software vendors to seek to trump the first sale doctrine with the right "magic words" threatens significant harm to the public interest.

A. Close Attention to Economic Realities Is Particularly Important Where the Purported License Is A Contract of Adhesion

Recent research confirms what many have long believed: few consumers read the EULAs that come attached to the products they buy and that purport to bind them to all sorts of conditions, including effectively forfeiting traditional first sale rights. Yannis Bakos, Florencia Marotta-Wurgler, David R. Trossen, *Does Anyone Read the Fine Print? Testing a Law and Economics Approach to Standard Form Contracts*, NYU Ctr. for Law, Econ. and Org. Law & Econ. Research Paper Series, Working Paper No. 09-40, Oct. 2009;[2] Florencia Marotta-Wurgler, *Does Disclosure Matter?* NYU Ctr. for Law, Econ. and Org. Law & Econ. Research Paper Series, Working Paper No. 10-54, Nov. 2010.[3]

In addition, license agreements impose significant information costs, as conscientious buyers are forced to parse the terms of the agreement (as well as updates thereto). *Cf.* Aleecia M. McDonald & Lorrie Faith Cranor, *The Cost of Reading Privacy Policies* 4 I/S: J.L. & Pol'y for Info. Soc'y 543 (2008); Thomas W. Merrill & Henry E. Smith, *Optimal Standardization in the Law of Property: The Numerus Clausus Principle*, 110 Yale L.J. 1, 3 (2000). By contrast, the first sale doctrine reduces such costs by providing consumers with a reliable, consistent and well-known rule. Herbert J. Hovenkamp, *Post-Sale Restraints and Competitive Harm: The First Sale Doctrine in Perspective*, NYU Annual Survey of Am. Law 25 (2011); Joseph P. Liu, *Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership*, 42 Wm. & Mary L. Rev. 1254 (2001); Molly Shaffer Van Houweling, *The New Servitudes*, 96 Geo. L.J. 885, 897-98 (2008). Not surprisingly, most consumers don't wish to pay those costs – which is why few do.

2. Available at: http://ssrn.com/abstract=1443256.

3. Available at: http://ssrn.com/abstract=1713860.

In this context, it is essential to resist putting undue weight on the words of an agreement without considering the purchaser's commonsense expectations. For example, in a typical "license" transaction, the licensee usually (1) pays a recurring fee (*e.g.* an annual license fee); (2) gets the software for a limited term (*e.g.* a number of years); and (3) must return all copies of the software when the term is up, or must destroy all copies. In a sale, by contrast, the transaction is usually for (1) a one-time fee; (2) permanent transfer of possession of the copy (*i.e.* no limited term); and (3) permanent possession by the buyer with no obligation to return the software to the seller. If a purchaser obtains software with the understanding that the latter three conditions apply, she is likely to assume the exchange is a sale. Should she violate the terms of an agreement she has not read — for example, by taking the software out of the United States — she would be shocked to learn that she might have thereby committed copyright infringement.

B. By Encouraging Software Vendors to Use Contracts, Including Contracts of Adhesion, to Curtail Traditional Expectations and Rights of Ownership, the *Vernor* Decision Undermines Critical Economic And Democratic Values

As courts and legislators have consistently recognized, copyright exhaustion and the first sale doctrine are essential parts of the copyright balance. Indeed, this Court recently confirmed the importance of intellectual property exhaustion by granting certiorari in two other cases where intellectual property owners sought to erode traditional exhaustion principles: *Costco v. Omega,* 130 S. Ct. 2089 (2010) and *Quanta v. LG Elecs. Inc.,* 551 U.S. 1187 (2007).

Exhaustion allows the tangible property rights of consumers to coexist with the intangible property interests of copyright owners. Thus, the first sale doctrine is not merely an "important but idiosyncratic limit on the distribution right;" it represents a fundamental set of rights and privileges that flow from the ownership of an individual copy. *See* Aaron Perzanowski and Jason Schultz, *Digital Exhaustion*, 58 UCLA L. Rev. 889, 912 (2011). Recognizing these rights vindicates a number of important economic and democratic values, including:

(1) Accommodating traditional property law polices against restraints of trade and restraints on alienation;

(2) Supporting vibrant secondary markets that lower prices for consumers; and

(3) Promoting access to knowledge, preservation of culture, and resistance to censorship.

Each of these values is furthered by the recognition that individual consumers have particular rights to use and control their chattels as they wish.

However, like the copyright holders in *Costco* and the patent holders in *Quanta*, software copyright owners chafe at the limits first sale imposes, and struggle mightily to avoid them. The Ninth Circuit's decision in *Vernor* supports their efforts to erode first sale rights by suggesting that software vendors (and thus, by implication, copyright owners generally) can trump tangible property rights and the first sale doctrine by simply including a few "magic words" in a license agreement.

1. The *Vernor* Decision Interferes with the Operation of the First Sale Doctrine to Reconcile Copyright Law With Property Law Policies That Disfavor Restraints On Alienation

From its inception, the first sale doctrine has served to reconcile the limited statutory monopoly granted to copyright owners with traditional property law policies that favor free alienability. *See Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 349-50 (1908); *Brilliance Audio, Inc. v. Haight Cross Commc'ns, Inc.*, 474 F.3d 365, 374 (6th Cir. 2007) ("The first sale doctrine ensures that the copyright monopoly does not intrude on the personal property rights of the individual owner, given that the law generally disfavors restraints of trade and restraints on alienation."); Liu, *supra*, at 1291 ("Historically, the source of the first sale doctrine appears to have been the common law reluctance to enforce restraints on the alienation of physical property.").

This limitation on a copyright owner's distribution right is also a natural expression of the purposes behind the distribution right. Congress did not create the distribution right in order to empower copyright owners to control disposition of tangible property, but rather to buttress the reproduction right by giving copyright owners recourse against illegitimate distributors who had not themselves infringed the reproduction right and thus might otherwise escape punishment. *See* 2 Melville Nimmer & David Nimmer, *Nimmer On Copyright* § 8.12[A] (2011) (distribution right exists to protect copyright owners against sellers of stolen inventory or counterfeit copies). In the words of Professor Nimmer,[4] this gap-filling rationale has no application where resales of genuine, legitimately produced copies are concerned:

> In such circumstances, continued control over the distribution of copies is not so much a supplement to the intangible copyright, but is rather primarily a device for controlling the disposition of the tangible personal property that embodies the copyrighted work. Therefore, at this point, the policy favoring a copyright monopoly for authors gives way to the policy opposing restraints of trade and restraints on alienation.

Id.

Unfortunately, the Ninth Circuit's decision departs from the statutory framework, stating that copyright owners may distribute copies of their copyrighted works by "license." *Vernor*, 621 F.3d at 1111. Software distributors have embraced a novel construct and chosen a word to describe it —"license" — that had a pre-existing use within copyright, leading the court below to conflate copyrights with rights in copies. But when software distributors use the word "license" here, they are not speaking of licensing copyrights, but of some bizarre variant on a lease or a rental—a new notion of permanently transferring a good while purporting to retain title to the transferred good.

4. All citations to "Nimmer" in this brief refer to Prof. David Nimmer, author of the leading copyright treatise, *Nimmer on Copyright*, no relation to Prof. Raymond T. Nimmer, the expert witness retained by Autodesk in the proceedings below.

The effects of this kind of confusion will be immediate and dangerous. For example, CDs, DVDs, books, games and other cultural works that buyers expect to be able to use, transfer and manipulate may be "sold" subject to new legal restrictions – often without the buyer's knowledge. Thus, for example, a consumer might be forbidden by contract from giving away her lawfully purchased DVD or CD, or taking it to another country. Libraries might be restricted from lending cultural works they legally obtain, to the detriment of the public interest in preserving the cultural commons.

What is worse, the problem could extend to other consumer goods that simply contain software. For example, in its opposition to a proposed DMCA exemption allowing iPhone purchasers to "jailbreak" their phones without fear of anti-circumvention liability, Apple, Inc. argued vigorously that iPhone purchasers are mere licensees, due to the restrictions in the iPhone Software License Agreement. Amicus Electronic Frontier Foundation, which proposed the exemption, explained that iPhone users are owners of the particular copy of the software embedded in their iPhone. Citing to the *Vernor* district court opinion, as well as other Ninth Circuit opinions and the Second Circuit's opinion in *Krause v. Titleserv, Inc.*, 402 F.3d 119 (2d Cir. 2005), the Register of Copyrights concluded that the matter was "in a state of flux." 75 Fed. Reg. 43,825, 43,829 (Jul. 27, 2010). Software vendors – including vendors of devices in which software is embedded – will doubtless argue that the matter is no longer "in a state of flux," but rather resolved in favor of device purchasers being treated as mere licensees.

Thus, the Ninth Circuit's decision opens the door to dangerous results. Copyright owners will argue that nothing about *Vernor* is limited to high-end software, and items that consumers now routinely resell or give away will become the subject of licensing agreements that purport to forbid such transfers. The recording industry has already made a first effort in this direction with respect to promotional CDs. *See UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175 (9th Cir. 2011). Despite the Ninth Circuit's rebuff of that effort in *Augusto*, *Vernor* provides a roadmap for efforts to circumvent the first sale doctrine in the future. We should expect the motion picture industry to attempt to apply *Vernor* to their sales of DVDs.[5] Console game manufacturers will argue similarly in the context of their video game cartridges and, given the ubiquity of software in nearly every manufactured good, we may see such efforts in every category from baby toys to cars to refrigerators. The *Vernor* decision provides the manufacturers of goods containing *any* software with a trivial three-step method of purporting to forbid such transfers, permitting the copyright owner of such embedded software to extend the reach of its copyright monopoly to the control of the manufactured goods themselves. This is precisely the sort of restriction on the alienability of chattels that this Court has consistently forbidden over the last century.

5. Olga Kharif, *Wal-Mart, Target Put Squeeze on Redbox*, Bloomberg Businessweek, Feb. 2, 2010, *available at* http://www.businessweek.com/technology/content/feb2010/tc2010022_125668.htm (noting litigation between Redbox, a DVD rental service, and three major movie studios). In its complaints, Redbox alleged that the movie studios directed wholesale distributors not to fill Redbox's orders because Redbox would not agree to post-sale restrictions on the DVDs, restrictions that the *Vernor* opinion will embolden studios to continue to pursue.

Granting certiorari will give the Court a much-needed opportunity to dispel the confusion created by the Ninth Circuit's decision. An implied right to distribute by "license" contradicts the terms of the statute (which gives copyright owners only the right to distribute "by sale or other transfer of ownership, or by rental, lease, or lending"), and cannot be squared with traditional principles of property. Simply put, there is no statutory exclusive right to the distribution of tangible goods by "license," neither in the Copyright Act, nor in any other area of commerce. One licenses exclusive rights, not tangible things.

Indeed, in any other context, if one purported to give a tangible good to someone else and told him that he was free to keep it forever, destroy it, or throw it away, the recipient would rightly assume (as buyers of mass-distributed software do now) that he was the owner of that good. That assumption is reflected, for example, in the fact that the Uniform Commercial Code's "Passing of Title" rules also limit sellers to the reservation of at most a security interest—reservation of title after sale and delivery is simply not possible. U.C.C. § 2-401(1)-(3) (2011); *see also id.* § 1-201(35).

2. The *Vernor* Decision Interferes with Access to Knowledge and Resistance to Censorship

Libraries, second-hand bookstores, and the sale of copies by individuals are established and accepted features of our cultural landscape. In fact, it is difficult to conceptualize the life cycle of most copyrighted works without imagining the work being lent or resold. Without a robust first sale doctrine, however, these activities would be imperiled by a copyright owner's distribution right. Thus, if copyright owners are able to trump the first sale doctrine using self-serving language tucked into a license agreement, these established institutions could be put in jeopardy.

a. Access

While the grant of exclusive rights helps drive the *creation* of expressive works, it is the first sale doctrine that has guaranteed the *continued availability* of those works. *See* R. Anthony Reese, *The First Sale Doctrine in the Era of Digital Networks*, 44 B.C. L. Rev. 577, 583-610 (2003) (discussing the salutary impact of first sale on availability and preservation of copyrighted works). An average book today goes out of print within 12 months after initial release. *See* Lawrence Lessig, *Free Culture* 225 (2004). Most software has an even shorter shelf life. Pamela Brannon, *Reforming Copyright to Foster Innovation: Providing Access to Orphaned Works*, 14 J. Intell. Prop. L. 145, 145-55 (2006). The majority of recorded music remains out of print today. *See* Reese, *supra*, at 593 (citing estimates that 60% of sound recordings are out of print). Most films also go out of print after a short commercial lifespan. Anthony Kaufman, *The Vanishing: The Demise of VHS, and the Movies Disappearing Along With It*, Moving Image Source (Feb. 26, 2009).[6]

After their in-print lives end, it is libraries, archives, video rental establishments, and second-hand markets that

6. Available at http://www.movingimagesource.us/articles/the-vanishing-20090226.

continue to make these works available and accessible. *See* Lessig, *supra*, at 112-13 (describing the "two lives" of the typical book, first as a commercial object, then in libraries and used bookstores). And in light of the growing problem of out-of-print "orphan works" whose copyright owners cannot be located, many works may never be able to be legally reproduced, leaving few alternatives other than to borrow or purchase an existing copy. Libraries, archives, and secondary markets help ensure not only that copyright serves its principal purpose of nurturing a vibrant cultural commons, but also that it does not interfere with the First Amendment right to receive information. Thus, the first sale doctrine is one of copyright law's essential "First Amendment accommodations." *Cf. Eldred v. Ashcroft*, 537 U.S. 186, 219-20 (2003).

Purported license agreements that seek to override first sale principles can be a serious impediment to this crucial work. For example, as of 2009, the collections of American public libraries, public school media centers, and academic libraries, taken together, contained 244.8 million phonorecords and audiovisual materials, including millions of CDs and DVDs. *See* Institute of Museum and Library Services, *Public Libraries Survey Fiscal Year 2007* 10 (2009); National Center for Education Statistics, U.S. Department of Education, *Characteristics of Public and Bureau of Indian Education Elementary and Secondary School Library Media Centers in the United States: Results from the 2007-08 Schools and Staffing Survey* 9 (2009); National Center for Education Statistics, U.S. Department of Education, *Academic Libraries: 2008* 8 (2009). Public libraries alone lend out at least 2.1 million DVDs a day. *See Libraries Top Netflix, Redbox When It Comes to Loaning DVDs*, Yahoo! News (Jul. 28, 2010).[7] Many copyright owners would doubtless prefer that library patrons purchase or rent the materials rather than obtaining them from libraries, and would like to use license agreements to make that possible. By encouraging the proliferation of such agreements, the *Vernor* decision undermines efforts to ensure that copyright serves the public interest in access to our cultural heritage.

b. Censorship Resistance

Because the first sale doctrine prevents centralized control over copies of works, it also helps protect consumer privacy and inhibit censorship. With copies scattered among libraries, second-hand stores, and personal collections, citizens and researchers are able to access works without revealing their reading and viewing choices to copyright owners or other central authorities. *See* Liu, *supra*, at 1330 (first sale prevents a copyright owner from being able to "control or monitor by whom the work is read, how many times it is read, in what context it is read or used, or to whom it is subsequently transferred"). Moreover, this decentralization makes it much more difficult for a copyright owner to censor or suppress particular works after their commercial release. *See* Reese, *supra*, at 595-602 (collecting examples of copyright owners attempting to withdraw or suppress works after initial publication).

In the digital context this benefit is already under siege. In 2009, for example, Amazon responded to a copyright complaint by remotely deleting copies of George Orwell's *1984* from its customers' Kindle electronic book

7. Available at http://news.yahoo.com/s/ytech_gadg/20100728/tc_ytech_gadg/ ytech_gadg_tc3273.

readers. It was purportedly allowed to do so pursuant to the Kindle license agreement. *See* Brad Stone, *Amazon Faces a Fight over Its E-Books*, N.Y. Times, July 26, 2009, at B3.[8]

Again, the *Vernor* decision is likely to exacerbate the problem. Content and device vendors will read it as carte blanche to reserve for themselves a range of rights fundamentally at odds with individual ownership, including a right to monitor and interfere with reading activity. Users will have less ability to challenge those agreements even where the economic realities of the arrangement do not reflect a "license," *e.g.*, where the vendor's marketing materials refer to the arrangement as a sale or where no recurring licensing fees are charged.

C. The *Vernor* Decision Undermines Vibrant Secondary Markets That Increase Competition, Yield Lower Prices and Increased Access For Consumers, and Inhibit Consumer Lock-In.

Vibrant secondary markets for copyrighted works also save consumers money, as any student who has ever purchased used textbooks can attest. *See* Reese, *supra*, at 625-27 (concluding that first sale tends to reduce the price of copyrighted works for consumers). In recent years, the Internet has vastly increased the reach and efficiency of secondary markets, increasing the dividends that the first sale doctrine has paid to the public, both in the form of money saved on purchases and money earned on sales. Millions of customers can both buy and sell

8. Available at http://www.nytimes.com/2009/07/27/technology/companies/27amazon.html

their unwanted books, CDs, DVDs, videocassettes, and software thanks to online services like eBay, craigslist, and Amazon.com. In addition, websites like BookMooch[9] and SwapTree[10] facilitate person-to-person "swapping," rather than selling, of used books and CDs between community members. The rise of these efficient secondary markets has unlocked new value in the personal libraries that consumers have amassed—unwanted books, CDs, DVDs, and software need not be consigned to the trash or recycling. It has also helped mitigate the problem of platform lock-in; consumers who wish to switch to a new game system, for example, are more likely to do so knowing that they can recoup some of their investment in their old system. *See* Perzanowski and Schultz, *supra*, at 14.

Artificially limiting first sale rights for software based solely on three arbitrary criteria (one of which – whether the conveyance agreement is simply called "a license" – should surely be irrelevant) will inhibit the growth of secondary markets for software and the myriad devices that contain software. Users will suffer as a result, forced to pay higher prices for new software and devices, and/or financially "locked in" to technology they may no longer prefer. And competition will be chilled, as potential competitors are increasingly unable to overcome platform lock-in.

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9. *See* BookMooch, http://bookmooch.com (last visited June 15, 2011).

10. *See* SwapTree, http://www.swaptree.com (last visited June 15, 2011).

II. The Panel's Decision Conflicts with the Court's Decision in *Bobbs-Merrill Co. v. Straus*

The foundational first sale case of *Bobbs-Merrill Co. v. Straus* is directly applicable. There, the copyright owner attempted to use a notice attached to a work to control post-sale distribution of copies of that work. 210 U.S. at 341. The Court held that such terms should not give the copyright holder "a right not included in the terms of the statute, and . . . extend its operation, by construction, beyond its meaning." *Id.* at 351.

The Ninth Circuit, however, held that Autodesk may do exactly what Bobbs-Merrill could not, as long as it calls the text a "license" and restricts usage and transfer. *Vernor*, 621 F.3d at 1111. On this logic, if only Bobbs-Merrill had drafted its in-book notice differently, the first sale doctrine need not have existed in the first place.[11]

Put another way, the decision below allows the wording of an agreement between two parties to create a servitude that runs with a tangible good — a covenant running with a chattel that restricts even those not party to any original agreement. Allowing boilerplate text to create a perpetual restraint on alienation creates precisely the situation that the Court sought to prevent in *Bobbs-Merrill*:

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11. Notably, Bobbs-Merrill also used the term "license" in its purported agreement attached to the book at issue. *See Bobbs-Merrill*, 210 U.S. at 341. Nevertheless, the Court refused to analyze the case as though a license agreement existed between parties. The Ninth Circuit, on the other hand, considers the terminology used by the document itself as one of its three prongs of determining ownership.

> Was [the statute] intended to create a right which would permit the holder of the copyright to fasten, by notice in a book . . . a restriction upon the subsequent alienation of the subject-matter of copyright after the owner had parted with the title to one who had acquired full dominion over it and had given a satisfactory price for it? . . . [o]ne who has sold a copyrighted article, without restriction, has parted with all right to control the sale of it.

210 U.S. at 349-50.

The Ninth Circuit attempted to distinguish *Bobbs-Merrill* by noting that this Court itself observed that there was no claim in that case regarding license agreements. *Id.* at 350. However, that cannot mean that the Court intended to turn its decision upon a publisher's failure to recite that the notice in the book was a license. Taken in context, the Court was stating that its holding depended upon statutory construction, and not the interpretation of either a contract or license agreement.[12] In making this distinction, the Court actually highlights the need to recognize when remedies would lie in contract law (as when a lessee fails to abide by the terms of the lease), as opposed to copyright law.

From its inception, the first sale doctrine has helped reconcile the limited statutory monopoly granted to

12. "We do not think the statute can be given such a construction, and it is to be remembered that this is purely a question of statutory construction. There is no claim in this case of contract limitation, nor license agreement controlling the subsequent sales of the book." 210 U.S. at 350.

copyright owners with traditional property law policies in favor of free alienability. *See id.*; *see also Brilliance Audio, Inc.* at 374; Liu, *supra*, at 1291. Software vendors should not be able to bypass these fundamental principles with "magic words."

III. The *Vernor* Decision Conflicts with the Second Circuit's Decision in *Krause v. Titleserv, Inc.*

The Ninth Circuit's decision conflicts with the Second Circuit's rule for determining ownership of copies of software in *Krause v. Titleserv, Inc.*, 402 F.3d 119 (2d Cir. 2005). In that case, Krause wrote computer programs for Titleserv, his former employer. Krause had retained ownership of the copyright of his programs, and the issue was whether Titleserv could make derivative works of the copies of the programs it still possessed, as permitted by 17 U.S.C. § 117. That statute, which employs language parallel to § 109, permits the owner of a physical copy of a computer program to make copies or adaptations of it under certain circumstances, when they are necessary for its use or preservation.[13] Krause contended that Titleserv wasn't an "owner" of the software copies, and therefore could not rely on the § 117 defense. As here, the Second Circuit therefore had to decide when someone was an owner of physical copies of software.

13. In permitting owners of copies to use computer programs and preserve them despite the operation of copyright, § 117 also represents a manifestation of copyright exhaustion, making the copyright owner's rights subject to the copy owner's right to make certain necessary reproductions and adaptations.

The Second Circuit affirmed the district court's summary judgment that Titleserv was an owner of its copies. The court adopted the following rule:

> [F]ormal title in a program copy is not an absolute prerequisite to qualifying for § 117(a)'s affirmative defense. Instead, courts should inquire into whether the party exercises sufficient incidents of ownership over a copy of the program to be sensibly considered the owner of the copy for purposes of § 117(a). The presence or absence of formal title may of course be a factor in this inquiry, but the absence of formal title may be outweighed by evidence that the possessor of the copy enjoys sufficiently broad rights over it to be sensibly considered its owner.

Krause, 402 F.3d at 124.

The Ninth Circuit rejected this approach in at least two ways. First, the Ninth Circuit greatly emphasized that Autodesk had retained "title" to the software copies. *Vernor*, 621 F.3d at 1111. Second, the Ninth Circuit held that the "economic realities" of the transaction were irrelevant to the ownership issue. *Id.* at 1114. The Second Circuit's rule – "sufficient incidents of ownership over a copy of the program to be sensibly considered the owner of the copy" is another way to state the "economic realities" test the Ninth Circuit rejected.

Further, applying the Ninth Circuit rule to the facts of *Krause* would result in the opposite outcome in *Krause*, and vice versa, making the conflict in decisions apparent.

In *Krause*, all three elements of the *Vernor* test were present: the agreement was called a license in that the software recipient orally agreed "to possess the copies as a mere licensee"; transfer restrictions existed (the recipient apparently conceded it did not have the right to transfer the copies of the software; and Krause apparently imposed notable use restrictions: he asserted that Titleserv had no right to modify the source code of the programs, and "locked" the executable versions of the software to prevent the executable versions from being converted back into source code. 402 F.3d at 121-24. Thus, applying the Ninth Circuit's *Vernor* rule to the facts of *Krause* would likely result in the opposite outcome: Titleserv would not be an owner of its copies and Krause would win, rather than Titleserv.

At the same time, if the Second Circuit's rule is applied to the facts of *Vernor*, the opposite outcome again results. *Krause*'s basic rule is that "courts should inquire into whether the party exercises sufficient incidents of ownership over a copy of the program to be sensibly considered the owner of the copy for purposes of § 117(a)." 402 F.3d at 124. Under the facts of that case, Titleserv was an owner of its copies and won the case, since Titleserv owed no further consideration to Krause after he left his employment, and could possess the software forever. 402 F.3d at 120-121. Applying that *Krause* rule to the facts of *Vernor* would result in Vernor being an owner and winning the case, not Autodesk: similar to the facts in *Krause*, purchasers of the Autodesk software paid a one-time fee and could keep possession of their copies of the software forever. 621 F.3d at 1105-06, 1111.

Krause also listed a number of non-exclusive factors that suggested that Titleserv was an owner of the copies. 402 F.3d at 124. Almost all of those factors are also present in *Vernor*. For example, both recipients paid substantial consideration, both stored the software they received on their own machines, both were free to destroy or discard the software and neither was required to return the software. *Compare Krause*, 402 F.3d at 121-24 with *Vernor*, 621 F.3d at 1105.

The two decisions plainly are in conflict, notwithstanding the Ninth Circuit's attempt to distinguish *Krause* on its facts. *See* 621 F.3d at 1114. At a minimum, the two decisions, taken together, leave the lower courts with conflicting guidance on how to resolve copy ownership issues.

CONCLUSION

The Ninth Circuit's decision in this case raises issues of extraordinary importance and conflicts with both this Court's precedent and established case law in the Second Circuit. Amici urge the Court to grant the petition.

Respectfully submitted,

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