

Case No. 09-35969

In the
UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

TIMOTHY S. VERNOR,
Plaintiff-Appellee,

v.

AUTODESK, INC.,
Defendant-Appellant.

On Appeal From a Judgment of the United States District Court for the
Western District of Washington
Case No. 2:067-cv-01189-RAJ
The Honorable Richard A. Jones

**BRIEF OF AMICUS CURIAE THE MOTION PICTURE ASSOCIATION
OF AMERICA, INC. IN SUPPORT OF APPELLANT'S POSITION
SEEKING REVERSAL ON APPEAL**

MITCHELL SILBERBERG & KNUPP LLP

Robert H. Rotstein
Patricia H. Benson
11377 West Olympic Boulevard
Los Angeles, California 90064
Telephone: (310) 312-2000
Facsimile: (310) 312-3100

J. Matthew Williams
1818 N Street, NW, 8th Floor
Washington, D.C. 20036
Telephone: (202) 355-7900
Facsimile: (202) 355-7899

Attorneys for Amicus Curiae The Motion Picture Association of America, Inc.

CORPORATE DISCLOSURE STATEMENT

Pursuant to Federal Rule of Appellate Procedure 26.1, the Motion Picture Association of America, Inc. has no parent corporation, and no publicly held company owns 10% or more of its stock.

**CERTIFICATE OF COMPLIANCE
PURSUANT TO CIRCUIT RULE 32-1**

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, has a typeface of 14-point Times New Roman including footnotes, and contains approximately 5434 words. Counsel relies on the word count of the computer program used to prepare this brief.

Dated: January 12, 2010

Respectfully submitted:

MITCHELL SILBERBERG & KNUPP LLP
ROBERT H. ROTSTEIN
PATRICIA H. BENSON
J. MATTHEW WILLIAMS

By: s/ Robert H. Rotstein
Robert H. Rotstein
Attorneys for Amicus Curiae
The Motion Picture Association of
America, Inc.

TABLE OF CONTENTS

| | <u>Page(s)</u> |
|---|-----------------------|
| INTEREST OF AMICUS | 1 |
| INTRODUCTION AND SUMMARY OF ARGUMENT | 2 |
| ARGUMENT | 6 |
| I. THE DISTRICT COURT’S OPINION IS INCONSISTENT WITH ALL OF THE APPLICABLE NINTH CIRCUIT PRECEDENTS | 6 |
| A. <i>Applying Settled Principles of Copyright and Contract Law, This Court Has Consistently Held That Copyright Owners Can Retain Title To Copies Without Requiring Their Return</i> | 9 |
| B. <i>The Case Law Does Not Support the District Court’s Perpetual Possession Test</i> | 14 |
| II. THE DISTRICT COURT’S TEST WOULD UNDERMINE LICENSING AND TEND TO DECREASE CONSUMER ACCESS TO CREATIVE WORKS | 17 |
| CONCLUSION | 22 |

TABLE OF AUTHORITIES

Page(s)

CASES

Adobe Systems Inc. v. One Stop Micro, Inc.,
84 F. Supp. 2d 1086 (N.D. Cal. 2000)16

DSC Communications Corp. v. Pulse Communications, Inc.,
170 F.3d 1354 (Fed. Cir. 1999)7

Hampton v Paramount Pictures Corp.,
279 F.2d 100 (9th Cir. 1960)4, 16

MAI Systems Corp. v. Peak Computer, Inc.,
991 F.2d 551 (9th Cir. 1993) passim

McKnight v. Torres,
563 F.3d 890 (9th Cir. 2009)16

Perfect 10, Inc. v. Amazon.com, Inc.,
508 F.3d 1146 (9th Cir. 2007)10

ProCD, Inc. v. Zeidenberg,
86 F.3d 1447 (7th Cir. 1996) 18, 19

S.O.S., Inc. v. Payday, Inc.,
886 F.2d 1081 (9th Cir. 1989) passim

Triad Systems Corp. v. Southeastern Express Co.,
64 F.3d 1330 (9th Cir. 1995) passim

United States v. Wise,
550 F.2d 1180 (9th Cir. 1977) passim

Vernor v. Autodesk, Inc.,
555 F. Supp. 2d 164 (W.D. Wash. 2009)..... passim

Vernor v. Autodesk, Inc.,
No. C07-1189RAJ, 2009 U.S. Dist. LEXIS 90906 (W.D. Wash. Sept. 30,
2009) passim

TABLE OF AUTHORITIES
(continued)

| | <u>Page(s)</u> |
|--|-----------------------|
| <i>Wall Data, Inc. v. Los Angeles County Sheriff's Dep't</i> , 447 F.3d 769 (9th Cir. 2006) | passim |
| <i>Yount v. Acuff Rose-Opryland</i> , 103 F.3d 830 (9th Cir. 1996) | 16 |

STATUTES

| | |
|--|--------|
| 17 U.S.C. | |
| § 106(3) | 4 |
| § 109 | 2 |
| § 109(a) | 7 |
| § 109(d) | 7 |
| § 117 | passim |
| The Copyright Act of 1976, Section 109 | 2, 5 |

OTHER AUTHORITIES

| | |
|--|-----------|
| <i>Anti-Circumvention Laws and Copyright: A Report from the Kernochan Center for Law, Media and the Arts</i> , 27 Colum. J. L. & Arts 385 (2004) | 20 |
| H.R. Rep. | |
| No. 94-1476 (1976)..... | 7, 10, 16 |
| M. Nimmer & D. Nimmer, 2 Nimmer On Copyright (2009) | 20 |
| Marybeth Peters, Register of Copyrights, <i>Copyright Enters the Public Domain, The 33rd Donald C. Brace Memorial Lecture Delivered at New York University School of Law</i> (Apr. 29, 2004), 51 J. Copyright Soc'y U.S.A. 701 (2004)... | 17 |
| U.S. Copyright Office, DMCA Section 104 Report (2001)..... | 20 |

INTEREST OF AMICUS

All parties consented to Amicus filing this brief.

The Motion Picture Association of America, Inc. (“MPAA”) is a not-for-profit trade association founded in 1922 to address issues of concern to the motion picture industry. The MPAA’s members produce or distribute the vast majority of the filmed entertainment in the domestic theatrical, television, and home entertainment markets, and they are among the leading distributors of motion pictures internationally. Increasingly, Amicus’ members distribute those works in electronic form, thus making more works available to consumers and businesses than ever before, including on DVDs and Blu-Ray discs, and through digital downloads and streaming.

As part of their efforts to make expressive works available through novel channels of digital distribution, Amicus’ members often enter into agreements with their customers pursuant to which the customers do not purchase copies of motion pictures outright, but instead receive licenses to reproduce motion pictures for personal viewing. By way of example, consumers can, pursuant to licenses, download digital copies of motion pictures from online services like iTunes, Blockbuster On Demand or CinemaNow. The ability to enter into such licenses benefits both copyright owners and consumers by encouraging methods of dissemination that are not sustainable through outright sales of motion pictures in

digital form. In many cases, the ability of copyright owners like Amicus' members to enter into licensing agreements serves to limit unlawful copying and distribution of copies, thus encouraging copyright owners to make their works available in new forms at affordable price-points, all to the ultimate gain of the consumer.

The district court's erroneous application of the first sale defense poses a threat to licensing of copyrighted works. Amicus' members therefore have a keen interest in the outcome of this appeal.

INTRODUCTION AND SUMMARY OF ARGUMENT

The "first sale" defense contained in section 109 of the Copyright Act of 1976 provides that the owner of a particular lawfully made copy of a copyrighted work may sell or otherwise dispose of that physical copy without infringing the copyright owner's exclusive distribution right. 17 U.S.C. § 109. Section 117 of the Act, the "essential step" defense, provides that the owner of a lawfully made copy of a computer program may copy or adapt the program so long as "such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner." 17 U.S.C. § 117. Importantly, the first sale defense of section 109 applies only to persons who *own* tangible copies of copyrighted works; similarly, the essential step defense of section 117 is available only to persons who own

tangible copies of computer programs. *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1088, n. 9 (9th Cir. 1989). In this case, the district court misapplied these sections in holding that Appellee Timothy Vernor (“Vernor”) owned copies of certain copyrighted computer software created by Appellant Autodesk, Inc. (“Autodesk”).

The salient facts are set forth in the Appellant’s brief. To summarize, Vernor acquired copies of “AutoCAD” software, produced by Autodesk, from an architectural firm named Cardwell/Thomas Associates (“CTA”). Vernor sought to resell those copies to others. *Vernor v. Autodesk, Inc.*, 555 F. Supp. 2d 164, 1165 (W.D. Wash. 2009). Autodesk objected, and Vernor brought this action seeking a declaratory judgment that he owns the copies of the software and that he is therefore allowed to re-sell those copies pursuant to the first sale defense. *Id.* at 1164-66. Vernor also claims that his purchasers may copy the software onto their computers pursuant to the section 117 essential step defense. *Id.* at 1175.

Autodesk asserts that it did not sell the particular copies of its software to CTA, but instead licensed the copies such that CTA never became an owner for purposes of sections 109 and 117. Among other things, Autodesk’s agreement with CTA expressly provided that Autodesk retained ownership of the copies. *Vernor v. Autodesk, Inc.*, No. C07-1189RAJ, 2009 U.S. Dist. LEXIS 90906, at *10-12 (W.D. Wash. Sept. 30, 2009). Autodesk thus contends that: (i) CTA, as a

licensee, had no legal right to transfer the copies to Vernor; (ii) Vernor therefore does not own the copies and so he cannot rely on the first sale defense; and (iii) any attempted sale of the particular copies at issue is copyright infringement under 17 U.S.C. § 106(3) (providing exclusive right “to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending”). *Id.* at *10. Autodesk further contends that purchasers of the copies would not be owners, and therefore could not rely on the essential step defense to reproduce the software on their computer hard drives. *Vernor*, 555 F. Supp. 2d at 1175.

A long line of Ninth Circuit precedent supports Autodesk’s positions, including *Wall Data, Inc. v. Los Angeles County Sheriff’s Dep’t*, 447 F.3d 769 (9th Cir. 2006); *Triad Systems Corp. v. Southeastern Express Co.*, 64 F.3d 1330 (9th Cir. 1995); *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 551 (9th Cir. 1993); *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081 (9th Cir. 1989); *Hampton v Paramount Pictures Corp.*, 279 F.2d 100 (9th Cir. 1960); and, ironically, *United States v. Wise*, 550 F.2d 1180 (9th Cir. 1977), the very case on which the district court based its holding. In these cases, this Court recognized that where, as here, the copyright owner expressly reserves title to and places restrictions on the further distribution or transfer of the copy, the transaction is a license rather than a sale. *Wall Data*, 447 F.3d at 785.

Nevertheless, the district court granted summary judgment for Vernor. 2009 U.S. Dist. LEXIS 90906, at *49. The court concluded that *United States v. Wise* conflicts with more recent Ninth Circuit precedents. *Id.* at *32. Under the district court's misreading of *Wise*, a sale occurs every time the transferor of a copy of a copyrighted work fails to provide for return of that copy. *Id.* at *24. Thus, according to the district court, even though the agreement between CTA and Autodesk reserved title in Autodesk and restricted CTA's right to transfer the copies, Autodesk nevertheless "sold" the software to CTA for purposes of section 109 simply because CTA had no obligation to return the copies of the software to Autodesk. *Id.* at *22. In addition, the district concluded that those to whom Vernor transferred the copies would also qualify as lawful owners of the copies and, under section 117, could reproduce the software on their computers. 555 F. Supp. 2d at 1175.

Contrary to the district court's holding, *Wise* does not hold that a sale automatically takes place absent a requirement that the copy be returned. Instead, like the other more recent Ninth Circuit cases, *Wise* gives significant weight to a reservation of title. *Wise*, 550 F.2d at 1189. Because the agreement between Autodesk and CTA unambiguously reserved title to Autodesk and restricted CTA's use of the copies, those parties entered into a license, not a sale. By ignoring the unambiguous terms of that agreement and finding a sale, the district court erred.

The district court’s erroneous decision could undermine potential licensing markets that increase the availability of copyrighted works without increasing consumer costs. Through copyright licenses like the one at issue, copyright owners can offer access to copyrighted works at a variety of price-points, yet at the same time reduce the risk of unfettered reproduction and distribution that exceed the scope of the access for which the consumer has paid. By characterizing a license as a sale, the district court’s erroneous decision undermines Autodesk’s ability to limit infringement of its works, and as a pure matter of economics exerts an upward pressure on the cost and price of such works in order to compensate for potential lost sales from the further unauthorized reproduction and distribution of such works. The district court’s decision, if affirmed, could thus discourage other copyright owners from making their works available in new digital forms and deprive consumers of lower-cost access to copyrighted content.

Amicus urges that the judgment be reversed.

ARGUMENT

I. THE DISTRICT COURT’S OPINION IS INCONSISTENT WITH ALL OF THE APPLICABLE NINTH CIRCUIT PRECEDENTS

Under the Copyright Act’s first sale defense “the owner of a particular copy ... 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 ...” 17 U.S.C. § 109(a). However, “any person who has acquired possession of the copy [] from the copyright owner, by rental, lease, loan, or otherwise, without acquiring ownership of it[,]” cannot invoke the first sale defense. 17 U.S.C. § 109(d). Ninth Circuit opinions have consistently interpreted this language to mean that copyright owners can license, rather than sell, copies of their works, in that way limiting further distribution of those copies. *See, e.g., Wall Data*, 447 F.3d at 785; *Triad*, 64 F.3d at 1333; *MAI*, 991 F.2d at 518; *S.O.S.*, 886 F.2d at 1088; *Wise*, 550 F.2d at 1191. Thus, under the express language of the Copyright Act and binding Ninth Circuit precedent, a mere licensee who transfers a copy of a work infringes the copyright owner’s distribution right.¹

¹ The Copyright Act’s legislative history confirms that Congress intended copyright owners to be able to transfer possession of copies without triggering the first sale defense.

[Section 109(a) does] not apply to someone who *merely possesses* a copy or phonorecord *without having acquired ownership* of it. Acquisition of an object embodying a copyrighted work by rental, lease, loan, or bailment carries with it no privilege to dispose of the copy under section 109(a) ... To cite a familiar example, a person who has rented a print of a motion picture from the copyright owner would have no right to rent it to someone else without the owner’s permission.

H.R. Rep. 94-1476, at 81 (1976) (emphasis added). When Congress amended section 117 in 1980, it again endorsed this concept by similarly limiting the applicability of the essential step defense to owners of copyrighted works, rather than extending it to mere possessors. *See DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354, 1360 (Fed. Cir. 1999) (discussing legislative (...continued)

Although the district court acknowledged that copyright owners can license, rather than sell, copies of works (*see, e.g.*, 555 F. Supp. 2d at 1168 (“Autodesk correctly asserts that mere possession of a copyrighted copy pursuant to a license is not a sale, and thus not a basis to invoke the first sale doctrine.”)), the court erred by inventing a never-before articulated test for determining the existence of a sale. In essence, the district court held that a transaction involving a copy of a copyrighted work is always a sale unless the copyright owner requires the transferee to return the copy. *See id.* at 1172 (“the critical factor is whether the transferee kept the copy acquired from the copyright holder”). If a person has “perpetual possession” of a copy, then under the district court’s test, that person owns it. *See Vernor*, 2009 U.S. Dist. LEXIS 90906, at *24 (“the court finds no basis for the conclusion that an agreement to permit perpetual possession of property can be construed as reserving ownership”).

In so holding, the district court purported to apply *United States v. Wise*, and declined to follow more recent Ninth Circuit cases. *Id.* at *32. The court concluded that an irreconcilable conflict existed between *Wise* and these later cases. *See Vernor*, 2009 U.S. Dist. LEXIS 90906, at *36 (“With two sets of

(...continued)

history of section 117 and concluding: “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”).

conflicting precedent before the court, the question becomes which to follow. ... The court must follow the oldest precedent among conflicting opinions from three-judge Ninth Circuit panels.”). But this conflict was of the district court’s own making. Rather than recognizing clear common themes in this Court’s opinions, the district court strained to find inconsistencies. *Wise* is entirely compatible with the later opinions and incompatible with the district court’s erroneous test.

A. *Applying Settled Principles of Copyright and Contract Law, This Court Has Consistently Held That Copyright Owners Can Retain Title To Copies Without Requiring Their Return*

On several occasions, this Court has heard cases that turned on whether defendants qualified as “owners” of copies for the purposes of sections 109 and 117 of title 17. The resulting opinions consistently and correctly hold that sections 109 and 117 are inapplicable where a copyright owner enters into a licensing agreement rather than sells a copy of a work. To determine whether a transaction is a license or a sale, the Court has looked to the intent of the parties involved, primarily by focusing on the express language of the agreements at issue.

Significantly, this Court applied just such an analysis in *Wise*, the very case on which the district court relied. There, the defendant appealed criminal

convictions for selling copies of films without authorization.² 550 F.2d at 1188. This Court analyzed various agreements pursuant to which studios transferred possession of film prints to television companies, exhibitors and individuals involved in the industry (*e.g.*, actors and directors) to determine whether these transactions involved sales or licenses. The Court’s primary focus was on the “general tenor of the entire agreement[s]” (*id.* at 1191) and the intention of the parties to the agreements. In every transaction in which title was explicitly reserved – which was nearly every instance at issue in the case – *Wise* declined to find a sale. Where no explicit reservation of title was made, the Court found a sale only where the agreement in question lacked sufficient restrictions on redistribution or transfer of the copies or differed from analogous agreements

² Importantly, because *Wise* involved a criminal prosecution, the government bore the burden of proving beyond a reasonable doubt that the copies obtained and sold by the defendant were never previously sold by the studios at issue. 550 F.2d at 1188. However, in a civil case involving an affirmative defense, the burden of proof rests with the person asserting the defense, here Vernor. *See Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1158 (9th Cir. 2007), *citing Gonzales v. O Centro Espirita Beneficente Uniao do Vegetal*, 546 U.S. 418, 429 (2006); *see also* H.R. Rep. No. 94-1476, at 80 (1976) (“The defendant in [first sale] actions clearly has the particular knowledge of how possession of the particular copy was acquired, and should have the burden of providing this evidence to the court.”). The district court was therefore incorrect in stating that “[n]o Ninth Circuit opinion addresses who bears the burden to prove a first sale or the absence thereof in a civil case.” *Vernor*, 555 F. Supp. 2d at 1173.

considered in the case in ways that indicated the parties intended the transaction to be a sale. *Id.* at 1191-92.

For example, one agreement that the Court held to be a sale, involving transfer of a copy of “Funny Girl” to the American Broadcasting Company (“ABC”), lacked a reservation of title and differed from other television industry agreements in that it allowed ABC to elect to purchase and retain an additional copy without placing restrictions on how ABC could use the copy. *See id.* at 1191 n. 20 (“No restriction on use or further sale of such a copy is provided in the contract.”). Another agreement that the Court held to be a sale, which involved the transfer of a copy of “Camelot” to the actress Vanessa Redgrave, also failed to reserve title in the copyright owner and contained other terms substantially different from the analogous contracts at issue. *Id.* at 1192.³

³ The district court read the *Wise* opinion to suggest that the Redgrave agreement included an express reservation of title. Amicus submits that the district court misread the *Wise* opinion on this point. *See* Appellant’s Opening Brief at 34-35 (citing to briefs in *Wise* for the fact that the Redgrave agreement did not include a reservation of title). The district court conceded that “[i]t is possible that ... the Redgrave Contract lacked an express reservation of title.” 2009 U.S. Dist. LEXIS 90906, at *20. As the district court admitted, in *Wise*’s other discussions of individual agreements, the Court noted the presence of a clause reserving title, whereas the Court did not do so when discussing the Redgrave agreement. Although the Court discussed early in the opinion what sorts of provisions were “generally” in the agreements, the Court nowhere stated that the Redgrave agreement included a reservation of title.

In *S.O.S.*, an early software case that is consistent with *Wise*, the Court considered whether a defendant had exceeded the scope of a business software license by copying and preparing a modified version of a computer program, thereby infringing the plaintiff's copyright. 886 F.2d at 1081. The Court began its analysis by stating that a "license must be construed in accordance with the purposes underlying federal copyright law. Chief among those purposes is the protection of the author's rights." *Id.* at 1088. The Court then observed that the agreement at issue included unambiguous language retaining "all rights of ownership" in the copyright owner. *Id.* Based on this language, the Court held that the defendant had acquired only the right to possess a copy of the software for use in producing "product" for its customers, and therefore the first sale and essential step defenses were not available. *Id.* at 1088, n. 9.

In *MAI*, a case involving an unauthorized computer repair service, the applicable agreement specified that the software publisher retained title, and prohibited the transferee from making the software available to third parties. 991 F.2d at 517. The Court concluded that the defendant could not rely on the essential step defense because the defendant was a licensee rather than an owner of the copies at issue. *Id.* at n. 4 & 5. Similarly, in *Triad*, another case involving an unauthorized repair service, the Court again concluded that a software publisher did not sell copies of its software where it expressly retained title and restricted use

of the licensed copies by third parties. 64 F.3d at 1333. The *Triad* Court expressly recognized that a copyright owner can choose between licensing and selling copies of copyrighted works, noting that the plaintiff at one point had chosen to sell copies of its software, but had later decided to license copies instead. *Id.*⁴

Finally, in *Wall Data*, a case involving a software license that limited the number of computers on which the software could be copied, this Court rejected the defendant's essential step defense and articulated a test for distinguishing between a license and a sale: "[I]f the copyright owner makes it clear that she or he is granting only a license to the copy of [a work] 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 [copy]." 447 F.3d at 785.

The district court here acknowledged that *Wall Data*, *Triad*, and *MAI* compel a ruling in favor of Autodesk. 2009 U.S. Dist. LEXIS 90906, at *32.

⁴ The Court stated:

From 1976 to 1985, Triad sold its software outright to customers ('Regime 1'). Because Regime 1 customers own their software, they have rights under the Copyright Act to make or authorize the making of copies in the operation of their computers [under section 117]. As a result, such copies are noninfringing ... In 1986, however, Triad began licensing rather than selling its software ('Regime 2'). Under Regime 2 agreements, customers may not duplicate the software or allow it to be used by third parties.

Id.

However, the court refused to follow this established authority because it misread *Wise* as conflicting with these later opinions.

B. *The Case Law Does Not Support the District Court's Perpetual Possession Test*

If the *Wise* opinion had truly adopted the district court's test, this Court could have resolved *Wise* by summarily holding that a sale occurred any time a studio failed to include a contractual right to regain possession. There would have been no need for the Court to analyze, as it did, each contract in detail to determine whether the transaction was a sale or a license. The district court nonetheless read *Wise* as holding that an express reservation of title in an agreement is a meaningless "label" unless the agreement *also* requires the transferee to return copies to the copyright owner. *Vernor*, 2009 U.S. Dist. LEXIS 90906, at *24. Based on this flawed reading of *Wise*, the district court concluded that the more recent Ninth Circuit decisions conflict with *Wise* because the contracts in the newer decisions did not require return of the copies. *See id.* at *32 (refusing to follow *MAI* and *Triad* because those opinions "suggest that the mere label of a transfer agreement as a license is sufficient to ensure that the licensee does not have ownership of any copy").

The district court stated that copyright owners cannot transform sales into licenses merely by placing "labels" on copies. However, despite what the court

below evidently concluded, no case has ever held that, absent a requirement that the copy be returned, unambiguous reservations of title in binding agreements are irrelevant.⁵ Neither do the cases hold that requiring return of a copy is the *sine qua non* of a license.

Here, Autodesk did reserve title to the copies at issue in a binding agreement. *Vernor*, 2009 U.S. Dist. LEXIS 90906, at *11. Indeed, reservation of title was a central term and condition to the license agreement between Autodesk and Vernor's alleged predecessor in interest, CTA. Vernor concedes that this agreement was enforceable against CTA. *Id.* Moreover, the agreement stated that "[t]itle and copyrights to the Software and accompanying materials and any copies made by [CTA] remain with Autodesk." *Id.* Autodesk's unambiguous reservation of title to the copies in CTA's possession and the restrictions contained in the agreement should have mandated a finding that a license rather than a sale existed, just as the reservations of title in *Wise* did.

Wise's approach to determining whether a transaction is a license or a sale is grounded in the parties' intent, as expressed by the language of their contract. That approach is consistent not only with this Court's later *Wall Data*, *Triad*, *MAI*, and

⁵ In fact, some of the agreements that *Wise* held to be licenses did not include provisions requiring return of copies. See *Wise*, 550 F.2d at 1192 (discussing agreements related to "Funny Girl" and "The Sting").

S.O.S. opinions, but also with state contract law. *See Adobe Systems Inc. v. One Stop Micro, Inc.*, 84 F. Supp. 2d 1086, 1090 (N.D. Cal. 2000), *quoting* Cal. Civ. Code § 1638 (“The parties’ intent is inferred exclusively from the language of the contract, assuming the language is “clear and explicit.”). Under California law,⁶ courts may not disregard unambiguous contractual terms. *See McKnight v. Torres*, 563 F.3d 890, 893 (9th Cir. 2009) (“The unambiguous words of the agreement are the end of the story.”); *Yount v. Acuff Rose-Opryland*, 103 F.3d 830, 836 (9th Cir. 1996) (“[W]hen a contract has been reduced to writing, a court must ascertain the parties’ intent from the writing alone, if possible.”). This bedrock rule of contract interpretation does not change simply because a case involves copyrighted works. *See* H.R. Rep. No. 94-1476, at 132 (1976) (“Nothing in the [Copyright Act] derogates from the rights of parties to contract with each other ...”); *see also Hampton*, 279 F.2d at 103 (holding that unambiguous language of agreement precluded interpreting the agreement to constitute a sale).

By misreading *Wise* to impose a perpetual possession test that trumps unambiguous contractual language, the district court upended both contract and copyright law. If affirmed, this error would not only harm copyright owners, but

⁶ The agreement between Autodesk and CTA was expressly controlled by California law. *See* Appellant’s Opening Brief at 29, n.11.

could also harm consumers by decreasing access to copyright works, as discussed below.

II. THE DISTRICT COURT'S TEST WOULD UNDERMINE LICENSING AND TEND TO DECREASE CONSUMER ACCESS TO CREATIVE WORKS

This Court has recognized that chief among the purposes of Copyright Act is the “protection of the author’s rights.” *S.O.S.*, 886 F.2d at 1088. The district court applied a method of contract interpretation that both undermines those rights and harms consumers. The district court’s holding, if affirmed, would throw a wrench in the gears of a licensing system that facilitates widespread access to copyrighted works and is capable of evolving with developing technology. *See* Marybeth Peters, Register of Copyrights, *Copyright Enters the Public Domain, The 33rd Donald C. Brace Memorial Lecture Delivered at New York University School of Law* (Apr. 29, 2004), in 51 J. Copyright Soc’y U.S.A. 701, 716-17 (2004) (“If we look back only a decade ago at how the public obtained access to copyrighted works, we find a great success story of copyright and new technology.”).

For decades, Amicus’ members delivered their motion pictures to consumers solely through exhibition in theatres. With the widespread acceptance of television, however, motion pictures became available on broadcast stations, and later over cable, for at-home viewing. The advent of the home-video market

permitted consumer access, for rental or purchase, to video cassette tapes and later to DVDs. *See id.* at 716-17 (describing how motion pictures have become increasingly accessible, “providing more choice and convenience for consumers”).

Today, Amicus’ members and their licensees deliver motion pictures to consumers using myriad methods of dissemination that involve digital reproductions.⁷ However, consumers do not acquire ownership of the copies. Rather, through various forms of licenses, these services allow consumers to choose between retaining long-term access to the downloaded copies or, alternatively, paying less to receive temporary access that expires after a period of time in accordance with the applicable license. In order to facilitate these new and still developing methods, studios often grant consumers limited licenses to reproduce copyrighted films. *Cf. ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1455 (7th Cir. 1996) (licenses can benefit consumers by “permit[ting] users to make extra copies, [and] to use the [works] on multiple computers...”).

Pursuant to such license agreements, copyright owners can provide increased access to digital copies while also (i) limiting unauthorized reproduction

⁷ For example, services such as CinemaNow, Blockbuster On Demand and Apple’s iTunes enable consumers to download copies of movies to their personal computers and make specified numbers of reproductions of each movie they obtain in order to access the movies for personal use on portable and other devices.

of their copyrighted works;⁸ and (ii) prohibiting transfer of digital copies produced pursuant to those limited licenses. *Cf. Wall Data*, 447 F.3d at 786 n. 9 (“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.”). If a consumer exceeds the scope of one of those licenses, for example by distributing the copy of a movie, the consumer commits copyright infringement. *See S.O.S.*, 886 F.2d at 1088 (“A licensee infringes the owner’s copyright if its use exceeds the scope of its license.”).

Without these licensing terms in place, some methods of digital delivery might not have emerged, at least in their current form. *See Peters*, *supra* page 18, at 717 (“[T]here is certainly a positive case to be made to the public about copyright in this new digital age. I think the public needs to be reminded of the fact that copyright has been instrumental in encouraging these new services ...”). By licensing rather than selling digital copies, and by specifying in licensing agreements how digital copies may be used, copyright owners can set lower price-points that result in increased availability of works. *See ProCD*, 86 F.3d at 1449

⁸ The first sale doctrine does not excuse unauthorized copying of copyrighted works. *See note 9 infra*. However, misapplications of the doctrine to contexts involving digital copies of works could lead to intentional or unwitting infringement of the reproduction right.

(describing negative economic impact of forcing copyright owners into single-price models of dissemination); *Anti-Circumvention Laws and Copyright: A Report from the Kernochan Center for Law, Media and the Arts*, 27 Colum. J. L. & Arts 385, 450 (2004) (hereinafter “Besek”) (“[R]equiring that initial authorized access must yield unlimited use would make conditional access business models, including pay-per-use, impossible to maintain. All access would have to be conditioned on payment of the ‘unlimited access’ price, depriving users of the opportunity to obtain limited use copies at a lower price.”).

Amicus recognizes that the methods of distributing motion pictures described above do not themselves implicate the first sale doctrine.⁹ However, they do provide examples of how quickly business models can change in the current environment. Because of this ever-changing landscape, Amicus’ members have a strong interest in ensuring that the first sale defense continues to be appropriately applied, lest a misinterpretation of the defense hinder new and dynamic business models that can benefit both copyright holders and consumers.

⁹ The first sale doctrine provides no defense to unauthorized *reproduction*. See M. Nimmer & D. Nimmer, 2 Nimmer On Copyright § 8.12[E] (2009) (first sale defense does not apply to transmitting a digital copy of a work to another person and subsequently deleting the copy used to initiate the transmission); Besek, *supra* page 21, at 473 (first sale defense “does not permit transmission of an electronic copy over a computer network, which necessarily entails making a copy”); U.S. Copyright Office, DMCA Section 104 Report, at xviii (2001) (“The first sale doctrine is primarily a limitation on the copyright owner’s exclusive right of distribution. It does not limit the exclusive right of reproduction.”).

Improper application of the first sale doctrine could negatively affect consumers by stripping them of the option to enter licensing agreements, thereby hindering the emergence of new technological methods of digital distribution made possible by such marketplace exchanges.

More specifically, the district court's perpetual possession test could only hinder the development of emerging business models. The concept of "returning" copies is often outmoded and irrelevant to the realities of today's business transactions.¹⁰ There is often no practical (or even technologically feasible) way for a consumer to return a copy to a copyright owner. Even if a license requires return of, for example, a disc containing a copy of a work, return of the disc does not necessarily preclude the customer from retaining a digital copy on a computer or portable device.

By limiting the applicability of the first sale and essential step defenses to *owners* of copies and not licensees, Congress enabled copyright owners to enter into license agreements that offer consumers access to copyrighted works, but that at the same time permit copyright owners to discourage the unauthorized

¹⁰ For example, in the case of software like that at issue in the instant case, a return of physical discs on which the software resides would be cumbersome and costly for both the transferor and the transferee, and even meaningless where the software has become superseded by a newer version and the physical medium of distribution has little or no value.

reproduction and distribution of their works.¹¹ Congress' decision to do so ultimately benefits consumers and furthers the purposes of our copyright system. Affirming the district court's erroneous decision would have the opposite effect.

Amicus urges the Court to reject the district court's detour from the provisions of the Copyright Act and the established precedents of this Court.

CONCLUSION

For the reasons stated, Amicus urges the Court to reverse the judgment of the district court.

¹¹ Under the erroneous approach adopted by the district court, Vernor could argue that as an owner of the particular copy he could make copies of the Autodesk software as an essential step in the utilization of that software, as could a person that purchases the software from Vernor, who then could give the software to a friend, who could also copy the software, and so on, *ad infinitum*. The net effect of such a scenario would be that Autodesk would have "sold" one copy of the software, and yet the software could be reproduced by multiple transferees, leaving Autodesk with no remedy or ability to stop the copying. Such an untenable result could cause incalculable harm to the copyright owner and ultimately penalize consumers, who may as a result pay higher prices for access to the copyrighted work.

Dated: January 12, 2010

Respectfully submitted:

MITCHELL SILBERBERG & KNUPP LLP
ROBERT H. ROTSTEIN
PATRICIA H. BENSON
J. MATTHEW WILLIAMS

By: s/ Robert H. Rotstein
Robert H. Rotstein
Attorneys for Amicus Curiae
The Motion Picture Association of America, Inc.

CERTIFICATE OF SERVICE VIA CM/ECF

I hereby certify under penalty of perjury that on January 12, 2010, I electronically filed the foregoing document entitled **BRIEF OF AMICUS CURIAE THE MOTION PICTURE ASSOCIATION OF AMERICA, INC. IN SUPPORT OF APPELLANT'S POSITION SEEKING REVERSAL 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 participants in the case are registered CM/ECF users and service will be accomplished by the appellate CM/ECF System.

s/ Robert H. Rotstein

Attorneys for Amicus Curiae
The Motion Picture Association of
America, Inc.