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Internet Litigation Update

1/15/2011

Software Users Might Be Licensees, Not Owners: The Ninth Circuit recently held that someone who pays for software is a mere licensee, and not the owner of the copy of the software, if the vendor "(1) specifies that the user is granted a license; (2) significantly restricts the user's ability to transfer the software; and (3) imposes notable use restrictions." If the software user owned the copy, the user would be permitted under the copyright law's "first sale" doctrine to sell that copy. However, as a licensee, the user can be prohibited from transferring the software to others. Several factors may have influenced the Ninth Circuit's decision: the software license agreement ("SLA") at issue had to be accepted before the software could be installed; several SLAs having different terms were available; if the software was an upgrade of a previous version, the SLA required proof that the earlier version had been destroyed; and the developer utilized license enforcement measures and customers were required to input separate activation codes. See *Vernor v. Autodesk, Inc.*, No. 09-35969, ___ F.3d ___, 2010 WL 3516435, 96 U.S.P.Q.2d 1201, 2010 Daily Journal D.A.R. 14,404 (9th Cir. Sept. 10, 2010).

Digital Music Downloads Are Not Public Performances: The Second Circuit has held that the download of a digital file containing a musical work is not a "public performance" of the underlying work. Accordingly, on-line music vendors need not purchase public performance licenses covering their distribution of, and their customers' use of, digital music files. The Second Circuit further held that public performance license fees for streaming music services may not be determined solely by using a ratio of the time users spend streaming music versus the time they spend engaged in other online activities.

The case arose after Yahoo! and RealNetworks sought blanket licenses from the American Society of Composers, Authors, and Publishers ("ASCAP") for their online music services. When they failed to agree on a license fee, ASCAP applied to the Southern District of New York for a determination of reasonable fees. The result was not what ASCAP expected. The trial court concluded that the download of a digital file containing a musical work does not constitute a public performance; accordingly, no public performance license was necessary. As to other online music services, however, the court set a royalty rate of 2.5% of the revenue derived from playing music.

On appeal, the appellate court concluded that a "performance" requires the "contemporaneous perceptibility" of the copyrighted work. On that basis, it distinguished downloads, which are not performances, from streaming transmissions, that are. Because Yahoo!'s revenue is driven by the number of page views it gets, as opposed to the amount of time a viewer streams music, the Second Circuit ruled that the district court should either have based its calculation on a method incorporating the number of page views Yahoo! received, or should have provided a rationale for not doing so. It then concluded that a 2.5% royalty rate might be appropriate for "sites and services that provide access to music channels organized around music genre," but not to services such as the defendants', that are "less music-intensive." See *United States v. American Society of Composers, Authors and Publishers*, No. 09-0692-CV XAP, ___ F.3d ___, 2010 WL 3749292, 96 U.S.P.Q.2d 1360 (2d Cir. Sept. 28, 2010).