

Hon. Richard A. Jones

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TIMOTHY S. VERNOR,
Plaintiff,
v.
AUTODESK, INC.,
Defendant.

No. 2:07-cv-01189-RAJ

**PLAINTIFF TIMOTHY S. VERNOR'S
RESPONSE TO AUTODESK'S
SUPPLEMENTAL MEMORANDUM**

**Note on Motion Calendar:
May 29, 2009**

ORAL ARGUMENT REQUESTED

INTRODUCTION

The central holding of *United States v. Wise* was that the character of a transaction, rather than the label attached to it, determines whether that transaction should be considered a license or a sale. 550 F.2d 1180, 1188-89 (9th Cir. 1977). Following *Wise*, this Court has already held that “[n]o bright-line rule distinguishes mere licenses from sales.” *See* Order of May 20, 2008 (“Order”), at 8. Moreover, Autodesk concedes that calling a transaction a “license” is insufficient to change the nature of a transaction that would otherwise be considered a sale. *See* Def.’s Resp. to Mot. for Summ. J. at 8. Despite this admission, Autodesk now argues, for the first time, that language in its “license agreement” stating that “[t]itle . . . remain[s] with Autodesk” is enough, by itself, to transform a sale into a license. Like the language purporting to “license” its software, however, Autodesk’s claim to retain title is nothing more than a *characterization* of the transaction that bears no relationship to the economic realities of the exchange. Indeed, the two statements are just alternative ways of making the same unsubstantiated claim—that, despite distributing particular copies of its software in transactions that are indistinguishable from sales,

1 Autodesk in fact retains ownership of those particular copies, and its customers are therefore not
2 buying the copies but entering into an arrangement with Autodesk that is more akin to a loan or a
3 lease.

4 Contrary to Autodesk's contention, *Wise*, in examining the "V.I.P. contracts" and the
5 other film-distribution contracts at issue, looked beyond boilerplate statements that claimed to
6 "reserve title" to the film. The agreements at issue in *Wise* were made with individual television
7 networks and celebrities for limited times and for limited purposes. The court explicitly looked
8 to these realities of the underlying transactions, focusing specifically on whether the agreements
9 required the copyrighted works to be returned after a period of use, whether use was limited to
10 particular purposes, and whether payment was required. In every case, the transactions examined
11 by the court were far more restrictive and resembled sales far less than Autodesk's transfer of its
12 software, which is essentially no different than a typical retail transaction. There is no way,
13 consistent with its primary holding, that *Wise* could have relied on a boilerplate reservation of
14 title to conclude that a transaction is a license under the circumstances of this case, where the
15 copyright owner indiscriminately distributes particular copies of its work to the public in return
16 for a one-time payment and without any expectation of regaining possession in the future.

17 If this Court were to hold that any particular language, standing alone, is enough to divest
18 a purchaser of ownership, future copyright owners will inevitably include that language in their
19 license agreements, and the careful balance struck by the Copyright Act between the rights of
20 copyright owners and the public would thus be rendered meaningless. Such a result would be
21 inconsistent with both the Copyright Act's language, 17 U.S.C. § 109 (guaranteeing the right to
22 resell lawfully made copies "without the authority of the copyright owner"), and its legislative
23 history. H.R. Rep. No. 94-1476, at 62 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5693
24 (stating that contractual limitations on first-sale rights "could not be enforced by an action for
25 infringement of copyright").
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ARGUMENT

I. Autodesk's Interpretation of *Wise* Flies in the Face of the Case's Central Holding.

According to Autodesk, *Wise* “held that the ‘first sale’ exception to a copyright owner’s exclusive distribution right does not apply when the copyright owner explicitly retains title to the copyrighted material.” Defs.’ Suppl. Mem. (“Suppl. Mem.”) at 1. No such holding, however, appears anywhere in *Wise*. Nor did the court rely on the reservation or failure to reserve title as a determining factor in its examination of any of the particular film prints at issue. To the contrary, as this Court has already recognized, *Wise* held that rather than relying on “[t]he label placed on a transaction” by the copyright owner, “[i]n each case, the court must analyze the arrangement at issue and decide whether it should be considered a first sale.” Order at 8 (quoting *Wise*, 550 F.2d at 1188-89). Autodesk does not dispute that this was *Wise*’s holding, and has disclaimed any argument that “calling a transaction a ‘license’ is enough by itself to transform a sale into a license.” Def.’s Resp. to Mot. for Summ. J. at 8; *see also* Suppl. Mem. at 4 (conceding that “the label applied to a transaction may not be conclusive by itself”). If the statement that a work is “licensed” is not enough to vitiate a sale, a boilerplate claim that “[t]itle . . . remain[s] with Autodesk” should not either. Such a claim has no effect on the real-world nature of the transaction and is just another way of asserting, without foundation, that the transfer is a license rather than a sale.

To be sure, the underlying question in *Wise* was whether title to the copyrighted works was retained by the copyright owner or had passed to the purchaser. *Wise*, 550 F.2d at 1187 (holding that the Copyright Act “requires a transfer of title before a ‘first sale’ can occur”). The question whether title has passed, however, is not determined by whether the copyright owner *says* it has passed, but on whether the particulars of the transaction indicate a license or a sale. Indeed, this Court has recognized that “deciding whether title to a copy has been transferred (as in *Wise*) is no different than deciding whether the transferee is the ‘owner of a . . . copy.’” Order at 14. That question of ownership hinges not on whether the agreement includes certain words but on whether the owner has actually retained an ownership interest in a particular copy of a

1 copyrighted work. *Wise* explicitly held that the “general tenor of the agreement” should control
2 even when the copyright owner “expressly reserve[d] title.” *Wise*, 550 F.2d at 1191.

3 Autodesk concedes, as it must, that the *failure* to expressly retain title under *Wise* is
4 insufficient to control the nature of the transaction. Suppl. Mem. at 5-6. Nevertheless, it asserts
5 that an express reservation of title, when included, is sufficient to vitiate a sale. *Id.* Autodesk’s
6 reading of *Wise* would create a sort of one-directional formalism, where the copyright owner’s
7 characterization of the transaction would control only as long as it would create a more
8 restrictive agreement. If this were the holding of *Wise*, however, the majority of the discussion in
9 the opinion would have been unnecessary. Because almost all the licenses expressly reserved
10 title, *see Wise*, 550 F.2d at 1184, the court could have dispensed with examining the
11 particularities of those agreements and limited its discussion to those few contracts that omitted
12 an express reservation. As to each license, however, the court “analyze[d] the arrangement at
13 issue,” *Wise*, 550 F.2d at 1188-89 (internal quotation omitted), examining specifically whether
14 each copyrighted work was required to be returned at the end of a license period, whether use
15 was limited to particular purposes, and whether the copyright owner had received full value for
16 the work. Relying on *Wise*, other courts have also concluded that the question whether title has
17 passed depends on the economic realities of the underlying transaction rather than the use of any
18 particular language in the agreement. *See UMG Recordings, Inc. v. Augusto*, 558 F. Supp. 2d
19 1055, 1062 (C.D. Cal. 2008) (holding that where a transfer was a “gift or sale, not a license, . . .
20 title to the CDs transferred”).¹

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23 ¹ *See also Krause v. Titleserv, Inc.*, 402 F.3d 119, 124 (2d Cir. 2005) (holding that ownership under the
24 Copyright Act depends not on formal transfer of title, but on “whether the party exercises sufficient incidents of
25 ownership over a copy of the program to be sensibly considered the owner of the copy”); *Sofiman Prods. Co. v.*
26 *Adobe Sys., Inc.*, 171 F. Supp. 2d 1075, 1085 (C.D. Cal. 2001) (examining “[t]he reality of the business
environment” in concluding that the “evidence suggests a transfer of title in the good”); *Novell, Inc. v. Network
Trade Ctr., Inc.*, 25 F. Supp. 2d 1218, 1230 (D. Utah 1997), *vacated pursuant to settlement*, 25 F.Supp.2d 1218 (D.
Utah 1997) (concluding that transactions were sales and that the “shrinkwrap license included with the software
[was] therefore invalid as against such a purchaser insofar as it purports to maintain title to the software in the
copyright owner”).

1 Ultimately, Autodesk's attempt to reserve title by reservation is no different from the
2 argument raised and rejected in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908). The publisher
3 there contended that, because the copyright statute granted it the exclusive right to "vend" its
4 books, it necessarily had the right to "withhold to [itself], by proper reservations, so much of the
5 right as [it] pleases." *Id.* at 349. The Supreme Court, however, held that a publisher could not,
6 through reservation of certain rights, impose "a limitation at which the book shall be sold at retail
7 by future purchasers, with whom there is no privity of contract." *Id.* Similarly, Autodesk has no
8 right to expand the scope of its copyright monopoly simply by claiming to reserve title.

9 **II. Wise's Application of Its Holding to Individual Sales Confirms That the Nature of**
10 **the Transaction, Rather Than the Copyright Owner's Formal Reservation of Title,**
11 **Determines Whether the Transaction Is a Sale.**

12 *Wise's* analysis of the individual contracts at issue, and its application of its holding to
13 those contracts, demonstrates that whether the copyright owner made a formalistic reservation of
14 title was irrelevant the outcome of the case. The defendant in *Wise* was accused of paying studio
15 insiders to steal prints of movies that were not yet available on the market. *Wise*, 550 F.2d at
16 1185. To prove that the film prints the defendant was selling had not been acquired legally, the
17 government attempted to prove that *no* copies of the films had ever been sold on the open
18 market, that the studios had distributed copies only to trusted individuals and companies, and that
19 even then the distribution was only temporary and for specified, limited purposes. *Id.* at 1190.

20 The studios used three primary forms of transactions to control distribution. First, they
21 licensed prints to movie theaters, television networks, and similar outlets, generally providing a
22 limited right to display the film but requiring return of the print after completion of the license
23 term. *Id.* at 1190-91. Second, on rare occasions they loaned individual copies of a film to
24 celebrities, generally without charge and for the limited purpose of home viewing. *Id.* at 1192.
25 Third, to ensure that used copies of their prints did not end up on the open market, the studios
26 sold worn-out prints to a salvage company, which destroyed the prints in an elaborate process
designed to prevent duplication. *Id.* at 1192-93. In each case, the court looked to the realities of

1 the transaction, rather than any formal reservation of title, to determine whether a sale had
2 occurred.

3 **A. The V.I.P. Contracts**

4 Under the V.I.P. contracts, individual copies of movies were “loan[ed],” free of charge,
5 to identified “actors of major stature on rare occasions.” *Id.* at 1192. The contracts under which
6 the prints were distributed required the recipients to keep the films in their possession at all times
7 and limited the films to personal use. *Id.* Individual studios also imposed additional restrictions.
8 The transfer agreement for *The Sting* specified that the license there was “revocable,” thus
9 allowing the studio could take back possession of the film at any time. *Id.* Recipients of *Paper*
10 *Moon* were required to return their copies at the end of the license period. *Id.* The license for
11 *Funny Girl* prohibited all use of the film except for private exhibitions at the celebrity’s
12 residence. *Id.* *Wise* held that each of these restrictive agreements created a limited license rather
13 than a sale. *Id.*

14 In contrast, the court held that a studio’s agreement with actress Vanessa Redgrave to
15 provide her with a print of the movie *Camelot* was in fact a sale. *Id.* Although that contract also
16 imposed significant limitations, the limitations were substantially less restrictive than those
17 imposed by the other V.I.P. contracts. Like the other contracts, the *Camelot* license required
18 Redgrave to keep the movie in her possession and prohibited transfer to anyone else. *Id.*
19 However, the contract did not require that Redgrave return the movie, and allowed her to retain it
20 to use for “library purposes” in addition to private home viewing. *Id.* Moreover, unlike the other
21 V.I.P. contracts, which were loaned for free, the *Camelot* agreement required Redgrave to pay
22 the cost of the print. *Id.* Although the court stated that the payment did not, “standing alone,”
23 establish a sale, the cost of the print was nevertheless the only factor that the court singled out in
24 explaining the basis for its decision. *Id.* Numerous other courts have also held that whether a
25 copyright owner has received “full value for the product” is a critical factor in determining
26 whether a sale has occurred. *Softman*, 171 F. Supp. 2d at 1085; *see also Parfums Givenchy, Inc.*

1 v. *C&C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1389 (C.D. Cal. 1993) (“[T]he distribution right
2 and the first sale doctrine rest on the principle that the copyright owner is entitled to realize no
3 more and no less than the full value of each copy or phonorecord upon its disposition.”).²

4 Autodesk ignores these distinctions between *Camelot* and the other V.I.P. film contracts,
5 arguing instead that it was the failure of the studio to expressly reserve title that led the court to
6 conclude that the *Camelot* agreement was a sale. Autodesk’s argument, however, flies in the face
7 of *Wise*’s own characterization of its holding. Not only did the court make no mention of
8 whether the *Camelot* contract expressly reserved title, it explicitly stated that its decision was
9 based on the requirement of payment, “taken with the rest of the language of the agreement.”
10 *Wise*, 550 F.2d at 1192. In accordance with its earlier holding, the court thus explicitly looked to
11 the agreement *as a whole* before concluding that the transaction “strongly resembl[ed] a sale
12 with restrictions on . . . use.” *Id.* It was the functional resemblance of the agreement to a sale,
13 rather than any formalistic statement regarding title, that determined the nature of the transaction.

14 Nor does Autodesk’s argument find support in the court’s examination of the other V.I.P.
15 contracts. Autodesk’s argument hinges on its conclusion that the agreement regarding *Funny*
16 *Girl* reserved title, while the agreement regarding *Camelot* did not. However, the *Funny Girl*
17 agreement did not include language formally reserving title. Instead, it purported to reserve “all
18 rights in, to and with respect to” the film “subject to such limited rights” granted by the
19 agreement. *Id.* That statement says nothing about formal title and, taken on its own, is no more
20 restrictive than the “all rights reserved” statement that regularly appears in the copyright notice
21 of books. If a generic reservation of rights like that were enough to strip book purchasers of their
22 ownership rights, personal ownership of a book would become a rare event.

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25 ² To be sure, it is possible for title to transfer even in the absence of payment. In *Augusto*, for example, the
26 court held that music companies had relinquished their rights in promotional CDs that they mailed to potential
reviewers. 558 F. Supp. 2d 1055. Although the companies distributed the CDs for free, the court determined that the
transactions were sales because the companies sent out the CDs without any expectation of exercising further
control or reclaiming them again in the future. *Id.*

B. The Broadcast and Performance Licenses

1 A second category of licenses examined in *Wise* involved temporary transfer of film
 2 prints to movie theaters and television networks for the purpose of performance or broadcast. In
 3 almost every case, these transfers were made “for limited purposes and for limited periods of
 4 time” and “required [the films’] return at the expiration of the license period.” *Id.* at 1184. The
 5 agreement regarding the movie *Camelot* is an example. That contract allowed the network to
 6 retain copies of the print under certain circumstances, but only if both parties agreed and the
 7 network paid an additional sum. *Id.* at 1191. Under these terms, return of the print was required
 8 at the end of the license period unless the copyright holder agreed otherwise. *Id.*

9 Of the agreements examined by the court, only one—the agreement regarding *Funny*
 10 *Girl*—created a sale. *Id.* Autodesk claims that the basis for the court’s decision was the
 11 agreement’s lack of a formalistic reservation of title. However, although the court did mention
 12 the lack of reservation of title, it expressly declined to decide the case on this basis. *Id.* Instead,
 13 the court held that the controlling factor was that, unlike all the other agreements, the *Funny Girl*
 14 license allowed the network the option of retaining the print indefinitely at its sole discretion. *Id.*
 15 Based on this holding from *Wise*, this Court has already recognized that the provision allowing
 16 retention of the print was the critical factor distinguishing *Funny Girl* from *Camelot*. *See* Order
 17 at 10; *see also Augusto*, 558 F. Supp. 2d at 1060-61 (noting that *Wise* “demonstrates the
 18 importance of regaining possession of the licensed product”).³

III. Autodesk’s License Terms Cannot Be Reconciled With Its Description of the Transaction as a License.

21 The elaborate licensing procedures at issue in *Wise* are far more restrictive than the
 22 agreement at issue here. Those agreements were designed to allow studios to distribute their

24 ³ Like the V.I.P. contracts, the question whether the copyright owner had received full value for its
 25 copyrighted works was also important as to these agreements. The studios charged television networks only for the
 26 right to broadcast films and generally did not sell prints “until all readily obtainable license revenue ha[d] been
 extracted from them.” *Wise*, 550 F.2d at 1195. Moreover, both the *Funny Girl* and *Camelot* contracts specified that
 an additional fee had to be paid before networks could retain a copy of the work, thus recognizing that the right to
 possess the prints permanently involved acquisition of value beyond the licensing rights already obtained. *Id.* at
 1184.

1 movies to specific individuals and outlets while ensuring that none ended up on the open market.
2 Pursuant to that scheme, the studios distributed individual copies only for specific purposes and
3 for limited times. In almost every case, recipients of prints were required to return them after the
4 specified use was complete. Moreover, to ensure that used copies of its prints did not end up on
5 the open market, the studios sold worn-out prints to a salvage company for destruction. *Wise*,
6 550 F.2d at 1192-93.

7 These transactions in *Wise* look nothing like traditional retail sales—indeed, the purpose
8 of the licenses was to prevent creation of a retail market for the prints. *Id.* at 1195. Instead, they
9 resemble the sorts of transactions that the Copyright Act provides as examples of non-ownership
10 transfers—rentals, leases, and loans. 17 U.S.C. § 109(d); *see also Quality King Distribs., Inc. v.*
11 *L'anza Research Int'l, Inc.*, 523 U.S. 135, 146-47 (1998) (“[T]he first sale doctrine would not
12 provide a defense . . . against any nonowner such as a bailee, a licensee, a consignee, or one
13 whose possession of the copy was unlawful.”). The common thread among most of these
14 transactions is that they involve temporarily trusting someone with a particular copy of a
15 copyrighted work with the expectation that the copy will ultimately be returned. The legislative
16 history of the first-sale provision gives a prototypical example, noting that “a person who has
17 rented a print of a motion picture from the copyright owner would have no right to rent it to
18 someone else without the owner’s permission.” H.R. Rep. No. 94-1476, at 62 (1976), reprinted
19 in 1976 U.S.C.C.A.N. 5659, 5693.

20 In sharp contrast, Autodesk permanently releases particular copies of its software into the
21 stream of commerce without any expectation that they will be returned and charges the
22 software’s full price up-front. This arrangement resembles a lease or loan far less than it
23 resembles a simple retail transaction. Indeed, Autodesk has said that it does not require return of
24 its software because, considering the “economic realities” of the situation, such a return would
25 serve no purpose. Def.’s Resp. to Mot. for Summ. J. at 4-5. That statement is a virtual admission
26

1 that Autodesk has no real-world interest in particular copies of its software once those copies
2 have been sold.

3 In attempting to portray its license agreement as unusually restrictive, Autodesk primarily
4 relies on the provision of the agreement that prohibits resale and other forms of transfer—the
5 same provision that Vernor challenges in this case. As previously explained, however, if a clause
6 prohibiting transfers could itself be used to justify a prohibition on transfers, the first-sale
7 doctrine would be nothing but a tautology. *See* Pl.’s Reply in Supp. of Summ. J. at 6. Autodesk
8 also points to its prohibitions on unauthorized copies and installation on multiple computers, but
9 prohibition of copies is just the default rules under the Copyright Act. Even if Autodesk did not
10 use a license agreement, unauthorized copies and installations would infringe the company’s
11 exclusive rights under 17 U.S.C. § 106. In any case, both distribution and copying were
12 prohibited by the V.I.P. *Camelot* license, which the *Wise* concluded was a sale. 550 F.2d at
13 1192.⁴

14 The remaining restrictions are mild even compared to the agreements that *Wise* held to be
15 sales. Whereas the V.I.P. license for *Camelot* restricted use to the user’s home, Autodesk’s
16 agreement allows use anywhere in the Western Hemisphere. *Id.* And whereas the *Camelot*
17 license restricted any use that was not personal or non-commercial use, the only other uses
18 prohibited by Autodesk’s license agreement are reverse engineering and removal of proprietary
19 notices. These restrictions, like the prohibition on resale, regulate areas outside Autodesk’s
20 exclusive rights under § 106 and, rather than being limitations on the scope of the license, are

21 ⁴ Because its license agreement is phrased in somewhat generic terms, Autodesk cites several provisions
22 that are inapplicable to the software at issue here. First, Autodesk cites a restriction on “utiliz[ing] any computer or
23 hardware or software designed to defeat any hardware copy-protection device, should the software you have
24 licensed by equipped with such protection.” Supp. Mem. at 6-7. The version of Autodesk at issue here is not
25 equipped with any “hardware copy-protection device.” Second, Autodesk cites a restriction prohibiting use of the
26 software “for commercial or other revenue-generating purposes if the Software has been licensed or labeled for
educational use only.” *Id.* The software at issue here is not licensed or labeled for educational use. Finally, Autodesk
relies on a provision requiring destruction of previous copies of the software “[i]f this software is being licensed to
you as an upgrade or update to software previously licensed to you.” *Id.* Although Autodesk reports that
Cardwell/Thomas upgraded to newer versions of AutoCAD, the particular copies at issue in this case were not
obtained as upgrades. Even if these terms were applicable to the software at issue, they would be, at most, additional
contractual restrictions on the terms of the sale.

1 thus best described as “sale[s] with restrictions on use.” *See id*; *see also Nat’l Car Rental Sys.,*
2 *Inc. v. Computer Assocs. Int’l, Inc.*, 991 F.2d 426, 432 (8th Cir. 1993) (holding that violation of a
3 license agreement is infringing only if it “involve[s] one of the acts reserved to the copyright
4 holder under § 106, without a license to do so”). To hold that such contractual terms impose
5 restrictions on ownership rights would conflict with a core policy interest behind the first-sale
6 doctrine—the law’s aversion to restraints on alienation of personal property, including particular
7 copies of copyrighted works. *Parfums Givenchy*, 832 F. Supp. at 1388.

8 **CONCLUSION**

9 Autodesk’s motion for summary judgment should be denied, and Vernor’s cross-motion
10 for summary judgment should be granted.

11 Respectfully submitted,

12 /s/ Gregory A. Beck

13 **GREGORY A. BECK**

14 DC Bar No. 494479, pro hac vice

15 PUBLIC CITIZEN LITIGATION GROUP

16 1600 20th Street NW

17 Washington, DC 20009

18 Phone: (202) 588-1000

19 Fax: (202) 588-7795

20 Email: gbeck@citizen.org

21 Attorney for plaintiff

22 **MICHAEL WITHEY**

23 WSBA Bar No. 4787

24 Law Offices of Michael Withey

25 601 Union Street

26 Two Union Square, Suite 4200

Seattle, WA 98101

Phone: (206) 405-1800

Fax: (866) 793-7216

Email: mike@withey.com

Attorney for plaintiff

CERTIFICATE OF SERVICE

I hereby certify that on May 29, 2009, I electronically filed the foregoing with the Clerk of the Court using the CM/ECF system which will send notification of such filing to the following:

Eric W Doney
DONAHUE GALLAGHER WOODS LLP
300 LAKESIDE DRIVE
STE 1900
OAKLAND, CA 94612
Email: eric@donahue.com

Julie E Hofer
DONAHUE GALLAGHER WOODS LLP
300 LAKESIDE DRIVE
STE 1900
OAKLAND, CA 94612
Email: julie@donahue.com

Lawrence K Rockwell
DONAHUE GALLAGHER WOODS LLP
300 LAKESIDE DRIVE
STE 1900
OAKLAND, CA 94612
Email: larry@donahue.com

Angelo J Calfo
YARMUTH WILSDON CALFO
925 FOURTH AVE
STE 2500
SEATTLE, WA 98104
Email: acalfo@yarmuth.com

Jeremy E Roller
YARMUTH WILSDON CALFO
925 FOURTH AVE
STE 2500
SEATTLE, WA 98104
Email: jroller@yarmuth.com

/s/ Gregory A. Beck

