

NOTE

GAMESTOPPED: *VERNOR V. AUTODESK* AND THE FUTURE OF RESALE

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*In 1908, the United States Supreme Court established the first-sale doctrine, which entitles the legitimate purchaser of a copyrighted work to sell the copyrighted work without the permission of the copyright holder. Applying the doctrine in the context of books; Congress subsequently codified the first-sale doctrine in the Copyright Act of 1976. Since then, courts have extended first-sale protection beyond the written word—applying it to videotapes, and later DVDs. However, courts have struggled to apply the first-sale doctrine in the context of the increasingly digital, and thus less tangible media through which information is transmitted in the twenty-first century. The jurisprudence surrounding the application of copyright protection to computer software is muddled, in particular regarding how courts determine whether a consumer is an owner (and thus able to receive first-sale protection for reselling a copyrighted work) or merely a licensee. Recently, in *Vernor v. Autodesk*, a panel of judges on the Ninth Circuit attempted to reconcile its competing precedents in the application of first-sale copyright protection to computer software. The Ninth Circuit had previously taken two differing approaches: the “Wise” approach, in which the circumstances of the transaction determine the question of ownership (an approach favoring the consumer), and the “MAI Systems trilogy” approach, under which a consumer does not have any ownership rights in the work if the copyright holder characterizes the consumer as merely a licensee—an approach favoring the copyright holder. In *Vernor*, the Ninth Circuit overturned the district court’s decision, which found for the consumer based on Wise, and instead synthesized the Wise and MAI Systems trilogy in favor of the copyright holder. This Note argues that the Ninth Circuit’s*

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attempted resolution of their precedents in Vernor did not actually reconcile two approaches and instead effectively abandons Wise in favor of the MAI Systems trilogy. This Note further argues that decisions like Vernor that separate software from traditional first-sale protection harm the public consciousness by depriving consumers of a secondary-sale market for copyrighted software titles, thereby prohibiting future generations from the benefit of software that eventually becomes obsolete.

INTRODUCTION: POTENTIAL AND PIRACY.....	228
I. FROM BOOKS TO BLU-RAY: THE EVOLUTION OF FIRST-SALE DOCTRINE	231
II. WISE, MAI SYSTEMS AND VERNOR: THE SPLIT WITHIN THE NINTH CIRCUIT	235
III. AN “UN-WISE” DECISION	237
IV. ABANDONED WARES: FIRST-SALE’S EFFECT ON THE MARKET AND PUBLIC CONSCIOUSNESS	242
CONCLUSION.....	246

INTRODUCTION: POTENTIAL AND PIRACY

Johannes Gutenberg pounds hundreds of letters into tiny lead cubes in 1439.¹ In 1877, Thomas Edison warbles “*Mary Had a Little Lamb*” as a needle etches his voice onto a wax cylinder.² The same year, Eadweard Muybridge photographs the motion of a galloping horse to settle a bet.³ Though the technological, societal and cultural significance of the printing press, phonograph and motion picture is indisputable: each breakthrough brings with it a new slate of legal dilemmas for which our system is woefully unprepared. From cassette tapes to cloud computing, each new medium is accompanied by untold promises and, inevitably, unchecked piracy. As hobbyists and hackers “crack” the latest copyright protections as quickly as media companies implement them, the law struggles to evolve alongside technology.

As the means of storing and distributing information have evolved from tangible to digital media, piracy has also become firmly entrenched in the digital domain, no longer inhibited by the confines of a corporeal world, and its effects are wide reaching. Until recently, the inherent limitations of tangible media kept piracy somewhat in check; for example, wide-scale distribution of pirated VHS tapes or floppy disks is expen-

¹ “Johannes Gutenberg,” ENCYCLOPÆDIA BRITANNICA ONLINE (2010), <http://www.britannica.com/EBchecked/topic/249878/Johannes-Gutenberg> (last visited Aug. 9, 2011).

² “Thomas Alva Edison,” ENCYCLOPÆDIA BRITANNICA ONLINE (2010), <http://www.britannica.com/EBchecked/topic/179233/Thomas-Alva-Edison> (last visited Aug. 9, 2011).

³ “Eadweard Muybridge,” ENCYCLOPÆDIA BRITANNICA ONLINE (2010), <http://www.britannica.com/EBchecked/topic/399928/Eadweard-Muybridge> (last visited Aug. 9, 2011).

sive, risky and logistically difficult.⁴ In the twenty-first century, information itself has become paramount—with movies, music and games—encoded as ones and zeros—seamlessly streamed to billions worldwide. For instance, compact disc sales have been steadily dropping as online music continues to proliferate in the industry and by 2011, some analysts predict that digital MP3 sales will surpass the traditional brick-and-mortar market.⁵ Netflix, Hulu and other streaming media outlets continue to grow in popularity as DVD and Blu-ray sales decline.⁶ As content producers and copyright holders fight to keep control of their now intangible commodities, courts struggle to apply the law to a technological market that they often do not fully grasp.

One of the long-standing principles of American copyright law is the “first-sale” doctrine. As codified in the Copyright Act of 1976, first-sale entitles the bona fide purchaser of a copyrighted work to sell or otherwise dispose of that copy without the permission of the copyright holder.⁷ No one would contest that when one purchases an apple, one is free to do with it what she wishes: she may eat it or store it for later. She might even decide she no longer likes the apple and give it to a friend or—for the more entrepreneurially minded—sell it. The same principles apply to copyrighted material. While originally applied to books,⁸ courts have extended first-sale to new media formats,⁹ making consumer alternatives like libraries, video rentals and eBay possible. The uniformity with which courts apply the first-sale doctrine to books and videotapes is currently absent from the jurisprudence surrounding computer software and the associated rights of its purchasers.¹⁰

Current copyright law is unclear regarding the application of the first-sale doctrine to software, and courts across the country have split in determining the best solution.¹¹ The issue is whether a lawful purchaser

⁴ See Jeff Sharp, *Coming Soon to Pay-Per-View: How the Digital Millennium Copyright Act Enables Digital Content Owners to Circumvent Educational Fair Use*, 40 AM. BUS. L.J. 1, 20–21 (2002).

⁵ Casey Johnston, *US Digital Music Sales to Eclipse CDs by 2010*, ARS TECHNICA, Aug. 14, 2009, <http://arstechnica.com/media/news/2009/08/global-digital-music-sales-to-overtake-physical-by-2016.ars>.

⁶ Nate Anderson, *Half of All Young Internet Users Now Watch TV Online*, ARS TECHNICA, Aug. 6, 2009, <http://arstechnica.com/media/news/2009/08/half-of-all-young-internet-users-now-watch-tv-online.ars>; Alex Dobuzinskis, *ANALYSIS—Hollywood Warming to Internet as DVDs Begin to Fade*, REUTERS NEWS, Oct. 1, 2009, available at <http://www.reuters.com/article/2009/10/01/us-hollywood-dvd-analysis-sb-idUSTRE5900EW20091001>.

⁷ 17 U.S.C. § 109 (2006).

⁸ See, e.g., *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908) (establishing the first-sale doctrine for books).

⁹ See, e.g., *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) (extending first-sale protection to Betamax video tapes).

¹⁰ 17 U.S.C. § 109(b)(1)(A)(201) (2006).

¹¹ *Compare MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993) (holding that the copyright holder’s characterization of software purchase as a license does not

of the software may sell or give away her copy. Computer software, by its very nature, cannot be sold and transferred in the traditional sense.¹² In order to initiate use of a program, an individual must copy it onto a computer's hard drive or its temporary random access memory (RAM).¹³ Software manufacturers protect their goods through a wide array of digital rights management (DRM) techniques—using unique serial numbers or other methods to keep the copy of the software linked to a specific computer.¹⁴ Software manufacturers assert that they never actually sell their software: they claim they merely license it temporarily.¹⁵ As a result, a purchaser is not permitted to sell or give away her copy.¹⁶

Users and consumer protection groups, however, maintain that they are actually purchasing the software and should be allowed to use and share it freely.¹⁷ They argue that the licensing language is hidden within dense layers of legalese contained in end user licensing agreement (EULA), assent to which is mandatory before a consumer can install the software.¹⁸ According to consumer rights advocates, these license agreements, known as “click-through” or “shrinkwrap” agreements, destroy the concept of ownership and strip end users of significant possessory

convey ownership to the customer), and *Microsoft Corp. v. Harmony Computers & Elec., Inc.*, 846 F. Supp. 208 (E.D.N.Y. 1994) (holding that entering a license agreement is not a sale for purposes of the first sale doctrine), and *Davidson & Assoc., Inc. v. Internet Gateway, Inc.*, 334 F. Supp. 2d 1164, 1175 (E.D. Mo. 2004), *aff'd sub nom. Davidson & Assoc. v. Jung*, 422 F.3d 630 (8th Cir. 2005) (holding that defendants who purchased computer bought a license to use the software but did not buy the software), with *In re DAK Indus., Inc.*, 66 F.3d 1091 (9th Cir. 1995) (holding that the economic realities of a particular arrangement determines ownership of software), and *Novell, Inc. v. Network Trade Cr., Inc.*, 25 F. Supp. 2d 1218, 1221 (D. Utah 1997) *vacated in part*, 187 F.R.D. 657 (D. Utah 1999) (holding that “shrinkwrap” license included with software is invalid as software transactions do not merely constitute the sale of a license to use the software), and *SoftMan Prod. Co., LLC v. Adobe Sys., Inc.*, 171 F. Supp. 2d 1075 (C.D. Cal. 2001) (holding that a transaction involving a single payment giving the buyer an unlimited period in which it has a right to possession is a sale).

¹² See generally Christian H. Nandan, *Software Licensing in the 21st Century: Are Software “Licenses” Really Sales, and How Will the Software Industry Respond?*, 995 PLI/PAT 815 (2010); LARRY LESSIG, *FREE CULTURE: HOW BIG MEDIA USES TECHNOLOGY AND THE LAW TO LOCK DOWN CULTURE AND CONTROL CREATIVITY* (2004) available at <http://www.free-culture.cc/freeculture.pdf>.

¹³ Nandan, *supra* note 12, at 821–22.

¹⁴ INDICARE PROJECT, *THE CONSUMER'S GUIDE TO DIGITAL RIGHTS MANAGEMENT 2* (2006), http://www.indicare.org/tiki-download_file.php?fileId=195.

¹⁵ See *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1104–06 (9th Cir. 2010).

¹⁶ Brief for Software & Information Industry Association as Amicus Curiae Supporting Appellant and Reversal at 4, *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010) (No. 09-35969), 2010 WL 894742, at *4 (“[T]he ‘mass market’ consumer software industry has been built almost exclusively upon licensing, its economic foundations depend upon licensing, and ‘overriding’ such licenses would have far-reaching, adverse effects.”).

¹⁷ Fred von Lohmann, *You Bought It, You Own It: Vernor v. Autodesk*, ELECTRONIC FRONTIER FOUNDATION DEEPLINKS BLOG (Feb. 11, 2010, 9:29 PM), <http://www.eff.org/deeplinks/2010/02/you-bought-software-you-own-it-vernor-v-autodesk>.

¹⁸ Annalee Newitz, *Dangerous Terms: A User's Guide to EULAs*, ELECTRONIC FRONTIER FOUNDATION WHITEPAPERS (2005), <http://www.eff.org/wp/dangerous-terms-users-guide-eulas>.

rights without their consent or knowledge.¹⁹ As digital merchandise is freely and effortlessly reproduced and replicated, the line between legitimate transfer and illegal reproduction is not clearly defined, though courts have made many attempts to do so.²⁰

Part I of this Note will explore the evolution of the first-sale doctrine in the context of various court cases regarding evolving technologies and will discuss the confused state of the doctrine with respect to computer software. Part II of this Note will analyze the decision in *Vernor v. Autodesk, Inc.*²¹ and attempt to reconcile the Ninth Circuit's ruling with its own precedents, the doctrines of the other circuits and the Supreme Court's jurisprudence. Part III of this Note will argue that the Ninth Circuit decided *Vernor* incorrectly and will explore the negative economic consequences of *Vernor* and other recent Ninth Circuit decisions, like *UMG Recordings, Inc. v. Augusto*,²² on consumers and the resale industry alike. Part IV of this Note will explore the negative effects that denying first-sale protection to purchasers of computer software could have on the open exchange of ideas and information, and will suggest that either Congress or the courts must reconfigure software copyright law to offer the same protections and balance of consumer-copyright power afforded its brethren in more traditional media. Surely the law would not stand for a copyright system that could decimate libraries across the nation by including the words, "[t]his text is not for library use, and may not be given away or resold," printed in tiny letters on the back pages of a book. This Note concludes by suggesting that computer software should be treated no differently.

I. FROM BOOKS TO BLU-RAY: THE EVOLUTION OF FIRST-SALE DOCTRINE

The United States Supreme Court established the first-sale doctrine in 1908 in *Bobbs-Merrill Co. v. Straus*.²³ In *Bobbs-Merrill*, a publisher included a notice in an edition of the novel *The Castaway* that read: "[t]he price of this book at retail is \$1 net. No dealer is licensed to sell it at a less price, and a sale at a less price will be treated as an infringement of the copyright."²⁴ The defendants purchased a wholesale lot of the book and sold it in their stores for eighty-nine cents.²⁵ Writing for the Court, Justice Day established the first-sale doctrine in response to a question considered a "new one in this court, and one that involves the

¹⁹ *Id.*

²⁰ *Id.*

²¹ *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010).

²² *UMG Recordings, Inc. v. Augusto*, 558 F. Supp. 2d 1055 (C.D. Cal. 2008).

²³ *See Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908).

²⁴ *Id.* at 341.

²⁵ *Id.*

extent of the protection which is given by . . . copyright.”²⁶ Justice Day wrote:

In our view the copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose, by notice, such as is disclosed in this case, a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract.²⁷

The Court thus established a limitation on copyright holders and a new right for American consumers.²⁸ Congress codified the first-sale doctrine the following year in 1909,²⁹ and it remained undisturbed over the next few decades.³⁰

The next step in the first-sale doctrine’s evolution coincided with the birth of the videotape. As Betamax recorders and VCRs began appearing in American homes, media conglomerates attempted to block their sale.³¹ Media companies argued that these new recording and playing devices would facilitate widespread copying and unlawful distribution of copyrighted films and television shows.³² The Supreme Court disagreed, ruling that copyright holders could not block the sale of VCRs due to their significant potential for non-copyright-infringing usage.³³ While the first-sale doctrine was not an explicit issue in the case, the decision heralded the birth of the home media market; it would not be long before video rental chains appeared across the country, paving the way for the widespread distribution of media we know today.³⁴ Copyright holders continued to try to battle against the application of first-sale

²⁶ *Id.* at 346.

²⁷ *Id.* at 350.

²⁸ The first-sale doctrine does not exist in the European Union, which instead follows the principle of *droit de suite*. Essentially, *droit de suite* allows artists or their heirs to receive a fee upon the resale of their works. “In the field of copyright, the resale right is an unassignable and inalienable right, enjoyed by the author of an original work of graphic or plastic art, to an economic interest in successive sales of the work concerned.” *Council Directive on the Resale Right for the Benefit of the Author of an Original Work of Art*, 2001/84, 2001 O.J. (L 272) 32–36, available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?ri=CELEX:32001L0084:EN:NOT>.

²⁹ See Copyright Act of 1909, Pub. L. No. 60-349, 35 Stat. 1075 (1909) (amended 1976).

³⁰ Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541 (1976) (codified at 17 U.S.C. § 109 (2006) (“[T]he owner of a particular copy or phonorecord 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 or phonorecord.”).

³¹ See, e.g., *Sony Corp. of Am. v. Universal City Studios, Inc.*, 659 F.2d 93 (9th Cir. 1981), *rev’d* 464 U.S. 424 (1984).

³² *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 424 n.3, 424–25 (1984).

³³ See *id.* at 442–56.

³⁴ Jeffrey P. Cunard, *Past as Precedent: Some Thoughts on Novel Approaches to the Nexus of Digital Technologies and the Arts*, 29 *LEONARDO* 192, 245–47 (2006).

doctrine to videotapes, but their efforts proved fruitless.³⁵ The advent of DVD technology brought more legal challenges to the doctrine, yet courts expanded the first-sale doctrine to cover this new medium as well.³⁶

By the time the first computer programs emerged in the 1970s, the new frontier of digital information as a copyrightable asset added more fuel to the fires of first-sale confusion. Congress amended § 117 of the Copyright Act in 1980, following a report from the National Commission on New Technological Uses of Copyrighted Works (CONTU) proposing Copyright Act amendments.³⁷ As amended, Section 117 now permits the “owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program” and that such copies “may be leased, sold, or otherwise transferred . . . only as part of the lease, sale, or other transfer of all rights in the program.”³⁸ In other words, the statute would seem to codify the application of the first-sale doctrine to computer software. However, while the statute clearly defines the first-sale privileges enjoyed by the owner of a computer program,³⁹ the statute does not clearly define “owner.” As a result, software manufacturers began to include language in their mandatory licensing agreements denying the transfer of ownership to a purchaser; instead, the software is merely “licensed” and thus exempt from the protections of Section 117.⁴⁰ Following the Section 117 amendments, then, the question of what constitutes “ownership” under the statute fell on the courts to decide.

Historically, in attempting to answer this question, courts have used a number of different approaches. Initially, courts relied on how the copyright holder characterized a transaction to determine whether a customer purchased or licensed a program; in other words, courts would rely on whether the seller used the term “license” or “sale” in the purchase agreement.⁴¹ In *DSC Communications Corp. v. Pulse Communications*,

³⁵ Congress voted against a bill which would require rental stores to receive permission from copyright holders in order to rent videotapes. See PAUL S. WALLACE, JR., CONG. RESEARCH SERV., IB82075, ISSUE BRIEF: COPYRIGHT LAW: LEGALIZING HOME TAPING OF AUDIO AND VIDEO RECORDINGS 3 (1984).

³⁶ See *NEGB, LLC v. Weinstein Co. Holdings*, 490 F. Supp. 2d 89 (D. Mass. 2007) (ruling that a film studio had no right to restrict buyers of DVDs from renting them to third parties).

³⁷ Government Patent Policy Act of 1980, Pub. L. No. 96-517, 94 Stat. 3015 (1976) (codified as amended at 17 U.S.C. § 117 (2006)).

³⁸ 17 U.S.C. § 117 (2006).

³⁹ *Id.*

⁴⁰ See, e.g., *Nadan*, *supra* note 12.

⁴¹ See *Microsoft Corp. v. Harmony Computers & Elec., Inc.*, 846 F. Supp. 208 (E.D.N.Y. 1994) (cementing the “characterization” approach with the caveat that the consumer/defendant can potentially “prove” that the transaction was a sale); *MAI Sys. Corp. v.*

Inc.,⁴² the Federal Circuit rejected this approach and opted instead to analyze whether the restrictive language of a license agreement is “inconsistent with the status of an owner.”⁴³ Though slightly more balanced than the “characterization” approach, this method still favored copyright holders. Finally, in 2001, in *SoftMan Products Co., LLC v. Adobe Systems, Inc.*,⁴⁴ the District Court for the Central District of California explicitly ruled for the first time that a computer program could be sold, rather than licensed.⁴⁵ The court reasoned:

[T]he circumstances surrounding the transaction strongly suggests that the transaction is in fact a sale rather than a license. For example, the purchaser commonly obtains a single copy of the software, with documentation, for a single price, which the purchaser pays at the time of the transaction, and which constitutes the entire payment for the “license.” The license runs for an indefinite term without provisions for renewal. In light of these indicia, many courts and commentators conclude that a “shrink-wrap license” transaction is a sale of goods rather than a license.⁴⁶

In addition, the court noted that “Adobe’s position in this action would be more akin to a journalist who claimed that ownership of the copyright to an article allowed him or her to control the resale of a particular copy of a newspaper that contained that article.”⁴⁷

As a result, two approaches to the ownership question have solidified. On the one hand, the traditional approach allows software companies to characterize the terms of the transaction as either a license or a sale through licensing agreements; this approach favors copyright holders. The *SoftMan Products* approach, on the other hand, grants ownership regardless of the language buried within a EULA; this approach favors consumers. Courts across the country remain divided on this issue and their attempts to reconcile the two approaches have led to even more confusion.

Peak Computer, Inc., 991 F.2d 511 (9th Cir. 1993) (establishing the “characterization” approach). See also Nadan, *supra* note 12

⁴² DSC Commc’ns Corp. v. Pulse Commc’ns, Inc., 170 F.3d 1354 (Fed. Cir. 1999).

⁴³ *Id.* at 1362.

⁴⁴ *SoftMan Prod. Co., LLC v. Adobe Sys., Inc.*, 171 F. Supp. 2d 1075 (C.D. Cal. 2001).

⁴⁵ *Id.* at 1085.

⁴⁶ *Id.*

⁴⁷ *Id.* at 1089.

II. WISE, MAI SYSTEMS AND VERNOR: THE SPLIT WITHIN THE NINTH CIRCUIT

In 2007, Timothy Vernor, an eBay “power seller” who made his living through the popular auction site, attempted to sell copies of Autodesk’s popular AutoCAD drafting computer software.⁴⁸ Autodesk invoked the Digital Millennium Copyright Act in an attempt to stop Vernor from selling the software, which he had purchased secondhand from CTA—a Seattle architecture firm.⁴⁹ Vernor countered by suing for a declaratory judgment that his actions did not constitute copyright infringement.⁵⁰ In the District Court for the Western District of Washington, Vernor argued that during the initial sale of the software to CTA, Autodesk transferred ownership to the architecture firm.⁵¹ Subsequently, CTA transferred ownership to Vernor through their resale of the software.⁵² Furthermore, Vernor argued that any subsequent sale of the software will likewise transfer ownership.⁵³

Autodesk countered that they never transferred the ownership of the software to CTA.⁵⁴ In fact, Autodesk asserted that they never transferred ownership at all.⁵⁵ Accordingly, CTA’s license agreement with Autodesk barred any transfer of the software without written permission and declared that the “[t]itle and copyrights to the Software and accompanying materials and any copies made by you remain with Autodesk.”⁵⁶ To answer the question, the district court had to decide between two conflicting Ninth Circuit precedents: *United States v. Wise* and the “MAI [Systems] trilogy” of cases.⁵⁷

Wise was a Ninth Circuit criminal copyright infringement case involving the sale of used movies.⁵⁸ The case involved a number of agreements governing the transfer of film prints, many of which expressed language quite similar to a modern EULA click-through agreement, including a provision that prints “shall not be sold, leased, licensed or loaned by you to any other person.”⁵⁹ While the court did not establish a bright-line rule, it ruled that “[w]hile the provision for payment . . . standing alone does not establish a sale, when taken with the

⁴⁸ Vernor v. Autodesk, Inc., No. C07-1189RAJ, 2009 WL 3187613, at *1 (W.D. Wash. Sept. 30, 2009), *vacated*, 621 F.3d 1102 (9th Cir. 2010).

⁴⁹ *Id.*

⁵⁰ *Id.*

⁵¹ *Id.* at *3.

⁵² *Id.*

⁵³ *Id.*

⁵⁴ Vernor, 2009 WL 3187613 at *4.

⁵⁵ *Id.*

⁵⁶ *Id.*

⁵⁷ *Id.* at *5.

⁵⁸ *United States v. Wise*, 550 F.2d 1180 (9th Cir. 1977).

⁵⁹ *Id.* at 1192.

rest of the language of the agreement, it reveals a transaction strongly resembling a sale with restrictions.”⁶⁰ Judge Jones, writing for the district court in *Vernor*, claimed that *Wise* establishes that

even a transfer that places severe restrictions on the use and disposition of a copy of copyrighted material can transfer ownership of that copy and that in each instance in which the transferee could, at his election, retain possession of the transferred copy indefinitely, and the copyright holder had no right to regain possession, the court found an ownership transfer.⁶¹

Thus, according to the district court, *Wise* stands for the proposition that, much like the *SoftMan Products* approach, the question of ownership depends on the circumstances of the transaction, not how the copyright holder characterizes it.⁶²

The *MAI Systems* trilogy of cases includes *MAI Systems Corp. v. Peak Computer, Inc.*,⁶³ *Triad Systems Corp. v. Southeastern Express Co.*,⁶⁴ and *Wall Data Inc. v. Los Angeles County Sheriff's Dep't*.⁶⁵ *MAI Systems*, though the namesake for the approach, only addresses the question of ownership in a one-sentence footnote, stating that since “MAI licensed its software, the [customers to whom it licensed the software] do not qualify as ‘owners’ of the software and are not eligible for protection under § 117.”⁶⁶ Notably, the opinion did not cite or mention *Wise*.⁶⁷

Triad Systems, like *MAI Systems*, did not involve purchasers of software but rather unauthorized repair and maintenance of computers running copyrighted programs; the panel considered three distinct forms of a software transfer agreement, and found that only an agreement where it was clear that the software was “sold . . . outright” transferred ownership to the purchaser.⁶⁸ The court found that the other agreements, one of which required a “transfer fee” before the software could be sold on computer systems, and another of which prohibited any transfer whatsoever, transferred no ownership rights to the consumer.⁶⁹

Wall Data is the most recent addition to the *MAI Systems* trilogy and the only case to directly address the issue of an actual software

⁶⁰ *Id.*

⁶¹ *Vernor*, 2009 WL 3187613 at *5.

⁶² *Id.*

⁶³ *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993).

⁶⁴ *Triad Sys. Corp. v. Se. Express Co.*, 64 F.3d 1330 (9th Cir. 1995).

⁶⁵ *Wall Data, Inc. v. L.A. Cnty. Sheriff's Dep't*, 447 F.3d 769 (9th Cir. 2006).

⁶⁶ *MAI Sys. Corp.*, 991 F.2d at 518 n.5.

⁶⁷ *Id.* at 511.

⁶⁸ *Triad Sys. Corp.*, 64 F.3d at 1333.

⁶⁹ *Id.*

user's ownership.⁷⁰ In the *Wall Data* opinion, the panel clarified the ruling in *MAI Systems*:

Generally, if the copyright owner makes it clear that she or he is granting only a license to the copy of software 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 software.⁷¹

The court went on to state that “if a software developer retains ownership of every copy of software, and merely licenses the use of those copies, § 117 does not apply.”⁷²

The district court in *Vernor* followed the *Wise* approach for the simple reason that it was the oldest of the conflicting precedents.⁷³ Though they were “loath . . . to apply this rule unless there [was] no way to avoid the conflict between the opinions,” the court found that *Wise* and *Wall Data* were irreconcilable, and that “a faithful application of *Wall Data* leads to the conclusion that the Autodesk License is a mere license, whereas *Wise* leads to the opposite conclusion.”⁷⁴ Though the opinion touched upon the various policy concerns set out by both parties, the court's decision relied solely on precedent rather than a policy judgment.⁷⁵

III. AN “UN-WISE” DECISION

On September 10, 2010, the Ninth Circuit vacated the district court's ruling in *Vernor* by reinterpreting *Wise* and the *MAI Systems* trilogy.⁷⁶ Writing for the three-judge panel, Judge Callahan interpreted *Wise* as establishing a multi-factor balancing test that includes possession among several other non-dispositive factors.⁷⁷ The opinion combined elements from both *Wise* and the *MAI Systems* trilogy, setting out three conditions to determine the question of ownership:⁷⁸ (1) whether the copyright holder has specified if it is granting the user ownership or

⁷⁰ *Wall Data, Inc.*, 447 F.3d at 769.

⁷¹ *Id.* at 785.

⁷² *Id.*

⁷³ *Vernor v. Autodesk, Inc.*, No. C07-1189RAJ, 2009 WL 3187613 *11 (W.D. Wash. Sept. 30, 2009), *vacated*, 621 F.3d 1102 (9th Cir. 2010).

⁷⁴ *Id.*

⁷⁵ *Id.*

⁷⁶ *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010).

⁷⁷ *Id.* at 1108 (citing *United States v. Wise*, 550 F.2d 1180, 1190–92) (9th Cir. 1977)) (noting that the Ninth Circuit in *Wise* “considered (a) whether the agreement was labeled a license, (b) provided that the copyright owner retained title to the prints, (c) required the return or destruction of the prints, (d) forbade duplication of prints, or (e) required the transferee to maintain possession of the prints for the agreement's duration.”).

⁷⁸ *Id.* at 1110–11.

merely a license;⁷⁹ (2) whether the agreement significantly restricts the consumer's ability to transfer the software;⁸⁰ and (3) whether the agreement imposes notable use restrictions.⁸¹

The Ninth Circuit, moreover, acknowledged the legislative history of 17 U.S.C. §§ 109 and 117 in its opinion.⁸² The House Report for § 109 re-emphasizes that the first-sale doctrine is intended only for the benefit of those who acquire a copyrighted work through "outright sale," and that it does not apply to those who merely possess a copy.⁸³ Furthermore, the original language of § 117 as proposed by the CONTU—limiting exclusive rights for computer programs—made no reference to "owners"; instead, it used the term "rightful possessor," which is a much less strict standard than ownership.⁸⁴ According to the court, Congress's substitution of the word "owner" for "rightful possessor . . . suggests that more than rightful possession is required for § 117 to apply."⁸⁵ Namely, Congress did not intend licensees subject to significant transfer and use restrictions to receive the benefit of the "essential step defense."⁸⁶

The Ninth Circuit then addressed Vernor's four counterarguments in defense of the district court's ruling.⁸⁷ First, the court disagreed with Vernor's argument that *Wise* established the "indefinite possession" test as the key factor of ownership transfer.⁸⁸ Instead, the court held that *Wise* established a multi-factor ownership test, of which indefinite possession is a persuasive but non-dispositive factor.⁸⁹

⁷⁹ *Id.* at 1110.

⁸⁰ *Id.* at 1110–11.

⁸¹ *Vernor*, 621 F.3d at 1111.

⁸² *Id.* at 1112.

⁸³ *Id.* (citing H.R. REP. NO. 94-1476, at 79 (1976)).

⁸⁴ *Id.* (citing *DSC Commc'ns Corp. v. Pulse Commc'ns, Inc.*, 170 F.3d 1354, 1360 (Fed. Cir. 1999)).

⁸⁵ *Id.*

⁸⁶ *Id.* The "essential step" defense allows the owner of a copy of a computer program to lawfully make a copy or adaptation of the program provided that the new copy is "created as an essential step in the utilization of the . . . program in conjunction with a machine" or is used for temporary backup and archival purposes. 17 U.S.C. § 117(a)(1) (2006). This allows the owner of a piece of software to install the computer program on his machine, which often requires copying the copyrighted code onto a hard drive or internal RAM. *See Micro-Sparc, Inc. v. Amtype Corp.*, 592 F. Supp. 33 (D. Mass. 1984) (holding that manually typing code sold in printed form into a computer in order to use the program does not constitute infringement); *Summit Tech., Inc. v. High-Line Med. Instruments Co.*, 922 F. Supp. 299 (C.D. Cal. 1996) (holding that inadvertently causing a copy of a copyrighted data table to be loaded into a computer system's RAM through the routine operation of an ophthalmological laser system does not constitute infringement). *Cf. MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993) (holding that loading copyrighted software into RAM constitutes reproduction).

⁸⁷ *Vernor*, 621 F.3d at 1113–14.

⁸⁸ *Id.* at 1113.

⁸⁹ *Id.*

Second, the Ninth Circuit disagreed with Vernor's contention that reversing the district court's ruling would create a split between the Federal and Second Circuits.⁹⁰ The court first held that the Federal Circuit's ruling in *DSC Communications Corp. v. Pulse Communications, Inc.*,⁹¹ in which the Federal Circuit rejected the *MAI Systems* characterization of all licensees as non-owners, still regarded *MAI Systems* "instructive."⁹² The court then distinguished *Vernor* from the Second Circuit's decision in *Krause v. Titleserv*.⁹³ In *Krause* a software developer sued his former employer for making allegedly infringing modifications to a program but due to the employment relationship between the parties, the court held that the facts and analysis in such a situation are not contrary to their determination of ownership in the *Vernor* case.⁹⁴

Third, Vernor argued that he is entitled to a first-sale defense based on *Bobbs-Merrill Co. v. Straus*,⁹⁵ the case that established the doctrine in 1908.⁹⁶ The court rejected this argument, ruling that *Bobbs-Merrill* "did not and could not address the question of whether the right to use software is distinct from the ownership of copies of software," and that the court was "explicit that its decision did not address the use of restrictions to create a license."⁹⁷

Finally, Vernor argued that the "economic realities" of the situation demonstrated that Autodesk was in the business of selling, not licensing, software.⁹⁸ Because Autodesk allows customers to possess their copies of the software indefinitely and does not require recurring license payments, he contended that the court should treat the transfer as a sale.⁹⁹ In support of this contention, Vernor cited *In re DAK Industries*,¹⁰⁰ a case in which the Ninth Circuit "interpreted the Bankruptcy Code to decide whether a particular transaction should be considered a pre-petition sale."¹⁰¹ Nonetheless, the court in *Vernor* did not find that the ruling in a bankruptcy case was applicable to software sales and dismissed the argument.¹⁰²

⁹⁰ *Id.*

⁹¹ *DSC Commc'ns Corp. v. Pulse Commc'ns, Inc.*, 170 F.3d 1354 (Fed. Cir. 1999).

⁹² *Vernor*, 621 F.3d at 1113.

⁹³ *Krause v. Titleserv, Inc.*, 402 F.3d 119 (2d Cir. 2005).

⁹⁴ *Vernor*, 621 F.3d at 1113.

⁹⁵ *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908). For a discussion of the first-sale doctrine, see *supra* Part I.

⁹⁶ *Vernor*, 621 F.3d at 1114.

⁹⁷ *Id.*

⁹⁸ *Id.*

⁹⁹ *Id.*

¹⁰⁰ *In re DAK Indus., Inc.*, 66 F.3d 1091 (9th Cir. 1995).

¹⁰¹ *Vernor*, 621 F.3d at 1114 ("When applying the bankruptcy code to this transaction, we must look through its form to the 'economic realities of the particular arrangement.'") (quoting *In re DAK Indus., Inc.*, 66 F.3d at 1095).

¹⁰² *Id.* ("Nothing in *DAK* is contrary to our reconciliation of *Wise* and the *MAI* trio.").

Upon closer analysis, however, the *Vernor* court did not convincingly reconcile the conflicts between *Wise* and the *MAI Systems* trilogy of cases. In *Wise*, the Ninth Circuit wrote that since “[c]opyright proprietors frequently transfer rights in their works by complicated agreements which cannot simply be called ‘sales’[,] [i]n each case, the court *must analyze the arrangement at issue* and decide whether it should be considered a first sale.”¹⁰³ Though the *Vernor* opinion disregarded *DAK Industries* as a bankruptcy case irrelevant to software copyright, the *DAK Industries* court adopted a *Wise* approach in analyzing whether Microsoft had sold a lump sum of software units to DAK or simply granted them permission to use a defined piece of intellectual property.¹⁰⁴ After analyzing the arrangement and facts of the transfer, the court concluded that “the economic realities of this agreement indicate[d] that it was basically a sale, not a license to use.”¹⁰⁵ In a footnote, the court further elaborated, “Because we look to the economic realities of the agreement, the fact that the agreement labels itself a ‘license’ and calls the payments ‘royalties,’ both terms that arguably imply periodic payment for the use rather than sale of technology, does not control our analysis.”¹⁰⁶

DAK Industries indicates that the Ninth Circuit was willing, in at least one instance, to use the *Wise* “economic realities” approach to determine software ownership. Moreover, several district courts within the Ninth Circuit cite *DAK Industries* when deciding whether to apply the *Wise* approach to ownership.¹⁰⁷ Contrary to *Vernor*, these cases indicate that *DAK Industries* has been used frequently and successfully throughout the Ninth Circuit to apply the *Wise* analysis to the realm of digital copyright.

Even though the Ninth Circuit decided both cases, the *Wise* analysis is irreconcilable with the *MAI Systems* methodology. In a footnote citing no authority, the *MAI Systems* court created an entirely different approach to determining ownership: “Since MAI licensed its software, the Peak customers do not qualify as ‘owners’ of the software and are not eligible for protection under § 117.”¹⁰⁸ This new approach, relying exclusively on the label applied to the transaction, has been criticized by

¹⁰³ *United States v. Wise*, 550 F.2d 1180, 1188–89 (9th Cir. 1977) (quoting *United States v. Bily*, 406 F. Supp. 726, 731 (E.D. Pa. 1975)) (emphasis added).

¹⁰⁴ *In re DAK Indus.*, 66 F.3d at 1095–96.

¹⁰⁵ *Id.* at 1096.

¹⁰⁶ *Id.* at 1095 n.2.

¹⁰⁷ *See, e.g.*, *UMG Recordings, Inc. v. Augusto*, 558 F. Supp. 2d 1055, 1060 (C.D. Cal. 2008) (“In determining whether a transaction is a sale or a license, courts must analyze the ‘economic realities’ of the transaction.” (quoting *In re DAK Indus.*, 66 F.3d at 1095)); *SoftMan Prods. Co. v. Adobe Sys., Inc.*, 171 F. Supp. 2d 1075, 1084 (C.D. Cal. 2001) (“It is well-settled that in determining whether a transaction is a sale, a lease, or a license, courts look to the economic realities of the exchange.” (citing *In re DAK Indus.*, 66 F.3d 1091)).

¹⁰⁸ *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 518 n.5 (9th Cir. 1993).

commentators and other appellate courts.¹⁰⁹ The Federal Circuit noted, in *DSC Communications Corp. v. Pulse Communications, Inc.*, that the *MAI Systems* approach “fail[s] to recognize the distinction between ownership of a copyright, which can be licensed, and ownership of copies of the copyrighted software.”¹¹⁰ The *Vernor* opinion dismissed this criticism by noting that the *DSC Communications* court still considered *MAI Systems* “instructive.”¹¹¹ The Federal Circuit, however, had plainly rejected using the *MAI Systems* approach in its jurisdiction, noting that “a party who purchases copies of software from the copyright owner can hold a license under a copyright while still being an ‘owner’ of a copy of the copyrighted software for purposes of [S]ection 117.”¹¹²

The *Vernor* court attempted to reconcile the differing precedents of *MAI Systems* and *Wise* by creating a framework that incorporates language from both sets of cases. Nonetheless, the court did not explain how it arrived at this conclusion, simply stating that it “read *Wise* and the *MAI Systems* trilogy to prescribe three considerations that we may use to determine whether a software user is a licensee, rather than an owner of a copy.”¹¹³ It is difficult to understand how this reconciliation occurred, as the two approaches contradict each other. If, under the *MAI Systems* approach, the copyright owner can characterize the transfer as a license and retain title, there is no need to analyze the *Wise* economic factors between the two parties. Conversely, under the *Wise* “economic realities” approach, the mere characterization of a transfer as a license cannot be the controlling factor.

Vernor’s attempt to reconcile the two precedents, however, seems to follow *MAI Systems* entirely and ignore *Wise*. The elucidated factors characterize the transaction based entirely on the copyright holder’s standpoint, disregarding the *Wise* economic analysis in favor of the characterization of the transfer approach.¹¹⁴ The *Vernor* test primarily relies on the vocabulary of the transfer agreement itself, as characterized by and within the control of the copyright holder, thus tipping the balance of power away from the consumer. Ostensibly, this test follows the *MAI Systems* approach and contradicts the *Wise* approach.

Furthermore, the Ninth Circuit erred by not resolving the dispute in an en banc decision, as prescribed by their own holding in *Atonio v.*

¹⁰⁹ See, e.g., DAVID NIMMER & MELVILLE B. NIMMER, NIMMER ON COPYRIGHT, § 8.08[B][1][c], at 8-136 (2009); *DSC Commc’ns Corp., v. Pulse Commc’ns, Inc.*, 170 F.3d 1354, 1360 (Fed. Cir. 1999); *Wall Data, Inc. v. L.A. Cnty Sheriff’s Dep’t*, 447 F.3d 769, 785 n.9 (9th Cir. 2006) (“We recognize that our decision in *MAI* has been criticized.”).

¹¹⁰ *DSC Commc’ns*, 170 F.3d at 1360.

¹¹¹ *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1113 (9th Cir. 2010).

¹¹² *DSC Commc’ns*, 170 F.3d at 1360.

¹¹³ *Vernor*, 621 F.3d at 1110.

¹¹⁴ *Id.* at 1111.

Wards Cove Packing Co.,¹¹⁵ which held that “the appropriate mechanism for resolving an irreconcilable conflict is an en banc decision” when “consideration by the full court is necessary to secure or maintain the uniformity of its decisions.”¹¹⁶ Though the court is obligated to reconcile prior precedents if possible, reconciliation must be done through carefully distinguishing facts and applying those facts to separate scenarios.¹¹⁷ Here, where the conflict consists of conflicting, entirely separate analytical frameworks, the court should have undertaken an en banc review to settle the dispute.¹¹⁸

IV. ABANDONED WARES: FIRST-SALE’S EFFECT ON THE MARKET AND PUBLIC CONSCIOUSNESS

Vernor, if it stands, could potentially undermine the policy reasons that informed the *Bobbs-Merrill* decision to create the first-sale doctrine. Despite *Vernor*’s dismissal of *Bobbs-Merrill* because of the unforeseen nature of digital copyright, the heart of the issue is, in fact, quite similar in both cases. In each, a copyright owner is attempting to use the standard copyright notice attached to a work to control its post-sale distribution. Although the panel attempted to distinguish *Bobbs-Merrill* by noting that the Supreme Court said that there was no claim in that case regarding licenses,¹¹⁹ closer analysis reveals that its distinction is merely semantic. *Vernor* allows Autodesk to do precisely what the copyright holder in *Bobbs-Merrill* could not do—prevent resale of the product—simply by characterizing the post-sale restrictions as a “license.”

The confusion here lies in the new definition of the term “license.” According to statute, the owner of a copyright has the 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.”¹²⁰ Nowhere does copyright law confer a right to distribute tangible goods by “license.” Copyright law protects owners’ *reproduction rights*—their rights to make copies and protect themselves from counterfeits, plagiarism and piracy. They may license their right to copy to others, but this license is completely different from the one used by software manufacturers in cases like *MAI Systems* and *Vernor*. When a court analyzes these software “licenses,” it does so under the erroneous assumption that they are fundamentally similar to the traditional notion of licensing copyrights, rather than the new definition offered by software companies.

¹¹⁵ *Atonio v. Wards Cove Packing Co.*, 810 F.2d 1477, 1478–79 (9th Cir. 1987) (en banc).

¹¹⁶ *Id.* at 1478–79.

¹¹⁷ *See, e.g., Cisneros-Perez v. Gonzales*, 451 F.3d 1053, 1058 (9th Cir. 2006).

¹¹⁸ *See Atonio*, 810 F.2d at 1478–79.

¹¹⁹ *Vernor*, 621 F.3d at 1114.

¹²⁰ 17 U.S.C. § 106(3) (2006).

Click-through agreements, shrinkwrap agreements and EULAs are not licenses in the traditional sense but rather function by “permanently transferring a good while purporting to retain title to [it].”¹²¹

Why is it so important to protect the definition of ownership? How does the public benefit from retaining the ability to own and transfer software? The most tangible benefit to the consumer is a competitive retail market: “[o]nce a copyright owner sells copies of a work at a wholesale price to a retailer, the retailer is free as a matter of copyright law to resell those copies to the public at whatever price she chooses.”¹²² Denying copyright holders the power to prescribe the price for which their work sells encourages a free, efficient and competitive marketplace.

Moreover, the first-sale doctrine provides for a secondary-sale market, allowing consumers to sell their own used goods and purchase others, often at significantly lower prices. In an amicus brief in support of Vernor, eBay noted that these secondary markets “promote entrepreneurship and innovation, facilitating the development of resale businesses that contribute to the American economy while respecting the balance of rights Congress struck in the Copyright Act.”¹²³ In 2010 alone, eBay reported \$1.8 billion of income.¹²⁴ For video game retailer GameStop, “used game sales . . . account[ed] for 49.1%—or \$204 [million]—of its total profit in the first quarter of 2008.”¹²⁵ The secondary market allows consumers who cannot afford to purchase a new product to buy it used, at a lower price, thereby allowing them access to works and information from which they would otherwise be barred.¹²⁶ Further, the secondary market may actually encourage consumers to purchase unused products:

Because a consumer can resell her copy once she has used it and no longer wishes to retain it, the total price she will have paid will be the price charged for the copy

¹²¹ Brief for Electronic Frontier Foundation et al. as Amici Curiae Supporting Petitioner-Appellant at 12, *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010) (No. 09-35969), 2010 WL 4199708, at *12.

¹²² R. Anthony Reese, *The First Sale Doctrine in the Era of Digital Networks*, 44 B.C. L. REV. 577, 585 (2003).

¹²³ Brief for eBay, Inc., as Amicus Curiae Supporting Appellee and Affirmance at 9–10, *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010) (No. 09-35969), 2010 WL 894741, at *9–10.

¹²⁴ Joseph Galante, *EBay Rises After Profit Beats Estimates on Spending*, BLOOMBERG (Jan. 21, 2010, 10:11 AM), http://www.bloomberg.com/apps/news?pid=newsarchive&sid=an_csfne9q7U.

¹²⁵ Aaron Linde, *Used Game Make Up 49% of GameStop Q1 Profit*, SHACKNEWS (May 22, 2008, 1:45 PM), <http://www.shacknews.com/onearticle.x/52815>.

¹²⁶ Reese, *supra* note 122, at 587.

less the amount she receives for the resale of the copy that the first sale doctrine enables.¹²⁷

Under *Vernor*, though, software companies may deny these secondary markets access to their products by simply including the magic words of a licensing agreement. While the tangible economic effects from such an arrangement are quite compelling, there are other, more ominous implications of the *Vernor* decision. As a brief filed by the American Library Association and others in support of *Vernor* states, “While the grant of exclusive rights serves as an engine driving the *creation* of expressive works, it is the first sale doctrine that has guaranteed the *preservation and continued availability* of those works.”¹²⁸ Lawrence Lessig, in his book *Free Culture*, writes that a book typically has two lives: after a book has worn out its welcome as a commercial object, it continues to live on in libraries and the secondary market.¹²⁹ Lessig notes that an average book goes out of print within twelve months of its initial release; film and sound recordings have a similarly short shelf-life.¹³⁰ Despite these arguments against *Vernor*, the Federal Circuit plainly rejected using the *MAI Systems* approach in their jurisdiction, noting that “a party who purchases copies of software from the copyright owner can hold a license under a copyright while still being an ‘owner’ of a copy of the copyrighted software for purposes of section 117.”¹³¹

Thousands of works have been preserved for the public benefit through the first-sale doctrine, but under *Vernor* there would be no such protection for software. Due to the rapid progress of technology, software often becomes orphaned after a few months or years, after which time the out-of-print programs become known as “abandonware.”¹³² Without the ability to resell software, hundreds of copyrighted works and expressions, even those as mundane as out-of-date architectural drafting software such as AutoCAD, are in danger of becoming extinct.

¹²⁷ *Id.*

¹²⁸ Brief for American Library Association et al. as Amici Curiae Supporting Plaintiff at 8, *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010) (No. 09-35969), 2010 WL 894740 at *8 (emphasis added).

¹²⁹ LESSIG, *supra* note 12 at 225.

¹³⁰ See *id.* at 113. See also Reese, *supra* note 122 at 593 (citing estimates that 60% of sound recordings are out of print); Anthony Kaufman, *The Vanishing: The Demise of VHS, and the Movies Disappearing Along with It*, MUSEUM OF THE MOVING IMAGE, Feb. 26, 2009, <http://www.movingimagesource.us/articles/the-vanishing-20090226> (“[O]f the 157,068 titles listed [with Turner Classic Movies] as of late February 2009, fewer than 4 percent are available on home video.”).

¹³¹ *DSC Commc’ns Corp. v. Pulse Commc’ns, Inc.*, 170 F.3d 1354, 1360 (Fed. Cir. 1999).

¹³² Pamela Brannon, *Reforming Copyright to Foster Innovation: Providing Access to Orphaned Works*, 14 J. INTELL. PROP. L. 145, 154–55 (2006).

Without a secondary market to keep these programs alive, the public is denied the benefit of their existence. Imagine a library devoid of all books which are no longer in print, or a university without access to a resource of out-of-print and hard-to-find materials. Imagine a society in which the spread of information, entertainment and knowledge is placed entirely in the hands of copyright holders. The public has the right, through first-sale and the secondary market, to keep books, films and music alive well past the point at which their copyright holders deem them desirable. Secondary sales protect privacy and prevent censorship, allowing researchers the ability to access works without revealing their reading and viewing choices to copyright owners.¹³³ The existence of a secondary market also makes it more difficult for a copyright owner to censor or suppress works after their commercial release.¹³⁴ Under *MAI* and *Vernor*, this right is not extended to software. Simply by including restrictive language in a faux-licensing agreement, software developers deny the public consciousness of the benefit of hundreds if not thousands of computer programs.

As computer software is currently still in its relative infancy, it is still unclear what happens when the copyright of a program expires. However, from a historical and archival standpoint, software can be just as worthy of preservation as a printed work of Dickens or Melville.¹³⁵ For instance, there are hundreds of blogs and websites devoted to archiving the computer programs of yesteryear,¹³⁶ and any eBay search will produce hundreds of dusty old floppy disks protecting history, eight kilobytes at a time. Under *Vernor*, not only would the resale of these

¹³³ See Joseph P. Liu, *Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership*, 42 WM. & MARY L. REV. 1245, 1330–31 (2001) (“[The secondary market prevents efforts 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.”).

¹³⁴ Brief for American Library Foundation et al. as Amici Curiae Supporting Petitioner-Appellant at *10, *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010) (No. 09-35969), 2010 WL 894740 (citing Reese, *supra* note 122, at 595–602 (providing multiple examples of copyright owners attempting to withdraw or suppress works after initial publication)).

¹³⁵ See Kendra Mayfield, *How to Preserve Digital Art*, WIRED (July 23, 2002, 12:58 PM), <http://www.wired.com/culture/lifestyle/news/2002/07/53712> (“It is clear that digital art will be of long-term historical significance”). The article quotes Richard Rinehart, the director of digital media for the Berkeley Art Museum and Pacific Film Archive, who observes that “Nobody knows the final, definitive answer for how to preserve this digital cultural heritage . . . over the next few centuries[.]” *Id.*

¹³⁶ For example, in 2003, the trustees of the Computer History Museum in Mountain View, California formed the Software Preservation Group in order to “explore how to collect and preserve software in support of the museum’s mission,” as well as “fostering an open alliance of the many broadly-based collection efforts taking place today.” COMPUTER HISTORY MUSEUM: SOFTWARE PRESERVATION GROUP, <http://www.computerhistory.org/groups/spg/> (last visited Aug. 17, 2011). See, e.g., THE SOFTWARE PRESERVATION SOCIETY, <http://www.softpres.org/> (last visited Aug. 17, 2011); *Internet Archive Gets DMCA Exemption to Help Archive Vintage Software*, INTERNET ARCHIVE, <http://www.archive.org/about/dmca.php> (last visited Aug. 17, 2011).

products be copyright infringement, but they would never have the chance to be anything else. If software companies may declare that an individual consumer does not own the program they purchased, how can the work eventually belong to the public domain? Computer software has an enormous impact on our daily lives, and the law should recognize and protect its cultural significance.

CONCLUSION

Since *Vernor*, the Ninth Circuit had the opportunity to decide another first-sale case, *UMG Recordings, Inc. v. Augusto*.¹³⁷ This, however, only added to the confusion. The court ruled that, “despite the restrictive labeling,” UMG did not create a license in recipients of promotional CDs but instead conveyed title to their recipients.¹³⁸ Once again, the court seems to take a turn towards the *Wise* standard, making their *Vernor* decision even more baffling. Though the court directly cites *Vernor*, the opinion cites it in support of the proposition that “the mere labeling of an arrangement as a license rather than a sale, although it was a factor to be considered, was not by itself dispositive of the issue.”¹³⁹ This language is directly contradictory with the “three components” analysis set out in *Vernor*: instead analyzing the transfer through a *Wise*-like “economic realities” factor, the court seems to have already retreated from its *Vernor* “reconciliation,” further illustrating the need for an en banc review to settle the issue once and for all.¹⁴⁰

In light of the intentions of both Congress and the Supreme Court, the economic benefits of a vibrant secondary market, and the continuing enrichment of the public, it is incumbent on the Court to re-balance the interests of first-sale doctrine to give copyright holders, consumers and the public consciousness the protections, rights, and freedoms that they deserve. Without the first-sale doctrine, libraries and universities would not be possible. These institutions exist based on the implicit assumption that knowledge should be preserved whenever possible, not subject to the whims of a copyright holder. Less lofty but equally important, first-sale allows for the existence of a secondary market, giving consumers the right to keep alive works that they deem important. As traditional media falls to the oncoming, online behemoth, it is imperative that we offer the same legal protections to software and other digital information as those afforded analog works.

¹³⁷ *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175 (9th Cir. 2011).

¹³⁸ *Id.* at 1177–78.

¹³⁹ *Id.* at 1180.

¹⁴⁰ *Id.*