

The End of Ownership?

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COMMENTS

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The terms of the software license in the case are not very different

from the terms of most software licensing. So I think it's safe to say that most people don't own their software.... The other ramification, there is no reason a similar license could not be put into the cover of a book. It wouldn't be difficult for everybody to implement this.¹

Greg Beck, defense attorney in *Vernor v. Autodesk*

INTRODUCTION

Imagine for a moment that you are in the market for a new car. You find a sports car that you like, talk with a salesperson and ultimately purchase a new automobile. This car is effectively the same as thousands of other cars. It is a copy. You were not under the impression that you were buying the rights to the design of the car or to reproduce the car to the exact specifications as your own copy. However, you believe that you can do with this car what you will. You can put bigger wheels on it, put stickers on it, modify the engine, or paint it a new shade of green. You can sell the car. You can give it away. You have consumer freedom, based on a court-created and legislature-supported doctrine known as "first sale."²

Now, what would happen if the car manufacturer decided that you should not own a copy, but rather you should merely have a license to the car? After all, such agreements favor the automaker, allowing greater control over consumer use of their product after it has been purchased. Now, when you open the door to step into the car for the first time, an attorney is sitting in the passenger seat. This attorney, holding a package of papers by his side, tells you that all you have to do is turn on the car and he can be on his way. If you so desire, you can read his papers, which contain more terms that you must agree to now that you have bought the car. If you do not want to agree to these new terms, you can step out, return the car and go home. In this hypothetical transaction, all automobile sales are now really leases, as the car manufacturers have collectively stopped offering cars for sale. This car is actually being licensed to you. You will agree to this license by starting the car.

In your desire to expedite the process, you decide to just turn the keys. The engine fires up and the attorney leaves, papers in hand. When driving back from the dealership, however, the car begins to act up. You try to turn off the highway onto the exit to your home, but the car will not

1. David Kravets, *Guess What, You Don't Own the Software You Bought*, WIRED (Sept. 10, 2010, 2:01 PM), <http://www.wired.com/threatlevel/2010/09/first-sale-doctrine>.

2. 17 U.S.C. § 109(a) (2006).

turn. There is a device in the car that prevents you from taking the exit; that action violates the agreement you made with the manufacturer when you started the car. You search around the dashboard, find the device and remove it. This is against the agreement as well. You are notified that you are breaking the law and are now in violation of your lease agreement. Unfamiliar with such things, you decide that this car is just not for you. You try to re-sell the car, as you can no longer return it. Again, you are notified you are breaking the law and the contract. You are not even permitted to give the car away. You are left with a perfectly useful car that you cannot use and cannot get rid of. The car has been legally handicapped by the manufacturer even though it is physically and perfectly functional. Your consumer freedom has been limited by the simple inclusion of a few terms in your agreement. A useful product is rendered useless.

The above hypothetical, although somewhat unbelievable when applied to the new car market, demonstrates an emerging and potentially problematic reality in the world of intellectual property rights: the growing use of contract law, specifically end user licensing agreements (EULAs), to usurp important rights legally endowed on both retail and consumer software purchasers. For more than one hundred years, the first sale doctrine has protected purchasers of books, movies and other intellectual property from extensive use restrictions pursued by copyright owners after a copy is first sold.³ However, the increasingly large role of digital intellectual property in the average consumer's media access, combined with Congress's current deference to court-created copyright law, has led to a deviation in first sale doctrine protection and a weakening of individual rights in the realm of software sales.

Demonstrated by the Ninth Circuit decision in *Vernor v. Autodesk*, it appears that, through licensing agreements, first sale no longer applies to computer software users.⁴ This business practice, while common among software copyright owners, threatens to spill over into other major copyright-based industries including music and movies; such support over time could very well lead to the end of digital ownership altogether. However, all is certainly not lost. As the *Vernor* court has stated, "Congress is free, of course, to modify the first sale doctrine and the essential step defense if it deems these or other policy considerations to require a different approach."⁵ Also, the Ninth Circuit has now reigned in

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

4. *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1115 (9th Cir. 2010), *cert. denied*, 132 S. Ct. 105 (U.S. 2011).

5. *Id.* at 1115.

the rather low *Vernor* licensing threshold, in terms of copyrighted music, through the post-*Vernor* decision *UMG Recordings, Inc. v. Augusto*.⁶ However, the time is ripe for the courts and Congress to clear up the currently murky legal waters stirred by the conflicting ideals of digital licensing and the first sale doctrine. The low software licensing threshold promulgated by the *Vernor* decision has demonstrated a movement away from the original end of copyright law, protection of the development of public knowledge, towards a more owner-centric value system.⁷ The more courts interpret the currently unclear, seemingly conflicting doctrines, the more confused the law will become.

Ultimately, I will propose two methods of solving this lack of clarity through legislation. First, the courts could simply do nothing and see how legal jurisprudence, including a likely future Supreme Court decision, will decide how to deal with this intersection of contract and copyright law. Second, I will propose that the courts defend consumers' abilities to do with their purchased intellectual property what they will by establishing and consequently strengthening the judicially-created defense of copyright misuse.

I. A BRIEF HISTORY OF COPYRIGHT LIMITATION: FIRST SALE

A. *The Grounds and Goals of Modern Copyright Law*

In order to understand the impact of recent Ninth Circuit rulings on copyright law, I will first give a brief overview of the system's beginnings. The initial call for Congress to implement a copyright system into American law came from the United States Constitution, Article I, Section 8, Clause 8. This provision, now commonly known as the Copyright Clause, endowed Congress the power to "promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."⁸ Since the adoption of the Constitution, Congress has ultimately established laws governing copyright use in Title 17 of the United States Code. Last revised in the Copyright Act of 1976, this Title abolished most state copyright law under a preemption provision given in 17 U.S.C. § 301(a). Simply put, we now have a uniform federal system governing copyrights.

The final goal of our federal copyright law has consequently been

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

7. *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 349 (1991). (quoting U.S. CONST. art. I, § 8, cl. 8.) ("The primary objective of copyright is not to reward the labor of authors, but '[t]o promote the Progress of Science and useful Arts.'").

8. U.S. CONST. art. I, § 8, cl. 8.

endowed with a twofold purpose. First, copyrights incentivize creativity by giving limited, exclusive rights to copyright-owning creators. These property rights are limited in time and apply only to expressions rather than ideas.⁹ Also, there exist further exceptions to the copyright owner's rights, which strike a balance between owners' rights and consumer use.

The second purpose of copyright law is to promote and ultimately endow the public with the greatest amount of knowledge, cultivated through the encouragement of creativity. Thus, the duration limitation placed on copyrights serves to eventually disseminate all creativity from the original creator to the public domain, which benefits society as a whole through increasing our collective wealth of knowledge.

Although the stated purposes of United States copyright law theoretically strike a balance between rewarding creators and increasing the public domain of knowledge for the good of all, the reality is that these two ideals are in great conflict. As a piece of intellectual rather than physical property, a creator's expression is intangible in its existence. Tangible property's value resides in its physical exclusivity; only one individual is capable of owning one specific physical object at a time. One piece of land has value because only one person can own it exclusively. However, intangible intellectual property, such as a story, can theoretically be copied over and over again without any loss or degradation to the initial work. Many people can access the work without excluding anyone else. Intellectual property, then, is like a well that cannot run dry. Copyrights serve to add value to creativity by giving authors the right to exclude others from using or accessing a work without the author's permission.¹⁰ Through this right to exclude, copyright owners are free to sell and give away their works as they please for their own benefit for a limited duration of time.

A copyright owner, then, wants to maintain control over his work for as long as possible in order to maximize the benefits provided by exclusive copyrights. The expressed ideas created as an effect of such exclusive rights are meant to benefit the nation as a whole by promoting public dissemination of creative works.¹¹ However, it is definitionally impossible for such dissemination to occur as long as an author maintains his right to exclude others from accessing his work. This conflict represents a real problem in the copyright system, one that has not and may never be completely remedied. In addition, due to a copyright owner's natural inclination to restrict the rights of others to

9. 17 U.S.C. § 102(a) (2006).

10. See 17 U.S.C. §§ 107–22 (2006).

11. See *Feist Publ'ns, Inc.*, 499 U.S. at 350.

use his work in an effort to maximize its value, there exists a lot of pressure on lawmakers to expand these rights to exclude in both capacity and duration. However, these issues will be confronted in detail later. At this point, I will first expand on the area of copyright law that is the subject of this comment, the first sale doctrine, in order to describe the very real struggle of exclusion against dissemination as it has evolved. For our purposes then, we will focus on 17 U.S.C. § 109, in which the first sale doctrine is codified.

B. The Evolution of First Sale

Initially, it is vital to understand that the first sale doctrine, like much of copyright law, actually originates from judicial construction, dating back to the United States Supreme Court case *Bobbs-Merrill Co. v. Straus*.¹² Decided in 1908, almost seventy years before the doctrine's most recent codification, this case laid the groundwork for the first sale doctrine and established a limitation on the control that an author has over copies of his work. In *Bobbs-Merrill*, a publisher attempted to maintain the value of his book by including language restricting the resale price of the work after a consumer had purchased a copy: "The price of this book at retail is one dollar 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."¹³ The plaintiff argued that this phrase, located inside the cover of every book printed and sold, constituted a binding license on purchasers and prevented consumer and sellers from reducing the given price in any instant sale or resale.¹⁴ Disagreeing with the given argument, the Supreme Court held that copyright law did not create the right to limit upon notice a copy owner's ability to resell the book as he pleases.¹⁵ The copyright owner's legally granted right to vend, the Court said, was exercised and then extinguished upon the first sale of a copy.¹⁶ The retailer who purchased the copy, and the subsequent consumers who picked up the book for eleven cents less than the copyright owner desired, were both free to sell their copies as they will. Shortly after this ruling, Congress adopted its first iteration of the first sale doctrine in the Copyright Act of 1909.¹⁷

Since the doctrine's onset, the right of a copyright owner to restrict

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

13. *Id.* at 341.

14. *Id.* at 342-43.

15. *Id.* at 350-51.

16. *Id.* at 351.

17. Copyright Act of 1909, ch. 320, § 41, 35 Stat. 1075, 1084 (1909).

the sale of copies of his work has been statutorily restricted to the initial first sale.¹⁸ This policy permitted the development of the used market for copyrighted works to continue and supported consumers' ability to do what they will with legally purchased copies. Subsequently, the 1976 Act brought some notable clarifications to the first sale doctrine, codified in Section 109.¹⁹ First of all, the Section allows any owner of a copy, rather than only purchasers, "to sell or otherwise dispose of the possession of that copy" without the permission of the original copyright owner.²⁰ More restrictively, however, the statute excludes from the first sale exception those in possession of copies that have been rented or loaned, rather than purchased.²¹ Therefore, the first sale exception to claims of copyright infringement applies when a court determines that the individual legally owns a copy of the work in dispute. Without ownership, an individual will not be able to benefit from the consumer protections of the first sale doctrine.²²

Furthermore, an individual wishing to claim first sale protection also must demonstrate that the item he owns is in fact a copy. The Act defines a copy broadly: "Copies' are material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device."²³ Moreover, the term "copies" includes the material object, other than a phonorecord, in which the work is first fixed.²⁴ In the physical realm then, it is relatively easy to distinguish between what is and is not a copy. A music CD, for instance, is a copy; it is physically fixed in a disk that can be perceived with the aid of a CD player and speakers. One can purchase such a music CD legally through retailers, and thus gain rightful ownership of a copy. Therefore, before the rapid expansion of the Internet and the boom of digital media and software, copy ownership was not an issue for the majority of consumers, as copies were the only way to gain access to works.

18. *Id.*, see 17 U.S.C. § 109(a).

19. 17 U.S.C. § 109.

20. 17 U.S.C. § 109(a).

21. 17 U.S.C. § 109(d).

22. Also note that more specifically, under Section 117 of the 1976 Act, the owner of a copy of software is allowed to make backup copies of the software for archival purposes, or as an essential step in using the software. Also, the law states that copies can be made for the maintenance or repair of an owned or licensed computer, as long as the copy is made by starting up the machine and the machine has an authorized (rather than specifically owned) copy installed.

23. 17 U.S.C. § 101.

24. *Id.*

Today, however, it is possible to find, send, sell and share copies of works quickly, many times over, almost anywhere in the world by using a computer connected to the Internet. The question of modern copy ownership has therefore become a ground for major controversy. As copyright owners, and more specifically, software publishers, continue the fight to maintain control over their digital creations, they have begun resorting to digital licensing agreements. These contracts prevent purchasers of copies from legally owning them. A software licensee who possesses a copy is contractually restricted in his or her ability to use his or her software. Without ownership, the first sale doctrine does not apply to licensees and thus, both retailers and consumers are restricted in their ability to use, sell or give away the programs they have purchased.

II. EXPANDING RESTRICTIONS, CONTRACTING USER RIGHTS

A. *Combining Copyright and Contract Law*

Software is unique from other media that falls under copyright law because the use of software requires that the user create a copy in the computer's random access memory (RAM) in order for the software to function.²⁵ While the temporary copy is erased when the program is closed, without the creation of such a copy, the user's software is functionally nothing more than inaccessible lines of code.²⁶ This temporary copy of software into RAM, therefore, pulls users in under the Copyright Act and restricts certain permissible acts of copying to those who qualify as copy owners.²⁷

The problem with such a policy is that most software that individuals purchase and use today is not actually sold to them but specifically licensed by the software's owners.²⁸ The establishment of a licensing agreement between users and creators means that users are contractually bound to utilize the software within the specific terms of their agreement. This also means that the vast majority of users are not copy owners and are no longer protected by the Copyright Act, which not only gives exclusive first sale protection but also "essential step" protection to owners.²⁹ The essential step doctrine gives copy owners the ability to create copies in a computer's RAM when such copying is "an

25. Justin Van Etten, *Copyright Enforcement of Non-Copyright Terms: Mdy v. Blizzard and Krause v. Titleserv*, 2011 DUKE L. & TECH. REV. 7, 137, 139.

26. *Id.*

27. *Id.*

28. *See id.* at 150.

29. *See* 17 U.S.C. § 117.

essential step in the utilization of the computer program.”³⁰ Such copies are made every time a user installs or runs a program and courts have held that the copies made in RAM are in fact copies that fall under the Copyright Act.³¹ Theoretically, a licensed software user who does not own a copy under the terms of a license could be charged for infringement under the Act because a copy is created when the program is used. Obviously, it would not make sense for software companies to attack their consumer base for everyday use. However, if a user violates the often strict boundaries set out in a license agreement, the copyright holder has both copyright and contract law at its disposal and can exploit the unique legal recourse offered by each.

B. Expanding Control at the Expense of Individual Use

There are two main problems that arise from license holders’ use of licensing rather than exclusively relying on the copyright law. First, licensors make license agreements that extend far beyond the general bounds of copyright law, such that licensees can be held in violation of usage agreements if they install software on non-authorized hardware, break the rules in an online game, or refuse to give honest personal information when registering.³² Second, software creators use licenses to restrict activities normally permitted under the Copyright Act, such as prohibiting reverse engineering, sales or personal modification of software.³³ In an effort to protect private business interests, software owners maneuver in between copyright law and contract law, taking the most desirable portions of each while circumventing the areas that may threaten their business interests by permitting specific, undesirable user acts. These two uses of licenses have become problematic because such contractual breaches potentially fall under copyright infringement, due to the functional need to copy the software into RAM, even though the contractual provisions are not specifically guarded by copyright law.

By tying licensing violations to copyright infringement, software copyright holders gain three distinct benefits, all of which encourage the expansion of such restrictive practices and increasingly threaten future individual software usage.³⁴ First, copyright damages are often greater than those allowed by contract law, which are “generally limited to the

30. 17 U.S.C. § 117(a)(1).

31. MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511 at 518 (9th Cir. 1993).

32. Van Etten, *supra* note 25, at 141.

33. *Id.*

34. *Id.* at 140.

value of the actual loss caused by the breach.”³⁵ In software infringement cases, actual losses are often quite low. This stands in stark contrast with copyright infringement damages, which can include statutory damages of up to \$150,000 for willful infringement, regardless of actual damages.³⁶ Second, copyright claims extend farther than contractual claims, which only bind the parties to the contract. Copyright claims, on the other hand, reach to any and all who violate the holder’s copyright.³⁷ Lastly, copyright law provides for many more remedies than contract law. Contract law is basically limited to actual damages and, in some cases, to specific performance such as the return of the software to the copyright holder.³⁸ However, copyright law allows for “injunctive relief, seizure of infringing articles, and awards of costs and attorneys’ fees,”³⁹ giving content owners effective means to deter and stop breaching actors.⁴⁰

Ultimately, these benefits entice software copyright holders to invest a good deal of time and energy into seeking the protections of both contract and copyright law whenever possible, as well as pursuing both vehemently in a court of law.

Through clever manipulation of contract and copyright law, software creators have broadly expanded their stronghold on the individual user’s ability to use the software in ways other than those prescribed by the creator. They have been able to skirt the protections offered to users by copyright law through licensing, while also legally insulating themselves by drawing licensed users into the realm of infringement through license violations. Such use of both licensing and copyright law to maintain a large amount of control over software is exemplified in the important Ninth Circuit decision of *Vernor v. Autodesk Inc.*

III. THE *VERNOR* DILEMMA: LICENSING TO OVERRIDE FIRST SALE

A. *Autodesk’s Licensing Practices*

The case of *Vernor v. Autodesk, Inc.* is one that demonstrates how software copyright holders will use a combination of both contract and copyright law to protect their business interests.⁴¹ Autodesk, Incorporated is a computer software company that produces computer-

35. MDY Indus., LLC v. Blizzard Entm’t, Inc., 629 F.3d 928, 941 n.3 (9th Cir. 2010).

36. 17 U.S.C. § 504(c) (2006).

37. 17 U.S.C. § 501(a).

38. Van Etten, *supra* note 25, at 140.

39. *Id.* at 141.

40. MDY Indus., LLC, 629 F.3d at 941 n.3.

41. *Vernor v. Autodesk*, 621 F.3d 1102 (9th Cir. 2010), *cert. denied*, 132 S. Ct. 105 (U.S. 2011).

aided design software utilized by architects, engineers and manufacturers.⁴² The software at issue in this case is called “AutoCAD” and Autodesk holds registered copyrights in all versions of the product.⁴³ Since 1986, the AutoCAD software has been offered to customers pursuant to a strict software licensing agreement (SLA) that must be accepted in order to use the software.⁴⁴

The specific version of AutoCAD at issue, known as Release 14, was sold to customers on a CD-ROM and accompanied by a detailed SLA.⁴⁵ The SLA, which required user agreement before installing the software, (1) declared Autodesk the exclusive title holder of the software; (2) specified the user as licensee in possession of a nonexclusive and nontransferable license; (3) imposed transfer restrictions, including a requirement that the software is not to be rented or leased without Autodesk’s consent or transferred out of the Western Hemisphere; (4) imposed major use restrictions prohibiting acts such as modification, translation, or reverse engineering; (5) provided for license termination if a user failed to comply with the SLA restrictions; and (6) ordered the user to destroy any previous copies of the software after upgrading to a new version.⁴⁶ Customers not in agreement with any terms of the SLA were allowed to return the software for a refund.⁴⁷

Autodesk also took measures to enforce the SLA, assigning users designated serial numbers and accompanying “activation codes” in order to buy and use AutoCAD.⁴⁸ The issue in this case arose from the actions of Autodesk’s customer, Carwell/Thomas and Associates (CTA). CTA violated Autodesk’s SLA after upgrading from Release 14.⁴⁹ Rather than destroying the copies as was required by the SLA, CTA sold four used software CD-ROMs to eBay seller Timothy S. Vernor. In March 1999, Autodesk reached a settlement with CTA for the violation; however, Vernor had already put the copies up for sale online in his eBay store.⁵⁰

B. Vernor at the District Court

Vernor, who commonly sold software on eBay, was aware of the pre-existing SLA, but more importantly, he never installed the software or

42. *Id.* at 1104.

43. *Id.*

44. *Id.*

45. *Id.* at 1103.

46. *Id.*

47. *Id.* at 1104.

48. *Id.*

49. *Id.* at 1105.

50. *Id.*

agreed to Autodesk's terms in any way.⁵¹ When Autodesk discovered Vernor was selling copies of Autodesk Release 14 online without its permission, the company filed a Digital Millennium Copyright Act (DMCA) notice with eBay, demanding the auction be taken down at once on the grounds of copyright infringement.⁵² Vernor contested Autodesk's claims to eBay and eventually filed a countersuit, citing the first sale doctrine as an applicable defense to copyright infringement.⁵³

The district court found that Vernor did not infringe Autodesk's copyright, as he acquired the software through a transfer of possession rather than a license and consequently applied the first sale doctrine.⁵⁴ In making its decision, the district court cited the Ninth Circuit case *United States v. Wise*, which demanded an analysis of all circumstances of a transaction when determining copyright infringement.⁵⁵ Just labeling AutoCAD with a license was not enough to bind Vernor; rather, he was not bound to pay recurring fees.⁵⁶ The court held that his singular payment to purchase the software was indicative of a sale rather than a license.⁵⁷ Autodesk appealed this decision to the Ninth Circuit.⁵⁸

C. Vernor at the Circuit Court

On appeal, the Ninth Circuit held that the district court applied the incorrect test.⁵⁹ The circuit court focused less on Vernor's onetime payment and concentrated its discussion on the specificity of Autodesk's licensing agreement.⁶⁰ By the terms of the SLA, not only was CTA a licensee, but so too was Vernor, and thus he was bound to a legal contract he never agreed to.⁶¹ The licensing agreement had effectively removed Vernor from an application of the first sale doctrine; he was effectively infringing on Autodesk's exclusive right to vend.⁶² The court decided to stake out a new test based on the previous precedent laid out in *Wise* and three more modern software licensing cases, applying a brand new

51. *Id.*

52. *Id.*

53. *Id.*

54. *Vernor v. Autodesk, Inc.*, 555 F. Supp. 2d 1164, 1170-71 (W.D. Wash. 2008).

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

56. *Vernor*, 621 F.3d at 1106.

57. *Id.*

58. *Id.*

59. *Id.* at 1116.

60. *Id.* at 1111.

61. *Id.*

62. *Id.*

standard to Vernor's present dilemma.⁶³

Wise mandated that a court shall look into "all of the provisions" of a contractual agreement when deciding whether a customer is a licensee or an owner of a copy.⁶⁴ On appeal, the Ninth Circuit reevaluated the method of balancing such provisions according to what is known as the "MAI trio" of cases: *MAI Systems Corp. v. Peak Computer, Inc.*,⁶⁵ *Triad Systems Corp. v. Southeastern Express Co.*,⁶⁶ and *Wall Data, Inc. v. Los Angeles County Sheriff's Department*.⁶⁷ The court felt such an investigation appropriate because the lower court had found *Wise* and the MAI trio irreconcilable, and therefore felt it appropriate to follow the earlier *Wise* decision.⁶⁸ Disagreeing with the district court, the appellate court felt that a new test must be synthesized in order to reconcile prior precedents, as required under a previous case.⁶⁹

All three cases of the MAI trio dealt specifically with the essential step doctrine; however, the court found such a defense doctrine to be appropriately analogous to first sale because both doctrines rely on a consumer's distinct ownership of a copy in order to successfully defend against an infringement action.⁷⁰ Software licensees are not afforded such statutory protection because, under the terms of licensing contracts, they do not technically own a copy.⁷¹ Therefore, the court's analysis of Vernor's case again hinged on whether or not he was a software owner or simply a licensee. In attempting to reconcile the decisions of *Wise* and the MAI trio, the court read the combined decisions to prescribe a three-part test to determine the status of a software user, taking into account the language and the intentions encompassing an EULA.⁷² The test relied heavily on the terms set forth by the copyright holder. The court held that a user is a licensee rather than a copy owner when (1) the copyright holder specified that the software user was granted a license; (2) the copyright holder significantly restricted the user's ability to transfer the software; and (3) the copyright holder imposed notable restrictions on

63. *Id.*

64. *Id.* at 1109.

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

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

67. *Wall Data Inc. v. Los Angeles County Sheriff's Dept.*, 447 F.3d 769 (9th Cir. 2006); *Vernor*, 621 F.3d at 1108.

68. *Vernor*, 621 F.3d at 1111.

69. *Id.* (citing *Cisneros-Perez v. Gonzales*, 451 F.3d 1053, 1058 (9th Cir. 2006)).

70. *See id.* at 1109.

71. *See* 17 U.S.C. § 117(a)(1) (2006).

72. *Vernor*, 621 F.3d at 1110–11.

the user.⁷³

The court also noted that Congress indeed took steps to allow computer owners to copy software for maintenance or repair purposes under 17 U.S.C. § 117(c); however, the court pointed out that Congress declined to overturn the *MAI*'s holding that licensees did not qualify for the essential step defense.⁷⁴

Applying the newly created test to Vernor's case, the court examined the contractual relationship between Autodesk and CTA.⁷⁵ Looking to Autodesk's EULA, the court found the first factor, whether the copyright holder specifically granted users a license, in fact favored the copyright holder.⁷⁶ Autodesk's agreement specified that it retained title to the software; the purchaser was only granted a license to use the software.⁷⁷ Applying the second factor and examining the extent of transfer restrictions placed on users, the court found that CTA was significantly restricted from transferring the software, including a prohibition on any transfers out of the Western Hemisphere.⁷⁸ Lastly, the court examined the use restrictions that Autodesk imposed on CTA when granting their software license.⁷⁹ The court concluded that Autodesk's restrictions on uses such as modifying, translating or reverse engineering the software were significant enough to favor the copyright holder.⁸⁰ Ultimately, the court held that such specificity and restrictions in Autodesk's EULA indicated that CTA was a licensee and did not own a copy of Release 14.⁸¹

Therefore, because CTA did not own a copy of the AutoCAD software and the EULA specified that Autodesk reserved title to the software copies and imposed restrictions on transfer and usage of the software, Autodesk's licensing agreement applied not only to CTA, but also to customers such as Vernor, who had not agreed to the licensing agreement.⁸² Because CTA violated its licensing agreement with Autodesk, the sale to Vernor and his consequent sale to third party customers was invalid.⁸³ Neither Vernor nor his customers were owners of the software and therefore could not rightfully sell their copies, as they

73. *Id.* at 1111.

74. *Id.*

75. *Id.* at 1111-12.

76. *Id.* at 1111.

77. *Id.*

78. *Id.*

79. *Id.* at 1112.

80. *Id.* at 1111-12.

81. *Id.* at 1112.

82. *Id.*

83. *Id.*

were not protected by the first sale doctrine.⁸⁴ Vernor was liable for copyright infringement because he violated Autodesk's exclusive right to vend.⁸⁵

IV. THE BIGGER ISSUE: CONSUMER USE AND THE VALUE OF THE AUTHOR'S INTEREST

Knowing the facts of the *Vernor* case and understanding the outcome, new questions about copyright and its role in today's increasingly digital world appear: What is the real purpose of copyright? How has it changed? Is this good? Where should it go?

From a contractual standpoint, *Vernor* is not nearly as problematic as the implications it causes in copyright law. Simply put, just like selling a leased car bought from an acquaintance instead of properly returning the vehicle as per the terms of the lease agreement, there existed an obvious contractual violation in the case. CTA allowed copies to be sold to Vernor even though it explicitly agreed to return or destroy the copies upon upgrading. By selling the software instead, the company clearly acted against the terms of its software agreement, and hence violated its end of the contractual obligation. The fact that such a contractual violation ties a seller to copyright, though, seems to broadly expand the power of copyright holders to prosecute those who violate their SLAs. Due to CTA's violation, Vernor's sales fell under a violation of copyright law, even though he was not contractually obligated to Autodesk in any way.

Understanding both the contract and the copyright aspects of the case, *Vernor* is important because it points to a much larger problem approaching on the horizon of copyright law: important characteristics of copyright law are becoming increasingly defined by the Ninth Circuit's copyright decisions. These decisions, however, are being based heavily upon contract law in the form of lease agreements rather than copy sales. The companies bringing these issues to the court are protecting themselves from important copyright defenses by contracting with customers while still maintaining the benefits offered by the copyrights that they hold. Software copyright owners have been increasingly favored in the court system, without very much legislation to argue otherwise. The ongoing trend in copyright law seems to point to a new regime that emphasizes authors' rights over the importance of the public benefit created through promoting ongoing creative expression.

Therefore, the situation at hand now begs the question: Where do our

84. *Id.*

85. *Id.*

copyright values truly lie? The growing trend in judicial interpretation, as exemplified by *Vernor*, is that licensing agreements, an almost universal practice in software sales, have effectively shut the door on the first sale doctrine applying to the software industry. Many establishments, including libraries, rental stores, used product retailers and a consumer rights group called the Electronic Frontier Foundation oppose such imposing policies as being both chilling to the industry and ultimately detrimental to the end goal of promoting the progress of public knowledge.⁸⁶

The main argument is really a weighing of the American value of the rights endowed to retailers and individuals based on copyright ownership and the ability of copyright holders to restrict digital customers' rights post-sale. The potential exists that copy ownership, at least in the digital domain, will fall by the wayside altogether, causing consumers to lose important user protections previously guaranteed under copyright law. The result is that digital copies can no longer be owned by consumers at all, but only licensed and used, and contrary to the underlying intentions of copyright law, consumers may suffer. We must decide whether the potential detriments inflicted on consumers are outweighed by the benefits provided to producers.

The United States Copyright Office's mission statement declares, "The mission of the Copyright Office is to promote creativity by administering and sustaining an effective national copyright system."⁸⁷ This is not a legally binding statement; however, it seems to clearly support the general notion that the administration of the copyright system is a means to the ultimate end of promoting creativity. Congress has given copyright owners important exclusive rights under the Copyright Act of 1976, such as the exclusive rights to reproduce their work, create derivative works, distribute such works publicly, display or perform such works publicly, and assign and license their works as they see fit.⁸⁸ However, these rights are, at least theoretically, the means to the end of promoting creativity. Therefore, we must decide whether copyright law really supports creativity or instead functions merely as another system of property rights. The answer to that question, in turn, will determine how we write the next chapter of United States copyright law. I will discuss two reasonable ways to approach the expanding nature of software licensing

86. Andrew L. Berrier, *Vernor v. Autodesk, Inc.: The Last First Sale?*, 46 WAKE FOREST L. REV. 867, 879-80 (2011).

87. U.S. Copyright Office, *A Brief Introduction and History*, <http://www.copyright.gov/circs/circ1a.html> (last visited Sept. 15, 2012).

88. Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541 (Oct. 19, 1976) (codified at various parts of 17 U.S.C.).

that is effectively restricting users' rights to utilize their legally purchased products as they see fit.

V. TWO METHODS OF DEALING WITH THE EXPANSION OF STRICT LICENSING PRACTICES

A. *The Wait and See Approach*

The first method that I propose for dealing with the expansion of strict licensing practices is to avoid hasty and potentially sloppy creation of statutory law and to allow the other circuit courts to continue refining the interpretation of what constitutes a license and what is actually a sale. Now that the Supreme Court has denied *Vernor* certiorari, it appears that, at least for the time being, the Justices of the highest court also support this approach.⁸⁹ The area of copyright licensing, especially in terms of software sales, is a complex field and it may benefit both copyright holders and consumers to allow the law to evolve more slowly, on a case by case basis, in order to appropriately protect from abuses on both sides. If consumers have too much power to transfer, modify and even profit from copyright holders' software, then the creators will likely lose profit as well as their incentive to create new, innovative and useful software. Ultimately, the public could be deprived of potentially important works. Also, some software producers may desire to sell strictly licensed software in order to insure quality and reliability in their products. While customers may be somewhat restricted in their use, they are also guaranteed to experience software smoothly as the creators intended. Finally, allowing companies to license their products to consumers as they see fit respects both parties' right to contract. If the courts restrict software producers' ability to freely enter into licensing agreements with customers, they will simply be diluting the area of contract law for the sake of copyright law, and ultimately promulgating yet another problem.

B. *Expand the Doctrine of Copyright Misuse*

The second viable method for reigning in the restrictive licensing practices and consequent legal action that *Vernor* seems to promote is an expansion of an old equitable defense known as "copyright misuse."⁹⁰ Copyright misuse was born as an extension of the doctrine of patent

89. *Vernor v. Autodesk*, 621 F.3d 1102 (9th Cir. 2010), *cert. denied*, 132 S. Ct. 105 (U.S. 2011).

90. G. Gervaise Davis III, *The Affirmative Defense of Copyright Misuse and Efforts to Establish Trademark Misuse, and Fraud on the Copyright Office*, 984 PLI/Pat 347 (2009).

misuse, which originally stemmed from the doctrine of “unclean hands” in the early twentieth century.⁹¹ Formally established in the 1990 case *Lasercomb America, Inc. v. Reynolds*, the doctrine was not only adopted, but also served as justification for denying the plaintiff relief for infringement.⁹² As constructed in *Lasercomb*, copyright owners must have “clean hands” when pursuing infringement claims; if owners are found to be using copyrights to restrict users outside the public policy of rewarding authors for creating works that ultimately benefit the public at large, copyright misuse is “an almost absolute defense.”⁹³ In this case, the industrial company Lasercomb discovered that Holiday Steel, to which Lasercomb licensed die-cutting software, had not only copied Lasercomb’s software but also sold some copies branded with an independent label to third parties.⁹⁴ The court found that, while Holiday Steel did infringe on Lasercomb’s copyright, Lasercomb’s licensing agreement constituted copyright misuse by prohibiting licensees from implementing any of Lasercomb’s ideas into their own software for the term of ninety-nine years.⁹⁵ Such a licensing agreement reached further than the bounds of copyright, violated public policy, and therefore constituted misuse.⁹⁶ Holiday Steel was not held liable for its infringing practices.

According to *Lasercomb* then, an individual can argue copyright misuse whenever it appears that the copyright holder has violated the aforementioned public policies resting at the base of copyright law.⁹⁷ It was not necessary that a defendant show that the copyright holder’s activity violates antitrust laws, that the copyright holder’s misuse directly affects the defendant, or that there exists competition between the plaintiff and defendant.⁹⁸

Consequently, the Ninth Circuit followed the case and accepted copyright misuse as a defense to copyright infringement in the 1998 case *Practice Management v. American Medical Ass’n*.⁹⁹ In *Practice Management*, the Ninth Circuit court held that AMA’s licensing practice, which was contingent on Practice Management’s agreement to not use

91. See *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917).

92. See *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1990).

93. Davis, *supra* note 90, at 352.

94. *Lasercomb*, 911 F.2d at 971–72.

95. *Id.* at 978.

96. *Id.*

97. *Id.*

98. *Id.*

99. *Practice Mgmt. Info. Corp. v. Am. Med. Ass’n*, 121 F.3d 516, 521 (9th Cir. 1998).

any competitor's code, constituted a misuse of its copyright.¹⁰⁰ The court reinforced *Lasercomb* and reiterated that antitrust violations were not a requisite factor to a finding of misuse.¹⁰¹

Unfortunately for copyright misuse advocates, however, Congress has chosen to statutorily narrow its progenitor defense, patent misuse, to materially apply only to antitrust violations.¹⁰² This need not be the case for applications of copyright law though, and it would be sensible for the courts to apply a less competition-centric standard in copyright misuse doctrine than in patent misuse because copyright is, at least theoretically, focused primarily on creativity rather than competition.

Therefore, understanding the groundwork for the copyright misuse defense, I propose that the other circuit courts become more receptive to claims of copyright misuse. This would be especially useful in software licensing cases such as *Vernor*, where a restrictive license can compound a contract violation and a copyright violation. Simply put, this is a plea for the courts to become more sensitive to the grounds of copyright law and to restrict copyright infringement actions that restrain the progress of human knowledge, including licensing practices that stifle the dissemination and use of digital media.

CONCLUSION

In conclusion, I feel that it is important to stay focused on the larger context. The world as we know it is now locked into a continuing reliance on digital media, especially digital software, for work, recreation, education and growth. Due to the expanding nature of this digital era, we will continue to develop as a global community. So too will we integrate software into our daily lives. Looking to the final ends of copyright, to promote the progress of human knowledge, it seems there are few greater threats to such a lofty goal than an expanding system of license-based use restriction. By allowing copyright owners to bind users too strictly, both through contract and copyright law, it is possible that we are betraying the very progress that we claim to promote.

However, if we also wish to promote the interests of those making our lives easier, more efficient and fun in an increasingly digital society, we must keep in mind that this area of law, like all areas of the law, constitutes an act of balance. Although it may appear easy to point to the anti-competitive practices of a handful of software companies with malice, we must keep in mind that many of these companies are also

100. *Id.* at 520.

101. *Id.* at 521.

102. Davis, *supra* note 90, at 353.

working hard to develop and publish creative and important software that can serve us in new and interesting ways.

We must be focused on finding the balance. The importance of this discussion lies in finding ways to promote creativity and insulate copyright holders from losing hard-earned money to the multitudes of potential infringers that exist on a worldwide scale. We must also be sure to promote creativity and knowledge, as the copyright clause instructs us to, by allowing users to access, utilize and learn from software without constant fear of infringement lawsuits. I feel that an expansion of copyright misuse law would afford us a way to strike a balance between individual use and creator control in such a way that copyright holders will be forced to self-police their licensing agreements and be wary that unfair practices will not be tolerated.

In the end, the *Vernor* court's decision is not a reckless one. The Ninth Circuit has recognized that it is within Congress's control to modify the Copyright Act and to define "copy owner" in a more preferable manner. Congress has not yet acted. If the courts do not help to strike a balance, then the cycle will continue. If we allow copyright holders to continue to license their software too easily, facilitating the restriction of users' rights to freely use a product in their own unique ways, then we may one day find ourselves so restricted by licenses that we no longer truly own anything digital at all.

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