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Vernor v. Autodesk: AN EROSION OF FIRST SALE RIGHTS

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I. INTRODUCTION

The first-sale doctrine is a long-standing exception to the exclusive right to distribution granted under copyright law. It provides that a copyright holder, after the initial sale of a copy of a work, has no right to control any downstream sales, rentals, or lending of that same copy.¹ The courts universally agree that works which are licensed by the copyright holder, due to the lack of initial sale, are not subject to the first sale doctrine.² The recent *Vernor v. Autodesk* decision by the United States Court of Appeals for the Ninth Circuit examined the first sale doctrine, focusing on software licenses and their effects on downstream sales. The selling of software which was purchased from the original buyer and then subsequently sold on eBay was considered to be copyright infringement. The court considered the transfer of the software license, and in doing so very clearly delimited the defining features of what creates a license as opposed to a sale. The court, however, in laying out a very simply-followed cook-book-style recipe to avoid a first-sale, drastically shifts the rights of downstream consumers back to copyright holders, severely damaging a century's worth of rights balancing which promotes restraints on alienation and the demise of secondary media markets. This paper begins with an overview of the relevant copyright law and introduces the *Autodesk* case. Following this is a discussion of the effects of the court's decision on first-sale rights and the suggestion for Congressional intervention to help ameliorate the problems that inevitably stem from this ruling.

II. COPYRIGHT LAW

A. Generally

Copyright is the body of law which grants a set of protective rights for an author's expression of an original work.³ The works which statutorily fall under the purview of copyright law

¹ 17 U.S.C. § 41 (1909).

² 17 U.S.C. § 109(d) (2008).

³ U.S. CONST. art. I, § 8, cl. 8 ("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.").

are: (1) literary works; (2) musical works; (3) dramatic works; (4) pantomimes; (5) pictorial, graphic, and sculptural works; (6) motion pictures and other audiovisual works; (7) sound recordings; and (8) architectural works.⁴ For these works to enjoy copyright protection they must be original works that are fixed in a tangible medium.⁵ A work of authorship is “fixed” “when its embodiment in a copy . . . by or under the authority of the author, is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration.”⁶ For example, a conversation between two individuals, however profound, is not fixed in a tangible medium and would therefore be ineligible for copyright protection.⁷ The audio recording of that same conversation is considered a fixed sound recording, and could therefore be protected. In short, eligible works of original authorship that are fixed in a tangible medium are protectable under copyright law, and a copyright holder of such a work is afforded a discrete set of rights under the law.

The specific exclusive rights granted to an owner of a copyright are: (1) reproduction of the work; (2) preparation of derivative works based on the copyrighted work; (3) distribution of copies of the work; (4) performance of works; (5) display of works; and (6) digital performance of sound recordings.⁸ It should be noted that original works which are an author’s expression enjoy the protections of copyright law, but any “idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, [or] illustrated” is not eligible for copyright protection.⁹ For example, a cake recipe is merely a factual description of a process for making a dessert. This is not copyrightable under 17 U.S.C. §102(b), for it is considered an idea, and not an artistic expression of the type copyright law is meant to protect. However, the original selection and arrangement of a number of recipes would likely be protectable expression (though the individual recipes would still not be). These functional features of works are not protectable by copyright law, and this is particularly relevant when dealing with copyrightable computer software, for computer source code would be of little value had it no function.

B. Software copyright eligibility

Though it is not specifically enumerated in 17 U.S.C 102(a), computer software is also protected under copyright law. Like most areas of law, Copyright law adapts to technological advances incrementally over time. The definition of a “computer program”¹⁰ is however found in 17 U.S.C. 101.¹¹ In 1983, the United States Court of Appeals for the Third Circuit ruled that computer operating systems are protected under copyright law.¹² In that case, Franklin Computer Corp. copied large sections of source code from the Apple operating system for the Apple II series

⁴ 17 U.S.C. § 102(a) (1990).

⁵ *Id.*

⁶ 17 U.S.C. § 101 (2010).

⁷ *Feist Publications, Inc., v. Rural Telephone Service Co.*, 499 U.S. 340 (1991) (finding that the information in a phonebook was factual non-copyrightable information, but that an original layout or organization could be protected if it were sufficiently original).

⁸ 17 U.S.C. § 106 (2002).

⁹ 17 U.S.C. § 102(b) (1990).

¹⁰ 17 U.S.C. § 101 (2010) (“A ‘computer program’ is a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result.”).

¹¹ The Intellectual Property and High Technology Technical Amendments Act of 2002 amended section 101 to include the definition for a computer program to be in alphabetical order, after “compilation.” Pub. L. No. 107-273, 116 Stat. 1758, 1909.

¹² *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240 (3d Cir. 1983).

of computers.¹³ Specifically, the Court held that “a computer program, whether in object code or source code, is a ‘literary work’ and is protected from unauthorized copying, whether from its object or source code version.”¹⁴ Later, the Second Circuit devised a more detailed approach to ascertain which parts of computer programs are protected when they ruled on *Computer Associates v. Altai*.¹⁵ Since copyright does not extend to functional items, there are some limits on what is copyrightable with regard to software. In this case, the Court stated that “copyright protects computer programs only ‘to the extent that they incorporate authorship in [a] programmer’s expression of original ideas, as distinguished from the ideas themselves.’”¹⁶

*[I]be purpose or function of a utilitarian work would be the work’s idea, and everything that is not necessary to that purpose or function would be part of the expression of the idea. . . . Where there are various means of achieving the desired purpose, then the particular means chosen is not necessary to the purpose; hence, there is expression, not idea.*¹⁷

Therefore, the literal source and object code of a computer program is generally copyrightable, for it is considered a literary work under copyright law and there are numerous ways to express such code, so it is considered an expression of original ideas. The actual function, however, is not.

C. The First Sale Doctrine

The first sale doctrine is a very specific limitation on the 17 U.S.C §106(3) right of distribution, and was first established by the Supreme Court in the 1908 case of *Bobbs-Merrill Co. v. Straus*,¹⁸ and codified by Congress shortly thereafter.¹⁹ There, the Bobbs-Merrill Company sold copyrighted literary works, and included a notice with each book indicating that retail dealers were not permitted to sell the book below the price of one dollar.²⁰ The Court held that even though a copyright holder possesses the statutorily granted right to protect their works from being reproduced and distributed, this does not create the right to limit post first-sale resale of the work.²¹ The current copyright statute states “the owner of a particular copy . . . lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy”²² The policy argument behind the first sale doctrine is that once a copyrighted work is placed in the stream of commerce, it

¹³ *Id.* at 1251.

¹⁴ *Id.* at 1249.

¹⁵ *Computer Associates International, Inc. v. Altai, Inc.*, 982 F.2d 693 (2d Cir. 1992).

¹⁶ *Id.* at 703.

¹⁷ *Id.* at 705 (emphasis in original).

¹⁸ *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908). With regard to re-selling a book purchased from the publisher, despite a printed notice that any retailer must sell the book for at least one dollar, the Court concluded that the copyright exclusive right of distribution did not extend past the first sale:

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. *Id.* at 350.

¹⁹ 17 U.S.C. § 41 (1909).

²⁰ *Bobbs-Merrill*, 210 U.S. at 341.

²¹ *Id.* at 350.

²² 17 U.S.C. § 109(a) (2008).

is an overbearing restraint on alienation to have the original copyright owner remain in control of the work, and therefore the owner exhausts the exclusive statutory right to control distribution.²³

It should be noted that even in *Bobbs-Merrill* the court made specific mention that “[t]here is no claim in this case of contract limitation, nor license agreement controlling the subsequent sales of the book.”²⁴ Again, this limitation on the first sale doctrine is codified in Title 17, which states that the first sale doctrine does not “extend to any person who has acquired possession of the copy or phonorecord from the copyright owner, by rental, lease, loan, or otherwise, without acquiring ownership of it.”²⁵ The Court in *Quality Kings Distribs., Inc. v. L’Anza Research Int’l Inc.* made it clear that the first sale doctrine does not extend to persons who possess an actual copy of the work, but do not own it, such as is the case of a licensee.²⁶ In *Quality Kings*, sellers of shampoo sold their products (with copyrightable features printed on the bottles) abroad at discount prices. When these foreign purchasers re-imported the product into the United States, the seller sued for violation of the exclusive right to distribution. The Court held that the right to distribution had been exhausted because it was a valid sale originating in the U.S., but had it been a license the first sale doctrine would not apply.²⁷ This case significantly bolstered the prevention of “grey market” imports of copyrighted goods into the U.S., and though limiting the first sale doctrine to those goods originating in the U.S., it made clearer the standards that courts should follow for post first-sale rights.

The legislative history surrounding the first sale doctrine suggests that Congress contemplated that the first sale doctrine act as a default position for purchasers of copyrighted works, but that copyright owners could avoid this via contract.²⁸ Specifically:

The House Report for § 109 underscores Congress' view that the first sale doctrine is available only to a person who has acquired a copy via an ‘outright sale.’ The report also asserts that the first sale doctrine does not ‘apply to someone who merely possesses a copy or phonorecord without having acquired ownership of it.’²⁹

Between the unequivocal congressional intent and decisions of the Supreme Court, it is clear that the first sale doctrine was meant to protect purchasers from overbearing restraints on alienation, but that in the case of a contractual agreement, such as a license, copyright owners may opt to keep control over future distributions of particular physical copies of their work.

D. Owner or Licensee?

Since the first sale doctrine does not apply to licensees, the differentiation between owners and licensees is a pivotal assessment. The United States Court of Appeals for the Ninth Circuit in *United States v. Wise* considered multiple factors in making such a differentiation.³⁰ In *Wise*, a movie studio contracted with parties for distribution of film prints “for a limited purpose and for a limited

²³ *Quality King Distributors Inc., v. L’Anza Research International Inc.*, 523 U.S. 135, 152 (1998).

²⁴ *Bobbs-Merrill*, 210 U.S. at 350.

²⁵ 17 U.S.C. § 109(d) (2008).

²⁶ See *Quality King*, 523 U.S. 135 (1998).

²⁷ *Id.*

²⁸ See *Aymes v. Bonelli*, 980 F.2d 857 (2d Cir. 1992).

²⁹ *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010) (citing H.R.Rep. No. 94-1476, at 79 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5693).

³⁰ See *United States v. Wise*, 550 F.2d 1180 (9th Cir. 1977).

period of time³¹” and that “[t]itle to all prints and tapes shall be and remain in Licensor.”³² The courts construed this language to indicate a license and not a sale. Therefore the first sale doctrine was not a valid defense to infringing the licensor’s right of distribution.³³ In order to determine whether a first sale occurred when transferring the film prints, the *Wise* Court considered multiple factors.

Specifically, [the court] considered whether the agreement (a) 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. Our use of these several considerations, none dispositive, may be seen in our treatment of each film print.³⁴

Essentially, the Court under *Wise* found that contracts which contain multiple restrictions on use, resale, the reservation of title, etc., such as those described above, combined with the “general tenor” of the agreements created a license.³⁵ But when transfers were made allowing the retention of a print without restrictions on future sales, a sale had occurred, and the first sale doctrine was applicable.

E. The Essential Step Defense and its Relevance to the First Sale Doctrine

The essential step defense is a defense to copyright infringement for making copies of software that are necessary for use, such as the “behind the scenes” use of computer code in random access memory (RAM), and was codified by Congress in the Copyright Act.³⁶ Specifically, 17 U.S.C. §117(a)(1) states that:

Notwithstanding the provisions of section 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided: (1) that such a new copy or adaptation is created as an *essential step* in the utilization of the computer program in conjunction with a machine and that it is used in no other manner . . . [emphasis added]

A computer program typically makes a copy of at least some of its instructions, and stores it temporarily, as the program is running, in RAM, and without this copy, which is an “essential step in the utilization of the computer program,” the program would fail to execute.³⁷ In *MAI Sys. Corp. v. Peak Computer Inc.*, copies of software were sold, subject to a license agreement to Peak Computer. Peak Computer, when performing computer maintenance, used MAI’s software, and in doing so, the operating system was automatically loaded into RAM.³⁸ Though this is precisely the action that the essential step defense is intended to protect, the court held that this was an unauthorized loading

³¹ *Id.* at 1190.

³² *Id.* at 1191.

³³ *Id.*

³⁴ *Vernor*, 621 F.3d 1102 (citing *United States v. Wise*, 550 F.2d 1180, 1190-92 (9th Cir. 1977)).

³⁵ *Wise*, 550 F.2d at 1191.

³⁶ 17 U.S.C. § 117(a)(1) (1998).

³⁷ *See generally*, Jeff Tyson and Dave Coustan, *How RAM works*, <http://www.howstuffworks.com/ram.htm>.

³⁸ *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 513 (9th Cir. 1993).

of software into RAM, and therefore infringement of MAI's software copyrights.³⁹ The pivotal issue in *MAI* was the differentiation between a software owner and a licensee. Pursuant to 17 U.S.C. 117(a)(1), only an "owner of a copy" of software may invoke the essential step defense. Parsing through *Wise* and *MAI*, the Ninth Circuit concluded in *Autodesk* that to differentiate between an "owner of a copy" and a licensee that "[f]irst, we consider whether the copyright owner specifies that a user is granted a license. Second, we consider whether the copyright owner significantly restricts the user's ability to transfer the software. Finally, we consider whether the copyright owner imposes notable use restrictions."⁴⁰ The Copyright Act uses the verbiage "owner of a copy" to determine eligibility for invoking the essential step defense, and "owner of a particular copy" for the invocation of the first sale doctrine.⁴¹ Following a report from the National Commission on New Technological Uses of Copyrighted Works ("CONTU"), congress enacted 17 U.S.C. § 117(a)(1).⁴² The version of the essential step defense proffered by CONTU stated that "it is not an infringement for the rightful possessor of a copy of a computer program to make or authorize the making of another copy or adaptation of that program..."⁴³ Congress did make a change from the verbiage provide by CONTU, and replaced "rightful possessor" with the word "owner."⁴⁴ This indicates that Congress did not intend licensees, who are indeed rightful possessors, to receive the benefit of the essential step defense. The essential step defense is beyond the scope of this paper, but it is important to note that courts treats the two phrases "owner of a copy" and "owner of an individual copy" as equivalent, and therefore the law interpreting whether transfers are first sales or, instead, license agreements, may be drawn from cases examining either the essential step defense or the first sale doctrine.

F. Shrink-wrap Licenses

Computer software and hardware more often than not is accompanied by agreements which dictate the terms of use.⁴⁵ The agreements typically indicate that the purchaser, upon opening the packaging or installing the software, is agreeing to the contractual terms contained within.⁴⁶ The contractual terms typically indicate that the title to the software which is the subject of the agreement is not actually passed to the purchaser, but rather a perpetual restrictive use license is created.⁴⁷ Under traditional contract law, such an agreement entered into by parties with unequal bargaining power in a take-it-or-leave-it fashion is generally considered a contract of adhesion, and though not *per se* illegal, is subject to heightened standards of "fairness."⁴⁸ The courts were initially less than consistent in their treatment of shrink-wrap licenses, but have gravitated towards treating such agreements as valid in a similar fashion to adhesion contracts, which represents a "substantial shift in power away from the consumer to the computer software publishers who already occupy the

³⁹ *Id.* at 518.

⁴⁰ *Vernor*, 621 F.3d at 1110-11.

⁴¹ 17 U.S.C. §§ 109(a) (2008), 117(a)(1) (1998).

⁴² *DSC Commc'ns Corp. v. Pulse Commc'ns, Inc.*, 170 F.3d 1354, 1360 (Fed.Cir.1999) (citing *Final Report of the National Commission on New Technological Uses of Copyrighted Works*, U.S. DEPT. OF COMMERCE, PB-282141, at 30 (July 31, 1978)).

⁴³ *Id.*

⁴⁴ See 17 U.S.C. § 117(a)(1) (1998).

⁴⁵ Debora Halbert, *The Open Source Alternative: Shrink-Wrap, Open Source and Copyright*, 10 MURDOCH U. ELEC. J. L. 4 (2003).

⁴⁶ David A. Einhorn, *Shrink-Wrap Licenses: The Debate Continues*, 38 IDEA J. L. & TECH. 383 (1998).

⁴⁷ *Id.*

⁴⁸ Batya Goodman, *Honey, I Shrink-Wrapped the Consumer: The Shrink-Wrap Agreement as an Adhesion Contract*, 21 CARDOZO L. REV. 319; See *Wheeler v. St. Joseph Hosp.*, 133 Cal. Rptr. 775, 788 (Cal. Ct. App. 1976) (citing *Madden v. Kaiser Found. Hosps.*, 552 P.2d 1178 (Cal. 1976)).

position of superior bargaining power.”⁴⁹ The most notable case on the topic of consumer level software purchased under terms of a shrink-wrap agreement comes from *ProCD, Inc. v. Zeidenberg*.⁵⁰ In this case, computer telephone directory software was compiled, an interface was programmed, and a software package was distributed by ProCD. The outside of the software packaging indicated that the ProCD software enclosed inside the packaging was subject to terms of a license agreement only capable of being read after opening the box.⁵¹ A purchaser of a copy of the software distributed the database in clear violation of the terms of the license agreement, and the court held the license valid.⁵² The court, presided over by Judge Easterbrook, held that “Shrinkwrap licenses are enforceable unless their terms are objectionable on grounds applicable to contracts in general.”⁵³ The court treated the licenses as ordinary contracts accompanying the sale of products, and applied contract common law and the principles of the Uniform Commercial Code to shrinkwrap licenses.⁵⁴ The holding considered that a contract “includes only the terms on which the parties have agreed. One cannot agree to hidden terms . . . ,”⁵⁵ yet acknowledged the notion that for a vendor to print an entire contract on the outside of a box and would be impractical. The court did, however, find the act of a vendor placing software on a shelf to be an “offer” and the purchase of such software to be an “acceptance” by the purchaser. In particular, the acceptance to the terms on the box stipulated that the buyer agreed, by purchasing the software, that the software was subject to a license.⁵⁶ Therefore, as long as there exists a pre-sale notification, in this case a notice on the package, that the sale is subject to a license agreement, that agreement is enforceable, despite the fact that at the time of purchase the details of the license were unknown.

G. Background Summary

The *Autodesk* case touches upon a multitude of copyright law facets, and a cursory understanding of the background law is necessary. To summarize, original computer code is considered a literary work, so software falls within the protective boundaries of copyright law.⁵⁷ Therefore, the author or copyright owner of an original piece of software enjoys the exclusive right to distribute their work.⁵⁸ However, after software is sold the first time, the exclusive right of distribution is exhausted per the first sale doctrine.⁵⁹ If, however, software is transferred to a party under license as opposed to a sale, a first sale has not occurred and the copyright owner’s exclusive right of distribution remains intact.⁶⁰ Software is generally accompanied by a shrink-wrap contract (which barring unfair or objectionable terms is viewed as valid by the court) which often attempts to create a licensor-licensee relationship between the copyright holder and end user.⁶¹ It is the particular language, limitations, and general tenor of the contractual terms which ultimately

⁴⁹ Goodman, *supra* note 48, at 344; Robert J. Morrill, *Contract Formation and the Shrink Wrap License: A Case Comment on ProCD, Inc. v. Zeidenberg*, 32 NEW ENG. L. REV. 513, 515 (1998).

⁵⁰ *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996).

⁵¹ *Id.* at 1449.

⁵² *Id.*

⁵³ *Id.*

⁵⁴ *Id.* at 1450.

⁵⁵ *Id.*

⁵⁶ *Id.*

⁵⁷ *Apple Computer*, 714 F.2d at 1249.

⁵⁸ 17 U.S.C. § 102(a) (1990).

⁵⁹ 17 U.S.C. § 109(a) (2008).

⁶⁰ 17 U.S.C. § 109(d) (2008).

⁶¹ Halbert, *supra* note 45, at 4.

determine if the software transfer is a license or a sale, thus potentially eliminating, in the case of a licensee, the end user's right to redistribute the software.⁶²

III. *VERNOR v. AUTODESK*

A. United States District Court Decision.

Timothy Vernor ("Vernor") sold items on the auction website eBay for a living, and attempted to sell authentic, used copies of AutoCAD software on the site.⁶³ AutoCAD is a professional-level application for computer aided drafting and design.⁶⁴ In 2005, Vernor purchased the copies of AutoCAD from a garage sale and ultimately listed these pieces of software for sale on eBay.⁶⁵ Autodesk, the makers of AutoCAD, sent a Digital Millennium Copyright Act ("DMCA") takedown notice to eBay, claiming infringement of their copyright, and eBay subsequently suspended the auction.⁶⁶ eBay reinstated the auction upon receipt of a counter-notice from Vernor. In 2007, a similar set of events occurred again.⁶⁷ Vernor purchased four authentic copies of AutoCAD from the architectural firm of Cardwell/Thomas Associates ("CTA"), and attempted to sell them on eBay.⁶⁸ Again, the auctions were removed by eBay upon receipt of DMCA takedown notices from Autodesk.⁶⁹ The auctions were again reinstated by eBay after receipt of counter notices, but since this occurred multiple times, eBay eventually suspended Vernor's account for one month.⁷⁰ Vernor received a letter from Autodesk's attorney threatening "further action" were he to list another copy of AutoCAD on eBay, and Vernor therefore sought a declaration from the court that his AutoCAD resales are lawful.⁷¹

It is noteworthy that CTA acquired these copies of AutoCAD in an unrelated 1999 settlement with Autodesk which stipulated that CTA agreed to "adhere to all terms of the . . . Autodesk Software Agreement."⁷² The Autodesk Software License Agreement ("SLA") is a shrink-wrap agreement which grants a "nonexclusive, nontransferable license to use the enclosed program . . . according to the terms and conditions [in the contract]." Furthermore, a number of restrictions were placed on CTA pursuant to the SLA, including prohibitions on "rent, lease, or transfer [of] all or part of the Software, Documentation, or any rights granted [in the contract] to any other person without Autodesk's prior written consent."⁷³ Vernor, though aware of the existence of the SLA, believed that since he purchased the software on the used market that he was not subject to the license agreement.⁷⁴

In determining whether Vernor's sales of AutoCAD were legal, the Court turned to the first sale doctrine.⁷⁵ Autodesk asserted that the transfer of AutoCAD to CTA was a license and not a

⁶² *Wise*, 550 F.2d at 1190.

⁶³ *Vernor v. Autodesk, Inc.*, 555 F.Supp.2d 1164 (W.D. Wash. 2008).

⁶⁴ *Id.*

⁶⁵ *Id.*

⁶⁶ *Id.* at 1165.

⁶⁷ *Id.* at 1166.

⁶⁸ *Id.*

⁶⁹ *Id.*

⁷⁰ *Id.*

⁷¹ *Id.* at 1167.

⁷² *Id.*

⁷³ *Id.*

⁷⁴ *Id.* at 1107.

⁷⁵ *Id.* at 1168.

sale, and therefore the first sale doctrine was not available to Vernor.⁷⁶ The Court, relying on *Wise*, analyzed that case's film print licenses and compared those to film print sales. The District Court concluded in the instant case that "the critical factor is whether the transferee kept the copy acquired from the copyright holder."⁷⁷ In analyzing *Wise*, they summarized that "[w]hen the film studios required that prints be returned, the court found no sale. When the studios did not require the transferee to return the prints, the court found a sale."⁷⁸ Accordingly, since CTA was permitted to keep copies of the software, despite the existence of contractual prohibitions to transfer the software, the transfer of AutoCAD from Autodesk to CTA was a "sale with restrictions on use."⁷⁹ The court therefore denied Autodesk's motion for summary judgment since they deemed Vernor's sales to be valid under the first sale doctrine. Autodesk appealed to the United State Court of Appeals for the Ninth Circuit on the grounds that the District Court erred in its judgment by failing to adhere to the Ninth Circuit's precedent.

B. United States Court of Appeals Decision.

The Court of Appeals reexamined the transfer of software from Autodesk to CTA *de novo*, indicating that if CTA owned their AutoCAD copies, Vernor's subsequent sales were non-infringing under the first sale doctrine, but if Autodesk only licensed the software to CTA, neither CTA's nor Vernor's sales were protected as post-first sale transactions.⁸⁰ Relying on *Wise* and *MAI*, the Court of Appeals, like the District Court, analyzed whether a sale had occurred, but instead did not rely on only a single factor—whether CTA "kept" the copy of AutoCAD. Instead, the court examined a number of issues without weighing any one more than the other.⁸¹ This multifactor analysis considered whether CTA was labeled as a licensee, whether Autodesk retained title to the software, whether Autodesk required return of the software, whether copying was forbidden, and whether CTA was required to maintain possession of the software. The court noted that the SLA contained a number of specific conditions for the use of AutoCAD that were analogous to the considerations in *Wise* and *MAI*. In particular, it noted that the contract indicated that Autodesk retained the title to all copies of software transferred; it described the SLA as a nontransferable license; it prevented end users from renting, leasing, or transferring the software; that there was a license termination clause which is effectuated by unauthorized software copying or SLA restriction noncompliance; and that if the version of AutoCAD was upgraded, the end user "must destroy the software previously licensed to you, including any copies resident on your hard disk drive . . . within sixty (60) days of the purchase of the license to use the upgrade or update."⁸² Additionally, upon upgrading Autodesk also reserved the right "to require you to show satisfactory proof that previous copies of the software have been destroyed."⁸³

The Court ultimately held that CTA possessed software that was under license from Autodesk, and therefore could not legitimately sell their copies to another party. Therefore, CTA's sales to Vernor infringed Autodesk's copyright as did Vernor's sales on eBay. The first sale defense was unavailable to either party as licensees. The Court succinctly laid out a recipe for determining whether a software user is an owner or licensee: A license exists where the copyright owner "(1)

⁷⁶ *Id.*

⁷⁷ *Id.* at 1170.

⁷⁸ *Id.*

⁷⁹ *Id.*

⁸⁰ *Vernor*, 621 F.3d at 1107.

⁸¹ *Id.* at 1108.

⁸² *Id.* at 1104.

⁸³ *Id.*

specifies that the user is granted a license; (2) significantly restricts the user's ability to transfer the software; and (3) imposes notable use restrictions.”⁸⁴ The court acknowledged the ability of a transferee to possess a copy of the software indefinitely as a relevant factor in the analysis, but does not treat that, or any factor, as dispositive like the District Court did. This sets a serious precedent regarding software end-user rights, and the court acknowledges this fact, yet claims they are bound to follow the precedents of *Wise* and *MAI*. The court concludes by deferring any alternative holding and policy considerations to Congress.

IV. FIRST SALE RIGHTS ARE ERODED BY THE *AUTODESK* COURT.

A. Autodesk Shifts Copyright Balance Towards Monopoly

In general, the policies of law typically attempt to strike a balance of rights between opposing positions. This is indeed the case in the realm of copyright law, for the Act has been massaged for over a century to fine tune the balance between the granting of a series of powerful exclusive rights over intangible property to copyright holders and the public's need for access to and the dissemination of tangible original works of authorship.⁸⁵ A limitation on the set of rights granted under 17 U.S.C. § 106 to balance against the exclusive right to distribution for example, as discussed above, is the first sale doctrine. The Court in *Bobbs-Merrill*, which originally penned the first sale doctrine in the United States, limited a copyright holder's right to distribution, holding that “[t]o add to the right of exclusive sale the authority to control all future retail sales, by a notice . . . would give a right not included in the terms of the statute, and, in our view, extend its operation, by construction, beyond its meaning . . .”⁸⁶ Arguably, the most important policy considerations for limiting copyrighted works distribution are to balance against an overbearing grant of monopoly power by the protection of the public's interest in limiting restraints on alienation and the support of secondary markets.

B. Autodesk Favors Restraints on Alienation

The 1908 *Bobbs-Merrill* decision creating the first sale exception to copyright had its roots in English common law and the traditional hesitation of the courts to enforce restraints on alienation.⁸⁷ “Where chattels are involved and not just land or a business, the policy in favor of mobility creates even stronger cause for courts to hesitate and scrutinize carefully factors of social desirability before imposing novel burdens on property in the hands of transferees.”⁸⁸ As applied to the first sale doctrine, commentators have readily noted that the doctrine “originated in general English common-law rules of ancient ancestry disapproving restraints on the alienation of owned property. The right of alienation was viewed as a basic element of ownership. It was founded on policies favoring the free transferability of land and, more particularly, goods.”⁸⁹ The underlying purpose of the distribution right is to protect the interests of copyright owners against the dissemination of pirated copies of copyrighted works, giving such owners a statutory cause of action.⁹⁰ Where

⁸⁴ *Id.* at 1111.

⁸⁵ See *Stewart v. Abend*, 495 U.S. 207, 211 (1990).

⁸⁶ *Bobbs-Merrill*, 210 U.S. at 351.

⁸⁷ Joseph P. Liu, *Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership*, 42 WM. & MARY L. REV. 1245 (2001).

⁸⁸ Zechariah Chafee, Jr., *The Music Goes Round and Round: Equitable Servitudes and Chattels*, 69 HARV. L. REV. 1250, 1261 (1956).

⁸⁹ John M. Kerochan, *The Distribution Right in the United States of America: Review and Reflections*, 42 VAND. L. REV. 1407, 1412 (1989).

⁹⁰ MELLVILLE NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.12[A] (2009).

genuine copies of a work are concerned, restraints on alienation should trump an owner's right to control all future, post-initial, sales. Historically, once a physical copy of a work legitimately made its way into a consumer's hands, such an end user was free to dispose of that copy in any manner (subject to some limitations⁹¹) he or she desires.⁹² However, *Autodesk* shifts this careful balance towards favoring restraints on alienation by permitting a statutory cause of action against subsequent owners of a particular copy of a copyrighted work which goes beyond the policy considerations and Congress' intent in codifying the first sale rights which are currently granted under 17 U.S.C. § 109(a).

C. Autodesk Overturns a Century of Precedents Supporting Secondary Markets for Copyrighted Works

Without first sale protection for downstream sales of copyrighted works vast economic markets for books, CDs, DVDs, art, and computer software would not exist. It follows naturally that the first sale doctrine is therefore responsible for facilitating brick and mortar used book stores as well as websites, such as Amazon.com's marketplace, half.com, auction websites such as eBay, video rental stores such as Blockbuster, DVD rental services such as Netflix, video game rental services such as GameFly.com, and of course public libraries.⁹³ For consumers, this equates to greater availability of titles and cost savings versus purchasing new works.⁹⁴

As for availability, the average book goes out of print within 1 year of its release, and software titles are typically available for even less time.⁹⁵ It is also estimated that roughly 60% of the sound recordings ever made are also out of print.⁹⁶ Were distributors to entirely control both initial sales, and preclude second-hand sales, the preservation and continuing availability of millions of titles would be in severe jeopardy. It is the video rental services, used media sellers, and libraries that act together as the repository for out of print material. Without first sale protection, used media outlets and libraries would be at the mercy of copyright owners, and a very real possibility is a drastic reduction in the availability of original works of authorship to the public at large.

From an economics perspective, the existence of used media outlets is due to consumer demand for such entities. These large used works economies create economically efficient transactions by facilitating the exchange of copyrighted works for price points agreeable to individual private parties.⁹⁷ The most Pareto efficient outcome, and what actually does naturally occur in the traditionally open media marketplace, is the transfer of products which have a diminished utility to those who value the product more highly, thus increasing the welfare of both

⁹¹ Liu, *supra* note 88, at 1292. (“[T]he Copyright Act, notwithstanding the first sale doctrine, bars the commercial rental of two specific types of creative works: sound recordings and computer software. The specific limit on renting sound recordings was enacted in response to concerns that many record rental stores were in fact thinly veiled facilitators of widespread copyright infringement. A similar provision was passed with respect to computer software in 1990. In both these cases, the Copyright Act steps in to limit a copy owner's large-scale commercial use of his or her physical copies in order to eliminate a specific piracy threat”).

⁹² *Bobbs-Merrill*, 210 U.S. at 350 (“It is not denied that one who has sold a copyrighted article, without restriction, has parted with all right to control the sale of it.”).

⁹³ See generally Anthony Reese, *The First Sale Doctrine in the Era of Digital Networks*, 44 B.C.L. REV. 577 (2003).

⁹⁴ *Id.* at 586.

⁹⁵ See generally LAWRENCE LESSIG, *FREE CULTURE, HOW BIG MEDIA USES TECHNOLOGY AND THE LAW TO LOCK DOWN CULTURE AND CONTROL CREATIVITY* 225 (Penguin Press, NY 2004).

⁹⁶ Reese, *supra* note 94, at 593.

⁹⁷ John Rothchild, *The Incredible Shrinking First Sale Rule: Are Software Resale Limits Lawful?*, 51 RUTGERS L. REV. 1, 79 (2004).

the buyer and the seller.⁹⁸ The introduction of the internet and sites like eBay or half.com has drastically reduced the transaction cost associated with secondary sales, and further increased economic efficiency.⁹⁹ The first sale doctrine therefore promotes a Pareto efficient economic equilibrium to be reached, and does so without infringing on the interest of copyright owners to thwart piracy.

The *Autodesk* decision, single-handedly, creates a loophole for media sellers to exploit which has the potential to destroy future secondary markets. By outlining a very clear recipe for any copyright holder to follow (i.e. (1) specifying a user is granted a license, (2) significantly restricting the transfer of the work, and (3) imposing notable use restrictions), the court promotes increasingly broad and restrictive license notices to accompany software titles to be included under the guise of attenuating piracy, but which really hinder historically legitimate, culturally beneficial, and economically efficient secondary markets. Though the *Autodesk* court specifically addresses software titles, there is no legal standing to treat this form of copyrighted expression any differently from books, music, or DVDs. It follows that books, music, and DVDs will, in the future, be similarly “shrink-wrapped” and subject to restrictive licenses, for to take economic advantage of a legal expansion of monopoly powers and prevent competing secondary-market sales is a gift to the media industry that will not go unnoticed.

D. The First Sale Doctrine grows less relevant overtime without assistance from the *Autodesk* decision.

As media is increasingly made available in intangible digital form such as via internet streaming or via download, eschewing the use of physical media such as written pages or compact discs, the utility of the first sale doctrine seems less valuable for consumers. When a piece of software is sold via a retail box containing tangible media, there is no question as to the copyright holder’s ownership rights in the original work of intellectual property. The only real issue is that whether the tangible medium containing the work was licensed versus sold. It is not difficult to see how traditional notions of ownership and alienation rights apply to a book or a DVD, but when no tangible medium is transferred to an end user secondary market sales rights are less clear. The United States Copyright Office has commented that:

[w]hile disposition of a work downloaded to a floppy disk would only implicate the distribution right, the transmission of a work from one person to another over the Internet results in a reproduction on the recipient's computer, even if the sender subsequently deletes the original copy of the work. This activity therefore entails an exercise of an exclusive right that is not covered by section 109.¹⁰⁰

From a technological point of view, there still exists a tangible form of media, even in the digital age. A computer hard drive is a physical piece of equipment, and its magnetic platters are physical manifestations of the underlying digital sequence that, when translated by a computing system, recreate, among other things, works protected by copyright. To say that Amazon.com owns

⁹⁸ MARTIN OSBORNE & ARIEL RUBENSTEIN, A COURSE IN GAME THEORY 7, 300 (MIT Press 1994).

⁹⁹ Nancy Kim, *The Software Licensing Dilemma*, 2008 BYU L. REV. 1103, 1163 (2008).

¹⁰⁰ U.S. Copyright Office, Executive Summary, Digital Millennium Copyright Act §104. Report, III(1)(a), available at http://www.loc.gov/copyright/reports/studies/dmca/dmca_executive.html (last visited Apr. 16, 2011).

one's hard drive upon downloading of a Kindle book,¹⁰¹ seems ludicrous. However, despite the fact that an extant tangible medium exists, any download of digital content from Amazon.com is accompanied by the following terms:

Use of Digital Content. Upon your payment of the applicable fees set by Amazon, Amazon grants you the non-exclusive right to keep a permanent copy of the applicable Digital Content and to view, use, and display such Digital Content an unlimited number of times, solely on the Device or as authorized by Amazon as part of the Service and solely for your personal, non-commercial use. Digital Content will be deemed licensed to you by Amazon under this Agreement unless otherwise expressly provided by Amazon.

Restrictions. Unless specifically indicated otherwise, you may not sell, rent, lease, distribute, broadcast, sublicense or otherwise assign any rights to the Digital Content or any portion of it to any third party, and you may not remove any proprietary notices or labels on the Digital Content. In addition, you may not, and you will not encourage, assist or authorize any other person to, bypass, modify, defeat or circumvent security features that protect the Digital Content.¹⁰²

According to the guidelines set forth in *Autodesk* and the language in the above contract, a downloaded eBook from Amazon.com is almost surely licensed, and therefore an end user is subject to the license's terms and has no first sale doctrine defense available. Even without the *Autodesk* ruling, a digital download lacking in a traditional form of tangible medium seems more like a license of intangible property than physically receiving a book in the mail. As traditional bookstores slowly morph from hard goods dealers into content providers, the question of property ownership becomes increasingly blurred. *Autodesk* helps alleviate the blurriness, but does so by shifting property rights towards content provider monopoly, fostering harm to the consumer and vast secondary-sale economies, and enlarges a right that was finely balanced by congress and the courts over the last century.

E. Congress must make changes to Title 17 of the United States Code to preserve the first sale doctrine.

The *Autodesk* court upsets the balance between an individual's right to remain free from unreasonable restraints on alienation and a copyright owner's right to protect infringing distribution. The court, in dicta, goes so far as to mention that their hands were tied by precedent set forth in *Wise* and *MAI*. Specifically, they say that "Congress is free, of course, to modify the first sale doctrine . . . if it deems these or other policy considerations to require a different approach."¹⁰³ The court, having no choice but to follow precedent, ruled in such a way that the face of copyright licensing has been drastically changed, and it is left to Congress to bring balance back to copyright law. The difficulty for Congress will be to balance individual rights with the freedom of contract. A wholesale abolition of the first sale "licensing exception" limits those who may wish to, as is generally permitted, contract away first sale rights. This is one end of the spectrum. The other end

¹⁰¹ Amazon.com Kindle, available at <http://www.amazon.com> (last visited March 28, 2011). (The Kindle is an eBook reader offered by Amazon.com. Amazon.com maintains an eBook downloading service where end users may purchase and download books in electronic format for use on the Kindle).

¹⁰² Amazon Kindle: License Agreement and Terms of Use. Feb. 9, 2009, available at http://www.amazon.com/gp/help/customer/display.html?nodeId=200144530&#content_ (last visited March 28, 2011)

¹⁰³ *Vernor*, 621 F.3d at 1115.

of the spectrum is where copyright currently sits post-*Autodesk*—where rightsholders can unilaterally discard first-sale protection with a mere recitation of a few key phrases. Congress should promulgate new legislation that falls somewhere in the middle of these two extremes. In particular, Congress should prohibit the creation of a license based merely on a unilateral contract of adhesion, such as a shrinkwrap contract, when there is a concomitant transfer of physical media. The copyright holder, in this case, would still enjoy traditional piracy protection for the unauthorized copying and distribution of such media, and the original purchaser would be free to sell such used media under the umbrella of the first sale doctrine. A general scheme along these lines prevents shrinkwrap-type agreements from appearing on not only software, but also on books, music, movies, and any other category of copyrightable work. Therefore restraints on alienation are minimized and secondary markets are able to persist and thrive. For standard non-shrinkwrap agreements, the parties would still have the ability to freely contract away first sale rights, thus preserving an important option for arms length agreements.

V. CONCLUSION

The *Autodesk* court establishes an easily followed step-by-step recipe for copyright holders to turn any potential buyer of a copyrighted work into a mere licensee, therefore eliminating any first sale protection. Besides the obvious restraint on alienation preventing an individual from selling “purchased” works, this decision undermines the long-standing balance between a copyright owner’s rights to prevent piracy and the downstream sale right that fosters vast secondary markets which includes used bookstores, auction websites, DVD rental services, and libraries. This will result in the diminished availability of out of print works and will drastically cool the thriving secondary sale economy, both practices which will hurt the consumer. The *Autodesk* court claims that its hands are tied by precedent, so it is up to Congress to restore the force of the first sale doctrine and bring back the finely tuned balance between a copyright holder’s right to inhibit piracy and the rights of consumers to enjoy secondary markets and to be free from undue restraints on alienation. It is therefore up to Congress to restore the first sale rights eroded by the *Autodesk* court, and they may do so by prohibiting the unilateral creation of license agreements via shrinkwrap contracts.