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## Framing the First Sale Doctrine

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Vijay Toke, Hiaring & Smith partner  
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Long-standing Supreme Court and other precedent, as well as the Copyright Act, have allowed purchasers of copyrighted materials to resell or otherwise transfer such copyrighted materials as they saw fit under the first sale doctrine. The concept of the first sale doctrine is simple: once a person has lawfully acquired a copy of a copyrighted work — either by purchase or gift — then the person "owns" that copy and may do with it what he or she wants, such as lend it, sell it, gift it or even make a copy for personal use (they may not, however, make a copy and sell the copy — that's still copyright infringement).

However, two cases recently decided by the Ninth Circuit U.S. Court of Appeals may be redefining the boundaries of what purchasers of copyrighted material may do with that material. Together, the cases address whether a party really "owns" — or merely "licenses" — copyrighted material in its possession. The new rule set forth in these decisions will likely raise future questions and may lead to ever more challenging decisions in future cases.

### 'VERNOR V. AUTODESK'

The first of the two opinions, *Vernor v. Autodesk, Inc.*, **10 C.D.O.S. 11903**, addresses whether an individual, Timothy Vernor, infringed the copyright in Autodesk's AutoCAD Release 14 software by selling on eBay copies of the software he had purchased from one of Autodesk's direct customers. Among other defenses, Vernor raised the first sale doctrine as a bar to liability. Codified at 17 U.S.C. §109, the first sale doctrine states that the "owner of a particular copy" of a copyrighted work may sell or dispose of that copy without the copyright owner's permission.

Because the first sale doctrine applies only to purchasers of the copyrighted material, not mere licensees, the key issue in *Vernor* was whether the alleged infringers were owners or licensees of the copyrighted materials. The district court granted summary judgment in favor of Vernor on that issue. The Ninth Circuit reversed, holding that Autodesk had only licensed the AutoCAD Release 14 software — thus, retaining ownership.

In determining that the transaction at issue in *Vernor* was a license, the Ninth Circuit attempted to reconcile previous Ninth Circuit precedent addressing the sale/license dichotomy. The *Vernor* court first considered *United States v. Wise*, 550 F.2d 1180 (1977), in which the Ninth Circuit decided whether criminal defendants had criminally infringed copyrights pursuant to written distribution agreements, holding *inter alia* that the government failed to carry its burden where a distribution agreement did not require return of the copyrighted material at the end of the agreement. The Ninth Circuit next analyzed a trio of cases, the so-called *MAI* trio, which addressed the sale/license issue in the software context. Distilling from these previous decisions, the Ninth Circuit fashioned a new test for whether a transaction transferring rights in a copyrighted work is a license or sale: (1) whether the copyright owner specifies that a user is granted a license, (2) whether the copyright owner significantly restricts the user's ability to transfer the software, and (3) whether the copyright owner imposed significant use restrictions.

Applying this new test, the *Vernor* court reversed the district court, holding that the transaction involved was a license, not a sale. First, the software license agreement stated it was a license. Second, there were numerous use restrictions in the license. Third, the license stated it was nontransferable without Autodesk's permission and that the software was not to leave the Western Hemisphere. Notably, however,

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not require the return of the software to Autodesk, a fact that the Ninth Circuit deemed non-dispositive, despite the holding in *Wise*. Accordingly, Vernor was not entitled to raise the first sale

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doctrine.

Under the rule in *Vernor*, even though one "buys" software and often has no obligation to return it, he or she may still be considered a mere licensee. In other words, though a "purchaser" may be paying for (and perpetually retaining) a copy of software on a CD or DVD, the purchaser never truly owns the copy of the software on the disc. Rather, the software's creator will be considered the true owner of the copy of the software, even though it may never again possess that copy. Thus, if a purchaser is deemed a licensee, instead of an owner, the first sale doctrine will not apply. The Ninth Circuit, however, is currently deciding whether to grant Vernor's petition for rehearing *en banc*.

### 'UMG RECORDINGS V. AUGUSTO'

In contrast to *Vernor*, the Ninth Circuit held on Jan. 4, in *UMG Recordings, Inc. v. Augusto*, **11 C.D.O.S. 135**, that the provision of free promotional CDs to various individuals constituted a "sale," rather than a license, and that the first sale doctrine barred copyright liability. In *UMG*, a music company sent specially produced music CDs to music critics, radio programmers and other selected individuals. UMG did not receive payment for the CDs, nor were the CDs ordered by the recipients. However, most of these CDs included a statement that the CD was the property of the record company, created only a license for personal use only and could not be transferred or resold. The CDs also stated that acceptance of the CD was an acceptance of the license terms. Through unknown means, the defendant acquired several of these promotional CDs and subsequently sold them on eBay. UMG sued for copyright infringement.

The district court granted summary judgment for the defendant on copyright infringement, ruling that the transaction at issue was a sale, not a license. The Ninth Circuit affirmed. Despite the licensing language on the CDs, the Ninth Circuit held that the transfer of the CDs was a sale for the purposes of the Copyright Act and that the first sale doctrine barred UMG's claims.

Arguably, applying the *Vernor* test, however, could suggest that a license was created: The CDs stated that they only provided a license, restricted the ability to transfer the CDs to others and limited use to personal use only. Nonetheless, the Ninth Circuit interpreted this language differently. The court emphasized that the CDs were sent out unsolicited, were not numbered, and that no attempts were made to keep track of the whereabouts of particular CDs. Further, the court rejected the notion that mere acceptance of the CDs constituted an agreement with the license and its restrictions. The court noted that though the absence of a requirement to return the CDs was not dispositive in and of itself, under *Vernor*, it indicated in UMG's case that no license was intended. The use restrictions, too, were not particularly onerous or detailed, militating against finding a license. Thus, the Ninth Circuit ultimately concluded the recipients of the CDs were owners, and the first sale doctrine barred liability.

### LESSONS LEARNED: A SLIPPERY SLOPE?

Taken together, *Vernor* and *UMG* seem to bookend the first sale doctrine, but leave many open questions. Though the new *Vernor* test offers a straightforward three-part analytical framework for determining if a particular transaction effectuates a sale or license, the outcome will be highly factually based on the particular language of the alleged license at issue. One conclusion that seems clear from these opinions, however, is that license agreements are much more likely to be found with software than with other works on a fixed medium, like music or movies.

Nonetheless, one can also easily imagine a situation in which copyrighted works, such as e-books, are distributed in a manner that would create a situation more akin to a software license. For example, if a company distributed e-books online along with licensing language that significantly restricted use and transfer rights, a court could find under *Vernor* and *UMG* that a license, rather than a sale, occurred. Thus, there may be a growing dichotomy in protection between physical and electronic media — an arguably appropriate distinction.

However, because the opinions in *Vernor* and *UMG* do not limit their holding to particular types of copyrighted works, they could arguably have wider reach. For example, a situation in which CDs and DVDs are numbered and come with licenses that require some sort of affirmative acceptance of license terms — with use and transfer restrictions — may not be far behind. In such a situation, the purchase of a music CD or a DVD would look much more like the software transaction in *Vernor*. Under the Ninth Circuit's *Vernor* test, district courts may then be constrained to find licenses rather than sales, undermining long-standing precedent that when one purchases a copy of copyrighted works like books and videotapes, she may resell or transfer that copy as she sees fit. Whether this is what the Ninth Circuit intended remains to be seen.

*Vijay K. Toke is a partner at Hiarig & Smith. His practice focuses on litigation, with an emphasis on trademark and copyright disputes. He also assists clients in handling trademark applications before the U.S. Patent and Trademark Office and proceedings before the Trademark Trial and Appeal Board.*

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