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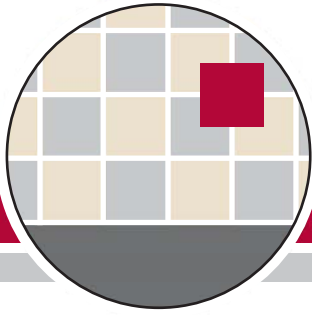
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## *Vernor v. Autodesk: Power to the . . . Producers?*<sup>†</sup>

Elizabeth Hayes\*

*Vernor v. Autodesk*, a recent case from the Ninth Circuit, threatens the very core of the first sale doctrine. *Vernor* radically alters the test for determining whether a transfer of a physical copy of copyrighted material is a sale or a license for the purposes of the first sale doctrine.<sup>1</sup> The new test makes a transfer much more likely to be a license than a sale, possibly extending copyright protection beyond what is called for in the Copyright Act and extending the use of licensing in more media than just computer software. Many resale industries face the peril of widespread license use. No industry, other than the software industry, however, is in more peril than the console video game industry.

Console video games are at a unique point at the intersection between licensing and sales. To date, video games copyrighted and released for consoles, such as the Xbox 360, Playstation 3, and Nintendo Wii, can be purchased, played, and then sold back by the purchaser to trade-in retailers such as GameStop.<sup>2</sup> GameStop then resells these games to new purchasers at a discount. This is similar to the process of selling books, records, and DVDs.<sup>3</sup> Software, however, is treated differently. Since most software is licensed to the purchaser, and not sold, the software producers can and do put significant restrictions on the use and transfer of the software.<sup>4</sup> Most notably, the licenses prohibit any subsequent sale of the software.

The intersection of video games and computer software lies where the two industries meet; that is, where a video game is copyrighted and released on multiple platforms, in-

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<sup>†</sup> This title is a parody of GameStop's, a nationwide retailer of new and used videogames, slogan: "Power to the Players."

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1. *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010), *cert. denied*, 181 L. Ed. 2d 32 (U.S. 2011).

2. *Used Video Games & Pre-Owned Consoles and Accessories*, GAMESTOP, <http://www.gamestop.com/pr-owned> (last visited Apr. 27, 2011).

3. *Sell to Us*, HALF PRICE BOOKS, <http://www.hpb.com/selltous> (last visited Apr. 27, 2011).

4. See, e.g., *End User License Agreement*, ADOBE, [http://www.adobe.com/products/eulas/flashplayer\\_10\\_1\\_eula.html](http://www.adobe.com/products/eulas/flashplayer_10_1_eula.html) (last visited Apr. 27, 2011); *License Terms*, MICROSOFT, <http://www.microsoft.com/About/Legal/EN/US/IntellectualProperty/UseTerms/Default.aspx> (allowing Microsoft software purchasers to download a copy of any of Microsoft's End User License Agreements).

cluding both for consoles and computers (“PCs”). Terms of game licenses vary depending upon the media platform for which the game was purchased.<sup>5</sup> Presumably, this is because the game producers, like many copyright owners, want control over the physical copies of their games and can do just that via licenses for the software. By attaching special codes to the console games that can only be used by the purchasers of the new game, the producers are already attempting to limit used game sales.<sup>6</sup> The new *Vernor* test opens the door to an expansion of the use of licenses. The application of licenses to console video games seems a logical and most eminent jump.

### **The First Sale Doctrine**

These licenses confront many legal issues. One is in the realm of contract law. This discussion is an important one, but one not meant for this paper. Another is the first sale doctrine. As discussed in greater detail below, the first sale doctrine is a limitation on the rights of copyright holders. It is meant to curb the limited monopoly that is granted to the copyright holder by putting some rights back into the hands of the consumer. A widespread use of licenses could virtually eliminate this doctrine.

The first sale doctrine of copyrights is a limitation on the copyright owner’s exclusive rights. Under the first sale doctrine, a copyright owner cannot control a physical copy of a copyrighted work after it has been sold for the first time. The doctrine was first considered in the Supreme Court case *Bobbs-Merrill Co. v. Straus*.<sup>7</sup> In *Bobbs-Merrill*, the copyright owner of the book “The Castaway” sought to enforce a notice on the book that disallowed the retail sale of the book for less than \$1 a copy against a retail store selling them for \$.89. The Court found that the exclusive rights under copyright protection are separate from the exclusive rights found in a patent. The court held that once the copyright owner has exercised the right to vend, his rights end. “To add to the right of exclusive sale the authority to control all future retail sales, by a notice that such sales must be made at a fixed sum, would give a right not included in the terms of the statute, and, in our view, extend its operation, by construction, beyond its meaning . . . .”<sup>8</sup>

The Court very clearly set out in *Bobbs-Merrill* that copyright owners have a plethora of exclusive rights. But once an owner has exhausted one of those rights, his control over the article in which the copyright material is embodied is lost. For example, an author has the

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5. See, e.g., StarCraft II End User License Agreement, BLIZZARD ENTERTAINMENT, <http://us.blizzard.com/en-us/company/legal/sc2eula.html>; see also Mass Effect 2 End User License Agreement, ELECTRONIC ARTS, <http://www.ea.com/1/product-eulas>. But see Mass Effect 2 Game Manual for Xbox 360, ELECTRONIC ARTS (The game manual is available in hard copy only in the front of the Mass Effect 2 for Xbox 360 game box. There is no clause limiting transferability. On the outside of the game box, EA states: “Unauthorized copying, reverse engineering, transmission, public performance, rental, pay for play, or circumvention of copy protection is strictly prohibited.”).

6. *Collins v. GameStop Corp.*, No. C10-1210 TEH, 2010 WL 3077671, at \*1 (N.D.Cal. Aug. 6, 2010).

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

8. *Id.* at 351.

exclusive right to distribute his copyrighted material.<sup>9</sup> But once the author has distributed his copyrighted material via a vessel, he cannot control what happens to that vessel. In the “brick and mortar” world, it is relatively easy to determine when the exclusive right of distribution is exhausted. In the Age of the Internet, however, it becomes difficult to decipher when the right of distribution is exhausted.

The first sale doctrine is now codified in Section 109(a) of the Copyright Act: “the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.”<sup>10</sup> By codifying the first sale doctrine, Congress explicitly supported the underlying policies of copyright law: to grant a monopoly for a limited period of time for a specified set of rights, and once those rights are used, the copyright holder cannot seek greater protection by circumventing copyright law.

Copyrighted software presents a special problem in the realm of copyright. Most agree that software is the type of material that the Founding Fathers sought to protect<sup>11</sup> in the Intellectual Property Clause of the U.S. Constitution.<sup>12</sup> A cursory analysis shows that software is a work of authorship that is sufficiently original and fixed in a tangible medium such that it should be copyrightable. However, software was not immediately granted protection. There was a great debate across the jurisdictions over whether software should be copyrightable.<sup>13</sup> It was not until 1983 that the Third Circuit held that computer programs were copyrightable in *Apple Computer, Inc. v. Franklin Computer Corp.*<sup>14</sup>

Because software can be copied onto a computer and then be subsequently used without the original disk, there is a potential that the disk can be sold by the user to a third party without paying anything to the copyright owner. While this is a risk in all forms of copyrighted material, the original software purchaser can still use the software from the disk that is resold to a third party. Unlike a book or a record, assuming the original purchaser does not violate the copyright owner’s exclusive right to reproduce, the original purchaser forfeits his continued use of the copyrighted article once he sells or lends it to another. This problem has been the catalyst for the “End User License Agreement,” or the EULA. These

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9. *E.g.*, 17 U.S.C. § 106(3) (2006).

10. Copyright Act of 1976, 17 U.S.C. § 109(a) (2006).

11. *See generally* Russ Krajec, *One Reason Why Software Is Patentable and Should Not Be Copyrightable*, ANYTHING UNDER THE SUN MADE BY MAN – RUSS KRAJEC, <http://www.krajec.com/blog/one-reason-why-software-is-patentable-and-should-not-be-copyrightable> (last visited Aug. 3, 2011); *Copyright and Related Rights - FAQs*, WORLD INTELL. PROP. ORG., <http://www.wipo.int/copyright/en/faq/faqs.htm> (last visited Aug. 3, 2011); *History – Chapter 2: Copyright of Computer Programs*, DIGITAL L. ONLINE, <http://digital-law-online.info/lpd1.0/treatise17.html> (last visited Aug. 3, 2011).

12. U.S. CONST. art. 1, § 8, cl. 8.

13. *See, e.g.*, *Stern Elecs., Inc. v. Kaufman*, 669 F.2d 852 (2d Cir. 1982); *NEC Corp. v. Intel Corp.*, 10 U.S.P.Q.2d 1177 (N.D. Cal. 1989); *Williams Elecs., Inc. v. Arctic Int’l, Inc.*, 685 F.2d 870 (3d Cir. 1982).

14. *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240 (3d Cir. 1983) (holding that a computer program can be protected as a literary work for the purposes of copyright).

EULAs, also called “shrink-wrap licenses,” transform a would-be owner of software into a licensee of software upon unwrapping the shrink-wrap.<sup>15</sup> Contract issues aside, the owners of copyrighted software have essentially found a way to circumvent the first sale doctrine.

As stated above, Congress codified the first sale doctrine in Section 109(a) of the Copyright Act. This codification applies only to “owners” of the copyrighted material. The EULA, or “shrink-wrap license,” makes the purchaser of copyrighted software a licensee, not an owner, negating the effects of 109(a), and skirting the first sale doctrine altogether.

The Third Circuit concisely summarized the history of—in the court’s words—“shrink-wrap licensing” in *Step-Saver Data Systems, Inc. v. Wyse Technology*.<sup>16</sup> “When these form licenses were first developed for software, it was, in large part, to avoid the federal copyright law first sale doctrine . . . .”<sup>17</sup> The court explains the problem that software presents is that potential customers can “borrow” the software from other users or, prior to the 1980 amendment to Section 117 of the Copyright Act, rent the software from software rental companies.<sup>18</sup> The *Step-Saver* court says that the licensing of the software stemmed from the software companies wanting to sue the software rental companies because “the first sale doctrine, though, stood as a substantial barrier to successful suit against these software rental companies, even under a theory of contributory infringement.”<sup>19</sup> By characterizing the original transaction between the software company and rental company as a license, the software producers were successfully able to circumvent the first sale doctrine.<sup>20</sup> This worked so well against the software rental companies, the producers applied it to individual purchasers, and so was born the shrink-wrap license.<sup>21</sup>

Early cases contesting the licenses were split. For instance, in *SoftMan Products v. Adobe Systems*, a California district court held that SoftMan’s purchase of the copyrighted software from Adobe was a sale, not a license.<sup>22</sup> In *In re DAK Industries*, the Ninth Circuit also held that the transfer of Microsoft’s “Microsoft Office” software to DAK Industries constituted a sale, not a license.<sup>23</sup> While this was a case involving the distribution of funds from a company in bankruptcy proceedings, Microsoft brought a separate copyright claim, in addition to the bankruptcy claims.

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15. *Step-Saver Data Sys., Inc. v. Wyse Tech.*, 939 F.2d 91 (3d Cir.1991).

16. *Id.* at 96, n.7.

17. *Id.*

18. *Id.*

19. *Id.*

20. *Id.*

21. *Id.*

22. *SoftMan Prods. Co., v. Adobe Sys. Inc.*, 171 F. Supp. 2d 1075 (C.D. Cal. 2001) (holding that SoftMan’s purchase of copies of Adobe’s copyrighted products constituted a sale because Adobe’s end user license agreement was unenforceable against SoftMan).

23. *In re DAK Industries, Inc.*, 66 F.3d 1091, 1095 (9th Cir. 1995) (holding that the transfer of copies of copyrighted software was a “lump sum sale,” not a license).

However, in a line of cases brought by software companies—mostly Microsoft—courts held, almost without analysis, that the EULAs created licensees, not owners, of their products. Starting with *Microsoft Corp. v. Harmony Computers & Electronics, Inc.*, a New York district court stated, “[A]ll possessors of Microsoft Products have only a license to use.”<sup>24</sup> The court makes this announcement with no in-depth analysis of whether the transfer was a sale or a license. The Northern District of California Court in *Adobe Systems Inc. v. One Stop Micro, Inc.* wholly accepts *Harmony*’s premise that software companies never sell software, only license it.<sup>25</sup> As Nimmer puts it, this line of cases “manages to transform a contractual term that software purveyors unilaterally include in their contracts into a binding provision on the world—even on parties who are not in privity of contract—and one that, moreover, undoes the dictates of Congress by undermining an essential feature of the Copyright Act!”<sup>26</sup>

As indicated by Nimmer’s heated exclamation point above, the conflict has reached a boiling point. The stage is set, and the mood is ripe for consumers and courts to tackle the licensing scheme perpetrated by the software companies aiming to circumvent the first sale doctrine and extend their rights beyond those granted to them in the Copyright Act.

#### **Vernor v. Autodesk, Inc.**

The Ninth Circuit’s decision to modify the “sale versus license” test in *Vernor v. Autodesk* is the most recent, and possibly most injurious to the consumer, case to rule on the licensing of software. The court’s new test, as discussed below, will make it easier for software producers, and potentially other media producers, to license copies of their copyrighted material instead of selling it.

Timothy Vernor makes his living selling goods on the online sale and auction site, eBay.<sup>27</sup> Several of the items he sold on eBay were copyrighted software packages made by Autodesk, Inc., AutoCAD Release 14 software, known as AutoCAD. AutoCAD sells for between \$1,200 and \$7,500 per copy.<sup>28</sup> The disparate price range is due to differences in delivery—online versus hard copy—and inclusive software in the packages, i.e., the more AutoCAD programs bundled together in the package the more expensive the software is. Autodesk’s software is used mainly for engineering, designing, and entertainment “workflows” that, among other things, allows users to create digital 3-D models of their products.<sup>29</sup>

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24. *Microsoft Corp. v. Harmony Computers & Elecs, Inc.*, 846 F. Supp. 208, 213 (E.D.N.Y. 1994) (holding that the licensed dealers from which Harmony bought copies of the copyrighted material exceeded the scope of their licenses, and therefore Harmony was not shielded by the first sale doctrine).

25. *Adobe Sys. Inc. v. One Stop Micro, Inc.*, 84 F. Supp. 2d 1086 (N.D. Cal. 2000) (holding that the software was licensed according to the end user license agreement, and therefore the first sale doctrine did not apply).

26. 2-8 MELVILLE B. NIMMER & DAVID NIMMER, *NIMMER ON COPYRIGHT* § 8.12 (83d ed. 2010) (Exclamation point from original!).

27. *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1105 (9th Cir. 2010). Unless otherwise indicated, all factual assertions in the paragraphs below are taken from the opinion, at 1104-06.

28. *Autodesk—Compare AutoCAD Products*, AUTODESK, [HTTP://USA.AUTODESK.COM/COMPARE-AUTOCAD-PRODUCTS/](http://usa.autodesk.com/compare-autocad-products/).

29. *Id.*

Upon learning that Mr. Vernor was selling used copies of their software on eBay, Autodesk sent a Digital Millennium Copyright Act (DMCA) notice to eBay claiming that the sale was infringing its copyright. eBay subsequently suspended the sale. Mr. Vernor responded with a counter-notice that his sale was lawful. Autodesk never responded to this counter-notice. eBay eventually reinstated the auction and Mr. Vernor sold the Autodesk software.

In 2007, Mr. Vernor bought four authentic used AutoCAD packages from Caldwell/Thomas Associates (CTA) at an office sale. Mr. Vernor sold three of the AutoCAD packages on eBay. However, for each auction Autodesk sent eBay a DMCA notice, eBay suspended the auction, Mr. Vernor sent Autodesk a counter-notice, eBay reinstated the auction, and the AutoCAD software sold. Upon listing the fourth AutoCAD software package, Autodesk sent yet another DMCA notice to eBay, resulting in a one-month suspension of Mr. Vernor's eBay account for repeat infringement and effectively freezing Mr. Vernor's income for a month.

Because it is relevant to the analysis, it would be pertinent to look at how CTA came into possession of the AutoCAD software packages. The software packages were transferred from Autodesk to CTA as part of a settlement package pursuant to an unrelated dispute.<sup>30</sup> The software packages were accompanied by a license agreement that, among other restrictions, prohibited the "rent, lease, or transfer [of] all or part of the Software, Documentation, or any rights granted hereunder to any other person without Autodesk's prior written consent."<sup>31</sup> CTA then sold Mr. Vernor two additional AutoCAD packages that he wished to sell on eBay.

Because of the ordeals described above, Mr. Vernor filed a declaratory judgment case seeking declaratory relief so that he could sell the AutoCAD software packages on eBay without further interruption.<sup>32</sup> The District Court for the Western District of Washington, in its opinion denying Autodesk's Motion to Dismiss, addressed the issue of Mr. Vernor's standing and found that the inconvenience of having to continuously send DMCA counter-notices to Autodesk and the suspension of Mr. Vernor's eBay account constituted a "controversy of sufficient immediacy" for standing.<sup>33</sup>

#### *District Court Decisions*

The district court issued two opinions on this case; first, on Autodesk's Motion to Dismiss,<sup>34</sup> and second, on trial.<sup>35</sup> Both times the district court found in favor of Mr. Vernor, holding that Autodesk's transfer of the AutoCAD software to CTA was a sale rather than

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30. Vernor v. Autodesk, Inc., 555 F. Supp. 2d 1164, 1166 (W.D. Wash. 2008).

31. *Id.*

32. *See id.*

33. *Id.* at 1167.

34. Vernor, 555 F. Supp. 2d 1164.

35. Vernor v. Autodesk, Inc., No. C07-1189RAJ, 2009 WL 3187613, at \*1 (W.D. Wash. Sept. 30, 2009).

a license, and therefore, the sale to Mr. Vernor and his subsequent sales to eBay customers were protected by the first sale doctrine.<sup>36</sup>

The district court decision in *Vernor* relied on *United States v. Wise* to decide the first sale issue. In *Wise*, the court considered several contracts between movie studios and various recipients of movie prints.<sup>37</sup> Each contract was different, but all were labeled “licenses” by the movie studios and all transferred only limited rights, mainly for exhibition purposes.<sup>38</sup> In short, the *Wise* court found that the majority of the contracts were licenses because they required return of the film prints after a certain period of time.<sup>39</sup> However, three contracts did not require the return of the film prints, and the *Wise* court found that these contracts constituted sales.<sup>40</sup> The “Redgrave Contract” at issue in *Wise* was especially pertinent to the district court in *Vernor* because the contract actually said nothing about the return of the film prints but subjected Ms. Redgrave, the “licensee” of the film print, to “draconian transfer restrictions”<sup>41</sup>.<sup>42</sup> The transfer restrictions should sound very familiar to any modern software user or one who has read the license at issue in *Vernor*. The restrictions included that Ms. Redgrave could only use the film prints for her “personal use and enjoyment”<sup>43</sup> and “that she could not sell, lease, license, or loan the print to any other person.”<sup>44</sup> The contract also required that Ms. Redgrave retain possession of the film print “at all times,”<sup>45</sup> which goes further than even the most stringent of modern software licensing agreements.

After reviewing all of the contracts, the *Vernor* court found that the Autodesk licensing agreement was very similar to the Redgrave Contract, and that the critical factor was whether the transferee was allowed to keep the copy of the copyrighted material that was acquired from the copyright holder—or to be more precise, whether CTA was required to return the copies of AutoCAD to Autodesk.<sup>46</sup> Finding no language requiring CTA to return the AutoCAD software, the court found that the transfer was actually a sale, immunizing Mr. Vernor through the first sale doctrine.<sup>47</sup>

#### *Ninth Circuit Decision*

According to the Ninth Circuit Court of Appeals, the problem with the district court’s holding lied in the split precedent in the Ninth Circuit. The precedent is split between *Wise*

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36. *See id.* at \*2 (the district court rested its decisions on Ninth Circuit precedent, *United States v. Wise*, 550 F.2d 1180 (9th Cir. 1977), *see id.* at \*11).

37. *United States v. Wise*, 550 F.2d 1180, 1191 (9th Cir. 1977).

38. *See id.* at 1190.

39. *See id.*

40. *See id.* at 1191.

41. *Vernor*, 555 F. Supp. 2d at 1170.

42. *See Wise*, 550 F.2d at 1192.

43. *Id.*

44. *Vernor*, 555 F. Supp. 2d at 1170.

45. *Id.*

46. *See Vernor*, 2009 WL 3187613, at \*8.

47. *Id.*



and what the Ninth Circuit dubbed the “MAI Trio” of cases. *Wise* was discussed above. The MAI Trio begins with the controversial decision *MAI Systems Corp. v. Peak Computer, Inc.*, which contains a footnote stating: “Since MAI licensed its software, the Peak customers do not qualify as ‘owners’ of the software and are not eligible for protection under § 117.”<sup>48</sup> As the *Vernor* appellate court noted, there is no analysis or explanation as to why the transfer was considered a license instead of a sale, nor did the MAI court cite *Wise*, which would seem to be direct precedent.<sup>49</sup> To complete the trio, the other two cases, *Triad System Corp. v. Southeast Express Co.*<sup>50</sup> and *Wall Data, Inc. v. Los Angeles County Sheriff’s Department*,<sup>51</sup> also considered software transfer agreements and came to the conclusion that they were mere licenses with no consideration of *Wise*.

The *Vernor* district court discussed the split precedent, resigned that it was irreconcilable, and followed the rule that the court must follow the oldest of the precedent, which was *Wise*.<sup>52</sup> The appellate court, however, disagreed. The appellate court held that the split precedent was reconcilable,<sup>53</sup> and laid out a new rule combining the two old ones: “a software user is a licensee rather than an owner of a copy where the copyright owner (1) 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.”<sup>54</sup> Applying the facts in *Vernor* to the new rule, the Ninth Circuit found that the original transfer to CTA was not a sale, but a license, and therefore CTA and Mr. Vernor’s subsequent sales of the software were infringing upon Autodesk’s copyright.<sup>55</sup> To date, the case stands as remanded to the District Court.

### *The Implications of Vernor*

Since the Ninth Circuit handed down its opinion, the legal world and the blogosphere have exploded, crying that this case is the end of the first sale doctrine as we know it.<sup>56</sup> *Vernor*’s three-factor test alters the accepted test, thereby opening the door for a wider use

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

49. *See Vernor*, 2009 WL 3187613, at \*9.

50. *Triad Sys. Corp. v. Se. Express Co.*, 64 F.3d 1330 (9th Cir. 1995) (determining that licensees could not rely on the Copyright Act’s § 117 “essential step defense”).

51. *Wall Data, Inc. v. Los Angeles County Sheriff’s Dep’t*, 447 F.3d 769 (9th Cir. 2006) (holding that even though the license did not limit the resale of the software, the transfer of copies of copyrighted software was licensed rather than sold).

52. *See Vernor*, 555 F. Supp. 2d at 1172; *see also Vernor*, 2009 WL 3187613, at \*8.

53. *See Vernor*, 621 F.3d at 1111.

54. *Id.*

55. *Id.* at 1112.

56. *See, e.g.*, Evan Brown, *Vernor v. Autodesk: Does it Matter in an Age of Cloud Computing*, INTERNET CASES (Sept. 10, 2010), <http://blog.internetcases.com/2010/09/10/vernor-v-autodesk-does-it-matter-in-an-age-of-cloud-computing/>; Lee Gesmer, *Hey Dude, That Program’s Mine!* *Vernor v. Autodesk*, GESMER UPDEGROVE LLP - MASS LAW BLOG (Sept. 17, 2010), <http://masslawblog.com/copyright/hey-dude-that-programs-mine-vernor-v-autodesk/>.

of licensing copyrighted material. Nimmer lays out the proper four-question inquiry for categorizing a transfer as a sale or not for the purposes of the first sale doctrine:

- (1) Was the subject physical product (the ‘copy’) lawfully manufactured with authorization of the copyright owner?
- (2) Was that particular copy transferred under the copyright owner’s authority?
- (3) Does defendant qualify as the lawful owner of that particular copy?
- (4) Did the defendant thereupon dispose of that particular copy (as opposed to, for example, reproducing it)?<sup>57</sup>

According to Nimmer, “An affirmative answer to each question validates the defense. Failure to qualify under any prong dooms it.”<sup>58</sup> This inquiry correctly focuses on the lawfulness of the defendant’s actions while she was in possession of the copyrighted article. It is also a more holistic approach to reviewing the transaction. In contrast, *Vernor*’s test focuses on the software company’s intent and the language of the license, essentially giving the software producers a “how-to manual” on how to circumvent the first sale doctrine.<sup>59</sup>

The district court, and Nimmer for that matter, also focused on whether the “license” requires the licensee to return the copyrighted article after use.<sup>60</sup> This, the district court found, was the critical factor in *Wise* in determining whether the contracts were licenses or sales.<sup>61</sup> This factor is obliterated by the *Vernor* test. The much-discussed “Redgrave Contract” did not call for the return of the product, but put drastic restrictions on the use of the article. Using the new *Vernor* test, this contract would likely be considered a license, not a sale, and therefore would not be subject to the first sale doctrine. The Redgrave Contract specified that the user was granted a license<sup>62</sup>; the contract significantly restricted the user’s ability to transfer the copyrighted work illustrated by the contract’s language preventing sale, lease, license, or loan of the print<sup>63</sup>; and it imposed notable use restrictions by eliminating all uses except for “Ms. Redgrave’s in-home display”<sup>64</sup> of the film. In fact, all three

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57. NIMMER, *supra* note 26.

58. *Id.*

59. *See Vernor*, 621 F.3d at 1111 (“We read *Wise* and the *MAI* trio to prescribe three considerations that we may use to determine whether a software user is a licensee, rather than an owner of a copy. First, 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. Our holding reconciles the *MAI* trio and *Wise*, even though the *MAI* trio did not cite *Wise*.”).

60. *See Vernor*, 2009 WL 3187613, at \*7.

61. *See id.*

62. *See id.*

63. *See id.*

64. *Id.*

contracts in *Wise* that were found to be sales would likely be found to be licenses. Even looking at *Bobbs-Merrill*, the seminal first sale doctrine case, if the *Vernor* test were applied to the facts of the case, it is plausible that the notice would have been held to create a license instead of a sale. Although the notice did not explicitly specify it was license, the other two factors are most likely there: restriction on transfer and notable use restrictions—who wants to buy a used book for the same price as a new one? The lesson is this new test could open the door to a broad application of licensing in areas other than software.

### Console Video Games

This new test could have huge implications for the future of several major industries. An author could write a treatise discussing each potential media the new “sale versus license” test could affect, but one of the next most logical jumps in using licenses over outright sales is video games for consoles. It is already the case that if someone buys a game for the PC, he is a licensee, who cannot loan or resell his copy. Yet if he buys the exact same game for a console he is an owner who can lend, resell, or even rent the game.

The used video game industry is currently tenuous at best. The largest used game retailer, GameStop, is coming under fire from all directions,<sup>65</sup> and the video game industry itself is taking steps to shut down the resale of their games. These steps include such actions as including one-time use game codes in new copies that cannot be transferred over to a used game purchaser<sup>66</sup> or giving free downloadable content to the new game purchaser, but charging the used game customer to download the same content.<sup>67</sup> While these steps do not directly conflict with the first sale doctrine, they are harbingers of changes to come.

In August of 2010, THQ’s Creative Director, Cory Ledesma, made some controversial comments regarding used game sales. THQ is a Los Angeles-based game company that released games such as “WWE All-Stars,” “Conan,” “UFC Undisputed,” and “Red Faction.” Mr. Ledesma said:

I don’t think we really care whether used game buyers are upset because new game buyers get everything. So if used game buyers are upset they don’t get the online feature set I don’t really have much sympathy for them. We hope that people understand that when the game’s bought used, we get cheated.<sup>68</sup>

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65. See, e.g., *Collins v. Gamestop Corp.*, No. C10-1210 THE, 2010 WL 3077671, at \*1 (N.D. Cal. Aug. 6, 2010); Brett Molina, *THQ Creative Director on Used Games: ‘We Get Cheated’*, USA TODAY-GAME HUNTERS (Aug. 24, 2010, 3:49 PM), <http://content.usatoday.com/communities/gamehunters/post/2010/08/thq-creative-director-on-used-games-we-get-cheated/1>.

66. *THQ Announces Additional Key Features and Franchise Updates for WWE(R) SmackDown(R) vs. Raw(R) 2011*, THQ - INVESTOR RELATIONS - NEWS RELEASE (Aug. 18, 2010), <http://investor.thq.com/phoenix.zhtml>

?c=96376&p=irol-newsArticle&ID=1460907&highlight=&loc=interstitialskip.

67. See *Collins*, 2010 WL 3077671, at \*1.

68. Molina, *supra* note 65.

This is the sentiment of many, if not all, copyright holders, not just game producers. What Mr. Ledesma fails to recognize is that all copyrighted works face this same issue. When books are bought used, the authors “get cheated.” This issue is exactly how the first sale doctrine came into being in *Bobbs-Merrill*.

The best thing that could happen for Mr. Ledesma and those who agree with his sentiment is the *Vernor* test. All that a game producer needs to do under the new *Vernor* test is include a notice in the game’s cover that restricts the use and prohibit the subsequent transfer of the game, label it as a license, and the transfer is no longer a purchase, but a license for the purposes of the first sale doctrine. This would eliminate the used game market and Mr. Ledesma’s company would not be “cheated” anymore.

The customers, however, would be the ones cheated. Here is where a short explanation of used game sales comes in. According to the pleading in *Collins v. GameStop Corporation*, GameStop did nearly \$2 billion in used game sales last year, totaling roughly twenty percent of its total revenue.<sup>69</sup> Using GameStop as an example, a customer brings in his used games, whether they were bought new or used, and gets cash or store credit for these games. The customer can buy anything in the store with this credit, including new games, used games, new or used consoles, console accessories, gaming catalogues/magazines, etc. The games that the customer traded in are then put back on sale for discounted prices. The used prices depend on how new the game is—the newer the game, the closer to full price the used version will be; how popular the game is—a flop will fetch significantly less for the trade-in customer and for GameStop once it is put back on the shelf; and the condition of the used games. This is a very similar process to stores such as Half-Price Books, or college textbook stores, except GameStop give the customer more store-credit dollars than cash dollars if the customer chooses to take store credit.

Buying a used game could potentially save the customer significant amounts of money. Thanks to the first sale doctrine, this is legal. For instance, at GameStop, a customer could buy a used copy of a popular game for less than half of its original price. However, the customer enjoys this discount at the cost of timeliness. This less-than-half-priced game is nearly a year old. In the *Collins* lawsuit, the plaintiff bought a used copy of “Dragon Age: Origins” two months after the release of the game.<sup>70</sup> “Dragon Age: Origins” is a wildly successful game created by Electronic Arts and BioWare that released a sequel in March 2011, and is currently working on a third in the series.<sup>71</sup> The plaintiff bought it for \$5 cheaper than the new game, but was required to pay \$15 for the downloadable content that was of-

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69. Class Action Complaint at 2010 WL 1251811 at \*1, *Collins*, 2010 WL 3077671. [hereinafter *Compl.*]

70. *Compl.* ¶ 30.

71. See, e.g., *Bioware: Dragon Age: Origins: Accolades*, BIOWARE, <http://dragonage.bioware.com/dao/home/accolades/>; *Bioware: Dragon Age II*, BIOWARE <http://dragonage.bioware.com/da2/>; James Ransom-Wiley, *Dragon Age 3 artists wanted, Bioware sr. director tweets*, JOYSTIQ, <http://www.joystiq.com/2011/05/20/dragon-age-3-artists-wanted-bioware-sr-director-tweets/>.

ferred free for the new game purchaser and was advertised on the original package in which the new game was distributed and in which the used game was resold, essentially paying \$10 more for the used game than had he purchased it new.<sup>72</sup> He is now suing GameStop for deceit and fraud, among other claims.

This seems like a “have your cake and eat it too” situation. Collins wanted the newest game, but did not want to pay full price for it. He thought he had hit the jackpot by saving \$5, but instead EA and BioWare put in a code that rewards the new user and disadvantages the used purchaser. The tradeoff for a cheaper game is at the cost of time. As one video game blogger put it:

I’ve bought a mix of new and used games, using a pretty complex decision matrix. Do I want the game immediately, or can I wait? How much is it? How much are used copies? Are they in good condition? Are they covered in GameStop’s horrific yellow diarrhea of stickers?<sup>73</sup>

This decision is not made lightly. Game producers seem to think the used game market is going to replace their market. However, used game sales are never immediate. Someone must purchase the original game, and then resell it. Video game players, like Collins, who want the game immediately, have to buy it new. The concept brings us back to the first sale doctrine; once the game is distributed for the first time, the copyright owner should have no control over subsequent sales of the physical copy. So far, the most the game producers have done is to preclude used game purchasers access to “cool stuff” that is only included for free in the new version.

However, with *Vernor*, this could all change. Software for consoles is very similar to the software for PCs. In fact, Microsoft has even created a base coding language that streamlines game creation for Xbox and Windows-based PCs called “XNA.”<sup>74</sup> The code eliminates the need for “repetitive boilerplate code” that, prior to XNA, would have to be implemented in each version of a game.<sup>75</sup> Further, even the external hardware, such as controllers, is largely compatible.<sup>76</sup> While obviously the software is not actually identical and therefore each has its own copyright, it is completely arbitrary that a PC game cannot be resold but its console-equivalent can. Of course, the answer is: the PC game can be loaded onto the computer and played without the disk, whereas the console games cannot.

This reasoning is completely arbitrary as the new console games can be loaded onto the console’s hard drive. In fact, some game companies even recommend that the user do this to

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72. Compl. ¶¶ 34-35.

73. Chris Kohler, *GameStop the ScapeGoat: Why Used Games Debate Isn’t So Simple*, GAME LIFE (Aug. 27, 2010, 8:00 am), <http://www.wired.com/gamelife/2010/08/used-games/>.

74. Microsoft XNA, WIKIPEDIA, [http://en.wikipedia.org/wiki/Microsoft\\_XNA](http://en.wikipedia.org/wiki/Microsoft_XNA).

75. *Id.*

76. See Xbox Live Compatibility: Xbox LIVE Compatible Routers, <http://support.xbox.com/en-US/xbox-live/connecting/network-hardware-compatible-xbox-live>.

reduce loading times between in-game location changes and highly rendered “cut scenes” (mini-movies within the game that portray the player’s character acting out a predetermined dialogue and scene).<sup>77</sup> Once the game is loaded into the Xbox, the user only inserts the disk into the tray for authentication. Once the disk is resold, lost, lent, etc., the version on the hard drive is rendered useless. This is a potential solution for PC games, but runs afoul with other forms of PC software because it would require PC users to constantly insert the disks to all software. (Imagine trying to run Microsoft Office from an airplane, or Adobe InDesign in a hotel in Paris.)

The crux of the matter is that the game producers can get away with licensing PC games instead of selling them because of the current state of the law. This licensing allows them to skirt around the first sale doctrine and stick consumers with a copy of a game indefinitely with no recourse if the user should dislike the game, become bored with it, or wish to resell it. Game producers, after *Vernor*, could potentially do the same with console games, as the technology is now available to allow the consumer to perform full uploads of the game onto the console hard drive, rendering the disk useless, except for authentication.

### **Public Policy Considerations in *Vernor*—Or the Lack Thereof**

The Ninth Circuit in *Vernor* glossed over the policy considerations brought up by Mr. Vernor and the amicus briefs. Amicus briefs were filed by the Motion Picture Association of America (MPAA)<sup>78</sup> and the Software and Information Industry Association (SIIA) in support of reversing the district court.<sup>79</sup> These two organizations, obviously, have huge amounts of money riding on the fact that they can license their copyrighted articles without invoking the first sale doctrine. On the other side, library associations, Electronic Frontier Foundation, Consumer Federation of America, and others,<sup>80</sup> as well as eBay,<sup>81</sup> filed amicus briefs supporting affirmance of the District Court’s ruling. Again, eBay has massive amounts of money and a large portion of their customer base’s interest riding on whether software can be resold.

The public policy that really should have been given greater attention was the issue presented by the libraries. The libraries worry that their continued practice of buying software, or worse, having someone donate software to them, and then renting the software itself out

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77. See, e.g., Edwin Evans-Thirlwell, *Amalur dev*: “for the love of God, install it to hard drive”, OXM, <http://www.oxm.co.uk/38165/amalur-dev-for-the-love-of-god-install-it-to-hard-drive/>.

78. Brief of Amicus Curiae the Motion Picture Association of America, Inc. in Support of Appellant’s Position Seeking Reversal on Appeal, *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010) (No. 09-35969), 2010 WL 894739.

79. Brief of Amicus Curiae Software & Information Industry Association (SIIA) in Support of Appellant and Reversal, *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010) (No. 09-35969), 2010 WL 894742.

80. Brief of Amici Curiae American Library Association et al. in Support of Plaintiff and Affirmance, *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010) (No. 09-35969), 2010 WL 894740.

81. Brief of Amicus Curiae eBay Inc. in Support of Appellee Timothy S. Vernor and of Affirmance of the District Court’s Judgment, *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010) (No. 09-35969), 2010 WL 894741.

to its patrons, or allowing multiple users on their computers would constitute infringement.<sup>82</sup> The Ninth Circuit dismisses this concern as being protected by the exception in the Copyright Act that expressly exempts libraries and the like from being governed by licensing.<sup>83</sup> However, the court does not address the chilling effect that its decision will have on the donation of software to libraries and the libraries themselves deciding not to provide these services for fear of an ordeal similar to that Mr. Vernor went through.

To look beyond just the chilling effect on libraries, the use of software has become nearly compulsory in today's world. Without access to software, people will be at a severe disadvantage. The licensing scheme promoted by the amicus briefs in favor of reversing the district court's decision cites that this setup allows flexible pricing for educational packages, for example.<sup>84</sup> This argument should not be the focus of the case, however, because even if the licensing can bring down prices for packages such as those for educational institutions or students, the adverse effects of the licensing far outweigh the beneficial effects of certain exclusive discounts. For example, someone who purchases Microsoft Office 20XX is a licensee. When Microsoft Office 20XY is released and makes the documents created in version 20XX incompatible with documents created in version 20XY, the licensee is forced to purchase the new version. With most copyrighted materials, (to stick with the same example) this purchaser could sell version 20XX in order to offset the purchase price of version 20XY. This is not the case with software. Version 20XX is now obsolete and the purchaser has no remedy but to trash it or donate it to a library at the risk of infringing copyright.

### **So, What Can We Do About It?**

The first sale doctrine should be applied equally across all media of copyrighted works. By making the transfer of software into licenses, the software producers, and the courts, are allowing this select medium extra protection not granted to them in the Copyright Act. This extra protection is not only beyond the scope of protection provided to them in the Act, but is also against public policy and not in the best interest of the public at large. While the economic gains from a copyright are usually the greatest concern in America, the deleterious effects that can stem from the *Vernor* ruling, not just in console video games, but in all media of copyrighted works, call for a court to weigh the public policy considerations and how this will affect consumers in the long run very carefully.

My proposed solution is easy: Reverse *Vernor*, and then apply the Copyright Act as it is intended. The loaning, renting, and reselling of software with its special problem that

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82. Brief of Amici Curiae American Library Association et. al., *supra* note 80.

83. *Vernor*, 621 F.3d at 1115 (citing 17 U.S.C. § 108).

84. *See Vernor*, 621 F.3d at 1114-15; *see also* Brief of Amicus Curiae Software & Information Industry Association (SIIA) in Support of Appellant and Reversal, *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010) (No. 09-35969), 2010 WL 894742, at \*4.

selling the physical copy may not actually transfer all of the copyrighted work is a serious issue facing software copyright holders. However, each medium of copyrighted works has an issue that faces it when publishing these copyrighted works to the public. For example, books are lent or resold without any royalties paid to the author. This tradeoff of exclusive rights for the author's exposition of the copyrighted work is the classic tradeoff of obtaining a copyright. Should the author choose not to distribute copies of her work, she perpetually retains the right to distribution. However, once the author actually distributes copies of the copyrighted work, she has exhausted that right. Software producers are granted the exclusive right to distribute copies of their software, among other rights, but the software producer never exhausts its right to distribution because, through the EULA, it retains control over the physical copy even after the transfer. The right to distribute becomes perpetual, not limited as called for in the Constitution, and the consumers are the ones being hurt by this.

The computer and the Internet have radically changed our culture, our lives, and our laws. Unfortunately, the law is slow to catch up to the technology. This is an area where the law is especially lagging. Many of our laws promote an "Internet exceptionalism," that is excepting technology from many of the brick and mortar world's laws. Sometimes this theory is applied because it must be. Applying the law as it is in the brick-and-mortar world directly to Internet issues would be overly burdensome, clunky, and simply impossible. However, the first sale doctrine can work, and work well, when applied directly. There are other ways to solve the issue. This area of the law need not fall into the "Internet exceptionalism" category.

Many of the issues presented by software's special problem of customers loading it into their computers, selling the software to a third party, and then continuing the use of the software on their computer, can be solved by the use of other exclusive rights provided by the Copyright Act, such as the right of reproduction. Use of these other rights would curtail the problem without circumventing long-established doctrines or extending the protection of the Copyright Act. Courts, such as *MAI*, have already categorized the loading of a computer program into a computer as copying. Congress reacted by enacting the "essential step defense" that allows the owner of a software program to make a copy of the program on the computer if it is an essential step in the use of the program.<sup>85</sup> Loading and then selling the software would fall outside of the protection of the "essential step defense" the moment the user sells the software to a third party. The copy on the computer then becomes an illegal copy, in violation of the copyright owner's exclusive right to reproduce.

The technology is available. iTunes provides an excellent example. iTunes can track a single song across multiple computers and long periods of time to block an unauthorized user from playing the song. Tracking the copies made of software (by uploading the software onto the computer) using technology like that employed by iTunes would virtually eliminate the special problem presented by software.

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85. 17 U.S.C. § 117.



Software users have rights as purchasers and, in my opinion, owners of the copies of software granted to them through the Copyright Act. These rights are being extinguished by the EULA and the *Vernor* test, only making the EULA more accessible. Using the language from *Bobbs-Merrill*, adding the authority to control all future sales would give a right not included in the terms of the statute and extend its operation beyond its meaning. Applying this paper's proposed solution would bring the first sale doctrine as it is applied to software back in line with the first sale doctrine as it is applied to all other forms of media. A game blogger recently compared the resale of a desk lamp to the resale of video games:

Let's get back to that theoretical desk lamp I mentioned above—you know, the desk lamp I own and can sell to someone else free of moral or legal quandary and free of concerns that someone will publicly condemn me as a furniture thief for doing so. Why is it different from a videogame? Somebody's always bringing up the starving videogame designers and how they have to feed their kids etc etc [sic]. I get it. If you want to do the most you can to support your hobby, spend the extra \$10 and buy a new copy.

But somebody designed that lamp, right? Some guy in Scandinavia who has two blond-haired moppets who go through jars of lingonberry jam like the world was about to end? Does he pen scathing articles on desk lamp enthusiast websites pillorying Craigslist's furniture section? In short, what's the difference with videogames?<sup>86</sup>

This is precisely the point. A sale of goods is a sale of goods. Why should software companies, and potentially video game producers, get a free ride right past the first sale doctrine through their use of EULAs? We even hold patent owners, more or less, to some standard of the first sale doctrine. I can sell my Samsung TV to whomever I like, including used electronics stores, without paying any royalties to Samsung. The used electronics store also does not have to pay any royalties. The economic rights of the copyright holder are, and should be, first and foremost among the concerns evaluated by Congress and the courts in relation to the Copyright Act. However, there is a point when the economic rights for the copyright holders ends, and the rights of the consumer kick in. For copyrights, these consumer rights are best protected by the first sale doctrine. ■

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86. Kohler, *supra* note 73.