Appeal Nos. 09-15932 & 09-16044

United States Court of Appeals

FOR THE

Ninth Circuit

MDY INDUSTRIES LLC and MICHAEL DONNELLY,
Plaintiffs-Appellants,

v.

BLIZZARD ENTERTAINMENT, INC. and VIVENDI GAMES, INC.,
Defendants-Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF ARIZONA
THE HONORABLE DAVID G. CAMPBELL, JUDGE
CASE NO. 06 CIV. 2555

BRIEF OF AMICUS CURIAE BUSINESS SOFTWARE ALLIANCE IN SUPPORT OF APPELLEES AND CROSS-APPELLANTS BLIZZARD ENTERTAINMENT, INC. AND VIVENDI GAMES, INC. SEEKING AFFIRMANCE

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CORPORATE DISCLOSURE STATEMENT

Pursuant to Federal Rule of Appellate Procedure 26.1, counsel for *amicus curiae* Business Software Alliance ("BSA") certifies that it is a trade association. BSA is not a publicly held corporation, does not have a parent corporation, and no publicly held corporation owns 10 percent or more of its stock.

Dated: November 16, 2009

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INTEREST OF BSA

The Business Software Alliance ("BSA") is the voice of the world's software industry and its hardware partners on a wide range of business and policy affairs. BSA's members are responsible for more than 90 percent of the world's office productivity software and an almost limitless array of other software products, from software for designing bridges to diagnosing diseases to safeguarding our national security. BSA's members are Adobe, Apple, Autodesk, AVG, Bentley Systems, CA, Cadence Design Systems, Cisco Systems, Corel, Cyberlink, Dassault Systèmes SolidWorks Corporation, Dell, Embarcadero, HP, IBM, Intel, Intuit, McAfee, Microsoft, Minitab, Quark, Quest, Rosetta Stone, SAP, Siemens PLM Software, Inc., Sybase, Symantec, Synopsys, and The MathWorks.

BSA's members have immediate and critically important interests in the copyright issues in this appeal. As creators of much of the software that is indispensable to all aspects of a vital and growing economy, BSA's members seek to preserve the settled law that has enabled the distribution of that software through licenses or sales, depending on the user's specific needs. As innovators, they want to ensure that copyright law promotes development and innovation. And as users of software that they license from others, they want a stable, clear test that enables them to understand the rights they have been granted and thus avoid unpredictability and risk.[1]

BSA files this brief with the consent of all parties. Fed. R. App. P. 29(a).

ARGUMENT

BSA urges this Court to affirm the copyright portion of the district court's decision because that court applied consistent, directly applicable Ninth Circuit authority to the undisputed facts and correctly held that the distribution of copies of Blizzard Entertainment, Inc.'s ("Blizzard") World of Warcraft game client software ("WoW software") pursuant to Blizzard's End User License Agreement ("EULA") and Terms of Use ("TOU") constitutes a license and not a sale under § 117(a) of the Copyright Act. BSA also describes herein why affirmance is indispensible to the continued viability of commercial software development and distribution.

I. INTRODUCTION.

The copyright portion of this appeal challenges a well-established model for distributing software by license. This model rests on a sound foundation. The

[1] BSA takes no position regarding the other issues on appeal. BSA notes, however, that this Court need not address whether the test of *Chamberlain Group, Inc., v. Skylink Technologies, Inc.*, 381 F.3d 1178 (Fed. Cir. 2004), should be the law of the Ninth Circuit. As the district court correctly held, liability was established regardless of whether the test of *Chamberlain* applies. The brief of *amicus curiae* The Motion Picture Association of America, Inc. addresses *Chamberlain*.

Copyright Act anticipates and encourages the distribution of copies of works, including software, through licensing. And an unbroken line of Ninth Circuit authority has upheld a series of software license agreements against claims that the agreements, despite their terms, were actually sales. That line of authority, moreover, has established a clear test for determining whether a particular transaction involving the distribution of software is a license or sale—a test that enables parties to knowingly and predictably structure their software distribution transactions as licenses.

Copyright law grants copyright owners the exclusive right to distribute their works "by sale, or other transfer of ownership, or by rental, lease or lending." 17 U.S.C. § 106(3). The law, by clear intent and with specificity, grants to authors the express right to choose the method of distribution. For decades, software creators have distributed copies of their software to users primarily by license. As this Court recently acknowledged, "software is rarely 'sold.'" *Wall Data Inc. v. Los Angeles County Sheriff's Dept.*, 447 F.3d 769, 786 (9th Cir. 2006). The Ninth Circuit precedent that supports this licensing model is similarly well-settled. In three cases, this Court has enforced software licenses by holding that the distribution of a copy of software pursuant to a purported software license agreement was a license, not a sale, under § 117(a). *Id.*; *Triad Sys. Corp. v.*

Southeastern Express Co., 64 F.3d 1330 (9th Cir. 1995); *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993).

While the particular software in this appeal is used for playing a game, this appeal implicates the licensing model of the entire software industry. Software creators and users have settled into a market in which most copies of software are licensed while others are sold, depending on the user's specific needs. Appellants MDY Industries LLC and Michael Donnelly (collectively, "MDY") and amicus Public Knowledge urge this Court to jettison its long-standing precedent supporting the licensing model and adopt instead a test that would transform established licensing arrangements into sale transactions. The test advocated by MDY and Public Knowledge would deprive software creators and users of the ability to tailor their transactions through licensing agreements that accurately reflect their specific needs and interests. Such a dramatic change is contrary to the law of this Circuit and would have profound consequences for an economy that depends heavily on software. The licensing model has effectively satisfied the diverse needs of both software creators and users, from private industry to government to non-profit organizations. Forcing a vast array of software transactions into a single, one-size-fits-all sales model would drastically upend settled expectations and practices that are critical to the U.S. economy.

This appeal raises the specific question of whether Blizzard's distribution of copies of its WoW software pursuant to Blizzard's EULA and TOU constituted a license or a sale of those copies under § 117(a). A holding that Blizzard's EULA and TOU constitute licenses is the only reading of the law that is consistent with the clear statutory intent and is essential to preserving the settled expectations of software creators and users. If the distribution pursuant to the EULA and TOU were ruled a sale, however, the licensing model would be undermined, creating risk for creators and users who have relied on licensing to specifically define their rights, risks, and liabilities. This would be particularly damaging for software users who benefit from licensing a broad range of low-cost, high-quality software products.

More fundamentally, the answer to the license-or-sale question will determine what freedom copyright owners and users have to structure their transactions. As noted by one court that rejected the same position advanced by MDY and Public Knowledge, "[f]undamental to any free society" is the ability of parties to set the price and terms of their agreements:

> [N]o colorable reason exists in this case as to why [software creators and others] should be barred from characterizing the transaction that has been forged between them as a license. In light of the restrictions on title that have been incorporated into the [license agreement], as well as the Parties' free and willing consent to enter into and execute its terms, the Parties should be free to negotiate and/or set a price for the product being exchanged, as well as set the terms by which the product is exchanged. Fundamental to any free society is the liberty

> of its members to formulate contracts in accordance with the terms that they agree and consent to mutually execute.

Adobe Sys., Inc. v. Stargate Software, Inc., 216 F. Supp. 2d 1051, 1059 (N.D. Cal. 2002).

BSA, as the association of the software industry, urges this Court to re-affirm its three clear decisions on these issues and to uphold the lower court's decision that Blizzard's EULA and TOU constitute a license, a ruling that stands on the solid footing of this Court's settled precedent. Not only is this the correct legal result, it is the right result for users that rely on software for countless daily activities and for creators who write and distribute that software.

II. THE DISTRICT COURT CORRECTLY APPLIED SETTLED LAW; MDY AND PUBLIC KNOWLEDGE PROVIDE NO BASIS FOR OVERTURNING THAT LAW.

Under the licensing model, software creators distribute copies of copyrighted software to users via licenses that (a) provide a conditional grant of specified rights under § 106 with respect to those copies and (b) specify the conditions under which those rights are granted. If a user breaches the conditions of the license (contract), that user forfeits the granted permissions.

The facts of this case illustrate the licensing model. Blizzard owns copyrights in WoW software. Blizzard's EULA and TOU impose several restrictions on the user with respect to the copy of that software, including that the user not run programs, like Glider, that enable or comprise cheating under the rules of WoW. If a user runs Glider, the user breaches Blizzard's EULA and TOU and no longer has permission to use the copy of Blizzard's WoW software.

Under these facts, Blizzard has established a prima facie case of copyright infringement. MDY, the alleged infringer, has the burden of proving a defense. MDY seeks to defend its infringement by arguing that users who agree to Blizzard's EULA and TOU are "owners" and qualify for the essential-step defense under § 117(a). As the district court correctly decided, this defense is not available to MDY because MDY has not and cannot satisfy its burden of establishing the "owner" element of the essential-step defense. *See In re Indep. Servs. Orgs. Antitrust Litig.*, 964 F. Supp. 1469, 1475 (D. Kan. 1997) (collecting cases holding that the alleged infringer bears the burden of establishing the essential-step defense). Accordingly, the district court's decision should be affirmed.

A. By Its Terms And By Legislative History, The Essential-Step Defense Is Limited To The Copyright "Owner."

As this Court has explained, the § 117(a) essential-step defense "permits *the owner* of a copy of a copyrighted computer program to make (or authorize the making of) another copy of the program, if the copy is created as an 'essential step in the utilization of the computer program in connection with the [computer, and] is used in no other manner.'" *Wall Data*, 447 F.3d at 784. "Section 117, by its own terms, applies only to '*the owner of a copy* of the computer program.'" *Id*.

The Federal Circuit has analyzed the legislative history of § 117(a) and concluded that the legislative history also compels that result:

> The National Commission on New Technological Uses of Copyrighted Works ("CONTU") was created by Congress to recommend changes in the Copyright Act to accommodate advances in computer technology. In its final report, CONTU proposed a version of section 117 that is identical to the one that was ultimately enacted, except for a single change. The proposed CONTU version provided 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 . . . ." Congress, however, substituted the words "owner of a copy" in place of the words "rightful possessor of a copy." The legislative history does not explain the reason for the change, but it is clear from the fact of the substitution of the term "owner" for "rightful possessor" that Congress must have meant to require more than "rightful possession" to trigger the section 117 defense.

DSC Commc'n Corp. v. Pulse Commc'n, Inc., 170 F.3d 1354, 1360 (Fed. Cir. 1999) (citations omitted).

The text and legislative history of a separate portion of § 117—§ 117(c)—provide further evidence that Congress intended "owner" in § 117(a) to have its normal meaning. In 1998, Congress amended § 117 by adding subsection (c) to permit "the ***owner or lessee*** of a machine to make or authorize the making of a copy of a computer program" in maintaining or repairing that machine. 17 U.S.C. § 117(c) (emphasis added). Congress enacted that provision in part in response to this Court's decision in *MAI*, described below, which held that RAM copies created during maintenance are reproductions and that software licensees are not "owners" under § 117(a). Congress did not seek to overrule these holdings by changing the text of § 117(a). Congress instead enacted a new, narrow exemption in § 117(c) that applies when an "owner or lessee" of a machine makes a copy of a program to maintain or repair the machine. Congress was aware of *MAI* when it amended § 117, and its decision not to alter *MAI*'s interpretation of "owner" shows that Congress concluded that this Court's interpretation was correct. After an "interpretation of a statute has been brought to the attention of Congress, and Congress has not sought to alter that interpretation although it has amended the statute in other respects, then presumably the legislative intent has been correctly discerned." *United States v. Colahan*, 635 F.2d 564, 568 (6th Cir. 1980).

B. To Determine Whether A Software User Is An "Owner," The Ninth Circuit Focuses On The Terms And Restrictions Of The Distribution Agreement.

The Ninth Circuit has addressed whether the distribution of a copy of copyrighted software pursuant to a purported software license is a license or a sale under § 117(a) in three cases. The Ninth Circuit held each time that the applicable contracts were licenses and not sales:

- In *MAI*, this Court addressed whether defendants made copies of software during the maintenance of a computer progr2am and, if so, whether those copies were covered by § 117(a). This Court first held that the "loading of copyrighted software into RAM creates a 'copy' of that software" for purposes of liability under the Copyright Act. 991 F.2d at 518. This Court then held that defendants were ineligible for the § 117(a) essential-step defense because MAI "licensed its software" to defendants and thus defendants did "not qualify as 'owners'" under § 117(a). *Id.* at 518-19 & n.5.

- In *Triad*, Triad manufactured computers and software for the auto industry. Defendant Southwestern serviced Triad computers and software. For copies of Triad software that were distributed without restriction, this Court held that Southwestern was not liable for infringement by virtue of § 117(a). But when Triad distributed copies of its software subject to restrictions in a software license, Southwestern was liable for infringement because it was not eligible for § 117(a). 64 F.3d at 1333.

- In *Wall Data*, the Los Angeles Sheriff's Department obtained a license to install copies of Wall Data's software. The Department installed the software onto more computers than were permitted by the license agreement. The Department sought to defend itself under § 117(a). This Court held that the Department could not benefit from the defense because the Department was "not the 'owner' of copies of Wall Data's software for purposes of § 117." 447 F.3d at 785.

In *Wall Data*, the most recent of these cases, this Court summarized the two-part test for answering the license-or-sale question in software cases: "if the copyright owner [1] makes it clear that she or he is granting only a license to the copy of software and [2] imposes significant restrictions on the purchaser's ability to redistribute or transfer that copy, the purchaser is considered a licensee, not an owner, of the software." *Wall Data*, 447 F.3d at 785.

A review of this Court's three on-point cases shows that the agreement in each case satisfied this Court's two-part test. First, each of those agreements made it clear that the transaction was intended to be a license, such as by defining the operative grant of rights as a license, describing the user as a licensee, and/or reserving title for the creator.[2] Second, each agreement significantly restricted the right to transfer, redistribute, and/or resell.[3]

The Ninth Circuit's two-part test focuses on the economically salient elements of the software transaction—the granting of specific rights subject to well-defined conditions. Indeed, where the parties called their transaction a "license," described the creator as the owner and the user as a licensee, and limited the user's right to use and distribute the copy of software, it is implausible to suggest the parties did not intend a license.[4]

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[2] *See, e.g.*, *Wall Data*, 447 F.3d at 775 n.5 ("'grants you ('You'), the end user, a non-exclusive license'"); *Triad*, 64 F.3d at 1333 (distinguishing users to whom the software was sold from those to whom it was licensed pursuant to license agreement); *MAI*, 991 F.2d at 517 n.4 (operative term was titled "license" and described acts that were "not authorized under this License").

[3] *See, e.g.*, *Wall Data*, 447 F.3d at 775 n.5 (user could not "transfer the Software to another Designated Computer"); *Triad*, 64 F.3d at 1333 (user could not "allow it to be used by third parties" and required the user to "pay Triad a license transfer fee"); *MAI*, 991 F.2d at 517 n.3 (user could only use the software on its own computers and had to "keep the Software confidential . . . and not make [it] available to others").

[4] MDY bases part of its argument on the district court's misquotation of *Wall Data*, where that court substituted "use" for "redistribution." Although the Ninth Circuit has never expressly included use restrictions in its formulation of the license-or-sale test, such restrictions were present in the three leading cases. *See, e.g., Wall Data*, 447 F.3d at 775 n.5; *Triad*, 64 F.3d at 1333; *MAI*, 991 F.2d at 517 n.3. Moreover, this Court mentioned such restrictions when analyzing the transaction in *Wall Data*: "The licensing agreement imposed severe restrictions on the [user's] rights to the software . . . [that] would not be imposed on a party who owned the software . . . . These restrictions were sufficient to classify the transaction as a grant of [a] license . . . ." 447 F.3d at 785. MDY, therefore, cannot prevail on the ground that consideration of use restrictions was improper.

C. MDY And Public Knowledge Provide No Basis For This Court To Overturn Its Settled Precedent.

MDY is liable for copyright infringement under the Ninth Circuit's two-part test. To avoid that liability, MDY asks this Court to overturn that test. In its place, MDY and Public Knowledge ask this Court to decide the license-or-sale question by examining whether the user perpetually possesses the copy of software and whether the user paid for the copy at one time or periodically. The possession-and-payment test is not and should not be the law.

1. No Authority Suggests That Perpetual Possession Or Payment Are Key Factors For Software.

The Ninth Circuit has never suggested that perpetual possession or a one-time payment are relevant factors in answering the license-or-sale question in software cases. And no Ninth Circuit case comes close to suggesting that they are controlling factors, as MDY and Public Knowledge propose.

The Federal Circuit, however, did consider the factors of possession and payment and ultimately rejected the notion that those factors should be controlling as "overly simplistic." *DSC*, 170 F.3d at 1362. In that case, plaintiff DSC made telephone equipment and licensed software to operate that equipment. Defendant Pulse made interface cards compatible with DSC's equipment. Whenever third parties used Pulse's interface cards with DSC's equipment, those third parties made copies of DSC software in violation of DSC's agreements with users. On appeal, the Federal Circuit considered whether the user agreements constituted sales or licenses. The court examined the terms of the agreements and concluded they were licenses because, among other reasons, "the agreements characterize the [users] as non-owners of copies of the software" and users could not "transfer copies of the . . . software." *Id.* at 1361.

The Federal Circuit then addressed the possession-and-payment test that MDY and Public Knowledge advance here. The court rejected that test on the facts, holding that DSC's agreements constituted licenses despite the fact that the user's "right of possession [was] perpetual" and the user's "rights were obtained through a single payment." *Id.* at 1362. The court also rejected that test on principle:

> One commentator has argued that when a copy of a software program is transferred for a single payment and for an unlimited term, the transferee should be considered an "owner" of the copy of the software program regardless of other restrictions on his use of the software. *See* Raymond T. Nimmer, *The Law of Computer* Technology ¶ 1.24[1], at 1-143 to 1-144 (3d ed. 1997). That view has not been accepted by other courts, however, and we think it overly simplistic.

Id. A license is a grant of rights subject to conditions. Neither the time of possession nor the manner of payment provides evidence of these characteristics in the software context.

2. There Are Sound Reasons That The Ninth Circuit Has Not Looked To Perpetual Possession And Payment As Indicia Of Ownership.

Whether a user perpetually possesses a copy of software is a poor indicator of software ownership. First, requiring the return of copies of software is inefficient. Creators distribute software via CD or DVD media, pre-loaded on the hard disk drive of a new computer, or via download from the Internet. For each of these distribution methods, a return of the software from user to creator would require both parties to incur unnecessary costs, including setting up a return system and taking steps to physically or electronically return the software. And there is no reason to incur those costs because the copy may be obsolete by the time of the return, and the used distribution media (CD or DVD, if any) has no significant economic value independent of the copy contained thereon. Second, return is technologically uncertain. “Returning” a copy of software is not as simple as returning a CD/DVD or attaching an electronic file to an email. A user’s hard drive will retain a copy of the software unless the user engages in particular steps to fully uninstall the software. Third, the possession element serves no purpose. Neither MDY nor the minority of courts that cite possession explain how it indicates ownership of software. Possession is likely seen as a proxy for control; that is, if a creator requires return, it exercises more control. But return is only one way to exercise control. Software creators can also restrict distribution. While returns and distribution restrictions achieve the same goal, distribution restrictions are a more efficient and technologically certain way to achieve this goal.

Payment terms are likewise a poor indicator of ownership. There is little practical difference between a payment of $100 or ten payments of $10. The method of payment is a matter of logistical convenience, not an indication of ownership. *See, e.g.*, *Stargate*, 216 F. Supp 2d at 1059 (rejecting the payment factor and stressing that in answering the license-or-sale question in a software case, “it is important to recognize the[] special characteristics of the software industry”).

3. The Two Appellate Cases On Which MDY Relies—*Wise* And *Krause*—Are Inapposite.

MDY and Public Knowledge cite *United States v. Wise* for the proposition that “perpetual possession” is the “critical” or “primary” indicator of a sale. 550 F.2d 1180 (9th Cir. 1977). (MDY Br. at 17; Public Knowledge Br. at 9.) *Wise* does not stand for that proposition. The relevance of the case, moreover, is further limited by the allocation of burdens of proof in the criminal context where it arose. Indeed, the three on-point Ninth Circuit cases (*MAI*, *Triad*, and *Wall Data*, all discussed above) do not cite *Wise*. This was not inadvertence. *Wise* has no bearing on, let alone control over, the resolution of whether a software license constitutes a license or sale.

Wise considered whether the government had proven beyond a reasonable doubt that feature-length movie prints sold by Wise were not obtained after a first sale. Lacking sufficient direct proof of Wise's source(s) of the prints, the government sought to prove the circumstantial case that no copy of the prints was available for legitimate distribution; this included proof that no print of any relevant work could have been available for distribution following a first sale. For proof of the latter issue, the government presented the terms of several agreements for distribution of prints of the relevant works from movie studios to networks, actors, and other recipients.

The Ninth Circuit held that the government failed to prove that two of these transactions were licenses rather than sales. At no point did *Wise* endorse the notion that perpetual possession was a paramount consideration. To the contrary, *Wise* repeatedly indicated that it was considering each agreement in its totality. *See, e.g., id. at* 1191 ("*remaining terms* of the agreements were consistent with theory of a limited license"; "*general tenor* of the entire agreement is inconsistent with [a sale]"; "We find this language and the *entire contract* to be a license") (emphasis added). *Wise*, moreover, reaffirms *Hampton v. Paramount Pictures Corp.*, 279 F.2d 100 (9th Cir. 1960), which found a license even though the recipient was granted perpetual possession—under the contract at issue, "there was no requirement that outstanding prints and negatives were to be returned" to the copyright owner. *Wise*, 550 F.2d at 1189-90; *Hampton*, 279 F.2d at 103. Further, this Court in *Wise* focused on whether title was retained. *See Wise*, 550 F.2d at 1187 (noting that "the statute requires a transfer of title before a 'first sale' can occur").

Wise also involved technology (16mm and 35mm hard-copy movie prints) that is materially different from software: the prints were expensive to create and the used film stock had ongoing economic value independent of the work copied thereon. *See Wise* at 1192 (creating print cost $401.59 in pre-1977 dollars), 1184-85 (used film stock is salvaged). In that context, the parties' behavior with respect to the print had some relevance to the question of whether a transfer was a license or sale—the studio could make use of a returned copy, either by using it to avoid the cost of making an additional print or by selling it for salvage. But the software context is unlike the motion picture context: software copies are inexpensive to create, and the CD and DVD media on which the copies exist has no ongoing economic value independent of the work copied thereon.

Finally, the government had the "burden of proving the absence of first sale" in *Wise*. *Id*. at 1192. A finding that the government failed to prove beyond a reasonable doubt that a particular transaction was not a sale cannot be transformed into a finding that all similar transactions are sales as a matter of law. This is especially true where, as here, MDY bears the burden of proof for establishing an affirmative defense.

Nor does *Krause v. Titleserv, Inc.*, 402 F.3d 119 (2d Cir. 2005) support MDY. *Krause* involved a dispute between an employee and employer about the ownership of copies of software that the employee created using company resources. *Krause* also involved a disputed "oral agreement" between the employee and employer, *id.* at 122, not the type of written software license between the creator and user at issue in *MAI*, *Triad*, *Wall Data*, and this case. Further, the *Krause* Court considered at least five factors in determining whether defendant was an owner or licensee and concluded that "the pertinent facts *in the aggregate* satisfy § 117(a)'s requirement of ownership of a copy." *Id.* at 124 (emphasis added). At no place did that court state or imply that perpetual possession was a paramount consideration. Nor, contrary to Public Knowledge's claims, did *Krause* "look[] to *Wise.*" (Public Knowledge Br. at 11). *Krause* never cites *Wise*.

4. Two District Courts Adopting A Minority Position Provide No Basis For This Court To Overturn Its Settled Precedent.

The two district court cases[5] on which MDY and Public Knowledge rely are contrary to this Court's on-point cases described above, all district court cases that follow this Court's decisions, and Congress's affirmation of the result in *MAI*. Further, this Court has already rejected the arguments that these district court cases raise against *MAI* and its progeny. In *Triad*, two years after *MAI*, this Court cited *MAI* and reaffirmed its holding. *Triad*, 64 F.3d at 1333-35. And in *Wall Data*, thirteen years after *MAI* and only three years ago, this Court again cited *MAI* and reaffirmed its holding. *Wall Data*, 447 F.3d at 785. In *Wall Data*, this Court "recognize[d] that our decision in *MAI* has been criticized," and cited to cases and commentators. *Id.* at 785 n.9. This Court nonetheless stated that "[w]e decline to revisit our precedent in this case." *Id.*

Further, the reasoning in the two district court cases is flawed. Those cases focus exclusively on possession and payment to determine whether a software transaction is a license or sale. This is inconsistent with the controlling precedent discussed above that examines the complete terms and restrictions of the

[5] *Vernor v. Autodesk, Inc.*, 555 F. Supp. 2d 1164 (W.D. Wash. 2008); *SoftMan Prods. Co., LLC v. Adobe Sys., Inc.*, 171 F. Supp. 2d 1075 (C.D. Cal. 2001). Appellants also rely on a third case, *UMG Recordings, Inc. v. Augusto*, 558 F. Supp. 2d 1055 (C.D. Cal. 2008), but that case is inapposite because it involved hard-copy music promotion CDs, not software.

agreement. And as also explained above, payment and possession have little relevance in light of the economic and technical characteristics of software.

III. OVERRULING THIS COURT'S § 117(A) PRECEDENT WOULD JEOPARDIZE THE SETTLED LICENSING MODEL OF THE SOFTWARE INDUSTRY.

The characteristics of Blizzard's EULA and TOU are not specific to distribution of game software. Instead, they are typical of licenses across the commercial software industry, including office productivity software, database software, networking software, educational software, and countless others. The EULA and TOU retain title for Blizzard (§ 1), have specific licensing terms (§ 3(a)), and contain numerous restrictions (§§ 3-4). (SER 147-148.) Blizzard's EULA and TOU are typical of licenses in the software industry in that Blizzard conditions the user's license of a copy of software on that user's agreement to and compliance with several well-defined restrictions.

The terms and restrictions of the EULA and TOU are more specific and restrictive than those this Court accepted as licenses in *MAI*, *Triad*, and *Wall Data*. If the EULA and TOU are ruled a sale, such a ruling would undermine this Court's precedent on the license-or-sale question in a broad range of software transactions and would transform a large percentage of licenses into sales. As detailed in the next section, such a dramatic change would disrupt not only the $300 billion software industry, it would have far reaching consequences for software users throughout the economy.[6]

IV. LICENSING SERVES THE NEEDS OF A BROAD CONSTITUENCY.

The types and uses of software are extremely varied. BSA members, for example, create software to study chemical compounds, manufacture cars, regulate shipping and inventory, explore space, operate defensive weapon systems, and serve countless other needs.

Transactions in software products are likewise varied, ranging from retail purchases of standardized software products by millions of users, to the individualized development and deployment of a custom software product to a single user, to everything in between. In some of these circumstances, an outright sale may be the best and most cost-effective way to structure the transaction. But in most circumstances, creators and users have decided that a license of limited rights better suits their needs.

When creators and users decide to structure their transaction as a license, they have many options. As described by a treatise on software licensing published by the American Bar Association, "[t]he structure and context of every

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[6] DataMonitor, *Global Software Industry Guide* abstract (2008), *available at* http://www.infoedge.com/product_type.asp?product=DO-4959.

software license is different depending on the needs of the parties."[7] The following is a small sample of the immense variety of commercial software licenses:[8]

- ***Use license***: permits a discrete set of ways in which the software may be used. Such licenses are common for promotional copies.
- ***Single-user licenses***: permits use by only one user.
- ***Machine license***: permits use on a particular computer or device, regardless of who uses that computer or device.
- ***Per-seat license***: permits use by a group of individually-specified users. This license is common for high-value products used by specialized professionals, such as computer programming and chemistry.
- ***Concurrent-use license***: permits use by a discrete number of simultaneous users. When the maximum numbers of users are running the software, no additional users may run it. This license is common for high-value software that users need to operate part of the time, such as such as electronic design automation.
- ***Server License***: permits use by all users connected to a particular server.
- ***Site licenses***: permits use by all users in discrete geographic area(s), building(s), organization(s), or other entities. This license is common for educational entities.
- ***Bundled or OEM license***: permits use in connection with a hardware product, but not as a stand-alone software product. This license is a common way computer manufactures include operating system software.

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[7] H. Ward Classen, *A Practical Guide To Software Licensing for Licensees and Licensors* 1 (2005).

[8] For detailed information about these and other types of software licenses, see generally *id*. and Jeffrey I. Gordon, *Software Licensing Handbook* (2006).

This diversity of licenses is a testament to the variety of situations in which creators and users decide that a grant of limited rights, instead of an outright sale, best achieves their goals.[9] The test advanced by MDY and Public Knowledge, however, would transform a vast number of these diverse licensing arrangements into sales. Adopting such a test would upset the varied licensing structures that currently meet the needs of creators and users and dramatically restrict the ways in which those groups can structure future licenses to meet their needs. The Court should decline to adopt that test for the reasons set forth in detail below.

A. Licensing Allows Creators And Users Flexibility In How They Distribute Software Products.

Different software users obviously make different uses of software products; but beyond that, different types of users often make materially different uses of the ***same*** product. For example, in terms of frequency, functionality, and commercial exploitation, a student working at home uses software differently than a large commercial enterprise. One organization may need a bundle of licenses dedicated to particular users because each given user employs the software regularly; another organization may need a bundle of licenses that may be shared throughout the

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[9] For additional explanation of the reasons creators and users engage in licensing transactions for certain types of software, see Christian Nadan, *Software Licensing in the 21st Century: Are Software "Licenses" Really Sales, and How Will the Software Industry Respond?*, 32 AIPLA Q.J. 555 (2004), and Daniel B. Ravicher, *Facilitating Collaborative Software Development: The Enforceability of Mass-Market Public Software Licenses*, 5 Va. J.L. & Tech. 11, 33-38 (2000).

organization because any user employs the software only sporadically. Licensing permits software creators to adapt their business models to the varying needs of their customers—both by granting rights according to the needs of different user groups and adjusting prices for different uses—because licenses can define with specificity the rights granted to the user without compelling that user to pay for additional rights that they do not need.

Without licensing, business models tailored to the needs and requirements of users would not be possible. As the Seventh Circuit has recognized, this tailoring is good for creators (because it increases sales and distributes risk) and for users (because it decreases prices and thus permits cost-sensitive users to benefit from software products):

> If [the software creator] had to recover all of its costs and make a profit by charging a single price—that is, if it could not charge more to commercial users than to the general public—it would have to raise the price substantially . . . . If because of high elasticity of demand in the consumer segment of the market the only way to make a profit turned out to be a price attractive to commercial users alone, then all consumers would lose out—and so would the commercial clients, who would have to pay more for the listings because ProCD could not obtain any contribution toward costs from the consumer market.

ProCD, Inc., v. Zeidenberg, 86 F.3d 1447, 1449 (7th Cir. 1996).

Two cases involving educational products illustrate the importance of licensing to business models involving different markets. *Stargate*, 216 F. Supp 2d 1051; *Adobe Sys., Inc. v. One Stop Micro, Inc.*, 84 F. Supp. 2d 1086 (N.D. Cal.

2000). In those cases, Adobe licensed discounted versions of its software to distributors who, pursuant to Adobe's EULA, could distribute copies to educational users. Defendants purchased copies from educational users and resold them to commercial users. Courts found that the original distribution from Adobe to the distributor, governed by Adobe's EULA, was a license and not a sale. Consequently, Adobe's EULA bound defendants, who committed copyright infringement when they resold the copies to commercial users. The enforcement of Adobe's EULA was essential to Adobe's efforts to meet the different needs of both educational and commercial users.

B. Licensing Enables Users To Learn About New Software.

Licensing allows software creators to reach users who would not know whether a product meets their needs without first trying it. Some creators introduce users to software by licensing the product for a short period of time at little or no cost. Other creators license a free version of the product that has limited functionality while requiring the user to pay to license the full functionality. Licensing enables these and other types of product sampling by ensuring that the time- or function-limited products are not used beyond the terms of the license.

C. Licensing Enables A Continuing Relationship That Benefits Both Creators And Users.

By licensing a copy of software, a user may employ the software as specified under the terms of the agreement between the parties. In contrast to other transactions involving personal property, the relationship between the grantor (in this instance, the software creator), the property that is the subject of the transaction (in this instance, the copy of the software), and the user does not end after the transaction is complete.

Under a large number of software licensing agreements, creators regularly update and improve their software and provide those updates and improvements to licensed users. Creators often produce supplementary software—"patches" or "updates"—that improve performance, add new functions, or fix minor problems known as "bugs." Patches and updates also provide security enhancements to protect users from malicious software—software that is propagated by third parties to steal users' personal information, misuse their computers, or damage their computers. The continuing evolution of malicious software requires ongoing efforts to maintain the security of legitimate software, and creators typically provide those enhancements at no cost to licensed users. Licensed users may also have special rights to future versions of the software—e.g., the right to obtain future versions of the software at no or reduced cost. These features of licenses reflect the continuing and mutually beneficial relationship between the creator and user with respect to the particular software copy in the user's possession.[10]

Licensing facilitates these and other benefits to users because it maintains a direct relationship between the creator and the user. If copies of software were sold, however, there would be no such direct relationship because the original buyer could distribute the copy to another user, and so on. This would make it substantially more difficult and costly for creators to determine which users were legitimately entitled to the benefits of the continuing relationship.

D. Licensing Enables Creators To Protect A User's Experience.

Software creators restrict the use of their software to, among other reasons, ensure the integrity of their creations. For example, Blizzard's EULA and TOU forbade the use of "cheats, bots, 'mods,' and/or hacks, or any other third-party software designed to modify the World of Warcraft experience." (SER 137 at § 4.B(ii).) Blizzard and its users agreed to this provision to ensure fair play: Blizzard and its users wanted a gaming experience that was not distorted by

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[10] *See, e.g.*, *Microsoft Corp. v. DAK Indus., Inc.*, 66 F.3d 1091, 1092 (9th Cir. 1995) (describing a license under which the licensee "received the right to accept updates and new versions" of the software); Florencia Marotta-Wurgler, *What's in a Standard Form Contract? An Empirical Analysis of Software License Agreements*, 4 J. Empirical Legal Studies 677, 701 (2007) (describing maintenance and support provisions); Robert W. Gomulkiewicz, *Getting Serious About User-Friendly Mass Market Licensing for Software*, 12 Geo. Mason L. Rev. 687, 695 (2004) ("software companies sometimes compete on [] contractual terms").

cheating. When some users employed Glider and obtained an unfair advantage, more than half a million users complained to Blizzard. Use restrictions permit the creation and flourishing of services, like WoW, that involve ongoing interaction between multiple users of software.

V. CONCLUSION.

The Copyright Act aims to "enrich[] the general public through access to creative works," *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 527 (1994), and to "promote the creation and publication of free expression" by rewarding authors. *Eldred v. Ashcroft*, 537 U.S. 186, 219 (2003). Software creators assemble the creative and technical talent, invest time and money, and develop valuable software. The Copyright Act gives creators choices in how to distribute their work—sell, license, or otherwise distribute all, part, or none of it. For decades, software creators have chosen to distribute copies of their software primarily via specific licenses. As consumers of copyrighted software, users likewise have choices—they can accept the license at a relatively inexpensive price, negotiate for a sale or some other transaction, or forego the software.

Software creators and users have settled into a stable, efficient market that operates primarily through licensing. MDY and Public Knowledge request that this Court rewrite the rules and transform the practices by which that market operates. Acceding to that request would make licensing less viable, and the breadth of options for users would decrease. This would thwart the Copyright Act by denying the public access to creative works. This Court should reject that request, affirm its unbroken line of authority, and confirm the ability of creators and users to structure the distribution of copies of software as they see fit.

Dated: November 16, 2009

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CERTIFICATE OF COMPLIANCE

Pursuant to F.R.A.P. 29(d), 32(a)(5), 32(a)(6), and 32(a)(7), I certify the following regarding the brief of *amicus curiae* BSA:

1. This brief contains 6,960 words, excluding parts of the brief exempted by Fed. R. App. P. 32(a)(7)(B)(iii). Counsel relies on the word count of the computer program used to prepare this brief.

2. The brief has been prepared in a proportionally spaced typeface using Microsoft Word 2003 in Times New Roman 14-point font.

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CERTIFICATE OF SERVICE

I hereby certify that on November 16, 2009, I electronically filed the foregoing with the Clerk of the Court for the United States Court of Appeals for the Ninth Circuit by using the appellate CM/ECF system.

I certify that all participants in the case are registered CM/ECF users and that service will be accomplished by the appellate CM/ECF system.

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