

09-15932, 09-16044

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

MDY INDUSTRIES, LLC and MICHAEL DONNELLY

*Plaintiffs-Appellants,
Counter-Appellees*

v.

BLIZZARD ENTERTAINMENT, INC. and VIVENDI GAMES, INC.

*Defendants-Appellees,
Counter-Appellants*

On Appeal from the United States District Court
for the District of Arizona (Phoenix), No. 06-CV-02555,
Hon. David G. Campbell

BRIEF OF *AMICUS CURIAE*
SOFTWARE & INFORMATION INDUSTRY ASSOCIATION (SIIA)
IN SUPPORT OF APPELLEE AND AFFIRMANCE ON APPEAL

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Pursuant to Federal Rule of Appellate Procedure 26. 1, the Software & Information Industry Association has no parent corporation, and no publicly held company owns 10% or more of its stock.

STATEMENT OF CONSENT

Amicus Software & Information Industry Association files this brief with the consent of all parties, including consent as to the filing date.

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INTEREST OF THE AMICUS

Amicus, the Software & Information Industry Association (“SIIA”), is the principal U.S. trade association of the software and digital content industries. SIIA is the nation’s oldest and largest association representing software and content companies.¹ Its members range from start-up firms to some of the largest and most recognizable corporations in the world.² SIIA member companies are leading providers of, among other things:

- software publishing, graphics, and photo editing tools
- corporate database and data processing software
- financial trading and investing services, news, and commodities exchanges
- online legal information and legal research tools
- protection against software viruses and other threats
- education software and online education services
- open source software
- and many other products and services in the digital content industries.

¹ The Software Publishers Association (“SPA”) was founded in 1984. The increasing convergence of the software and information services industries led to a 1999 merger between SPA and the Information Industry Association (“IIA”), creating the SIIA.

² A list of the more than 500 SIIA member companies may be found at http://joomlatest.siiia.net/index.php?option=com_wrapper&view=wrapper&Itemid=43.

SIIA has been an industry leader in addressing intellectual property issues in the software and content industries for many years. It has long been an active participant in legislative reforms relating to copyright, such as the Digital Millennium Copyright Act, which included amendments to Section 117 that are relevant to this case. And SIIA's members have extensive, real-world experience in: (1) distributing software as licensors, (2) acquiring software as licensees, (3) the distinct transaction of a *sale* of software (such as in a development agreement), and (4) the enormous challenge of enforcing their rights in a global electronic marketplace, where copies can be effortlessly distributed anywhere and to anyone in an instant. SIIA offers a practical view of a multi-billion dollar industry that is built upon untold thousands of existing software licenses, and a legal enforcement regime that depends upon proper recognition of those licenses.

SIIA's interest in this case is to ensure the proper application of section 117 of the Copyright Act, which distinguishes between "owning" and "licensing" copies of software (a distinction that applies equally to the section 109 first sale defense). This distinction is of monumental importance to the software industry. For more than three decades, licenses have dictated the economics and legal structure of the software business, and the relationship and risk allocation between the software companies and their customers. A holding that suggests that the thousands of software licenses currently in force are effectively "sales," conveying

ownership of copies, would have far reaching, adverse consequences for the industry and the vast majority of its customers.

SUMMARY OF THE ARGUMENT

The software industry has long distributed copies of its “product” – the ephemeral code that directs the actions of computers, processors, and other machines – under license agreements that set forth the ongoing rights and obligations of the software publisher and its customer. These rights and obligations vary from license to license, including everything from ongoing customer support, warranties and indemnities, bug fixes, upgrades and special upgrade prices, transfer conditions, code modification, and many other categories of terms. The vehicle for distributing software also varies, and has changed over time, from tapes and floppy disks to CDs and, now, the Internet. But throughout these changes, there has been one constant – the means for making most software available to customers has been a license.

Software licenses provide benefits to consumers not provided by copyright law, but also impose restrictions inconsistent with ownership. These restrictions vary, and are not dependent upon “reacquiring possession” of a disc, or receiving multiple payments from the customer. The license restrictions are critical to the legal framework software publishers use in protecting their rights. Breaking the

restrictions of a license should not be rewarded with ownership of the copy, and the privileges ownership entails under the Copyright Act.

In this circuit, the law is well established that software licenses are not sales conferring ownership under section 109 and section 117, and those defenses thus do not apply to the recipient of copies under the license. The vast majority of courts agree with this circuit. The few district court cases that found otherwise are not persuasive. Under the precedent of this circuit, the World of Warcraft licensees do not own their software, do not have a section 117 right to copy, and thus the copyright infringement judgment of the district court should be affirmed.

ARGUMENT

I. THE SOFTWARE INDUSTRY IS FUNDAMENTALLY BUILT UPON LICENSING, NOT SALES OF COPIES

In the 1970's, when the software industry was in its nascent stage, software publishers began licensing their software rather than selling it. Today, licenses govern most mass market software transactions, and the software industry has grown to over \$500 billion in annual revenues. *See* Software & Information Industry Association, *Software and Information: Driving the Knowledge Economy* (January 24, 2008) at 7-8, <http://www.siiia.net/estore/globecon-08.pdf>.

The licensing business model sustains the industry, spurs innovation, and typically provides additional benefits to software users that they would not have under copyright law.

A. Licensing Reflects The Characteristics Of Software And The Economics Of Its Distribution, Support, And Maintenance

Software is unlike most products. Its value lies not in any physical structure, such as the CD on which it may be encoded, but rather in the ephemeral code or instructions themselves. The structure containing the software – whether a piece of plastic, or a network of wires and switches (such as the Internet) connected to a memory – is merely the mechanism for delivery from publisher to consumer. And unlike other copyrighted works, it is not visual or audio aesthetics of software that most reflect its value, it is the effects of its operation upon a machine, such as a processor (though these effects often reflect great creativity). Put another way, the software “product” is the code together with the associated rights to run it.

Software publishers realized early on that the nature of software does not lend itself to sale (except in specialized circumstances, such as business to business software development transactions and similar arrangements). Constantly evolving and changing desktop environments, and many concurrently operating software programs, made technical support and bug fixes a desirable feature for consumers. Publishers learned that providing upgraded software periodically, often at a discounted price, helped retain their customers. The initial payment for the first

version of the software often is only the beginning of the relationship between the publisher and customer.

By the same token, the nature of software imposes risks on the publisher. Whether a customer is running the program on his home computer to edit photo albums, or operating a mission-critical database application in the workplace, the software publisher aims to ensure that the product will function as intended. The need for providing warranties, but at the same time reducing the inherent risk to economically acceptable and reasonably certain levels, is apparent. Certainty of obligations from state to state, and country to country, also is important. Thus, reliance solely upon state and federal laws, *i.e.* intellectual property laws, does not suffice.

Moreover, software can implicate a variety of intellectual property regimes. In addition to copyright, some software programs are patented, and others include elements protected by trade secret law and other commercial laws. Software publishers desire clarity in the rights and obligations to customers. For example, some (though not all) publishers are concerned about limiting their software recipients' ability to reverse engineer the code in order to create a competing product. Other copyright industries typically need not concern themselves with this risk, *e.g.*, as there is no reverse engineering of movies or music. And software,

unlike most other copyrighted works, is subject to export restrictions that may vary from country to country.

For all of these reasons, licenses evolved as the logical means of transacting software. By clearly setting forth the terms of use and the obligations of the publisher, software companies could gain the certainty and uniformity necessary to make software distribution economically feasible. Customers typically benefit by acquiring rights not provided by copyright law or other intellectual property laws. For example, a review of some industry licenses included in SIIA's Certified Software Manager Student Manual (a course designed to train company software license managers) reveals just a few examples of privileges that would not be granted by copyright law pursuant to the sale of a work (or by exhaustion or similar regime with respect to the sale of a good):

- Permitting multiple backup and archival copies stored on various media or locations.
- Permitting multiple log-ins or connections to use a single CD, and make multiple copies.
- Permitting modification and adaption of the code.
- Granting free or reduced price access to updates and upgrades.
- Providing access to ongoing technical support.
- Permitting copying and distribution of the software documentation.

- Permitting sublicensing for purposes of outsourcing.

See Software & Information Industry Association & LicenseLogic LLC, CERTIFIED SOFTWARE MANAGER STUDENT MANUAL (SIIA Publications 2004) at Section 4: Understanding License Agreements 4:1 – 4:62.

Significantly, licensing also permitted a wider range of users to access and use software. Because the “product” is, in essence, the rights bundled with the code, a publisher need not reduce or degrade the function of its product in order to provide it at a reduced price appropriate for a particular market of users. Rather, the publisher can simply vary the rights of using it. So, for example, a publisher may offer a fully functional version of its products to students at a deeply reduced price, but the rights granted do not permit use for commercial purposes. *See, e.g., ProCD, Inc., v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996) (“Instead of tinkering with the product . . . [software companies] turned to the institution of contract.”); *id.* at 1455 (“Terms and conditions offered by contract reflect private ordering, essential to the efficient functioning of markets.”). By varying terms such as the extent of transferability, extent of copying, modification rights, export rights, location and type of use, the publisher can provide a price-appropriate product appropriate for the varying needs of various markets.

By the same token, licensing allows publishers to manage the risks inherent in providing a product constantly susceptible to reverse engineering, copying, and

other misuse, and to balance potential liability should it fail to perform as intended. For example, a corporation using the software in a critical business application is likely to have far less risk tolerance, and appropriately willing to pay more to mitigate that risk, than an end user utilizing the software for personal use at home. *See ProCD*, 86 F.3d.at 1455 (discussing variance of warranties in software licenses, to balance economic risk). Different groups of users may require or desire different levels of technical support, and may have different preferences for acquiring the latest updates, bug fixes, or new versions of the software. Without licensing, publishers would be hard pressed to provide much more than a “one size fits all” model of its product. And many of the benefits provided under license, such as the support, bug fixes, and updates, are not otherwise provided to users under copyright law.

Software differs from many other copyrighted works in the foregoing respects. For example, when The Walt Disney Company released the DVD version of “Snow White,” it did not provide a free “upgrade” to those who bought an earlier version on analog VHS tape, which is incompatible with their new DVD player. When an extended version of the movie was later released on DVD, Disney did not provide the updated features and new clips to those who bought the tape or the initial DVD. When BlueRay DVD technology was introduced and Disney released a BlueRay DVD version of the movie, the studio did not provide

the new version to its existing customer base. And the studio did not provide a customer who bought the movie (in whatever form) with multiple copies so they could watch the movie at home, in their car, at their vacation home and in various other locations on various other devices.

B. Licensing Has Spawned Innovation In Product Offerings And New Business Models That Benefit Consumers

Software licensing has sustained innovation not only in the technical advancement of the industry, but in its business models. For example, software licensing is the foundation of open source software distribution. An open source license is a software license that makes the source code available under terms that allow for modification and redistribution without having to compensate the copyright owner of the software. These terms help to proliferate the software, enhancing its popularity and drawing upon the expertise of multitudes of users to improve it. *See, e.g., Jacobsen v. Katzer*, 535 F.3d 1373, 1378 (Fed. Cir. 2008) (“Open source software licenses, or ‘public licenses,’ are used by artists, authors, educators, software developers, and scientists who wish to create collaborative projects and to dedicate certain works to the public.”). The restrictions of open source licenses form an essential element of the success of these models. Open source licenses require each user to pass on the rights he received, and often to identify any changes that were made in the code and to identify the original author

of the code. If these terms were not enforceable these licensing models would no longer be viable.

A prominent example of open source licensing is the GNU General Public License (“GPL”), which is used for the Linux operating system. The GPL permits licensees to copy and modify the program, and further distribute it. But the licensee is not permitted to charge downstream recipients a license fee. It may charge, however, for warranty, service, and support of the modified product it distributed. All license restrictions must be passed on to the subsequent recipients of copies of the software. As described by Richard Stallman, a pioneer of the open source software movement, “[T]o protect your rights, we need to prevent others from denying you these rights or asking you to surrender the rights. Therefore, you have certain responsibilities if you distribute copies of the software, or if you modify it.” GNU General Public License, Preamble, <http://www.fsf.org/licensing/licenses/gpl.html> (November 14, 2009). In other words, it is the restrictions in the GPL that keep the software “free.”

A wide variety of public interest groups have consistently and vigorously advocated that courts recognize and enforce open source software licenses, preserving the remedies for copyright infringement against violators. Public interest amici argued in the *Jacobsen v. Katzer* case:

While public licenses are generous in their permissions, the rights and remedies of copyright law remain critically important to their enforcement. By retaining the right to sue for copyright infringement (and the right to invoke the accompanying presumptions and statutory remedies), the public licensor enjoys an effective enforcement mechanism against those who would take the benefits of the creative work, while seeking to evade the obligations the public license demands.

Brief of Amici Curiae Creative Commons Corporation *et al.* in *Jacobsen v. Katzer*, 2007 WL 4968765, Appeal No. 2008-1001 (Fed. Cir. 2007).

Indeed, even the counsel of record on Public Knowledge’s brief in this case authored an extensive law review article explaining the importance of software licenses to the open source software movement. *See* Brian Carver, *Share and Share Alike: Understanding and Enforcing Open Source and Free Software Licenses*, 20 BERKELEY TECHNOLOGY LAW JOURNAL 443 (2005) (“The GPL is a revolutionary copyright license that has allowed software developers to use existing law to copyright their work, while allowing licensees the freedoms to use, copy, modify, and distribute their work, but not to turn the work into a proprietary derivative.”). The use of software licenses sustains the open source model.

Another innovation based upon software licensing is “Software as a Service,” or “SaaS.” SaaS refers to delivering access to software applications remotely via a network, on demand only when the customer needs them. *See, e.g.*, Software & Information Industry Association & Tripletree Industry, *Software as a*

Service: Changing the Paradigm in the Software Industry (July 2004), <http://www.siia.net/estore/pubs/saas-04.pdf>. The software is stored at the service provider's site, maintained by the service provider, and access is shared across all client computers. A key premise of this model is that the "software as a service" provider invests in the technology, hardware, and ongoing support services instead of the customer having to do so. *See id.* In return, customers "pay-as-you-go" according to a subscription and Service Level Agreement (SLA) that ensures a specified level of performance and availability. The model of "cloud computing" is similar.

These are just a few of the innovations that have sprung from software licensing.

C. Software Licenses Vary Widely And Are Not Defined By "Perpetual Possession" Or "Ongoing Payment"

In addition to serving as the foundation for innovative business models, software licensing allows publishers to tailor its products to what consumers want, and provide choices. Consumers may choose the product offering best suited for them and their intended use of the software.

There is no single, common term that defines a software license. Thousands upon thousands of variations are in force, and the variety of rights and obligations is seemingly limitless. While a hallmark of licensing or leasing a physical good

may be return of that item at some point, the same cannot be said for software. It is, by its nature, ephemeral and infinitely reproducible. While the plastic disc, or floppy disk, or other media used to convey it or store it may, in theory, be requested back by the publisher, to do so would be relatively pointless. *See, e.g., DSC Commc'ns Corp. v. Pulse Commc'ns, Inc.*, 170 F.3d 1354, 1362 (Fed. Cir. 1999) (return of disc not necessary to enforce software license). A copy of the software still could reside on the user's computer hard drive, or any number of other places a copy could have been stored, remaining in violation of the license. The disc often is worth nothing to the publisher, analogous to an envelope used to mail a contract. Moreover, software increasingly is delivered via networks, so there is no item to "return" when the license expires or is terminated.

Instead of relying upon an anachronistic model of delivering and reacquiring a disc, software licenses reflect a wide variety of terms and obligations, particularly regarding usage and distribution rights. A few typical examples, and typical usage or distribution limitations, follow:

- Individual License. Software licensed to one user for use on one workstation. Some publishers allow the user to make additional copies so, for instance, the user can access the software from work, home and/or laptop computer.
- Academic/Educational License. Must be used in an academic setting, by a qualified user, for educational purposes only. Transfer prohibited or restricted to other qualified users. Many software companies distribute academic or educational versions of their software to public schools, universities and other

educational institutions at a price that is greatly reduced, in exchange for agreement to the terms.

- OEM (Original Equipment Manufacturer) License. Software bundled with or installed on specific hardware, such as a scanner, and licensed for use only with that hardware. Again, such software may be distributed under discount, based upon adherence to the license terms.

- Concurrent User License. Permits a limited number of users to connect simultaneously to a software application, on a network, frequently utilized by businesses.

- Site License. Is defined by some geographic restriction such as a specific company (e.g., XYZ Corp); a single geographic area (e.g., New York offices on 50th Street of XYZ Corp.); or a department on specific floors of a building (e.g., Accounting Department of XYZ Corp.).

See SIIA, CERTIFIED SOFTWARE MANAGER STUDENT MANUAL at 4:1 – 4:52.

In sum, licensing permits publishers to tailor their product offerings in a variety of ways, presenting customers with more attractive options and pricing choices. The distinguishing features that make them “licenses,” not sales, are terms that are inconsistent with ownership, most commonly limitations or conditions on use or transfer of the software copy, and/or reservation of ownership in the publisher.

**D. Licenses Critically Support The Legal Framework
That Software Companies Rely Upon to Protect Their Rights**

While software licensing offers benefits to consumers, *e.g.*, in the form of discount pricing, the software publishers need to be able to effectively enforce the terms. They often do so through copyright law.

The facts in *ProCD* are instructive. The plaintiff “offer[ed] software and data for two prices: one for personal use, a higher price for commercial use.” *ProCD*, 86 F.3d at 1454. The defendant “wanted to use the data [for commercial use] without paying the . . . price,” acquired the lower priced version, and proceeded to use it in violation of the license. *Id.* The court held that the software was licensed, not sold, thus defendant could not assert the first sale defense, and could be sued for copyright infringement. *Id.* A contrary result would prejudice the licensor, and undermine the benefits and incentives of licensing. *See also Jacobsen*, 535 F.3d at 1381 (“Copyright holders who engage in . . . licensing have the right to control the . . . distribution of [their] copyrighted material.”).

Interpreting a software license as a sale would effectively nullify all obligations of the recipient, while the software publisher may remain on the hook for the promised warranties, support, updates, and other terms. The first sale doctrine in that instance would unfairly override the restrictions on the user’s distribution and use of that copy – restrictions that were reflected in the price of the product and accepted by the licensee. *See ProCd*, 86 F.3d at 1450.

Moreover, contract remedies alone often are ineffectual for mass market license enforcement. Unscrupulous “resellers” acquire bundles of licensed product “downstream from a breach” (for example, an employee at an equipment manufacturer that received a license and “master disk” to produce 10,000 OEM copies of a software product). The “reseller” will claim not to be in privity of contract with the publisher. Unless the publisher retains the exclusive distribution right under copyright law, it may have no recourse – the breaching party often cannot be identified. Thus, for discounted products, publishers may use a closed chain of licenses and retain the distribution right. *Cf. American Int’l Pictures v. Foreman*, 576 F.2d 661, 664 (5th Cir. 1978) (“[U]nless title to the copy passes through a first sale by the copyright holder, subsequent sales do not confer good title.”); *ProCD*, 86 F.3d at 1454 (“A copyright is a right against the world. Contracts, by contrast, generally affect only their parties; strangers may do as they please.”).

II. SECTION 117(a) DOES NOT APPLY TO SOFTWARE LICENSEES

Section 117 provides:

117(a). *Making of additional copy or adaptation by owner of copy.* Notwithstanding the provisions of section 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided: (1) that such a new copy or adaptation is created as an essential step in the utilization of the

computer program in conjunction with a machine and that it is used in no other manner, or (2) that such new copy or adaptation is for archival purposes only and that all archival copies are destroyed in the event that continued possession of the computer program should cease to be rightful.

17 U.S.C. § 117 (emphasis added). By its terms, section 117(a) applies only to the “owner of a copy.” Thus, “[i]f a copyright holder chooses to not sell copies but to distribute under a different contractual arrangement giving lesser rights, the statutory first-sale exemptions [sections 109 and 117] do not come into play.”

Raymond A. Nimmer, LAW OF COMPUTER TECHNOLOGY § 1.110 (October 2009).

Professor Nimmer, one of the country’s foremost software licensing experts, explains that “the rationale of the first sale rule – that the copyright owner obtained full compensation for the sale of the particular copy – does not work” when the copy is conveyed by license. *Id.*

Professor Nimmer cites an apt example:

If a copyright owner transfers a copy for ten dollars limiting the transferee's use or redistribution of the copy to educational purposes, it cannot be said that this limited transfer yields a full return equivalent to the sale of the copy such that the transferee should be free to redistribute it in any manner that it pleases. In fact, a sale with no use or redistribution restrictions would yield more than the ten dollars.

Id. Illegal resellers of education-licensed software regularly overlook or ignore this self-evident principle. They acquire a licensed copy at the education-license price and then offer to sell it at a higher price in an online marketplace without the

license restrictions. If licenses were construed as sales, there would be little to stop this from occurring, and good reason for publishers to stop offering discounted education license prices.

A. The Law In This Circuit Is Well Settled That Software Licenses Do Not Confer “Ownership” Of A Copy

This Court has repeatedly held that in the context of section 117, a software license does not confer “ownership.” See *MAI Sys. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993); *Triad Sys. Corp v. Se. Express Co.*, 64 F.3d 1330 (9th Cir. 1995); *Wall Data Inc. v. Los Angeles County Sheriff’s Dep’t*, 447 F.3d 769 (9th Cir. 2006).

The recent *Wall Data* case is directly on point to the present appeal. The Los Angeles county sheriff’s department claimed that it “bought” 2,000 copies of software from the plaintiff, and asserted section 117 as a defense to the manner in which it configured and used the software. *Id.* at 773-74, 784-86. The software was provided under “shrink wrap,” “click wrap,” and booklet licenses for an upfront fee totaling \$175,200, *id.* at 774, 775 n. 4, just like typical mass market software (in structure if not price and volume). The Court analyzed the license’s restrictions on *use* and *transfer* of the software, not simply the form of payment and whether possession was perpetual:

the end user [is granted a] non-exclusive license to use the enclosed software program ... on a single Designated Computer for which the software has been activated. A “Designated Computer” is either (i) a

stand-alone workstation, or (ii) a networked workstation which does not permit the Software to be shared with other networked workstations. You may not use the Software in any other multiple computer or multiple user arrangement. You may not use the Software other than on a Designated Computer, except that [y]ou may transfer the Software to another Designated Computer and reactivate it for use with such other Designated Computer not more than once every 30 days, provided that the Software is removed from the Designated Computer from which it is transferred.

Id. at 775 n.5, 785 (emphasis added). The Court concluded that “[s]uch restrictions would not be imposed on a party who owned the software.”

Id. at 785. Because the sheriff’s department did not own the software, it could not rely upon section 117.

The restrictions in *Wall Data* were no different in kind to the license restrictions in this case or most other mass market software.

Indeed, the Court recognized:

[T]he first sale doctrine rarely applies in the software world because software is rarely “sold.” . . . “Virtually all end users do not buy – but rather receive a license for – software. The industry [in some contexts] uses terms such as ‘purchase,’ ‘sell,’ ‘buy,’ because they are convenient and familiar, but the industry is aware that all software is distributed under license.” (Citation omitted).

Id. at 785 n. 9 (emphasis added).

The Court reached the same result in a pair of earlier cases involving the efforts of independent service organizations (ISO’s) to perform maintenance on computers. In *Triad Sys. Corp v. Se. Express Co.*, 64 F.3d 1330 (9th Cir. 1995),

the Court compared software the plaintiff sold, the use of which was covered by section 117, and the software it later licensed, which conferred no such defense. *Triad*, 64 F.3d at 1333. The Court had little trouble concluding that the license's restriction on "use by third parties" was sufficient to convey a license, not a sale. *Id.* The ISO thus was liable for copies of the licensed software created upon booting the computer for service. *See also MAI*, 991 F.2d at 518 ("[s]ince MAI licensed its software, the Peak customers do not qualify as 'owners' of the software and are not eligible for protection under § 117.>").

While some critics have suggested that the Court in *MAI* simply accepted the transaction's label as a "license," the opinion in fact recited several limitations inconsistent with ownership. *See id.* at 517 ("MAI software licenses do not allow for the use or copying of MAI software by third parties such as Peak."); *id.* at 517 n.3 ("*Customer Prohibited Acts.... Any possession or use of the Software ... not expressly authorized under this License or any act which might jeopardize [MAI]'s rights or interests in the Software ... is prohibited, including without limitation, examination, disclosure, copying, modification, reconfiguration, augmentation, adaptation, emulation, visual display or reduction to visually perceptible form or tampering.*"); *see also S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1087-88 (9th Cir. 1989) (the "literal language of the parties' contract provides that [the copyright

owner] retains “*all* rights of ownership,” including in the copy, so sections 109 and 117 do not protect recipient’s use).

B. The Legislative History Of Section 117 Confirms That Congress Did Not Intend It To Cover Software Licensees

Section 117 was based upon the 1978 Final Report of CONTU (National Commission on New Technological Uses of Copyrighted Works), a commission convened by Congress. CONTU recommended exceptions applying to all “rightful possessors” of a copy of software, including leasees, *i.e.*, licensees. *See* Final Report of the National Commission on the New Technological Uses of Copyrighted Works (CONTU Rep.), ISBN 0-8444-0312-1 (1978) at 12. But when Congress implemented the CONTU recommendations to enact section 117, it changed the phrase “rightful possessor” to “owner.” *See* Public Law 96-517 (December 12, 1980).

More than a decade later, Congress revisited section 117 in light of the *MAI* and *Triad* decisions. The fact that Congress did not amend the term “owner” at that time is telling. *See, e.g., People v. Garcia*, 39 Cal. 4th 1070, 1087 (2006) (“[W]hen ... the Legislature undertakes to amend a statute which has been the subject of judicial construction ... it is presumed that the Legislature was fully cognizant of such construction....”); Corpus Juris Secundum, STATUTES: CONSTRUCTION AND OPERATION § 510 (Nov. 2009) (same). Instead, Congress added a new provision applicable only to “machine maintenance or repair”:

117(c) Notwithstanding the provisions of section 106, it is not an infringement for the owner or lessee of a machine to make or authorize the making of a copy of a computer program if such copy is made solely by virtue of the activation of a machine that lawfully contains an authorized copy of the computer program....

Digital Millenium Copyright Act, Pub. L. 105-304 (Oct. 28, 1998) (emphasis added). Congress' inclusion of the term "lessee" in this new subsection confirms that had it intended section 117(a) to apply to licensees, it clearly knew how to do so. *See, e.g., Russello v. United States*, 464 U.S. 16, 23 (1983) ("[Where] Congress includes particular language in one section of a statute but omits it in another section of the same Act, it is generally presumed that Congress acts intentionally and purposely in the disparate inclusion or exclusion.... We would not presume to ascribe this difference to a simple mistake in draftsmanship.") (Citations omitted).

The history of the section 109 first sale defense provides additional support. The 1909 Copyright Act provided a first sale defense for transfer of a copy, "the possession of which has been lawfully obtained." 1909 Copyright Act § 27. But in the 1976 Act, Congress narrowed the defense to the "owner" of the copy, and the accompanying reports confirmed that it "does not apply to ... [a]cquisition of an object embodying a copyrighted work by rental, lease, loan or bailment." H.R.Rep. No. 94-1476, at 80 (1975); S.Rep. No. 94-473, at 72-73 (1975) (emphasis added).

C. The Vast Majority Of Other Courts Have Held That Software Licenses Are Not “Sales” And Do Not Confer “Ownership” Under Sections 109 And 117

Other appellate and district courts have concluded, in a wide variety of circumstances, that neither the section 117 nor section 109 first sale defenses apply to software transactions, because they are licenses. *See, e.g., Adobe Sys., Inc. v. One Stop Micro, Inc.*, 84 F.Supp.2d 1086, 1092 (N.D. Cal. 2000) (“[A] common method of distribution is through licensing agreements, which permit the copyright holder to place restrictions upon the distribution of its products”); *Novell, Inc. v. Unicom Sales, Inc.*, 2004 WL 18391 17, *12 (N.D. Cal., Aug. 17, 2004) (“The Court sees no reason why Novell's failure . . . to take steps to enforce the requirement in its Software License that the software be destroyed or returned if the license is breached . . . should affect the transaction's status as a license or sale.”); *Adobe Sys., Inc. v. Stargate Software, Inc.*, 216 F.Supp.2d 1051, 1059-60 (N.D. Cal. 2002) (shrink wrap license enforceable as license, so no first sale defense); *Microsoft Corp. v. Software Wholesale Club, Inc.*, 129 F.Supp.2d 995, 1007-08 (S.D. Tex. 2000) (summary judgment rejecting first sale defense because software was licensed); *Storm Impact, Inc. v. Software of Month Club*, 13 F.Supp.2d 782, 791 (N.D. Ill. 1998) (reservation of right to distribute software made available over the internet was valid and enforceable); *Microsoft v. Harmony Computers & Electronics*, 846 F.Supp. 208 (E.D.N.Y. 1994); *ISC-Bunker Ramo*

Corp v. Altech, Inc., 765 F.Supp. 1310, 1331 (N.D. Ill. 1990) (first sale defense not applicable where owner, “through its licensing agreements, has specifically limited distribution”); *ProCD, Inc., v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996) (terms of shrinkwrap license prohibiting commercial use and commercial redistribution are enforceable against “over the counter” purchaser); *DSC Comm'ns Corp. v. Pulse Comm'ns, Inc.*, 170 F.3d 1354 (Fed. Cir. 1999); cf. *Quality King Distributors, Inc. v. L'anza Research Intern., Inc.*, 523 U.S. 135, 146–47 (1998) (“[T]he first sale doctrine would not provide a defense to [an] action against any non-owner such as a bailee, a licensee, [or] a consignee.”).

The foregoing cases analyze section 109 and/or 117, but the term “owner” is interpreted the same in sections 109 and 117 as a matter of statutory construction as well as common sense. *See, e.g., Sullivan v. Stroop*, 496 U.S. 478, 484 (1990) (“rule of statutory construction [is] that identical words used in different parts of the same act are intended to have the same meaning.”). Courts routinely have looked to section 109 cases in interpreting section 117, and vice versa. *See, e.g., Wall Data*, 447 F.3d at 785 n.9; *accord* Brief of Amicus Public Knowledge at 5 n. 5.

The *DSC* case is illustrative here. In *DSC*, the Federal Circuit:

properly rejected and laid to rest an argument that the licensee was the owner of the copy because it was not required to return the plastic diskette to the licensor. That argument, which is borrowed from law pertaining to the distinction between a lease and a sale of

goods, misapplies the economics and the policy of the first-sale concept.

Nimmer § 1:110 at *2 (emphasis added). The Federal Circuit instead examined all of the encumbrances of the license and concluded that they were inconsistent with a transfer of ownership, in particular (i) conditions on the right to transfer the software, and (ii) limits on using the software except with DSC's own interface cards. *DSC*, 170 F.3d at 1362.

In sum, the foregoing cases reveal that (1) labeling a transaction as a "license" and reserving ownership/title in the copy are probative of a license, though not necessarily dispositive, and (2) conveying rights less than what an "owner" would have, or limitations that materially restrict use, confirm a license, not a sale. Such limitations could include restrictions on further transfer or distribution, reverse engineering, type of use, location or environment of use, purpose of use, time period of use, and many others. Under these principles, most software licenses would not be interpreted as sales.

There are some software transactions that typically do confer ownership of copies, and fall within section 109 and 117. Software development contracts, for example, often involve payment specifically for the right of keeping, using, and effectively owning a copy of the software. *See, e.g., Krause v. Titleserv., Inc.*, 402 F.3d 119 (2d Cir. 2005) (interpreting software development contract as conferring ownership of the copy stored on the buyer's computer). Copies of software

embedded in a variety of transferrable consumer goods, from cell phones to automobiles, may provide further examples.

D. The “Minority” District Court Cases Cited By MDY And Public Knowledge Are Unpersuasive And Contrary To This Court’s Precedent

“The very few lower court cases that hold [a license to convey ownership] are inconsistent with commercial practice and the statutory intent.” Nimmer § 1:110 at *4 Most have been vacated, or are easily distinguishable on their facts. *See, e.g., Novell, Inc. v. Network Trade Center, Inc.*, 25 F.Supp.2d 1218, 1222 (D. Utah 1997) (software upgrade was provided without license restrictions, so first sale defense applied). The three main cases relied upon by MDY, however, were simply mistaken in not following this Court’s precedent.

In the first, *Softman v. Adobe*, the district court upheld an unauthorized reseller’s first sale defense despite Adobe’s insistence that it never sold the software, because the court deemed single payment and “perpetual possession” to reflect a sale “in substance.” *Softman*, 171 F.Supp.2d at 1085-87. The court declined to follow *MAI*, and appeared to base its holding on cases of questionable relevance to the facts at hand. *See, e.g., In re Dak*, 66 F.3d 1091 (9th Cir. 1995) (primary authority in *Softman*, but actually determined a “sale” only under bankruptcy law, for express purpose of determining priority of unsecured creditors based upon when payment obligation was incurred); *Step Saver Data Sys., Inc. v.*

Wyse Tech., 939 F.2d 91, 95 n.6, 101 n.27 (3d Cir. 1991) (*Softman* concluded that U.C.C. treated software transactions as sales, but cases only determined that software may be a “good,” not that software license transactions were in effect “sales”); *Novell, Inc. v. CPU Distrib., Inc.*, 2000 U.S. Dist. Lexis 9975 (S.D.Tex.2000) (relied upon by *Softman*, but vacated); *see generally* Christian Nandan, *Software Licensing in the 21st Century*, Practising Law Institute Handbook Series 927 PLI-Pat 325 (2004). The court also quoted a cursory statement in an early version of Professor Raymond Nimmer’s treatise that was later retracted and more thoroughly explained. *Id.*

The *Vernor* and *UMG* cases, currently on appeal in this Court, result from a misinterpretation of this Court’s decision in *United States v. Wise*, 550 F.2d 1180 (9th Cir. 1977). Contrary to the conclusion of those courts, and the argument of MDY, *Wise* is consistent with this Court’s later precedent on the first sale doctrine. In *Wise*, the Court found that three “VIP contracts” for the transfer of film prints did not convey ownership to the recipient. Each contract was internally characterized as a “license” or “loan,” and expressly reserved title in the studio. *Wise*, 550 F.2d at 1192. The Court did not deem dispositive, or even significant, the fact that none provided for ongoing payment (or any payment) and the fact that recipients permanently possessed them (two of the three licenses did not require return, and there was no indication the third was enforced).

In contrast, the Court found that a fourth contract, the “Redgrave contract,” conveyed ownership because it did not require return of the film print and it did not reserve title. A fifth agreement, the “ABC agreement,” also conveyed ownership because it permitted the recipient to retain the copy “at [its] election and cost,” *id.* at 1191, and there was “[n]o restriction on the use or further resale of such a copy.” *Id.* at 1191 n.20.

As the district court in the present case correctly observed, *Wise* stands for nothing more than the proposition that “a transaction is a license where the recipient is required to return the copy to the copyright owner or the copyright owner retains title to the copy.” *MDY Industries, LLC v. Blizzard Ent., Inc.*, slip op. 2008 WL 2757357 (D. Ariz. 2008) at *10 n. 7. Moreover, even if *Wise* would dictate a different result than *Wall Data*, which it would not, the Court should follow *Wall Data*. The limitations in a modern software license, at issue in this case and *Wall Data*, are different in scope and character than a 1970’s agreement to transfer physical film prints. Moreover, *Wise* was a criminal case, and the government’s failure to meet its heavy burden of proof to show the absence of a first sale appeared to play a significant role as to the two contracts found to be sales.

Other cases cited by MDY do not advance its argument. *See, e.g., Krause*, 402 F.3d 119 (recipient paid for right to own copy specifically made for its use

pursuant to software development contract); *Bobbs Merrill v. Strauss*, 210 U.S. 339, 350 (1908) (“no claim ... of contract limitation, nor license agreement controlling the subsequent sales of the book” after an initial sale had already been made).

III. WORLD OF WARCRAFT USERS DO NOT OWN COPIES OF THE SOFTWARE

MDY’s section 117 claim is easier to resolve than many of the foregoing cases. The limitations provided in the License are significant and numerous, and continued use of the software is expressly conditioned upon compliance with them. *See Jacobsen v. Katzer*, 535 F.3d 1373, 1381-82 (Fed. Cir. 2008); *Blizzard*, 2008 WL 2757357 (D. Ariz. 2008), slip op. at *6. The terms confirming that this transaction is a license, not a sale and transfer of ownership, include:

- (1) reservation of title in Blizzard; *id.* at *8;
- (2) ongoing royalty payments (ongoing performance) to continue using playing the game; (ER P2, Q2-Q3.)
- (3) Blizzard’s right to terminate the license; *Blizzard*, slip op.. at *5;
- (4) Blizzard’s right to order destruction of the copy following expiration or termination of the license; (ER P5).
- (5) detailed limitations on how the software may and may not be transferred; *Blizzard*, slip op. at *9;

(6) encumbrances and rules regarding use, including prohibiting reverse engineering and decompiling, limiting the environment in which the software can be used, and prohibiting use with certain other programs such as the “bot” program at issue in this case; *id.*

(7) detailed rules on the online game participation. *Id.* at *5.

Any of these restrictions alone would substantially indicate that users did not own their copies. Taken together, it is inconceivable that Blizzard transferred ownership – as the district court observed, “[o]ne wonders what more could be done to make clear that the purchaser is a licensee, not an owner, of the software.” *Id.* at *9. The intent and bargain of the parties, as expressed in the License, was precisely the opposite.

No one asserts that the agreement lacked consideration, or that users did not assent to the terms, *see ProCD*, 86 F.3d at 1449, or that the contract is void or unenforceable for any other reasons.

The Court should not hold or suggest, however, that any of the WoW terms are necessary to prevent transfer of ownership. As described above, different software licenses embody a wide variety of different rights and limitations. Some do not involve ongoing royalties like WoW. Some do not require destruction of the software or reserve the right to demand return, as the publisher may choose to rely upon obsolescence and avoid the wasteful expense in enforcing such a term.

The Court should stay true to its approach in *Wall Data*, and avoid adopting a rule that requires a “license” to impart ongoing royalties or divest the user of the copy.

CONCLUSION

The Court should affirm the district court’s finding that Blizzard did not transfer ownership of copies in its software to WoW users, and that MDY and Donnelly are liable for the copyright infringement of users of the Glider program.

Respectfully submitted,

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CERTIFICATE OF COMPLIANCE

I hereby certify that pursuant to Federal Rule of Appellate Procedure 29(d) and 32(a)(7)(B) & (C) and Ninth Circuit Rule 32-1, the enclosed brief is proportionately spaced and has a typeface of 14-point Times New Roman including footnotes. It contains approximately 7,349 words, which is less than half the Appellee's principal brief limit of 16,000 words in this cross-appeal. Counsel relies on the word count of the computer program used to prepare this brief.

/s Scott Bain

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November 16, 2009

CERTIFICATE OF SERVICE VIA CM/ECF

I hereby certify under penalty of perjury that on November 16, 2009, I electronically filed the foregoing document entitled brief of *amicus curiae* Software & Information Industry Association (SIIA) in support of Appellee Blizzard and Affirmance on Appeal, with the Clerk of the Court for the United States Court of Appeals for the Ninth Circuit by using the Court's CM/ECF system. All parties in the case are registered CM/ECF users and service will be accomplished by the appellate CM/ECF System.

Signed,

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