

***Why License Agreements Do Not Control Copy Ownership:  
First Sales and Essential Copies***

**by Brian W. Carver<sup>1</sup>**

The so-called "license versus sale" distinction that arises with respect to copies of software or music will confront the Ninth Circuit in three upcoming cases. In *UMG Recordings, Inc. v. Augusto*, the district court found that, notwithstanding "not for resale" labels, the initial recipients of "promo CDs" owned them and were thus entitled to sell the CDs to others.

In *MDY Indus. LLC v. Blizzard Entm't, Inc.*, the district court held that purchasers of Blizzard's World of Warcraft software are not owners of their copies of the software, and hence are not entitled to a Section 117 defense that would allow the owner of a copy of a computer program to make a copy of the program, provided such copy is created as an essential step in the utilization of the program.

Finally, in *Vernor v. Autodesk, Inc.*, the district court found that the transfer of Autodesk's AutoCAD software to a third-party was a sale, and that Vernor, having acquired AutoCAD from the third-party, could invoke the first sale doctrine in order to resell his copies of AutoCAD on eBay without liability for direct or indirect copyright infringement.

These cases present the Ninth Circuit with multiple opportunities to revisit its decisions in the license versus sale context. The *Vernor* court wrote that these precedents are in irreconcilable conflict, which it could only resolve by following the earliest precedent.

I will argue that the *Augusto* and *Vernor* courts reached the correct outcomes and that the *Blizzard* court erred. The *Augusto* and *Vernor* decisions, through a faithful adherence to precedent, also represent an interpretive breakthrough in an area of law fraught with misguided approaches. By recognizing what is right in these decisions and what has gone so wrong in other cases, we can see not only how to reach the correct result in *Blizzard*, but how best to resolve the recurring question of when title to a copy passes to a transferee, giving rise to first sale and § 117 rights.

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- I. THREE UPCOMING NINTH CIRCUIT CASES WHERE DETERMINING TITLE TO THE COPY IS ESSENTIAL TO A CORRECT RESOLUTION.
  - A. *UMG Recordings, Inc. v. Augusto*, (C.D. Cal.)
  - B. *MDY Indus. LLC v. Blizzard Entm't, Inc.*, (D. Ariz.).
  - C. *Vernor v. Autodesk, Inc.*, (W.D. Wash.).
- II. WHEN DOES TITLE TO A COPY PASS TO THE TRANSFEREE?
  - A. The Reservation of Title Approach.
  - B. The Agreement Controls Approach.
  - C. The Economic Realities Approach.
  - D. The Perpetual Possession Approach.
- III. THE CORRECT APPROACH TO COPY OWNERSHIP:
  - A. Must be Logically Correct.
    - 1. Must not equivocate with respect to the word "license."
    - 2. Must recognize the possibility of ownership of a copy independent from ownership of the copyright.
  - B. Must Respect Precedent.
    - 1. Must respect Supreme Court precedent and should seek to harmonize Circuit Court precedents.
    - 2. Should heed the warning of the Supreme Court's recent *Quanta Computer* decision.
  - C. Must Respect Congressional Choices.
    - 1. Must recognize the limiting role played by Sections 107 through 122 and examine whether contrary contractual provisions are federally preempted.
    - 2. Should preserve as far as possible the national uniformity copyright law seeks.
  - D. Would Hopefully Make Sense.
    - 1. Should, as far as possible, be consistent with settled consumer expectations.
    - 2. Would, ideally, be easy for courts to apply.
- IV. HOW TO ADDRESS *MDY INDUS. LLC v. BLIZZARD ENTM'T, INC.*
- V. FURTHER IMPLICATIONS OF THE PERPETUAL POSSESSION APPROACH.
  - A. Effects on Price Discrimination?
  - B. Implications for a Digital First Sale Right?
  - C. Changing Incentives for Software Distributors?
  - D. Applicability to Cloud Computing?
  - E. Effects on Open Source Licensing Schemes?