

Computer / Technology Law Committee – Hot Topics (January 28, 2016)

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**Adobe Systems, Inc. v. Christenson, Case No. No. 12-17371 (9<sup>th</sup> Cir. Dec 30, 2015) – Copyright holder bears burden of establishing infringement to disprove first sale doctrine defense**

**Facts:** Christenson sold Adobe software— which he purchased from a third-party distributor—without Adobe’s authorization, allegedly infringing Adobe’s copyrights and trademarks in the process. Christenson asserted numerous defenses, including the first sale defense to the copyright claim.

On the copyright claim, Adobe argued that the first sale defense did not apply because Adobe only licenses and does not sell its software. For support, Adobe relied on a declaration to that effect by its Anti-Piracy Enforcement Manager, Chris Stickle. Stickle generally described different ways that Adobe licenses software, such as by limiting copies to academic users or distributing copies bundled with hardware under restrictive terms, the latter being known as Original Equipment Manufacturer (“OEM”) products. Other evidence submitted by Adobe included a list of specific copyrights, a list of Adobe product licenses that had been produced by Christenson, excerpts of Christenson’s deposition in which he acknowledged that he sold academic and OEM software, screenshots of the Software Surplus website stating that it sold academic and OEM software, and customer returns and complaints in which customers complained that they had received software licensed for academic use from Christenson despite having understood that they had purchased software appropriate for non-academic users. Regarding the trademark claim, Adobe also argued that Christenson should be liable for false advertising, although as the district court later pointed out, Adobe’s complaint did not include this claim.

Christenson, in turn, moved for summary judgment on the copyright and trademark claims. In response to the copyright claim, Christenson argued that only Adobe had access to the terms of its contracts with the original recipients of the copies at issue; Christenson, as a downstream distributor, did not have this information. He thus urged the court to place the burden on Adobe “to disprove the first sale doctrine.” Christenson asserted that Adobe could not disprove that a first sale occurred because Adobe was unable to point to the terms of any actual contract. Christenson also offered evidence of his purchase of copies of Adobe software from third parties. Christenson raised a nominative fair use defense to the trademark claim, arguing that he used Adobe’s trademark only to refer to Adobe’s genuine goods.

The lower court granted Christenson’s motion to strike a license template because the document had not been disclosed by Adobe or produced by Christenson. Other evidence was precluded because the court determined that an actual contract was required to prove whether Adobe’s transactions resulted in a license as opposed to a sale. “[I]n the absence of those writings,” the court foreclosed Adobe’s declarants from testifying “to prove the terms and legal effect of Adobe’s licensing agreements.” Christenson also prevailed on the trademark claim. The court credited his nominative fair use defense because he used the trademarks to refer to the trademarked goods themselves.

**Issue:** Which party—the copyright holder or the party asserting the defense—bears the initial burden of showing ownership through lawful acquisition? Second, what does it take to discharge that burden? And finally, which party bears the burden of proving or disproving a license versus a sale?

**Rule:** Under the Copyright Act, the first use affirmative defense provides that “the owner of a particular copy . . . lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy . . . .” 17 U.S.C. § 109(a).

**Analysis:** The Supreme Court first analyzed § 109(a) in *Quality King Distribs., Inc. v. L’anza Research Int’l, Inc.*, 523 U.S. 135, 141, 152 (1998). Distinguishing between the owner of a copy and a nonowner, such as a licensee, the Court emphasized that “because the protection afforded by § 109(a) is available only to the ‘owner’ of a lawfully made copy (or someone authorized by the owner), the first sale doctrine would not provide a defense to . . . any nonowner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful.” 523 U.S. at 146–47. In other words, to claim the benefits of the first sale defense, the holder of the copy must actually hold title.

Broadly construed, the licensing exception in the software context could swallow the statutory first sale defense. We have recognized, however, that some purported software licensing agreements may actually create a sale. *Vernor v. Autodesk, Inc.*, 621 F.3d 1111 (9<sup>th</sup> Cir. 2010); *Augusto*, 628 F.3d at 1180. To determine whether there is a legitimate license, we examine whether “the copyright owner (1) specifies that the user is granted a license; (2) significantly restricts the user’s ability to transfer the software; and (3) imposes notable use restrictions.” *Vernor*, 621 F.3d at 1111. Where these factors aren’t satisfied, the upshot is that the copyright holder has sold its software to the user, and the user can assert the first sale defense. *See Augusto*, 628 F.3d at 1180–81.

**Holding:** Affirmed lower court, dismissed Plaintiff claim for both copyright and trademark infringement; Under § 109(a), the party asserting the first sale defense bears the initial burden of satisfying the statutory requirements. Thus, that party must show ownership through lawful acquisition. To the extent that the copyright holder claims that the alleged infringer could not acquire title or ownership because the software was never sold, only licensed, the burden shifts back to the copyright holder to establish such a license or the absence of a sale. The copyright holder is in a superior position to produce documentation of any license and, without the burden shift, the first sale defense would require a proponent to prove a negative, i.e., that the software was not licensed.

As the district court held, it was uncontroverted that Christenson “lawfully purchased genuine copies of Adobe software from third-party suppliers before reselling those copies.” Christenson offered invoices to document his purchases of legitimate Adobe software from various suppliers.

Adobe, of course, argues that Christenson could not have legitimately purchased the software because Adobe always licenses, and does not sell, copies of its software. On this point, the burden shifts back to Adobe to prove the existence and terms of a license. In an ordinary case, Adobe would produce specific license agreements and we would benchmark those agreements against the *Vernor* factors to determine whether there was a legitimate license at the outset, as well as whether downstream customers were “bound by a restrictive license agreement” such that they are “not entitled to the first sale doctrine.” *Vernor*, 621 F.3d at 1113.

Adobe’s problem is that it did not produce those licenses or document the terms of contracts with specific parties. Because of the state of discovery at the time of the summary judgment motions, the district court excluded virtually all of Adobe’s late-offered evidence of licenses. Adobe challenges this ruling in its appeal. The district court and magistrate judge had a long history with the parties and their

discovery efforts. After a careful examination of the rather tortured discovery process, we conclude that the district court did not abuse its discretion in granting Christenson's motion to strike and excluding evidence purporting to document the licenses. *See Wilkerson v. Wheeler*, 772 F.3d 834, 838 (9th Cir. 2014)

Adobe's effort to substitute general testimony and generic licensing templates in lieu of the actual licensing agreements does not withstand scrutiny under *Vernor*. Under *Vernor*, the precise terms of any agreement matter as to whether it is an agreement to license or to sell; the title of the agreement is not dispositive. And here, in the end, there is no admissible evidence that Adobe "significantly restrict[ed] the user's ability to transfer the software" at issue here. *Vernor*, 621 F.3d at 1111. We thus affirm the district court's order granting summary judgment in favor of Christenson and against Adobe on the copyright claim.

Regarding the trademark claim, Adobe does not argue that the marks did not truthfully label genuine Adobe products as such. Nor does it assert that "Adobe Acrobat Pro" and the same product when under an academic or OEM license, correspond to different marks than Christenson used on the Software Surplus website, to render Christenson's use untruthful. Adobe's major gripe was with the sales themselves, which it attacked via its copyright claim. The bottom line is that Christenson's nominal use of the marks was to identify the products themselves and not to "inspire a mistaken belief on the part of consumers that the speaker is sponsored or endorsed by the trademark holder." *Toyota Motor Sales*, 610 F.3d at 1176. We affirm the lower court.

***Vernor v. Autodesk Inc.*, Case No. No. 09-35969 (9th Cir. Sept. 10, 2010) - Computer Program License Not a First Sale Under the Copyright Act**

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The Ninth Circuit Court of Appeals in *Vernor v. Autodesk Inc.*, Case No. No. 09-35969 (9th Cir. Sept. 10, 2010) held that when purchaser Vernor (a reseller of used software) obtained copies of AutoDesk's AutoCAD program from earlier purchaser-licensees of copyright owner Autodesk, Vernor was not permitted to resell the AutoCAD on eBay. Vernor purchased several used copies of AutoCAD software from one of Autodesk's direct customers, and resold the software copies on eBay. Vernor brought a declaratory judgment action in the U.S. District Court against Autodesk to establish that these resales did not infringe Autodesk's copyright. The District Court had earlier held that Vernor's sales were lawful in light of two of the Copyright Act's affirmative defenses that apply to owners of copies of copyrighted works, the first sale doctrine and the essential step defense. See generally the Copyright Act, 17 U.S.C. sec. 101 et seq. The 9th Circuit disagreed and reversed and remanded the case to the District Court.

"We hold today that a software user is a licensee rather than an owner of a copy where the copyright owner (1) specifies that the user is granted a license; (2) significantly restricts the user's ability to transfer the software; and (3) imposes notable use restrictions." Also, the Court stated: "Autodesk retained title to the software and imposed significant transfer restrictions: it stated that the license is nontransferable, the software could not be transferred or leased without Autodesk's written consent, and the software could not be transferred outside the Western Hemisphere. The SLA [Service Level Agreement] also imposed use restrictions against the use of the software outside the Western Hemisphere and against modifying, translating, or reverse-engineering the software, removing any proprietary marks from the software or documentation, or defeating any copy protection device.

Furthermore, the SLA provided for termination of the license upon the licensee's unauthorized copying or failure to comply with other license restrictions. Thus, because Autodesk reserved title to [AutoCAD] Release 14 copies and imposed significant transfer and use restrictions, we conclude that its customers are licensees of their copies of Release 14 rather than owners." See Vernor.

As a result, "Autodesk distributes [AutoCAD] Release 14 pursuant to a limited license agreement in which it reserves title to the software copies and imposes significant use and transfer restrictions on its customers. We determine that Autodesk's direct customers are licensees of their copies of the software rather than owners." See Vernor.

The federal Copyright Act protects an author's "original works of authorship," including software programs. 17 U.S.C. §§ 101-103. The Copyright Act confers several exclusive rights on copyright owners, including the exclusive rights to reproduce their works and to distribute their works by sale or rental. *Id.* § 106(1), (3). The exclusive distribution right is limited by the first sale doctrine, an affirmative defense to copyright infringement that allows owners of copies of copyrighted works to resell those copies. The exclusive reproduction right is limited within the software context by the essential step defense, another affirmative defense to copyright infringement. Both of these affirmative defenses are unavailable to those who are only licensed to use their copies of copyrighted works.

#### The First Sale Doctrine

The Supreme Court articulated the first sale doctrine in 1908, holding that a copyright owner's exclusive distribution right is exhausted after the owner's first sale of a particular copy of the copyrighted work. See *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350-51 (1908). The Vernor Court stated: "To determine whether a first sale occurred, we considered multiple factors pertaining to each film distribution agreement. Specifically, we considered whether the agreement (a) was labeled a license, (b) provided that the copyright owner retained title to the prints, (c) required the return or destruction of the prints, (d) forbade duplication of prints, or (e) required the transferee to maintain possession of the prints for the agreement's duration." See Vernor, citing *United States v. Wise*, 550 F.2d 1180, 1190-92 (9th Cir. 1977)(a criminal copyright infringement case).

#### The Essential Step Defense

With respect to software, the enforcement of copyright owners' exclusive right to reproduce their work under the Copyright Act, 17 U.S.C. § 106(1), has posed special challenges. "In order to use a software program, a user's computer will automatically copy the software into the computer's random access memory ('RAM'), which is a form of computer data storage. See *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 513 (9th Cir. 1993). Congress enacted the essential step defense to codify that a software user who is the 'owner of a copy' of a copyrighted software program does not infringe by making a copy of the computer program, if the new copy is 'created as an essential step in the utilization of the computer program in conjunction with a machine and . . . is used in no other manner.'" See Vernor, quoting 17 U.S.C. § 117(a)(1).

#### Background Facts

In May 2005, Vernor purchased an authentic used copy of AutoCAD Release 14 at a garage sale from an unspecified seller. He never agreed to the SLA's terms, apparently never opened a sealed software packet, or installed the Release 14 software on any computer. Though he was aware of the SLA's

existence, he believed that he was not bound by its terms. He posted the software copy for sale on eBay as an auction item.

Autodesk filed a Digital Millennium Copyright Act (“DMCA”) take-down notice with eBay claiming that Vernor’s sale infringed its copyright 17 U.S.C. § 512(c)(1)(C). Vernor filed a DMCA counter-notice with eBay contesting the validity of Autodesk’s copyright claim. The DMCA provides that a user whose material has been removed or disabled may provide a “counter-notification” to the service provider (herein eBay), including a sworn statement that the user has a good-faith belief that the material was mistakenly removed or disabled. 17 U.S.C. § 512(g)(3)(C). Autodesk did not respond to the counter-notice. eBay then reinstated the auction. Vernor then filed his declaratory judgment action in the U.S. District Court. Although Vernor won in the District Court, the 9th Circuit reversed the lower court, found against Vernor on the “first sale” affirmative defense and the “essential step” affirmative defense, and remanded the case back to the lower court for a ruling on Vernor’s copyright misuse defense.

### **Data Captured in Automobile Event Recorders Are Now Confidential Under Federal Law**

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The Driver Privacy Act (§§ 24301 – 24303), part of the Fixing America’s Surface Transportation (“FAST”) Act (signed into law by President Obama on December 4, 2015) establishes rights to data stored by event data recorders in vehicles (typically black box data). The Act states that “[a]ny data retained by an event data recorder ... is the property of the owner ... or lessee ....” Access to such data is prohibited under the Act except certain circumstances.

The Driver Privacy Act provides that data, stored or transmitted by such vehicle event recorder devices, cannot be accessed by anyone other than the owner or lessee of the vehicle except (1) under court order; (2) consent by the owner or lessee; (3) the data is retrieved pursuant to certain National Transportation Safety Board or Department of Transportation authorized investigations and any personal identifiable information (PII) is not disclosed; (4) the data is needed to facilitate emergency medical response to a crash; or (5) the data is anonymized and used for traffic safety research purposes.

The Driver Privacy Act provides that the owner or lessee of the vehicle may agree to the transmission of the event data if the person signs a subscription agreement to that effect and “describes how data will be retrieved and used.”

The Act follows:

#### **PART I—DRIVER PRIVACY ACT OF 2015**

**SEC. 24301. SHORT TITLE.** This part may be cited as the “Driver Privacy Act of 2015”.

**SEC. 24302. LIMITATIONS ON DATA RETRIEVAL FROM VEHICLE EVENT DATA RECORDERS.**

- (a) **OWNERSHIP OF DATA.**—Any data retained by an event data recorder (as defined in section 563.5 of title 49, Code of Federal Regulations), regardless of when the motor vehicle in which it is installed was manufactured, is the property of the owner, or, in the case of a leased vehicle, the lessee of the motor vehicle in which the event data recorder is installed.
- (b) **PRIVACY.**—Data recorded or transmitted by an event data recorder described in subsection (a) may not be

accessed by a person other than an owner or a lessee of the motor vehicle in which the event data recorder is installed unless— (1) a court or other judicial or administrative authority having jurisdiction— (A) authorizes the retrieval of the data; and (B) to the extent that there is retrieved data, the data is subject to the standards for admission into evidence required by that court or other administrative authority; (2) an owner or a lessee of the motor vehicle provides written, electronic, or recorded audio consent to the retrieval of the data for any purpose, including the purpose of diagnosing, servicing, or repairing the motor vehicle, or by agreeing to a subscription that describes how data will be retrieved and used; (3) the data is retrieved pursuant to an investigation or inspection authorized under section.

## **FTC v. Craig Brittain (DOCKET No. C-4564) Order – ‘Revenge Porn’ website w/‘Takedown’ Website Service**

### **Facts:**

Respondent Craig Brittain owned and operated the ‘revenge porn’ website [www.isanybodydown.com](http://www.isanybodydown.com) and ‘takedown’ websites such as [www.takedownlawyer.com](http://www.takedownlawyer.com) and [www.takedownhammer.com](http://www.takedownhammer.com). In its complaint, the FTC alleged that Brittain acquired the images in a number of ways, such as by posing as a woman on the advertising site Craigslist, and offering nude photos purportedly of himself in exchange for photos provided by women. Brittain also allegedly solicited viewers of his site to anonymously submit nude photos of people to his site, according to the complaint, at times offering cash “bounties” for images of specific individuals, whereby anyone could request that others find and post photos of a specific person in exchange for a reward of at least \$100. Respondent collected a “standard listing fee” of \$20 for each request and half of all rewards given. Respondent required that all submissions include at least two photographs, one of which had to be a full or partial nude, as well as the subject’s full name, date of birth (or age), town and state, a link to the subject’s Facebook profile, and phone number. Respondent received and compiled the photographs and personal information, posted them on the Website, and in some instances, Respondent posted additional personal information that he independently located about the subjects.

Women whose photographs appeared on the Website often contacted Respondent to request that he remove the images. They reported that they suffered significant harm from having their photographs and personal information, including location information, posted on the site. Some received unwelcome contacts from strangers, including requests for additional photographs. Many worried about harm to their reputations because their friends, family, and co-workers could easily see the photographs if they conducted a simple Internet search for the subject’s name. Others were concerned that they might be fired from a current job, or not hired for a future job, if the photos were discovered. In many instances, Respondent did not remove the content in response to removal requests.

Respondent also advertised content removal services on the Website. In these advertisements, purported third parties identified as “Takedown Hammer” and “Takedown Lawyer” promised to have consumers’ content removed from the Website in exchange for a payment of \$200 to \$500. The advertisements referred interested consumers to the websites, [takedownhammer.com](http://takedownhammer.com) and [takedownlawyer.com](http://takedownlawyer.com), for further information. In fact, Respondent himself owned such websites, and posed as a third party to obtain money to remove the same photographs that he had posted on the Website. Respondent earned approximately \$12,000 from operating [isanybodydown.com](http://isanybodydown.com).

**FTC Counts:**

Unfair Practices Relating to Posting of Photographs and Personal Information - Respondent disseminated photographs of individuals with their intimate parts exposed, along with personal information of such individuals, through the Website for commercial gain and without the knowledge or consent of those depicted, when he knew or should have known that the depicted person had a reasonable expectation that the image would not be disseminated through the Website for commercial gain.

False Claims Relating to Soliciting of Photographs - Respondent has solicited photographs from individuals of themselves with their intimate parts exposed while representing, directly or indirectly, expressly or by implication, that he would use such photographs solely for his personal private use. In fact, Respondent did not use such photographs solely for his personal private use, but disseminated them through the Website with personal information about the individual and for commercial gain. Therefore, the representation is false or misleading.

**Settlement Order:**

Brittain is required to permanently delete all of the images and other personal information he received during the time he operated the site. He will also be prohibited from publicly sharing intimate videos or photographs of people without their affirmative express consent, as well as being prohibited from misrepresenting how he will use any personal information he collects online.

\*In effect, the order provides for injunctive relief with no monetary damages paid to FTC or any victim.