

Winter 2012

## When Software We Buy Is Not Actually Ours: An Analysis of Vernor v. Autodesk on the First Sale Doctrine and Essential Step Defense

Terence Leong

---

### Recommended Citation

Terence Leong, *When Software We Buy Is Not Actually Ours: An Analysis of Vernor v. Autodesk on the First Sale Doctrine and Essential Step Defense*, 10 NW. J. TECH. & INTELL. PROP. 239 (2012).  
<https://scholarlycommons.law.northwestern.edu/njtip/vol10/iss3/6>

This Comment is brought to you for free and open access by Northwestern Pritzker School of Law Scholarly Commons. It has been accepted for inclusion in Northwestern Journal of Technology and Intellectual Property by an authorized editor of Northwestern Pritzker School of Law Scholarly Commons.

N O R T H W E S T E R N  
JOURNAL OF TECHNOLOGY  
AND  
INTELLECTUAL PROPERTY

**When the Software We Buy Is Not Actually Ours:  
An Analysis of *Vernor v. Autodesk* on the First Sale Doctrine  
and Essential Defense**

*Terence Leong*



# When the Software We Buy Is Not Actually Ours: An Analysis of *Vernor v. Autodesk* on the First Sale Doctrine and Essential Step Defense

By Terence Leong\*

## I. INTRODUCTION

¶1 While software copyright owners generally have broad discretion to license and protect their copyrighted software, there are several affirmative defenses that an alleged infringer can invoke, including the first sale doctrine<sup>1</sup> and the essential step defense.<sup>2</sup> A threshold issue to invoke either defense requires the infringer to be an “owner” of the software in question.

¶2 Circuits are split regarding whether software licensees are owners of their licensed software. The recent Ninth Circuit decision in *Vernor v. Autodesk, Inc.* holds that a user of software under a restrictive licensing scheme is not an owner of the software and therefore cannot invoke affirmative copyright infringement defenses.<sup>3</sup> Contrary to *Vernor*, decisions in the Second and Federal Circuits, and even decisions in the Ninth Circuit before *Vernor*, suggest that software licensees’ rights are like those of an owner of the software.

¶3 This Note asks the question of how software licensing fits within the copyright regime, focusing on an investigation of *Vernor* and the implications on affirmative defenses for copyright infringement. Part II provides an overview of the first sale doctrine, the essential step defense, and the copyrightability of software in general. Part III investigates the issue of ownership versus licensee in the circuits prior to the *Vernor* decision. Part IV discusses the facts in *Vernor* and analyzes the decisions of both the district court and the Ninth Circuit. Part V explores the policy arguments of each party to the case. In Part VI, this Note compares *Vernor* to decisions in other circuits, specifically the split with the Second Circuit. Finally, Part VII concludes with a proposal to resolve the split.

## II. OVERVIEW OF LIMITS ON THE RIGHTS OF SOFTWARE COPYRIGHT HOLDERS

¶4 The federal copyright regime finds its origin in the Copyright Clause of the U.S. Constitution, which grants Congress the power “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right

---

\* Candidate for Juris Doctor, Northwestern University School of Law, 2012. Thanks to my parents, Chris and Kai-Jen, and my sister, Katrina, for their wisdom and guidance. Special thanks to Carol, for her unwavering and cheerful support throughout my career.

<sup>1</sup> See 17 U.S.C. § 109(a) (2006).

<sup>2</sup> See *id.* § 117(a)(1).

<sup>3</sup> *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1113 (9th Cir. 2010).

to their respective Writings and Discoveries.”<sup>4</sup> The Copyright Clause incentivizes the production of creative works by serving the interests of two opposing parties: authors and consumers of the works. It serves the interests of the author and incentivizes creation by granting authors exclusive rights in their works. The Copyright Act codifies this goal by enumerating copyright owners’ exclusive rights, enabling the copyright owners to control their works.<sup>5</sup> An individual is liable for damages for violating these exclusive rights.<sup>6</sup> One way in which the Copyright Clause serves consumers and fosters the widespread dissemination of knowledge is by limiting those exclusive rights to “limited [t]imes.” Additionally, there are several provisions of the Copyright Act that limit the exclusive rights of authors, two of which are discussed below.

#### A. *Limit on the Exclusive Distribution Right: The First Sale Doctrine*

¶5 The first sale doctrine, which allows owners of copies of a copyrighted work to resell that work after the initial purchase, represents a balance struck in common law between the conflicting interests of copyright holders and the public. Copyright holders possess the exclusive right to distribute copies of their work, including selling, renting, leasing, and lending the work.<sup>7</sup> This exclusive distribution right aims to protect the rights of copyright owners, but often it conflicts with the overall copyright goal of promoting information exchange.<sup>8</sup> If the distribution right were unchecked, copyright owners would be the only individuals who could authorize *any* distribution of their works. Not surprisingly, copyright holders historically have attempted to place restrictions on the alienability of copyrighted items.

¶6 The first sale doctrine developed in common law in response to this difficulty. The Supreme Court, articulating the first sale doctrine in *Bobbs-Merrill Co. v. Straus*, recognized that

copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose . . . a limitation at which the [copyrighted work] shall be sold at retail by future purchasers, with whom there is no privity of contract.<sup>9</sup>

The first sale doctrine was later codified in § 109 of the Copyright Act in much the same form articulated in *Bobbs-Merrill*.<sup>10</sup> A major limitation on the first sale doctrine under § 109 is that only the owner of a particular copy of a copyrighted work may raise the defense.<sup>11</sup>

---

<sup>4</sup> U.S. CONST. art. I, § 9, cl. 8.

<sup>5</sup> 17 U.S.C. § 106.

<sup>6</sup> *Id.* § 501(a).

<sup>7</sup> 17 U.S.C. § 106(3).

<sup>8</sup> H.R. REP. NO. 94-1476, at 62 (1976).

<sup>9</sup> 210 U.S. 339, 350 (1908).

<sup>10</sup> 17 U.S.C. § 109(a) (“[T]he owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.”).

<sup>11</sup> *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1112 n.13 (9th Cir. 2010).

### B. *Limit on the Exclusive Reproduction Right: The Essential Step Defense*

¶17 Copyright owners have the exclusive right to reproduce their copyrighted work.<sup>12</sup> The exclusive reproduction right grants copyright owners the exclusive right to make copies of their copyrighted work.<sup>13</sup> The essential step defense, like the first sale doctrine, limits an exclusive right of copyright owners. The essential step defense, as codified in § 117(a), is an exception to the reproduction right. It provides that the owner of a copy of a computer program can copy a copyrighted computer program if that copy is necessary to operate the computer.<sup>14</sup> The essential step defense arose in response to the common practice of computers making temporary cached copies of software during the ordinary running of that computer.<sup>15</sup> Without this defense, each computer user could potentially be liable for copyright infringement.

### C. *Software Copyrightability*

¶18 Courts as well as Congress have struggled to determine the appropriate mode of protection for software. Courts have generally broadened the scope of software protected by copyright law, including operating systems<sup>16</sup> and nonliteral elements of software.<sup>17</sup> However, largely because of the intrinsically functional nature of software, courts have declined to apply copyright protection to other aspects of software, such as menu hierarchies.<sup>18</sup>

## III. PRE-*VERNOR* DECISIONS

¶19 To assert a defense under either the first sale doctrine or the essential step defense, an alleged infringer must be an owner of the software.<sup>19</sup> Prior to the Ninth Circuit's decision in *Vernor*, there were two views on whether a software licensee is an owner for purposes of the first sale doctrine and the essential step defense. The first view, articulated by the Ninth Circuit, favors software copyright owners' rights to contract and limit the scope of end-user licenses. The second view, adopted by the Second Circuit, the Federal Circuit, and even in some Ninth Circuit decisions, sees the rights of software licensees as analogous to the rights of owners.

---

<sup>12</sup> *Id.* § 106(1).

<sup>13</sup> *Id.*; *see also* H.R. REP. NO. 94-1476, at 61 (indicating the exclusive reproduction right is intended to give the owner of a copyright “the right to produce a material object in which the work is duplicated . . . in a fixed form from which it can be ‘perceived, reproduced, or otherwise communicated’”).

<sup>14</sup> 17 U.S.C. § 117(a)(1) (indicating such copying is not infringement provided “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”).

<sup>15</sup> *See* 2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.08 (2009).

<sup>16</sup> *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240 (3d Cir. 1983).

<sup>17</sup> *Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693 (2d Cir. 1992).

<sup>18</sup> *Lotus Dev. Corp. v. Borland Int'l, Inc.*, 49 F.3d 807 (1st Cir. 1995), *aff'd*, 516 U.S. 233 (1996).

<sup>19</sup> The first sale doctrine requires that a claimant be an “owner of a particular copy” of the copyrighted work. 17 U.S.C. § 109(a). Likewise, the essential step defense requires that an alleged infringer be the “owner of a copy” of copyrighted software. *Id.* § 117(a).

A. *The Ninth Circuit: Software Licensees Do Not Have Owner Rights*

¶10 The Ninth Circuit, generally seen as favorable to copyright owners, has considered software purchasers to be licensees rather than owners. In *United States v. Wise*, a criminal infringement case, the Ninth Circuit took one of the earliest looks at the relationship between the first sale doctrine and licenses.<sup>20</sup> The defendant in *Wise* operated a mail-order film business that sold copyrighted full length motion picture reels to film collectors throughout the country.<sup>21</sup> The issue was whether the defendant had the right under the first sale doctrine to re-sell the films that he obtained. None of the films that *Wise* sold were “subject to an outright sale” in their first transactions.<sup>22</sup> Instead, the transfers looked a lot more like licenses because the film studios licensed the films “for limited purposes and for limited periods of time,” “reserved title to the films in the studios[,] and required [the films’] return at the expiration of the license period.”<sup>23</sup> Interpreting the first sale doctrine, the court stated that the “statute requires a transfer of title before a ‘first sale’ can occur.”<sup>24</sup> The court held that these film licenses were not first sales because “on their face and by their terms they were restricted licenses and not sales.”<sup>25</sup>

¶11 However, the *Wise* court distinguished two licenses as sales—the *Funny Girl* and *Camelot* films. *Wise* sold a display license for *Funny Girl* to ABC that allowed ABC to retain, at its election and cost, a file-screening copy of the film.<sup>26</sup> In the absence of any evidence that ABC exercised its right to retain a copy, the court found that the government had not proven the absence of a first sale.<sup>27</sup> The *Camelot* license, which *Wise* granted to a collector named Vanessa Redgrave, stipulated that Redgrave pay Warner Brothers, the owner of the *Camelot* copyright, for the print and that the print was limited to home use.<sup>28</sup> Therefore, the court held that there was a first sale with regard to *Camelot*, as well, because Redgrave was given control of the copy of *Camelot* for an unlimited amount of time.<sup>29</sup>

¶12 The Ninth Circuit dealt with the licensee versus owner issue in the context of software sales in what the *Vernor* court deemed the *MAI* trio of cases.<sup>30</sup> The *MAI* trio consists of: *MAI Systems Corp. v. Peak Computer, Inc.*,<sup>31</sup> *Triad Systems Corp. v. Southeastern Express Co.*,<sup>32</sup> and *Wall Data Inc. v. Los Angeles County Sheriff’s Department*.<sup>33</sup> In each of these cases, the Ninth Circuit discussed both the essential step defense and the first sale doctrine. While the cases involve different software licensing

---

<sup>20</sup> 550 F.2d 1180 (9th Cir. 1977).

<sup>21</sup> *Id.* at 1183–84.

<sup>22</sup> *Id.* at 1184.

<sup>23</sup> *Id.*

<sup>24</sup> *Id.* at 1187.

<sup>25</sup> *Id.* at 1190.

<sup>26</sup> *Id.* at 1191.

<sup>27</sup> *Id.* at 1191–92 (“[T]he government ha[d] failed in its burden of proving the absence of first sale . . .”).

<sup>28</sup> *Id.* at 1192.

<sup>29</sup> *Id.*

<sup>30</sup> *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1109 (9th Cir. 2010).

<sup>31</sup> 991 F.2d 511 (9th Cir. 1993).

<sup>32</sup> 64 F.3d 1330 (9th Cir. 1995).

<sup>33</sup> 447 F.3d 769 (9th Cir. 2006).

situations, the Ninth Circuit ultimately found that customers who use software under restrictive licenses are not owners for purposes of §§ 109 and 117.

¶13 The trio’s namesake case, *MAI*, found no ownership where the alleged infringer utilized software licensed under a restrictive licensing agreement.<sup>34</sup> The defendant in *MAI*, Peak Computer, was a computer maintenance and repair firm that, in the course of servicing its clients’ computers, made copies of MAI’s copyrighted software into the memory of the computers they were servicing.<sup>35</sup> MAI licensed its software to its customers under a restrictive license that “d[id] not allow for the use or copying of MAI software by third parties such as Peak.”<sup>36</sup> Thus, the court held that “any ‘copying’ done by Peak [wa]s ‘beyond the scope’ of the license” and therefore not covered by the essential step defense.<sup>37</sup> On the ownership versus licensee issue, the court stated that “[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.”<sup>38</sup> While *MAI* remains good law, it should be noted that Congress explicitly legislated around *MAI* when it revised § 117 to include a specific exception for computer maintenance.<sup>39</sup>

¶14 The second case of the *MAI* trio, *Triad*, illustrates the Ninth Circuit’s distinction between a sale and a license.<sup>40</sup> *Triad* involved a company that initially sold auto maintenance software under a purchase regime, but then switched to a licensing regime.<sup>41</sup> Much like in *MAI*, the *Triad* defendants sought service from a third party not authorized by Triad, the copyright holder. The court held that under the purchase regime, the customers owned their software and therefore had the right under § 117 to “authorize the making of copies in the operation of their computers.”<sup>42</sup>

¶15 However, customers under the licensing regime were subject to a strict license that stipulated that they “may not duplicate the software or allow it to be used by third parties.”<sup>43</sup> Furthermore, if customers wished to sell their computer systems with Triad’s software on it, the license required them to pay Triad a transfer fee.<sup>44</sup> The *Triad* court held that this license was like the license in *MAI* and that the majority of customers under the licensing agreements were licensees.<sup>45</sup> Because licensees could not authorize the

---

<sup>34</sup> *MAI*, 991 F.2d 511, 518 n.5.

<sup>35</sup> *Id.* at 517.

<sup>36</sup> *Id.*

<sup>37</sup> *Id.*

<sup>38</sup> *Id.* at 519 n.5.

<sup>39</sup> Section 117(c) of the copyright act creates an explicit exception to the exclusive reproduction right for purposes of computer maintenance. 17 U.S.C. § 117(c) (2006). The legislative history indicates that § 117(c) was passed in response to courts such as the *MAI* court that interpreted the running of software as a § 106 “reproduction.” H.R. REP. NO. 105-551, pt. 1, at 27 (1998) (“This legislation has the narrow and specific intent of relieving independent service providers . . . from liability under the Copyright Act when, solely by virtue of activating the machine in which a computer program resides, they inadvertently cause an unauthorized copy of that program to be made.”).

<sup>40</sup> See *Triad Sys. Corp. v. Se. Express Co.*, 64 F.3d 1330 (9th Cir. 1995).

<sup>41</sup> *Id.* at 1333.

<sup>42</sup> *Id.*

<sup>43</sup> *Id.*

<sup>44</sup> *Id.*

<sup>45</sup> *Id.* at 1337 n.18 (“This arrangement is also appropriate because it appears that the majority of Triad computer owners are subject to license agreements and do not own their software outright . . .”).

making of copies that would be made in the course of repairs, they therefore could not use § 117 to authorize repairs.<sup>46</sup>

¶16 The final case in the *MAI* trio, *Wall Data*, involved a volume license sale where the defendant purchased a license to operate 3,663 copies of the plaintiff's software but installed 6,007 copies of the software by using disk-imaging software.<sup>47</sup> The defendants argued that the essential step defense covered their use of the software "because the hard drive imaging process was a necessary step of installation."<sup>48</sup> The court held, however, that the defendant was not an owner of the software, stipulating that "if the copyright owner makes it clear that she or he is granting only a license to the copy of software and 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."<sup>49</sup>

### B. The Federal and Second Circuits: Software Licensees Have Owner Rights

¶17 The Federal and Second Circuits have taken conflicting views of the licensee versus ownership issue. The Federal Circuit, which does not normally deal with copyright issues, addressed whether software licensees were owners of software in *DSC Communications Corp. v. Pulse Communications, Inc.*<sup>50</sup> In *DSC*, the plaintiff manufactured telecommunications infrastructure equipment and copyrighted the software required to run the equipment.<sup>51</sup> The defendant manufactured hardware that served the same function as DSC's hardware but required the use of DSC's copyrighted software to properly function.<sup>52</sup> Regional bell operating companies (RBOCs), which had licensed DSC's software, installed the software on equipment that the defendant manufactured. The plaintiffs objected, claiming such use was a violation of the software licensing agreement.<sup>53</sup>

¶18 The Federal Circuit criticized the Ninth Circuit's decision in *MAI*, indicating it established an "overly simplistic" rule.<sup>54</sup> It claimed that the Ninth Circuit's rule "fail[ed] to recognize the distinction between ownership of a copyright, which can be licensed, and ownership of copies of the copyrighted software."<sup>55</sup> As a result, the Federal Circuit declined to "adopt the Ninth Circuit's characterization of all licensees as non-owners," adopting instead a test that looks at the incidents of ownership.<sup>56</sup> However, despite its criticism of the *MAI* rule, the *DSC* court ultimately held that the RBOCs were not owners

---

<sup>46</sup> *Id.* at 1333 (stating that licensees of the software could not repair their software due to a restrictive license).

<sup>47</sup> *Wall Data Inc. v. L.A. Cnty. Sheriff's Dep't*, 447 F.3d 769, 773 (9th Cir. 2006).

<sup>48</sup> *Id.* at 776.

<sup>49</sup> *Id.* at 785.

<sup>50</sup> 170 F.3d 1354 (Fed. Cir. 1999).

<sup>51</sup> *Id.* at 1358.

<sup>52</sup> *Id.*

<sup>53</sup> *Id.* at 1360.

<sup>54</sup> *Id.* at 1362.

<sup>55</sup> *Id.* at 1360 (citing 2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.08[B][1], at 8-119 to 1-121 (3d ed. 1997)).

<sup>56</sup> *Id.* Although it declined to follow *MAI*, the *DSC* court acknowledged the similarity in finding a mere license where the software agreement "imposed more severe restrictions on Peak's rights with respect to the software than would be imposed on a party who owned copies of software subject only to the rights of the copyright holder under the Copyright Act." *Id.*



of the software. Therefore, they were not entitled to the § 117 defense because the license stipulated that “[a]ll rights, title, and interest in the Software are and shall remain with seller, subject . . . to a license to Buyer to use the Software solely in conjunction with” DSC’s equipment.<sup>57</sup>

¶19 The Second Circuit is often at odds with the Ninth Circuit on copyright issues.<sup>58</sup> Taking the Federal Circuit’s view of *MAI* as a cue, the Second Circuit’s decision in *Krause v. Titleserv, Inc.* further fleshed out the distinction between licenses and sales for the purposes of § 117.<sup>59</sup> In *Krause*, the plaintiff, software developer Krause, developed and copyrighted software under a consulting arrangement for defendant Titleserv.<sup>60</sup> Before terminating the consulting relationship with Titleserv, Krause entered into an oral agreement with the CEO of Titleserv that the software Krause developed would remain his.<sup>61</sup> Instead of transferring title to the software, Krause granted Titleserv a license to use, but not modify, the software.<sup>62</sup>

¶20 Discussing the appropriate standard for determining ownership for the purposes of § 117, the *Krause* court considered two possible standards: (1) a standard like that articulated in *MAI* under which § 117 benefits are restricted to title owners and (2) the standard articulated in *DSC*, which “attache[s] less importance to formal title, looking rather at the various incidents of ownership.”<sup>63</sup> The *Krause* court ultimately decided to adopt the *DSC* standard for two reasons. First, whether a party possesses formal title is generally a matter of state law, and “[i]f § 117(a) required formal title, two software users, engaged in substantively identical transactions might find that one is liable for copyright infringement while the other is protected” simply because they live in different states and are subject to different state laws.<sup>64</sup> Second, the court found it “anomalous” for a user whose ownership of a copy was so complete that he may lawfully use it and keep it forever to be unable to fix or make an archival copy of the software.<sup>65</sup> Applying this standard, the court found that Titleserv was an owner of the copies of the software that Krause authorized it to use, stating multiple factors that suggest ownership rather than restrictive license.<sup>66</sup>

---

<sup>57</sup> *Id.* at 1361 (internal quotation mark omitted).

<sup>58</sup> For example, the Second Circuit has a different analysis of substantial similarity than the Ninth Circuit. Compare *Castle Rock Entm’t, Inc. v. Carol Publ’g Grp., Inc.*, 150 F.3d 132, 138 (2d Cir. 1998) (stating there is a “qualitative” and “quantitative” view, requiring at least a *de minimis* amount of copying), with *Cavalier v. Random House, Inc.*, 297 F.3d 815, 825 (9th Cir. 2002) (using a much broader “total concept and feel” test).

<sup>59</sup> See *Krause v. Titleserv, Inc.*, 402 F.3d 119 (2d Cir. 2005).

<sup>60</sup> *Id.* at 120.

<sup>61</sup> *Id.* at 124.

<sup>62</sup> *Id.* at 121.

<sup>63</sup> *Id.* at 123.

<sup>64</sup> *Id.*

<sup>65</sup> *Id.*

<sup>66</sup> *Id.* at 124 (“Titleserv paid Krause substantial consideration (“to develop the programs for its sole benefit. Krause customized the software to serve Titleserv’s operations. The copies were stored on a server owned by Titleserv. Krause never reserved the right to repossess the copies used by Titleserv and agreed that Titleserv had the right to continue to possess and use the programs forever, regardless whether its relationship with Krause terminated. Titleserv was similarly free to discard or destroy the copies any time it wished.”)).

IV. *VERNOR V. AUTODESK*A. *The Facts*

¶21 In *Vernor*, the plaintiff used eBay to sell copies of the defendant Autodesk’s copyrighted software program AutoCAD in 2005 and 2007.<sup>67</sup> However, the versions of AutoCAD that Vernor sold were not packaged and approved by Autodesk; rather, he sold what the district court deemed “AutoCAD packages.”<sup>68</sup> These AutoCAD packages consisted of an “Autodesk-commissioned box” with a “jewel case” and a compact disc copy of AutoCAD inside it, sealed with a sticker claiming the software was “subject to the license agreement that appears during the installation process or is included in the package.”<sup>69</sup> The packages also included a copy of the Autodesk Software License Agreement (SLA) and “possibly other documentation.”<sup>70</sup> Vernor obtained the 2007 packages from an architecture firm that held a sale of office equipment. Although the architecture firm had broken the seal on the jewel case in each AutoCAD package, the parties agreed that the packages themselves were authentic.<sup>71</sup>

¶22 The SLA for AutoCAD places significant restrictions on the use and transfer of users of AutoCAD software. The SLA (1) states that Autodesk retains title to all copies, (2) grants the customer a nonexclusive and nontransferable license to use the software, (3) prohibits customers from renting, leasing, or transferring the software without Autodesk’s prior consent, (4) imposes “significant use restrictions” that, among other things, prohibit the licensee from disassembling the software, removing any notices, and defeating the copy protection, (5) provides for a license termination for unauthorized copying or use, and (6) provides that if the licensee chooses to upgrade the software, the licensee must destroy any previous copies of the software.<sup>72</sup>

¶23 Autodesk invoked the “take-down” provisions of the Digital Millennium Copyright Act (DMCA) upon discovering Vernor’s eBay operation in both 2005 and 2007.<sup>73</sup> Both takedowns resulted in delayed sales for Vernor, and in the 2007 takedown, eBay barred Vernor from selling anything on its site for a month.<sup>74</sup> Believing that the first sale doctrine applied to his software sales and that he therefore did not violate § 106, Vernor filed suit for a declaratory judgment, intending to bar further DMCA takedown actions against his operation. Autodesk, on the other hand, claimed that it never transferred title of the AutoCAD software packages to the architecture firm.<sup>75</sup> Rather, Autodesk claimed that the architecture firm breached its license to operate AutoCAD when it upgraded to a newer version of the software and sold the copies to Vernor.<sup>76</sup> Whether Vernor was

---

<sup>67</sup> *Vernor v. Autodesk, Inc.*, 93 U.S.P.Q.2d (BNA) 1336, 1337 (W.D. Wash. 2009), *vacated*, 621 F.3d 1102 (9th Cir. 2010).

<sup>68</sup> *Id.*

<sup>69</sup> *Id.* (internal quotation mark omitted).

<sup>70</sup> *Id.*

<sup>71</sup> *Id.*

<sup>72</sup> *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1104 (9th Cir. 2010).

<sup>73</sup> *Id.* at 1105 & n.3 (citing 17 U.S.C. § 512(c)(1)(C) (2006)).

<sup>74</sup> *Id.*

<sup>75</sup> *Id.*

<sup>76</sup> *Id.*

entitled to declaratory judgment hinged on whether the architecture firm purchased AutoCAD software in sales or licenses.<sup>77</sup>

*B. The District Court: There Was a Sale, Not Simply a License*

¶24 The district court held that first sale doctrine applied to software, observing two different lines of binding precedent: *Wise* and the *MAI* trio.<sup>78</sup> The court interpreted *Wise* to hold that a transfer of copyrighted works under restrictive licenses that allow for the physical transfer of media, but do not specify a date to return the media, could be seen as a sale.<sup>79</sup> The district court held that Autodesk granted a license to the architecture firm similar to the Redgrave license in *Wise* because the AutoCAD license and the Redgrave license were both subject to terms that vested “title in the copy to the copyright holder, but made no provision for the copyright holder to regain possession of the copy.”<sup>80</sup> Because Autodesk transferred the copies of AutoCAD to the architectural firm with no expectation that it would regain control of the copies, the district court found that under *Wise*, the AutoCAD license would transfer ownership of the software copy despite the restrictions present in the license.<sup>81</sup>

¶25 The district court then analyzed the facts under the rule adopted by the *MAI* trio. It admitted that under the *MAI* cases, Autodesk would prevail because the AutoCAD copies were transferred pursuant to a restrictive license.<sup>82</sup> Despite expert testimony on Autodesk’s behalf by David Nimmer, author of the leading copyright treatise<sup>83</sup> suggesting otherwise, the court held that *Wise* and *MAI* articulated conflicting rules.<sup>84</sup> It then chose to apply *Wise*, following the admittedly weak rule that it “must follow the oldest precedent among conflicting opinions from three-judge Ninth Circuit panels.”<sup>85</sup>

*C. The Ninth Circuit: There Was Simply a License, Not a Sale*

¶26 The Ninth Circuit took a significantly different view of *Wise* and the *MAI* trio than the district court. Instead of determining that the cases were irreconcilable, as the district court did, the Ninth Circuit reviewed its precedent regarding the ownership versus licensee issue and synthesized a “three consideration” test to determine whether a software user is a licensee rather than an owner: “First, we consider whether the copyright owner specifies that a user is granted a license. Second, we consider whether the copyright owner significantly restricts the user’s ability to transfer the software. Finally, we consider whether the copyright owner imposes notable use restrictions.”<sup>86</sup>

---

<sup>77</sup> *Id.* at 1107.

<sup>78</sup> *Vernor v. Autodesk, Inc.*, 93 U.S.P.Q.2d (BNA) 1336, 1341–46 (W.D. Wash. 2009), *vacated*, 621 F.3d 1102 (9th Cir. 2010).

<sup>79</sup> *Id.* at 1342. The district court’s decision was based primarily on the *Wise* court’s discussion of the license attached to the Redgrave sale of *Camelot*.

<sup>80</sup> *Id.*

<sup>81</sup> *Id.* at 1343–44.

<sup>82</sup> *Id.* at 1344–45.

<sup>83</sup> NIMMER & NIMMER, *supra* note 15.

<sup>84</sup> *Vernor*, 93 U.S.P.Q.2d (BNA) at 1346 (“With two sets of conflicting precedent before the court, the question becomes which to follow.”).

<sup>85</sup> *Id.* (citing *United States v. Rodriguez-Lara*, 421 F.3d 932, 943 (9th Cir. 2005)).

<sup>86</sup> *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1110–11 (9th Cir. 2010).

¶27 The Ninth Circuit explicitly stated that one of its goals in synthesizing the new three-consideration test was to “reconcile[] the *MAI* trio and *Wise*, even though the *MAI* trio did not cite *Wise*.”<sup>87</sup> Under its newly formulated rule, the Ninth Circuit found first that “Autodesk retained title to the software,” as stipulated in the SLA.<sup>88</sup> With regard to the second consideration, it found that Autodesk “imposed significant transfer restrictions” as “the software could not be transferred or leased without Autodesk’s written consent.”<sup>89</sup> Finally, with regard to the third consideration, the SLA imposed many usage restrictions.<sup>90</sup> Because Autodesk sold AutoCAD pursuant to the SLA and the architecture firm was bound by the SLA, the court held that the firm was a licensee rather than an “owner of a particular copy” of AutoCAD.<sup>91</sup>

*D. The Ninth Circuit’s Vernor Test Is Contrary to the Second Circuit’s Krause Test*

¶28 The three-factor test articulated by the Ninth Circuit in *Vernor* grants much more power to software copyright holders and makes it more likely that a modern software purchase will be a license rather than a first sale. However, in dismissing plaintiff Vernor’s counterarguments, the Ninth Circuit claimed that it was not creating a circuit split with the Federal Circuit’s decision in *DSC* or the Second Circuit’s decision in *Krause* when it articulated its new rule.<sup>92</sup> The Ninth Circuit’s characterization of the allegedly contrary authority in the other circuits is at least partially true. With its recasting of the rule articulated by the *MAI* trio, the Ninth Circuit effectively brought *DSC* into the fold of its framework, as *DSC* hinged on whether the software copyright holder retained title to the work.<sup>93</sup>

¶29 While it was appropriate for the Ninth Circuit to distinguish *DSC* given the facts of the case and relevant case law, the Ninth Circuit dismissed the Second Circuit’s decision in *Krause* too quickly. The Ninth Circuit gave little weight to the restrictive license in *Krause* because the parties did not have a written license agreement, and Titleserv paid Krause “significant consideration” to develop software for its sole benefit.<sup>94</sup> It then, without much analysis, concluded that “the facts and the analysis in *Krause* are not contrary to our determination that [the architecture firm] is a licensee rather than an owner.”<sup>95</sup> In dismissing *Krause*, the Ninth Circuit ignored the restrictive nature of the license at issue in *Krause*.

¶30 In fact, if the Ninth Circuit applied its test to the facts in *Krause*, it would have reached a contrary result. The first *Vernor* consideration is “whether the copyright owner specifies that the user is granted a license.”<sup>96</sup> *Krause* explicitly made an oral contract

---

<sup>87</sup> *Id.* at 1111.

<sup>88</sup> *Id.*

<sup>89</sup> *Id.*

<sup>90</sup> *Id.* at 1111–12 (“The SLA 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.”).

<sup>91</sup> *Id.* at 1112.

<sup>92</sup> *Id.* at 1114.

<sup>93</sup> *DSC Commc’ns Corp. v. Pulse Commc’ns, Inc.*, 170 F.3d 1354, 1360 (Fed. Cir. 1999).

<sup>94</sup> *Vernor*, 621 F.3d at 1114.

<sup>95</sup> *Id.*

<sup>96</sup> *Id.* at 1110.

with the CEO of Titleserv that the company would merely have a license to his copyrighted software, not ownership.<sup>97</sup> This is analogous to the AutoCAD license in *Vernor*, which explicitly stipulates that Autodesk retains all title to AutoCAD software.<sup>98</sup> The second *Vernor* consideration is “whether the copyright owner significantly restricts the user’s ability to transfer the software.”<sup>99</sup> While Krause may not have explicitly forbade Titleserv from selling the software to another individual, this consideration is moot because the software Krause wrote was only applicable to Titleserv’s internal company operations and not readily adaptable to another business.<sup>100</sup>

¶31 The third *Vernor* consideration is whether the agreement imposes notable use restrictions.<sup>101</sup> This consideration would have weighed heavily in Krause’s favor, as Krause was very explicit in his terms that his software was not to be modified or decompiled; he went to great lengths to remove all source code from the Titleserv offices.<sup>102</sup> Krause’s intentions were analogous to the significant use restrictions in the AutoCAD License, which restrict the user from decompiling or otherwise modifying the software.<sup>103</sup> Therefore, under the *Vernor* test, Krause would have easily meet a burden of proving that Titleserv was not an owner of the software who was entitled to the § 117(a) essential step defense.

¶32 While the Second Circuit in *Krause* addressed the ownership issue for the purposes of the § 117(a) essential step defense, the Ninth Circuit in *Vernor* considered the ownership issue for the purposes of the § 109 first sale doctrine. Although courts have held that the two meanings of ownership are the same, the Ninth Circuit’s *Vernor* test for ownership has not yet been applied to a fact pattern concerning the essential step defense. While the Ninth Circuit is not obligated to follow the Second Circuit’s different reading of the ownership–licensee dichotomy, the split between the two circuits shows that the distinction between licensees and owners is far from settled on the national scale.

## V. POLICY ARGUMENTS BEHIND *VERNOR*

### A. *Finding First Sales in Software Purchases*

¶33 In formulating its rule in *Vernor*, the Ninth Circuit considered, but did not afford any weight to, a number of amici briefs that weighed on each side of the issue. *Vernor*’s brief and those of the amici who sided with *Vernor*, eBay and the American Library Association (ALA), emphasized traditional property rights that favor alienability and the constitutional purpose behind copyright that favors dissemination of copyrighted works. *Vernor* emphasized the “law’s aversion to restraints on alienation of personal property.”<sup>104</sup> In light of this aversion, *Vernor* argued that the Ninth Circuit’s decision “ignores the economic realities of the relevant transactions, in which the copyright owner permanently released software copies into the stream of commerce without expectation of

---

<sup>97</sup> *Krause v. Titleserv, Inc.*, 402 F.3d 119, 124 (2d Cir. 2005).

<sup>98</sup> *Vernor*, 621 F.3d at 1104.

<sup>99</sup> *Id.* at 1111.

<sup>100</sup> *Krause*, 402 F.3d at 129.

<sup>101</sup> *Vernor*, 621 F.3d at 1111.

<sup>102</sup> *Krause*, 402 F.3d at 121.

<sup>103</sup> *See Vernor*, 621 F.3d at 1111.

<sup>104</sup> *Id.* at 1115.

return in exchange for upfront payment of the full software price.”<sup>105</sup> Additionally, Vernor argued the decision would place an unworkable standard for those who wish to participate in secondary markets, as it would “force everyone purchasing copyrighted property to trace the chain of title to ensure that a first sale occurred.”<sup>106</sup> In the same vein, eBay argued that

a broad view of the first sale doctrine is necessary to facilitate the creation of secondary markets for copyrighted works, which contributes to the public good by (1) giving consumers additional opportunities to purchase and sell copyrighted works, often at below-retail prices; (2) allowing consumers to obtain copies of works after a copyright owner has ceased distribution; and (3) allowing the proliferation of businesses.<sup>107</sup>

¶34 Finally, the ALA argued that the court’s decision would “(1) undermine[] 17 U.S.C. § 109(b)(2), which permits non-profit libraries to lend software for non-commercial purposes, and (2) would hamper efforts by non-profits to collect and preserve out-of-print software.”<sup>108</sup> Additionally, “[t]he ALA fear[ed] that the software industry’s licensing practices could be adopted by other copyright owners, including book publishers, record labels, and movie studios.”<sup>109</sup>

¶35 Those who argue in favor of finding ownership in software licenses, such as Vernor and eBay, find support in the scholarly community. Scholars, looking at the district court’s decision in *Vernor* and the Second Circuit’s decision in *Krause*, are more willing to construe a license as a sale.<sup>110</sup> Some commentators have even advocated for a legislative modification of the copyright regime to extend the first sale doctrine to most transfers that are normally seen as licenses.<sup>111</sup>

### *B. Finding Licenses in Software Purchases*

¶36 A number of parties, including Autodesk, the Software and Information Industry Association, and the Motion Picture Association of America (MPAA), filed briefs with policy arguments in support of the Ninth Circuit’s result in *Vernor*. Autodesk argued that such restrictive licensing agreements “allow[] for tiered pricing for different software markets, such as reduced pricing for students or educational institutions,” thus increasing access for users of its software.<sup>112</sup> Additionally, Autodesk argued that requiring all users of the software to license the software and not resell the software “lowers prices for all

---

<sup>105</sup> *Id.*

<sup>106</sup> *Id.*

<sup>107</sup> *Id.*

<sup>108</sup> *Id.*

<sup>109</sup> *Id.*

<sup>110</sup> See, e.g., Ted Claypoole, *How a License Becomes a Sale: Software Applications of the First Sale Doctrine*, 2008 EMERGING ISSUES 2823 (analyzing how first sale doctrine is turning licensees into purchasers).

<sup>111</sup> See, e.g., Joshua W. Newman, Note, *Selling the Right to License: Examination of the First Sale Doctrine Through the Lens of UMG Recordings & Quanta Computer*, 35 J. CORP. L. 849 (2010) (arguing that Congress should embrace the recent decisions that extend the first sale doctrine and legislatively revise those principles to protect consumer privileges).

<sup>112</sup> *Vernor*, 621 F.3d at 1114.

consumers by spreading costs among a large number of purchasers.”<sup>113</sup> Finally, Autodesk maintained that the decision would “reduce[] the incidence of piracy by allowing copyright owners to bring infringement actions against unauthorized resellers.”<sup>114</sup> The MPAA had a more practical policy reason to disfavor granting licensees ownership status, stating “there is often no practically feasible way for a consumer to return a copy [of software] to the copyright owner.”<sup>115</sup>

¶37 Scholars who advocate for the licensing view over ownership focus on the changing nature of intellectual property and technology on and how the older precedent of § 109 does not apply in a modern context. Despite several attempts to bring it into compliance with modern technology, commentators argue that the copyright statute has not captured the proper level of protection for non-physical copyrighted works.<sup>116</sup> Ultimately, affirmative defenses and the current copyright regime make sense when consumers obtain *physical* manifestations of the intellectual property; unfortunately for copyright holders and Congress, the regime falls short in determining how to deal with non-physical media.<sup>117</sup>

#### VI. RECONCILING *VERNOR* AND *KRAUSE*: SEPARATING THE FIRST SALE DOCTRINE FROM THE ESSENTIAL STEP DEFENSE

¶38 There are now two ways to address the ownership issue for §§ 109 and 117(a): the Ninth Circuit’s three consideration test presented in *Vernor* and the Second Circuit’s incidences of ownership test presented in *Krause*. The Second Circuit’s incidence of ownership test grants users broader rights to use and adapt software, which is in line with the Copyright Clause’s goal of dissemination of copyrighted work. The Ninth Circuit’s test, however, falls on the other side of the copyright policy debate, granting more protection to copyright owners to foster the creation of their works.

¶39 One way to reconcile the Second and Ninth Circuits’ tests is to limit each to the affirmative defense that raised it. Each test serves different purposes and is an exception to a different exclusive right of the copyright holder. The essential step defense, at issue in *Krause*, is a modern element of the copyright regime that has been adapted to reflect the needs of software consumers and copyright holders. The first sale doctrine, on the other hand, is largely unchanged from the standard originally articulated by the Supreme

---

<sup>113</sup> *Id.* at 1114–15.

<sup>114</sup> *Id.* at 1115.

<sup>115</sup> *Id.*

<sup>116</sup> See, e.g., Robert H. Rotstein et al., *The First Sale Doctrine in the Digital Age*, 22 INTELL. PROP. & TECH. L.J. 23 (2010) (arguing that the nature of intangible property requires a re-assessment of how intellectual property transactions and usage should be viewed); Diane L. Zimmerman, *Living Without Copyright in a Digital World*, 70 ALB. L. REV. 1375 (2007) (arguing that the current copyright legal regime is ill-equipped to deal with non-physical media, and that new copyright regimes should be imposed, most likely in the digital space, to effectively regulate non-physical intellectual property).

<sup>117</sup> Nika Aldrich, Note, *An Exploration of Rights Management Technologies Used in the Music Industry*, 2007 B.C. INTELL. PROP. & TECH. F. 051001 available at <http://bciprf.org/wp-content/uploads/2011/07/25-AN-EXPLORATION-OF-RIGHTS-MANAGEMENT-TECHNOLOGIES-USED-IN-THE-MUSIC-INDUSTRY.pdf> (tracking the development of digital rights management in the music industry, and the inadequacy of the current copyright regime to properly cover).

Court in *Bobbs-Merrill* in 1908, a time when intellectual property was still inextricably tied to physical media.

*A. The Essential Step Defense Warrants Reading Software Sales as Purchases*

¶40 The essential step defense was created to protect the interests of both software buyers and copyright holders. The Second Circuit came to its decision in *Krause* because it found that limiting the essential step defense to those who were owners of the software would lead to an absurd result, a sentiment shared by Congress when it amended § 109 in the wake of *MAI*. One need not look further than the facts of *MAI*, where copyright law barred a computer owner from hiring an individual of his choice to service his own computer.<sup>118</sup> If the court had refused to read ownership into *Krause*, an even more absurd result would surface: a company that commissioned someone to write software for it, yet failed to properly contract to retain title to the software, would be unable to repair or adapt its systems to a changing world.

¶41 Such a reading of the owner requirement places too much power in the hands of software copyright owners. Instead of just controlling the reproduction of copyrighted software, the exclusive reproductive right would also preclude software customers from allowing any other entity but the copyright holder from servicing the software. Such power does not serve the creation or dissemination incentives of the copyright regime. Therefore, interpreting the owner requirement in the essential step defense makes sense in the context the essential step defense serves.

*B. The First Sale Doctrine Warrants Reading Software Transfers as Licenses*

¶42 The first sale doctrine, on the other hand, makes less sense in the context of medium-less intellectual property, such as digital music files, eBooks, and software purchased on the Internet. Often, such purchases are linked to a user who is a real person, rather than a physical manifestation of the copyrighted work (e.g., a book or a CD). The policy reasons behind the first sale doctrine established in *Bobbs-Merrill* are rooted in a copyright regime that assumes the existence of physical media and the higher cost to distribute and disseminate physical media.

¶43 One policy rationale behind the first sale doctrine is based on the difference between ownership of a copyrighted work and ownership of a particular copy of that work.<sup>119</sup> While this distinction is as relevant now as it was when copyrighted works were disseminated at bookstores on books and records, the idea of the first sale doctrine as a proper limit to the exclusive distribution right makes less sense with media-less sales of intellectual property. When a consumer had to buy a physical copy of a copyrighted work to access the work, there was a tangible property right in the copy of the book purchased. This model of ownership of a copy of a copyrighted work falls short in today's world of digital distribution, for there oftentimes are no physical, tangible objects

---

<sup>118</sup> *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 517 (9th Cir. 1993).

<sup>119</sup> *See, e.g., United States v. Moore*, 604 F.2d 1228, 1232 (9th Cir. 1979) (“[W]here a copyright owner parts with title to a particular copy of his copyrighted work, he divests himself of his exclusive right to vend that particular copy.”); *see also Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908) (“The purchaser of a book, once sold by authority of the owner of the copyright, may sell it again, although he could not publish a new edition of it.”).



that a consumer owns. At some extremes, such as online gaming or video streaming subscriptions, such purchases are better seen as purchases of the ability to access a specific service rather than the purchase of a copy of a particular piece of intellectual property.<sup>120</sup> The traditional property rule against limiting alienability makes little sense if the property at issue is a monthly subscription to an online gaming service. With the increasing digital distribution of all forms of copyrighted work, the distinction of ownership between the copyrighted work and that of the copy of the work is breaking down. While it is clear that the copyright owner still owns the fruits of his creative labor, it is less clear that the copyright consumer owns the MP3 file on her iPod, the eBook on her Kindle, or the app on her iPhone in the same way that a purchaser of a physical book owns the paper that the book is printed on.

¶44 Another policy rationale behind the first sale doctrine is that it exists to further the public dissemination of copyrighted works by allowing for secondary markets.<sup>121</sup> In much of the twentieth century, there were extremely high barriers to the dissemination of creative works due to the fact that a work had to be disseminated on physical media. As Internet-based services such as iTunes and YouTube show, it is much easier now for individuals to disseminate their creative works.<sup>122</sup> To protect their intellectual property in today's age of free information sharing on the Internet, software companies are shifting to medium-less sales and focusing more on server-client based systems.<sup>123</sup> Google built its entire business without ever distributing one box of software, Blizzard and Microsoft embraced the social gaming paradigm shift and built their models on selling clients to their game systems, and Apple, having revolutionized the mobile space by creating the first viable application store for mobile phones, is moving to create an entirely virtual market for computer applications.<sup>124</sup>

## VII. CONCLUSION

¶45 The copyright regime is best understood as balancing two competing incentives of consumers and producers. First, it grants authors exclusive rights to their works to

---

<sup>120</sup> See, e.g., *World of Warcraft Terms of Use*, BLIZZARD ENT., [http://us.blizzard.com/en-us/company/legal/wow\\_tou.html](http://us.blizzard.com/en-us/company/legal/wow_tou.html) (last updated Dec. 9, 2010) (“The Game includes two components: (a) the software program along with any accompanying materials or documentation (collectively, the ‘Game Client’), and (b) Blizzard’s proprietary World of Warcraft online service (the ‘Service’).”).

<sup>121</sup> See, e.g., R. Anthony Reese, *The First Sale Doctrine in the Era of Digital Networks*, 44 B.C. L. REV. 577, 586 (2003) (“The first sale doctrine also provides many consumers the chance to purchase a copy of the work at a price lower than that charged by the copyright owner or by the initial retailer . . . by allowing the development of secondary markets for the sale of copies.”); Niva Elkin-Koren, *Cyberlaw and Social Change: A Democratic Approach to Copyright Law in Cyberspace*, 14 CARDOZO ARTS & ENT. L.J. 215, 277 (1996) (“The first sale doctrine restricts the power of distributors to control secondary markets for their works.”).

<sup>122</sup> See, e.g., Ryan Nakashima, *YouTube Offers Venue for Indie Filmmakers*, ASSOCIATED PRESS, June 19, 2008, available at [http://www.msnbc.msn.com/id/25268434/ns/technology\\_and\\_science-internet/](http://www.msnbc.msn.com/id/25268434/ns/technology_and_science-internet/).

<sup>123</sup> See, e.g., Andrew Webster, *The Future of Gaming: Up the Beanstalk and into the Cloud*, ARS TECHNICA (Apr. 4, 2010, 11:30 PM), <http://arstechnica.com/business/future-of-cloud/2010/04/cloud-gaming.ars>.

<sup>124</sup> See, e.g., Earnest Cavalli, *Blizzard Adds Digital Distribution to Online Store*, WIRED (May 6, 2008, 12:06 PM), <http://www.wired.com/gamelife/2008/05/blizzard-adds-d/>; Mike Snider, *Social Media, Mobile Devices Help Video Games Grow*, USA TODAY (Feb. 28, 2011, 8:33 PM), [http://www.usatoday.com/tech/news/2011-03-01-videogames01\\_CV\\_N.htm](http://www.usatoday.com/tech/news/2011-03-01-videogames01_CV_N.htm).

incentivize the creation of artistic works. Second, the copyright regime limits the rights of copyright holders so that copyrighted works can be widely disseminated. The first sale doctrine and essential step defense are exceptions to the exclusive rights of copyright holders that serve to strike the proper balance between the competing incentives of copyright holders and consumers. While both exceptions enable consumers to perform acts that are normally reserved to copyright authors, both the essential step and first sale doctrine require that any individual invoking the defense be an owner of the particular copy at issue; the implication being that those using copyrighted works under restrictive licenses cannot enjoy the defenses in the same way that an owner can.

¶46 As technology has progressed and the nature of copyrighted material has shifted from physical media to software, courts have struggled to strike the proper balance between incentivizing authors to create works and allowing the widespread dissemination of those works. At the same time, software authors have increasingly attempted to protect their creations by using licenses to contract around the essential step defense and first sale doctrine. As a result, different circuit courts have interpreted the ownership versus licensee debate differently, resulting in differing standards. One way to reconcile the difference in conflicting standards in the circuits is to restrict each standard to the defense in which the standard was articulated; the Ninth Circuit's standard was created in a first sale case, while the Second Circuit's standard was created in an essential step case. Such a solution would not only reconcile the split between the circuits, but would also recognize that the essential step defense and first sale doctrine address different exclusive rights, each of which requires a different balance between authors and consumers.