FBA/OC

Spring/Summer 2011

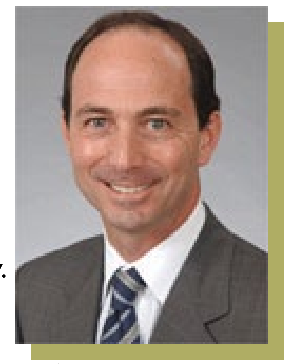
Coming Attractions:

- Bench and Bar Luncheon with Judge Cormac J. Carney - July 21, 2011
- FBA/OC Judges' Night - October 6, 2011

Inside This Issue:

Restrictions on the Use of Copyrighted Computer Software and Music CDs: The Ninth Circuit Clarifies the Law in a Trilogy of Decisions

By Lester Savit, Evan Simon, and Michelle Stover



Anyone who purchases a computer program, video game or music CD knows that copying copyrighted software is a no-no.[1] Conversely, it seems self-evident that a purchaser of an authorized copy of a copyrighted work obtains rights of ownership to that copy – the right to do with it as he or she pleases, short of reproducing it. But the truth is that restrictive license language associated with the copy may significantly narrow a purchaser's rights. The Ninth Circuit brought renewed attention to this topic in a trilogy of recent cases, the first two concerning software and the third regarding music.

The first case, *Vernor v. Autodesk,*[2] addressed the question of whether a *bona fide* purchaser of an authorized copy of business software was liable for copyright infringement by selling that copy to another. The second case, *MDY Industries v. Blizzard Entertainment*,[3] presented the issue of whether a computer game purchaser infringed a copyright by using a third-party's "bot" that interacts with the game. The third case, *UMG Recordings, Inc. v. Augusto*,[4] considered the enforceability of restrictive language appearing on promotional

(Continued on page 2)

Judicial Profile - Hon. Josephine Staton Tucker

By Katherine R. Stevens

Judge Josephine Staton Tucker began her journey to the federal bench with a step of a different kind. As a high school student in the Midwest, Judge Tucker for a time considered skipping college to pursue a dream of becoming a professional dancer. Her mother owned a dance studio, and as a child Judge Tucker looked forward to the day when she could take lessons from her mother in that very studio. After her mother fell ill and closed the studio, Judge Tucker considered following in her foot-

(Continued on page 12)

Copyrighted Computer Software and Music CDs (Cont'd)

(Continued from page 1)

CDs that were distributed to music industry "insiders."

In all three cases, the complained-of activity clearly violated restrictions associated with business software, video games or music. However, in only the first of the three cases, *Vernor*, did the Ninth Circuit uphold the enforceability of the restrictions as a copyright violation. That decision held that a carefully drafted Software License Agreement ("SLA") extended the exclusive rights embodied in a copyright to restrict downstream transfers and other uses of a software product. *MDY Industries* limited the extent to which an SLA could extend copyright exclusivity to restrict actions not traditionally associated with copyrights. Finally, *UMG Recordings* ruled that the circumstances surrounding the transaction in which an authorized copy of a copyrighted work changes hands may prevent restrictive language appearing on the copy from being enforceable at all.

In this article, we will first discuss *Vernor*'s formulation for license language that makes the purchaser of an authorized copy a copyright licensee rather than a true owner. Next, we will discuss how *MDY Industries* limits the extent to which an SLA can use copyright rights to restrict downstream uses of a copyrighted work. Then, we will contemplate the circumstances before the court in *UMG Recordings* that caused the restrictive language marked on a copy of a music CD to be unenforceable. Finally, we will reflect on the potential impact of these decisions on secondary markets for copyrighted software and music.

I. *VERNOR* IDENTIFIES THE LANGUAGE IN A SOFTWARE LICENSE AGREEMENT THAT PREVENTS A PURCHASER FROM OBTAINING FULL OWNERSHIP RIGHTS

Copyright law protects "original works of authorship fixed in any tangible medium of expression," including computer programs and music. [5] One of the exclusive rights enjoyed by a copyright holder is to "distribute copies . . . of the copyrighted work to the public by sale or other transfer of ownership."[6] The copyright holder can exclude all others from distributing copies of the copyrighted work.

These rights have limits. For example, the exclusive distribution right is limited by the first sale doctrine.[7] Codified at 17 U.S.C. § 109(a), the first sale doctrine provides that a copyright owner's exclusive distribution right with respect to a copy is exhausted after the owner's sale of that copy.[8] The "owner of a particular [authorized] copy . . . is entitled, without the [further] authority of the copyright owner, to [re]sell or otherwise dispose of the possession of that copy."[9] Hence, the typical transfer of ownership sale of a copy of a copyrighted work, for example a hard-cover book, ends the copyright holder's control over the copy.

"In the digital age, many 'sales' transactions pass less than full ownership of the copy"

In the digital age, many "sales" transactions pass less than full ownership of the copy. The copyright holder has an opportunity to circumscribe the transferred rights by associating restrictive language, the SLA in the case of computer software, to define the boundaries of the rights being passed. The language in the SLA establishes with specificity the subset of copyright rights that are transferred. Because the copyright holder drafts the SLA, it typically restricts the purchaser's use and resale in a way that is commercially advantageous to the copyright holder.

In *Vernor*, the Ninth Circuit wrestled with where the lines are drawn between a sale that passes ownership and a license that does not. If the receiver of the copy takes as a true owner, the first sale doctrine applies to pass full rights in the copy. On the other hand, if the restrictive language effectively converts the purchaser into a mere licensee, the first sale doctrine will not apply. In this second situation, the purchasers may be on the hook for copyright infringement if they violate the restrictive

(Continued on next page)

Copyrighted Computer Software and Music CDs (Cont'd)

(Continued from page 2)

license.

The facts in *Vernor* are straightforward. Autodesk designed a computer software known as AutoCAD for use by architects, engineers, and manufacturers.[10] In March 1999, Autodesk licensed ten copies of AutoCAD Release 14 software ("Release 14") to Cardwell/Thomas & Associates, Inc. ("CTA").[11] In spite of restrictions in the SLA,[12] CTA sold its copies of Release 14 to Timothy Vernor when it upgraded to the latest version of AutoCAD in April 2007.[13] CTA also provided Vernor with handwritten activation codes.[14]

Vernor did not use these authorized copies of the software, but resold them on eBay.[15] Because of complaints from Autodesk, eBay temporarily suspended Vernor's account.[16] In response, Vernor brought a declaratory judgment action against Autodesk in August 2007 to establish that he had a right to resell pursuant to the first sale doctrine.[17] In October 2009, the district court agreed, holding that "the transfer of AutoCAD copies via the License is a transfer of ownership."[18]

On appeal, the Ninth Circuit applied a three-part test to determine whether "a software user is a licensee rather than an owner of a copy."[19] The test seems simple enough – the user is a licensee if the SLA, "(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."[20] Autodesk's SLA provides that:

- Autodesk retains *title* to all copies of the software;
- the customer has a "nonexclusive and nontransferable license to use" the software;
- the software is subject to "transfer restrictions, prohibiting customers from renting, leasing, or transferring the software without Autodesk's prior consent and from electronically or physically transferring the software out of the Western Hemisphere";
- the customer is subject to "significant use restrictions," including prohibitions against modifying the software, removing any notices or labels from the software, using the software outside the Western Hemisphere, utilizing copy-protection circumvention technologies, or using the software for purposes outside of the license's scope (i.e., commercial use of a educational-use license);
- the license will be terminated if "the user copies the software without authorization or does not comply with the SLA's restrictions,"; and, finally,
- customers using earlier editions of AutoCAD must destroy the software previously licensed to them within sixty days of purchasing the license to use a software update or upgrade.[21]

In light of these provisions, which closely track the three-part test, the court held that CTA was only a licensee of the software—not an owner. As a result, Vernor's claim to protection under the first sale doctrine was found to be without merit, and the lower court's decision in his favor was vacated. [22]

II. *MDY INDUSTRIES* LIMITS THE APPLICATION OF *VERNOR* BY REQUIRING A NEXUS BETWEEN THE COPYRIGHT RIGHTS AND THE SLA'S RESTRICTIVE LANGUAGE

Vernor caused a stir in the computer software world and in markets for other copyrighted digital products.[23] Apparently, as long as an SLA contained the *Vernor* three-part language, it could greatly restrict downstream uses of the purchased copy. This potentially would allow the copyright holder, if so inclined, to use copyright exclusivity to tightly control the purchaser's use of the copy. By virtue of a well-crafted SLA, any violation of the restrictions could constitute a copyright infringement. Fortunately, some of these concerns were addressed by *MDY Industries,* the next in the Ninth Circuit's copyright trilogy.

MDY Industries is factually and legally more complex than *Vernor*. It involved Blizzard and its copyrighted work World of Warcraft ("WoW"), a multiplayer online game with twelve million subscribers worldwide and one billion dollars in annual revenue.[24] The game's software "has two components: (1) the game client software that a player installs on the computer; and (2) the game server software, which the

(Continued on page 14)

TAKING THE FIFTH: Practical Considerations for the Civil Lawyer

By Todd W. Smith

In the wake of the economic crisis that has rocked the United States over the last few years, corporations, including their employees, officers, and directors, are under ever-increasing scrutiny from government agencies and civil litigants. The Department of Justice, the SEC, and civil plaintiffs alike are targeting corporations and executives with claims of business and financial fraud. Attorney General Eric Holder recently vowed that the Department of Justice "will be relentless in [its] investigation of corporate and financial wrongdoing, and will not hesitate to bring charges, where appropriate, for criminal misconduct on the part of businesses and business executives."[1] As parallel civil and criminal proceedings become more commonplace, officers, directors, and employees are increasingly faced with the specter of grand jury investigations and potential criminal charges, in addition to civil and regulatory proceedings.[2] As a result, the Fifth Amendment right against self-incrimination, and in particular the complex question of whether and when to "take the Fifth" in civil proceedings in the face of potential criminal proceedings, has been thrust into the spotlight. Because this decision can have far-reaching consequences for the individual and for his or her employer, it is important for civil practitioners to understand the implications of invoking the Fifth Amendment privilege in civil and regulatory proceedings.

I. THE FIFTH AMENDMENT PRIVILEGE AGAINST SELF-INCRIMINATION

Even attorneys who do not regularly practice in the field of criminal law are generally familiar with the basic protections afforded by Fifth Amendment of the Constitution, which provides that "[n]o person . . . shall be compelled in any criminal case to be a witness against himself . . ." U.S. Constitution amend. V. Significantly, the Fifth Amendment privilege is not limited to criminal cases; rather, it may be asserted in "*any proceeding*, civil or criminal, administrative or judicial, investigatory or adjudicatory," so long as the testimony sought might later subject the witness to criminal prosecution.[3] A witness has the right to refuse to testify for fear of self-incrimination unless it is "perfectly clear, from a careful consideration of all the circumstances in the case, that the witness is mistaken, and that the answer[s] cannot possibly have such tendency to incriminate."[4] Nor is the privilege against self-incrimination limited to verbal testimony. It may also apply to the production of documents if such production could provide "a link in the chain of evidence needed to prosecute."[5] Moreover, and of particular interest to in-house attorneys and corporate practitioners, while individual officers, directors, and employees may invoke the Fifth Amendment privilege, corporations and other collective entities, such as LLCs, partnerships, and joint ventures, do not share in such protection.[6]

II. DETERMINING POTENTIAL CRIMINAL LIABILITY AS EARLY AS POSSIBLE

In deciding whether to advise a client to invoke his or her Fifth Amendment privilege, counsel must begin by assessing the potential criminal exposure his or her client may be facing. In order to properly assert the privilege against self-incrimination, a witness must show that his or her testimony "would support a conviction under a federal criminal statute . . . [or] would furnish a link in the chain of evidence needed to prosecute the claimant for a federal crime."[7] In some cases, this may be obvious, as there may be parallel or pending civil and criminal proceedings targeting the client. For example, the client may simultaneously be the target of an SEC enforcement action and a DOJ grand jury investigation.

Very often, however, the analysis is not so straightforward. Civil proceedings often precede formal criminal proceedings, and criminal investigations typically are conducted confidentially pursuant to grand jury secrecy rules.[8] Additionally, the threat of criminal liability may arise long before any formal

(Continued on page 5)

(Continued from page 4)

proceedings have commenced. An internal investigation by a committee of a Board of Directors, for example, may result in findings of misconduct or fraud that may be shared with law enforcement authorities and regulators. Moreover, the internal investigations often involve interviews of employees, officers, and directors regarding their knowledge of and/or involvement in the alleged misconduct. Under this scenario, it is crucial to determine a client's potential criminal liability in order to advise them properly regarding the extent and scope of their cooperation with the investigation. Even if no proceeding is currently pending, company counsel must be cautious in advising employees regarding their cooperation with the investigation, as an employee's individual interests may conflict with those of the corporation. In some instances, as explained more fully below, company counsel may have an ethical obligation to advise an individual to obtain independent criminal counsel to advise them regarding their potential exposure to criminal liability and their Fifth Amendment rights. For all of these reasons, it is crucial that counsel assess the potential risk of criminal exposure as early in the process as possible.

III. THE DECISION TO TESTIFY AND THE SCOPE OF WAIVER

Whatever decision is ultimately made, there will be collateral consequences, particularly in the context of parallel proceedings. Most fundamentally, a decision not to assert the Fifth Amendment privilege may result in the client providing potentially incriminating testimony which ultimately may be used against him or her. Giving testimony on a particular subject also may result in the client waiving his or her Fifth Amendment privilege as to further questions regarding that subject matter, including the underlying details.[9] "[F]ederal courts have uniformly held that, where criminating facts have been voluntarily revealed, the privilege cannot be invoked to avoid disclosure of the details."[10] The Supreme Court has rejected such efforts to selectively waive the Fifth Amendment, holding that a witness "has no right to set forth to the jury all the facts which tend in his favor without laying himself open to a cross-examination upon those facts."[11]

Courts also frown upon the "cat and mouse" game whereby parties invoke the Fifth early in a proceeding to avoid discovery, only to break their silence for strategic purposes later in the case. The Fourth Circuit, for example, affirmed a decision refusing to permit a defendant to submit an affidavit in support of his summary judgment motion after he avoided his deposition by asserting the Fifth Amendment earlier in the case.[12] The Court reasoned that "the Fifth Amendment is not a positive invitation to mutilate the truth a party offers to tell."[13] The Second Circuit is in accord, holding that trial courts may adopt remedial procedures or impose sanctions to prevent prejudice where a party selectively invokes the Fifth Amendment in obstruction of the discovery process.[14]

On the other end of the spectrum, the Ninth Circuit provides relatively broad Fifth Amendment protection, permitting a witness to "pick the point beyond which he will not go."[15] In the Ninth Circuit, a witness may "refuse to answer questions about a matter already discussed, even if the facts already revealed are incriminating, so long as the answers sought may tend to *further* incriminate him."[16] While the waiver analysis necessarily will depend on the specific facts and circumstances of a given case, the Supreme Court has held that the Fifth Amendment is a fundamental right that "must not be interpreted in a hostile . . . spirit," and that courts must "indulge every reasonable presumption against waiver. . . ."[17]

Moreover, a Fifth Amendment waiver extends only to the particular proceeding in which the right is invoked.[18] Thus, a witness who waives his or her Fifth Amendment privilege by voluntarily testifying in a civil proceeding is still entitled to invoke the privilege in a later criminal proceeding.[19] As a practical matter, however, this rule offers little comfort to counsel and their clients, as sworn testimony given in an earlier proceeding generally may be used against that party in a later proceeding, criminal or civil, if that party asserts the Fifth Amendment privilege.[20]

IV. ADVERSE INFERENCES AND OTHER IMPLICATIONS OF INVOKING THE FIFTH AMENDMENT RIGHT AGAINST SELF-INCRIMINATION

On the other end of the spectrum, invocation of

(Continued on page 6)

TAKING THE FIFTH (Cont'd)

(Continued from page 5)

the Fifth Amendment privilege may come at a significant price, especially in the context of a pending civil proceeding. First and foremost, when a defendant invokes the Fifth Amendment and elects not to testify in a civil or regulatory action, the trier of fact may be permitted to infer that the defendant is liable for the alleged misconduct. While this "adverse inference" is not permitted in a criminal case, the Fifth Amendment "does not preclude the inference where the privilege is claimed by a party to a civil cause."[21] Generally, an adverse inference may not be drawn "unless there is a substantial need for the information and there is not another less burdensome way of obtaining that information."[22] Moreover, courts have broad discretion in fashioning remedies to address a witness's invocation of the Fifth Amendment privilege. In addition to ordering adverse inferences, a court that is confronted with a defendant who asserts his or her Fifth Amendment privilege may shift the burden of proof, bar testimony, or even grant summary judgment in favor of the opposing party.[23]

V. ADVERSE INFERENCES AGAINST CORPORATIONS BASED ON SILENCE OF NONPARTY EMPLOYEES

Of particular interest to in-house counsel and corporate practitioners is the fact that some courts have permitted adverse inference instructions against companies based on the invocation of the Fifth Amendment privilege by nonparty employees (including officers and directors) and, in some cases, even *former* employees.[24] Rather than adopt a bright-line rule as to the propriety of adverse inferences against corporations based on the silence of current or former employees, courts acknowledge that "the circumstances of a given case, rather than the status of a particular nonparty witness, is the admissibility determinant."[25] Among the factors considered by courts in determining whether to permit an adverse inference instruction under these circumstances are: (1) the nature of the relationship between the party and the nonparty; (2) the degree to which the party controls the nonparty; (3) the compatibility of interests of the party and nonparty in the outcome of the litigation; and (4) the role of the nonparty witness in the litigation.[26] Notwithstanding these factors, the Second Circuit has stated that "the overarching concern is fundamentally whether the adverse inference is trustworthy under all of the circumstances and will advance the search for the truth."[27]

VI. NON-JUDICIAL CONSEQUENCES OF INVOKING THE FIFTH AMENDMENT PRIVILEGE

In addition to potential adverse inferences and related judicial remedies, invoking the Fifth Amendment privilege can have a number of other practical consequences, including negatively impacting job prospects and vitiating potentially applicable insurance coverage. Employment prospects, especially at companies within the same industry, may be chilled by virtue of an employee's or former employee's invocation of the Fifth Amendment in a suit involving the company. It is also important to remember that while an employee's Fifth Amendment right protects him or her from government compulsion of testimony, an employee enjoys no such right with respect to his employer. Indeed, many corporations have policies *requiring* employees to cooperate with company investigations and legal actions, and the failure to do so may be grounds for termination.

Additionally, courts have ruled that an insured who exercises his or her Fifth Amendment right against self-incrimination by refusing to testify may breach an insurance policy's cooperation clause, thereby vitiating insurance coverage for the underlying claim. In a recent Eight Circuit decision, the Court affirmed a lower court ruling that a policyholder forfeited his right to insurance coverage by invoking the Fifth Amendment during a medical malpractice action.[28] By asserting the Fifth, the insured doctor was found to have breached a provision of his medical malpractice insurance policy which required him to "at all times fully cooperate" with the insurer regarding any claim under the policy.[29] The Court reasoned that "[the insured] retained the choice whether to invoke his Fifth Amendment rights at the price of losing his insurance coverage

(Continued on next page)

(Continued from previous page)

or to cooperate with the defense attorneys provided him and retain his coverage."[30] Accordingly, while the threat of an adverse inference in the pending civil proceeding is often the primary concern of civil lawyers, civil practitioners should also weigh other potentially significant ramifications of invoking the Fifth Amendment privilege, including diminished employment prospects and the availability of insurance coverage.

VII. ETHICAL CONSIDERATIONS FOR CORPORATE LAWYERS

In-house counsel and other lawyers defending corporations are often faced with particularly thorny Fifth Amendment issues stemming from the nature of corporations and corporate representation. Because the corporation is the client, a corporate attorney has an ethical duty to represent the corporation zealously, including zealously defending in the face of civil allegations. Yet, while a corporation cannot invoke the Fifth Amendment, its employees, officers, and directors do enjoy the privilege
the interest of the corporation in defending itself and the interest of an employee, officer, or director in deciding whether to testify in defense of the corporation or take the Fifth. May a corporate attorney, for example, counsel a nonparty officer regarding his or her Fifth Amendment rights if it fears the officer's testimony or failure to give testimony could impact the corporation?

The safest approach is to avoid this scenario altogether by ensuring that the officer is represented by separate and experienced counsel at the earliest opportunity. Otherwise, a corporate attorney could face serious ethical issues, and even obstruction of justice liability, for improperly influencing a potential witness.[31] However, it may be challenging, especially during the preliminary stages of a proceeding or investigation and without knowledge of all the relevant facts, to determine whether the interests of an officer or director are sufficiently divergent from that of the corporation, such that independent and objective counsel is necessary. Hiring separate counsel also can impose a substantial expense on the corporation, which is often responsible for advancing legal fees for its officers and directors. If it poses no conflict of interest, a corporate attorney may choose to represent the corporation and its employees jointly.[32] In some cases, a corporation may retain "shadow counsel" to work alongside company counsel and stand ready to provide separate representation for the individual if the need arises; for example, if the focus of the proceeding or investigation shifts to the individual.[33] Under any scenario, however, a corporate attorney must carefully consider the ethical and legal ramifications of advising a nonparty officer, director, or employee to invoke the Fifth Amendment in a proceeding involving the corporation.

VIII. CONCLUSION

The Fifth Amendment privilege against self-incrimination is no longer the exclusive province of criminal lawyers. As civil practitioners are increasingly faced with clients involved in parallel civil and criminal proceedings and the resulting challenge of advising their clients regarding their Fifth Amendment rights, it is crucial that counsel understand the far- reaching practical, legal, and ethical implications of that decision. At a minimum, civil lawyers should keep in mind the following considerations as they counsel their clients regarding the Fifth Amendment privilege:

- Determine the potential criminal liability your client is facing by considering the viability of pending or threatened criminal investigations or charges, including analyzing any available substantive or procedural defenses.
- Consider the impact of invoking the Fifth Amendment in any pending civil proceedings, including adverse inferences and other judicial remedies.
- Consider the extra-judicial consequences of taking the Fifth, including the impact on employment prospects and insurance coverage.
- Consider moving to stay the civil suit pending resolution of the criminal proceedings or striving to settle the civil case before a criminal case commences.
- For in-house lawyers and corporate counsel, use caution in advising a company's officers, direc-

(Continued on page 8)

TAKING THE FIFTH (Cont'd)

(Continued from page 7)

tors, or employees to invoke the Fifth Amendment. Consider recommending independent counsel for individuals that face even the possibility of criminal liability, as their interests may potentially be adverse to the corporation. ❑

---

1. Attorney General Holder made his remarks at the launch of the Financial Fraud Enforcement Task Force on November 17, 2009. *See* Department of Justice Press Release, "President Obama Establishes Interagency Financial Fraud Enforcement Task Force" (Nov. 17, 2009). The Task Force is designed "to investigate and prosecute significant financial crimes, ensure just and effective punishment for those who perpetrate financial crimes, address discrimination in the lending and financial markets and recover proceeds for victims." *Id.*

2. The Department of Justice has brought several high profile criminal cases against former executives for alleged fraud involving stock option backdating, including cases against former KB Homes CEO Bruce Karatz, former Broadcom executives Henry Nicholas and Henry Samueli, and former Brocade CEO Gregory Reyes. The SEC has been active as well, recently reaching a $73 million settlement with Countrywide and its former CEO Angelo Mozilo in connection with mortgage fraud allegations. The SEC's settlement with Countrywide and Mozilo comes on the heels of the SEC's record $550 million settlement with investment banking institution Goldman Sachs on July 15, 2010 in a suit related to subprime mortgage-related securities. Both the DOJ and the SEC have requested increases in funding to pursue corporate fraud and economic crimes more aggressively in the upcoming months, including bringing criminal charges where appropriate. Robert Khuzami, Director of the SEC's Division of Enforcement, recently stated that "[o]ne of the vital aspects of the [Financial Fraud Enforcement] Task Force will be to better coordinate criminal and civil enforcement efforts." http://www.stopfraud.gov/news/news-11172009-04.html.

3. *Kastigar v. United States*, 406 U.S. 441, 444 (1972) (emphasis added).

4. *Hoffman v. United States*, 341 U.S. 479, 488 (1951) (internal quotations omitted).

5. *United States v. Hubbell*, 530 U.S. 27, 42 (2000) (internal quotations omitted).

6. *See, e.g., Braswell v. United States*, 487 U.S. 99, 104-11 (1988) (Fifth Amendment privilege cannot be invoked on behalf of corporation).

7. *Earp v. Cullen*, No. 08-99005, 2010 U.S. App. LEXIS 21477, at *6 (9th Cir. Oct. 19, 2010) ("A witness justifiably claims the privilege if he is confronted by substantial and real, and not merely trifling or imaginary, hazards of incrimination.") (internal citations and quotations omitted).

8. *See* FED. R. CRIM. P. 6 (e)(2)(B).

9. *See Rogers v. United States*, 340 U.S. 367, 373 (1951) ("Disclosure of a fact waives the [Fifth Amendment] privilege as to details.").

10. *Id.*

11. *Brown v. United States*, 356 U.S. 148, 155 (1958) (internal quotations omitted).

12. *In re Edmond*, 934 F.2d 1304, 1308 (4th Cir. 1991) ("[T]he Fifth Amendment privilege cannot be invoked as a shield to oppose depositions while discarding it for the limited purpose of making statements to support a summary judgment motion.").

13. *Id.* (internal citations omitted).

14. *United States v. 4003-4005 5th Ave.*, 55 F.3d 78, 85 (2d Cir. 1995).

15. *In re Master Key Litigation*, 507 F.2d 292, 294 (9th Cir. 1974); *see also United States v. Seifert*, 648 F.2d 557, 5561 (9th Cir. 1980).

(Continued on next page)

(Continued from previous page)

16. *Id.* (emphasis in original).

17. *Ullmann v. United States*, 350 U.S. 422, 426 (1956)); *Emspak v. United States*, 349 U.S. 190, 198, 75 S. Ct. 687, 692, 99 L. Ed. 997 (1955).

18. *See, e.g.*, *Nationwide Life Ins. Co. v. Richards*, 541 F.3d 903, 911 (9th Cir. 2008); *United States v. Gary*, 74 F.3d 304, 312 (1st Cir. 1996) ("[I]t is hornbook law that the waiver is limited to the particular proceeding in which the witness appears.").

19. *Id.*

20. *See* FED. R. EVID. 804 (permitting former testimony to be used against "unavailable" witness and defining "unavailable" to include witness who "is exempted by ruling of the court on the ground of privilege from testifying"); *see also United States v. Vecchiarello*, 569 F.2d 656, 665, n. 7 (D.C. Cir. 1977) (permitting defendant's depositions and affidavits from civil contempt trial to be used against him at his criminal trial).

21. *Baxter v. Palmigiano*, 425 U.S. 308, 318 (1976) (internal quotations omitted).

22. *Nationwide Life*, 541 F.3d at 912, citing *Serafino v. Hasbro, Inc.*, 82 F.3d 515, 518-19 (1st Cir. 1996).

23. *SEC v. Colello*, 139 F.3d 674, 677 (9th Cir. 1998).

24. *See RAD Servs., Inc. v. Aetna Cas. & Sur. Co.*, 808 F.2d 271, 275-77 (3d Cir. 1986) (no error where jury was permitted to draw adverse inference against company based on former employees' invocation of Fifth Amendment during depositions); *Brink's Inc. v. City of New York*, 717 F.2d 700 (2d Cir. 1983) (same).

25. *In re WorldCom, Inc.*, 377 B.R. 77, 109 (Bankr. S.D.N.Y. 2007) (internal quotations omitted).

26. *See LiButti v. United States*, 107 F.3d 110, 124 (2d Cir. 1997); *see also Kontos v. Kontos*, 968 F. Supp. 400, 407 (S.D. Ind. 1997) (Nonparty's interests must be "just as negatively affected by an adverse inference as the party's" in order to permit an adverse inference against party for nonparty's invocation of the Fifth.)

27. *LiButti*, 107 F.3d at 124.

28. *See Medical Protective Co. v. Bubenik*, 594 F.3d 1047 (8th Cir. 2010).

29. *Id.* at 1050-51.

30. *Id.* at 1052.

31. *See, e.g.*, *United States v. Cioffi*, 493 F.2d 1111, 1118-19 (2d Cir. 1974).

32. *See* ABA Model Rules of Professional Conduct 1.13(g) and 1.7.

33. *See, e.g.*, Association of The Bar of The City of New York, Committee on Professional And Judicial Ethics, Formal Opinion 2004-02 ("Another potential middle ground that may be appropriate in some cases is the use of co-counsel or shadow counsel – that is, separate counsel who serves as additional counsel for the corporate employee and thus is available to offer independent advice to the employee and, if necessary, to take over as sole counsel for the employee.").

Todd Smith is a litigation associate at the Irvine office of Morgan, Lewis & Bockius.

This article was created by Mr. Smith while he was employed at Howrey LLP and is being published with the permission of Howrey LLP.

Judicial Profile—Hon. Jay C. Gandhi

Judge Jay C. Gandhi was sworn in as a United States Magistrate Judge for the Central District of California in Los Angeles on April 14, 2010. He is the first Indian-American federal judge in the Central District and the second Indian-American federal judge and at age 38, will also be one of the youngest federal judges currently serving in the Central District.

Judge Gandhi graduated with honors from Cal State Fullerton, with a joint degree in philosophy and business. He received his Juris Doctor from the University of Southern California Law School, graduating Order of the Coif. After clerking for the Honorable Kenneth M. Hoyt, U.S. District Judge for the Southern District of Texas, Judge Gandhi joined Paul Hastings Janofsky & Walker LLP. He worked there for nearly 12 years as a litigation partner, specializing in complex business litigation and class actions; his practice areas included securities, corporate governance, consumer rights, intellectual property, and real estate. A prolific writer, Judge Gandhi has several publications to his credit, including as co-author of a book on securities law claims. Judge Gandhi is also an alumni of the Trial Attorney Partnership with the Orange County District Attorney's office where he worked on a full-time basis as a volunteer Deputy District Attorney.

Judge Gandhi decided he wanted to become a judge in order to impartially administer justice and give back to the community. His father, who immigrated to this country in the 1950s, originally lived in the California central valley and drove a tractor on a peach farm to support his family, earning only a dollar an hour. Judge Gandhi felt compelled to give back for the wealth of opportunities in this country.

On the criminal side, Judge Gandhi conducts initial appearances, arraignments, and bail/detention hearings, and also issues search warrants and arrest warrants. On the civil side, he decides discovery motions, performs settlement conferences, and reviews requests for certain provisional remedies (e.g., writs of attachment). Judge Gandhi also presides over both civil and criminal matters with the consent of the parties, which he describes, borrowing a comparison from another judge, as being "on the front lines" of federal practice.

Judge Gandhi advises of over preparation, something he strives for on the bench as well. He tells a story of seeing on his calendar a sentencing and an extradition hearing in the same week that he had not been faced with before in civil practice. He spent the entire week before those hearings preparing by studying criminal law, the U.S. Sentencing Guidelines, and international extradition treaties.

It is fitting to close with one of Judge Gandhi's favorite quotes from Oliver Wendell Holmes: "We must sail sometimes with the wind and sometimes against it, but we must sail, and not drift, nor lie at anchor." ❑

FBA\OC

The Federal Bar Association, Orange County Chapter,
cordially invites you to attend its Bench & Bar luncheon meeting featuring:

The Honorable Cormac J. Carney

U.S. District Court

Thursday, July 21, 2011
11:30 A.M. Registration ~ 12:00 P.M. Luncheon

Hilton
3050 Bristol Street, Costa Mesa

FBA/OC Members $50 · Non-Members $60
Government Employees and Law Students $25
Table of 10 $500
Judges and Judicial Clerks ~ No Charge
(Additional fee for non-members using the credit card option)

Any questions can be directed to
FBA/OC at (949) 608-9905 or info@FBAOC.com.

Judicial Profile—Hon. Josephine Staton Tucker (Cont'd)

(Continued from page 1)
steps, and opening her own dance studio. She chuckles as she recalls that this dream was very short-lived.

Ultimately, Judge Tucker's passion for advocacy surpassed her ambitions as a dancer, as she chose to pursue a different dream – that of becoming a trial lawyer. After graduating summa cum laude from William Jewell College in 1983, she was accepted into Harvard Law School and a graduate program in philosophy at Cambridge. When Harvard Law declined her request for a deferred admission, Judge Tucker turned down Cambridge. She laughs and humbly recounts that she did not want to give Harvard an opportunity to reconsider her admission the following year!

Judge Tucker's modesty is inspiring, considering her lengthy list of accomplishments. After graduating from Harvard in 1986, she began a clerkship with the Honorable John Gibson on the Eighth Circuit Court of Appeals. After her clerkship, she began her career as an attorney in the San Francisco office of Morrison & Foerster, where she went on to develop a well-respected employment law practice. In 1994, Tucker relocated to the Orange County office of Morrison & Foerster where, just one year later, she became co-chair of the firm-wide Labor Department. In 2001, Judge Tucker was named Employment Trial Lawyer of the year by the Orange County Trial Lawyers Association. She led a very distinguished career as a trial lawyer, garnering respect from her colleagues for her intellect, dedication and work-ethic.

Judge Tucker loved being a lawyer, and had not envisioned any other path for her life—until September 11, 2001. In the weeks following the 9/11 attacks, Tucker reflected on the freedoms and privileges that she enjoyed as a lawyer and an American, and gave serious thought to what she could do to give back to her country. Becoming a judge—a servant of her local community and her country—was to be her new path. In the spring of 2002, she applied for a position on the Orange County Superior Court, to which Governor Gray Davis appointed her in the fall of that same year.

Judge Tucker spent eight years on the Superior Court bench, serving first on the Criminal Law Panel, with subsequent assignments to the Family Law Panel, the Civil Panel and the Appellate Division. In 2009, she was appointed to service pro tem to the Second District Court of Appeal, Division One, in Los Angeles. Throughout her time on the state bench, Judge Tucker was known as a bright, open-minded and fair jurist. Judge Tucker recalls her assignment to the Family Law Panel as one where she felt she could have the greatest impact. As a family law judge, she enjoyed talking to the parties directly and attempting to bring closure to issues that impact both current and future generations of families.

In February 2010, Judge Tucker's talents culminated in her nomination by President Barack Obama to fill a vacancy on the federal bench. After being unanimously rated "Well Qualified" by the American Bar Association's Judicial Evaluation Committee, she was confirmed by a unanimous vote of the U.S. Senate on June 21, 2010.

Judge Tucker describes her experience thus far on the federal bench as significantly different from her experience in state court. The main difference, she notes, is that there are no specialized 'assignments' to particular areas of law on the federal bench. While she remembers that her state court assignments allowed for more focus on a daily basis, she enjoys the gear-shifting that occurs in federal court, remarking that it makes life a lot more interesting. She enjoys working with her law clerks and appreciates the new and exciting ideas they bring to the cases they work on. She spoke very highly of the clerking experience in general, noting that it not only serves the judge and the court, but also serves new attorneys by exposing them to a wide variety of legal issues and giving them the opportunity to view trials and hearings from the unique perspective that exists behind the bench.

For younger attorneys, Judge Tucker offers a now-popular refrain to encapsulate her advice: "just do it." Don't be afraid to go after the experience, she says. The only way to learn the practice of law is to do it. So, Judge Tucker recommends that new attorneys put themselves out there and take on those "firsts" early in their careers. Along similar lines, Judge Tucker also

(Continued on next page)

Judicial Profile—Hon. Josephine Staton Tucker (Cont'd)

(Continued from previous page)

noted the importance of finding a good mentor. She stressed the value of finding an attorney to work with who will answer questions and provide guidance on legal practice and strategy.

Judge Tucker's advice for more senior attorneys is also succinct: "simplify." She notes that, all too often, the arguments made by attorneys can become convoluted to the point that they leave the impression that the argument lacks substance or the attorney making the argument has little understanding of the facts or issues in the case. According to Judge Tucker, an advocate is most effective if he or she can simplify the arguments and get to the point. Judge Tucker also stressed the importance of reviewing and complying with judges' standing orders. In Judge Tucker's court, where she handles a heavy case load, the standing order is intended to aid both court and attorney in the efficient functioning of the courtroom.

For Judge Tucker, it is the small moments that are most noteworthy in her career as a judge. She recalls receiving letters from jurors—some of whom admitted to dreading jury service, and even considered ignoring the summons—in which they describe how their participation in a trial in her court left them with a new appreciation for civic duty. As lawyers (and judges), we tend to immerse ourselves in the law and the facts of a given case, at the risk of losing sight of the civic value inherent in the practice of law. Judge Tucker reminds us to consider the small moments—like the words in a thoughtful letter from a juror—that make our profession noble. Though she may not have always intended to become a judge, our community and our country are the fortunate that Josephine Tucker found her way to the federal bench in Santa Ana.

The Federal Bar Association welcomes Judge Josephine Staton Tucker to the Central District. ❑

Katherine R. Stevens is an associate with Brown, Wegner & Berliner LLP in Irvine .

Copyrighted Computer Software and Music CDs (Cont'd)

(Continued from page 3)

player accesses on a subscription basis by connecting to WoW's online servers."[25] Every WoW player must read and accept Blizzard's End User License Agreement ("EULA") and Terms of Use ("ToU") multiple times.[26] Players who do not accept the EULA or the TOU may return the game for a refund. [27]

The dispute arose as a result of the distribution of a computer software "bot" called Glider, which plays WoW while the user is away from the computer.[28] Glider was created by Michael Donnelly and his company MDY Industries.[29] Although Glider was only sold through MDY's website for fifteen to twenty-five dollars,[30] by 2008 MDY had sold 120,000 licenses and generated $3.5 million in gross revenue.[31]

In October 2006, Blizzard threatened to sue "unless MDY immediately ceased selling Glider and remitted all profits to Blizzard."[32] In response, MDY brought a declaratory judgment action to establish that its sales of Glider do not infringe Blizzard's copyrights or other rights and Blizzard counterclaimed for infringement.[33] The Arizona district court agreed with Blizzard and found that MDY's was liable for secondary copyright infringement.[34]

On appeal, the Ninth Circuit explained that "to establish secondary infringement, Blizzard must first demonstrate direct infringement" by WoW players who use Glilder.[35] To establish direct infringement, a copyright holder must demonstrate both copyright ownership and a violation of one of its exclusive rights under the Copyright Act.[36] (MDY agreed not to dispute that it satisfied the other elements of secondary infringement if Glider users were found to have infringed.[37])

As aforementioned, under 17 U.S.C. § 106(1), one of Blizzard's rights as a copyright holder is "the exclusive right to reproduce its work."[38] This right is implicated whenever a user plays WoW because, as explained by the Ninth Circuit, "a player's computer creates a copy of the game's software in the computer's random access memory ("RAM"), a form of temporary memory used by computers to run software programs."[39] This copy constitutes copyright infringement "unless the player (1) is a licensee whose use of the software is within the scope of the license or (2) owns the copy of the software."[40]

Glider players can find no refuge in the WoW license. Section 4(B) of the WoW ToU—titled "Limitations on Your Use of the Service"—provides: "You agree that you will not . . . (ii) create or use cheats, bots, 'mods,' and/or hacks, or any other third-party software designed to modify the World of Warcraft experience; or (iii) use any third-party software that intercepts, 'mines,' or otherwise collects information from or through the Program or Service."[41] Thus, WoW players who use Glider act outside the scope of the WoW license.

Glider players may still avoid infringement if they are deemed to be owners of WoW. The "essential step" defense—codified at 17 U.S.C. § 117(a)(1)—provides "that the user does not infringe by making a copy of the program where the copy is created and used solely 'as an essential step in the utilization of the computer program in conjunction with a machine.'"[42] To determine whether WoW players who use Glider are owners capable of claiming the essential step defense, the Ninth Circuit applied the three-factor owner/licensee test from *Vernor*.[43]

Starting with the first factor, the Ninth Circuit considered the fact that "Blizzard reserves title in the software and grants players a non-exclusive limited license" to suggest that WoW players are licensees.[44] The Court also found that the second factor indicated a licensing arrangement as "Blizzard also imposes transfer restrictions if a player seeks to transfer the license: the player must (1) transfer all original packaging and documentation; (2) permanently delete all of the copies and installation of the game client; and (3) transfer only to a recipient who accepts the EULA. A player may not sell or give away the account."[45]

(Continued on next page)

Copyrighted Computer Software and Music CDs (Cont'd)

(Continued from previous page)

Finally, the Ninth Circuit turned to the third factor and observed that it too indicated that WoW players are licensees as "Blizzard also imposes a variety of use restrictions. The game must be used only for non-commercial entertainment purposes and may not be used in cyber cafes and computer gaming centers without Blizzard's permission. Players may not concurrently use unauthorized third-party programs. Also, Blizzard may alter the game client itself remotely without a player's knowledge or permission, and may terminate the EULA and ToU if players violate their terms. Termination ends a player's license to access and play WoW. Following termination, players must immediately destroy their copies of the game and uninstall the game client from their computers, but need not return the software to Blizzard."[46] Thus, WoW players are merely licensees and are not true owners of their copies of WoW.[47]

"According to the Ninth Circuit, not all provisions in a license agreement are created equal."

Following these observations, the Ninth Circuit concluded, "Since WoW players, including Glider users, do not own their copies of the software, Glider users may not claim the essential step defense. Thus, when their computers copy WoW software into RAM, the players may infringe unless their usage is within the scope of Blizzard's limited license."[48] It would seem clear at this point that Blizzard's copyright had been violated. However, the court's inquiry did not end there.

According to the Ninth Circuit, not all provisions in a license agreement are created equal. Some terms fall within the scope of a grant to copyright rights.[49] By contrast, some other terms are merely the purchaser's contractual promises not to use the work in certain ways.[50] The Ninth Circuit distinguished between "conditions"—the breach of which constitute copyright infringement— and "covenants"—the breach of which is actionable only under contract law.[51] "To recover for copyright infringement based on breach of a license agreement… the copyright owner's complaint must be grounded in an exclusive right of copyright (e.g., unlawful reproduction or distribution)."[52] (The Ninth Circuit did not have to grapple with this issue in *Vernor* because that case involved the *resale* of software copies—i.e., distribution—an act clearly within the exclusive rights of a copyright holder under 17 U.S.C. § 106(3).)[53]

The Court went on to provide examples as to license terms that would implicate copyright exclusivity, and those that would not.[54]

"For instance, ToU § 4(D) forbids creation of derivative works based on WoW without Blizzard's consent. A player who violates this prohibition would exceed the scope of her license and violate one of Blizzard's exclusive rights under the Copyright Act. In contrast, ToU § 4(C)(ii) prohibits a player's disruption of another player's game experience. A player might violate this prohibition while playing the game by harassing another player with unsolicited instant messages. Although this conduct may violate the contractual covenants with Blizzard, it would not violate any of Blizzard's exclusive rights of copyright."[55]

The Ninth Circuit viewed MDY's violation of the anti-bot provisions ToU § 4(B)(ii) and (iii)) as unrelated to Blizzard's copyright rights.[56] Because WoW players who use Glider do not infringe any of Blizzard's exclusive rights, they do not commit copyright infringement.[57] At most, Glider users only violated a contractual *covenant* (as opposed to a contractual condition), and did not engage in direct copyright infringement.[58] Without a direct infringement by virtue of a player's use of Glider, MDY cannot be held liable for secondary infringement.[59] Accordingly, the Ninth Circuit vacated the lower court's decision with regard to secondary copyright infringement.[60]

III. *UMG RECORDINGS* FURTHER LIMITED THE EXTENT TO WHICH RESTRICTIVE LANGUAGE ASSOCIATED WITH A COPY OF A COPYRIGHTED WORK CAN RESTRICT DOWNSTREAM USES

After *Vernor* and *MDY Industries*, it was unclear as to whether *Vernor*'s test applied only for software license agreements, or applied to all restrictive language

(Continued on page 16)

Copyrighted Computer Software and Music CDs (Cont'd)

(Continued from page 15)

applied to *all* copyrighted works. For example, the question remained, could holders of copyrights to music draft restrictive shrink-wrap licenses that would prevent music CDs from entering the secondary market? *UMG Recordings*, however, establishes that under *certain* circumstances surrounding the transfer of possession of an authorized copy, the transferred rights are not governed by the associated restrictive language. Under those circumstances, the *Vernor* test would have no application whatsoever.

Universal Music Group ("UMG") is one of the largest music companies in the world, with its core business consisting of "the creation, manufacture, and sale of recorded music, or phonorecords, the copyrights of which are owned by UMG."[61] Similar to most music companies, UMG sends "promotional CDs" (which differ in content and design from their commercial counterparts) to music industry insiders, including music critics and radio programmers.[62] As noted by the Ninth Circuit, "[t]here is no prior agreement or request by the recipients to receive the CDs" and "UMG does not seek or receive payment for the CDs."[63]

In this case, the promotional CDs bore one of the following statements: "Promotional Use Only—Not for Sale" or the more detailed "This CD is the property of the record company and is licensed to the intended recipient for personal use only. Acceptance of this CD shall constitute an agreement to comply with the terms of the license. Resale or transfer of possession is not allowed and may be punishable under federal and state laws."[64]

Troy Augusto was *not* one of the music industry "insiders" to receive promotional CDs.[65] Nevertheless, he managed to obtain such CDs and sold many of them on eBay.com, advertising them as "rare . . . industry editions" and "Promo CDs".[66] When UMG's attempts to stop the auctions failed, UMG filed suit against Augusto, claiming he infringed UMG's copyrights by selling promotional CDs which UMG possessed the "exclusive right to distribute."[67] The district court disagreed and granted summary judgment in favor of Augusto, holding that "[b]ecause title to the Promo CDs transferred from UMG to the music industry insiders, Augusto's resale of those CDs is protected by the first sale doctrine."[68]

On appeal, the Ninth Circuit affirmed the decision of the lower court, holding that "UMG's distribution effected a sale (transfer of title) of the CDs to the recipients" under the first sale doctrine,[69] and alternatively, that the Unordered Merchandise Statute granted the CD recipients the "right to retain, use, discard, or dispose of [the CDs] in any manner that [they] see[ ] fit, without obligation to the sender."[70]

Although the Ninth Circuit cited the *Vernor* three-factor owner/licensee test, the Court ultimately declined to apply it, remarking, "[t]his formulation, however, applies in terms to software users, and software users who order and pay to acquire copies are in a very different position from that held by the recipients of UMG's promotional CDs."[71]

In determining whether the CD recipients were owners or mere licensees, the Court instead looked to "all the circumstances of the CDs' distribution."[72] Specifically, the Court looked to the fact that UMG had "virtually no control over the unordered CDs," lacked any assurance that CD recipients assented "to the creation of any license or accept its limitations," and failed to "require the ultimate return of the promotional CDs to its possession."[73] The court then concluded that because the circumstances surrounding UMG's distribution method did not show "sufficient incidents of ownership," there was "no need to parse the remaining provisions in UMG's purported licensing statement."[74]

IV. THE COPYRIGHT TRILOGY IS NOT LIKELY TO HAVE A SUBSTANTIAL IMPACT ON SECONDARY MARKETS

(Continued on next page)

Copyrighted Computer Software and Music CDs (Cont'd)

(Continued from previous page)

FOR COPYRIGHTED DIGITAL WORKS

After the *Vernor* ruling, Internet commentators forecasted the "end of the resale market for all digital content" and projected increasingly expensive book and journal licensing fees for public libraries.[75] One went so far as to urge readers to "imagine a future in which there is no secondary market for used games and content; in which there are no libraries."[76] Another forewarned of "the end of ownership of books and music."[77]

Indeed, in its amicus brief in *Vernor*, the American Library Association (ALA) warned that "the software industry's licensing practices could be adopted by other copyright owners, including book publishers, record labels, and movie studios."[78] The ALA thus contended that a broad reading of the first sale doctrine is absolutely necessary to the survival of "libraries, used book stores, and hand-to-hand exchanges of copyrighted material" and stated that judicial enforcement of SLAs, which it characterized as contracts of adhesion, "could eliminate the software resale market, require used computer sellers to delete legitimate software prior to sale, and increase prices for consumers by reducing price competition for software vendors."[79]

However, even if *Vernor* granted copyright owners the right to paralyze secondary markets, it is by no means a foregone conclusion that copyright owners would chose to do so. Even before *Vernor*, few copyright holders chose to exercise full, legally allowable control over downstream markets for their works. Moreover, highly restrictive resale terms in a videogame seller's license agreement, one that prevented resale of the game, presented the risk to the videogame maker that consumers would go elsewhere for videogames. In other words, potential consumer backlash might provide a free market check on overly-zealous copyright holders.

Moreover, even the most aggressive restrictive license terms or marketing strategy would be limited by *MDY Industries* and *UMG Recordings.* Indeed, the later cases in the Ninth Circuit's trilogy appear to have been mindful of the need to discourage license writers from potential extreme applications of the three-part test. Under *MDY Industries*, courts must look to whether a license term falls within the scope of a copyright license grant or is a mere contractual promise not to engage in certain activities, with only the former being actionable under copyright law. When explaining the policy need to distinguish the two, the Ninth Circuit in *MDY Industries* observed:

> Were we to hold otherwise, Blizzard — or any software copyright holder — could designate any disfavored conduct during software use as copyright infringement, by purporting to condition the license on the player's abstention from the disfavored conduct. The rationale would be that because the conduct occurs while the player's computer is copying the software code into RAM in order for it to run, the violation is copyright infringement. This would allow software copyright owners far greater rights than Congress has generally conferred on copyright owners.[80]

Further limiting the potential reach of *Vernor*, the Ninth Circuit in *UMG Recordings* acknowledged that the circumstances surrounding the distribution of a copyrighted work may fail to meet a certain threshold required for the court to even *consider* the language of the licensing terms. This ruling potentially opens the door for future decisions in which a copyright holder's over-reaching constitutes circumstances in which even perfectly drafted license restrictions would not be enforceable. The Electronic Frontier Foundation (the organization representing Troy Augusto) applauded this result, stating, "The court flatly rejected the argument that merely slapping a notice on a copyrighted work prevents the work from ever being sold."[81]

In sum, *Vernor* clarified the license language needed to maintain control over downstream use and resale of authorized copies of copyrighted works. *MDY* and *UMG* prevent such language from extending copyright exclusivity beyond traditional and commercially reasonable boundaries. By issuing opinions in these three cases in a relatively short time frame, the Ninth Circuit

(Continued on page 18)

Copyrighted Computer Software and Music CDs (Endnotes)

(Continued From Previous Page)

preserved the balance between strong copyright protection and consumers' rights to be free from overbearing commercial restrictions. ❑

---

1. A copyright provides the owner the exclusive right to reproduce his or her own work. 17 U.S.C. § 106(1) (2006).

2. Vernor v. Autodesk, Inc., 621 F.3d 1102 (2010).

3. MDY Indus., LLC, v. Blizzard Entm't, Inc., Nos. 09-15932 & 09-16044 (9th Cir. Dec. 14, 2010).

4. UMG Recordings, Inc. v. Augusto, No. 08-55998, slip op. 323 (9th Cir. Jan. 4, 2011).

5. 17 U.S.C. §§ 101-102.

6. 17 U.S.C. §§ 106(3).

7. 17 U.S.C. § 109(a).

8. *Id.* Note, however, that "[n]otwithstanding its distinctive name, the doctrine applies not only when a copy is first sold, but when a copy is given away or title is otherwise transferred without the accouterments of a sale." *UMG Recordings, Inc. v. Augusto*, No. 08-55998, slip op. at 331 (citation omitted).

9. 17 U.S.C. § 109(a).

10. *Vernor*, 621 F.3d at 1104.

11. *Id.* at 1105.

12. *Id.*

13. *Id.* at 1106.

14. *Id.*

15. *Id.*

16. *Id.*

17. *Id.*

18. Vernor v. Autodesk, 93 U.S.P.Q.2d 1336, 1342 (W.D. Wash. 2009).

19. *Vernor*, 621 F.3d at 1111.

20. *Id.*

21. *Id.*

22. *Id.* at 1116.

23. Corynne McSherry, *"Magic Words" Trump User Rights: Ninth Circuit Ruling in Vernor v. Autodesk*, ELECTRONIC FRONTIER FOUNDATION (Sept. 13, 2010), http://www.eff.org/deeplinks/2010/09/magic-words-trump-user-rights-ninth-circuit-ruling; David Kravets, *Guess What, You Don't Own That Software You Bought*, WIRED (Sept. 10, 2010), http://www.wired.com/threatlevel/2010/09/first-sale-doctrine; Nate Anderson, *No, You Don't Own It; Court Upholds EULAS, Threatens Digital Resale*, ARS TECHNICA (Sept. 10, 2010), http://arstechnica.com/tech-policy/news/2010/09/the-end-of-used-major-ruling-upholds-tough-software-licenses.ars; Mark Methenitis, Are Game Resales at Risk?, Law of the Game on Joystiq (Sept. 15, 2010), http://www.joystiq.com/2010/09/15/lgj-are-game-resales-at-risk/; Greg Beck, Ninth Circuit Says Consumers May Not Own Their Software, Public Citizen Consumer Law and Policy Blog (Sept. 10, 2010), http://pubcit.typepad.com/clpblog/2010/09/ninth-circuit-says-consumers-may-not-own-their-software.html.

24 Oliver Chiang, *"World of Warcraft" Launches "Cataclysm" To Keep Up Billion-Dollar Revenues*, FORBES (Dec. 7, 2010) http://blogs.forbes.com/oliverchiang/2010/12/07/world-of-warcraft-launches-cataclysm-expansion-to-keep-up-billion-dollar-revenues/.

25. *MDY Indus.*, Nos. 09-15932 & 09-16044, slip op at 19986.

26. *Id.* at 19987.

27. *Id.*

28. *Id.*

29. *Id.*

30. *Id.* at 119988.

31. *Id.*

32. *Id.* at 19989.

33. *Id.* at 19986.

34. *Id.*

35. *Id.* at 19991 (citing A&M Records, Inc. v. Napster, 239 F.3d 1004, 1019, 1022 (9th Cir. 2001)).

36. *Id.* (citing *A&M Records*, 239 F.3d at 1013).

37. *Id.* Here, secondary infringement is used to refer to both contributory and vicarious infringement, both which were raised in *MDY v. Blizzard*. *Id.* at 19991 (citing ProCD Inc. v. Zeidenberg, 86 F.3d 1447, 1454 (7th Cir. 1996)). "MDY is liable for contributory infringement if it has 'intentionally induc[ed] or encourag[ed] direct infringement' by Glider users. MDY is liable for vicarious infringe-

(Continued on Next Page

Copyrighted Computer Software and Music CDs (Endnotes)

ment if it (1) has the right and ability to control Glider users' putatively infringing activity and (2) derives a direct financial benefit from their activity." *Id.* (citing MGM Studios Inc. v. Grokster, 545 U.S. 913, 930 (2005)).

38. *Id.* (citing 17 U.S.C. § 106(1)).

39. *Id.* at 19991-92.

40. *Id.* at 19992.

41. *Id.* at 19992.

42. *Id.* (citing 17 U.S.C. § 117(a)(1)).

43. *Id.* at 19993.

44. *Id.*

45. *Id.*

46. *Id.*

47. *Id.*

48. *Id.* at 19993-94 (citing 17 U.S.C. § 117(a)(1)).

49. *Id.* at 19994 (citing *Sun Microsystems, Inc.*, 188 F.3d at 1121).

50. *Id.* (citing *Sun Microsystems, Inc.*, 188 F.3d at 1121).

51. *Id.* (citing *Sun Microsystems, Inc.*, 188 F.3d at 1120).

52. *Id.* at 19996 (citation omitted).

53. *Vernor*, 621 F.3d at 1103-04.

54. *MDY Indus.*, Nos. 09-15932 & 09-16044, slip op at 19997.

55. *Id.*

56. *Id.*

57. *Id.*

58. *Id.*

59. *Id.* at 19998.

60. *Id.* at 19999. The Ninth Circuit also reversed the district court's finding of § 1201(b)(1) liability. *Id.* at 20028. However, the Ninth Circuit kept intact the district court's § 1201 (a)(2) violation finding. *Id.* (Note: Although thought-provoking and fertile ground for future litigation, the Ninth Circuit's DMCA decision is beyond the scope of this article.)

61. *UMG Recordings*, No. 08-55998, slip. op. at 327.

62. *Id.*

63. *Id.*

64. *Id.* at 328. Interestingly, the Court noted that "[d]espite the fact that the two types of statements bear little resemblance to each other, the parties unaccountably agree that both types have the same meaning (although they dispute what that meaning is). Insofar as the parties' agreement purports to establish that the two statements have the same legal consequences, it does not bind us." *Id.* n.2 (citation omitted).

65. *Id.* at 328.

66. *Id.*

67. *Id.*

68. UMG Recordings Inc. v. Augusto, 558 F. Supp. 2d 1055, 1065 (C.D. Cal. 2008).

69. *UMG Recordings*, No. 08-55998, slip. op. at 338.

70. *Id.* at 334 (citing 39 U.S.C. § 3009(b)).

71. *Id.* at 337-38.

72. *Id.* at 332.

73. *Id.* at 338. Note, however with regard to the last point that he Court made sure to distinguish *Vernor* and *MDY Industries* by stating, "Although the failure to require return of the CDs may not, by itself, conclusively establish a sale under our precedent, it is one more indication that UMG had no control over the promotional CDs once it dispatched them." *Id.*

74. *Id.* (citing Krause v. Titleserv, Inc., 402 F.3d 119, 124 (2d Cir. 2005)).

75. Anderson, *supra* note 23.

76. Methenitis, *supra* note 23.

77. Beck, *supra* note 23.

78. *Vernor*, 621 F.3d at 1115.

79. *Id.*

80. *MDY Indus.*, Nos. 09-15932 & 09-16044, slip op at 19997.

81. EFF Wins Landmark Ruling Freeing Promo CDs for Resale: Big Victory for Consumers' First Sale Rights (Jan 4. 2011), http://www.eff.org/press/archives/2011/01/04-0.

Lester Savit is a partner with Jones Day and heads its Intellectual Property Practice in its Irvine office. Mr. Savit is also a former member of the FBA/OC Board of Directors.

Evan Simon and Michelle Stover are associates with Jones Day in its Irvine office.

FBA/OC

P.O. Box 6130
Newport Beach, California
92658
949-608-9905