CA No. 09-35969
DC No. 2:07-cv-01189-RAJ

UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

TIMOTHY S. VERNOR, an individual,
Plaintiff-Appellee,

v.

AUTODESK, INC., a Delaware corporation,
Defendant-Appellant.

Appeal From Judgment Of The United States District Court
For The Western District Of Washington
(Hon. Richard A. Jones, Presiding)

APPELLANT'S REPLY BRIEF

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TABLE OF CONTENTS

TABLE OF CONTENTS

TABLE OF AUTHORITIES

Page(s)

Cases

TABLE OF AUTHORITIES

Page(s)

TABLE OF AUTHORITIES

Page(s)

Constitutional Provisions

Statutes

Legislative Materials

INTRODUCTION

Under this Court's controlling precedents of *Wall Data*, *MAI*, and *Triad*, Autodesk retained ownership of its software copies, and the District Court judgment must be reversed. AOB 24-43.[1] Vernor skirts these decisions by erroneously dismissing their holdings as *dicta*; and his *amici curiae* ignore them altogether. While Vernor and *amici* do not say so, the result they seek requires this Court to overrule itself.

Vernor and his *amici* rely on policy arguments to ask this Court to impose a new rule. They urge that software developers should be deemed to have sold their products outright regardless of agreed-upon license terms that include retention of title and material restrictions on use and transferability. This would be a profound change to the long-standing practices of a vital sector of the American economy: "the first sale doctrine rarely applies in the software world because software is rarely 'sold.'" *Wall Data Inc. v. Los Angeles County Sheriff's Dep't*, 447 F.3d 769, 786 n.9 (9th Cir. 2006); *see also Adobe Sys. Inc. v. One Stop Micro, Inc.*, 84 F. Supp. 2d 1086, 1091 (N.D. Cal. 2000) ("[V]irtually all end-users do not buy—but rather receive a license for—software. . . . [A]ll software . . . is distributed under license").

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[1]Autodesk's opening brief is cited as "AOB"; Vernor's brief as "AB"; *Amici Curiae* American Library Association *et al.*'s brief as "EFF Amici Brf."; *Amicus Curiae* EBay Inc.'s brief as "EBay Amicus Brf."; *Amicus Curiae* Software & Information Industry Association's brief as "SIIA Amicus Brf."; and *Amicus Curiae* The Motion Picture Association of America, Inc.'s brief as "MPAA Amicus Brf."

Congress could mandate a regime under which the first sale doctrine will invariably apply to a typical software transaction, but this is an extraordinary, and inappropriate, request to make to the judicial branch. This appeal does not call upon the Court to determine the preferable public policy or to choose between competing interests. Instead, it presents an issue of statutory interpretation: whether, under the Copyright Act, Vernor is the "owner of a particular copy" (17 U.S.C. §109(a)) and "owner of a copy" (17 U.S.C. §117(a)) for purposes of the "first sale" and "essential step" defenses.

Wall Data, *MAI*, and *Triad* provide a clear answer to that question. Because the contract between Autodesk and Cardwell/Thomas & Associates ("CTA")[2] reserved Autodesk's title to the copies of AutoCAD R14 software provided to CTA, characterized CTA's interest as a "license," prohibited any transfers, granted additional rights to CTA, and imposed significant restrictions on CTA's use of the software copies, Autodesk is the owner of the copies, and the first sale and essential step defenses do not apply.

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[2]Vernor's brief contains gratuitous references to license agreements contained in shrinkwrapped boxes (AB 35), but no issue concerning the SLA's formation or binding effect is presented on appeal because the particular transaction between Autodesk and CTA was governed by a written contract, negotiated at arm's-length between counsel for CTA and for Autodesk, that incorporated the Software Licensing Agreement ("SLA"). *See* AOB 9-10. In any case, Autodesk's SLA is plainly enforceable as a general matter as well. *See* note 14, *infra*.

ARGUMENT

I.

THE FIRST SALE AND ESSENTIAL STEP DEFENSES ARE INAPPLICABLE BECAUSE AUTODESK DID NOT TRANSFER OWNERSHIP OF THE AUTOCAD R14 SOFTWARE COPIES.

Vernor and his *amici* incorrectly argue that Autodesk fails to distinguish between ownership of a copyright in a work and ownership of a particular copy of that work. AB 14; EFF Amici Brf. 12. To the contrary, Autodesk fully appreciates this distinction and made clear in its opening brief that the relevant issue is whether CTA was the owner of the AutoCAD R14 software copies, not the copyright in the software program. *See, e.g.*, AOB 23 n.7. The SLA specified that Autodesk is the owner of the copies furnished to CTA, and imposed material restrictions on their use and transfer. AOB 9-12. And, under this Court's applicable precedents, the parties' contractual definition of their relationship is controlling.

A. Under The Controlling Ninth Circuit Rule, Autodesk Retained Ownership Of Its AutoCAD R14 Software Copies Because It Expressly Retained Title To The Copies, Barred Their Transfer, And Imposed Material Restrictions On Their Use.

1. *Wall Data* Is The Controlling Case.

Vernor gives short shrift to the controlling precedent on who is the "owner" of a software copy. As discussed at length in our opening brief (AOB 25-26, 30-31), *Wall Data Inc. v. Los Angeles County Sheriff's Dep't*, 447 F.3d 769 (9th Cir. 2006), crystallized this Court's bright-line test for

determining whether the acquirer of a software copy is a licensee or an owner of that copy:[3]

> Generally, 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. (447 F.3d at 785)

All but ignoring *Wall Data*, Vernor incorrectly claims that "[t]he primary authority on which Autodesk relies is a one-sentence footnote from *MAI* . . . ." AB 36. To be sure, *MAI* is squarely on point, holding that since the plaintiff there had "licensed its software" to its customers, the customers did "not qualify as 'owners' of the software and [were] not eligible for protection under § 117." *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 518 n.5 (9th Cir. 1993). But *Wall Data* reaffirmed *MAI* with a two page analysis and clearly articulated the operative rule.

Worse, Vernor wrongly asserts that "this Court has itself questioned" *MAI*. AB 40 (citing *Wall Data*). *Wall Data* in no way criticized the conclusion *MAI* reached on the applicability of Section 117. *Wall Data* noted that the Federal Circuit had observed that *MAI* did not recognize that a copyright owner *could* retain title to the copyright (while licensing it) and yet sell a

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[3]Vernor and his *amici* do not contest that the term "owner" has the same meaning for both Sections 109 and 117. *See* AOB 25 n.8; EFF Amici Brf. 4-5 n.2.

copy of the software[4]—a proposition we do not dispute. *Wall Data*, 447 F.3d at 785 n.9. But in deciding the case before it, this Court held that the copyright owner had licensed *both* the copyright *and* the software copies. *See id. at* 785 ("These restrictions were sufficient to classify the transaction as a grant of license to Wall Data's software, and not a sale of Wall Data's software"); *id.* at 774 n.2 ("the Sheriff's Department bought licenses to, not copies of, Wall Data's software").[5] This Court has manifested no doubt as to the rule adopted in *MAI* and *Wall Data*.

Vernor's other strategy for dealing with adverse precedents is to label them "*dicta*." AB 36, 38, 40-41. This is misguided. "[W]here a panel confronts an issue germane to the eventual resolution of the case, and resolves it after reasoned consideration in a published opinion, that ruling becomes the

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[4]The Federal Circuit case is discussed at pages 18-20, *infra*.

[5]Vernor argues that Autodesk cannot retain ownership of its software copies via a "license" and instead must rent, lease, or loan them to avoid the first sale defense. AB 2, 15. But the statute recognizes to the contrary that there are other ways to transfer possession without transferring ownership: the first sale defense "do[es] not, unless authorized by the copyright owner, extend to any person who has acquired possession of the copy or phonorecord from the copyright owner, by rental, lease, loan, *or otherwise, without acquiring ownership of it*." 17 U.S.C. §109(d) (emphasis added). And, the Supreme Court has recognized that the first sale defense does not apply to transfers of copies of copyrighted works by license: "because the protection afforded by § 109(a) is available only to the 'owner' of a lawfully made copy . . . , the first sale doctrine would not provide a defense to a § 602(a) action against any nonowner such as a bailee, *a licensee*, a consignee, or one whose possession of the copy was unlawful." *Quality King Distribs., Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135, 146-47 (1998) (emphasis added).

law of the circuit, . . ." *United States v. Johnson*, 256 F.3d 895, 914 (9th Cir. 2001) (en banc) (Kozinski, J. concurring); *see also Barapind v. Enomoto*, 400 F.3d 744, 751 (9th Cir. 2005).

In concluding that, "under *MAI*, the Sheriff's Department is not the 'owner' of copies of Wall Data's software for purposes of § 117" (447 F.3d at 785), *Wall Data* rejected the very same rule that Vernor proposes here. The appellant had argued that "[b]ecause it paid lump sums for its purchases, and is permitted to use the software in perpetuity, LASD is an owner of its copies under *Softman Products v. Adobe Systems*, . . . regardless of any gratuitous license form included with the CD's." Appellants' Brief at 21-22, *Wall Data Inc. v. Los Angeles County Sheriff's Dep't*, No. 03-56559, 2004 WL 2085188, at *46-*47 (9th Cir. Aug. 17, 2004) (citations omitted). The Court disagreed and held that the Sheriff's Department was a mere licensee of the software copies. While the Court *also* rejected the essential step defense because the Sheriff's Department's decision to make the software copies "was not an essential step, but a matter of convenience" (*Wall Data*, 447 F.3d at 785), the Court's giving alternative reasons for its disposition does not turn its rule for determining ownership of a software copy into *dicta*. *Woods v. Interstate Realty Co.*, 337 U.S. 535, 537 (1949) ("[W]here a decision rests on two or more grounds, none can be relegated to the category of obiter dictum").

Vernor also is wrong in asserting that *Wall Data* "did not involve ownership of particular copies." AB 42. The Sheriff's Department had purchased licenses to install Wall Data's software on 3,663 computers. It argued that its installation of the software on 6,007 computers did not infringe Wall Data's copyright because the essential step defense protected it as the owner of the software copies. The Court rejected this defense—squarely holding that "*the Sheriff's Department is not the 'owner' of copies of Wall Data's software* for purposes of § 117." 447 F.3d at 785 (emphasis added).

Nor was *MAI dicta*. The Court's conclusion that plaintiff's customers did "not qualify as 'owners' of the software and [were] not eligible for protection under § 117" because plaintiff "licensed its software" was essential to the Court's finding of liability. *MAI*, 991 F.2d at 518 n.5. If plaintiff's customers had been owners, the RAM copies that the Court found to be infringing would have been permissible under the essential step defense. Not surprisingly, courts have recognized that *MAI*'s conclusion was a binding holding, not merely *dicta*. *See, e.g.*, *DSC Commc'ns Corp. v. Pulse Commc'ns, Inc*, 170 F.3d 1354, 1360 (Fed. Cir. 1999) (*MAI* "was proper to *hold* that Peak was not an 'owner' of copies of the copyrighted software for purposes of section 117" (emphasis added)); *MDY Indus., LLC v. Blizzard Entm't, Inc.*, No. CV-06-2555-PHX-DGC, 2008 WL 2757357, at *8 (D. Ariz. July 14, 2008) ("[a]t least three cases—*MAI, Triad*, and *Wall*

Data . . .—hold that licensees of a computer program do not 'own' their copy of the program and therefore are not entitled to a section 117 defense" (emphasis added) (citation omitted)).[6]

Vernor misstates the *MAI* record in arguing that "defendants in *MAI* did not raise the question of ownership under § 117" and that the Court did not hear evidence or argument on it. AB 38. In fact, the parties and *amici* extensively briefed whether Section 117 protected defendants from liability because plaintiff had transferred ownership of its software copies via its license agreements. *See* Request for Judicial Notice, filed herewith ("RJN") Ex. A (*MAI* Appellee's Brief) at 27, 28 (arguing "*MAI's Software Licensees Do Not 'Own' the Copy Of The Software Licensed To Them*" and "*A Software License Is Not A Sale For The Purpose Of §117 Of The Copyright Act*"); *id*. Ex. B (*MAI* Appellant's Reply Brief) at 2 (arguing that MAI's copyright claim failed because MAI's customers were "owners of a copy of the software, free to grant Peak the permission to use and copy MAI computer programs incidental to the maintenance, service and repair of MAI

[6]Contrary to Vernor's assertion (AB 38), *Cartoon Network LP v. CSC Holdings, Inc*., 536 F.3d 121, 127-28 (2d Cir. 2008), does not state that *MAI*'s holding on the essential step defense is *dicta*. Instead, the case merely suggests that *MAI* did not rule on a separate question—the meaning of the duration requirement of 17 U.S.C. §101 for determining whether a copy is sufficiently "fixed" to be a basis for a copyright infringement action. *Id*.

computers (17 U.S.C. Section 117)"); *id*. Ex. C (*MAI* Brief for *Amici Curiae* Business Systems, Inc. *et al*.) at 7-12.

Vernor's claim that "Congress's disapproval of the result in *MAI* also calls the remainder of the Court's analysis into doubt" (AB 39) likewise has no merit. While Congress created a limited defense under Section 117(c) for copies made in connection with computer repair or maintenance, it left in place *MAI*'s twin holdings that RAM copies created during maintenance are reproductions under the Copyright Act and that licensees of a software copy are not "owners" under Section 117(a). H.R. REP. NO. 105-551, pt. 1, at 27 (1998) (citing *MAI*), *reprinted in* NIMMER ON COPYRIGHT at App. 52-35 (2006). Where, as here, an "interpretation of a statute has been brought to the attention of Congress, and Congress has not sought to alter that interpretation although it has amended the statute in other respects, then presumably the legislative intent has been correctly discerned." *United States v. Colahan*, 635 F.2d 564, 568 (6th Cir. 1980). Far from undermining *MAI*'s holding that a licensee of a software copy is not an owner of that copy, Congress's leaving this holding intact while enacting Section 117(c) in response to *MAI* demonstrates that Congress impliedly approved of this holding.[7] AOB 42-44.

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[7]Vernor incorrectly attempts to minimize *Triad Systems Corp. v. Southeastern Express Co.*, 64 F.3d 1330 (9th Cir. 1995) (AB 40 n.16). *Triad* could not have decided that the defendant had infringed plaintiff's copyright (continued . . .)

MAI, *Triad*, and *Wall Data* are binding Circuit precedents on the "ownership" issue presented by this case. *See, e.g.*, *United States v. Alferahin*, 433 F.3d 1148, 1156 n.3 (9th Cir. 2006).

2. *Wise* Supports The Controlling Rule.

Vernor argues that *Wall Data*, *MAI*, and *Triad* are "in direct conflict with this Court's earlier decision in *Wise*." AB 42. No such conflict exists. *United States v. Wise*, 550 F.2d 1180 (9th Cir. 1977), *supports* the rule articulated in these cases.

In *every* contract where the copyright holder expressly retained title, *Wise* found that the movie studio had retained ownership of the movie print. AOB 33-34. By contrast, for the two contracts where the copyright owner had not retained title in the movie prints, the Court held that the government had failed to meet its burden of proving beyond a reasonable doubt the absence of a first sale. *See Wise*, 550 F.2d at 1191 (*Funny Girl* television distribution contract); *id*. at 1192 (Redgrave Contract).[8]

(. . . continued)
without determining that the plaintiff had retained ownership over its software copies pursuant to a license agreement. *Id*. at 1333, 1336-37; *see* AOB 27-28.

[8]With respect to the salvage contracts, the Court's decision was not based on ownership (or licensing) of the prints. Instead, *Wise* held that even if the studios sold its movie prints to the salvage companies for destruction, these sales could not provide the basis for a first sale defense because "the prints which are sold for salvage cannot be pieced together to produce a copy of the film." 550 F.2d at 1193. Accordingly, the first sale defense failed because
(continued . . .)

Vernor selectively quotes from *Wise* to claim that "[e]ven when a license 'expressly reserves title,' the court should examine the 'terms of the agreements' to determine whether the 'general tenor' of the transaction is a license or sale. *Wise*, 550 F.2d at 1191." AB 43; *see also* AB 44-45. But *Wise* only holds that a court should look at the "general tenor" of the transaction when the contract *fails* to specify whether it is a sale or a license. *See* 550 F.2d at 1191 ("The mere *failure* to expressly reserve title to the films does not require a finding that the films were sold, where the general tenor of the entire agreement is inconsistent with such a conclusion") (emphasis added). Nothing in *Wise* permits a court to recharacterize a transaction as an outright sale where the parties have unambiguously defined it as a license, with retention of title in the transferor, and limited the transferee's rights of use and transfer.

In fact, retention of title was a key factor in *Wise*'s determination of whether a first sale had occurred: "[i]f title has been retained by the copyright proprietor, the copy remains under the protection of the copyright law, and infringement proceedings may be had against all subsequent possessors of the copy who interfere with the copyright proprietor's exclusive right to vend the copyrighted work." 550 F.2d at 1188 (quoting *United States v.*

(. . . continued)
the defendant's prints could not have been acquired from the salvage companies.

Wells, 176 F. Supp. 630, 633-34 (S.D. Tex. 1959)). This fact is also demonstrated by *Wise*'s reliance on *Hampton v. Paramount Pictures Corp.*, 279 F.2d 100 (9th Cir. 1960), as informing its application of the first sale doctrine. 550 F.2d at 1190 (characterizing its decision as "[i]n accordance with the holding and reasoning of [*Hampton*]"); *see id.* at 1190 n.17 ("with respect to the meaning of 'first sale' we adhere to the reasoning of *Hampton*"). *Hampton* held that where the parties' contract unambiguously established that it was a "license" of the copyright's public exhibition right, the copyright owner retained ownership of that right even though (1) the license was perpetual; (2) there was a one-time payment; and (3) there was no requirement to return the outstanding prints and negatives. 279 F.2d at 103.

Wise is therefore consistent with a rule that the copyright holder's reservation of title in a license agreement is itself sufficient to preclude a finding of a sale.[9] *A fortiori*, it certainly is consistent with *Wall Data's* holding that a

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[9]The EFF brief wrongly asserts that *United States v. Atherton*, 561 F.2d 747, 750 (9th Cir. 1977), held "that a transaction denominated as a 'licensing agreement' nonetheless amounted to a first sale." EFF Amici Brf. at 16. Copies of the films in question (*The Way We Were*, *Young Winston* and *Forty Carats*) were transferred to ABC under a contract that "fail[ed] specifically to retain title." 561 F.2d at 750. (*Atherton* does not mention a retention of title as to the fourth film (*Airport*), but it was the government's burden in that criminal prosecution to prove that title had been retained in order to establish that there had been no "first sale.")

copyright owner retains ownership when it transfers possession of a copy while both retaining title *and* imposing limitations on use and transferability.

Vernor mischaracterizes *Wise* to support his reading of the case. He claims that "[i]n *Wise* . . . the Court concluded that every agreement allowing the transferee to retain indefinite possession was a sale, and every agreement that required the transferee to return the copy was a license or a loan." AB 32. To the contrary, in at least two instances, *Wise* held that the transferee of a movie print was a licensee, not a purchaser, even where there was no requirement to return the print and no mechanism for the studio to repossess it. AOB 40; *Wise*, 550 F.2d at 1192 (finding *The Sting* and *Funny Girl* VIP contracts to be licenses, not sales, despite agreement requiring licensee "to retain the film print in his possession at all times").[10]

Vernor also claims that "[w]hether the copyright owner had received full value for its copyrighted works was another factor relevant to these agreements. The studios . . . generally did not sell prints 'until all readily obtain-

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[10]The VIP contract for *The Sting* provided that the studio's consent to use the print was "revocable" (550 F.2d at 1192), but it provided no way for the studio to repossess the print once this permission was revoked. The SLA similarly provides that Autodesk's permission to use AutoCAD R14 terminates upon violation of the SLA's license restrictions. 2-ER-171 at "COPYRIGHT." So, if revoking a permission to use the copy of the copyrighted work is the equivalent of a requirement to return the copy to the copyright holder, such a requirement also exists in the SLA. In any event, the *Funny Girl* VIP contract had no revocability provision (*see* 550 F.2d at 1192), so it is untrue that every agreement in *Wise* allowing the transferee to keep indefinite possession of the movie print constituted a sale.

able license revenue ha[d] been extracted from them.'" AB 47. However, the portion of *Wise* cited by Vernor had nothing to do with the Court's analysis of whether the relevant contracts constituted licenses or sales of the movie prints for first sale purposes. Instead, the passage supported the Court's conclusion on a completely different issue: that defendant's infringement was willful because he "knew that films . . . are not generally sold but licensed" for exhibition. 550 F.2d at 1194-95.

Finally, Vernor makes unsupported assertions about the individual contracts in *Wise*. For example, Vernor claims that the *Camelot* television distribution contract "required return of the print at the end of the license period unless the copyright holder agreed otherwise." AB 46 (citing 550 F.2d at 1191). But, in fact, none of that contract's language quoted in the opinion stated that the transferee was required to return the movie print.[11] Similarly, Vernor claims that "[a] key factor" for determining that the *Funny Girl* television distribution contract was a sale was that the contract "allowed the network at its sole discretion the option of retaining the print indefinitely." AB 47. However, this contract also not only failed to expressly reserve title

[11]While the Court states that the studios generally required the return of movie prints at the end of the license period (*Wise*, 550 F.2d at 1184 (emphasis added)), the opinion nowhere states whether the *Camelot* television distribution contract was consistent with this general practice.

in the movie print, but also did not place any restrictions on the use or resale of the print. *Wise*, 550 F.2d at 1191 n.20.

3. *Hampton* Supports The Controlling Rule.

Hampton supports the controlling rule with its holding that where an agreement unambiguously designates a transfer of a copyright interest (there, the public exhibition right) as a license, and not a sale, then the copyright owner retains ownership of the copyright interest. *Hampton v. Paramount Pictures Corp.*, 279 F.2d 100, 103 (9th Cir. 1960). While *Hampton* did not involve a first sale defense, the principle of looking to the parties' express agreement to determine ownership of a copyright interest should be equally applicable to determining whether a copyright owner has transferred ownership of a copy of a copyrighted work. AOB 28-29, 38-39.

B. *Bobbs-Merrill* Does Not Support Vernor's Position.

Vernor claims that Autodesk's use of a license is "in direct conflict" with *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908), because *Bobbs-Merrill* "rejected a book publisher's use of a license materially indistinguishable from Autodesk's" and "prohibits copyright owners from using a limited license to restrict distribution of 'particular copies' of their works." AB 2. Vernor is wrong.

Vernor does not describe the terms of the "license materially indistinguishable from Autodesk" that purportedly was at issue in *Bobbs-Merrill*. In

fact, there was no license of any kind between the book publisher and the bookseller (R.H. Macy & Company): "[t]he facts disclose a sale of a book at wholesale by the owners of the copyright, at a satisfactory price, *and this without agreement between the parties to such sale* . . . ." 210 U.S. at 343 (emphasis added). Bobbs-Merrill claimed that because it had unilaterally printed in the book's flyleaf that it could not be resold for less than "one dollar net," Macy's sale of the books for 89 cents statutorily infringed Bobbs-Merrill's copyright. *See id*. at 341-43. The Court held that the first sale rule applies where the copyright holder has attempted to place a price restriction "after the owner ha[s] *parted with the title* to one who ha[s] acquired *full dominion* over it . . . ." *Id*. at 350 (emphases added). The Court added that "it is to be remembered that this is purely a question of statutory construction. *There is no claim in this case of contract limitation, nor license agreement controlling the subsequent sales of the book*."[12] *Id*. (emphasis added).

Many cases have held that the first sale doctrine declared in *Bobbs-Merrill*, and later codified, applies only where there has been a "sale" (or gift) but not where there has been a transfer pursuant to license. *See* AOB

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[12]Vernor seizes on the publisher's unilateral assertion in the book that "'[n]o dealer is licensed to sell it at a less price.'" AB 22 (quoting 210 U.S. at 341). The publisher must have been using the term "licensed" as a synonym for "permitted," because there was no license agreement—or contract of any kind—between Bobbs-Merrill and Macy.

24-32 and cases cited; pp.3-10, *supra*. There was no claim in *Bobbs-Merrill* that the transfer of the books was anything but an outright sale. *Bobbs-Merrill* is, therefore, entirely unhelpful on the question presented here: who is the "owner" of a software copy where the transfer of the copy was not an outright sale of all rights to the copy but, rather, was made pursuant to an arm's-length negotiated agreement, which reserved title to the copy, stated that the transferee's rights were those of a licensee, and imposed material restrictions on use and transfer? But controlling Ninth Circuit cases *do* address that question and provide that Autodesk is the owner.

C. Vernor's Claim Of A Circuit Split Is Baseless.

Vernor asserts that *MAI* (and *Wall Data*) conflict with decisions of other circuits. AB 40. Even if true, overruling Ninth Circuit precedents would require *en banc* review. But, in fact, there is no circuit split.

The first asserted conflict is with *Krause v. Titleserv, Inc.*, 402 F.3d 119 (2d Cir. 2005), which Vernor inaccurately characterizes as "disregarding a 'license' designation when the circumstances indicated a sale." AB 40; *see also* EFF Amici Brf. 16. There was no "license designation" in that case and, indeed, no written license agreement at all. At issue were eight software programs written by Krause and installed on Titleserv's computer network. 402 F.3d at 120-21. Krause claimed that Titleserv's modifications of the programs infringed his copyright interests. *Id.* at 121. Under the circum-

stances, the court had no contractual basis for resolving the dispute, and so it looked at the relevant circumstances and found that Titleserv was the owner. *Id*. at 124. Not a word in the opinion suggests that if Krause and Titleserv had a contract providing that Titleserv was a licensee of the software copies and that Titleserv's rights to use and transfer the software copies were materially restricted, the court would have nonetheless held that Titleserv was an "owner" under the Copyright Act.

The purported conflict with *DSC Communications Corp. v. Pulse Communications, Inc*., 170 F.3d 1354 (Fed. Cir. 1999), also is non-existent. DSC manufactured and sold hardware used in telephone systems in which the software at issue resided in volatile memory. *Id*. at 1357-58. Pulsecom made a competing card that, when installed in the systems, downloaded the DSC software into its resident memory. *Id*. at 1358. DSC claimed that this copying was an act of infringement; Pulsecom countered that it was authorized by Section 117 because it was an "essential step" in the utilization of the software. *Id*. at 1359-60.

The Federal Circuit held that Section 117 was *inapplicable* because the telephone companies were licensees, not owners, of the DSC software. *Id*. at 1361; *see id* at 1358 (noting the agreements "contain provisions that license, under a variety of restrictions, the . . . software to the [telephone companies]"). The court noted that each of the DSC-telephone company agreements reserved "[a]ll rights, title and interest in the Software" to DSC. *Id*. It

expressly found that these reservations of ownership applied to "the copies of the software . . . , not [to] DSC's copyright interest in the software." *Id*. In addition, the court found that the "restrictions imposed on the [telephone companies'] rights with respect to the software are consistent with that characterization." *Id*. These included limits on the right to transfer the software copies. *Id*.

Like Vernor here, Pulsecom argued that the telephone companies were owners of the copies because they made only a single payment and retained possession of the software (embodied in the cards) for an unlimited period of time. *Id*. at 1362. The Federal Circuit rejected this argument:

> That view has not been accepted by other courts . . . and we think it overly simplistic. The concept of ownership of a copy entails a variety of rights and interests. The fact that the right of possession is perpetual, or that the possessor's rights were obtained through a single payment, is certainly relevant to whether the possessor is an owner, but those factors are not necessarily dispositive if the possessor's right to use the software is heavily encumbered by other restrictions that are inconsistent with the status of owner. (*Id*.)

DSC is, therefore, consistent with this Circuit's prevailing rule, as enunciated in *MAI* and *Wall Data*.

Vernor also says that, in *DSC*, the Federal Circuit "declin[ed] to adopt the Ninth Circuit's characterization of all licensees as non-owners." AB 40 (internal quotation marks omitted). What the Federal Circuit actually said *supports* the *Wall Data-MAI* rule:

> [T]he *MAI* case is instructive, because the agreement between MAI and Peak, like the agreements at issue in this case, 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. And for that reason, it was proper to hold that Peak was not an "owner" of copies of the copyrighted software for purposes of section 117. (170 F.3d at 1360 (citations omitted))

In sum, neither Vernor nor his *amici* cite one Ninth Circuit or other federal appellate decision in which the parties had contractually agreed that the copyright owner had retained title, and that the copy provided was licensed and not sold, but the court nevertheless held that the contract terms were trumped by "economic realities" or other considerations.[13]

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[13]Vernor's reliance on *In re DAK Industries, Inc.*, 66 F. 3d 1091 (9th Cir. 1995) (AB 26-29) is misplaced because no issue of copyright law was presented. Rather, the Court was interpreting the Bankruptcy Code to determine whether a transaction should be considered a prepetition sale: "*When applying the bankruptcy code to this transaction*, we must look through its form to the 'economic realities of th[e] particular arrangement.'" *Id.* at 1095 (emphasis added).

The other cases on which Vernor relies (AB 28-29) also are not helpful. In *Bauer & Cie v. O'Donnell*, 229 U.S. 1, 8 (1913)—as in *Bobbs-Merrill*—title already had been transferred so the issue was only whether subsequent sales could be controlled. *Id.* at 11. *UMG Recordings, Inc. v. Augusto*, 558 F. Supp. 2d 1055, 1060 (C.D. Cal. 2008) (AB 27 n.9), currently before this Court, articulates a proposed "economic realities" test based on the same cases Vernor cites and likewise is defective. *Novell, Inc. v. Network Trade Center, Inc.*, 25 F. Supp. 2d 1218 (D. Utah 1997), *vacated in part*, 187 F.R.D. 657 (D. Utah 1999), was vacated with respect to the copyright infringement claim and was decided on the basis of the validity of the shrinkwrap license—an issue not presented in this appeal. AB 27-28 n.9.

D. Even If The Parties' Contractual Arrangements Could Be Trumped By "Economic Realities," Vernor Has Identified No Such Dispositive "Realities" In This Case.

Under the controlling precedents, CTA was a licensee, not an owner, of the AutoCAD R14 copies because the SLA said it was a license, reserved title to the software copies to Autodesk, imposed significant restrictions on use, and prohibited transfers of the software copy.[14] Vernor argues that all of

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[14]Vernor and his *amici* criticize shrinkwrap licenses. AB 27 n.9; EFF Amici Brf. 12, 20. This criticism is irrelevant because the agreement between Autodesk and CTA was negotiated by counsel, and was not a clickwrap or shrinkwrap license. *See* AOB 9-10; note 2, *supra*.

Autodesk could in any event easily establish the enforceability of the SLA. Each AutoCAD R14 package contained a printout of the SLA. 2-ER-164 ¶14; 170-71. Each package also contained a CD-ROM case, which was sealed with a sticker providing that the software was being "licensed subject to the license agreement" and that the consumer could return the software copy if it did not wish to accept the terms. 2-ER-163-64 ¶¶11-12; 173. When installing the software copies on their computers' hard drives, consumers again agreed to the SLA terms via a click-through screen. 2-ER-164 ¶13; 174.

Moreover, courts have found that clickwrap and shrinkwrap licenses are enforceable contracts. *See, e.g.*, *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1452-53 (7th Cir. 1996); *Koresko v. RealNetworks, Inc.*, 291 F. Supp. 2d 1157, 1162-63 (E.D. Cal. 2003); *Feldman v. Google, Inc.*, 513 F. Supp. 2d 229, 236-38 (E.D. Pa. 2007); *DeJohn v. The TV Corp. Int'l*, 245 F. Supp. 2d 913, 918-20 (N.D. Ill. 2003). Nor is there any basis for *amici*'s claim that software licenses are typically an unenforceable "contract of adhesion." EFF Amici Brf. 20. "[T]he elements of procedural and substantive unconscionability must *both* be present before a court may refuse to enforce a contract." *Marin Storage & Trucking, Inc. v. Benco Contracting & Eng'g, Inc.*, 89 Cal. App. 4th 1042, 1054 (2001). In this case, the contract was not procedurally unconscionable because it was negotiated by counsel. Nor is there anything substantively unconscionable about a restriction on transfer that is presented along with a lower price for the software than would be charged if the software were sold without restrictions.

this is somehow trumped by "economic realities," of which he points to just two: (1) the absence of any requirement that CTA return the software disc to Autodesk at some point; and (2) single payment for the software. AB 29-30. Vernor's argument is meritless.

1. The Economic Realities Establish That CTA Acquired A License And Not An Ownership Interest In The AutoCAD R14 Copies.

Autodesk and CTA did not merely label the transaction a license: the substantive terms of the SLA establish that it was a license. CTA was not permitted to "rent, lease, or transfer" the software copies and agreed to significant use restrictions, including prohibitions against (1) modifying, translating, reverse-engineering, decompiling, or disassembling the software; (2) removing proprietary notices, labels, or marks from the software or documentation; and (3) using the software outside of the Western Hemisphere. AOB 12. Some Autodesk licenses impose additional restrictions (*e.g.*, limiting use to educational purposes). 2-ER-150 ¶¶13-15. Such restrictions are not typical of a sale.[15] *See, e.g.*, *DSC*, 170 F.3d at 1361 (noting that transfer and use restrictions are "inconsistent with the rights

[15]Vernor claims that "restrictions on use imposed by contract also generally do not demonstrate a lack of ownership, even if those restrictions are severe." AB 28. But Vernor cites no cases that provide examples of a sale with severe restrictions on use. AB 28-29 & n.10. More to the point, this proposition provides no support for Vernor's claim that the Court should reach beyond the terms of an unambiguous contract to find a first sale where the copyright owner has retained title and imposed meaningful restrictions.

normally enjoyed by owners of copies of software"). CTA further agreed that its rights to the software would terminate if CTA failed to comply with the license restrictions (2-ER-171 at "COPYRIGHT" ("Unauthorized copying . . . , or failure to comply with the above restrictions, will result in automatic termination of the license"))—another provision that is not characteristic of ownership.

The SLA also gave CTA rights it would not have by sale alone. For instance, CTA had a conditional right "to make one additional copy for use on a second computer." 2-ER-170 at "GRANT OF LICENSE." Autodesk would not have granted this extra right if individual copies could be transferred without restriction, because that would result in multiple users where only one was intended. Unlike a physical book, where original acquirers give up the value of the book when they sell their copy, software users can easily retain what is valuable or useful, namely the identical working copy of the software loaded on their computers, even after they transfer the physical medium. 2-ER-150-51.[16]

Taken as a whole, these factors confirm the parties' own determination that Autodesk retained ownership of its software copies, and preclude Vernor's attempt to secure a judicial transfer of ownership where CTA and Autodesk agreed otherwise.

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[16]Vernor admitted that he did not know whether CTA had kept copies of AutoCAD R14 on its computers. 2-ER-245.

2. The Absence Of A Return Requirement And The One-Time Payment Are Neutral Facts That Provide No Support For Vernor's "Sale" Theory.

Vernor's argument that CTA was the owner of the software copies is based entirely on two facts and a faulty syllogism (AB 29-30): consumers ordinarily can keep products with no obligation to return them, and pay for them with a single payment; since CTA had no return obligation and made a single payment, it must be an owner of the software copies.[17] When those facts are analyzed in the software context, it is apparent that they are neutral and do not support Vernor's theory of ownership.

As a practical matter, in the software context, the physical media has almost no value (unlike expensive motion picture film prints) independent from the software contained on the media. 2-ER-152 ¶19; 259 ¶15. AutoCAD R14 customers were therefore not acquiring the physical media but rather a license to use the software contained on the disc. 2-ER-148 ¶¶6-7; 259 ¶15. Once the software is installed on the computer, some customers do not even retain the media.[18] *Id*. Any minor benefit to Autodesk from

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[17]*Amici* suggest that "this Court need not establish a bright line 'return requirement' for all future digital media transactions." EFF Amici Brf. 18 n.10. But the District Court, Vernor, and his *amici* focus on just the single payment and lack of requirement that the software copy be returned. *See, e.g.*, 1-ER-15. While *amici* talk of evaluating "the economic realities of the transaction at issue . . . 'holistically,'" they fail to identify any other factors they believe are meaningful here. EFF Amici Brf. 18 n.10.

[18]Vernor claims that there is no return obligation "because Autodesk retains no real-world interest in those copies once they have been sold." AB

(continued . . .)

requiring the return of the physical media would also be far outweighed by the costs of postage and processing returns. 2-ER-152 ¶19. This is one reason why software installation discs are inherently different from other media containing copyrighted works. 2-ER-148 ¶¶6-7.

Nor is the fact that software is licensed in return for a single payment meaningful. Any ongoing series of payments such as annual rents or royalties can be given a present economic value; requiring copyright owners to choose a deferred payment scheme (and its corresponding costs) would certainly be, to use Vernor's words, a "legal fiction" with no financial significance. AOB 41-42. Moreover, payment structure is not dispositive of ownership. *See Hampton*, 279 F.2d at 103; *DSC Commc'ns Corp.*, 170 F.3d at 1362. For example, many consumer products are purchased with installment payments; conversely, one does not become an owner of a DVD movie rented from a video store because payment was made in a lump sum.[19]

(. . . continued)

32. But Autodesk does retain a "real world" interest—that its licensee will obey the SLA's use and transfer restrictions—and enforces this interest by terminating the license if its licensee violates these restrictions. 2-ER-171 at "COPYRIGHT." The fact that Autodesk does not take the economically nonsensical step of requiring return of these copies when it revokes its permission says nothing about Autodesk's ownership interest.

[19]Vernor claims that Autodesk's website indicates that customers are purchasing ownership interests in the software copies. AB 35. That contention is irrelevant because CTA obtained its copies through the negotiated Settlement Agreement, not Autodesk's website (AOB 9-10). It also is incorrect. For example, on its "Licensing, Registration and Activation" website page, Autodesk explains: "Learn about the various

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E. Any Limitations On The Ability Of Copyright Owners And Their Licensees To Agree To Limitations On Use Or Transferability Must Come From Congress.

Vernor and his *amici* seek to upend the software industry's long-standing practice, supported by the Copyright Act and this Court's precedents, of licensing its software copies on terms that define their permitted uses. They also inappropriately invite this Court to wade into disputes of public policy that have enormous economic and practical implications. Such considerations are the responsibility of Congress, which has not tied the hands of software developers and their customers by forcing all transfers of copyrighted software copies into the rigid box of unrestricted sales.

To be sure, allowing software companies and users to agree to limitations on use and transfer serves the public interest in compelling ways:[20]

- Licensing permits different users to obtain software at varying prices. For example, when CTA upgraded its AutoCAD R14 licenses, Autodesk provided a significant discount for the newer

(. . . continued)
types of Autodesk software licenses, and decide which one is right for you and your organization. If you have already obtained licenses, learn how to activate the type of license you've purchased." 1-Supplemental Excerpts of Record ("SER")-26; *see also* 1-SER-14-15; 18-20.

[20]The Business Software Alliance brief discusses the settled licensing model of the software industry and the likely consequences of any limitations on the ability of copyright owners and their licensees to define their relationship. Brief of Business Software Alliance as *Amicus Curiae*, *MDY Indus. LLC v. Blizzard Entm't, Inc.*, No. 09-15932 (9th Cir. Nov. 16, 2009) ("BSA *MDY* Amicus Brf.") (assigned to the same panel for argument), at 20-28.

program version: $495 per license compared to $3,750 for a new license. 2-ER-162 ¶4; 183-84 ¶7. Different prices also can be charged for commercial users, students, educational institutions, and nonprofits, with greater or fewer restrictions as appropriate. *See* AOB 6-7; Brief of Software & Information Industry Association as *Amicus Curiae*, *MDY Indus. LLC v. Blizzard Entm't, Inc.*, No. 09-15932 (9th Cir. Nov. 17, 2009) ("SIIA *MDY* Amicus Brf."), at 14-15. *See also ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1449 (7th Cir. 1996) (software licenses for commercial purposes sold at higher price than licenses of the same software restricted to non-commercial use). Likewise, pricing can vary depending on the number of computers on which the customer is licensed to install the software. Software developers would be unwilling to distribute their products on a reduced-rate basis if they could only be sold (triggering the first sale doctrine). 2-ER-262-63 ¶¶33-34. The result would be higher average consumer prices for the software. AOB 44-45; *see also* MPAA Amicus Brf. 19.[21]

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[21]The EFF Amici Brief asserts that the availability of resold software would result in lower prices because the new software would have to compete with the resale market. EFF Amici Brf. 11. Even if true, EFF's unproven theory perfectly illustrates why this is appropriately presented to Congress, and not the courts: prohibition of licensing would at best benefit some (those who—like Vernor—earn money by reselling software, or those (continued . . .)

- Licensing allows consumers to sample software. Some companies permit consumers to use their software for a limited time for free or little cost. Others allow a product version with limited functionality but require payment to license a version with more features. These models are possible because software developers can restrict the license's use terms.
- Licensing ensures a direct relationship between software companies and consumers, which facilitates the companies' providing software patches and updates that improve performance, add new functions, provide security enhancements, and fix "bugs."
- Licensing allows companies to provide benefits to consumers beyond what they otherwise would possess under the Copyright Act as owners of software copies by, for example, permitting users to install their software on more than one computer. *See, e.g.*, 2-ER-170 at "GRANT OF LICENSE" (granting such rights to CTA).

(. . . continued)
who—like eBay—earn fees for the online sales of second-hand goods, and purchasers of second-hand software) to the detriment of others (software developers, but also commercial purchasers of new software who will be paying a higher price, as will those, such as students, who under the licensing model are presently able to obtain reduced-rate software subject to restrictions acceptable to them). Likewise, consumers who would take advantage of a resale market as a means of eventually recouping a part of the cost would be advantaged; those who would not bother with resale will be disadvantaged to the extent software prices rise.

- Licensing allows software companies to agree with consumers on risk-allocating provisions such as limitation of liability—provisions that permit lower pricing than if liability were unlimited. Otherwise, the resale purchaser would not be bound by any contractual restrictions agreed to by the first purchaser. *See* AOB 47.
- Licensing protects against unauthorized reproductions of the software. If software resales were permitted, the initial purchaser could resell the tangible copy while continuing to use the copy installed on its computer's hard drive. *See* AOB 48.

Ignoring decades of industry practices, Vernor and his *amici* suggest a "parade of horribles" that includes putting "used book and music stores out of business with the simple expedient of attaching the proper licensing language to their copyrighted works." AB 5; *see* EFF Amici Brf. 3-4, 8.[22] But book publishers and recording companies have never marketed their tangible products that way, and there is no evidence anywhere to suggest any realistic risk that they will suddenly attempt to destroy the secondary market for used books and recordings by using shrinkwrap licenses prohibiting resale. The issue in this case concerns computer software, and the very different, long-

[22]The EFF Amici Brief also claims that Autodesk's position would "undermine Section 109(b)(2), which permits nonprofit libraries to lend software." EFF Amici Brf. 21. This claim is specious because the rights under Section 109(b)(2) do not require "ownership"—merely possession.

standing marketing practices that are commonly used in that industry. BSA *MDY* Amicus Brf. 20-28.

Any weighing of the competing interests to determine whether these long-standing software licensing arrangements should be precluded is a task for Congress—not the judiciary. *Quality King Distribs*., 523 U.S. at 153 ("whether or not we think it would be wise policy to provide statutory protection . . . is not a matter that is relevant to our duty to interpret the text of the Copyright Act"). Until now, Congress has not seen fit to embrace the regime advocated by Vernor and some academic writers. That decision is not by happenstance or inertia. Congress revised Section 117 in light of *MAI* and added Section 117(c), but did *not* revise the statute to preclude licensing or broaden the definition of "owner of a copy." H.R. REP. NO. 105-551, pt. 1, at 27 (1998) (citing *MAI*), *reprinted in* NIMMER ON COPYRIGHT at App. 52-35 (2006). That is compelling evidence of Congress's approval of the rule confirmed in *MAI* that a copyright owner can retain ownership of its software copies through a license despite the first sale doctrine. *Colahan*, 635 F.2d at 568.

Vernor and his *amici* offer a rule that essentially provides that a sale occurs whenever a copyright holder transfers a copy of a copyrighted work in return for a single fixed payment without specifying a date by which the copy must be returned—regardless of the parties' mutually-agreed determination of the relationship and limitations on use and transferability. The

consequences of this rule would be profound. Unlike tangible copies of books, music CDs, and video DVDs, computer software is almost always distributed by licensing a copy for specified uses, often with restrictions on subsequent transfers. As this Court has recently observed,

> the first sale doctrine rarely applies in the software world because software is rarely "sold." . . . By licensing copies of their computer programs, instead of selling them, software developers maximize the value of their software, minimize their liability, control distribution channels, and limit multiple users on a network from using software simultaneously. (*Wall Data Inc. v. Los Angeles County Sheriff's Dep't*, 447 F.3d 769, 786 n.9 (9th Cir. 2006) (citation omitted))

See also Adobe Sys. Inc. v. One Stop Micro, Inc., 84 F. Supp. 2d 1086, 1091 (N.D. Cal. 2000) ("[V]irtually all end-users do not buy—but rather receive a license for—software. The industry uses terms such as 'purchase,' 'sell,' 'buy,' . . . because they are convenient and familiar, but the industry is aware that all software . . . is distributed under license").

Advocates of legislation prohibiting software creators from licensing specified uses of copies of their intellectual property, at prices lower than the prices that would be charged for an unrestricted "sale," would face formidable challenges to enacting such a drastic change to the current understanding of the Copyright Act. Were amendments to the Copyright Act to impose a rigid, sweeping definition of "owner" along these lines proposed, the battle in Congress would be fierce. While some consumers might benefit from that proposed rule, others would be disadvantaged, to say nothing of the software industry itself. No one—not the parties, not their lawyers, and not the judges

of this Court—could predict with confidence that Congress would agree to so momentous an amendment to the Copyright Act.

What one *can* say with confidence is that Congress has yet to agree to such a regime. Sections 109 and 117 contain no definition of the phrase "owner of a copy," let alone one that would be imposed on the parties despite their agreement to define their relationship as a license and to materially limit the transferee's rights to use or resell the transferred copy of a copyrighted work. Nothing in the legislative history evidences intent to do so. And given the Constitution's express delegation to Congress in Article I, Section 8, Clause 8 of the authority to define the scope of copyright protection, Vernor and his *amici* have come to the wrong branch of government to impose radical new limitations on the ability of copyright holders and their licensees to define their relationship and to specify the rights that a licensee does—and does not—obtain pursuant to their contract.

CONCLUSION

The District Court decision should be reversed and judgment entered in favor of Autodesk on Vernor's claim for declaratory and injunctive relief.

DATED: April 1, 2010.

Respectfully,

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CERTIFICATE OF COMPLIANCE PURSUANT TO FED. R. APP. P. 32 (a)(7)(C) AND CIRCUIT RULE 32-1 FOR CASE NUMBER 09-35969.

1. This brief complies with the Court's March 25, 2010 Order because the brief contains 8,462 words, excluding the parts of the brief exempt by Federal Rule of Appellate Procedure 32(a)(7)(B)(iii).

2. This brief substantively complies with the typeface requirements of Federal Rule of Appellate Procedure 32(a)(5) and the type style requirement of Federal Rule of Appellate Procedure 32(a)(6) because it has been prepared in a proportionally spaced typeface in 14.5 point Times New Roman.

DATED: April 1, 2010.

/s/ Jerome B. Falk, Jr.
JEROME B. FALK, JR.

CERTIFICATE OF SERVICE
FOR DOCUMENTS FILED USING CM/ECF

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