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# Adobe Sys., Inc. v. Christenson

## 809 F.3d 1071 (9th Cir. 2015)

AMIEE SHIN\*

### BACKGROUND

Plaintiff, Adobe Systems, Inc. (“Adobe”), is a computer software company that develops multimedia and creativity software, such as Photoshop CS3 and Acrobat Reader. Defendant, Joshua Christenson, is the owner of now defunct Software Surplus, Inc. (“Software Surplus”), a company that sold computer software on the Internet. Christenson purchased copies of Adobe’s software from third-party distributors, which he then advertised and sold through the Software Surplus website without Adobe’s authorization.

Adobe holds an extensive list of copyrighted software, where ownership of the copyright is recorded in certificates of registration. Rather than directly selling the copyrighted works, Adobe licenses its software to third parties. The Copyright Act of 1976 (“Copyright Act”) confers exclusive rights on copyright owners, including the exclusive right to “distribute copies . . . of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending.”<sup>1</sup>

### PROCEDURAL HISTORY

In 2009, Adobe filed suit against Christenson, alleging copyright infringement under the Copyright Act and trademark infringement under the Lanham Act. In its complaint, Adobe claimed that Christenson distributed copies of its software purchased from third-party distributors, on his website, without its authorization. Christenson asserted the first-sale doctrine as a defense against the copyright infringement claim. He also filed counterclaims and a third-party claim against Adobe and the Software Publishers Association (“SIIA”), alleging defamation based on a press release issued by SIIA, accusing Christenson of deceiving consumers by selling infringing copies and counterfeit versions of the software.

Following discovery, the parties filed cross-motions for summary judgment. Adobe and SIIA unsuccessfully moved for “partial summary judgment on liability for the copyright and trademark claims and for summary judgment on [Christenson’s] counterclaims and third-

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1. 17 U.S.C. § 106(3) (2012).

party claims pertaining to the press release.”<sup>2</sup> The magistrate judge then granted Christenson’s request to restrict Adobe from introducing contracts or license agreements on the basis that Adobe had failed to disclose such evidence during discovery. Christenson then filed a motion to strike any documents and relevant testimonies from Adobe’s motion for summary judgment.

The district court granted Christenson’s motion to strike and ruled in favor of Christenson on the claims for copyright and trademark infringement. The court denied Adobe’s motion for summary judgment on the counterclaims related to the press release and stayed the case upon Adobe’s appeal to the U.S. Court of Appeals for the Ninth Circuit.

### ISSUE

The court addressed whether the party asserting the defense, or the copyright holder, bears the burden of proof for a first-sale doctrine defense in a software copyright infringement case, involving software that is only licensed and not sold.

### DECISION

The Ninth Circuit held that at the summary judgment stage, once the party raising the first-sale defense satisfies the initial burden, the burden shifts to the copyright holder to counter the defense. Therefore, although Christenson had carried the initial burden of establishing that he lawfully acquired copies of Adobe’s copyrighted software, Adobe had failed to meet its burden of showing that it retained ownership rights; and thus, a first sale did not occur. The court also rejected Adobe’s trademark infringement claim based on Christenson’s nominative fair use defense. As such, the court ruled in favor of Christenson and affirmed the dismissal of both the copyright and trademark infringement claims.

### REASONING

#### I. COPYRIGHT CLAIM

After Adobe established a *prima facie* case of copyright infringement against Christenson, the court proceeded to analyze whether the first sale doctrine created an exception for unauthorized sellers of copyrighted software to Adobe’s exclusive distribution rights under the Copyright Act. Reviewing the district court’s application of the first-sale doctrine, the court examined: (1) whether a license could create a sale and (2) the burden-shifting construction of the first sale doctrine.

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2. *Adobe Sys. v. Christenson*, 809 F.3d 1071, 1074 (9th Cir. 2015).

### A. License or Sale

The first-sale doctrine is an affirmative defense under the Copyright Act, providing that once a copy of a copyrighted work is lawfully sold or transferred, the new owner has the right to “sell or otherwise dispose of” that copy without the copyright owner’s authorization.<sup>3</sup> The court confirmed that this defense is contingent on the alleged infringer’s rightful ownership of the particular copy.

Although the first-sale doctrine does not apply to a licensee (a non-owner), the court noted that in today’s technology-driven world, licensing agreements have become the leading method of transferring rights of use in copyrighted software. Recognizing that the licensing exception in the digital copyright context could obliterate this statutory defense, the court indicated that some software licensing agreements might actually create a sale under the *Vernor* factors.<sup>4</sup> To establish a legitimate license agreement, the court considered whether “the copyright owner: (1) specifies that the user is granted a license; (2) significantly restricts the user’s ability to transfer the software; and (3) imposes notable use restrictions.”<sup>5</sup> Failure to satisfy these licensing factors constitutes a sale, thereby allowing the alleged infringer to assert the first-sale defense.

### B. Burden of Proof

The court confirmed that the party asserting a first-sale defense bears the initial burden of proving that he gained rightful ownership of the copyrighted work through legal acquisition of title. The court clarified that when a copyright holder claims that the alleged infringer could not actually own the software copies because the software was licensed, not sold, the burden shifted back to the copyright holder to counter the defense. In practical terms, the copyright holder must provide the relevant license agreement, to prove that a sale, transferring ownership, could not have occurred. The court justified this burden-shifting construct with the general precedent of fairness, providing that a litigant should not be burdened to prove facts that were best known by the opposing party. The court held that Adobe was in the best position to prove the absence of a first sale by the existence of a legitimate license.

The court found that Christenson met the initial burden by providing invoices that proved his legal purchases of Adobe software from third-party suppliers. Therefore, the burden of proof shifted to Adobe. The court acknowledged that under ordinary circumstances, Adobe would be allowed to produce relevant license agreements to be scrutinized under the *Vernor* factors to determine whether there was a legitimate license, barring the first-sale defense. However, Adobe did

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3. 17 U.S.C. § 109(a) (2012).

4. *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1111 (9th Cir. 2010).

5. *Adobe*, 809 F.3d at 1078.

not produce the necessary license agreements due to the district court's exclusion of Adobe's late-offered evidence of license agreements. The court of appeals upheld the exclusion of evidence, finding that in review of the "tortured discovery process,"<sup>6</sup> the district court had not abused its discretion in striking and excluding Adobe's evidence. Unfortunately, Adobe's attempt to substitute testimony, relating to its licensing methods and generic licensing templates in place of specific licensing agreements, did not satisfy the *Vernor* factors due to the lack of specific terms needed to establish a license and not a sale.

## II. TRADEMARK CLAIM

The court rejected Adobe's argument relating to Christenson's alleged "bait and switch" tactic of selling Adobe software products, finding it irrelevant to trademark infringement. Rather, the court indicated that tactic was applicable under theories of false advertisement, a claim that Adobe had attempted to belatedly include, but was correctly rejected by the district court as it was not pleaded in the complaint. Analyzing the claim under a nominative fair use defense to a trademark infringement claim, the court indicated that Christenson's minimal use of the trademark was merely to identify the products and not to confuse the consumers into believing that Adobe endorsed him.

Accordingly, the court affirmed the dismissal of the copyright and trademark infringement claims.

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6. *Id.* at 1080.

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