William Mitchell Law Review

Volume 40 | Issue 2 Article 10

2014

Is Buying Digital Content Just Renting for Life: Contemplating a Digital First-sale Doctrine

Damien A. Riehl

Jumi Kassim

IS "BUYING" DIGITAL CONTENT JUST "RENTING" FOR LIFE? CONTEMPLATING A DIGITAL FIRST-SALE DOCTRINE

Damien Riehl[†] and Jumi Kassim[††]

† Attorney with Robins, Kaplan, Miller & Ciresi L.L.P., practicing in complex business litigation and intellectual property litigation, focusing on cases involving technology. The opinions expressed here are those of the authors; they do not necessarily reflect the views of the firm or its clients.

†† Fourth-year law student at William Mitchell College of Law, JD Candidate 2014; Bachelor of Software Engineering and Management, McMaster University, 2002. Jumi has eleven years of software engineering experience in the medical device field.

I. INTRODUCTION

Estate sales frequently boast a variety of goods collected over decedents' lifetimes: furniture, jewelry, tableware, even old comic books or vinyl records. All of these goods—even those subject to copyright protection—can be resold without further compensating the copyright holder or original author. If the decedent had chosen, she also could have sold, lent, or given away those items during her lifetime, or bequeathed them in her will.

But what if, rather than vintage comic books or records, the decedent had instead spent thousands of dollars purchasing digital goods: audio files downloaded from Apple or Google, or e-books from Amazon?

The first-sale doctrine—which allows those who own *physical* copies of songs, books, and movies to transfer that ownership to someone else—has no direct counterpart in the digital realm (i.e., downloaded works). As society's digital appetite continues to increase, society may want to consider how those purchases are treated: as "ownership" or as a "lifetime lease."

This article discusses the history of the first-sale doctrine,[1] examines the potential for a *digital* first-sale doctrine,[2] and discusses how such a digital first-sale doctrine might be established through legislation, the courts, or the marketplace.[3] Lastly, this article posits that content licenses and subscription services may render any establishment of a digital first-sale doctrine unnecessary.[4]

II. HISTORY OF THE FIRST-SALE DOCTRINE

A. The First-Sale Doctrine's Establishment

Copyright in the United States traces its origins to the Constitution, which grants to Congress the authority to "promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."[5] The first copyright statute, enacted in 1790, permitted copyright protection to authors of any

1. *See infra* Part II.
2. *See infra* Part III, IV.
3. *See infra* Part V.
4. *See infra* Part VI.
5. U.S. CONST. art. I, § 8, cl. 8.

"map, chart, [or] book."[6] That early copyright statute, however, did not fully address the question of what rights a copyright holder had to restrict sales—beyond the work's "first" sale. By the early 1900s, patent holders had begun restricting future uses of their devices via licenses,[7] and copyright holders sought to assert similar rights. But where the patent holders succeeded, the copyright owners ultimately failed.

In its 1908 decision *Bobbs-Merrill Co. v. Straus*,[8] the Supreme Court conclusively established the first-sale doctrine. In that case, the copyright holder sought to enforce a minimum retail price for books that it printed and sold at wholesale. To further that goal, it printed—above the copyright notice—a purported license requiring that the minimum retail price be $1.[9] The defendant bookseller obtained the books through a third party, and knowing of the purported license, it chose to sell each book for $0.89.[10] The Supreme Court ruled that after the initial sale—the "first sale"—copyright holders did not retain any exclusive right to "vend" the copyrighted work.[11]

Congress codified this ruling—and the first-sale doctrine—in the 1909 Copyright Act,[12] creating § 109, which now reads in relevant part: "[T]he owner of a particular copy or phonorecord lawfully made under this title, . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord."[13] Congress's purpose was to allow the exclusive distribution right to be exhausted after the copyright owner has received the appropriate compensation for

6. Copyright Act of 1790, ch.15, § 1, 1 Stat. 124, 124 (repealed 1831).

7. *See, e.g.*, Am. Cotton-Tie Co. v. Simmons, 106 U.S. 89, 94–95 (1882) (finding that patent holders could enforce a license (printed on the device) that restricted it to one use; a party who obtained, repaired, and reused those devices effectively infringed the patent-holder's rights).

8. 210 U.S. 339, 341 (1908).

9. *Id.*

10. *Id.* at 342.

11. *See id.* at 350 ("[T]he copyright statutes . . . do not create the right to impose, by notice, . . . a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract.").

12. 17 U.S.C. § 41 (1909) ("[N]othing in this Act shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained.").

13. 17 U.S.C. § 109(a) (2012).

each copy of the work.[14] The 1976 Copyright Act incorporated § 109 with little change.[15]

The idea that a copy's rightful owner has the right to freely transfer it has come to be known as the first-sale doctrine.[16] That doctrine has been in flux: both expanding and contracting over time.[17]

B. The First-Sale Doctrine's Expansion

Expansion of the first-sale doctrine has come via both courts and statutes. One line of cases expanded the first-sale doctrine by limiting copyright owners' exclusive right to distribute.[18] These so-called "lawfully made" cases involved defendants who legally purchased copyrighted works abroad, reimporting them for sale without the copyright holders' permission. In these cases, the Supreme Court progressively expanded the interpretation of the "lawfully made under this title" clause in § 109 to include first goods made in the United States,[19] and then any good produced abroad[20] with the copyright holder's permission.

14. *See* 2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.12[A] (Matthew Bender, rev. ed. 2013) (arguing that the exclusive distribution right exists primarily to protect copyright owners against the distribution of the owner's own copies that have been "stolen or otherwise wrongfully obtained," and this protection is unnecessary "where the copyright owner first consents to the sale or other distribution of copies . . . of his work").

15. *See* H.R. REP. NO. 94-1476, at 79 (1976), ("Section 109(a) restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy or phonorecord of a work, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means."), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5693.

16. 2 NIMMER & NIMMER, *supra* note 14, § 8.12[B][1].

17. For example, the software industry has become more aggressive in structuring its transactions with customers as "licenses" or "leases" to avoid selling a copy and relinquishing control over the distribution right. *See, e.g.*, Vernor v. Autodesk, Inc., 621 F.3d 1102, 1111 (9th Cir. 2010) (holding that a third-party eBay seller had no right to resell software purchased from an Autodesk customer because the initial transaction was a "license" and not a sale).

18. Kirtsaeng v. John Wiley & Sons, Inc., 133 S. Ct. 1351, 1358 (2013); Quality King Distribs., Inc. v. L'anza Research Int'l, Inc., 523 U.S. 135, 144 (1998).

19. *Quality King Distribs., Inc.*, 523 U.S. at 154 (finding that an importer of hair care products bearing copyrighted labels obtained overseas was eligible for the first-sale defense). The Supreme Court emphasized the fact that the exclusive right to distribute under § 106(3) "is a limited right" and that one of the

Beyond the courts, Congress has also taken steps to expand the first-sale doctrine. For example, after the Fourth Circuit held that an arcade that allowed customers to play imported video games from Japan violated the copyright holder's exclusive right to "publicly perform" the work as embodied in the video games' circuit boards,[21] Congress passed the Computer Software Rental Amendments Act of 1990.[22] That legislation amended § 109 to allow for the public performance of video game circuit boards without the copyright holder's permission after a first sale.[23]

C. The First-Sale Doctrine's Contraction

Since *Bobbs-Merrill*, the first-sale doctrine has also been contracted. For example, the Record Rental Amendment Act of 1984[24] limited the first-sale doctrine's reach for sound recordings. The act amended § 109(b) to prohibit the "rental, lease, or lending" of sound recordings, even after a first sale.[25] This amendment targeted stores that were renting sound recordings as well as selling blank cassette tapes, all while promising customers that they would "[n]ever, ever buy another record."[26] Because copying a sound recording was relatively easy—even if possession was only temporary—Congress acted to protect the copyright holder's exclusive right of reproduction by expanding the exclusive right of distribution and restricting the first-sale doctrine.[27] Six years later, the Computer Software Rental Amendments Act of 1990 extended this concept to software.[28] The legislative history shows that Congress sought to curtail what was purported to be

limitations is the terms of § 109(a). *Id.* at 144.

20. *Kirtsaeng*, 133 S. Ct. at 1358.

21. Red Baron-Franklin Park, Inc. v. Taito Corp., 883 F.2d 275, 281 (4th Cir. 1989) (holding that the first-sale doctrine applies only to distribution, not performance).

22. Pub. L. No. 101-650, §§ 802–803, 104 Stat. 5134 (codified at 17 U.S.C. § 109(b), (e) (2012)).

23. *Id.* § 803, 104 Stat. at 5135.

24. Pub. L. No. 98-450, 98 Stat. 1727 (codified at 17 U.S.C. § 109).

25. *Id.* § 2, 98 Stat. at 1727.

26. H.R. REP. NO. 98-987, at 2 (1984), *reprinted in* 1984 U.S.C.C.A.N. 2898, 2899.

27. *Id.* at 1–2, 1984 U.S.C.C.A.N. at 2898–99.

28. *See* Pub. L. No. 101-650, § 803, 104 Stat. at 5135 (codified at 17 U.S.C. § 109(e)).

over $1 billion in losses attributed to software piracy.[29] Courts have read these provisions favorably, interpreting them beyond their stated purposes, and they sometimes find rental arrangements disguised as deferred-payment plans.[30]

Congress has also limited the first-sale doctrine's scope to harmonize with international treaties. To protect a work under the 1976 Copyright Act, an author had to both register his work and provide a copyright notice.[31] If a work was published in the United States before complying with these formalities, that publication destroyed any potential copyright protection. These formalities were unique to the United States, and they ran afoul of the Berne Convention's requirements for granting copyright protection.[32] As such, many works created abroad and published by unsophisticated authors fell into the American public domain.[33] The United States

29. S. REP. NO. 101-265, at 3 (1990).

30. *See* Cent. Point Software, Inc. v. Global Software & Accessories, Inc., 880 F. Supp. 957, 965 (E.D.N.Y. 1995) (holding that a business offering software for sale at a low price, with a higher deferred payment only due if customer failed to return the software in five days "operates as a 'practice in the nature of rental' under the Act, and, therefore, is prohibited"); *see also* Adobe Sys., Inc. v. Brenengen, 928 F. Supp. 616, 618 (E.D.N.C. 1996) (holding that software rental business that began before the effective date of the 1990 amendment was not "grandfathered in" and was enjoined from engaging in the rental of software obtained after 1990).

31. 2 NIMMER & NIMMER, *supra* note 14, § 7.01[A] ("[T]he failure to affix a copyright notice in proper form and in the proper place on published copies or phonorecords of a work could prove fatal to copyright in the work.").

32. *See* Berne Convention for the Protection of Literary and Artistic Works art. 5(2), Sept. 9, 1886, S. TREATY DOC. No 99-27, 828 U.N.T.S. 221 (last amended Sept. 28, 1979) [hereinafter Berne Convention] ("The enjoyment and the exercise of these rights shall not be subject to any formality."). The Berne Convention, originally signed by ten nations in 1886, is a multilateral agreement to protect copyright across national boundaries. 5 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 17.01[B][1] (Matthew Bender, rev. ed. 2013). The current text of the Berne Convention is the Paris Act, adopted in 1974. *Id.* § 17.01[B][1][a]. The original signatories of the Berne Convention were Germany, Belgium, Spain, France, the United Kingdom, Haiti, Italy, Switzerland, Tunisia, and Liberia. *Id.* § 17.01[B][1][a] n.10.

33. 5 NIMMER & NIMMER, *supra* note 32, § 17.01[C][2][b] (citing Hasbro Bradley, Inc. v. Sparkle Toys, Inc., 780 F.2d 189, 197 (2d Cir. 1985)) ("[T]o cite an extreme example, in order to enjoy United States copyright protection, a toy published by a Japanese company in Japan had to bear a copyright notice complying with Title 17, United States Code, notwithstanding that Japan requires no copyright notice to secure protection for its works and that, in any event, toys

did not accede to the Berne Convention until 1989,[34] and it was not until after the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)[35] that Congress acted to protect these foreign works.[36]

The Uruguay Round Agreements Act (URAA)[37] granted copyright protection to works that were protected in their countries of origin but not in the United States.[38] The URAA also created an exception to the first-sale doctrine by amending § 109 to prevent selling or transferring copies of works that were newly removed from the public domain.[39] In 2012, the Supreme Court upheld this

are not copyrightable works in Japan.").

34. *See* Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, § 2(3), 102 Stat. 2853, 2853 [hereinafter BCIA] ("The amendments made by this Act, together with the law as it exists on the date of the enactment of this Act, satisfy the obligations of the United States in adhering to the Berne Convention and no further rights or interests shall be recognized or created for that purpose.").

35. Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299.

36. The BCIA explicitly did not handle the question of foreign works that had fallen into the American public domain due to a failure to follow the necessary formalities. H.R. REP. NO. 100-609, at 51 (1988) ("The question of whether and, if so, how Congress might provide retroactive protection to works now in our public domain raises difficult questions, possibly with constitutional dimensions. These questions do not have to be addressed now and can be raised if and when presented in the context of specific facts.").

37. Pub. L. No. 103-465, § 514, 108 Stat. 4809, 4976–81 (1994) (codified as amended at 17 U.S.C. § 104A (2012)) (implementing TRIPs).

38. The bill's intent was to "restore copyright protection to certain foreign works from countries that are members of the Berne Convention or WTO that have fallen into the public domain for reasons other than the normal expiration of their term of protection." S. REP. NO. 103-412, at 225 (1994); *see also* 17 U.S.C. § 104A(a)(1)(B) ("Any work in which copyright is restored under this section shall subsist for the remainder of the term of copyright that the work would have otherwise been granted in the United States if the work never entered the public domain in the United States.").

39. *See* 17 U.S.C. § 109(a) ("Notwithstanding the preceding sentence, copies or phonorecords of works subject to restored copyright under section 104A that are manufactured before the date of restoration of copyright or, with respect to reliance parties, before publication or service of notice under section 104A(e), may be sold or otherwise disposed of without the authorization of the owner of the restored copyright for purposes of direct or indirect commercial advantage only during the 12-month period . . . .").

claw back from the public domain—and limitation of the first-sale doctrine.[40]

The first-sale doctrine has also seen contraction through the courts. Timothy Vernor was an eBay seller who resold copies of Autodesk's software, AutoCAD Release 14.[41] The publisher provided this expensive software package to the original users via a limited license, which reserved title to Autodesk and restricted the purchaser's rights to transfer or sell the software.[42] The Ninth Circuit held that although the original purchasers paid for and received physical copies of the software, they were not the "owners" of the copies under § 109, so the first-sale doctrine did not permit Mr. Vernor to resell them again.[43] The *Vernor* court looked at three factors: (1) "whether the copyright owner specifies that a user is granted a license," (2) "whether the copyright owner significantly restricts the user's ability to transfer the software," and (3) "whether the copyright owner imposes notable use restrictions."[44] Since software and other digital products are increasingly sold with restrictive license terms, the secondary market is limited.

Other courts have taken contrasting approaches to the question of "ownership." The Second Circuit, in determining whether someone possessing a copy of computer software was an owner under § 117(a),[45] held that multiple factors determine ownership; formal title is just one.[46] In contrast, the Court of Justice

40. *See* Golan v. Holder, 132 S. Ct. 873, 884 (2012) (holding that Congress indeed had the power to pull works that had been in the U.S. public domain back under copyright protection, when this protection was required in order to satisfy American obligations under the Berne Convention).

41. Vernor v. Autodesk, Inc., 621 F.3d 1102, 1103 (9th Cir. 2010).

42. *Id.*

43. *Id.* at 1103–04.

44. *Id.* at 1110–11.

45. 17 U.S.C. § 117(a) (2012) (stating that "it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program," provided that the making of the copy is an essential step in using the software or the copy is made for archival purposes).

46. Krause v. Titleserv, Inc., 402 F.3d 119, 124 (2d Cir. 2005) ("We conclude for these reasons that formal title in a program copy is not an absolute prerequisite to qualifying for § 117(a)'s affirmative defense. Instead, courts should inquire into whether the party exercises sufficient incidents of ownership over a copy of the program to be sensibly considered the owner of the copy for purposes

of the European Union ("EU Court of Justice") looked beyond the four corners of the license between the copyright holder and the original purchaser, inferring that the transaction was an actual sale.[47] In that case, the EU Court of Justice held that the sale constituted an exhaustion of the copyright holder's distribution right.[48] To find the sale, the EU Court of Justice looked at the terms of the original transaction: a one-time fee to use the software for an unlimited period.[49] The EU Court of Justice contrasted those terms of sale with terms of a mere rental, holding that the copyright owner's distribution right had been exhausted.[50]

III. PURE DIGITAL CONTENT MAY BE DIFFERENT

The transfer from analog content to digital content is more than just a shift in delivery mechanisms. In the analog world of *Bobbs-Merrill*, after a copyrighted work's initial sale, publishers' concerns were limited. Unauthorized copying could occur, but the Copyright Act expressly prohibited it; further, those publishers could track and stop large-scale operations of mass copying.[51] Even after the first-sale doctrine's establishment, publishers had little to fear from a secondary market that was tempered by physical goods' scarcity and degradation. Used book purchases are only possible

of § 117(a). The presence or absence of formal title may of course be a factor in this inquiry, but the absence of formal title may be outweighed by evidence that the possessor of the copy enjoys sufficiently broad rights over it to be sensibly considered its owner."); *see also* DSC Commc'ns Corp. v. Pulse Commc'ns, Inc., 170 F.3d 1354, 1360–61 (Fed. Cir. 1999) ("[A] party who purchases copies of software from the copyright owner can hold a license under a copyright while still being an 'owner' of a copy of the copyrighted software for purposes of section 117.").

47. Case C-128/11, UsedSoft GmbH v. Oracle Int'l Corp., 2012 EUR-Lex 62011CJ0128 (July 3, 2012), http://curia.europa.eu/juris/celex.jsf?celex=62011CJ0128&lang1=en&type=NOT&ancre=.

48. *Id.* ¶ 72.

49. *Id.* ¶ 59.

50. *Id.* ¶ 88 (holding the copyright holder may retain distribution rights where the software could only be used for a limited period of time).

51. U.S. COPYRIGHT OFFICE, DMCA SECTION 104 REPORT 20 (2001) [hereinafter DMCA REPORT], *available at* http://www.copyright.gov/reports/studies/dmca/sec-104-report-vol-1.pdf (mentioning that the *Bobbs-Merrill* court "noted, as a matter of statutory construction, that the reproduction right was the 'main purpose' of the copyright law, and the right to vend existed to give effect to the reproduction right").

because someone originally purchased the book, so the number of copies are limited by the extent of the publisher's primary sales. Further, all physical books eventually degrade through use or time. In addition, the burden of physically transporting books can create a barrier to secondary sales. Therefore, consumers often have an incentive to obtain a new copy of a physical good, even if they must pay a premium.

In contrast, digital content publishers release their goods into a stream of commerce that is far more risky: making copies (legitimate or otherwise) and instantaneously transporting them anywhere in the world is trivially easy.[52] Such infinite reproducibility creates a number of problems for publishers. Foremost among these is piracy: the unauthorized copying and distribution of purely digital goods—or physical goods (e.g., CDs, DVDs) that can be converted into a digital format. Piracy is an existential threat to the media and software industries, and copyright holders have taken a number of approaches to combat it: from public awareness campaigns,[53] to legal action,[54] to legislative changes,[55] to technical solutions such as digital rights management (DRM).[56]

52. *Id.* at 82.

53. *See* Nat'l Intellectual Prop. Rights Coordination Ctr., U.S. Dep't of Homeland Sec., *Antipiracy PSA (Update)*, YOUTUBE (June 9, 2011), http://www.youtube.com/watch?v=6YScoXn31Mg; *Report Software Piracy Now!*, BSA: SOFTWARE ALLIANCE, https://reporting.bsa.org/r/report/add.aspx?src=us&ln=en-us (last visited Oct. 7, 2013). For a news release on the launch of the U.S. Department of Homeland Security YouTube video campaign, see News Release, U.S. Immigration & Customs Enforcement, New Public Service Announcement Launched to Raise Intellectual Property Theft Awareness, (Apr. 26, 2011), http://www.ice.gov/news/releases/1104/110426washingtondc.htm.

54. *See, e.g.*, MGM Studios, Inc. v. Grokster, Ltd., 545 U.S. 913, 936–37 (2005) (holding that "one who distributes a device with the object of promoting its use to infringe copyright . . . is liable for the resulting acts of infringement by third parties"); A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1021–22 (9th Cir. 2001) (holding that a file-sharing service could be held liable for indirect infringement of plaintiff's copyrights when it knew of specific infringing material being transferred and did not exercise its power to block it).

55. *See, e.g.*, Computer Software Rental Amendments Act of 1990, Pub. L. No. 101-650, § 802, 104 Stat. 5134, 5134–35 (codified at 17 U.S.C. § 109(b) (2012)); Record Rental Amendment of 1984, Pub. L. No. 98-450, § 2, 98 Stat. 1727, 1727 (codified at 17 U.S.C. § 109).

56. *See infra* Part IV.

Even if piracy were not an issue, expanding the first-sale doctrine to cover digital goods is problematic. Part of the problem lies in the policy reasons behind the first-sale doctrine's development. When considering whether to apply the first-sale doctrine to digital goods, the U.S. Copyright Office explained that the doctrine began as "an outgrowth of the distinction between ownership of intangible intellectual property (the copyright) and ownership of tangible personal property (the copy)."[57] The first-sale doctrine arises out of a desire to avoid restraining the owner of the tangible property from alienating it as he or she chooses.[58] As such, the doctrine limits the copyright holder's exclusive right of *distribution*. But when digital goods are transferred or used, it results in a new copy—which may implicate the owner's exclusive right of *reproduction*.[59] The first-sale doctrine, in contrast, is silent as to reproduction. When considering the viability of a potential digital first-sale doctrine, that distinction is significant.

In addition to the legal issue, permitting sales of digital content would also likely affect the marketplace. For example, a secondary market for digital goods would likely depress prices for new sales. Unlike relatively fragile physical works—such as a scratched CD or a dog-eared and highlighted textbook—used digital goods and their new counterparts are indistinguishable. As such, copyright owners worried about digital first sale might ask: "Why would anyone buy a new copy?"[60] For example, the first purchaser might buy an e-book for $10. Then that purchaser might sell it to another for $9. After several iterations and some time, the price may well shrink to $0.01. To the new purchaser, that one cent copy and the ten dollar copy would be identical. So what consumer would want to be the first to pay a $10 premium when a patient consumer could pay only $0.01 for an identical copy?[61]

57. DMCA REPORT, *supra* note 51, at 86.

58. *Id.*

59. This might be true even if, as in *ReDigi*, the technology deletes the original copy during the new copy's creation. *See infra* notes 93–97 and accompanying text.

60. *See* David Pogue, *Reselling E-Books and the One-Penny Problem*, N.Y. TIMES (Mar. 14, 2013, 3:11 PM), http://pogue.blogs.nytimes.com/2013/03/14/reselling-e-books-and-the-one-penny-problem.

61. *See id.*

This concern might elicit two responses. First, a digital secondary market may still contain scarcity. Although some consumers will wait, seeking a discount, some consumers will always be willing to pay full price in order to obtain media around its release date. Presuming that copyrighted content cannot be freely copied,[62] sales to primary purchasers will define the secondary market's scope. If few (or no) primary purchasers buy the work, then that scarcity would limit the secondary market. This scenario could result in content owners charging primary purchasers with a high premium—essentially a tax for being first.

This arrangement currently exists, to some degree, in the high-end "AAA" video-game market. Producing AAA games is expensive. Some titles' production costs are in the tens of millions of dollars.[63] Sold new, each game's retail cost is more than sixty dollars. But within the first few weeks of a new title's release, video game resellers frequently permit those primary purchasers to return those new titles for significant in-store credits.[64] Under this arrangement, the "early bird" consumers know that although they may spend more initially, they will be able to recoup some of that expenditure upon trade-in. As such, the video-game industry's healthy secondary market presumably supports—at least in part—the launch date's premium prices.

Second, copyright owners have almost always had concerns about secondary markets, but their worst worries have largely failed to materialize. From the turn of the twentieth century and beyond, book publishers have been concerned about the used book market's effect on new book profits.[65] And near the end of the

62. This presumption is, of course, largely academic.

63. Colin Campbell, *Are AAA Hardcore Games Doomed? An In-depth Look at the Future of Big-Budget, Blockbuster Video Games*, IGN (July 30, 2012), http://www.ign.com/articles/2012/07/30/are-aaa-hardcore-games-doomed (noting that the budget for Rockstar Games' 2012 release Max Payne 3 was estimated to be over $100 million).

64. For example, at the time of this writing, the first-person shooter game *The Last of Us* was being offered as new for $59.99, *The Last of Us for Playstation 3*, GAMESTOP, http://www.gamestop.com/ps3/games/the-last-of-us/98630 (last visited Nov. 25, 2013), while the same retailer was offering $32.50 for that title as a trade-in. For a list of the current trade value for select games, see *Featured Trade Values*, GAMESTOP, http://www.gamestop.com/trade-values (last visited Dec. 5, 2013).

65. The "net price" printed on the copies of *The Castaway* at issue in *Bobbs-*

twentieth century, one of the biggest-selling musicians in history, Garth Brooks, used his clout in an attempt to curb used CD sales.[66] State statutes have also flirted with the idea of curbing sales of used CDs and DVDs.[67] But even with robust secondary markets, both the publishing and music industries survived and thrived—reaping billions in revenue.[68] Much of this success can be attributed to an increase in the sales of digital goods. In 2011 the music industry reported revenues of $5.2 billion in worldwide digital sales alone.[69] Similarly, the publishing industry has reported e-book revenues of over $3 billion.[70] Concerns about a potential digital first-sale doctrine might be overblown—unless, of course, this time really *is* different.

IV. THE RISE AND WEAKNESSES OF DIGITAL RIGHTS MANAGEMENT

If the digital first-sale doctrine were to become a reality, copyright holders may well seek the protection of technological measures. For example, copyright holders facing the digital

Merrill was part of the American Publishers' Association's plan to "correct evils connected with the cutting of prices on copyright books." Bobbs-Merrill Co. v. Straus, 139 F. 155, 162 (S.D.N.Y. 1905).

66. Michael A. Barber, *He's True to the Issue and Fans Are True to Him*, SEATTLE POST-INTELLIGENCER, Aug. 4, 1993, at C1, *available at* 1993 WLNR 1529281.

67. For example, Florida's Secondhand Articles and Dealers Statute requires dealers of used goods to record detailed transaction information, including thumbprints, from individuals bringing in said goods for sale. FLA. STAT. ANN. § 538.04(1)(c) (West, Westlaw through 2013 1st Reg. Sess.). In 2006, it was amended to include a broad range of copyrightable goods including used CDs and DVDs in the definition of "secondhand goods." Act of June 13, 2006, ch. 2006-201, § 1, 2006 Fla. Laws 2190, 2191–92 (codified as amended at FLA. STAT. ANN. § 538.03(f)).

68. Despite drops through much of the 21st century, the music industry reported revenue of $16.5 billion in 2012. Eric Pfanner, *Music Industry Sales Rise, and Digital Revenue Gets the Credit*, N.Y. TIMES, Feb. 27, 2013, at B3, *available at* 2013 WLNR 4882671. Book sales brought in $27.12 billion in 2012. Jim Milliot, *Trade Sales Rose 6.9% in 2012*, PUBLISHERS WKLY. (May 15, 2013), http://www.publishersweekly.com/pw/by-topic/industry-news/financial-reporting/article/57242-trade-sales-rose-6-9-in-2012.html.

69. INT'L FED'N OF THE PHONOGRAPHIC INDUS., DIGITAL MUSIC REPORT 2012, at 6–7 (2012), *available at* http://www.ifpi.org/content/library/dmr2012.pdf.

70. Laura Hazard Owen, *PwC: The U.S. Consumer Ebook Market Will Be Bigger Than the Print Book Market by 2017,* PAIDCONTENT (June 4, 2013, 7:01 PM), http://paidcontent.org/2013/06/04/pwc-the-u-s-consumer-ebook-market-will-be-bigger-than-the-print-book-market-by-2017/.

content challenges have previously employed technological solutions in attempts to replicate some of physical media's limitations. The technological category that controls access and use of digital goods is known generally as digital rights management (DRM).[71] Content owners have employed DRM for many purposes, including preventing unauthorized copying,[72] restricting access based on the playback-device manufacturer,[73] or restricting by geographic region.[74] Like all technologies, DRM schemes are vulnerable to attack by persons and groups who are motivated to circumvent them. This has led to a cat-and-mouse scenario in which copyright holders constantly strive to develop newer DRM technologies that can temporarily delay their nearly inevitable cracking.[75]

Because of DRM's technical vulnerabilities, copyright owners must couple their DRM with legal enforcement that will legally prevent consumers from using widely available DRM-circumvention tools. In the United States, copyright holders obtained this legal

71. Dan L. Burk, *Legal and Technical Standards in Digital Rights Management Technology*, 74 FORDHAM L. REV. 537, 538–39 (2005) (noting that DRM "simulate[s] the natural appropriability resistance of physical goods," when DRM controls "prohibit or constrain the copying and distribution that digital formats invite . . . essentially transforming public goods back into private goods").

72. *See, e.g.*, United States v. Elcom Ltd., 203 F. Supp. 2d 1111, 1118 (N.D. Cal. 2002) ("For example, [using the Adobe Content Server software] the ebook publisher may choose whether the consumer will be able to copy the ebook, whether the ebook can be printed to paper (in whole, in part, or not at all), whether the 'lending function' is enabled to allow the user to lend the ebook to another computer on the same network of computers, and whether to permit the ebook to be read audibly by a speech synthesizer program.").

73. *See, e.g.*, Universal City Studios, Inc. v. Reimerdes, 111 F. Supp. 2d 294, 303 (S.D.N.Y. 2000) ("CSS-protected motion pictures on DVDs may be viewed only on players and computer drives equipped with licensed technology that permits the devices to decrypt and play—but not to copy—the films."), *aff'd sub nom.* Universal City Studios, Inc. v. Corley, 273 F.3d 429 (2d Cir. 2001).

74. Burk, *supra* note 71, at 562 ("Machines manufactured in different geographic areas were designed to allow access to the content of a given DVD only if the disc was coded to be played in that corresponding geographic area, thus allowing significant control over the timing and distribution of movies released in different parts of the globe.").

75. *Reimerdes*, 111 F. Supp. 2d at 343 ("Defendants are in the business of disseminating information to assist hackers in 'cracking' various types of technological security systems. . . . In consequence, the Court finds that there is a substantial likelihood of future violations absent injunctive relief.").

enforcement mechanism under the Digital Millennium Copyright Act (DMCA).[76] The DMCA implements[77] the World Intellectual Property Organization Copyright Treaty ("WIPO Treaty"), article 11 of which states:

> Contracting Parties shall provide adequate legal protection and effective legal remedies against the circumvention of effective technological measures that are used by authors in connection with the exercise of their rights under this Treaty or the Berne Convention and that restrict acts, in respect of their works, which are not authorized by the authors concerned or permitted by law.[78]

The DMCA's anti-circumvention provision, codified in the Copyright Act,[79] distinguishes technological controls preventing unauthorized *access* and those preventing unauthorized *uses* (i.e., those implicating copyright holders' exclusive rights under § 106). To accommodate fair use and other exemptions to copyright infringement, the DMCA seeks to prevent only circumvention of those measures designed to prevent access.[80] Specifically, § 1201(a) states that "[n]o person shall circumvent a technological measure that effectively controls access to a work protected under this title."[81] But § 1201(b) still prohibits creating or distributing devices that are primarily designed to allow circumventing copy-control schemes that protect rights under § 106.[82] In practice, however, access-control and copy-control measures are effectively identical.[83]

76. Pub. L. No. 105-304, 112 Stat. 2860 (1998) (codified as amended in scattered sections of 17 U.S.C.).

77. S. REP. NO. 105-190, at 1–2 (1998).

78. World Intellectual Property Organization Copyright Treaty art. 11, Dec. 20, 1996, S. TREATY DOC. No. 105-17, 2186 U.N.T.S. 121.

79. 17 U.S.C. § 1201 (2012).

80. DMCA REPORT, *supra* note 51, at 11.

81. 17 U.S.C. § 1201(a)(1)(A).

82. *Id.* § 1201(b)(1) ("No person shall manufacture . . . or otherwise traffic in any technology . . . that is primarily designed or produced for the purpose of circumventing protection afforded by a technological measure that effectively protects a right of a copyright owner under this title . . . .").

83. Burk, *supra* note 71, at 559 (citing 321 Studios v. Metro Goldwyn Mayer Studios, Inc., 307 F. Supp. 2d 1085, 1095 (N.D. Cal. 2004) (classifying CSS as "a technological measure that both effectively controls access to DVDs and effectively protects the right of a copyright holder")).

This—coupled with the few exceptions permitting research,[84] archival,[85] and fair-use[86] circumventions—has prompted some commentators to argue that the DMCA goes far beyond anything required by the WIPO Treaty's anti-circumvention provisions.[87]

Shielded by the DMCA, copyright holders have implemented DRM schemes that seek to curtail piracy and control how consumers use digital goods. In response, consumers have complained that these schemes bring problems of overreach,[88] intrusiveness,[89] and obsolescence.[90]

Some consumers express their concern that DRM inhibits fair use.[91] The DMCA states that it is not intended to affect "defenses to

84. 17 U.S.C. § 108.

85. *Id.*

86. *Id.* § 107.

87. *See, e.g.*, Burke, *supra* note 71, at 558 ("In the United States, such protection would already have been provided under the doctrine of contributory infringement, which attributes copyright liability to providers of technical devices that lack a substantial noninfringing use."); Anupam Chander, *Exporting DMCA Lockouts*, 54 CLEV. ST. L. REV. 205, 210–11 (2006) (touting reasonable exemptions in both European and Australian implementations of the WIPO Treaty).

88. *E.g.*, Jeremy Gallman, *Microsoft Kills Overreaching XBOX One DRM Policies*, TECHTAINIAN (June 20, 2013, 12:52 PM), http://techtainian.com/news/2013/6/20/microsoft-kills-overreaching-xbox-one-drm-policies; Blake Snow, *EA Admits to Overreaching DRM in Spore, Gamers Still Upset*, MACWORLD (Sept. 25, 2008, 4:09 AM), http://www.macworld.com/article/1135733/spore.html.

89. Letter from Jennifer Stoddart, Privacy Comm'r of Can., to Jim Prentice, Minister of Indus., and Josée Verner, Minister of Canadian Heritage, Letter with Respect to Possible Amendments to the Copyright Act (Jan. 18, 2008), *available at* http://www.priv.gc.ca/parl/2008/let_080118_e.asp ("DRM technologies can also collect detailed personal information from users, who often do no more than access the content on a computer. . . . That this occurs when individuals are engaged in a private activity in their homes or other places where they have a high expectation of privacy exacerbates the intrusiveness of the collection.").

90. *See* 37 CFR § 201.40 (2012) (permitting circumvention of DRM that is obsolete); *see 30 Days of DRM—Day 17: Broken or Obsolete Technology (Circumvention Rights)*, MICHAEL GEIST (Sept. 4, 2006), http://www.michaelgeist.ca/content/view/1408/195/.

91. *E.g.*, Universal City Studios, Inc. v. Reimerdes, 111 F. Supp. 2d 294, 304 (S.D.N.Y. 2000) ("[Defendants] argue that those who would make fair use of technologically protected [DRM] copyrighted works need means, such as DeCSS, of circumventing access control measures not for piracy, but to make lawful use of those works."), *aff'd sub nom.* Universal City Studios, Inc. v. Corley, 273 F.3d 429 (2d Cir. 2001).

copyright infringement, including fair use"[92]—though at least one commentator has noted that "there is no such thing as a section 107 fair use defense to a charge of a section 1201 violation."[93] Courts have rejected the notion that fair use is a potential "commercially significant purpose" that would qualify as a circumvention measure (an exemption to § 1201).[94] Essentially, courts have taken the position that fair use is permitted, but creating and disseminating technology that facilitates fair use (by circumventing DRM) is not. In practice, some consumers argue that the interplay between DRM and the DMCA allows copyright holders to implement technological measures that curtail consumers' fair use beyond what copyright law would otherwise permit.[95]

Consumers argue that many DRM schemes have been highly intrusive—especially those intended to control how users interact with digital media on their personal computers. For example, between 2005 and 2007, Sony BMG distributed millions of music CDs containing Extended Copy Protection (XCP).[96] Although XCP's ostensible purpose was preventing unauthorized uses (e.g., copying), XCP also curtailed valid uses (e.g., listening).[97] For

92. 17 U.S.C. § 1201(c) (2012).

93. David Nimmer, *A Riff on Fair Use in the Digital Millennium Copyright Act*, 148 U. PA. L. REV. 673, 723 (2000).

94. *See, e.g.*, *Corley*, 273 F.3d at 459 ("Fair use has never been held to be a guarantee of access to copyrighted material in order to copy it by the fair user's preferred technique or in the format of the original."); United States v. Elcom Ltd., 203 F. Supp. 2d 1111, 1135 (N.D. Cal. 2002) (acknowledging that the DMCA "impacts a lawful purchaser's 'right' to make a back-up copy, or to space-shift that copy to another computer," but finding that this limited impairment of a fair use right is not so overbroad as to render the DMCA unconstitutional).

95. *E.g.*, Pamela Samuelson, *DRM {and, or, vs.} the Law*, 46 COMM. ACM, Apr. 2003, at 41, 42, *available at* http://people.ischool.berkeley.edu/~pam/papers/acm_v46_p41.pdf ("While DRM systems can certainly prevent illegal copying and public distribution of copyrighted works, they can do far more . . . , thus exceeding copyright's bounds.").

96. *Cf. Sony Faces Slew of Lawsuits Over Digital-Rights Software:* Guevara v. Sony BMG Music Entm't, 23 ANDREWS COMPUTER & INTERNET LITIG. REP., Dec. 1, 2005, at 2 [hereinafter *Sony Faces Slew of Lawsuits*], *available at* 2005 WL 3197656 (summarizing the seven DRM lawsuits filed against Sony in 2005).

97. Complaint at 55, 94, Hull v. Sony BMG Music Entm't Corp., No. BC343385 (Cal. Super. Ct. Nov. 21, 2005), 2005 WL 3142873 (commencing one of several Electronic Frontier Foundation-sponsored cases against Sony BMG regarding the XCP "rootkit").

example, users attempting to listen on certain computer configurations were unable to do so. In addition, XCP was sometimes installed without the user's knowledge or permission; further, it contained security flaws that exposed consumers' computers to malware or hacking.[98] XCP's insecurity led the technology community to disparagingly refer to it as "the Sony rootkit."[99] Notably, the only consumers adversely affected by XCP were those who purchased the CD legally. Illegal copies likely stripped the copy-protection software.

Another perceived weakness in DRM schemes is the risk of the digital media container's premature obsolescence. Many DRM schemes require the computer or device that plays or displays the digital media to "call home"—ensuring that the consumer's proposed use of the media is authorized. That arrangement works reasonably well, so long as (1) the consumer can access the Internet and (2) the DRM servers remain available. In DRM's short history, however, a number of companies chose to shut down the DRM servers when maintaining them was no longer commercially advantageous.[100] In such cases, lawful purchasers are frequently left unable to access or use their digital goods.[101]

All of these perceived weaknesses may make DRM an unpalatable option for certain content. For example, the music consumers who were used to freely copying music to multiple devices—permitted by DRM-free MP3s—became frustrated with the DRM-shackled services such as iTunes.[102] As a result, and bolstered

98. *Sony Faces Slew of Lawsuits*, *supra* note 96, at 2.

99. Complaint, *supra* note 97, at 54, 61, 63, 65, 70; *cf.* Randal C. Picker, *Mistrust-Based Digital Rights Management*, 5 J. TELECOMM. & HIGH TECH. L. 47, 58 (2006) (noting that once executed, the XCP "can block normal copying of the CD and can impose an end-user license agreement that limits access by the computer to the CD").

100. *E.g.*, *Digital Rights Management—Obsolescence*, MGMT-SURVIVAL.COM (Nov. 26, 2013), http://management-survival.com/digital-rights-management-obsolescence/ (providing several examples of companies ceasing DRM support).

101. For example, in 2006 Amazon ceased support for PDF and LIT format e-Books with DRM, and users who had previously purchased books in those formats could no longer access the books on new devices. *Digital Rights Management*, WIKIPEDIA, http://en.wikipedia.org/wiki/Digital_rights_management#Obsolescence (last visited Oct. 11, 2013).

102. Matthew Ingram, *Why Apple's iTunes Concessions Are a Double-Edged Sword*, GIGAOM (Jan. 6, 2009, 7:05 PM), http://gigaom.com/2009/01/06/why-apples-itunes-concessions-are-a-double-edged-sword/ (noting Apple's shift to DRM-free

by competition from MP3 stores like Amazon and eMusic, Apple and the music industry removed DRM from its music downloads.[103] Today, music sales are nearly universally DRM free. In contrast, however, e-books and movies nearly always contain DRM. To date, consumers have not shown the same distaste for DRM in those media, and brisk sales of e-books, in particular, likely encourages publishers to stay the DRM course. Some have argued that DRM keeps honest people honest—preventing devolution into piracy.[104] But if a digital first-sale doctrine develops, that may well require breaking DRM.

V. HOW COULD DIGITAL FIRST SALE HAPPEN?

A. Courts

As with many new technological developments, the initial test ground for the digital first-sale doctrine has been the courts. But as much as consumers may want it, U.S. courts are unlikely to extend the first-sale doctrine to digital goods. A recent test case for digital first sale—involving questions of ownership, copying, and efficacy of technological measures—is *Capitol Records, L.L.C. v. ReDigi Inc.*[105] Recognizing the untapped economic potential for a secondary market in digital goods, ReDigi developed technology that allowed users to sell their copies of digital music, while striving to ensure that only one copy existed at a time.[106] Capitol Records disagreed with ReDigi's factual assertions about the technology, arguing that regardless of whether a "transfer" incorporated a bit-by-bit transfer of the original file, the process created a new copy—an act that

music); Janko Roettgers, *Apple's iCloud Punishes Honest iTunes Users with DRM*, GIGAOM (June 8, 2011, 11:24 AM), http://gigaom.com/2011/06/08/apple-icloud-drm/.

103. *See* Ingram, *supra* note 102 ("Amazon (among others) has had DRM-free songs from the four major record labels available in its online store for almost a year now.").

104. *Digital Film: Industry Answers*, B.B.C. (Feb. 9, 2006), http://news.bbc.co.uk/2/hi/entertainment/4691232.stm ("Without the use of DRMs, honest consumers would have no guidelines and might eventually come to totally disregard copyright and therefore become a pirate, resulting in great harm to content creators." (quoting Dan Glickman, Motion Picture Association of America)).

105. 934 F. Supp. 2d 640 (S.D.N.Y. 2013).

106. *Id.* at 645–46.

violated Capitol's exclusive right of reproduction.[107] The Southern District of New York agreed with Capitol's reasoning,[108] distinguishing the copyrighted work (the sound recording in the form of a digital music file) from the "material object" to which it was affixed (the phonorecord, or here, the hard disk's written-to segment).[109] Addressing concerns about the limitation to the first-sale defense, the court contended that § 109(a) still applied to digital goods because the owners—at the time of purchase—could still sell or trade the actual device to which those digital copies were downloaded.[110] This suggestion that consumers simply enable a secondary market by the selling and trading of iPods and hard drives has come under criticism for its impracticality.[111] Given the Ninth Circuit's favorable view of license terms that restrict resale[112] and the ongoing distinction between the reproduction and distribution rights, ReDigi faces steep odds on appeal.

In contrast, the EU Court of Justice has held that regardless of parties' contractual terms, a digital "sale" falls under the first-sale doctrine—so long as the license looks sufficiently like a sale.[113] For

107. *Id.*

108. *Id.* at 648 ("[T]he plain text of the Copyright Act makes clear that reproduction occurs when a copyrighted work is fixed in a new *material object*."); *see also id.* at 650 ("[I]t is the creation of a *new* material object and not an *additional* material object that defines the reproduction right.").

109. *Id.* at 649 (citing London-Sire Records, Inc. v. Doe 1, 542 F. Supp. 2d 153, 166 & n.16, 171 (D. Mass. 2008)).

110. *Id.* at 656 ("Section 109(a) still protects a lawful owner's sale of her 'particular' phonorecord, be it a computer hard disk, iPod, or other memory device onto which the file was originally downloaded.").

111. *See, e.g.*, Mike Masnick, *ReDigi Loses: You Can't Resell Your MP3s (Unless You Sell Your Whole Hard Drive)*, TECHDIRT (Apr. 1, 2013, 12:01 PM), http://www.techdirt.com/articles/20130401/11341622538/redigi-loses-selling-used-mp3s-online-infringes-first-sale-doesnt-apply-to-digital-transfers.shtml (calling the ruling "obviously nutty").

112. *See* Vernor v. Autodesk, Inc., 621 F.3d 1102 (9th Cir. 2010); *see also* F.B.T. Prods., L.L.C. v. Aftermath Records, 621 F.3d 958, 965 (9th Cir. 2010) (describing the factors to be examined in determining if a transaction is a license: "[I]t is well settled that where a copyright owner transfers a copy of copyrighted material, retains title, limits the uses to which the material may be put, and is compensated periodically based on the transferee's exploitation of the material, the transaction is a license.").

113. *See* Case C-128/11, UsedSoft GmbH v. Oracle Int'l Corp., 2012 EUR-Lex CELEX 62011CJ0128 (July 3, 2012), http://curia.europa.eu/juris/celex.jsf?celex=62011CJ0128&lang1=en&type=NOT&ancre=.

example, the EU Court of Justice held that if a license lacks any limitations on time or ownership, then the initial owner may alienate ownership (through subsequent sales, gifts, etc.).[114] This EU development adds an incentive for copyright holders and publishers to restrict their license terms, which will likely drive down prices as consumers may balk at the limited nature of the "sale." That work-around may also serve as an additional reason that U.S. courts are unlikely to adopt a digital first-sale doctrine—without congressional policy-weighing deliberations.

B. Legislation

An obvious way to create a right to digital first sale would be to amend § 109. In 1997, Representatives Dick Boucher (D-VA) and Tom Campbell (R-CA) introduced a bill that sought to do just that: the Digital Era Copyright Enhancement Act[115] ("Boucher-Campbell").

> The authorization for use set forth in subsection (a) applies where the owner of a particular copy or phonorecord in a digital format lawfully made under this title, or any person authorized by such owner, performs, displays or distributes the work by means of transmission to a single recipient, if that person erases or destroys his or her copy or phonorecord at substantially the same time. The reproduction of the work, to the extent necessary for such performance, display, distribution, is not an infringement.[116]

After its introduction, Boucher-Campbell did not pass; in many ways, it was superseded by the DMCA.[117] One concern was the bill's extension of the first-sale doctrine to allow for reproduction, as well as distribution—since digital goods cannot be transferred without creating a new copy.[118] But more than fifteen years after Boucher-Campbell, when so much of our media and software markets involve digital goods, Congress might consider modifying the distinction between reproduction and distribution, given that all of

114. *Id.*
115. H.R. 3048, 105th Cong. § 4 (1997).
116. *Id.*
117. Digital Millennium Copyright Act, Pub. L. No. 105-304, 112 Stat. 2860 (1998) (codified as amended in scattered sections of 17 U.S.C.).
118. DMCA REPORT, *supra* note 51, at 47.

digital goods' distribution *also* involves reproduction. Such an amendment would also guide courts that need to determine when a new digital copy is an infringing copy.[119] In the digital age, the concept of a purchaser's "master" copy is largely anachronistic. Just because a consumer originally downloads an iTunes song to a computer, that consumer should not be required to keep that particular computer forever—merely to retain the consumer's rights to possess and listen to that song.

Another way for Congress to establish a digital first-sale doctrine would be to regulate license agreements concerning copyrights. The law could create an implied right to resell or transfer the ownership of individual digital files, user accounts, or both. Such an implied right would likely mitigate the problem of assets being lost, upon the user's death.

C. Marketplace

Although legislation or judicial decisions may be the most sweeping means to establish a digital first-sale doctrine, the best hope for a secondary market in digital goods may well be the marketplace. When Apple launched iTunes, its deals with record companies required that songs include DRM. Because iTunes's introduction slowed (and potentially reversed) the record industry's apparent free fall, many have viewed iTunes as the music industry's savior. But after a few years, music companies became less enamored with Apple's dominant position and its resultant effect on pricing, so the record industry diversified—permitting music to be sold through other services, such as Amazon, Google, eMusic, and others.[120] To make those distribution outlets attractive

119. *See* Capitol Records, L.L.C. v. ReDigi Inc., 934 F. Supp. 2d 640, 649–50 (S.D.N.Y. 2013) ("Because the reproduction right is necessarily implicated when a copyrighted work is embodied in a new material object, and because digital music files must be embodied in a new material object following their transfer over the Internet, the Court determines that the embodiment of a digital music file on a new hard disk is a reproduction within the meaning of the Copyright Act."). But if the *ReDigi* rule became widespread, users could never transfer music to an iPod or iPhone (since that requires transfer to a "new hard disk"). And when a user's computer hard drive dies, the user's right to listen to the downloaded music would die with it.

120. *E.g.*, Greg Sandoval, *Amazon Exec Slams Some in Music Sector*, CNET (Apr. 11, 2010, 6:28 PM), http://news.cnet.com/8301-31001_3-20002223-261.html ("Whether or not Amazon's price cutting was done with the labels' blessing, what

alternatives to iTunes, the music companies permitted the other services to sell music without DRM—largely in unlocked MP3 files.[121] In 2009, with the digital-music distribution marketplace more diversified, Apple and the record companies renegotiated their licenses to offer Apple's entire catalog DRM free.[122]

Now, the digital marketplace's 800-pound gorillas may be poised to do a similar metamorphosis for digital first sale. Apple has filed a patent application concerning secondary sales of digital goods.[123] And the U.S. Patent and Trademark Office has already granted such a patent to Amazon.[124] Both companies have prosecuted these patents despite the current lack of any legal ability to resell digital goods. Of course, just because a patent is filed or granted does not make the underlying technology legal. But the filings do indicate that both companies realize that, as digital content's largest distributors, they have great power to influence (or create) a secondary market.

Amazon is arguably the world's largest content distributor—analog and digital alike—so its business choices in this sector carry great weight. Amazon already permits its users to lend certain e-books between friends,[125] but the system permits such lending only if a publisher grants its permission. Under Amazon's patent, granted in January 2013, the company has foreshadowed its apparent plans to expand that service. The patent claims a system

is certain is that the record industry wanted another strong player in digital music to help counter Apple's enormous power.").

121. *Id.* ("[E]ver since Amazon launched its MP3 music store in September 2007, the labels have acted as if they appeared to favor the service. In January 2008, Amazon became the first music store to sell tunes from the major labels free of digital rights management software.").

122. Dana P. Jozefczyk, Note, *The Poison Fruit: Has Apple Finally Sown the Seed of Its Own Destruction?*, 7 J. ON TELECOMM. & HIGH TECH. L. 369, 387 (2009).

123. U.S. Patent Application No. 13/531,280 (filed June 22, 2012) (publication number 20130060616).

124. U.S. Patent No. 8,364,595 (filed May 5, 2009) (issued Jan. 29, 2013).

125. Marcus Wohlsen, *Amazon Wants to Get into the Used E-Book Business—Or Bury It*, WIRED (Feb. 8, 2013, 6:30 AM), http://www.wired.com/business/2013/02/amazon-used-e-book-patent/ ("Currently if a publisher grants Amazon the rights, when a Kindle customer 'buys' a book, they have the option to loan the access rights to that digital file to friends or family that are also Kindle users. While the book is on loan, the original owner of the book is unable to access the e-book on any Kindle device. It's still on those devices, but the access rights to the book have been transferred temporarily to the person with the loaned e-book.").

in which each user has a personalized data store, which contains that user's various purchased media.[126] Users can access the media in their stores via moving, streaming, or downloading. When a user no longer wishes to access a piece of media, that user can transfer those media rights to another user, and the original user's access to the media will be restricted or eliminated. In an apparent nod to copyright holders, the claimed system supports limiting how often a digital object can be moved or transferred, based on business rules (which would likely be tied to license agreements).[127] These transfer limits apparently seek to preserve some semblance of scarcity inherent in physical secondary markets—mimicking the way that physical objects degrade over time, after passing through several hands. Although Amazon's patent may hint at that company's plans to establish a full-fledged digital market, some have speculated that the company may leverage its patent to *prevent* such a market from being established.[128] For example, some have argued that certain functions of ReDigi's marketplace[129] may overlap with Amazon's claim 1.[130]

Shortly after Amazon received its patent, Apple also applied for a patent regarding the digital secondary market.[131]Apple's system is similar to Amazon's, though Apple adds a mechanism to revert a portion of the sale proceeds to the digital marketplace, the copyright holder, or both.[132] This functionality is a likely ploy seeking copyright holders' agreement to a secondary-market scheme by providing them with a cut of the fees from future sales. Copyright holders have justifiable concerns about the infinite reuse and resale of digital goods, so such residual payments would

126. '595 Patent, claim 1.

127. *Id.*, claim 2.

128. Wohlsen, *supra* note 125 ("I would not leap to the conclusion that the fact that they have this patent means that they intend to go into this business, . . . [t]hey may be patenting it to keep it off the market.").

129. *See* Capitol Records, L.L.C. v. ReDigi Inc., 934 F. Supp. 2d 640, 644–46 (S.D.N.Y. 2013).

130. *E.g.*, Eriq Gardner, *Amazon Gains Patent on Market for 'Used' Digital Movies, Songs, Books*, HOLLYWOOD REP. (Feb. 6, 2013, 4:20 PM), http://www.hollywoodreporter.com/thr-esq/amazon-gains-patent-market-used-418909.

131. *See* U.S. Patent Application No. 13/531,280 (filed June 12, 2012).

132. *Id.* ¶ [0007] ("In some embodiments, the online store and/or the publisher of the digital content item may receive a portion of the proceeds of the transfer.").

provide copyright holders with a new revenue stream. ReDigi, which has regrouped and is planning to begin selling used e-books in the near future, also supports giving artists and copyright holders portions of residual sales.[133]

These potential services contain a common theme: rather than relying upon consumers' first-sale rights or true "ownership" of the digital media—or an attempt to modify copyright law—the initiatives instead focus on negotiating with copyright holders to create license agreements. As such, these secondary digital marketplaces could exist regardless of legislation or judicial decisions. These initiatives could provide consumers with resale rights—at the cost of restricting freedom and reducing used-content prices. The scheme under these patents could constrain the secondary market for digital goods—not by the items' quality or availability, but by the license agreements (which would be dictated by the copyright holder). And if copyright holders extract a portion of each resale, this premium would be borne by either the seller or the buyer—raising the cost. Because a marketplace-driven solution would benefit both copyright holders and the marketplace owners (e.g., Amazon and Apple), a marketplace solution appears to be inevitable. Content owners may well work to create this marketplace—if only to stave off legislative or judicial action that could result in a system more favorable to consumers.

VI. IS DIGITAL FIRST SALE ALREADY OBSOLETE?

Any application of digital first sale requires some semblance of "ownership": the copyright holder must make a "first sale" of a copy, and the recipient must "own" the copy.[134] But recent marketplace developments have brought into question whether consumer "ownership" (the twentieth century's prevailing schema) will become a relic. The marketplace has seen the rise of "all you can eat" monthly license schemes, such as those provided by Netflix (movies and television), Spotify (music), Pandora (music), Google All Access (music), and Scribd (books).[135] These revenue models

133. Chris Berdik, *As Good As New: ReDigi Plans to Start Selling Used E-Books*, BOS. MAG. (May 2013), http://www.bostonmagazine.com/news/article/2013/04/30/redigi-selling-used-e-books/.

134. *See* 17 U.S.C. § 109(a) (2012).

135. *E.g.*, SCRIBD.COM, http://www.scribd.com/subscribe ("Read [u]nlimited

permit copyright holders to avoid § 109—and its limitation of the distribution right—by unambiguously licensing, not "selling," content. One might argue that under the current licenses, a digital-content "purchase" is a misnomer; instead, it is merely a lifetime lease. In effect, a "buyer" merely rents for life. And through streaming services, such implicit rentals become explicit.

A. The Rise of the License

Today, sales of nearly all digital goods are subject to some form of license.[136] Those licenses are nearly universally contracts of adhesion, preventing consumers from negotiating the license terms—which unsurprisingly tend to favor copyright holders. For example, the iTunes terms of service currently limit consumers to making copies for only personal, noncommercial use; limit the number of permitted devices; and limit how many times music files can be copied (burned) to an audio CD.[137] The license agreements for Amazon[138] and Google[139] similarly restrict users' rights—including the right to transfer ownership.

These license agreements are usually click-wrap agreements: consumers ostensibly assent by clicking an "I accept" button during

[b]ooks for $8.99/month.") (last visited Dec. 20, 2013).

136. Raymond T. Nimmer, *Copyright First Sale and the Over-Riding Role of Contract*, 51 SANTA CLARA L. REV. 1311, 1321 (2011) ("[M]ost authorized distributions of copyrighted works occur in the context of a contract-based exchange."). Nimmer also notes, "[I]t is the terms of the contract transferring the copy that determine whether ownership has been transferred." *Id.* at 1312.

137. *Terms and Conditions*, APPLE.COM, http://www.apple.com/legal/internet-services/itunes/us/terms.html#SALE (last updated Sept. 18, 2013) ("Any burning or exporting capabilities are solely an accommodation to you and shall not constitute a grant, waiver, or other limitation of any rights of the copyright owners in any content embodied in any iTunes Product.").

138. *Amazon MP3 Store: Terms of Use*, AMAZON, http://www.amazon.com/gp/help/customer/display.html?nodeId=200154280 (last updated Aug. 13, 2013) ("Upon payment for Music Content, we grant you a non-exclusive, non-transferable right to use the Music Content only for your personal, non-commercial purposes, subject to the Agreement.").

139. *Google Play Terms of Service*, GOOGLE PLAY (Nov. 20, 2013), http://play.google.com/intl/en_us/about/play-terms.html ("You may not sell, rent, lease, redistribute, broadcast, transmit, communicate, modify, sublicense or transfer or assign your rights to Products to any third party without authorization, including with regard to any downloads of Products that you may obtain through Google Play.").

the download or installation process. Though some have questioned such agreements' validity, courts have enforced them so long as consumers demonstrate their assent—through clicking or otherwise.[140] And because these agreements operate outside of the Copyright Act—as the copyright holders' right to license works—they permit restrictions not specifically addressed by the Copyright Act, the DMCA, first-sale exemptions, or the fair-use doctrine.[141] What is prohibited under the Copyright Act can be permitted under license, and vice versa. Under click-wrap agreements, copyright holders are largely free to add terms not contemplated under the Copyright Act, and they may ostensibly require consumers to waive rights that they would otherwise possess under the first-sale and fair-use doctrines. Because most consumers decline to fully read (much less comprehend) their click-wrap licenses, many would be surprised to discover that when they click "Buy," they do not become legal owners. Rather, they are essentially lessors renting (1) for the duration of their lives, (2) without the ability to sell the copies, and (3) without the ability to lend the copies to friends or family. In short, consumers do not "own" the works that they "buy."

B. The Rise of Subscription Services

It may be too early to lament the dilution of digital ownership. Consumers are adopting a distribution method where they *know* they do not own the works: subscription services. For a monthly fee, those services provide nearly unlimited access to immense libraries of movies,[142] music,[143] and books[144]—and copyright holders do so

140. *See, e.g.*, ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1449 (7th Cir. 1996) (holding that shrink-wrap licenses are enforceable, provided that the underlying contract is not objectionable). *But see* Specht v. Netscape Commc'ns Corp., 306 F.3d 17, 32 (2d Cir. 2002) (holding that clicking on a "Download" button was not sufficient to designate acceptance).

141. *See* Davidson & Assocs. v. Jung, 422 F.3d 630, 638 (8th Cir. 2005) (holding that shrink-wrap license restricting reverse engineering that would have been allowed under DMCA exemption was valid and enforceable).

142. Sage Vanden Heuvel, *Fighting the First Sale Doctrine: Strategies for a Struggling Film Industry*, 18 MICH. TELECOMM. & TECH. L. REV. 661, 668 (2012) (noting that Netflix has over twenty-one million subscribers for its "Watch Instantly" streaming video service).

143. *See, e.g.*, Seth Ericsson, *The Recorded Music Industry and the Emergence of Online Music Distribution: Innovation in the Absence of Copyright (Reform)*, 79 GEO.

without purporting to make a single sale. Such users do not "own" the content any more than a cable subscriber "owns" the movie on HBO. Under these services, copyright holders and service providers negotiate and enter license agreements[145] that avoid any "sale" under the Copyright Act—and any trigger of its fair-use and first-sale doctrines. Under all of these models, copyright owners do not provide ownership; they merely provide access.

Software companies such as Adobe and Microsoft have also begun moving away from the "purchase" schema to subscriptions, limiting popular software packages—such as Adobe Creative Studio and Microsoft Office—exclusively or nearly exclusively via subscription models.[146]

This scheme has some benefits for consumers. First, it mitigates the cost of amassing huge libraries of digital works—the era of the fabled "jukebox in the sky" has arrived. In addition, subscription services permit users to "sample" many different artists and genres without having to pay for albums or tracks to determine if they are to the user's taste. Finally, subscription services can free users from the need to curate their music libraries.

Arguably more important, however, are the economic benefits that this shift promises to copyright holders and distributers. For example, a subscriber base provides a steady stream of regular income that copyright holders can list as assets on their balance sheets. In addition, customers are more willing to allow themselves to become "locked in" to a particular subscription ecosystem than to a retail service. Finally, subscription services can allow publishers and distributors to create customers for life—since young subscribers cannot just buy music that they like until they are thirty

WASH. L. REV. 1783, 1791 (2011) (discussing Google All Access, Rhapsody, Napster, Grooveshark, and Spotify).

144. *See, e.g.*, GEORGE B. DELTA & JEFFREY H. MATSUURA, LAW OF THE INTERNET § 6.04 (3d ed. 2013), *available at* Westlaw LOTIN (discussing the Amazon Prime lending library model); Jenna Schnuer, *We Test It: Scribd's All-You-Can Read Digital Buffet*, ENTREPRENEUR, http://www.entrepreneur.com/article/229666 (last visited Jan. 25, 2014) (discussing Scribd's e-book service).

145. *See generally* DELTA & MATSUURA, *supra* note 144. ("[M]any sellers attempt to override established first sale doctrine principles through limitations included in their licenses.").

146. Hayley Tsukayama, *Adobe's Subscription Model and the Future of Software*, WASH. POST (May 7, 2013), 2013 WLNR 11189193.

and then pull out of the system (having amassed all of the music they wished to amass).

These services free consumers from the perceived hassles of building and maintaining a media library. In addition, they provide copyright holders with a steady stream of revenue based on actual usage of their digital goods. Therefore, subscription services appear likely to continue their popularity among copyright holders and consumers alike.

C. Digital First Sale: Potentially Only Relevant for a Sliver in Time

As consumers increasingly enjoy heavenly access to millions of songs from the Cloud—presciently dubbed by turn-of-the-century commentators as the "celestial jukebox"[147]—the importance of "owning" digital content decreases. This shift to subscription services may well result in "ownership" of digital content—as was the standard for physical copies in the twentieth century—becoming a mere footnote in the history of copyright.

The rise of subscription models may well make the concept of "owning" a copyrighted work obsolete—a relic. For copyrighted content distributed in the twentieth century, those physical goods will continue to remain covered under the existing first-sale doctrine. And for subscription services like Netflix, Spotify, Google Music All Access, and Scribd, the lack of any "sale" makes digital first sale a nonissue. So the only content affected by a digital first-sale doctrine would be the ever-decreasing "sales" of downloaded content. And the licenses under which that content is sold may thwart consumers' attempts to assert sufficient "ownership" to alienate their possession of content.

If the marketplace's scales continue to tip almost exclusively toward subscription services, then historians may well look back on the twentieth and early twenty-first centuries' consumers' obsession with "owning" content as a strange position, indeed. If streaming's popularity continues unabated, the populace may eventually ask—as the copyright holders in *Bobbs-Merrill* essentially asked—"Who can own a copyrighted work but the copyright holder?" Streaming relies on licenses, and when a consumer stops subscribing,

147. Janelle Brown, *The Jukebox Manifesto*, SALON (Nov. 13, 2000, 2:30 PM), http://www.salon.com/2000/11/13/jukebox/ (popularizing the term "celestial jukebox").

copyright holders simply turn off the spigot. No consumer could justifiably complain that he or she "owns" a Netflix movie or a Spotify song. In a world dominated by the subscription model, concerns of digital ownership could well fade into the ether.

VII. CONCLUSION

Physical works and their digital counterparts are fundamentally different, making any direct application of § 109's first-sale doctrine to digital goods less appealing. But as media is increasingly sold digitally, consumers' inability to trade, lend, sell, or even bequeath digital works could well serve to eliminate the first-sale doctrine altogether. In the current marketplace, consumers' appetite for digital content remains strong, so Congress is unlikely to intervene. Similarly, given the robust marketplace—as well as the sticky policy considerations for selling identical, non-degradable digital copies—courts may well continue to be reluctant to reinterpret § 109.

Given the state of the marketplace, the legal status of digital content could shift in one of two directions. In the first scenario, consumers' inability to resell digital goods could lower their value and reduce prices, which would encourage distributors to create walled-garden resale markets that permit copyright holders and suppliers to extract rents from each additional sale. In the second scenario, consumers' increased adoption of all-you-can-eat subscription services would make the concept of consumers "owning" content obsolete: a relic of the twentieth century. Under either scenario—both ostensibly governed by licenses, not the first-sale doctrine—the concept of "digital first sale" could well fade into history as a legal curiosity that neither had nor needed any formal resolution.