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Die Hard (and Pass On Your Digital Media): How the Pieces Have Come Together to Revolutionize Copyright Law for the Digital Era

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— Note —

DIE HARD (AND PASS ON YOUR DIGITAL MEDIA): HOW THE PIECES HAVE COME TOGETHER TO REVOLUTIONIZE COPYRIGHT LAW FOR THE DIGITAL ERA

“The true foundation of republican government is the equal right of every citizen, in his person and property, and in their management.”

—Thomas Jefferson¹

“I cannot help fearing that men may reach a point where they look on every new theory as a danger, every innovation as a toilsome trouble, every social advance as a first step toward revolution, and that they may absolutely refuse to move at all”

—Alexis de Tocqueville²

ABSTRACT

Today’s modern world is defined by its digital assets. Books, movies, music, games, and even currency are available in digital format. Brick and mortar stores are slowly being replaced by online marketplaces. And yet despite these innovations in technology and media, the law lags far behind the digital age. One of the most glaring areas of the law in need of an update is the First Sale Doctrine, the legal right allowing downstream distribution of copyrighted material. An update to the First Sale Doctrine has not been seriously contemplated since 2001, when the Copyright Office found the time for an update was not ripe. The Copyright Office’s rationale was three-fold: digital media was just developing, restrictive licensing was not yet threatening ownership, and no technology existed that would facilitate a true “Digital First Sale.” This Note argues that these initial objections are no longer applicable. Digital media has grown rapidly, but is distributed under ultra-restrictive licenses. Finally, a recent court case demonstrates technology has emerged that can serve as the final piece needed to revolutionize copyright for the digital era.

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1. Letter from Thomas Jefferson to Samuel Kercheval (Jul. 12, 1816), available at <http://memory.loc.gov/cgi-bin/ampage?collId=mtj1&fileName=mtj1page049.db&recNum=254>.
 2. 2 ALEXIS DE TOCQUEVILLE, DEMOCRACY IN AMERICA 645 (J.P. Mayer ed., 1969).

CONTENTS

INTRODUCTION..... 1831

I. A BRIEF BACKGROUND ON COPYRIGHT AND THE EVOLUTION OF
THE FIRST SALE DOCTRINE 1833

 A. *Judge-Made Law*..... 1834

 B. *Congress Catches On: Modern Copyright and the Birth of the First
 Sale Doctrine*..... 1835

 1. The Modern Doctrine 1836

 2. Important Limits on the First Sale Doctrine..... 1837

 C. *The First Sale Doctrine Meets the Digital Era* 1838

 1. The First Attempts to Update: The Digital Era Copyright
 Enhancement Act 1838

 2. The Digital Millennium Copyright Act and the Copyright
 Office’s Section 104 Report 1839

 a. *The digital era was only just beginning* 1841

 b. *Restrictive licenses were not threatening copyright limits* 1842

 c. *The necessary and effective technology needed to facilitate
 a Digital First Sale did not exist*..... 1842

II. WELCOME TO THE FUTURE 1843

 A. *Music*..... 1844

 B. *Movies and Games* 1846

 C. *Books*..... 1847

III. DIGITAL FEUDALISM: WHEN CONTRACT OVERTOOK COPYRIGHT 1848

 A. *Old Days*..... 1848

 B. *New Kings* 1849

 C. *Is Ownership Meaningless? The Judicial Nails in the Digital
 Ownership Coffin*..... 1851

IV. THE FINAL PIECE: A REDIGI-SPARKED REVOLUTION..... 1853

 A. *“Just like your favorite record store”*..... 1853

 B. *The Second Circuit Weighs In*..... 1855

 1. *David v. Goliath*..... 1855

 2. *One Step Forward, Two Steps Back* 1857

 3. *The Next Phase*..... 1858

V. EVERYTHING THAT IS NEW IS OLD AGAIN: A CALL FOR
CONGRESSIONAL ACTION..... 1859

 A. *Congress Must Act Before Copyright Holders Set the Rules*..... 1859

 B. *A Statutory Amendment Will Restore the Function of the First
 Sale Doctrine* 1860

 C. *The Rest of the World Is Already Moving Forward*..... 1861

 D. *Suggestions for Creating a Statutory Balance* 1863

 1. Expressly include digital content..... 1863

 2. Preempt the use of certain licenses..... 1863

 3. Fuel creation 1864

CONCLUSION..... 1865

INTRODUCTION

Books. Music. Movies. Games. Art. We collect them throughout our lifetime. They embody our personalities, our interests and quirks. They remind us of our stories, and we pass them on to our loved ones to tell our histories. At our deaths, some become valuable sources of estate revenue. Some become the invaluable sources of fond memories. But as we transition into a digital age, are we losing the ability to pass along these very collections? In July, 2012, a sensational news story broke that Bruce Willis, the mega-movie star known for his role in the *Die Hard* series, was considering a lawsuit against Apple for his apparent inability to bequeath his massive iTunes collection to his daughters.³ Though the story turned out to be just a rumor,⁴ it brought to the forefront an issue that had apparently gone relatively unnoticed: *who*, exactly, owns a digital download?

The legal right that would enable Bruce to sell or bequeath a collection of tangible goods is enshrined under the Copyright Act in the First Sale Doctrine. The First Sale Doctrine grants the owners of legally obtained copies of copyrighted work the right to sell, rent, lease, bequeath and, in some cases, destroy their copies without permission from the copyright owner.⁵ Thanks to the First Sale Doctrine, libraries allow us to check out books as we please. Secondhand markets allow us to recoup some of our expenses or get rid of our embarrassing Backstreet Boys CDs. The doctrine allows us to build and mold our collections over our lifetime, selling what we do not want, and passing down our most beloved collections for generations to come. Our rights to do what we please with the books and music we own is so well grounded, we hardly give it a second thought. But what about our digital collections? *Can* Bruce bequeath his iTunes?

The answer is currently unclear. Although the First Sale Doctrine has been in effect for over a century, and updated to reflect changing technologies in the past, it has never been updated to reflect the transition to a digital era. In fact, in 2001, the Copyright Office expressly recommended *against* Congress creating a Digital First Sale Doctrine. In developing its recommendation, the Copyright Office

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3. Neal Sears, *Bruce Willis fights to leave his iPod tunes to his family: Actor considering legal action against Apple in battle over who owns songs downloaded from iTunes*, THE DAILY MAIL (Sept. 2, 2012, 1:05 PM), <http://www.dailymail.co.uk/news/article-2197248/Bruce-Willis-fights-leave-iPod-tunes-family-Actor-considering-legal-action-Apple-battle-owns-songs-downloaded-iTunes.html#ixzz2Cbo2WS3R>.
 4. Brandon Griggs, *Can Bruce Willis leave his iTunes music to his kids?*, CNN (Sept. 4, 2012, 5:34 AM), <http://www.cnn.com/2012/09/03/tech/web/bruce-willis-itunes>.
 5. 17 U.S.C. § 109 (2006).

made three main observations: electronic commerce was just beginning, the use of licenses and contracts were not threatening the control of goods limited by copyright laws, and, most importantly, the technology needed to facilitate a Digital First Sale did not exist yet. Years later, however, the copyright landscape is far different.

E-commerce and digital downloads have exploded in growth, and only continue to grow. In the face of uncertainty over the application of the First Sale Doctrine to digital works, copyright owners have begun to use contract to vastly expand the rights statutorily granted to them in the Copyright Act and circumvent the First Sale Doctrine completely. Ultra-restrictive and non-transferable *licenses* are placed on digital “purchases,” seemingly putting them squarely out of reach of the First Sale Doctrine and effectively robbing consumers of the ownership rights that used to come with sales. Every time an individual purchases a digital item, they must first digitally sign off on a lengthy “Terms of Service” agreement. We think we “buy” our movies, music, and ebooks, but, per these terms of service, we are in fact doing little more than renting them for a lifetime. And though the use of non-negotiable licenses effectively makes the entire purpose and function of the First Sale Doctrine useless, attempts to preempt these licenses have all but fallen on deaf ears. Congress has not moved and the courts have largely favored upholding the validity of these restrictive licenses.

But there may be hope for Bruce yet. Amidst the chaos and confusion, a case, *Capitol Records LLC v. Redigi Inc.*, emerged that could serve as the much-needed catalyst for Congress to finally reexamine the copyright landscape and finally bring the First Sale Doctrine into the digital era. Redigi hails itself as a secondhand marketplace for digital music, allowing users to sell their lawfully acquired, but unwanted, iTunes. Capitol Records quickly sued Redigi claiming digital music could not be sold without producing copies. Yet a combination of cloud-computing and patented software allows Redigi to transfer songs *without* making copies and in a manner that only ever allows one user access. Redigi demonstrates that the technology now exists to facilitate a Digital First Sale Doctrine. It is the final puzzle piece needed to turn the Copyright Office’s objections to a Digital First Sale on their heads. And while Capitol might doubt the efficacy of Redigi’s technology, Amazon and Apple are on track to support the Redigi revolution: both recently were issued patents allowing them to utilize remarkably similar technology to open their *own* secondhand marketplaces for digital goods.

This Note will examine how Redigi is perched to revolutionize the First Sale Doctrine and open the door for true digital ownership. It will argue that Redigi is the final piece that renders the Copyright Office’s objections to a Digital First Sale obsolete, and that the time has come for Congress to restore the copyright balance by expressly adopting a Digital First Sale Doctrine. Part I will present a brief

background on the development of the First Sale Doctrine. It will highlight attempts to update the doctrine to the digital era, and present the Copyright Office's response and reasoning behind its ultimate recommendation against such an update. Part II will demonstrate how the digital landscape today is immensely different from when the Copyright Office made its recommendation. It will show how digital works—e-books, music, movies—have greatly evolved and expanded, and the day may not be far when all media is disseminated exclusively in digital form. Part III will discuss how, in the face of uncertainty, contract has been used to greatly expand the rights of copyright owners. It will argue that use of restrictive licensing in place of sales is equivalent to the creation of digital feudalism, and threatens to undermine the function of the First Sale Doctrine completely. Part IV will introduce Redigi, discussing why Redigi's ground-breaking technology and the suit against Capitol Records is the final piece needed to overcome the Copyright Office's trifecta of objections to a Digital First Sale. Finally, Part V will argue for Congressional adoption of a Digital First Sale Doctrine, offering some suggestions for amendments to the Copyright Act that would preserve the function of the doctrine in the digital era.

I. A BRIEF BACKGROUND ON COPYRIGHT AND THE EVOLUTION OF THE FIRST SALE DOCTRINE

Copyright protections, like private property laws, have been around for hundreds of years. Yet, while in the United States the notions of private property and ownership are considered fundamental to constitutionalism, to be valued and protected alongside life and liberty,⁶ the reverence for intellectual property has not been as great. Thomas Jefferson considered copyright nothing but a “necessary evil” and wanted to provide no more protections than necessary to fuel creativity.⁷ For Jefferson, “[i]f nature has made any one thing less susceptible than all others of exclusive property . . . it is the action of the thinking power called an idea.”⁸ Jefferson's approach to copyright became embodied in Article 1, Section 8 of the Constitution, which gives Congress the authority “[t]o promote the Progress of Science and useful Arts, by securing for *limited* Times to Authors and

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6. KYLE SCOTT, *THE PRICE OF POLITICS: LESSONS FROM KELO V. CITY OF NEW LONDON* 50 (2010) (“Delaware firmly entrenches itself in the American and common law tradition of the protection of property rights from government seizure and places property—philosophically and rhetorically—alongside life and liberty.”).
 7. Robert S. Boynton, *The Tyranny of Copyright*, N.Y. TIMES (Jan. 25, 2004), www.nytimes.com/2004/01/25/magazine/25COPYRIGHT.html?pagewanted=all&pagewanted=print.
 8. *Id.*

Inventors the exclusive Right to their respective Writings and Discoveries.”⁹ But while the Constitution sets the stage for Congress to enact copyright laws, the ability to resell our books and CDs—the First Sale Doctrine—was originally developed by the courts just a century ago.

A. *Judge-Made Law*

The concepts that would come to be embodied in the First Sale Doctrine were first articulated in 1908 in the seminal case, *Bobbs-Merrill Co. v. Straus*.¹⁰ In *Bobbs-Merrill*, the copyright owner of a book, “The Castaway,” included in the book a notice that prohibited resale of the book for less than one dollar.¹¹ The department store Macy’s, however, purchased the book from the copyright owner and resold it in its stores for only eighty-nine cents, despite being well aware of the resale restrictions that accompanied it.¹² In its argument that Macy’s had infringed on its copyright, *Bobbs-Merrill* relied on the exclusive right to “vend” found in Section 4952 of the Revised Statutes of the United States.¹³ Specifically, *Bobbs-Merrill* interpreted the statute as granting the copyright holder “the *whole* field of the right of exclusive sale,”¹⁴ including the “subsequent alienation of the [book] after [they] had parted with the title to one who had acquired full dominion over it.”¹⁵ Thus, under this interpretation, a copyright owner could not only dictate the aspects of the initial sale, but could also place restraints on any and all future downstream sales.

In deciding the merits of *Bobbs-Merrill*’s argument, the Supreme Court focused on the statutory construction of the rights intended to be conferred by the copyright statute.¹⁶ What, it asked, was the *function* and *purpose* of the statutes?¹⁷ The purpose of the statutes, according to the Court, was to “secure the right of multiplying copies of the work,” not to create the right to impose limitations on future

9. U.S. CONST. art. I, § 8, cl. 8 (emphasis added).

10. 210 U.S. 339 (1908).

11. *Id.* at 341.

12. *Id.* at 342.

13. *Id.* at 349. *See also* U.S. Rev. Stat. § 4952 (“Any citizen of the United States of resident therein, who shall be the author, inventor, designer, or proprietor of any book, map, chart, dramatic or musical composition, engraving, cut, print, or photograph or negative thereof . . . shall . . . have the sole liberty of printing, reprinting, publishing, completing, copying, executing, finishing, and vending the same.”).

14. *Bobbs-Merrill Co.*, 210 U.S. at 349. (emphasis added).

15. *Id.* at 350.

16. *Id.*

17. *Id.* at 350–51.

sales.¹⁸ Thus, the statute created for copyright holders the exclusive rights of initial distribution, but did not intend such rights to permit impositions of price restrictions on secondary and downstream sales; Bobbs-Merrill's notice in "The Castaway" was unenforceable.¹⁹ Specifically, in focusing on the function and purpose of the copyright statutes, the Supreme Court held that "add[ing] to the right of exclusive sale the authority to control all future retail sales . . . would give a right not included in . . . the statute, and . . . extend [the copyright statute's] operation, by construction, beyond its meaning."²⁰ Copyright laws granted certain protections, but they also contained certain limitations, and copyright owners could not simply expand their rights beyond those granted.

B. Congress Catches On: Modern Copyright and the Birth of the First Sale Doctrine

The *Bobbs-Merrill* decision came on the heels of the Industrial Revolution, when the efficacy of copyright laws was being questioned in light of new technological advances.²¹ New innovations made the application of traditional copyright law difficult, and uncertainty was rife. Musicians, publishers, and even President Theodore Roosevelt called on Congress to update copyright laws in light of the innovations and uncertainties.²² Finally, Congress passed the Copyright Act of 1909,²³ an "omnibus piece of legislature that

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18. *Id.* ("In our view the copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, does 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.").
19. *Id.*
20. *Id.* at 351.
21. See, e.g., *White-Smith Music Pub. Co. v. Apollo Co.*, 209 U.S. 1 (1908) (addressing whether piano rolls were "copies" of copyrighted sheet music that required users to pay royalties to composers); *Stern v. Rosey*, 17 App. D.C. 562, 565 (1901) (discussing whether phonograph records created copies in violation of composer rights); see also 2 *THE CAMBRIDGE HISTORY OF LAW IN AMERICA: THE LONG NINETEENTH CENTURY 497–98* (Michael Grossberg & Christopher Tomlins, eds. 2008).
22. See KEVIN PARKS, *MUSIC & COPYRIGHT IN AMERICA: TOWARDS A CELESTIAL JUKEBOX* 56 (2012). President Roosevelt told Congress in 1905 that "[o]ur copyright laws urgently need revision. They are imperfect in definition, confused and inconsistent in expression . . . [a] complete revision of them is essential." President Theodore Roosevelt, Address Before a Joint Session of Congress on the State of the Union (Dec. 5, 2010).
23. Copyright Act of 1909, Pub. L. No. 60-349, 35 Stat. 1075 (1909) (repealed Jan. 1, 1978).

updated and recast copyright for the new century.”²⁴ The *Bobbs-Merrill* principle that copyright owners could not control downstream sales of their works came to be codified in section 27 of the act.²⁵ And the First Sale Doctrine was born. Continued technological advances throughout the years again spurred Congressional action to update the copyright laws.²⁶ Eventually, the 1976 Copyright Act was passed, becoming the primary source of copyright laws as they are known today.²⁷

1. The Modern Doctrine

The First Sale Doctrine, as applied today, is codified in § 109 of the 1976 Act.²⁸ The modern doctrine provides, in pertinent part, that “the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.”²⁹ Thus, the doctrine serves as an affirmative defense to owners of copies who then dispose of their copy by limiting the copyright holder’s exclusive right of distribution; once there is an initial sale or transfer of ownership, the distribution right is cut off.³⁰

The limited monopoly created by copyright law is needed to promote the creation of new works and ensure that the creator is properly compensated for this effort. Once a copyright holder has consented to distribution of a copy of that work, this monopoly is no longer needed because the owner has received the desired compensation for that copy. The first sale doctrine

24. KEVIN PARKS, *supra* note 22, at 64.

25. Copyright Act of 1909, ch. 320, § 27.

26. U.S. COPYRIGHT OFFICE, DMCA SECTION 104 REPORT: A REPORT OF THE REGISTER OF COPYRIGHTS PURSUANT TO §104 OF THE DIGITAL MILLENNIUM COPYRIGHT ACT (2001) [hereinafter *Section 104 Report*], available at <http://www.copyright.gov/reports/studies/dmca/sec-104-report-vol-1.pdf>.

27. Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541 (1976).

28. 17 U.S.C. § 109.

29. 17 U.S.C. § 109(a).

30. Marybeth Peters, *The Legal Perspective on Exhaustion in the Borderless Era: Consideration of a Digital First Sale Doctrine for Online Transmissions of Digital Works in the United States*, in GLOBAL COPYRIGHT, THREE HUNDRED YEARS SINCE THE STATUTE OF ANNE, FROM 1709 TO CYBERSPACE 329, 330 (Lionel Bently, Uma Suthersanen & Paul Torremans eds., 2010) (“Application of the doctrine limits the copyright holder’s exclusive right of distribution by cutting off the distribution right for a particular copy of a work once there has been an initial sale or transfer of ownership of that copy.”).

ensures that the copyright monopoly does not intrude on the personal property rights of the individual owner, given that the law generally disfavors restraints of trade and restraints on alienation.³¹

In this sense, the doctrine served to reconcile copyright protections with the well-established notions of personal property and ownership.³² Its function was to “balanc[e] the right of the copyright owner to freely enter contracts . . . and to receive a fair return for a sale against the dangers of restraints on alienation.”³³ Copyright holders could still dictate the initial terms of distribution, but libraries, used book stores, video rental companies, and everyday people who had purchased copies were free to use, resell, and dispose of their copies.

2. Important Limits on the First Sale Doctrine

Because it is meant to balance both the rights of copyright owners and owners of copies, the First Sale Doctrine contains some important limitations. First, the doctrine *only* applies to the *distribution* right. It does not apply to the right of *reproduction*. Therefore, if a lawful owner reproduces a copy, and then sells or otherwise disposes of that reproduction, the First Sale Doctrine will not provide a defense to the copyright infringement.³⁴ This distinction became especially important when dealing with downloaded and digital material, which can be reproduced and transmitted with ease.³⁵ Secondly, the privileges created by the doctrine do not “extend to any person who has

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31. *Brilliance Audio, Inc. v. Hights Cross Commc'ns, Inc.*, 474 F.3d 365, 373–74 (6th Cir. 2007) (citations and internal quotations omitted).
 32. See Joseph P. Liu, *Owning Digital Copies: Copyright Law and the Incidents of Copyright Ownership*, 42 WM. & MARY L. REV. 1245, 1300 (2001) (“[A]s a purely descriptive matter, the incidents of copy ownership can be explained as having arisen from conventional and deeply embedded understandings about what it means to own or to possess physical personal property.”).
 33. Robert H. Rotstein et al., *The First Sale Doctrine in the Digital Age*, 22 INTELL. PROP. & TECH. L. J. 23, 24 (2010).
 34. *Section 104 Report*, *supra* note 26, at 20; see also MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.12[B][1] (Matthew Bender, Rev. Ed); Lucy Holmes Plovnick, *Will the US First Sale Doctrine Go Digital?*, INTELECTUAL PROP. MAGAZINE, Mar. 2012, at 44.
 35. Marybeth Peters, *supra* note 30, at 335. However, because the use of downloaded and digital material usually requires the computer to make a copy, the “Essential Step Defense” was created to limit the exclusive right of reproduction. See 17 U.S.C. § 117(a) (excusing the making of copies when such reproduction was necessary for the operation of the computer).

acquired possession of the copy or phonorecord from the copyright owner, by rental, lease, loan, or otherwise, without acquiring *ownership* of it.”³⁶ Ownership, then, is a key element to the function of the First Sale privileges; in order for the First Sale privileges to be invoked, there *must* be a sale, a transfer of ownership.³⁷ Congress, in adopting the doctrine, clearly contemplated that there would be some transactions where ownership was *not* transferred, and, thus, where privileges under the First Sale Doctrine could not be invoked.

C. *The First Sale Doctrine Meets the Digital Era*

1. The First Attempts to Update:
The Digital Era Copyright Enhancement Act

The growth of the digital era raised uncertainties about the future application of the First Sale Doctrine, which had been developed within the confines of the pre-digital era.³⁸ Copyright holders, concerned with the ease with which perfect copies of digital files could be made, began to capitalize on the ownership requirement of the First Sale Doctrine by distributing their digital works under licensing agreements rather than true sales.³⁹ Members of Congress were troubled by the uncertainty in the doctrine created by the growing digital trend and with the increasing restrictions imposed contractually by copyright holders.⁴⁰ For Representatives Dick Boucher and Tom Campbell, the time had once again come to update the Copyright Act in light of new technology.⁴¹ In 1997, Boucher and Campbell submitted a bill, the Digital Era Copyright Enhancement Act (“Copyright Enhancement Act”), aimed to “update and preserve balance in the Copyright Act for the 21st Century.”⁴²

36. 17 U.S.C. § 109(d) (emphasis added).

37. Rotstein et al., *supra* note 33, at 24 (2010). At least the Second Circuit noted, however, that “ownership” does not necessarily mean a party must have *formal title* over a copy, just that there must be “sufficient incidents of ownership.” *Krause v. Titleserv, Inc.*, 402 F.3d 119, 124 (2nd Cir. 2005).

38. *Section 104 Report*, *supra* note 26, at 91.

39. Adam Sikich, *Buyer Beware: The Threat to the First Sale Doctrine in the Digital Age*, 14 J. INTERNET L. 1, 19 (2011).

40. The Digital Era Copyright Enhancement Act, H.R. 3048, (proposed U.S.C. § 109(f)) 105th Congr. (1997) [hereinafter *Copyright Enhancement Act*]; see also Joshua Newman, *Selling the Right to License: Examination of the First Sale Doctrine Through the Lens of UMG Recordings & Quanta Computer*, 35 J. CORP. L. 849, 852 (2010).

41. *Copyright Enhancement Act*, *supra* note 40.

42. *Id.*; see also *Joint Study on 17 U.S.C. Sections 109 and 117, Public Hearing Filed in Response to 65 FR 63626*, 105th Congr. 53 (2000) (summary of testimony of Gary Klein, Home Recording Rights Coalition).

The Copyright Enhancement Act proposed to update and preserve the First Sale Doctrine in two main ways. First, the act proposed to explicitly extend the First Sale Doctrine to lawfully acquired digital works when the owner selling the work “erases or destroys his or her copy . . . at substantially the same time.”⁴³ Under this “forward-and-delete” framework, owners of digital files would be brought within the First Sale Doctrine protections so long as they did not maintain a copy of the file for themselves after relinquishing ownership.⁴⁴ It was theorized that digital rights management (DRM) systems, such as encryptions, authentications, and passwords, could ensure copyright owners that digital copies were destroyed or disabled after being transferred.⁴⁵

Secondly, the Copyright Enhancement Act would preserve the balance by expressly preempting the use of contract to expand the statutory rights granted under the Copyright Act.⁴⁶ Under the proposed changes, works distributed with non-negotiable license terms would “not be enforceable under the common law or statutes of any state to the extent that [the terms] . . . abrogate or restrict the limitations on exclusive rights specified in [section 109 of the Copyright Act].”⁴⁷ Thus, companies could not contract around the First Sale Doctrine by distributing works under licenses that restricted resale or transfer. In the end, however, the bill was not passed.

2. The Digital Millennium Copyright Act and the Copyright Office’s Section 104 Report

Congress was not completely oblivious to the challenges the ever-growing digital era presented. In 1998, Congress passed the Digital Millennium Copyright Act (DMCA),⁴⁸ implementing two World Intellectual Property Organization treaties⁴⁹ and attempting to move the U.S.’s copyright law into the digital age.⁵⁰ The DMCA enacted

43. *Copyright Enhancement Act*, *supra* note 40, at § 4(f)(a).

44. *Id.*

45. *Joint Study on 17 U.S.C. Sections 109 and 117, Public Hearing Filed in Response to 65 FR 63626*, 105th Congr. 53 (2000) (summary of testimony of Gary Klein, Home Recording Rights Coalition).

46. *Copyright Enhancement Act*, *supra* note 40, at § 7.

47. *Id.* at § 7(2).

48. Pub. L. No. 105-304, 112 Stat. 2860 (1998) [hereinafter *DMCA*].

49. The DMCA implemented the World Intellectual Property Organization, Copyright Treaty, Apr. 12, 1997, S. Treaty Doc. No. 105-17 (WIPO Copyright Treaty) and the World Intellectual Property Organization, Dec. 20, 1996, S. Treaty Doc. No. 105-17, 36 ILM 76 (WIPO Performances and Phonograms Treaty).

50. *DMCA*, *supra* note 48.

significant changes to U.S. copyright law, including prohibitions on any attempt to circumvent or tamper with copyright management information.⁵¹ These prohibitions were meant to facilitate electronic commerce, while protecting digital copyright owners from widespread piracy, by allowing them to employ technical restrictions that prevented unlawful access and copying.⁵² In practice, however, the DMCA also “endangered the rights and expectations of legitimate consumers.”⁵³

The DMCA allowed copyright owners to protect their works through various DRM systems that not only forced consumers to purchase additional decryption devices, but effectively eliminated any secondary markets for digital works. The DMCA allowed a copyright owner to sell a digital work laden with various DRM systems and subject it to restrictive licenses that would result in a violation of the DMCA if a user attempted to circumvent them.⁵⁴ Thus, rather than addressing the use of restrictive licenses—as the Copyright Enhancement Act did—the DMCA seemingly opened the door for them.⁵⁵ Critics argued that the DMCA effectively allowed restraints on alienation and threatened library functions.⁵⁶

Despite all of its changes, the DMCA did little to clarify the application of the First Sale Doctrine to digital works. Again, the public lamented the uncertainty and called for an update to the doctrine that would protect the rights of consumers of digital works.⁵⁷ Technology and innovations were rapidly developing but the law remained stagnant and it was the consumers who were suffering. Proponents of a digital First Sale Doctrine argued forcefully for an update, pointing to numerous justifications in support of their

51. U.S. Copyright Office, *The Digital Millennium Copyright Act of 1998 Summary 2* (1998) [hereinafter *DMCA Summary*].

52. *Section 104 Report*, *supra* note 26, at vi–vii.

53. Digital Choice and Freedom Act of 2002, H.R. 5522, 107th Cong. (proposed U.S.C. § 109(f)).

54. *DMCA Summary*, *supra* note 51, at 3.

55. *DMCA*, *supra* note 48. *See also Section 104 Report*, *supra* note 26, at 35.

56. *Section 104 Report*, *supra* note 26, at 39.

57. *Id.*; *see also id.* at app. 9 at 393. Legal certainty over the application of the doctrine to digital works, proponents argued, would be beneficial to creators and consumers alike. U.S. DEPT. OF COMMERCE, NAT'L. TELECOMM. & INFO. ADMIN., REPORT TO CONGRESS: STUDY EXAMINING 17 U.S.C. SECTIONS 109 AND 117 PURSUANT TO SECTION 104 OF THE DIGITAL MILLENNIUM COPYRIGHT ACT (Mar. 2001) [hereinafter *Dept. of Commerce Report*], available at <http://www.ntia.doc.gov/print/report/2001/report-congress-study-examining-17-usc-sections-109-and-117-pursuant-section-104-digital>.

positions. Copyright law exists, they argued, to promote public interest, and “statutory changes and interpretations of copyright law should balance the impact of the law upon the copyright owner against the paramount public interest in the dissemination and proliferation of copyrighted works.”⁵⁸ A common theme in support of an update focused on the function of copyright law, saying “copyright law should *respond* to technological progress, not *hinder* it.”⁵⁹ Innovation and technological process had sparked an update in copyright laws in the past; there was no need for modern advances to be treated any differently. Though the digital era might create uncertainties and make the application of the First Sale Doctrine difficult, proponents argued, it should not serve as an excuse to discard the doctrine completely.

In 2001, in response to the concerns raised regarding the DMCA, the Copyright Office issued its *DMCA Section 104 Report*.⁶⁰ The report was meant to address the efficacy of the DMCA and to issue an official opinion from the Copyright Office regarding, amongst many other things, the possibility of a Digital First Sale Doctrine.⁶¹ Despite the arguments in favor of an update, the report ultimately recommended that no amendments be made to allow for a Digital First Sale.⁶² The report’s recommendation highlighted three main observations.⁶³

a. *The digital era was only just beginning.*

The report found that the timing was not suitable to update the First Sale Doctrine largely because digital media was still developing. The Copyright Office concluded that “there was no convincing evidence of *present-day* problems” that required an update to the First Sale Doctrine, and the U.S. was only in the “*early stages* of

58. *Dept. of Commerce Report, supra* note 57.

59. *Id.*

60. *Section 104 Report, supra* note 26, at ix–xv. Section 104 of the DMCA required the Copyright Office to submit a report to Congress evaluating the impact of copyright law on electronic commerce and technological development. The report, to be submitted no more than 24 months after the implementation of the DMCA, specifically required the Copyright Office to evaluate the “effects of the amendments made by [the DMCA] and the development of electronic commerce and associated technology on the operation of [the First Sale Doctrine].” *DMCA, supra* note 48.

61. *Section 104 Report, supra* note 26, at 2.

62. *Id.* at 96.

63. These conclusions pertain to the First Sale Doctrine only. The Section 104 Report also addressed and made recommendations concerning the temporary incidental copies and archives under Section 117. *See Section 104 Report, supra* note 26, at 106.

electronic commerce.”⁶⁴ Since the future of e-commerce was uncertain, the direction of rights and business models should be determined by the market, not by “legislative fiat.”⁶⁵ Besides, the report noted, the rest of the world was not making changes, and so, it reasoned, neither should Congress.⁶⁶

b. Restrictive licenses were not threatening copyright limits.

The report ultimately made no direct recommendations regarding the need to preempt contract, concluding the issue of contract preemption to be “outside the scope” of the report.⁶⁷ It did, however, admit that there was some merit to the concern that the use of non-negotiable licenses was “frustrat[ing] the goals of the first sale doctrine by allowing copyright owners to maintain control on works beyond the first sale of a particular copy.”⁶⁸ The report acknowledged that restrictive licenses were of “increasing practical importance” because their use “increase[d] the possibility that rights holders, rather than Congress, [would] determine the landscape of consumer privileges in the future.”⁶⁹ It was possible, the report concluded, that “at some point in the future a case could be made for statutory change” to make restrictive licenses unenforceable,⁷⁰ but the issue was not yet ripe because the use of restrictive licenses was not widespread.⁷¹

c. The necessary and effective technology needed to facilitate a Digital First Sale did not exist.

Proponents of a Digital First Sale Doctrine reasoned that “forward-and-delete” technology could be used to ensure that only one copy of a work existed at any given time. The Copyright Office, however, found two major issues with the proposed technology. First, it concluded that the technology automatically resulted in a *reproduction* of a digital file, regardless of whether or not the original is subsequently deleted.⁷² Because the First Sale Doctrine protections do not apply to reproductions, there was no way to apply the doctrine to digital works. Additionally, these digital reproductions would be flawless, and so the report rejected analogies to physical transfers of

64. *Id.* at xx, 105 (emphasis added).

65. *Id.* at 92.

66. *Id.* at 94.

67. *Id.* at 163.

68. *Id.* at ix.

69. *Id.* at xxxi–xxxii.

70. *Id.* at xxxii.

71. *Id.*

72. *Id.* at 79.

works, which degrade with time.⁷³ Second, even if effective “forward-and-delete” technology could be used, the current existence of such technology was questionable and would be costly to develop.⁷⁴ Unless the technology was automatic, additional steps would be required to delete a work, and enforcement of this requirement would be difficult and even more costly.⁷⁵ The Copyright Office doubted the willingness of the market to bear the costs of these necessary technological measures.⁷⁶

Ultimately, the Copyright Office, in 2001, found that the time was not ripe for updating the First Sale Doctrine, but it did not close the door completely. The report noted that the time may come when Congress must revisit the issue “to address these concerns should they materialize.”⁷⁷ Twelve years later, that time has come.

II. WELCOME TO THE FUTURE

We are no longer in the “early stages of electronic commerce.” In fact, the conversion of physical objects to digital has created a “seismic shift” in our culture.⁷⁸ We have come to expect ease of use, connectedness, and ease of access.⁷⁹ We use technology daily and depend on it to enable us to store and access our digital collections: “[a]lmost every aspect of [our days are] assisted or accomplished using technology.”⁸⁰ Rapid technological advances combined with consumer expectation and demands fuels the conversion to digital. Digital media—music, books, movies and games—is everywhere and growing. For Generation Z1, digital media is new, but becoming common.⁸¹ For Generation Z2, it is second nature.⁸² And for the next generation,

73. *Id.* at 82. The report noted that flawless copies of digital transmissions “can adversely effect the market for the original to a much greater degree than transfers of physical copies.” *Id.* at xix.

74. *Id.* at 84.

75. *Id.*

76. *Id.*

77. *Id.* at xx.

78. EVAN CARROLL & JOHN ROMANO, *YOUR DIGITAL AFTERLIFE: WHEN FACEBOOK, FLICKR AND TWITTER ARE YOUR ESTATE, WHAT’S YOUR LEGACY?* 23 (2011).

79. *Id.* at 22.

80. *Id.*

81. GRAIL RESEARCH, *CONSUMERS OF TOMORROW: INSIGHTS AND OBSERVATIONS ABOUT GENERATION Z 15* (2011). Generation Z1 is the Generation born between the mid-1990s and early 2000s. *Id.*

82. *Id.* Generation Z2 consists of those people born in the early to mid-2000s. *Id.*

Generation Alpha, it may be all they know.⁸³ Whether or not people have noticed, we are standing on a precipice, about to tumble head first into a fully digital world.

A. *Music*

iTunes revolutionized the way people consumed music by making it possible to store an entire music library on one small, portable device. Since its appearance in 2001, Apple and iTunes have “changed the way we consumed music, exacerbated the demise of both the compact disc and the brick-and-mortar record store, revolutionized the music business, and massively disrupted the major labels’ dominance in the marketplace.”⁸⁴ The success and impact continue to grow: iTunes now operates in fifty different countries, and its revenue is predicted to top \$13 billion in 2013.⁸⁵ Revenue from single downloads in the United States alone topped almost \$1.5 billion in 2011.⁸⁶ Adding in revenues from other digital music, such as album sales, and that number grows to over \$5 billion.⁸⁷ And that is *just* iTunes. Amazon MP3 and Google Music have also become meccas for digital music purchases.⁸⁸ Even in the face of streaming services such as Spotify, digital music downloads continue to climb: almost 1.5 billion units were sold in 2012 alone, a growth of 9.1% from 2011.⁸⁹

83. *Id.* Generation Alpha will consist of those people born between 2010 and 2020. *Id.*

84. Randall Roberts, *Steve Jobs and the iTunes/iPod Revolution*, L.A. TIMES Oct. 5, 2011, available at http://latimesblogs.latimes.com/music_blog/2011/10/steve-jobs-and-the-music-business-apple.html.

85. Pascal-Emmanuel Gobry, *Apple Will Generate \$13 Billion In iTunes Revenue In 2013, Says Analyst*, BUSINESS INSIDER (Jul. 5, 2011), <http://www.businessinsider.com/apple-itunes-revenue-2013-2011-7>. See also INTERNATIONAL FEDERATION ON THE PHONOGRAPHIC INDUSTRY DIGITAL MUSIC REPORT 2012, EXPANDING CHOICE, GOING GLOBAL 8 (2012) [hereinafter *Digital Music Report 2012*].

86. *Digital Music Report 2012*, *supra* note 85, at xx.

87. *Id.* at 6.

88. See Ramona Emerson & Chris Spurlock, *Google Music vs. iTunes vs. Amazon MP3: How The Music Stores Stack Up*, HUFFINGTON POST (Nov. 11, 2011), http://www.huffingtonpost.com/2011/11/16/google-music-vs-itunes-vs-amazon-mp3_n_1098365.html; *Amazon's Digital Sales Grow 29% in Q1 2012 While iTunes Sales are Flat from Q4, According to Estimates from eDataSource*, PRWEB, (Apr. 9, 2012), <http://www.prweb.com/releases/2012/4/prweb9381831.htm?PID=6146865>; Zak Stambor, *Digital calls the tune in music retailing*, INTERNET RETAILER (Jan. 6, 2012), <http://www.internetretailer.com/2012/01/06/digital-calls-tune-music-retailing>.

89. NIELSEN, THE NIELSEN COMPANY & BILLBOARD'S 2012 MUSIC INDUSTRY REPORT (2013) [hereinafter *2012 Industry Report*]; see also Drew Guarini, *Music Sales In 2012 Prove Digital Is Rising, CDs Are*

But it's not just that digital downloads are increasing. Sales of physical albums are plummeting, down by 12.2% globally between 2008 and 2012.⁹⁰ And in 2011, digital sales *surpassed* physical for the first time.⁹¹ In fact, sources predict that CDs will stop being produced completely in the very near future, with some suggesting major record labels will cease production of CDs in just a few years.⁹² These growth statistics seem to suggest but one conclusion: digital music is not just overtaking physical, it will replace it completely.

Dead And ... Vinyl Is Alive Once Again?, HUFFINGTON POST (Jan. 19, 2013, 3:18 PM), http://www.huffingtonpost.com/2013/01/09/music-sales-2012-digital-physical_n_2440380.html; Chris Morris, *Global Digital Sales Drive Music Growth*, VARIETY (Feb. 26, 2013), <http://variety.com/2013/digital/news/global-digital-sales-drive-music-growth-819739/>. The growth is not confined to the United States. Worldwide, physical sales fell 12% between 2008 and 2012, while digital sales grew 16% for those same years. DELOITTE, *WHERE THE TRUE GROWTH LIES, THE MARKET FOR DIGITAL MEDIA 3* (2013). (Global spending on digital is predicted to surpass physical in 2015, reaching 55% of sales). In the United Kingdom, digital music sales in 2012 rose 15% to £383m. *See Digital entertainment exceeds £1bn in sales for the first time*, ENTERTAINMENT RETAILERS ASSOCIATION (2013), <http://www.eraltd.org/news/era-news/digital-entertainment-exceeds-%C2%A31bn-in-sales-for-the-first-time.aspx>; Mark Sweney, *Digital entertainment downloads top £1bn for first time in 2012*, THE GUARDIAN (Jan. 2, 2013), www.guardian.co.uk/media/2013/jan/02/download-sales-1bn-2012. Downloads in France have increased by 23%, and the markets in Asia and Latin America are predicted to grow exponentially. *See Digital Music Report 2012*, *supra* note 85, at 10, 22–23.

90. Deloitte, *supra* note 89, at 3.
91. NIELSEN, THE NIELSEN COMPANY & BILLBOARD'S 2011 MUSIC INDUSTRY REPORT (2012) (digital sales accounted for 50.3% of the market); *see also* Sam Gustin, *Digital Music Sales Finally Surpassed Physical Sales in 2011*, TIME (Jan. 6, 2012), <http://business.time.com/2012/01/06/digital-music-sales-finally-surpassed-physical-sales-in-2011/#ixzz2NXyipt9z>; Zak Stambor, *supra* note 88. As seen in the 2012 report, the digital divide continues to grow. *See 2012 Industry Report*, *supra* note 89.
92. *See CD-format to be abandoned by major labels by the end of 2012*, SIDE LINE MUSIC MAGAZINE (Oct. 23, 2011), http://www.side-line.com/news_comments.php?id=46980_0_2_0_C. Physical sales dropped 13% in 2012 to only 198 million. *2012 Industry Report*, *supra* note 89. The Wall Street Journal predicts that brick-and-mortar record stores themselves are a dying industry, predicting the industry's 2000–2010 decline of 77% will continue to fall by another 11% from 2010–2016. Phil Izzo, *Top 10 Dying Industries*, WALL STREET JOURNAL (Mar. 28, 2011, 3:07 PM) <http://blogs.wsj.com/economics/2011/03/28/top-10-dying-industries/>.

B. *Movies and Games*

While not as explosive as the digital shift in music, there is a steadily developing shift in the movie and video game worlds to switch to pure digital production. In 2012, Twentieth Century Fox publically announced that it would begin to distribute all of its films in digital format over the next few years, “bringing an end to 35mm film prints.”⁹³ Though it is the only studio to have made such an announcement, Fox says “most other distributors share [the] belief” that digital distribution will take over.⁹⁴ 35mm film will become archaic, and is expected to be used in a “paltry 17% of global cinemas” by 2015.⁹⁵ For personal and home use, digital sales of movies rose 22% in the first six months of 2011, while physical sales fell about 4%.⁹⁶ Indeed, in light of digital purchase and streaming options, the days of the DVD may be numbered.⁹⁷ Meanwhile, in the video game realm, Electronic Arts president Frank Gibeau recently confirmed plans to take the EA franchise “100% digital in the near future.”⁹⁸ Others are expected to follow. In fact, the digital transition is all but set in stone for video games, and companies are preparing to change their business models to adapt. In an effort to remain competitive in anticipation of switch to digital, GameStop, the

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93. Pamela McClintock, *CinemaCon 2012: Fox Will Stop U.S. 35mm Film Distribution Within Two Years*, HOLLYWOOD REPORTER (Apr. 24, 2012), <http://www.hollywoodreporter.com/news/cinemacon-2012-fox-35mm-john-fithian-chris-dodd-distribution-digital-exhibition-315688>; see also Megan Geuss, *Celluloid No More: Distribution of Film to Cease by 2013 in the US*, ARSTECHNICA (June 9, 2012), <http://arstechnica.com/gadgets/2012/06/the-silver-screen-no-more-distribution-of-film-to-cease-by-2013-in-the-us/>.
94. McClintock, *supra* note 93.
95. Gendy Alimurung, *Movie Studios Are Forcing Hollywood to Abandon 35mm Film. But the Consequences of Going Digital Are Vast, and Troubling* (Apr. 12, 2012), <http://www.laweekly.com/2012-04-12/film-tv/35-mm-film-digital-Hollywood/full/>.
96. Michael Cieply, *Fox to Offer Digital Movies Closer to Theatrical Release*, N.Y. TIMES, Sep. 7, 2012, at B3.
97. *Production of DVDs May Be Coming to an End* (ABC 30 broadcast Jan. 26, 2013).
98. James Brightman, *EA is “going to be a 100% digital company, period” says Gibeau*, GAMES INDUSTRY INTERNATIONAL (Jul. 2, 2012), <http://www.gamesindustry.biz/articles/2012-07-02-ea-is-going-to-be-a-100-percent-digital-company-period-says-gibeau>. With over \$2 billion in revenue expected from digital downloads in 2013, EA plans to transition from a “packaged goods centric company to a fully integrated Digital model.” Telephone interview with John Riccitiello, Electronic Arts’ CEO, Fourth Quarter Fiscal Year 2011 Earnings Call (May 4, 2011).

popular video game retailer, announced its intent to explore the realm of secondary marketplaces for used digital video games.⁹⁹

C. Books

While books may still be relative newcomers to the digital world, “eBook” growth has skyrocketed in the last few years. While e-books made up just 6% of trade revenues in 2010, that number jumped to 15% in 2011 though overall revenues remained relatively the same.¹⁰⁰ Globally, spending on e-books rose by a staggering 64% in 2011.¹⁰¹ In the U.S. in 2012, the number of e-reader or tablet owners jumped from 18% to 33%, while the number of people reading e-books increased from 16% to 23%.¹⁰² Readers of physical books, meanwhile, declined from 72% to 67% in 2012.¹⁰³ The number of physical books and their readers still greatly outweighs e-readers, and certain attributes of a physical book—the allure of a crisply printed edition, the ability to take notes in the margin or dog-ear the pages—may forever preserve the market for physical copies.¹⁰⁴ Still, the growth and impact of e-books continues to rise. Even schools are embracing the e-book trend. In 2011, about 600 school districts nationwide provided their students with iPads and began to replace textbooks with e-books, causing many publishers of school materials to move toward digital offerings.¹⁰⁵

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99. See Anthony John Agnello, *GameStop Explores Selling Used Digital Video Games*, DIGITAL TRENDS (Jul. 27, 2012), <http://www.digitaltrends.com/gaming/gamestop-considering-used-digital-game-sales/>; Eddie Makuch, *GameStop looking into reselling digital content*, GAME SPOT (Jul. 26, 2012), <http://www.gamespot.com/news/gamestop-looking-into-reselling-digital-content-6388559?>
100. Jeremy Greenfield, *The Stupendous Growth of E-Books in 2011; Will It Continue?*, FORBES (Jul. 18, 2012), <http://www.forbes.com/sites/jeremygreenfield/2012/07/18/the-stupendous-growth-of-e-books-in-2011-will-it-continue/>.
101. *Id.*
102. Lee Rainie & Maeve Duggan, *E-book Reading Jumps; Print Book Reading Declines*, PEW RES. CTR. (Dec. 27, 2012), http://libraries.pewinternet.org/files/legacy-pdf/PIP_Reading%20and%20ebooks_12.27.pdf.
103. *Id.*
104. See Nicholas Carr, *Don't Burn Your Books—Print is Here to Stay*, WALL ST. J., Jan. 5, 2013, at C2. Interestingly, Carr points to the ability to resell or give away a book as being one of the reasons to buy physical over digital. *Id.*
105. See Jason Koebler, *More High Schools Implement iPad Programs*, U.S. NEWS & WORLD REP. (Sept. 7, 2011), <http://www.usnews.com/education/blogs/high-school-notes/2011/09/07/more-high-schools-implement-ipad-programs>; see *Many U.S. schools adding iPads, trimming textbooks*, USA TODAY (Sept. 4, 2011),

Though the growth of digital media is varied, it is steadily increasing. The plethora of options for consumption only adds fuel to the fire: digital media can be accessed from phones, tablets, e-readers, iPads, notebooks, computers, phone-tablet hybrids (“phablets”) and everything in between. We spend billions of dollars each year for the convenience and availability of digital media. In fact, the average U.S. consumer spends \$30 a month on digital media.¹⁰⁶ That amounts to around \$360 a year. Over a lifetime, consumers could spend upwards of \$15,000. Once the markets go completely (or predominately) digital, that number will be even greater. We clearly attach and expect value from our digital downloads. And, yet, besides the ease of use and access, our value from these items may rest squarely at zero.

III. DIGITAL FEUDALISM: WHEN CONTRACT OVERTOOK COPYRIGHT

Despite this seismic shift to digital, the legal right to resell or bequeath our digital files has not been clarified. Though the Copyright Office recommended against an update of the First Sale Doctrine, the issue itself has not been fully settled. In fact, far from settling the issue, copyright owners have taken steps to ensure the issue can never be raised.

A. *Old Days*

Let us digress for just a moment. In the feudal days of England, the King retained ultimate legal ownership over all the land.¹⁰⁷ Though various lords or barons were granted land as rewards for service and support, these individuals were not owners, but more like tenants or licensees.¹⁰⁸ While enjoying certain rights associated with ownership, such as the rights to divide land or let others use it, these barons and lords could not transfer their property or will it at their

<http://usatoday30.usatoday.com/news/education/story/2011-09-03/Many-US-schools-adding-iPads-trimming-textbooks/50251238/1>. Similar movements can be seen in classrooms around the world. South Korea, by 2015, intends to have digitized its entire curriculum for school aged children. Gary Eason, *Digital textbooks open a new chapter*, BBC NEWS (Oct. 19, 2011), <http://www.bbc.co.uk/news/business-15175962>.

106. Quentin Fottrell, *Who inherits your iTunes library?*, WALL ST. J., Aug. 23, 2012, articles.marketwatch.com/2012-08-23/finance/33336852_1_digital-content-digital-files-apple-and-amazon.

107. THOMAS F. BERGIN & PAUL G. HASKELL, PREFACE TO ESTATES IN LAND AND FUTURE INTERESTS 3 (2d ed. 1984).

108. *Id.*; see also PETER M. GERHART, PROPERTY: OUR SOCIAL INSTITUTION 212 (2012).

death, and were required to provide the king with certain payments.¹⁰⁹ Furthermore, these grants were personal, meaning once the lords or barons died (or their service or support ended) their land reverted back to the king.¹¹⁰ In essence, the king granted licenses, received benefits from the licensees, and then reclaimed the land once the licensee died or failed to comply with the king's "terms of service."

As power flattened and the king was forced to give up authority on land ownership and governance, individual property rights began to evolve.¹¹¹ Descent, the automatic transfer of property to one's heirs, was the first to develop when lords secured the right to transfer their property to their eldest surviving son.¹¹² From the right to divide one's land came the right to transfer and sell, leading to the growth of markets.¹¹³ And eventually, the combination of these rights led to the right to devise—to transfer property after death by will.¹¹⁴ Finally, property rights had evolved to include what are now common facets: alienability and inheritability. Thus, over hundreds of years, the property system "evolved from hierarchy to individual ownership as the power of the sovereign to use property as a system of social control was diminished by the recognition of rights of ownership."¹¹⁵

B. *New Kings*

Our property rights have developed over hundreds of years, through legal and literal battles, adapting to new markets and new technologies along the way. And yet today's digital era is replete with licenses whose terms echo the feudal restraints of our past. For instance, the iTunes Store Terms and Conditions of Service state that users purchase content for "end user use only under the terms and conditions set forth in this Agreement."¹¹⁶ Use is limited to five authorized devices, may not be used for commercial purposes, and one wrong sync may result in the deletion of an entire library.¹¹⁷ Though the iTunes Store has some of the most generous terms of service, technically passing title (and therefore ownership) to users upon

109. GERHART, *supra* note 108, at 212. These payments and obligations were the "precursor of our tax system" and included providing a certain number of knights to the king. *Id.*

110. *Id.*

111. GERHART, *supra* note 108, at 213.

112. BERGIN & HASKELL, *supra* note 107, at 8.

113. *See* GERHART, *supra* note 108, at 214–15.

114. *Id.*

115. *Id.* at 210.

116. *iTunes Store Terms and Conditions*, APPLE (last updated Sept. 18, 2013), <http://www.apple.com/legal/itunes/us/terms.html#SALE>.

117. *Id.*

purchase, Apple still retains the right to “change, suspend, remove, or disable access to any iTunes Products, content, or other materials comprising a part of the iTunes Service at any time without notice.”¹¹⁸ Amazon is even more restrictive, stating in its terms of service that users are granted a “non-exclusive, non-transferable right” to use content, and may not “redistribute, transmit, assign, sell, broadcast, rent, share, lend, modify, adapt, edit, license or otherwise transfer” any of their digital purchases.¹¹⁹ Amazon, who also reserves the right to amend, modify, or suspend its terms of service without notice, caused outrage in 2009 when it exercised this right and remotely deleted copies of George Orwell’s, “1984,” from Kindles across the country.¹²⁰ And if Apple or Amazon were to go bankrupt? A consumer’s right to its downloaded content could be revoked.¹²¹ Though purchases through both iTunes and Amazon may be used for a lifetime, they cannot be passed on or otherwise sold or transferred. At death or at any point of non-compliance, entire accounts revert back to the distributors, the new kings of digital feudalism.

The concerns raised about the potential for contracts to defeat copyright, dismissed by the Copyright Office in 2001, have fully materialized. In the absence of any restrictions to the contrary, copyright owners have “turned with a vengeance to the institution of contract to specify the rights and responsibilities of their customers.”¹²² Because the First Sale Doctrine only applies to *owners*, copyright owners use licenses to ensure that no consumer ever gains the right of true ownership. The First Sale Doctrine is circumvented completely, and the copyright balance is tilted in favor of the copyright owners.¹²³ Right holders, and not the copyright policies

118. *Id.*

119. See *Amazon Kindle Store Terms of Use*, AMAZON.COM, (last updated Sept. 6, 2012), http://www.amazon.com/gp/help/customer/display.html/ref=hp_left_sib?ie=UTF8&nodeId=201014950; *Conditions of Use*, AMAZON (last update Dec. 5, 2012), <http://www.amazon.com/gp/help/customer/display.html/?nodeId=508088>.

120. See Brad Stone, *Amazon Erases Two Classics From Kindle. (One Is “1984.”)*, N.Y. TIMES, Jul. 18, 2009, at B1.

121. See Elizabeth I. Winston, *Why Sell What You Can License? Contracting Around Statutory Protection of Intellectual Property*, 14 GEO. MASON L. REV. 93, 117 (2006).

122. Lydia Pallas Loren, *Slaying the Leather-Winged Demons in the Night: Reforming Copyright Owner Contracting with Clickwrap Misuse*, 30 OHIO N.U. L. REV. 495, 495 (2004).

123. Winston, *supra* note 121 at 106 (“Allowing circumvention of the first sale doctrine through contract frustrates the policy behind the . . . doctrine, as licenses are used to impose price and other restrictions on the rights of the licensees, and tilts the balance of rights in favor of the copyright owner and away from the public.”).

established by Congress, now determine the landscape of consumer privileges. Adhesion contracts are commonplace, with some consumers bound simply by *visiting* a website.¹²⁴ And since these licenses are non-negotiable, the restrictions companies can place are limitless.¹²⁵ Though the Copyright Act limits certain rights of copyright owners, it does not expressly preempt the use of state contract law to expand rights or circumvent limitations. Copyright owners have interpreted this lack of preemption to imply that “any rights or authorizations beyond those included in copyright law are covered by contract” and a copyright owner can expand their rights through the “mechanism of contracts and licenses regardless of the state of copyright law.”¹²⁶ Consequently, transactions that looked like sales, even transactions that were accompanied by terms that sounded like sales, were placed outside the realm of the First Sale Doctrine because they were accompanied by “license” labels.

C. Is Ownership Meaningless? The Judicial Nails in the Digital Ownership Coffin

Consumers have not been convinced that labeling a purchase a “license” instead of “sale” wholly deprives them of their ownership rights. Numerous legal challenges have been brought to determine whether a license that confers most, but not all, of the facets of ownership can truly be a license. But the answers have varied as courts have struggled with whether or not to apply the First Sale Doctrine.¹²⁷ Some courts focused on form and label, others on function

124. Viva R. Moffat, *Super-Copyright: Contracts, Preemption, and the Structure of Copyright Policymaking*, 41 U.C. DAVIS L. REV. 45, 55 (2007).

125. As Loren notes, some companies “define themselves . . . by the outlandishness of their assertions,” with one company claiming that if a user fails to register software, “a leather-winged demon of the night will tear itself, shrieking blood and fury, from the endless caverns of the nether world . . . and search the very threads of time for the throbbing of your heartbeat.” See Loren, *supra* note 122, at 497.

126. NICOLA LUCCHI, DIGITAL MEDIA & INTELLECTUAL PROPERTY: MANAGEMENT OF RIGHTS AND CONSUMER PROTECTION IN A COMPARATIVE ANALYSIS 34 (2006).

127. *Compare* MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511 (9th Cir. 1993) (holding simply that when software says it is licensed, it is licensed), *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354 (Fed. Cir. 1999) (holding that distributions that are transmitted with restrictions inconsistent with a sale are licenses), *and Adobe Sys. Inc. v. One Stop Micro, Inc.*, 84 F. Supp. 2d 1086, 1091 (N.D. Cal. 2000) (restrictions that “undeniably interfere with the reseller’s ability to further distribute the software” indicate a license instead of a sale), *with SoftMan Prods. Co. v. Adobe Sys. Inc.*, 171 F. Supp. 2d 1075 (C.D. Cal. 2001) (examining the economic realities of a transaction and concluding that where a transaction involves a single

and character. While some courts found sales in the place of licenses, most courts preferred to defer to the contractual terms themselves. Finally, in 2010, the influential Ninth Circuit decided *Vernor v. Autodesk*,¹²⁸ delivering what some commentators believed was the “death knell”¹²⁹ for the First Sale Doctrine in the digital age. Timothy Vernor had purchased several copies of Autodesk software at an office sale, which he then sold on eBay despite the software’s licensing agreements that placed significant use and transfer restrictions on its customers.¹³⁰ The restrictions placed on Autodesk’s software claimed that Autodesk retained title to all copies and users held non-exclusive and non-transferable licenses.¹³¹ The district court found that, because Autodesk’s restrictions never required a user to *return* the software, users—in this case Vernor—were in fact owners of the software despite it being “licensed”, and able to assert the First Sale Doctrine and its protections.¹³² The Ninth Circuit reversed, finding Autodesk retained title to the software through its significant restrictions, depriving Vernor of the ownership needed to invoke the First Sale Doctrine.¹³³ In its decision, the court identified three factors to evaluate in determining whether ownership has occurred through a sale, or whether a user was merely a licensee: (1) whether the contract specified that the user was granted a “license”; (2) whether the contract significantly restricted the user’s ability to transfer the software; and (3) whether the contract imposed “notable use restrictions.”¹³⁴ In essence, the court favored form over function, expressly rejecting Vernor’s arguments that the economic realities and indefiniteness of the licenses had the characteristics of sale rather than a license.¹³⁵

payment in return for unlimited possession, the transaction is a sale regardless of its label as a license), *and* Krause v. Titleserv, Inc., 402 F.3d 119, 124 (2nd Cir. 2005) (holding that “ownership” does not necessarily mean a party must have *formal title* over a copy, just that there must be “sufficient incidents of ownership”).

128. 621 F.3d 1102 (9th Cir. 2010).

129. Simon Frankel & Leslie Harvey, *Will the digital era sound the death knell for the first sale doctrine in US copyright law?*, INTELL. PROP., Mar. 2011, at 40.

130. *Vernor*, 621 F.3d at 1103.

131. *Id.* at 1104.

132. *Id.* at 1111. *See also* *Vernor v. Autodesk, Inc.*, 555 F. Supp. 2d 1164 (W.D. Wash. 2008).

133. *Vernor*, 621 F.3d at 1111–12.

134. *Id.* at 1111.

135. *Id.* at 1113–14. *See also* Gloria C. Phares, *Copyright Licensing*, in *ADVANCED COPYRIGHT LAW ANNUAL REVIEW* 2012 247, 261–62 (2012).

The *Vernor* decision seemingly solidified the rights of copyright holders to use contract to expand their traditional rights found under the Copyright Act. It was as if the fight to bring the First Sale Doctrine into a digital age was finally lost. The balance now favored the copyright owners: no matter how much a transaction looked like a sale, a “license” label coupled with certain restrictions contrary to ownership meant there could not be a sale. Many assumed courts would “treat electronic distributions of [all] copyrighted works as conveying licenses . . . so long as the transactions come with sufficient restrictions.”¹³⁶ And, yet, the court cases favoring licenses all centered on *software*. No court has ever addressed the license-sale dichotomy as it relates to non-software files, such as music and e-books. But music and e-books are clearly distinct from software. There was hope that courts might not be able to so easily turn their backs on the First Sale Doctrine in these situations.¹³⁷

IV. THE FINAL PIECE: A REDIGI-SPARKED REVOLUTION

A. “Just like your favorite record store”

The First Sale Doctrine fuels a robust secondary market for physical books and music. Since there are millions of digital books and music used today, it seemed only a matter of time before a digital equivalent emerged. Enter ReDigi, which hails itself as the “World’s First Pre-Owned Digital Marketplace.”¹³⁸ According to ReDigi, most people listen to less than 20% of their acquired digital library, resulting in a waste of space and potential wealth.¹³⁹ It was this realization of waste that sparked John Ossenmacher to create ReDigi in October of 2009.¹⁴⁰ Officially launched in 2011, ReDigi utilizes cloud computing¹⁴¹ to allow users to store, stream, and sell verified digital music.¹⁴² ReDigi claims it is simply “like your favorite used record store.”¹⁴³ Unlike traditional used record stores, however, ReDigi also

136. Frankel & Harvey, *supra* note 129, at 42.

137. *See, e.g.*, UMG Recordings, Inc. v. Augusto, 628 F.3d 1175 (9th Cir. 2011) (holding that licenses distributed with promotional CDs did not remove the applicability of the First Sale Doctrine).

138. REDIGI.COM, <https://www.redigi.com/> (last visited Mar. 17, 2013).

139. *ReDigi Frequently Asked Questions*, REDIGI.COM, <http://newsroom.redigi.com/faq/> (last visited Mar. 10, 2013).

140. Declaration of John Ossenmacher at 2, Capitol Records, LLC v. ReDigi, Inc., 934 F. Supp. 2d 640 (S.D.N.Y. 2013) (No. 1:12-cv-00095-RJS).

141. *About ReDigi*, REDIGI.COM, <http://newsroom.redigi.com/about/> (last visited Mar. 10, 2013).

142. *ReDigi Frequently Asked Questions*, *supra* note 139.

143. *Id.*

gives a portion of the proceeds of each sale to the artists themselves, the first time such a profit has ever been given in the secondary market.¹⁴⁴ Through the Artist Syndication Program, ReDigi shares 20% of the transaction fee with an artist whenever the artist's track sells, something ReDigi believes has "the potential to pay up to a hundred million dollars to syndicated Artists in the coming years."¹⁴⁵

In its beta stage, ReDigi only accepted music from iTunes.¹⁴⁶ The company has since expanded to include e-books and other digital media,¹⁴⁷ and recently entered into the European market.¹⁴⁸ The original technology, ReDigi 1.0, was developed by a team of mathematicians and developers led by MIT professor Larry Rudolph.¹⁴⁹ The system worked by having users download ReDigi's Music Manager software, which then allowed the "Verification Engine" to analyze the user's music library to identify those files that were lawfully obtained from iTunes and thus eligible for upload to ReDigi.¹⁵⁰ Music not lawfully owned could not be uploaded. Once the files were verified, ReDigi would move the files to the user's individual cloud, from which the music could be streamed or sold.¹⁵¹ At the same time, the software "instantaneously remove[d] . . . any 'personal use' copies" from the user's devices to ensure that only the original file existed.¹⁵² In doing so, the software created a "digital fingerprint" that monitored the user's computer, notifying the user if a copy of the uploaded file still existed.¹⁵³ The software itself did not delete any

144. *About ReDigi*, *supra* note 141.

145. Gene Quinn, *Digital Music Reseller Partners with Apple iTunes and Artists*, IPWATCHDOG.COM (June 13, 2012, 7:25 AM), www.ipwatchdog.com/2012/06/13/digital-music-reseller-partners-with-apple-itunes-and-artists/id=25427/.

146. *About ReDigi*, *supra* note 141.

147. *Id.*

148. See Robert Cookson, *ReDigi to open second-hand digital market*, FINANCIAL TIMES (Jan. 17, 2013, 3:49 PM), <http://www.ft.com/intl/cms/s/0/74b33052-5e54-11e2-a771-00144feab49a.html>. The recent European case, *UsedSoft v. Oracle*, seems to have paved the way for ReDigi to venture into Europe, after a judge ruled that gaming software could be resold regardless of restrictive licenses. See discussion *infra* Part V.C.

149. Matt Peckham, *How ReDigi Lets You Resell Digital Music (and Why It's a Big Deal)*, TIME (June 27, 2012). <http://techland.time.com/2012/06/27/how-redigi-lets-you-resell-digital-music-and-why-its-a-big-deal/>. See also *About ReDigi*, *supra* note 141.

150. *ReDigi Frequently Asked Questions*, *supra* note 139.

151. *Id.*

152. *Id.*

153. *Peckham*, *supra* note 149.

copies of files that were already uploaded, instead notifying the user of the violation to encourage people to “maintain compliance with copyright law.”¹⁵⁴ When a user decided to actually sell its music that has been verified and uploaded, as opposed to just using the cloud for storage, ReDigi utilized a “patent-pending Atomic Transaction technology [to transfer] the music file . . . from the [seller’s cloud] to the buyer” so that only the buyer has access to the file.¹⁵⁵ In this process, ReDigi claimed to never makes *copies* of a given file, but that, in a sale, it simply transferred the file and its corresponding license to the new owner.¹⁵⁶

B. The Second Circuit Weighs In

1. David v. Goliath

Despite ReDigi’s assurances that it was operating within the boundaries of the Copyright Act and the First Sale Doctrine, ReDigi was in operation for less than three months before music giant Capitol Records filed a copyright infringement suit against it.¹⁵⁷

In its complaint, Capitol Records claimed ReDigi assisted users in making “systematic, repeated and unauthorized reproductions and distributions of [Capitol’s] copyrighted sound recordings.”¹⁵⁸ Capitol lashed out at ReDigi’s claims that its software enabled it to function within the First Sale Doctrine, saying these claims were deceitful to

154. *Id.* Ossemacher says that, like Amazon and eBay, it is not ReDigi’s responsibility to “play policeman . . . if someone reselling an item chooses to operate in a way that’s unlawful and completely concealed from the merchant.” *Peckham, supra* note 149. *Multiple* violations, however, may result in a suspension or termination of the user’s account. See *Terms of Service for Beta Software, Site and Services*, REDIGI.COM, <https://www.reddigi.com/site/terms.html> (last visited Apr. 9, 2014).

155. *Is ReDigi Legal? Yes!*, REDIGI.COM, <https://www.reddigi.com/legal> (last visited Mar. 11, 2013).

156. *ReDigi Frequently Asked Questions, supra* note 139. As one observer put it, it is more like “buying a house than a car.” Rick Sanders, *Music Industry v. ReDigi: Cute or Clever?*, AARON SANDERS L. (Jan. 25, 2012), <http://www.aaronsanderslaw.com/blog/music-industry-v-reddigi-cute-or-clever>.

157. *Capitol Records, LLC v. ReDigi Inc.*, 934 F. Supp. 2d 640, 646–47 (S.D.N.Y. 2013) (“Capitol . . . commenced this action by filing the Complaint on January 6, 2012.”). It should be noted that Apple itself sits on the sidelines of the case. It has not intervened or filed any documents. In short, Apple does not oppose ReDigi’s marketplace. See David Streitfeld, *Reselling the E-Goods*, N.Y. TIMES, Mar. 8, 2013, at B1.

158. Complaint at 1–2, *Capitol Records*, 934 F. Supp. 2d 640 (No. 1:12-cv-00095-RJS).

the public and induced the public to infringe on copyrights.¹⁵⁹ Capitol asserted two major arguments for why the First Sale Doctrine was inapplicable to the ReDigi business model. First, the doctrine was inapplicable because the files being sold were not “owned,” but merely licensed.¹⁶⁰ Second, Capitol argued that ReDigi’s Music Manager software necessarily required both an upload and download in a sale, which resulted in at least one unauthorized copy of the file being made.¹⁶¹ Thus, far from “selling” a copy, ReDigi “and its users [were] making and distributing unauthorized copies of [the] original file.”¹⁶² Capitol requested \$150,000 for *each* file sold in violation of the Copyright Act.¹⁶³ Additionally, Capitol asked the judge for a preliminary injunction to shut ReDigi down for the course of the lawsuit.¹⁶⁴ Capitol claimed ReDigi’s “infringing conduct, deception of the public, and destruction of the market . . . if [left] unchecked . . . [would destroy] Capitol’s ability to compete via legitimate online distributors of digital music files.”¹⁶⁵ Facing such a future, Capitol argued, would subject it to irreparable harm with little consequence to ReDigi.¹⁶⁶ ReDigi, meanwhile, steadfastly maintained that its marketplace and Media Manager software were in full compliance with the law, even going so far as to claim its technology was “superior in copyright protection than the existing systems currently readily accepted.”¹⁶⁷ It vociferously opposed the preliminary injunction, framing the case as a David-versus-Goliath-like battle of a “fledgling startup” against a “long established giant in the recording industry.”¹⁶⁸ An injunction, ReDigi argued, would put it out of

159. *Id.* at 9.

160. As discussed in Part I *infra*, the First Sale Doctrine may only be invoked as an affirmative defense when the material is owned. Capitol’s ownership argument is actually twofold: (1) many files, even if lawfully obtained, are licensed, not sold, and thus not available for transfer; and (2) even if able to be transferred, *ReDigi* is not the owner, and thus not able to facilitate a sale. *See* Complaint, *supra* note 158, at 6–8.

161. *Id.* at 6–7.

162. *Id.* at 9.

163. *Id.* at 18.

164. *Id.* at 17.

165. Plaintiff’s Memorandum of Law in Support of Motion for a Preliminary Injunction at 3, *Capitol Records, LLC v. ReDigi Inc.*, 934 F. Supp. 2d 640 (S.D.N.Y. 2013) (No. 1:12-cv-00095-RJS).

166. *Id.* at 23–24.

167. Declaration of John Ossenmacher, *supra* note 140, at 7.

168. Defendant’s Memorandum of Law in Opposition to Plaintiff’s Motion for a Preliminary Injunction at 23, *Capitol Records*, 934 F. Supp. 2d 640 (No. 1:12-cv-00095-RJS).

business and deny consumers of a “much needed new source of lawful competition for the purchase and sale of legally acquired music.”¹⁶⁹

2. One Step Forward, Two Steps Back

The case quickly captivated the attention of consumers and creators alike, who waited to see what the ruling would spell for the future of a Digital First Sale Doctrine. Judge Sullivan handed ReDigi an early victory when he denied Capitol’s request for a preliminary injunction,¹⁷⁰ but the victory was short lived. At the preliminary injunction stage, Judge Sullivan stated that he would apply the facts to the law as it existed now, not as people may think it should be.¹⁷¹

Less than two months after denying the preliminary injunction, Judge Sullivan granted partial summary judgment in favor of Capitol Records, finding that the ReDigi process unlawfully reproduced copyrighted material and, therefore, the First Sale Doctrine was could not apply.¹⁷² The court rejected ReDigi’s technology assurances and found that the act of uploading to ReDigi’s cloud necessarily entails making a copy of the file:

ReDigi stresses that it “migrates” a file from a user’s computer to its Cloud Locker, so that the same file is transferred to the ReDigi server and no copying occurs. However, even if that were the case, the fact that a file has moved from one material object—the user’s computer—to another—the ReDigi server—means that a reproduction has occurred.¹⁷³

Therefore, a First Sale defense simply could not apply because it was “impossible for the user to sell her ‘particular’ phonorecord on ReDigi.”¹⁷⁴

As promised, the court reached its holding by approaching the case from the confines of the existing law and taking a literal reading of the First Sale Doctrine’s application. As the court noted, “Because this is a court of law and not a congressional subcommittee or technology blog, the issues are narrow, technical, and purely legal.”¹⁷⁵ The court repeatedly rejected ReDigi’s argument that the basic purpose of the First Sale Doctrine supported its application to the

169. *Id.* at 24.

170. Order Denying Preliminary Injunction Motion, Capitol Records, LLC v. ReDigi Inc., *Capitol Records*, 934 F. Supp. 2d 640, ECF No. 25.

171. *Id.*

172. *Capitol Records*, 934 F.Supp.2d at 650, 655.

173. *Id.* at 650.

174. *Id.* at 655.

175. *Id.* at 645.

digital realm, even if the literal terms did not¹⁷⁶ Still, though it rejected the application of the first sale doctrine in the current case, the court repeatedly indicated that the issue of a digital first sale was not out of the question. It simply reiterated that the court was not in a position to amend the Copyright Act—Congress was the appropriate venue:

[The First Sale Doctrine] 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. While this limitation clearly presents obstacles to resale that are different from, and perhaps even more onerous than, those involved in the resale of CDs and cassettes, the limitation is hardly absurd—the first sale doctrine was enacted in a world where the ease and speed of data transfer could not have been imagined. There are many reasons, some discussed herein, for why such physical limitations may be desirable. It is left to Congress, and not this Court, to deem them outmoded.¹⁷⁷

3. The Next Phase

These Second Circuit’s conclusions in the *ReDigi* case highlight the inherent difficulties that emerge when technology evolves faster than the law. Unsure of how to deal with the new technology and unwilling to issue a ruling that would effectively amend the Copyright Act, the court did what it could with the existing law. But this does not end the discussion. The fact remains that there seems to be technology available that could enable the transfer of digital files in a way that would allow for a digital first sale. Since the court case, ReDigi has developed more advanced software that supposedly allows for transfer without copying.¹⁷⁸ What’s more, ReDigi is not alone. Amazon and Apple, the behemoth corporations supplying the digital transition, were both recently awarded patents that would allow them to use technology remarkably similar to ReDigi’s to open up their own secondary digital marketplaces.¹⁷⁹ These patents demonstrate

176. *See, e.g., id.* at 655 (“Because the Court has concluded that ReDigi’s service violates Capitol’s reproduction right, the first sale defense does not apply to ReDigi’s infringement of those rights.”).

177. *Id.* at 656.

178. *See* Matt Peckham, *ReDigi CEO Says the Court Just Snatched Away Your Right to Sell What You Legally Own*, TIME.COM (April 25, 2013), <http://techland.time.com/2013/04/25/redigi-ceo-says-the-court-just-snatched-away-your-right-to-resell-what-you-legally-own/>; Press Release, ReDigi Awarded Significant U.S. Patent (Jan. 29, 2014) *available at* <http://newsroom.redigi.com/redigi-inc-awarded-significant-u-s-patent/> (noting that no copying is necessary with the new technology).

179. *See* Streitfeld, *supra* note 157 (“In late January, Amazon received a patent to set up an exchange for all sorts of digital materials.”); *see also*

that various forms of “forward-and-delete” technology exist.¹⁸⁰ Even cloud-computing can be used for access control in a manner that facilitates a transfer without reproduction. The Copyright Office’s main objection to a Digital First Sale is without merit, and the final piece needed to update the doctrine seems to have materialized.

V. EVERYTHING THAT IS NEW IS OLD AGAIN:
A CALL FOR CONGRESSIONAL ACTION

A. *Congress Must Act Before Copyright Holders Set the Rules*

The First Sale Doctrine is supposed to *balance*. As Yale Law Professor Yochai Benkler notes, every major innovation is “followed by a brief period of openness before the rules of its usage [are] determined and alternatives eliminated.”¹⁸¹ Congress stopped short of updating the Copyright Act in 2001 in large part due to recommendations from the Copyright Office, who did not believe the timing was ripe. E-commerce was just beginning, it was questionable whether the technologies existed to allow for “forward-and-delete” systems, and restrictive licenses were not a threat to copyright yet. Twelve years later, this trifecta of objections has been turned on its head. E-commerce has exploded and the world is about to turn fully digital as “[p]eople around the world increasingly are accessing content on mobile devices and fewer of them . . . need or desire . . . physical copies.”¹⁸² ReDigi, Amazon, and Apple’s patents indicate the technology exists or is emerging that would facilitate digital resale. Contract runs rampantly around the limits set by the Copyright Act. Copyright holders will continue to take advantage of the void in the law if it continues. As Maria Pallante, the Register of Copyrights noted in an appearance before Congress, it is time for the “next great copyright act” to address the digital age.¹⁸³

Jared Newman, *Apple Patents a System for Second-Hand iTunes Sales*, TIME.COM (Mar. 8, 2013), <http://techland.time.com/2013/03/08/apple-patents-a-system-for-second-hand-itunes-sales/print/>.

180. There is even some speculation that “Bitcoin” technology could be used to facilitate a digital first sale. Currently, Bitcoin is treated as property and is able to be transferred and sold from one user to another. See Jerry Brito, *Is Bitcoin the Key to Digital Copyright?*, REASON.COM (Feb. 24, 2014), <http://reason.com/archives/2014/02/24/is-bitcoin-the-key-to-digital-copyright> (proposing Bitcoin as a possible solution for digital resale issues).

181. Boynton, *supra* note 7, at 43.

182. *The Register’s Call for Updates to U.S. Copyright Law: Hearing Before the Subcomm. on Courts, Intellectual Property, & the Internet of the H. Comm. on the Judiciary*, 113th Cong. 7 (2013) (statement of Maria A. Pallante, Register of Copyrights of the United States).

183. *Id.*

ReDigi, Amazon, and Apple have already taken steps to open their own secondary marketplaces. GameStop wants to as well. Clarification must be given so the market knows what direction to move in. What's more, Apple, Amazon, or any digital distributor could alter their terms of service at any time to remove the right to resell or transfer. More likely, however, major distributors such as Apple and Amazon could alter their terms of service to only allow resale or transfer through their own sites, putting a stranglehold on consumers *and* competitors. Finally, although copyright is meant to preserve the rights of consumers and property owners, it is also meant to preserve the rights of the copyright holders themselves, to incentivize them to continue to create. For this to continue in a digital age, measures would have to be taken to ensure a digital First Sale Doctrine does not completely turn its back on the protections owed copyright holders. Courts are struggling to apply the current First Sale Doctrine, created in an analog world, to new digital technologies. Though the First Sale Doctrine was originally created by the courts, the complexities of a digital doctrine indicate that the future of the First Sale Doctrine should not be left to the courts alone. Rather, the time is now ripe for Congress to update the Copyright Act. Congressional action will help determine the rules and limits of a Digital First Sale Doctrine and erase uncertainties about its application.

*B. A Statutory Amendment Will Restore the
Function of the First Sale Doctrine*

One of the fundamental functions of the First Sale Doctrine is to reconcile copyright law with our deeply-embedded notions of the rights of owners and property; it is meant to balance the scale between the two.¹⁸⁴ “The whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution.”¹⁸⁵ Contract, however, has allowed copyright holders to place strangleholds on the rights of consumers. While contract may have once been used to balance the scale for copyright owners, that scale has now been grossly tipped in their favor.¹⁸⁶ The assertion of these rights via contract, however, is not

184. See Joseph P. Liu, *Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership*, 42 WM. & MARY L. REV. 1245, 1300–01 (2001) (discussing the “well-established rights or privileges” that accompany ownership).

185. *Quality Kinds Distribs., Inc. v. L'anza Research Int'l Inc.*, 523 U.S. 135, 152 (1998).

186. See Gary Miller, *On Federal Preemption of Contractual First Sale Waivers*, 2010 B.C. INTELL. PROP. & TECH. F. 3, at *2, <http://bciprf.org/wp-content/uploads/2011/07/2-ON-FEDERAL->

consistent with the rights granted under the Copyright Act itself.¹⁸⁷ And the harms of continued use of restrictive licenses are drastic. If the First Sale Doctrine does not apply to digital, what incentive would there be to *ever* produce in a physical format again when digital distribution allows copyright owners to exert perpetual control? There would be a complete dissolution of longstanding notions of ownership without consumer choice. Copyright owner's rights should be "meaningful" but not absolute.¹⁸⁸ Congressional action will restore the function of the Copyright Act by returning property rights to consumers and reinforcing limits on copyright owners.

C. *The Rest of the World Is Already Moving Forward*

In its § 104 Report, the Copyright Office noted that, "[i]n evaluating the arguments put forward to support a digital first sale doctrine, it is instructive to inquire how the international community is addressing the application of exhaustion of rights."¹⁸⁹ At the time, no European countries had made moves to update and expand the principle of exhaustion—equivalent to the U.S. First Sale Doctrine—which the Copyright Office took as indicative that an update in the United States was inappropriate.¹⁹⁰ Europe, however, has since changed its mind.

In July 2012, the European Court of Justice handed down a landmark ruling in *UsedSoft GmbH v. Oracle International Corp.*, striking down the enforceability of licenses restricting resale and bringing the concept of exhaustion squarely into the modern, digital era.¹⁹¹ The facts of *UsedSoft* are remarkably similar to *Vernor*: Oracle distributed software under "non-exclusive non-transferable" licenses, UsedSoft acquired some of these software licenses from Oracle customers, and then resold them as "used."¹⁹² The court ruled that the download of software for perpetual use, in exchange for payment,

PREEMPTION-OF-CONTRACTUAL-FIRST-SALE-WAIVERS.pdf
(noting that, because of contractual obligations, purchasers of copyrighted materials typically hold fewer rights than they did in the past).

187. See Loren, *supra* note 122, at 496.

188. See *The Register's Call for Updates to U.S. Copyright Law: Hearing Before the Subcomm. on Courts, Intellectual Property, & the Internet of the H. Comm. on the Judiciary*, 113th Cong. 7 (2013) (statement of Maria A. Pallante, Register of Copyrights of the United States).

189. *Section 104 Report*, *supra* note 26, at 92.

190. See *id.* at 96.

191. Case C-128/11, *UsedSoft GmbH v. Oracle International Corp.*, 2012 E.C.R. I-0000.

192. *Id.*

constituted a sale despite the fact that the software was accompanied by ultra-restrictive license terms.¹⁹³ And as the highest court in the European Union, the ruling is final. In Europe now, exhaustion is the rule of the land.¹⁹⁴ Digital and downloaded content can be owned and resold.

The shift in Europe should indicate to Congress that the time is ripe for expanding the First Sale Doctrine, and in fact an update may be inevitable. Moreover, inconsistent intellectual property law may create challenges in the global market. The *Oracle* decision paves the way for companies like ReDigi to launch digital secondhand markets in Europe.¹⁹⁵ “Savvy users” could seek to purchase content from European markets to take advantage of the new consumer protections but face challenges using their content in the U.S.¹⁹⁶ With the ease of global interactions today, U.S. consumers and businesses need clear guidance on their rights and expectations.¹⁹⁷

193. *Id.*; see also Lukas Feiler, *Birth of the First Download Doctrine—The Application of the First Sale Doctrine to Internet Downloads under EU and US Copyright Law*, 16 J. INTERNET L. 1, 16 (October 2012) (“Increasingly, software, ebooks, music, or films are offered for download without the transfer of title to any property.”).

194. The ruling is based on European Union Directive 2009/24, which each European country is required to implement. Directive 2009/24/EC, of the European Parliament and of the Council of 23 Apr. 2009 on the Legal Protection of Computer Programs, 2009 O.J. (L 111/16); see also R. Wang, *News Analysis: UsedSoft Vs Oracle Ruling Opens Up Monopolistic Practices by Software Vendors*, FORBES (Jul. 4, 2012), <http://www.forbes.com/sites/raywang/2012/07/04/news-analysis-usedsoft-vs-oracle-ruling-opens-up-monopolistic-practices-by-software-vendors/>.

195. See Robert Cookson, *ReDigi to Open Second-Hand Digital Market*, FIN. TIMES (Jan. 17, 2013, 3:49 PM), <http://www.ft.com/intl/cms/s/0/74b33052-5e54-11e2-a771-00144feab49a.html>.

196. Wang, *supra* note 194. The U.S. Supreme Court recently handed down a ruling stating that lawfully acquired goods *made abroad* are still subject to the protections of the First Sale Doctrine. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013). This raises the question of whether *digital* goods that can be resold abroad can also be resold in the U.S.

197. This may be especially relevant now that the U.S. and E.U. have launched talks about finally launching a Free Trade Agreement by 2014. See Jack Ewing, *Trade Deal Between U.S. and Europe Resurfaces*, N.Y. TIMES, Nov. 26, 2012, at B2; Marcel Fratzscher, *EU-US Free Trade Deal Could Be Costly*, FIN. TIMES (Feb. 21, 2013, 6:42 PM), <http://www.ft.com/intl/cms/s/0/e6a94ef0-7c2f-11e2-99f0-00144feabdc0.html#axzz2NiryxI7j>.

D. Suggestions for Creating a Statutory Balance

1. Expressly include digital content

The previously proposed amendments to the Copyright Act are a good starting point for any Congressional amendment to the First Sale Doctrine. An amendment must explicitly state that the protections of the First Sale Doctrine apply to digital and downloaded works when those works are able to be transmitted in a way that does not produce copies. To this end, a new subsection to Section 109 of the Copyright Act will have to be added. The Digital Era Copyright Enhancement Act proposed adding “subsection (f),” which extended First Sale Doctrine protections to digital media sold or transferred when the user “eras[ed] or destroy[ed] [its] copy . . . at substantially the same time.”¹⁹⁸ Such a focus on the user’s actions might prove too narrow. A new proposed amendment should be broad enough to include the different technologies that allow an acceptable transfer. For example, a proposed amendment could state that the First Sale Doctrine protections apply when the copy is “transmitted in a manner that allows access to a single recipient only, and without creating reproductions of the copy except to the extent necessary to facilitate transmission.”

2. Preempt the use of certain licenses

Now that there appears to be technology that can successfully allow for the transfer of digital files without their reproduction, the use of ultra-restrictive licenses should be limited, if not prohibited completely. In light of court precedent evaluating such licenses, preemption language in an amendment must be clear. Like the Digital Era Enhancement Protection Act, an amendment should expressly preempt contractual circumvention of First Sale rights.¹⁹⁹ When a transaction is concluded that has the merits of a sale, but is conducted under the banner of a license, the terms of the license should not be enforceable. For policy reasons, an amendment should also include language that preempts the use of licenses that limit the markets in which digital content can be resold. Digital distributors should not be able to deprive consumers of choice in deciding which secondary market to utilize. This preemption would prevent Amazon and Apple, for instance, from distributing their digital content with licenses that would only allow the content to be resold in their own secondary markets. Having a choice in which digital market to use will encourage market competition, prevent monopolies, and protect consumer rights.

198. *Copyright Enhancement Act*, *supra* note 40, at § 4.

199. *Id.* at § 7.

3. Fuel creation

Copyright holders' objections to a "Digital First Sale Doctrine" are not baseless: digital media does not wear the way physical does, and "used" copies are likely to be in the same condition as "new." This distinction, however, should be a consideration to be balanced rather than a motive for the complete deprivation of expected ownership rights. Some argue that a secondary market would cause innovation to cease because the availability of "used" goods would deprive creators of deserved royalties.²⁰⁰ Yet this is hardly different from the current, physical secondary market that exists.²⁰¹ Congress should invite discussion for the best way to balance these concerns and considerations in a way that fosters creativity and creation. For instance, ReDigi purportedly gives 20% of its sale profits back to the artists, as a sort of "resale royalty."²⁰² California had unsuccessfully tried to make resale royalties mandatory for certain sales of works by visual artists,²⁰³ modeling its laws off of Europe's system, known as *droit de suite*.²⁰⁴ While mandatory resale royalties seem to fly in the face of the purpose of the First Sale Doctrine, other options for integrating these royalties should be considered. Tax incentives could be used to entice those companies with secondhand markets to offer a resale royalty to artists, publishers, record holders, and other creators. Congress should not, however, take any steps to limit or regulate digital pricing. The secondary market is an opportunity for individuals to recover or offset the price of purchase. The market may experience a period of flux as the digital secondary market finds its footing, but the market itself should eventually reach its own balance. Prices will increase, prices will decrease. Most likely prices for primary sale of new digital media will increase while prices for primary sale of older media available in the secondary market will decrease. But this matches what goes on currently in the physical markets. Thus, unless

200. Streitfeld, *supra* note 157, at B2 ("[Author Scott Turow] acknowledged it would be good for consumers—until there were no more authors anymore.").

201. See Gabriel J. Michael, *Copyright Holders Don't Like Resale, To PROMOTE THE PROGRESS?* (Mar. 8, 2013), topromotetheprogress.wordpress.com/2013/03/08/copyright-holders-dont-like-resale/ (comparing digital secondary markets to physical secondary markets).

202. See Quinn, *supra* note 145 (noting that ReDigi pays artists a fee for each work sold on the site).

203. The California Resale Royalty Act was recently struck down as unconstitutional by the Ninth Circuit, which found it violated the Commerce Clause. See *Estate of Robert Graham v. Sotheby's Inc.*, 860 F. Supp. 2d 1117, 1124 (9th Cir. 2012) ("The CRRA Violates the Commerce Clause Per Se.").

204. Council Directive 2001/84/EC, 2001 O.J. (L 272/32).

and until the secondary market has completely undermined the primary market, Congress should not interfere. Distributors and creators should be inspired to create in order to continue to feed the “new” market. Technology will also continue to evolve in a manner that self-regulates the market; just as the cassette-tape was replaced by CD, digital distributions today may be all but obsolete tomorrow.

CONCLUSION

It seems the time and factors are now ripe to establish a Digital First Sale Doctrine. The Copyright Office’s objections from 2001 are simply no longer applicable, and copyright holders threaten to deprive consumers of rights without any consideration. There certainly are downfalls to a Digital First Sale Doctrine, and it may take years to find the correct balance. But technological innovation should not be taken advantage of to stifle the rights of consumers. A Digital First Sale Doctrine would cause secondary markets for digital goods to spring up overnight. Amazon and Apple are already on the sidelines waiting to capitalize on the ocean of wealth that could be found in these markets.

The impact of a digital doctrine goes far beyond just secondary markets. If digital media can be sold it can also be bequeathed. A digital doctrine would revitalize notions of ownership. The door would be open for Bruce Willis and other consumers to pass their digital collections down to their children. Entire businesses and markets would emerge to help plan and manage digital estates. States could seize the opportunity to garner revenue from taxing digital inheritance. And regardless of whether our children would ever want our dusty digital collection, and regardless of how frequently our neighbors would buy our used electronic books, having the rights to sell, trade, or bequeath would demonstrate the renewed balance of property and copyright interests in the face of innovation. A Digital First Sale is a revolutionary step towards the future. Yet, through all of this work and all of this proposed legislation, we are simply recapturing the balance of rights and ownership from our very recent past.

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