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Dr. Strangelaw, or How I Learned to Stop Worrying and Love the First Sale Doctrine

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If one stretches into the deep recesses of their memory, one can recall that a long, long time ago, before the days of persistent internet connections and ubiquitous access, upon buying a movie, an album, a video game, or a piece of computer software, the purchaser actually used to receive a physical copy of that purchase. These items might have been housed on a floppy disc, compact disc ("CD"), or digital video disc ("DVD"), among other forms of media. The purchaser gained unlimited access to its contents, able to experience the joy of modern media from the comfort of his or her own home. If history has taught us one thing, however, it is that there are only so many times an individual can listen to Lou Bega's "Mambo No. 5" before she begins regretting the decision to purchase the CD and starts longing for something new.

This phenomenon led to a veritable bonanza for those looking to exchange used media for cash or for those looking to purchase second hand games at deep discounts. Entire businesses were built on the foundation of bartering used software.[1]

Recently, however, with the advent of digital distribution of media, more people than ever are purchasing movies, music, and software online and downloading these purchases directly to their home computers, tablets, or similar electronic devices. Like purchasers of content contained on CDs and DVDs, these purchasers still pay a set price for the product and gain unlimited access to their purchased content. The only difference is that these modern consumers receive no physical copies of their purchase.

A recent Ninth Circuit decision, however, has put the future of an individual's ability to resell her purchased media in doubt. Soon, consumers may no longer be legally permitted to sell their used software, despite the overwhelming similarities between the actual transaction in purchasing a physical disc or a digital copy. Using an overly limited interpretation of the first sale doctrine, the court has effectively neutered the doctrine and rendered it impossible for an individual to utilize it as a defense to copyright infringement claims when selling previously purchased digital media.

I. Introduction

Under 17 U.S.C.A. § 106(3), a copyright owner has the exclusive right to distribute copies of its copyrighted works through sale or other transfer of ownership.[2] This power is

[1] . *See* Gamestop Corp., Annual Report (Form 10-K), at F-30 (2011) (reporting $2.62 billion in sales of used videogame products, accounting for 27.4% of total sales for the company).

limited, however, by 17 U.S.C.A. § 109(a).[3] Section 109 codifies the common law concept of the "first sale" doctrine. Under this Section, the copyright owner's monopoly over distribution of the particular copy of its work ceases when the owner relinquishes ownership of that copy.

In cases of digitally distributed media, however, a determination of the occurrence of the actual transfer of ownership can be hard to detect. Consequently, the United States and the European Union have provided dramatically different pictures of when a copyright holder actually sells a copy of his or her work.

The Ninth Circuit has provided the leading case in the United States for the ownership rights of digital content. In Vernor v. Autodesk, Inc. the court held that an individual was not entitled to invoke the first sale doctrine, having resold digital copies of software on eBay that he had acquired from a vendor.[4]

A recent judgment from the European Court of Justice held the opposite. In examining the resale of computer software, the Court in Bierbach v. Oracle International Corp. held that, with specific limitations, an individual has the right to resell its own digital copies of copyrighted works.[5]

Clearly, these decisions reach opposite outcomes. But why the difference? The rationale lies largely in the characterization of the transfer from the copyright owner to the consumer. A closer look into the cases will help to illustrate this point.

II. Vernor v. Autodesk

Timothy Vernor is a prominent seller on the popular online auction website, eBay. At the time of this case, he had sold over 10,000 items on the site. Autodesk is a computer software designer, focusing on computer aided design software used mainly by engineers and architects. The software, known as AutoCAD, was first introduced in 1982 and Autodesk has included a licensing agreement with its software since 1986.

The licensing agreement must be accepted by the purchaser before the software can be used. The agreement "states that the customer has a nonexclusive and nontransferable license" to use the software and "imposes transfer restrictions, prohibiting customers from renting, leasing, or transferring the software without Autodesk's prior consent."[6]

Over the course of several years, Vernor acquired and sold numerous used copies of AutoCAD. For most transactions, the chain of events remained the same: Vernor would list the item for sale on eBay; Autodesk would demand that the auction be taken down; Vernor would file a counter-notice to which Autodesk would not respond; and, eventually, the auction would be reinstated.

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[2] "Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to…distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending." 17 U.S.C.A. 106(3) (2002).

[3] "Notwithstanding the provisions of section 106 (3), 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." 17 U.S.C.A. 109(a) (2002).

[4] Vernor v. Autodesk, Inc., 621 F.3d 1102, 1111 (9th Cir. 2010) cert. denied, 132 S. Ct. 105 (U.S. 2011).

[5] Case C-128/11, Bierbach v. Oracle International Corp., (2012).

[6] Vernor 621 F.3d, at 1104.

However, one particular transaction caused problems. Vernor acquired a batch of AutoCAD software from a company called Cardwell/Thomas & Associates ("CTA"). CTA had upgraded to the next version of AutoCAD and sold the now superfluous software to Vernor. However, after having received several previous complaints of copyright infringement through his auctions, Autodesk's complaint against Vernor in this particular auction prompted eBay to suspend Vernor's account. This suspension caused Vernor to lose one month of income from his online selling. As a result, Vernor brought a declaratory action against Autodesk in an effort to establish that his sales of AutoCAD were protected by the first sale doctrine and, as a result, did not infringe on Autodesk's copyright.

In analyzing the issue, the court first looked at the first sale doctrine. It found that the doctrine was applied as a common law principle in 1908 by the Supreme Court in Bobbs-Merrill Co. v. Straus.[7] In Bobbs, the Court held that the plaintiff copyright-owner could not bring an infringement suit against defendant-booksellers because the plaintiff had exhausted its right to sell the work when it made its sale to the initial purchaser. "To add to the right of exclusive sale the authority to control all future retail sales…would give a right not included in the terms of the statute, and, in our view, extend its operation, by construction, beyond its meaning, when interpreted with a view to ascertaining the legislative intent in its enactment."[8]

The concept was codified the next year as 17 U.S.C. § 41 (1909). In its modern form, the first sale doctrine "allows the 'owner of a particular copy' of a copyrighted work to sell or dispose of his copy without the copyright owner's authorization."[9]

The Vernor court, however, explained that the first sale doctrine does not apply to all transfers. "The first sale doctrine does not apply to a person who possesses a copy of the copyrighted work without owning it, such as a licensee."[10] In such cases, no actual sale has occurred because the transaction has simply provided the purchaser with a license to use the product in question. As a result, the first sale doctrine would provide no defense to a copyright infringement claim because there has, in actuality, been no "first sale."

Therefore, the court concluded, the issue at hand was whether Vernor was the owner of the AutoCAD software or a mere licensee.[11] In examining this issue, the court held that the basis for determining whether a transferee had acquired a license or actual ownership of a copyrighted work rested on several factors. The court found that "a software user is a licensee rather than an owner of a copy where the copyright owner (1) specifies that the user is granted a license; (2) significantly restricts the user's ability to transfer the software; and (3) imposes notable use restrictions."[12]

In its licensing agreement, the court determined, Autodesk had retained title to the software and had imposed significant transfer restrictions. "[I]t stated that the license is nontransferable, the software could not be transferred or leased without Autodesk's written consent, and the software could not be transferred outside the Western Hemisphere."[13] Thanks to such restrictive

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[7] Bobbs-Merrill Co. v. Straus, 210 U.S. 339 (1908).
[8] Id.
[9] Vernor, 621 F.3d, at 1107 (quoting 17 U.S.C. § 109(a)).
[10] Id. (citing Quality King Distribs., Inc. v. L'anza Research Int'l Inc., 523 U.S. 135 (1998)).
[11] Id. at 1108.
[12] Id. at 1111.
[13] Id.

language, Autodesk had prevented CTA from ever becoming the owner of a particular copy of AutoCAD.

This meant that no first sale had ever taken place to transfer title of any particular copy from Autodesk to CTA. As such, Autodesk's monopoly over distribution of AutoCAD had never been extinguished. Ultimately, this meant that Vernor could not have acquired ownership from CTA, and, thus, he was infringing on Autodesk's copyright by reselling the software on eBay.

III. Bierbach v. Oracle

Oracle, the plaintiff, is a developer and marketer of proprietary computer software. Oracle mainly provides its software for download to a client's server. The client is then able to allow a number of users to access the software on their servers and download it onto their individual workstations. The defendant, UsedSoft, was a trader of used licenses. In this case, UsedSoft marketed and sold licenses from Oracle. UsedSoft's clients would then download the software from Oracle's website using the acquired license.

Under Directive 2009/24, European copyright law for computer programs operates very similar to the Copyright Act in the United States. The Directive grants the owner of a copyrighted work the exclusive right to copy and distribute the work, and the exclusive right to distribute a particular copy of a protected work is exhausted at the time of the first sale.[14] Therefore, the determination of whether Oracle still held the exclusive right to sell the particular copies which had been acquired by UsedSoft rested on whether those copies of software had, in fact, been sold or merely licensed. At its core, this is the exact issue that was discussed in Vernor.

This determination, then, is where the difference between the holdings of the Ninth Circuit and the European Court of Justice lies. Whereas the court in Vernor found that a copyright owner could protect its interest in exclusively distributing a protected work by characterizing the transaction as a licensing agreement, the Court in Bierbach found that "a computer program or a copy of such a program must be regarded as being sold…where the transaction, *however it may have been described by the parties*, involves the transfer of ownership of a copy of the computer program, for an unlimited period of time, in return for the payment of a one-off fee."[15]

The Court further identified circumstances that would warrant the finding of a licensing agreement, or "rental," as opposed to a sale. The hallmarks of a rental, the Court found, are when a copyright owner has granted the use of a protected work in exchange for a periodic fee, and the owner has not relinquished ownership of the work and expects its eventual return. [16]

Conversely, the Court spelled out the elements of a sale. In such cases, the purchaser acquires the permanent right to utilize the protected computer program, while paying a lump sum for such right.[17]

The Court rationalized this distinction, stating:

[14] Directive 2009/24, Article 4(2).
[15] Case C-128/11, Bierbach v. Oracle International Corp., (2012) (emphasis added).
[16] Id.
[17] Id.

> An excessively restrictive interpretation of [“sale”] would undermine the effectiveness of that provision by divesting the exhaustion rule of all scope, since the marketing of computer software most commonly takes the form of user licenses and suppliers would only need to call the agreement a ‘license’ rather than a ‘sale’ in order to be able to circumvent that rule.[18]

As such, the court recommended that the lower court hold that “the right to distribute the copy of a computer program is exhausted if the rightholder, who allowed that copy to be downloaded from the internet to a data carrier, also granted, for consideration, a right to use that copy for an unlimited period of time.”[19]

According to the Court’s criteria, UsedSoft acquired licenses which, in fact, had been sold by Oracle. Under this reasoning, the sale exhausted Oracle’s exclusive right to distribute those copies and, consequently, UsedSoft did not violate Oracle’s copyright.

IV. Previous Case Law & Policy Considerations

In addition to thumbing its nose at a common sense examination of the nature of the transaction at issue, the Vernor decision also runs contrary to a line of cases from the Ninth Circuit. In SoftMan Products Co., LLC v. Adobe Sys., Inc., a California district court performed a similar evaluation of software sales to determine whether copies of software were sold or merely licensed.[20] The court stated, in plain language, that “[i]t is well-settled that in determining whether a transaction is a sale, a lease, or a license, courts look to the economic realities of the exchange.”[21] The court held that the software in question had been sold and not licensed:

> In particular, the following factors require a finding that distributing software under licenses transfers individual copy ownership: temporally unlimited possession, absence of time limits on copy possession, pricing and payment schemes that are unitary not serial…and licenses under which the use restriction’s principal purpose is to protect intangible copyrightable subject matter, and not to preserve property interests in individual program copies.[22]

The Softman court relied heavily upon Ninth Circuit findings in In re DAK Indus., Inc. in reaching its decision. The court in DAK correspondingly held that a court must “look to the economic realities of the agreement” and that the terms of the contract “do not control [its] analysis.”[23] The Softman court summed up DAK’s conclusions, stating unequivocally, that “software is sold, not licensed.”[24]

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[18] Id.
[19] Id.
[20] SoftMan Products Co., LLC v. Adobe Sys., Inc., 171 F. Supp. 2d 1075 (C.D. Cal. 2001).
[21] Id. (citing In re DAK Indus., Inc., 66 F.3d 1091 (9th Cir. 1995).
[22] Id.
[23] In re DAK Indus., Inc., 66 F.3d 1091 (9th Cir. 1995).
[24] SoftMan, 171 F. Supp. 2d at 1084.

As a result, the plaintiff-appellee in Vernor relied heavily on the Ninth Circuit's ruling in DAK.[25] The Vernor court, however, quickly dismissed Vernor's analogous reliance on DAK, noting that the DAK court was examining the facts through the lens of the bankruptcy code. Even so, the court stated, DAK and its findings were wholly reconcilable with controlling precedent in the circuit, namely United States v. Wise.

In Wise, the Ninth Circuit once again faced a question of whether a transfer constituted a sale or license.[26] Wise concerned the unauthorized sale of films. In the case, an individual ran a business in which he acquired copies of copyrighted films and then resold those copies to other individuals for their own private use. The defendant argued that the films were sold, contrary to the terms of the licensing agreements attached to each copy.

In general, the agreements "purported to transfer only limited rights for the exhibition or distribution of the films for a limited purpose and for a limited period of time."[27] Furthermore, "[t]he agreements reserved title to the film prints in [the studios], and required their return to [the studio] following the expiration of the contract term."[28] This indicated temporally limited access to the prints, rather than indefinite possession that would indicate a sale. The court held the transfers were not sales "since both on their face and by their terms" the transfers bore more resemblance to a license.[29]

This, the Vernor court concluded, meant that the Wise court had applied a balancing test to determine the difference between a sale and a license.[30] This balancing test measured the terms of the contract against the actual nature of the transfer. As such, the Vernor court concluded, the economic realities of the situation were but one factor to consider in making the determination and, as such, should not solely be used to determine the nature of a transfer.[31]

In reaching its ultimate conclusion, however, the Vernor court *wholly ignored* the economic realities of the exchange, instead basing its ruling exclusively on the enumerated limitations within the licensing agreement. As a result, the Vernor court reached a conclusion that seems incompatible not only with the DAK, SoftMan[32] and Wise rulings, but with its own recitation of the circuit's precedent.

Under the court's conclusion in Vernor, then, the owner of copyrighted digital content has a pain free way to preserve its ability to exclusively control distribution of that content. By simply characterizing the transaction as a licensing agreement and reciting that the owner

[25] Vernor, 621 F.3d at 1114.
[26] United States v. Wise, 550 F.2d 1180 (9th Cir. 1977).
[27] Id. at 1190
[28] Id.
[29] Id.
[30] Vernor v. Autodesk, Inc., 621 F.3d at 1113.
[31] See id. ("In *Wise,* we utilized a multi-factor balancing test to distinguish between a first sale and a license of a copyrighted film print. [citation omitted]. We considered a transferee's ability to possess a print indefinitely as one factor in our analysis, but we did not treat it as dispositive. If we had, we would not have needed to consider other contractual provisions, such as retention of title, copying prohibitions, and lending restrictions.").
[32] *See* SoftMan, 171 F. Supp. 2d at 1084 ("The Court finds that the circumstances surrounding the transaction strongly suggest that the transaction is in fact a sale rather than a license. For example, the purchaser commonly obtains a single copy of the software, with documentation, for a single price, which the purchaser pays at the time of the transaction, and which constitutes the entire payment for the 'license.' The license runs for an indefinite term without provisions for renewal. In light of these indicia, many courts and commentators conclude that a 'shrinkwrap license' transaction is a sale of goods rather than a license.").

maintains ownership, the transaction will almost certainly be found to be a license, as opposed to a sale.

In addition to contradicting previous case law, this interpretation also runs contrary to the policy rationales behind the first sale doctrine. The policies underlying the first sale doctrine are in line with those behind copyright law: to balance the rights of consumers with those of the creators.[33] However, the rights of the consumers are viewed through the context of the free alienation of goods.[34] "The first sale doctrine grew out of the common law's strong policy against restraints on alienation."[35]

Rather than balance these interests, the Vernor decision essentially grants the unlimited and indefatigable right to distribute copies of work to the creator and robs the consumer of all rights of free alienation, so long as the transaction is labeled a license by the copyright holder. The copyright holder is given a wide spectrum of power, and, as long as they exercise caution in writing their license agreements, the right to never "sell" their software again.

In taking a common sense approach to the issue, the Court in Bierbach determined that not applying the first sale doctrine "to internet downloads, when that form of marketing is used extensively to distribute computer programs, would have the effect of limiting the scope of that rule very significantly and, at the same time, of restricting freedom of movement."[36] The Court held that the copyright holder had received sufficient remuneration from the purchaser in initially selling the software, such that it would not be harmed by permitting the buyer to resell the same copy of that software, even though the software was purchased and downloaded digitally, rather than through a physical medium.[37]

As is plainly evident, the Vernor decision dangerously skews the balance of power in favor of the seller, allowing them to maintain a monopoly on distribution through their own characterization of a transaction. Bierbach much more closely resembles the balance of power between buyer and seller that has been expressed as desirable. Vernor, then, presents a very real problem for consumers who purchase software digitally. And these consumers are growing in number.

V. Digital Software Distribution

[33] Melissa Goldberg, Comment, *A Textbook Dilemma: Should the First Sale Doctrine Provide a Valid Defense for Foreign-Made Goods*, 80 FORDHAM L. REV. 3057, 3060 (2012).
[34] Id.
[35] Herbert Hovenkamp, *Post Sale Restraints and Competitive Harm: The First Sale Doctrine in Perspective*, 66 N.Y.U. ANN. SURV. AM. L. 487, 494 (Feb. 3, 2011).
[36] Case C-128/11, Bierbach v. Oracle International Corp., (2012).
[37] *See* id. ("I consider that, in circumstances such as those in the main proceedings, the rightholder has received appropriate remuneration where he has been paid in return for the grant of a right to use a copy of a computer program. Allowing him to control the resale of that copy and, in that event, to demand further remuneration, on the pretext that the copy was fixed on a data carrier by the customer after having been downloaded from the internet, instead of being incorporated by the rightholder in a medium which was put on sale, would have the effect not of protecting the specific subject-matter of the copyright but of extending the monopoly on the exploitation of that right.").

As of February 2011, digital distribution accounted for 24% of videogame sales, compared to 20% in 2009.[38] In 2011, digital channels of delivery accounted for 32% of worldwide revenue for record companies, an increase from 29% in 2010.[39] In the United States specifically, music sales account for more than half of all record industry revenues, at 52%.[40]

And through each distribution channel, the purchaser must agree to terms of service. For example, when purchasing the leading photo editing program Photoshop, purchasers must agree that anything purchased is "*not sold*; rather, copies of Adobe products, including Macromedia branded products, are licensed all the way through the distribution channel to the end user."[41] Similarly, when purchasing a classic computer game such as The Sims, the consumer must accept publisher Electronic Arts' End User License Agreement. This agreement states that "[t]hrough an authorized purchase or transfer, *you acquire and EA grants you a non-exclusive license* to install and use the Software for your personal, limited, non-commercial use solely as set forth in this License and the accompanying documentation."[42]

Each of these agreements seems to fall squarely within the guidelines set by Vernor. They characterize the transactions as licenses and impose significant use restrictions. As a result, each of these services grants only a license to the user within the meaning of Vernor, rather than the real ownership of the program. This means that, when purchased digitally, the consumer's copy cannot be resold without violating the copyright owner's exclusive right to control distribution.

In contrast, because Bierbach looks to the substance of the transaction rather than the language of the terms of use, each of these transactions would likely constitute a sale under Bierbach's test. Both Adobe and Electronic Arts provide their respective software for purchase, at a set price. Then, upon deciding to buy, the user pays a lump sum, as one would in any traditional brick and mortar retail outlet. The purchaser then downloads the game to a physical hard drive and can access and play the game for an unlimited amount of time, even when no longer connected to the seller's online hub or the internet in general.

This form of transaction much more closely mirrors Bierbach's definition of a "sale," as opposed to a "rental" or license agreement. The purchaser pays a lump sum with no expectation of returning the program at any point. There is no recurring payment that is necessary to maintain access to the program, as there would be for a rental. As such, under Bierbach, the copyright holder's sole right to sell that particular copy of the program likely expires at the time of sale.

Even when following Vernor and relying solely on the terms attached to each transaction, we can arrive at different results. That is because the seller, in creating the terms, often uses inconsistent language. Clearly, the Vernor decision places a great emphasis on the language contained within the transaction. But the language examined by the Vernor court was largely

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[38] Samson Okalow, *Digital Distribution Challenges Titans of Video Game Industry*, CANDIAN BUSINESS (June 6, 2012), http://www.canadianbusiness.com/article/86803--digital-distribution-challenges-titans-of-video-game-industry.

[39] International Federation of the Phonographic Industry, Digital Music Report, at 6 (2012).

[40] Id.

[41] ADOBE PRODUCT LICENSE AGREEMENT, http://www.adobe.com/products/eulas/ (emphasis added).

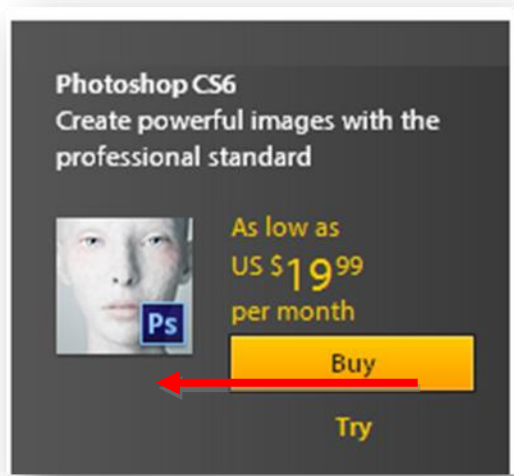
[42] ELECTRONIC ARTS END USER LICENSE AGREEMENT FOR THE SIMS 3 (DISTRIBUTED BY DIGITAL DOWNLOAD), http://eacom.s3.amazonaws.com/EULA_THE+SIMS+3-Digi+Download-3.22.09.pdf (emphasis added).

confined to the fine print of the licensing agreement alone. These licensing agreements are rarely read by customers[43] with some studies estimating that the number of people who actually read them may be as low as approximately 8% of total users.[44]

This tactic conveniently ignores the much more visible and prominent language presented to the consumer. While a license agreement may purport to transfer only a license to utilize software and not to consummate an actual sale, the language that the consumer is confronted with when attempting to purchase the software suggests the opposite.

In purchasing a digital download of Photoshop, for example, the language used to induce a customer into purchase the product suggests that the software will actually be sold to the customer. That is because the seller indicates that a customer is being given the chance to "buy" the product:

Adobe website screenshot, which purports to give consumers the option to "Buy" a copy of Photoshop



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Electronic Arts presents a similar option when examining The Sims 3. The customer can add the program, as a digital download, to their virtual shopping cart, and then, when finished filling the cart, he or she is given the option to "Buy Now."

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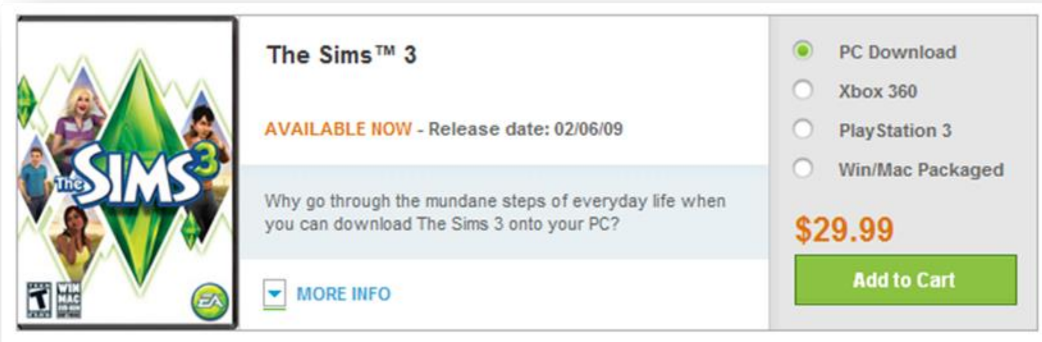
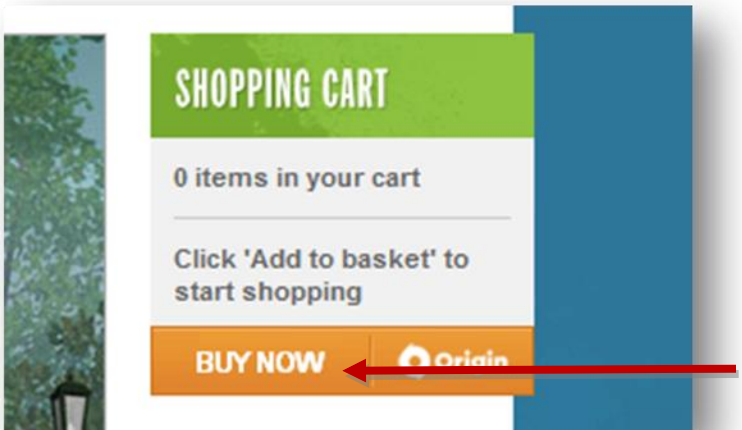
[43] *See* Larry Magid, *It Pays to Read End User License Agreements*, PC PITSTOP, http://www.pcpitstop.com/spycheck/eula.asp ("OK, let's be honest. You didn't really read the EULA. How do I know? Because hardly anyone does. To prove that point, PC Pitstop included a clause in one of its own EULAs that promised anyone who read it, a "consideration" including money if they sent a note to an email address listed in the EULA. After four months and more than 3,000 downloads, one person finally wrote in. That person, by the way, got a check for $1,000 proving, at least for one person, that it really does pay to read EULAs.").

[44] Jeff Sauro, *Do Users Read License Agreements?*, MEASURING USABILITY, http://www.measuringusability.com/blog/eula.php (January 11, 2011).

[45] Taken from Adobe website, http:// www.adobe.com.



Electronic Arts website screen, giving shopper the ability to add a digital copy of The Sims 3 to their cart [46]



Electronic Arts screen allowing shopper to "Buy" all items in cart [47]

Nothing in this language even remotely suggests that the purchaser is doing anything other than buying a legitimate copy of the copyrighted program. Black's Law Dictionary defines "buy" as "[t]o *acquire the ownership* of property by giving an accepted price or consideration therefore."[48] Hence, language that most consumers will actually see indicates that they are acquiring ownership of a copy of these particular programs, as opposed to acquiring a mere license to use the software.

"Generally, all writings which are part of the same transaction are interpreted together."[49] This "buy" language is part of the same transaction to which the license agreements apply, and, thus, will be interpreted with the terms that purport to grant merely a license to the purchaser. At best, this language would indicate that a sale has taken place and the purchaser has acquired a valid copy of the program, implicating the first sale doctrine and exhausting the copyright owner's monopoly over distribution of that copy. At worst, it creates a conflict with the language

[46]Taken from Electronic Arts website, http:// www.ea.com.
[47] Id.
[48] Black's Law Dictionary (9th ed. 2009) (emphasis added).
[49] 11 Williston on Contracts § 30:25 (4th ed.).

of the contract. And when "a contract has conflicting language or language that is susceptible to more than one reasonable interpretation, such language is ambiguous."[50]

In addition to the fact that the terms of the sale are ambiguous, the contract itself is a contract of adhesion. "A contract of adhesion is defined as 'a standardized contract, imposed upon the subscribing party without an opportunity to negotiate the terms.'" [51] A purchaser of digital software has no meaningful opportunity to negotiate the terms of the license agreement. The agreement *must* be accepted before the purchaser can access the program, essentially meaning that the copyright holder can dictate the terms of the agreement, and the consumer can take it or leave it.

In interpreting ambiguous terms in a contract of adhesion, the general rules of contractual interpretation shift to place added emphasis on interpreting ambiguous provisions against the drafting party.[52] Consequently, in order to resolve this ambiguity, a presiding court should construe the terms in favor of the purchasing party, and against the drafting parties such as Adobe and Electronic Arts, as in the examples used.

Because Adobe and Electronic Arts have the exclusive power to write the license agreements that are forced upon the consumer, the fact that the companies have included language that suggests that the consumer is actually "buying" a copy of the programs should be instructive. In interpreting the terms in favor of the purchaser, the "buy" language indicates that the consumer is, in fact, acquiring a copy of the software through a sale and, as such, is entitled to resell that copy at his discretion.

VI. Subscription Based Software Sales

Another legitimate issue with the Vernor decision arises when viewed in the context of subscription based services. Again returning to the example of Photoshop, Adobe permits users not only to purchase the software for permanent use, but also to subscribe to use the program on a month-to-month or yearly basis. Akin to its purchasing user agreement, under this model, Adobe "grants Customer a non-exclusive and limited license."[53] Unlike the purchase option, however, the subscription option grants access to the program "only on the Permitted Number of Compatible Computer *during the License Term*."[54] In addition, Adobe requires "(a) a recurring Internet connection to activate, renew, and validate the license, (b) Adobe or its authorized reseller's *receipt of recurring subscription payments*, and (c) Customer's agreement subscription terms and other additional terms and conditions…"[55]

In the express language of its respective license agreements, Adobe characterizes the customer's ownership stake in the software as a license, whether the acquiring customer obtains

[50] In re Las Torres Dev., L.L.C., 408 B.R. 876, 883 (Bankr. S.D. Tex. 2009).
[51] Nagrampa v. MailCoups, Inc., 469 F.3d 1257, 1281 (9th Cir. 2006) (quoting Flores v. Transamerica HomeFirst, Inc., 93 Cal.App.4th 846, 853 (2001)); *see also* Nw. Nat. Ins. Co. v. Donovan, 916 F.2d 372, 377 (7th Cir. 1990) (describing a contract of adhesion as a "contract that is offered by the authoring party on a take it or leave it basis rather than being negotiated between the parties.").
[52] . In re Mako, Inc., 127 B.R. 474, 477 (Bankr. E.D. Okla. 1991) subsequently aff'd, 985 F.2d 1052 (10th Cir. 1993).
[53] ADOBE PRODUCT LICENSE AGREEMENT, http://www.adobe.com/products/eulas.
[54] Id. (emphasis added).
[55] Id. (emphasis added).

access to the program through purchase or subscription. Therefore, under Vernor, the consumer who purchases a one month subscription to Photoshop and the consumer who pays full retail value for unlimited and unending access to the program are, for all intents and purposes, the same. As a result, these two individuals receive the same right to resell their software: none.

Perhaps unsurprisingly, an analysis under Bierbach reaches the exact opposite conclusion. In examining the actual nature of the sale, as opposed to how the sale was characterized by the seller, it is quickly apparent that these transactions do not mirror each other in any way. The subscriber is obtaining a limited right to access the program for a specific amount of time in exchange for recurring, relatively small payments. At the expiration of the term or upon failure to continue making payments, the access to the software is forfeited. The traditional purchaser, on the other hand, is paying a lump sum in exchange for the unencumbered use of the software, for a term with no expiration date. Clearly, in the latter example, a "sale" is taking place in every conceivable sense of the word. As such, the copyright owner's right of exclusive distribution is extinguished at the time of this sale, and the buyer is protected by the first sale doctrine against any claims of infringement upon resell that copy.

VII. Repercussions on the Resale of Other Forms of Media

A recent court filing will soon extend this argument into the field of digitally distributed music and beyond. In January 2012, Capitol Records brought suit against an internet startup known as Redigi.[56] Redigi's business model focuses on the distribution of "used" copies of iTunes music.[57] Capitol Records, however, claims that the company is nothing more than a "clearinghouse for copyright infringement."[58]

Capitol Records puts forth an argument with two main elements. Capitol first argues that, by selling used digital copies of previously purchased music, Redigi is in violation of the Copyright Act because Redigi is infringing on its exclusive right to distribute copies of its music.[59] The second element responds to Redigi's claim of protection under the first sale doctrine. Capitol claims that because Redigi is not trading in physical copies of music, the first sale doctrine, as articulated in the Copyright Act, is inapplicable.[60]

The Copyright Act as a whole is limited, by its plain language, to physical copies of media.[61] Similarly, the first sale doctrine, as defined by the Act, purports to apply solely to physical

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[56] Christopher Morris, *Capital Records sues Redigi*, VARIETY (Jan. 9, 2012, 1:46 PM), http://www.variety.com/article/VR1118048313?refCatId=16.
[57] Id.
[58] Jessica Leber, *A Start-Up Asks: Why Can't You Resell Old Digital Songs?*, MIT TECHNOLOGY REVIEW (Aug. 15, 2012), http://www.technologyreview.com/news/428792/a-startup-asks-why-cant-you-resell-old-digital.
[59] Complaint at 1, Capital Records, LLC v. Redigi, Inc., No. 12 Civ. 95 (S.D.N.Y. filed Feb. 6, 2012).
[60] *See* id. at 9 ("The Copyright Act defines "copy" and "phonorecord" as material objects in which a work or sounds are fixed, respectively. Neither ReDigi nor its users resell the original material object that resided on the original user's computer. Rather, in violation of Plaintiff's rights of reproduction, ReDigi and its users duplicate digital files both in uploading and downloading discrete copies distinct from the original file that originally resided on a user's computer.").
[61] *See* 17 U.S.C.A. 106 ("[T]he owner of a copyright under this title has the exclusive right to…reproduce the copyrighted work in copies or phonorecords…[and] to distribute copies or phonorecords of the copyrighted work to the public."); *see also* Brief for Google, Inc. as Amici Curiae, Capital Records, LLC v. Redigi, Inc., No. 12 Civ. 95 (S.D.N.Y. filed Feb. 6, 2012) ("Both provisions deal with copies and phonorecords, which are material objects in which copyrighted works are fixed.").

copies as well.[62] Capitol's argument, therefore, is self defeating. In arguing that the Act's first sale doctrine is inapplicable because the doctrine only applies to physical copies of media, Capitol is essentially arguing that its own action is without merit because the Copyright Act in its entirety is inapplicable to digital forms of media. If the first sale doctrine cannot be utilized on intangible forms of media, as Capitol argues, then Capitol cannot rely on the same Act to protect its interest in that same intangible media.[63] Either the doctrine must apply—in which case, ReDigi is assured of its protection—or the Copyright Act, in its entirety, is inapplicable to the situation.

In February 2012, the Southern District of New York denied Capitol's application for an injunction against ReDigi.[64] The case, however, is still pending. Oral arguments were heard on October 5, 2012, and the outcome is still very much in question. However, the outcome will not only affect the resale of music. By its nature, the decision will undoubtedly have verberations in the digital movie industry as well.[65] ReDigi also has plans to enter the e-book market in the future, so the court's decision in this case will have far reaching implications, indeed.[66]

VIII. A Possible Solution

Having firmly established that, at the very least, digitally downloaded software is licensed in the United States and purchased at sale in the European Union, the issue becomes how this discrepancy effects American companies and individuals, and if there are any possible solutions to the problems the <u>Vernor</u> decision creates. As discussed *supra*, not only are consumers impacted by the <u>Vernor</u> decision, but the resale of media has become a multi-billion dollar industry domestically. A company like GameStop requires a steady influx of used content in order to survive. But with the gradual shift to digitally downloaded content and the consumer's newfound inability to transfer that content, how can the company, and others like it, survive?

GameStop has already begun investigating ways in which it could resell digitally downloaded content.[67] This investigation has come with a tacit acknowledgement that such a

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[62] *See* 17 U.S.C.A. 109 ("[T]he owner of a particular copy or phonorecord lawfully made under this title…is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.").

[63] *See* Brief for Google, Inc. as Amici Curiae, <u>Capital Records, LLC v. Redigi, Inc.</u>, No. 12 Civ. 95 (S.D.N.Y. filed Feb. 6, 2012) ("The present motion argues that the first sale doctrine—which permits the owner of a lawfully-made copy or phonorecord to sell it without needing the copyright owner's permission—cannot apply to this case because no material objects change hands. But it also argues that ReDigi infringes Capitol's exclusive right to "distribute copies or phonorecords," despite its admission that no material objects are distributed. Either both provisions apply, and ReDigi's service may be protected by the first sale doctrine, or neither applies, and ReDigi's service does not infringe the distribution right. Google takes no position on which outcome is correct but urges the Court to reject an internally inconsistent argument that would weaken the statutory restrictions on the distribution right.").

[64] Chris Meadows, *Judge finds ReDigi does not have to shut down pending EMI's lawsuit*, TELEREAD (Feb. 7, 2012), http://www.teleread.com/ebooks/judge-finds-redigi-does-not-have-to-shut-down-pending-emis-lawsuit.

[65] Chris Meadows, *ReDigi lawsuit raises questions of fair use and first sale in digital age*, TELEREAD (July 2, 2012), http://www.teleread.com/copy-right/redigi-lawsuit-raises-questions-of-fair-use-and-first-sale-in-digital-age.

[66] Judith Rosen, *ReDigi Plans to Sell Used E-Books*, PUBLISHERS WEEKLY (July 27, 2012), http://www.publishersweekly.com/pw/by-topic/digital/retailing/article/53334-redigi-plans-to-sell-used-e-books.html.

[67] Anthony John Agnello, *GameStop explores selling used digital video games*, DIGITAL TRENDS (July 27, 2012), http://www.digitaltrends.com/gaming/gamestop-considering-used-digital-game-sales.

business may necessarily start in Europe, where some companies have already begun to spring up to take advantage of the Bierbach decision.[68]

London based online game retailer, Green Man Games, is one such company. Green Man allows its users to both buy and, subsequently, trade in downloadable computer games.[69] Green Man CEO Paul Solyuk sees an opportunity for distributors to take advantage of online game sellers. "The classic technique of deep discount, short time limited discounts, all of that will be slightly skewed now," he says, "because you don't want to have a deep discounted game that can then be sold on elsewhere."[70] Under this scenario, a distributor could take advantage of a deeply discounted game sale—a common industry practice—by purchasing unlimited copies of that game at a fraction of their original price, and then reselling them at a profit, while undercutting the game's normal, non-sale price.

Of course, Green Man can avail itself of this strategy thanks to its London location. But this tactic is of no help to American companies. A more creative strategy could potentially exist, however, thanks to additional caselaw under the Copyright Act.

Summit Tech., Inc. v. High-Line Med. Instruments Co., Inc. addressed the subject to copyright infringement in the context of the importation of goods.[71] In Summit, the court found that the Act made "the mere act of importation—regardless of sale—an infringement of Section 106(3)'s distribution right, and prohibit[ed] unauthorized importation, not only of pirated copies, but also of copies that were lawfully made."[72] This section, the court opined, may have to be reconciled with §109's codification of the first sale doctrine.

In examining established case law, the court determined that "sales *abroad* of foreign manufactured United States copyrighted materials do not terminate the United States copyright holder's exclusive distribution rights in the United States under §§ 106 and 602(a)."[73] This meant that if an American company held a copyright on a product, but that product was manufactured overseas and imported into the United States, the product would still be protected by the Copyright Act and the copyright holder would retain the exclusive right of distribution domestically.

However, observing the holding of Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd., the Summit court determined that "[b]ecause [the exclusive right of distribution] is specifically limited by the first sale provisions of § 109(a), it necessarily follows that once transfer of ownership has cancelled the distribution right to copy, the right does not survive so as to be

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[68] "It's very interesting," [Paul Raines] said. "There are some technologies out there in Europe, and we've looked at a couple that are involved. We're interested; it's not a meaningful business yet. Right now we're not seeing that as a huge market, but I think we're on the leading edge. There are a few companies, a few startups, out there that we've talked to that are doing this." Interview with Paul Raines, CEO, GameStop (July 26, 2012), *available at* http://www.gamespot.com/news/gamestop-looking-into-reselling-digital-content-6388559).

[69] "Unlike any other digital retailer, our customers can trade-in their digitally downloaded games for credit in their account and this credit can then be used for new purchases. We have some very clever patent-protected technology that allows only us to do this." About Us, GREEN MAN GAMING, http://www.greenmangaming.com/about/.

[70] Tom Hatfield, *Green Man Gaming CEO speaks out on EU digital sales ruling*, PC GAMER (July 4, 2012), http://www.pcgamer.com/2012/07/04/green-man-gaming-ceo-speaks-out-on-eu-digital-sales-ruling.

[71] Summit Tech., Inc. v. High-Line Med. Instruments Co., Inc., 922 F. Supp. 299 (C.D. Cal. 1996).

[72] Id. (citing Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc., 832 F. Supp. 1378, 1390 (C.D. Cal. 1993)).

[73] Id. (quoting Parfums Givenchy, Inc. v. Drug Emporium, Inc., 38 F.3d 477, 482 (9th Cir. 1994)) (emphasis in original).

infringed by importation."[74] "In other words," the court said, "once the distribution right terminates, so does the importation right."[75]

As a result, because Summit manufactured its software in the United States, "[b]y selling its software abroad, Summit transferred ownership of its copies of the software, and thus 'cancelled [its] distribution right' to those copies. By the plain language of the statute, § 602(a) does not operate to resurrect distribution rights that have already been terminated by a first sale."[76] In other words, as long as the software is manufactured domestically, the sale of that software extinguishes the copyright holder's right to exclusive distribution, whether that sale takes place in the United States or abroad.

Admittedly, this case was decided in regard to the sale of physical media, before the proliferation of digitally distributed software. However, it could still be instructive in such a context. The case provides several pieces of criteria that need to be applied: (1) the software must be manufactured in the United States, (2) the software must be sold, either in the country or abroad, and (3) the software must be imported back into the United States and resold.

This, arguably, provides a potential avenue for an American company to provide a resale solution for consumers. As downloadable software is not contained on discs for distribution, the manufacturing of software could potentially be determined to be the actual coding, programming, and compiling of the software. For American developers, this would most likely take place in the United States. As a result, the digitally distributed product would be manufactured domestically.

In a typical digital transaction, the purchaser would then buy the software from the developer and download it to his or her personal computer. When the user no longer wishes to own the program, she could easily contact a domestic reseller and arrange for the software to be resold. The software could be transferred overseas to servers in the European Union, where the sale from the user to the reseller would be consummated, before the software is then transmitted back to the domestic reseller.

The software would then have been sold, in conformance with Bierbach, extinguishing the right of exclusive distribution and giving the reseller the right to freely alienate that copy of the software. In an age of instant data transfer across continents, this entire process could theoretically take seconds. Any American company could potentially establish a European office to serve as a clearinghouse for the sole purpose of receiving and delivering downloaded software, free from resale restrictions.

IX. Conclusion

As the digital distribution of content becomes more and more pervasive, the issue of ownership of that content will, likewise, grow. Decisions like Vernor will impair the rights of individuals to resell their rightfully purchased copies of digital software, along with other forms of media. These rights, of course, will develop and evolve over time, as with any law, but Vernor only serves to cast doubt as to the future of the first sale doctrine in a digital world.

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[74] Id. (quoting Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd., 847 F.2d 1093 (3d Cir. 1988)).
[75] Id.
[76] Id. (quoting Sebastian Int'l, 847 F.2d at 1099).