NOTES

SOFTWARE & COPYRIGHT EXHAUSTION: A PROPOSAL TO AMEND § 117 & RESTORE BALANCE TO THE COPYRIGHT SYSTEM

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ABSTRACT

Copyright law exists in a balance. On the one end, copyright grants authors a set of exclusive rights in an effort to incentivize them to create. On the other, the public gains needed access to a wider range of works and information after these new works are created and published. Disrupting the balance diminishes the central purpose of copyright—to promote the progress of science and the useful arts. Copyright's protection of digital software and computer programs fails to meet this balance by allowing copyright owners to avoid "selling" their work and to instead "license" the work. This Article argues that § 117 of the Copyright Act, which addresses the rights of owners of copyright protected software, insufficiently protects end users. The best course of action, therefore, is to amend the language of § 117 to

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address the prevalent method of distribution of copyrighted material, placing emphasis on the rights granted to end users. This is possible without diminishing a copyright owner's ability to price discriminate, and will result in restoring the essential balance to copyright law.

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I. INTRODUCTION

As the world embraces the digital distribution of entertainment and software, it becomes less clear what products we own, and what products we are merely allowed to use.[1] Today, numerous services including Apple's iTunes, Valve's Steam, or

[1] Joseph P. Liu, *Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership*, 42 WM. & MARY L. REV. 1245, 1250–52 (2001); Charles Onyett, *Death of the Disc-Based Game*, IGN (Aug. 2, 2011), http://www.ign.com/articles/2011/08/02/death-of-the-disc-based-game.

Microsoft's Live Store offer consumers an opportunity to download media and software directly to their computers, without a need to ever purchase a physical disk.[2] The convenience to consumers is vast, they gain access to a wider range of software and media through centralized libraries with large amounts of product, and have the ability to view or use this media without getting out of their chairs.[3] Additionally, numerous independent software developers, musicians, and authors have the ability to publish their works for a fraction of what it previously cost, which allows the public to gain wider access to new materials.[4] This Article argues that, despite these benefits, copyright law evolved to restrict unduly the freedom of the end user with respect to digital copyright-protected content, and statutory revision is necessary to restore the balance in copyright law.[5]

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[2] *See* Neil Conley, *The Future of Licensing Music Online: The Role of Collective Rights Organizations and the Effect of Territoriality*, 25 J. MARSHALL J. COMPUTER & INFO. L. 409, 434–35 (2008) ("Digital downloads, such as downloading a song file from iTunes onto one's hard drive . . . ."); Onyett, *supra* note 1; *Steam, the Ultimate Game Platform*, VALVE CORP., http://store.steampowered.com/about (last visited Jan. 24, 2014).

[3] *See* Nika Aldrich, *An Exploration of Rights Management Technologies Used in the Music Industry*, 2007 B.C. INTELL. PROP. & TECH. F. 051001 (May 10, 2007) ("Perhaps the greatest lessons learned from the Apple iTunes story are as follows: 1.) the sound quality of the compact disc or lesser formats such as the data compressed formats used in MP3 players in the typical listening environment is of less significance to the end user than the convenience of listening to music at their discretion . . . ."); Bradley Hamburger, *Digital Video Recorders, Advertisement Avoidance, and Fair Use*, 23 HARV. J.L. & TECH. 567, 573 (2010) ("The most conventional, and arguably most successful, online distribution method is the digital download model.").

[4] *See* Peter S. Menell, *Envisioning Copyright Law's Digital Future*, 46 N.Y.L. SCH. L. REV. 63, 176 (2002–03) ("Digital technology has loosened these constraints, enabling artists and authors to reach their audiences directly. Artists and eBook authors can now promote their work through their own websites and larger portals—such as MP3.com, ArtistDirect.com, and Garageband.com in the case of music—at minimal cost."); Casey Rae-Hunter, *Better Mousetraps: Licensing, Access, and Innovation in the New Music Marketplace*, 7 J. BUS. & TECH. L. 35, 56 (2012) ("There is also the growing sector of unaffiliated musicians to consider. Some musicians exist comfortably in the digital marketplace without a label or publisher."); Note, *Exploitative Publishers, Untrustworthy Systems, and the Dream of a Digital Revolution for Artists*, 114 HARV. L. REV. 2438, 2438 (2001) ("Digital technology and the Internet have shattered traditional understandings of publication, enabling the public to reproduce and distribute their own and others' written texts, audio recordings, and other copyrightable materials on a worldwide scale at minimal cost.").

[5] The problem becomes prevalent as game developers explicitly aim to disable game discs after initial use to deter the secondary market for video

Copyright law provides authors who fix their creative work in a tangible medium a set of exclusive rights.[6] Of these rights, authors control, among others, the exclusive right of distribution, reproduction, and sale of their work.[7] Any party who, without authorization by the author, distributes, reproduces, sells, or otherwise infringes upon these rights is subject to civil or criminal liability.[8] Congressional grant of these rights stems from the Constitution, which gives Congress the power to enact copyright laws "[t]o promote the Progress of Science and useful Arts."[9] Generally, as the accepted rationale goes, these exclusive rights incentivize authors to create new works, which in turn gives the public access to new and informative works.[10]

But these rights are not infinite; they are checked in various provisions that ensure the public benefits from the author's copyright.[11] Section 109, the first sale doctrine, in particular,

game sales. Several developers aim to "crack down" on the secondary market, if not eliminate it entirely. *See* Jared Spurbeck, *Sony, Microsoft May Crack Down on Sales of Used Games*, YAHOO! NEWS (Mar. 29, 2012, 7:11 PM), http://news.yahoo.com/sony-microsoft-may-crack-down-sales-used-games-231100473.html.

6 17 U.S.C. § 102 (2012); Richard Belsky, *The Digital Millenium Copyright Act and You: A Framework for a Functional Future*, 14 U. BALT. INTELL. PROP. L.J. 1, 45–46 (2005) ("As it stands now, copyright law protects software code in the same way that it protects a work of art.").

7 17 U.S.C. § 106 (2012).

8 17 U.S.C. § 506 (2012). Civil infringement suits are far more common than a criminal suit. *See* Timothy D. Howell, Comment, *Intellectual Property Pirates: Congress Raises the Stakes in the Modern Battle to Protect Copyrights and Safeguard the United States Economy*, 27 ST. MARY'S L.J. 613, 633 (1996) ("Although both civil and criminal actions may be brought for infringement, a copyright infringer usually faces a civil lawsuit in federal court.") (citations omitted).

9 U.S. CONST. art. 1, § 8, cl 8.

10 Golan v. Holder, Jr., 132 S. Ct. 873, 889 (2012) ("The provision of incentives for the creation of new works is surely an essential means to advance the spread of knowledge and learning."); Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 477 (1984) (Blackmun, J., dissenting) ("The purpose of copyright protection, in the words of the Constitution, is to 'promote the Progress of Science and useful Arts.' Copyright is based on the belief that by granting authors the exclusive rights to reproduce their works, they are given an incentive to create, and that 'encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in Science and the useful Arts.'"). I acknowledge that this is not the *sole* purpose of the Progress Clause, but merely one of the justifications.

11 Specifically, the statutory provisions that follow the exclusive rights are enumerated in § 106. 17 U.S.C. §§ 106–122 (2012); Lauren Fontein Brandes, Comment, *From Mozart to Hip-Hop: The Impact of* Bridgeport v. Dimension *Films on Musical Creativity*, 14 UCLA ENT. L. REV. 93, 112 (2007) ("The limited scope of copyright holders' rights and the limited copyright duration required by

ensures that the author cannot control the distribution of a copy of her work once a legal sale for the copy has been made.[12] The justifications for limiting the author's reach of control stem from an interest in protecting personal rights of the end user to alienate his property, and acknowledge the difference between a copyrighted work and a copy that embodies the work.[13]

Despite these justifications and the important role the first sale doctrine (otherwise known as copyright exhaustion) plays in the grand copyright scheme, the first sale doctrine has remained largely unchanged since its implementation in 1909.[14] The most recent Copyright Act, adopted in 1976, could not and did not account for the rapid technological growth the world saw in the intervening years.[15] With the evolution of technology allowing users to own digital copies of copyrighted works, the statutory provisions addressing copyright ownership and any limitations on those rights have become tremendously outdated.[16] Section 117 attempts to address the "problem of software"—specifically because, unlike traditional copies of copyrighted work, they are not truly "fixed" in the traditional meaning of the word—by drawing a parallel to § 109.[17] This provision, however, is

the Constitution reflect a balance between copyright holders' limited monopoly over their works and copyright's goal of promoting creation for the public benefit."); Melissa Goldberg, Note, *A Textbook Dilemma: Should the First Sale Doctrine Provide a Valid Defense for Foreign-Made Goods?*, 80 FORDHAM L. REV. 3057, 3065 (2012) (noting that the purposes of §§ 106–122 are to limit the exclusive rights of copyright holders).

[12] 17 U.S.C. § 109; *See* Bobbs-Merill Co. v. Straus, 210 U.S. 339, 351 (1908) (finding copyright owner's rights in single copy of a book extinguished after sale of that copy).

[13] Aaron Perzanowski & Jason Schultz, *Digital Exhaustion*, 58 UCLA L. REV. 889, 909 (2011); *See also* Molly Shaffer Van Houweling, *The New Servitudes*, 96 GEO. L.J. 885, 906–07 (2008).

[14] Sage Vanden Heuvel, Note, *Fighting the First Sale Doctrine: Strategies for a Struggling Film Industry*, 18 MICH. TELECOMM. & TECH. L. REV. 661, 665 (2012). The advent of the Digital Millennium Copyright Act attempted to modify copyright law in certain aspects to keep up with the rapid change in technology. *See* Rick Boucher, *Limiting Progress of Science and Useful Arts: Legislating as a Means of Enhancing Market Leverage*, 18 STAN. L. & POL'Y REV. 7, 8 (2007); Kristine J. Hoffman, Comment, *Fair Use or Fair Game? The Internet, MP3 and Copyright Law*, 11 ALB. L.J. SCI. & TECH. 153, 168 (2000).

[15] *See* Hoffman, *supra* note 14, at 166.

[16] *See id.*

[17] *See* Perzanowski & Schultz, *supra* note 13, at 922 ("Outside of section 109, the Copyright Act's most explicit recognition of the exhaustion principle is its treatment of computer programs. Section 117 of the Act guarantees owners of lawfully made copies of programs the right to reproduce, adapt, and redistribute them. In section 117, the Copyright Act acknowledges that copy owners require

inefficient and does not address the current trend of copyright owners evading a proper sale to an end user by simply "licensing" instead of "selling" the work.[18] This restricts, if not eliminates, the rights of users to sell or otherwise dispose of the copies of work they lawfully purchased, and discards this essential balance of copyright law.[19]

The solution lies in creating a bright-line rule for courts and users to follow for software in which all substantial rights are transferred to end users.[20] A bright line rule will ease the interpretive requirement of courts and provide users with clear notice as to what actions are justified and what infringes another's copyright, ideally deterring litigation and diminishing litigation costs.[21] With appropriately crafted legislative language, copyright owners will still be able to engage in beneficial price discrimination and copy owners will gain back the right to

more than the freedom of alienation to make use of the copies they own. In that sense, Section 117 echoes the pre-Bobbs-Merrill exhaustion case law.") (footnote omitted).

[18] *See* John A. Rothchild, *The Incredible Shrinking First-Sale Rule: Are Software Resale Limits Lawful?*, 57 RUTGERS L. REV. 1, 25 (2004); Michael L. Rustad & Thomas H. Koenig, *The Tort of Negligent Enablement of Cybercrime*, 20 BERKELEY TECH. L.J. 1553, 1565 (2005) ("However, the courts' attitudes have since changed in favor of broad enforceability of mass market license agreements; the current trend is to enforce one-sided software agreements so long as the user has an opportunity to review and manifest assent to the terms.").

[19] *See* Brian W. Carver, *Why License Agreements Do Not Control Copy Ownership: First Sales and Essential Copies*, 25 BERKELEY TECH. L.J. 1887, 1891 (2010) ("Copyright law seeks a balance between the exclusive rights given to a copyright owner and the rights reserved for the user of a copyrighted work. . . . The balance struck has thus long been that a copyright owner is entitled to reap her reward on the first sale of a copyrighted work, but that after such a sale, downstream owners of copies are free to sell or otherwise dispose of the possession of that copy however they see fit without needing any permission from the copyright owner."); Goldberg, *supra* note 11 ("The policy of the first sale doctrine is consistent with the policy underlying copyright law: to balance the public benefit against the rights of creators.").

[20] The European Court of Justice recently found that software is susceptible to first sale despite the fact that the developers insisted the transaction was only a license. The court found that the term sale, within the definition of copyright law, must be given a broad meaning or it would be worthless. *See* Case C-128/11, UsedSoft GmbH v. Oracle Int'l Corp., 2012 E.C.R., *available at* http://curia.europa.eu/juris/document/document.jsf?docid=124564&doclang=en (issuing a preliminary ruling for Bundesgerichtshof, the German Federal Court of Justice).

[21] *Cf.* David Olson & Stefania Fusco, *Rules Versus Standards: Competing Notions of Inconsistency Robustness in Patent Law*, 64 ALA. L. REV. 647, 678 (discussing the Federal Circuit's use of bright line rules in patent law cases to increase the predictability and consistency of their rulings).

transfer works they have lawfully purchased.[22]

The right of resale of digital copies has been debated by scholars for almost two decades.[23] This Article does not immerse itself in the debate. Instead, this Article moves into novel territory by endorsing the side of the debate with the best argument for copyright policy as a whole, and proposing a solution to adopt this argument into the existing copyright framework.

This Article argues that § 117 of the Copyright Act should be amended to address the licensing schemes that copyright owners undertake to prevent end users from freely selling legally purchased copies of software, in keeping with the traditional justification of copyright exhaustion.[24] Part II reviews the Constitutional justification for copyright law and why certain limits are placed on an author's monopoly right.[25] Part III examines the current § 117, and why software is treated differently than physical works protected by copyright.[26] Part IV notes the justification for the current law, and proposes a statutory amendment that will allow end users to sell freely or otherwise dispose of software that they legally purchased and have all substantial rights in.[27] Part IV concludes with the use of several hypotheticals to demonstrate how the proposed statutory amendment would play out in common scenarios.[28]

II. BACKGROUND

To fully understand the importance of allowing alienability of software, we must examine both the role copyright plays in American law, the creation of the first sale doctrine, and how it

[22] *See generally* Michael J. Meurer, *Copyright Law and Price Discrimination*, 23 CARDOZO L. REV. 55, 59–60 (2001) (discussing the role of copyright in protecting price discrimination in markets for copyrighted works).

[23] *See* Liu, *supra* note 1; Perzanowski & Schultz, *supra* note 13.

[24] I choose to only address software within this Article. While the debate over digital copies does extend to other forms of media such as music and movies, I believe software is likely the best starting point as it is likely the easiest to police given the already prevalent use of digital rights management (DRM) and other access safeguards that are built into software. Further, the secondary market for software is consistently threatened by developers, and therefore likely needs immediate protection compared to digital music or movies.

[25] *See infra* Part II.A–B.

[26] *See infra* Part III.

[27] *See infra* Parts IV.A, IV.B, IV.C.1–2.

[28] *See infra* Part IV.C.3.

fits comfortably into a functioning copyright system.[29]

A. The Progress Clause

Article I, section 8, clause 8 of the Constitution states that Congress has the power to "promote the Progress of Science and useful Arts, by securing for limited times to Authors . . . the exclusive Right to their respective Writings . . . ."[30] This is commonly known as the Progress Clause,[31] and is recognized as the basis for copyright and patent law in the United States.[32] Under copyright law, authors are given a set of exclusive rights over their work for a limited period of time.[33] Specifically, § 106 grants authors the exclusive right to distribute, reproduce, or sell their work.[34] Anyone who, without authorization, distributes, reproduces, or otherwise infringes upon these exclusive rights is subject to civil or criminal liability.[35]

Courts and scholars recognize a utilitarian justification for granting authors these exclusive rights.[36] The utilitarian theory

[29] *Cf.* 17 U.S.C. §§ 109, 117 (2012); Bobbs-Merrill Co. v. Straus, 210 U.S. 339, 350 (1908) (discussing the exhaustion of copyright after the first sale of a copy of work); Liu, *supra* note 1; Perzanowski & Schultz, *supra* note 13.

[30] U.S. CONST. art. I, § 8, cl. 8.

[31] Many courts and scholars refer to this as the "Copyright Clause"; I instead choose to refer to it as the "Progress Clause" due to the wide breadth of power that the clause actually grants, including granting Congress the power to issue patents to inventors. David S. Olson, *A Legitimate Interest in Promoting the Progress of Science: Constitutional Constraints on Copyright Laws*, 64 VAND. L. REV. EN BANC 185, 185 n.1 (2011) (arguing that the language "to Promote the Progress of Science and the Useful Arts" serves as a limitation on Congress's power to enact copyright laws).

[32] *See id.*

[33] *See* U.S. CONST. art. 1, § 8, cl. 8; Eldred v. Ashcroft, 537 U.S. 186, 205–07 (2003) (examining limited duration of copyright).

[34] *See* 17 U.S.C. § 106.

[35] *See id.* §§ 501, 506.

[36] *See* Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 558 (1985) ("[C]opyright supplies the economic incentive to create and disseminate ideas[,] '[b]ut the ultimate aim is, by this incentive, to stimulate [the creation of useful works] for the general public use.'"); Shyamkrishna Balganesh, *The Normativity of Copying in Copyright Law*, 62 DUKE L.J. 203, 210 (2012) ("American copyright law has long prided itself on being wedded to an avowedly utilitarian theory of providing creators with efficient market-based incentives to create."); Jeanne C. Fromer, *Expressive Incentives in Intellectual Property*, 98 VA. L. REV. 1745, 1751 (2012) ("According to utilitarian theory, copyright law provides the incentive of exclusive rights for a limited duration to authors to motivate them to create culturally valuable works. Without this incentive, the theory goes, authors might not invest the time, energy, and money necessary to create these works because they might be copied cheaply and easily by free riders, eliminating authors' ability to profit from their works."). It should be

of copyright law states that, by giving authors copyright in their work they are enticed not only to create, but also to disseminate this work amongst the public.[37] Incentivizing the creation of new work "promote[s] the Progress of Science."[38] But, an unchecked monopoly in an author's work could ultimately restrict the rights of end users, and deter creation of new works.[39] As a result, not only is the copyright term limited, as per the instructions in the Constitution, but also laws that do not "promote the Progress of Science" are deemed unconstitutional.[40]

Additionally, copyright laws must balance the grant of rights to authors with the benefit to the public, so that ultimately the public is served by this exchange.[41] This public benefit is essential.[42] Copyright laws must promote the wide dissemination of works and information in order to justify a grant of monopoly power.[43] Because more works are produced, the public gains access to a wider range of material that may add to general societal knowledge, or spark new ideas for new creative works.[44]

noted that another prevalent justification is natural law. This is grounded in John Locke's theory that humans are entitled to the fruit of their labor, and whatever works they have created should belong solely to them. *See* Craig W. Dallon, *The Problem with Congress and Copyright Law: Forgetting the Past and Ignoring the Public Interest*, 44 SANTA CLARA L. REV. 365, 368 (2004).

[37] *See* Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 558.

[38] *See, e.g.*, Fromer, *supra* note 36, at 1751 ("Utilitarianism aligns fluently with (and is frequently justified by) the U.S. Constitution's grant of power to Congress [t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.") (internal quotations and footnote omitted).

[39] *See id.*; Mark A. Lemley, *The Economics of Improvement in Intellectual Property Law*, 75 TEX. L. REV. 989, 997–99 (1997).

[40] *See* Olson, *supra* note 31, at 192–93 (arguing that Congress may satisfy the "promote the Progress of Science" limitation through a number of means, but copyright laws must adhere to this limitation in order to survive constitutional scrutiny); Alfred C. Yen, *Eldred, the First Amendment, and Aggressive Copyright Claims*, 40 HOUS. L. REV. 673, 686–87 (2003).

[41] Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 477 (1984); Frank J. Lukes, Comment, *The Public Good v. A Monetary Profit: The News Organizations Utilization of the Fair Use Doctrine*, 11 J. MARSHALL REV. INTELL. PROP. L. 841, 844 (2012) ("However, the primary purpose of copyright law is not to reward the author for his work. That is only the means towards the ends of copyright law—achieving a public benefit.").

[42] *See* Fromer, *supra* note 36 (stating that in order for a public benefit to accrue, inventors must be awarded for taking risks). *See* Dallon, *supra* note 36.

[43] *See* Fromer, *supra* note 36.

[44] Zohar Efroni, *A Momentary Lapse of Reason: Digital Copyright, the DMCA and a Dose of Common Sense*, 28 COLUM. J.L. & ARTS 249, 272–73 (2005); Robert A. Kreiss, *Accessibility and Commercialization in Copyright Theory*, 43 UCLA L. REV. 1, 5 (1995).

B. Exhaustion & the First Sale Doctrine

Copyright exhaustion,[45] or first sale doctrine, under 17 U.S.C. § 109, serves as one method of balancing the monopoly power that copyright grants to an author.[46] Copyright exhaustion states that any party who lawfully purchased a copy of the author's work will not be liable for infringement if they sell or otherwise dispose of that particular copy.[47] Specifically, once this first sale has been made, the author may no longer control any subsequent transfers of that copy.[48] Without this exception, selling a used textbook to a friend or renting a movie to a customer would trigger copyright liability.[49] Two prevalent theories justify limiting authors' rights beyond this initial transaction: (1) distinguishing between the copy and copyright; and (2) promoting and preserving the right of alienability of personal property.[50]

First, § 202 of the Copyright Act explicitly delineates between the ownership of a copyright and ownership of a copy that embodies the work.[51] Just because an author sells a copy of a book in which her copyrighted work is fixed does not mean she is selling her ownership of the copyright.[52] In fact, she can sell millions of copies of her work, yet retain all of the privileges that § 106 grants to her.[53] Appropriately, courts frequently distinguish

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[45] *See generally* Perzanowski & Schultz, *supra* note 13, at 912 (discussing copyright exhaustion and describing it as a broader principle than first sale).

[46] *See, e.g.*, Rachel Ann Geist, *A "License to Read": The Effect of E-Books on Publishers, Libraries, and the First Sale Doctrine*, 52 IDEA 63, 71–72 (2012) (examining the impact of the first sale doctrine on libraries).

[47] *See* 17 U.S.C. § 109(a) (2012).

[48] *See id.* Specifically, the statute states, "[T]he 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." *Id.*

[49] *See* 17 U.S.C. § 106; Perzanowski & Schultz, *supra* note 13, at 893.

[50] Perzanowski & Schultz, *supra* note 13, at 909–11; Van Houweling, *supra* note 13, at 915.

[51] *See* 17 U.S.C. § 202; Jennifer Lahm, *Buying a Digital Download? You May Not Own the Copy You Purchase*, 28 TOURO L. REV. 211, 219–20 (2012).

[52] The specific language of the statute reads: "Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied. Transfer of ownership of any material object, including the copy or phonorecord in which the work is first fixed, does not of itself convey any rights in the copyrighted work embodied in the object; nor, in the absence of an agreement, does transfer of ownership of a copyright or of any exclusive rights under a copyright convey property rights in any material object." 17 U.S.C. § 202.

[53] *See id*; *see also* 17 U.S.C. § 106 (2012).

between the numerous exclusive rights owned by the copyright owner, and the lawful actions of the purchaser or end user with regard to a particular copy.[54]

Second, copyright exhaustion recognizes the personal right to freely alienate one's property.[55] This theory typically stems from analogies drawn to real property.[56] In particular, servitudes, the non-possessory property interest that may restrict an end user's right in their property, is a theory of real property that is generally met with hostility.[57]

Noting these theories, the court in *Bobbs-Merrill v. Straus*[58] set the precedent for what would eventually become § 109.[59] *Bobbs-Merrill* involved a copyright owner, Bobbs-Merrill Company, bringing suit against Isidor and Nathan Straus for selling copies of *The Castaway* for eighty cents, which was less than the price required by Bobbs-Merrill on the inside cover of the book.[60] Before examining the validity of the restriction, the court first affirmed the notion that copyright laws must be passed pursuant to the powers granted in the Constitution, specifically to "Promote the Progress of Science and the Useful Arts."[61] In doing so, they read the copyright statute to say copyright does not give the owner "the right to impose . . . a limitation . . . [onto] future purchasers [] with whom there is no privity of contract."[62] Therefore, once Bobbs-Merrill sold the copy for a satisfactory price, their control over that particular copy extinguished; copyright law could not be used to control downstream

[54] *See* United States v. Smith, 686 F.2d 234, 240 (5th Cir. 1982) ("Consequently, a 'copyright', together with the exclusive rights and privileges associated with the copyright, does not implicate any tangible embodiment of the work."); Design Options, Inc. v. BellePointe, Inc., 940 F. Supp. 86, 91 (S.D.N.Y. 1996) ("A purchaser does not acquire copyright rights in designs by the mere purchase of goods."); Steward Software Co., v. Kopcho, 266 P.3d 1085, 1088 (Colo. 2011).

[55] Perzanowski & Schultz, *supra* note 13, at 920.

[56] *See* Van Houweling, *supra* note 13, at 888–89 (advocating for the use of servitudes on real property as a new framework in which to examine intellectual property).

[57] *Id.* at 888; Michael A. de Gennaro, *The "Public Trust" Servitude: Creating a Policy-Based Paradigm for Copyright Dispute Resolution and Enforcement*, 37 TEX. TECH. L. REV. 1131, 1137 (2005).

[58] 210 U.S. 339 (1908).

[59] *See* Perzanowski & Schultz, *supra* note 13, at 944–45 (recognizing that the common law approach to copyright exhaustion culminated in *Bobbs-Merris v. Straus*, and is confined in the statutes in §§ 109 and 117).

[60] *Bobbs-Merrill Co.*, 210 U.S. at 341.

[61] *Id.* at 346.

[62] *Id.* at 350.

purchases.[63] Soon after, Congress adopted § 41 of the Copyright Act, which essentially adopted the holding of *Bobbs-Merrill*.[64] The statute remained largely unchanged with the adoption of the 1976 Copyright Act.[65]

Courts and scholars acknowledge the numerous benefits that came with the creation of the first sale doctrine. Specifically, that it allows for improved access to materials, preservation of work, protection of consumer privacy, promotion of market efficiency, and innovation.[66] Equally important is the improvement of access of materials, one of the core values of the copyright exchange.[67] By allowing third parties to legally transfer their copies of a work, the copyright owner does not need to oversee each transaction, and the work can enter the hands of more individuals.[68]

The world changed drastically after 1976, however, as authors began to create copyrightable works that existed only in digital form.[69] Copyright laws, consequently, had to adapt to protect these works.[70] Specifically, courts held that not only did copyright protect digital fixations of books and film, but it also protected software.[71] As the world grappled with more copyrighted works no longer existing in physical form, copyright law had to scramble to find the middle ground where copyright owners' rights are still protected, and end users are still able to freely use their legally purchased products in ways consistent with "Promot[ing] the Progress of Science."[72] To address the advances in technology, Congress adopted § 117 in 1980, which

[63] *Id*. The Court noted that if the retailers had entered into a contractual agreement, the case might be different. The result the Court reached examined *only* the copyright issue and whether limitations on the end user were enforceable.

[64] Dan Karmel, *Off the Wall: Abandonment and the First Sale Doctrine,* 45 COLUM. J.L. & SOC. PROBS. 353, 359 (2012).

[65] *See id.* at 359.

[66] *See* Perzanowski & Schultz, *supra* note 13, at 895–96.

[67] Emilio B. Nicolas, *Why the Ninth Circuit Added Too Much to Subtract Add-On Software From the Scope of Derivative Works Under 17 U.S.C. § 106(2): A Textual Argument*, 2004 SYRACUSE SCI. & TECH. L. REP. 1, 9 (2004).

[68] *Cf. id*. at 25.

[69] Kathryn Judge, Note, *Rethinking Copyright Misuse*, 57 STAN. L. REV. 901, 906 (2004).

[70] *See id.* at 906–07.

[71] *See generally* Lateef Mtima, *So Dark the CON(TU) of Man: The Quest for a Software Derivative Work Right in Section 117*, 70 U. PITT. L. REV. 1, 11 n.7 (discussing the history of courts' protection of software programs).

[72] U.S. Const. art. I, § 8, cl. 8.

mimicked § 109, but dealt specifically with software programs.[73] In particular, the statute gave owners of legally purchased computer programs the right to make copies in certain, very limited instances, including, to sell these programs.[74]

C. A Brief Literature Review of Digital Ownership & Exhaustion

As Professor Liu notes, "Copyright law is characterized in general by a complex and overlapping mix of theories."[75] Consequently, many different policies and theories feed into the modern understanding of copyright law.[76] But as technology evolves, the way consumers experience copyrighted material must evolve as well.[77] Since the emergence of § 117, however, courts and scholars have diverged in their understanding of the relationship between copyrighted software and the first sale doctrine.[78] Many scholars argue that copyright law must still grant users the right to sell their lawfully purchased copies of

[73] *See* Christian H. Nadan, *Software Licensing in the 21st Century: Are Software "Licenses" Really Sales, and How Will the Software Industry Respond?*, 21 AIPLA Q.J. 555, 563–565 (2004). Congress appointed the National Commission on New Technological Uses of Copyright Works (CONTU) to address advances in computer technology. CONTU proposed what was ultimately adopted as § 117, but instead of referring to copyright "owners," CONTU used the term "rightful possessor." The reasons for Congress's choice to use "rightful possessors" instead of "owners" are unclear. Herbert J. Hammon, *Intellectual Property*, *Fifth Circuit Survey for the June 1987–May 1988 Term*, 20 TEX. TECH. L. REV. 495, 505 n.67 (1989).

[74] 17 U.S.C. § 117 (2012).

[75] Liu, *supra* note 1, at 1300.

[76] *Id.*

[77] Andrea M. Matwyshyn, *Technology, Commerce, Development, Identity*, 8 MINN. J.L. SCI. & TECH. 515, 548 (2007) ("As consumers become more technology proficient, their use of technology tools will change. Consequently, their development and identity formation will follow a different path from prior generations of consumers.").

[78] *See, e.g.*, MAI Sys. Corp. v. Peak Computer, 991 F.2d 511, 518 (9th Cir. 1993) (holding that the transferring of computer programs from a storage device, like a floppy disk, and than inserting the storage device into the computer's central processing unit, without owning the copyright or having a license, constitutes an act of copyright infringement); Liu, *supra* note 1, at 1266 (illustrating the "certain conventional understanding [of] what it means to own physical personal property . . ." with the example of a statute in a museum, and explaining that museums are limited to exhibiting the statute within the museum but that right does not extend to broadcasting the statute on television); Perzanowski & Schultz, *supra* note 13, at 901–02 (discussing the impact of digital media on the interpretation of the first sale doctrine).

copyrighted works, regardless of how they are distributed.[79] As discussed in more detail below, courts do not follow this line of thought, instead curbing the right of consumers of digital media to resell their work.[80] A brief overview of the scholarship will illustrate the prominent theories for allowing consumers to sell their lawfully purchased digital copies. These works are presented to explain *why* consumers should be able to sell their lawfully owned copies, and serves as the starting point this Article builds on: *how* copyright should be reformed to allow consumers to sell their lawfully purchased copies of digital software.

To begin, Professor Liu analogizes the right to sell digital copies of media to the right to sell physical copies of lawfully purchased works.[81] He frames his argument from the perspective of the *copy owner*, not the *copyright owner*.[82] He notes that the copy owner has two major forms of rights that are "incidents of copy ownership": the right of access and the right of transfer.[83] The right of access gives the copy owner the right to read, or otherwise use or view the work a virtually infinite number of times.[84] The right of transfer gives the copy owner "the right to transfer possession of [the] copy to another, whether through gift, sale, lease, or loan."[85] Copy owner rights, therefore, are "defined primarily by the law of personal property, with copyright law

[79] *See, e.g.*, Liu, *supra* note 1, at 1253 (recommending that copyright law allow for "unlimited right to access digital copies in one's possession, and a more limited right to transfer."); Perzanowski & Schultz, *supra* note 13, at 892 (advocating for a rule that enables "the owner of a digital copy to reproduce or [create] derivative works" to be used in a manner consistent with copyright policies and expectations).

[80] *See, e.g.*, *MAI Sys. Corp.*, 991 F.2d at 518.

[81] *See* Liu, *supra* note 1, at 1247. This analogy has been adopted by other scholars as well. Professor Van Houweling, for example, analogizes land "servitudes"—non-possessory property interests that attach to land and impose restrictions and obligations on landowners—to the licensing provisions that are widespread in digital or intangible products today. *See* Van Houweling, *supra* note 13, at 887–89. Her work examines many of the problems of servitudes, including the skepticism and disfavored treatment they receive due to the harm they cause to consumers and the market, *id.* at 949, and argues that licenses, which are restrictions on intellectual property, act as a form of "new" servitudes on intellectual property, by asserting that current doctrines, including preemption, exhaustion, misuse, or unconscionability do not take into account the problems of servitudes on intellectual property. *Id.* at 950.

[82] Liu, *supra* note 1, at 1275.

[83] *Id.*at 1286.

[84] *Id.*

[85] *Id.* at 1289.

imposing a few limited restrictions."[86]

Liu asks whether these incidents of copy ownerships must be preserved in the digital environment, and concludes, that yes, they should.[87] First drawing on an analogy to physical property, he argues that "once an individual has acquired physical possession of a digital copy, that individual should be permitted to access that copy as many times as he or she wishes."[88] Second, the right of transfer fulfills a number of functions to benefit copyright law for physical copies and therefore transfer of digital copies must also fulfill these same functions.[89] Courts, he concludes, "struggle to adapt [current] copyright laws, developed in response to the realities of the physical hard-copy world," and "[c]opyright law [should] be adapted to [properly address the] realities of the digital environment.[90]

Professors Perzanowski and Schultz take a different approach by providing a detailed examination of the purpose of the first sale doctrine, and arguing that a common law theory of copyright exhaustion exists, and that courts have the ability to develop common law rules that allow for exhaustion to properly take place with respect to digital copies.[91] They analogize digital exhaustion to the judicially grown patent exhaustion doctrine and note its fluidity in protecting the incentives for creation while still promoting access.[92] They note that it has "helped courts deal with new technologies and changing markets."[93]By creating an overarching exhaustion principle, they argue, courts can reinforce traditional benefits of the first sale doctrine, such as increased access, preservation, privacy, transactional clarity, user innovation, and platform competition, while the values of copyright owners can also be weighed and balanced.[94]

These proposals, however, stand in stark contrast from the interpretation of copyright law by courts today. An examination of courts' interpretations of § 117 and the inability of end users to

[86] *Id.* at 1302.
[87] *Id* at 1296, 1337.
[88] *Id.* at 1337.
[89] *Id.* at 1349. Specifically, he notes that free right of transfer would reduce transaction cost and support an interest in decentralizing access to copyrighted works. *Id.* at 1349–50.
[90] *Id.* at 1365–66.
[91] Perzanowski & Schultz, *supra* note 13, at 892.
[92] *See id.* at 932–33.
[93] *Id.* at 934.
[94] *Id.* at 945–46.

sell their digitally purchased media will frame the issue and provide justification for a proposal to reform copyright law.

III. DISCUSSION

End users are precluded from asserting any defenses to potential infringement under § 117 unless they "own" the copy of the software they purchased.[95] Many software companies prevent granting ownership to end users by licensing their software instead of selling it.[96] While licensing is beneficial for software companies, as it allows them to control their product with a watchful eye, it can cause problems for many end users seeking to use or dispose of their lawfully purchased computer programs.[97] These agreements generate frequent litigation, and courts are inconsistent when examining whether a transaction is truly a license or a sale.[98] While many courts adhere to the terms of the licensing agreement, a few look beyond the words of the contract and qualify the transaction as a "sale," placing ownership of the copy in the hands of the end user.[99]

A. Section 117 & the Right of Software Transfer

Section 117 limits the exclusive rights granted to authors in the specific case of digitally stored computer programs.[100] The statute states that the "owner of a copy of a computer program"

[95] *See* 17 U.S.C. § 117 (2012); MAI Sys. Corp. v. Peak Computer, 991 F.2d 511, 518 (9th Cir. 1993).

[96] Edward E. Frankel et al., *Strategic Management of Intangible Assets – A Manager's Overview*, 2 FORDHAM ENT. MEDIA & INTELL. PROP. L.J. 101, 105 n.20.

[97] *See* Christopher B. Yeh, Note, Wall Data Inc. v. Los Angeles County Sheriff's Department*: License Versus Sale at the Crossroads of Contract and Copyright*, 22 BERKELEY TECH. L.J. 355, 358 (2007) ("Licenses form an integral part of the software industry's business model because they provide a means to get around the first sale doctrine and thus control (and in some cases prevent) subsequent transfers of the software that would otherwise interfere with a functioning software market.").

[98] *See, e.g.*, Apple Inc. v. Psystar Corp., 658 F.3d 1150, 1159 (9th Cir. 2011) (finding competitor was a licensee, not owner, of Mac OS X); Adobe Sys. Inc. v. Kornrumpf, 780 F. Supp. 2d 988, 994–95 (N.D. Cal. 2011) (finding defendant bought and resold software without authorization); Vernor v. Autodesk, Inc., 621 F.3d 1102, 1111 (9th Cir. 2010) (finding end user was licensee, not owner, of AutoCAD software); *MAI Sys. Corp.*, 991 F.2d at 519 (finding end user was licensee, not owner, of software used in the course of repairing computers).

[99] *See, e.g.* Softman Prod. Co. v. Adobe Sys., Inc., 171 F. Supp. 2d 1075, 1085 (C.D. Cal. 2001); *In re* DAK Indus., Inc., 66 F.3d 1091, 1095–96 (9th Cir. 1995) (examining the economic realities of the transaction).

[100] *See* 17 U.S.C. § 117 (2012).

may make a copy of a program in limited instances—when the copy is (1) required as "an essential step in the utilization of the computer program"; (2) "for archival purposes"; (3) sold along with the original copy; (4) part of an authorized adaptation; and (5) used as part of a maintenance or repair mechanism.[101] Therefore, to sell a digital copy of computer software, the end user must be an "owner" of the copy.[102] Then, so long as the owner transfers all rights in the software when she makes the sale, and removes or disables her original copy, she is allowed to sell a digital copy of her software under § 117.[103]

Without true ownership of the copy, however, the end user cannot invoke the defenses of § 117.[104] Between the late 90's and early 2000's, the Ninth Circuit discussed a series of cases known as the "MAI Trio," which examined different transactions between software companies and end users, and whether the end users were "owners" and thus eligible to invoke § 117.[105] The title case, *MAI Systems Corp. v. Peak Computer, Inc.*, involved a computer repair company making copies of MAI's software, which was a necessary part of using the software for its intended purpose—repairing computers.[106] The software included a "shrink-wrap" license, which stated that an end user is merely a licensee, and that the end user will only act in accordance with the terms of the license.[107] As a result, the court found that end users were not entitled to the protection of § 117, and any copying of the software, even if necessary to use it, violated the terms of the license and infringed on MAI's copyright.[108] Therefore, unless the software copyright allows it in the license agreement, the end user cannot make any copies of the digital software, no matter the purpose.[109]

101 *Id*.
102 *Id.*; *MAI Sys. Corp.*, 991 F.2d at 518.
103 *See* 17 U.S.C. § 117.
104 *See MAI Sys. Corp*., 991 F.2d at 518.
105 Wall Data Inc. v. L.A. Cnty. Sherriff's Dep't, 447 F.3d 769, 784–85 (9th Cir. 2006); Triad Sys. Corp. v. Se. Express Co., 64 F.3d 1330, 1333 (9th Cir. 1995); *MAI Sys. Corp.*, 991 F.2d at 518 n.5.
106 *MAI Sys. Corp.*, 991 F.2d at 518.
107 *See id.* at 517.
108 *Id.* at 518 n.5.
109 *See id.* at 517–18.

B. Avoiding the Sale

Today, many software companies offer digital downloads of their programs.[110] In order to access the program the user must first pay a fee, typically a price equivalent to the purchase price of a disc carrying a copy of the work, and then agree to a set of terms through a "click-wrap"[111] license before they may use the program. These click-wrap licenses generally state that the end user is *not* purchasing the program, she is merely licensing it.[112] Some users never notice the difference; they get the full use out of the software for all of their intents and purposes.[113] But, should the user ever decide he'd like to sell the software to a friend, he is precluded from doing so.[114]

Offering licenses is particularly useful for software companies because it allows them to control the distribution of their copyrighted work, and gives them the ability to price discriminate.[115] Price discrimination gives software companies the ability to offer software at higher costs to those who most value it and at a reduced cost to certain demographics, such as students, or regions where the software is unpopular.[116] For

[110] A quick survey of Amazon's software download page showcases thousands of programs users can download directly to their hard drives instantaneously. *Software Downloads*, AMAZON, http://www.amazon.com/s/ref=sv_sw_1?ie=UTF8&node=1233514011 (last visited Apr. 9, 2014).

[111] *See* Dan Streeter, Comment, *Into Contract's Undiscovered Country: A Defense of Browse-Wrap Licenses*, 39 SAN DIEGO L. REV. 1363, 1373 (2002). Click-wrap licenses are licenses that a user must agree to in order to use the program they purchased; end users typically must click a button labeled "I agree" before given access to the program itself. *Id.*

[112] Matthew D. Stein, Comment, *Rethinking UCITA: Lessons from the Open Source Movement*, 58 ME. L. REV. 157, 173 (2006).

[113] Theodore Dorenkamp, Note, *Copyright Misuse or Right to Compete?: A Critique of* Alcatel USA v. DGI Technologies, 9 TEX. INTELL. PROP. L.J. 269, 273 (2001) ("The dissemination into the public forum of copyrighted software usually involve license agreements granting licensees access to and use of copyrighted software while limiting or outright preventing 'unauthorized' copying and access by third party non-licensees.") (footnote omitted).

[114] *See* Frankel, *supra* note 96.

[115] Jean Braucher, *When Your Refrigerator Orders Groceries Online and Your Car Dials 911 After an Accident: Do We Really Need New Law for the World of Smart Goods?*, 8 WASH. U. J.L. & POL'Y 241, 256 (2002).

[116] *See* Michael J. Meurer, *Price Discrimination, Personal Use and Piracy: Copyright Protection of Digital Works*, 45 BUFF. L. REV. 845, 869 (1997) ("Price discrimination means that consumers of an identical product are charged different prices by the same seller, or that consumers of similar products made by the same seller are charged a price differential unrelated to cost. The advantage of price discrimination to the seller compared to a uniform sale price is that more revenue is generated.") (footnotes omitted).

example, Microsoft famously offers Microsoft Office Student Edition, an edition of Microsoft Office where the features are mildly stripped down[117] and the price is drastically reduced.[118] This provides access to low-income students who may not be able to afford the higher prices Microsoft charges for their Professional Office Suite, and have no need for some of the more complicated programs bundled with the Professional edition.[119]

One could imagine, however, the problem Microsoft faces if students purchased the Student Edition of Microsoft for a much lower price, and then sold it to non-students for a price lower than the Professional Edition.[120] Selling products across price discriminate markets is otherwise known as "arbitrage," and defeats the purpose of price discrimination.[121] Through arbitrage, Microsoft would lose profit they otherwise relied on by offering Office at disparate prices.[122] By forcing the end user to agree to a license, in which Microsoft never transfers any form of ownership to the end user, any effort for a student to resell or otherwise transfer their lawfully "purchased" edition of Microsoft Office Student Edition is outside the scope of the license, and therefore considered infringement.[123]

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[117] The Microsoft Office 365 University Edition for students only grants access for 4 years from the date of activation, compared to the permanent access granted to users to purchase the full retail version of Microsoft Office Professional. *Compare Office 365 University*, MICROSOFT ONLINE STORE, http://www.microsoftstore.com/store/msstore/en_US/pd/Office-365-University/productID.259180100 (last visited Feb. 20, 2013) (showing terms and price of University Edition), *with Microsoft Office Professional 2013*, MICROSOFT, http://office.microsoft.com/en-us/professional (last visited Feb. 20, 2013) (lacking an activity termination date for the professional edition).

[118] Microsoft Office 365 University offers students full access to the entire Microsoft Office suite, which includes Word, Excel, Powerpoint, and others for $79.99. *Office 365 University*, *supra* note 117. The full price version of Microsoft Office Professional, which includes the same set of programs, sells, for $399.99. *Microsoft Office Professional 2013*, *supra* note 117.

[119] *Office 365 University*, *supra* note 117.

[120] *Cf.* Michael J. Meurer, *Copyright Law and Price Discrimination*, 23 CARDOZO L. REV. 55, 59–60 (2001) (discussing the role of copyright in protecting price discrimination in markets for copyrighted works).

[121] Daniel J. Gifford & Robert T. Kudrle, *The Law and Economics of Price Discrimination in Modern Economies: Time for Reconciliation?*, 43 U.C. DAVIS L. REV. 1235, 1243 (2010) ("Price discrimination is entirely dependent on the infeasibility of arbitrage, but less so on the level of a seller's market power. Arbitrage occurs when buyers in the low-priced market resell in the high-priced market.").

[122] *See id.*

[123] *See generally* Sun Microsystems, Inc. v. Microsoft Corp., 188 F.3d 1115, 1121 (9th Cir. 1999) (explaining what is a claim turns on in order to be

The enforceability of these licenses sparks litigation between software developers and end users because the end user never truly "bargains" for the terms in the agreement.[124] Courts, however, generally enforce the provisions of these licenses.[125] In *ProCD v. Zeidenberg*, for example, the plaintiff, ProCD, engaged in price discrimination for their telephone database, charging higher prices for corporate purchasers and lower prices to private users.[126] When asked to examine the enforceability of the click-wrap license, the court began by citing § 2-204(1) of the Uniform Commercial Code ("UCC"), which notes that a contract for sale is made in any manner sufficient to show agreement.[127] The court noted that sellers may propose any limitations they desire, and that the buyers have the right to back out at any time if they don't agree to the terms.[128] As a result, once a buyer acts in a manner consistent with acceptance, he is bound to the terms of the agreement, regardless of whether he "bargains" for the terms or not.[129]

C. How Courts Address Software & Licensing

Since *ProCD*, courts have addressed numerous cases examining the enforceability of click-wrap licenses.[130] Specifically, courts are asked to examine whether the end user of software is truly a licensee, or if their particular circumstances make the user an "owner," [131] which provides defenses to

considered a copyright infringement or contract claim).

[124] *E.g.*, ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1452 (7th Cir. 1996) (discussing a license that restricted a user's ability to proceed with the program without first accepting the license on screen); Segal v. Amazon.com, Inc., 763 F. Supp. 2d 1367, 1369 (S.D. Fla. 2011) (discussing plaintiff's claim that terms were not freely bargained and therefore unconscionable); i.Lan Systems, Inc. v. Netscout Service Level Corp., 183 F. Supp. 2d 328, 338 (D. Mass. 2002) (discussing a "money now, terms later" contract).

[125] *But see* ALFRED C. YEN & JOSEPH P. LIU, COPYRIGHT LAW: ESSENTIAL CASES AND MATERIALS 578 (2008) (citing the other circuits that have been reluctant to enforce shrinkwrap contracts.)

[126] *ProCD*, 86 F.3d at 1449.

[127] *Id.* at 1452.

[128] *Id.*

[129] *Id.*

[130] *See* MICHAEL D. SCOTT, SCOTT ON COMPUTER INFORMATION TECHNOLOGY LAW § 12.03[D] nn.70–71 (3d ed. 2007) (cases that examined the enforceability of click-wrap licenses).

[131] *See* Softman Products Co. v. Adobe Sys. Inc., 171 F. Supp. 2d 1075, 1083–84 (C.D. Cal. 2001) (discussing licensing as opposed to ownership); *In re* DAK Indus., 66 F.3d 1091, 1096 (9th Cir. 1995) (stating why the court found there was a sale and not simply a license).

infringement in certain instances. Courts come down on both sides of this—most find that if the terms of the contract only create a licensor-licensee agreement, the end user is not an owner.[132] The minority view, however, finds that if a transaction looks and acts like a sale, then title is passed and the end user is now the "owner" of the copy.[133]

1. A License is a License

Like the court in *ProCD*, if a court views the end user as assenting to the terms of the license agreement, they will enforce the terms of the agreement.[134] If the end user acts outside the scope of the license, the court may find that not only is he breaching his contract, he is also liable for copyright infringement.[135] Noting this principle, the court in *MDY Industries v. Blizzard Entertainment*, found that defendant, MDY Industries, acted outside the scope of the license by creating a program that required users to copy plaintiff's software, *World of Warcraft*, to their computer's memory, and thus violated Blizzard Entertainment's copyright.[136] The court stated that a transaction is a license, not a sale when (1) the seller explicitly creates a license; and (2) imposes significant restrictions on the use of the copy.[137] Because Blizzard clearly created a license and imposed restrictions on the use, specifically that no copies can be made, users of *World of Warcraft* were merely licensees, not owners.[138] As a result, anyone using MDY's program violated Blizzard's copyright.[139]

Another example, explicitly examining ownership, where the court distinguished between licensees and owners occurred in *DSC Communications Corp. v. Pulse Communications, Inc.*[140]

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[132] *See* Apple Inc. v Psystar Corp., 658 F.3d 1150, 1155–56 (9th Cir. 2011) (finding a lease); Vernor v. Autodesk, Inc., 621 F.3d 1102, 1107–08 (9th Cir. 2010) (discussing the first sale doctrine); MAI Systems Corp. v. Peak Comp., Inc., 991 F.2d 511, 517–18 (9th Cir. 1993) (holding a lease does not transfer all the rights of a sale).

[133] *See Softman Products Co.*, 171 F. Supp. 2d at 1085 (finding a sale); *In re DAK*, 66 F.3d at 1096 (holding that a sale occurred).

[134] *ProCD*, 86 F.3d at 1454.

[135] *Sun Microsystems*, 188 F.3d at 1121.

[136] MDY Indus. v. Blizzard Entm't, No. CV-06-2555-PHX-DGC, 2008 WL 2757357 at *10 (D. Ariz. July 14, 2008).

[137] *Id.* at 8.

[138] *Id.* at 10.

[139] *Id.*

[140] 170 F.3d 1354, 1360 (Fed. Cir. 1999).

DSC owned the rights to software for controlling switches, which it sold, subject to a license, to Regional Bell Operating Companies (RBOCs).[141] The license prevented RBOCs, the purchaser, from disclosing or making the software available to any person except its employees.[142] This restriction alone "limit[ed] the rights of the RBOCs compared to the rights they would enjoy as 'owners of copies'" and thus created a licensor-licensee relationship, not a buyer-seller relationship.[143] As a result, RBOC violated DSC's § 106 rights if they copied or attempted to dispose of DSC's software in any way inconsistent with the license.[144]

This idea is extended in *Adobe Systems, Inc. v. One Stop Micro, Inc.*[145] Adobe entered into licensing agreements with authorized resellers to distribute educational versions of Adobe software.[146] The defendant, One Stop Micro, purchased educational versions of Adobe products, modified the packages to remove any indicator that the version was educational and then resold the educational versions as full-price retail versions.[147] Adobe sued, claiming One Stop violated the terms of the license agreement.[148] At trial, One Stop asserted the § 109 defense, stating that they had lawfully purchased the software and now were entitled to resell it.[149] One Stop pointed to numerous provisions within the agreement that suggested the transaction was a sale.[150] The court, however, was undeterred, noting restrictions placed in the agreement typically indicate the transaction is a license, not a sale.[151] As a result, no lawful purchase was made, and One Stop could not assert a § 109 defense.[152]

2. But Sometimes, a License is a Sale

While the *DSC*, *MDY*, and *Adobe* decisions are consistent with

141 *Id.* at 1358.
142 *Id.* at 1361.
143 *Id.* at 1361.
144 *Id.* at 1362.
145 84 F. Supp. 2d 1086, 1089 (N.D. Cal. 2000) (holding the contract only provided the purchaser with a license).
146 *Id.* at 1088.
147 *Id.*
148 *Id.*
149 *Id.* at 1090.
150 *Id.*
151 *Id.* at 1090–91.
152 *Id.* at 1092

most courts, other courts, such as the *SoftMan Product Co. v. Adobe Systems, Inc.* court, found that transactions that look like sales are actually sales, regardless if the parties label them as licenses.[153] In *SoftMan*, the defendant acquired Adobe software on a compilation CD, separated out the Adobe software components, and resold them.[154] The court acknowledged *One Stop Micro*, and stated that the case is distinguishable on its facts—the defendant was adulterating the packages.[155] Instead, the court moved in a different direction and examined the "economic realities of the exchange."[156] The court invoked § 202, noting the distinction between copyright and the work that embodies the copyright, and examined transaction from the point of view of the specific piece of property transferred, not where the copyright ownership existed.[157] This allowed the court to identify the transaction as a sale, viewing the transaction as one piece of property changing hands to another.[158]

This view is the minority, however.[159] The courts that do find a sale occurred are typically trial courts, and the decisions are generally overturned, but for separate reasons.[160] As a result, ambiguity exists.[161]

IV. ANALYSIS

Courts largely favor adhering to the terms of the "contract" that software developers create, which prevents end users from selling or otherwise transferring their digital software.[162] This is ideal for software developers, but severely limits the rights of the end user once they purchase a copy of software.[163] This is

153 SoftMan Prod. Co. v. Adobe Sys., Inc., 171 F. Supp. 2d 1075, 1086–87 (C.D. Cal. 2001); *see also* Krause v. Titleserv, Inc., 402 F.3d 119, 124–25, 130 (2d Cir. 2005) (finding that transaction was a sale, not a license, due to amount of money paid and interest in the development of the work).

154 *SoftMan*, 171 F. Supp. 2d at 1079–80.

155 *Id.* at 1086.

156 *Id.* at 1084.

157 *Id.* at 1084–85.

158 *Id.* at 1085.

159 RAYMOND T. NIMMER, LICENSING OF INTELLECTUAL PROPERTY AND OTHER INFORMATION ASSETS 278 (2d ed. 2007).

160 *Id.*

161 *Id.*

162 *See, e.g.*, ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1452 (7th Cir. 1996) (finding a click-wrap license enforceable); Adobe Sys., Inc. v. One Stop Micro, Inc., 84 F. Supp. 2d 1086, 1089–91 (noting that a license prevented end users from "owning" copies of software they purchased); SCOTT, *supra* note 130.

163 *See* Ira V. Heffan, Note, *Copyleft: Licensing Collaborative Works in the*

troublesome not only because this harms the large secondary market for software such as video games, but also because of the antitrust implications that courts are seemingly supporting.[164] The right of end users to sell their purchased software is critical to the copyright system as it aids in the dissemination of information and prevents copyright owners from overreaching with their monopolies.[165]

To solve this problem, the right of end users to freely alienate their software must be recognized, and the law must reflect an interest in limiting a copyright owner's reach after sale.[166] Over

Digital Age, 49 STAN. L. REV. 1487, 1498–99 (1997) ("These shrink-wrap licenses may contain provisions that extend the software developer's proprietary rights in the software, define the scope of the warranty provided with the software, limit the purchaser's rights to use the software, and provide contract rights that may supplement or replace other intellectual property rights.") (footnotes omitted).

[164] *See* Bobbs-Merill Co. v. Straus, 210 U.S. 339, 350 (1908) (noting antitrust implications in allowing copyright owner to restrict prices); MAI Sys. Corp. v. Peak Computer, 991 F.2d 511, 518 (9th Cir. 1993) (finding that a user, who was not a true owner, did not have right to copy software required for basic use); Spurbeck, *supra* note 5. Within this Article I am choosing to refer only to the market for software. While a used market for music and e-books exists, and was recently litigated in *ReDigi*, Capitol Records, LLC v. ReDigi, Inc., 934 F. Supp. 2d 640 (S.D.N.Y. 2013), how users interact with music and e-books is vastly different from how users interact with software. Most significantly, software is available in very limited means, with more and more developers choosing to only make their work available through digital download.

[165] *See* Golan v. Holder, 132 S. Ct. 873, 888–89 (2012) (noting that copyright originally required publication before an author could be protected, suggesting the primary purpose of copyright was to promote dissemination); Fogerty v. Fantasy, Inc., 510 U.S. 517, 526 (1994) ("We have often recognized the monopoly privileges that Congress has authorized . . . are limited in nature and must ultimately serve the public good.") (citation omitted); Miles Med. Co. v. John D. Park & Sons Co., 220 U.S. 373, 381–82 (1911); *Bobbs-Merill*, 210 U.S. at 350–51; Deborah Tussey, *UCITA, Copyright, and Capture*, 21 CARDOZO ARTS & ENT. L.J. 319, 339 n.110 (2003) ("The Supreme Court adopted the first sale doctrine precisely to prevent the use of contract to expand copyright owners' control over distribution beyond that permitted by the limited copyright monopoly.").

[166] *Cf.* Liu, *supra* note 1, at 1291–92 ("This concern about the free alienation of physical property thus acts, through the first sale doctrine, to impose an express limit on the rights of copyright owners to control subsequent transfers and uses of copies. Once a copyright owner has parted with title to a specific copy of that work, the subsequent owner of that copy can, subject to a few exceptions, dispose of it as he or she wishes."); Perzanowski & Schultz, *supra* note 13, at 925–38 (arguing that the first sale doctrine should fall into a larger exhaustion principle, and that first sale should not limit users from alienating digital media); Andrew L. Berrier, Note, Vernor v. Autodesk, Inc.*: The Last First Sale?*, 46 WAKE FOREST L. REV. 867, 868 (2011) ("Given the important balance it strikes, the first sale doctrine has been regarded with vital

the years many scholars have written about the right of end users to transfer their digital property, arguing that they "own" the digital software that they purchased.[167] Here, I accept that these scholars have sufficiently demonstrated why, legally, end users "own" their software, and propose an amendment to § 117 to implement this conclusion. Ultimately, this proposal will demonstrate that allowing a user to alienate his lawfully purchased software fits comfortably alongside the first sale doctrine and promotes the dissemination of information, one of the central goals of copyright law.[168]

A. Justifications for the Current Law, & Why It's Time for a Change

Currently, § 117 and courts' interpretations are ideal for

importance and has helped build legal foundations for institutions ranging from local second-hand bookstores to eBay. Today this venerable legal doctrine stands at an uncertain crossroads—the body of law is clear and well established with respect to tangible works, yet the new digital economy has thrown many of the past definitions of the first sale doctrine in flux. As such, there exists legal uncertainty as evidenced by cases like Vernor v. Autodesk, Inc., that attempt to clarify a growing legal problem—how should we treat our digital goods?") (footnotes omitted); Stephen Zinda, Comment, *Preserving the Copyright Balance: Why Copyright Misuse Should Invalidate Software Licenses Designed to Prohibit Resale and Oust Service Market Competition*, 48 HOUS. L. REV. 1241, 1244 (2011) ("This exploitation [licensing instead of selling] undermines the primary policy behind copyright law of securing for the public the benefits derived from the copyrighted work. Accordingly, a copyright holder's right to prohibit the resale of its software via license should only extend as far as is necessary to avoid hindering innovation.") (footnotes omitted).

[167] *See, e.g.*, Liu, *supra* note 1; Perzanowski & Schultz, *supra* note 13; Michael Seringhaus, *E-Book Transactions: Amazon "Kindles" the Copyownership Debate*, 12 YALE L. & TECH., 2009-2010, at 147, 150 (arguing that e-books should be categorized as sales, owned by their owners, not merely licenses).

[168] *See* Olson, *supra* note 31, at 187 ("'Progress,' in addition to meaning forward motion, also meant 'advance in knowledge.' Accordingly, one should interpret the phrase 'promote the Progress of Science' to mean promote the creation and dissemination of knowledge at large."); Perzanowski & Schultz, *supra* note 13, at 909–11 (discussing the first sale doctrine); Vivian F. Wang, *Sale or License?* UMG v. Augusto, Vernor v. Autodesk*, and the First Sale Doctrine*, 19 TEX. INTELL. PROP. L.J. 1, 2 (2010) ("The [first sale] doctrine recognizes that ownership of a copyright is distinct from ownership of any material object in which the work is embodied and rests on the principle that the copyright owner has received full value for a copy of his work when that copy is first sold. After the first sale, the policy favoring a copyright monopoly for authors gives way to the policy opposing restraints of trade and restraints on alienation.") (internal quotations and footnotes omitted).

protecting software developers.[169] The current laws not only promote the creation of new works and diminish piracy, but also give developers the ability to price discriminate without fear of arbitrage.[170] The statute, as it is currently interpreted, however, denies end users the right to sell their digital software.[171] While these justifications of § 117 are important, granting end users the right to sell their software will not diminish the software developer's copyright protection or the developer's incentive to create new software.[172]

Copyright laws are designed to promote the creation of new works by offering authors protection in exchange for their work.[173] They are granted a monopoly for their efforts, which prevents others from free-riding on an author's hard work.[174] Despite the protections copyright laws offer, however, digital piracy is still a rampant problem for the software industry.[175]

169 *See* Aaron Perzanowski & Jason Schultz, *Copyright Exhaustion and the Personal Use Dilemma*, 96 MINN. L. REV. 2067, 2107–08 (2012) ("Sometimes the winner is clear. Sections 109 and 117 unambiguously favor owners of copies to holders of copyrights in narrow sets of circumstances. But more often than not, courts are forced to turn to doctrines that consider copy ownership only peripherally in order to mediate conflicts between copy owners and copyright holders."); *see also* Stephen Kyle Tapp & Daniel E. Wanat, *Computer Software Copyright Issues: Section 117 and Fair Use*, 22 MEM. ST. U. L. REV. 197, 273 (1992) ("Congress, in restricting CONTU's proposed section 117 to 'owner[s] of a copy', allowed software companies the option, through licensing copies rather than transferring ownership of them, to avoid the application of section 117. Most software companies have exercised this option, to be freer to evolve business dealings with customers in a climate of rapid change in the technology of computing.").

170 *See* Meurer, *supra* note 23, at 106–08.

171 *See* Adobe Sys., Inc. v. One Stop Micro, Inc., 84 F. Supp. 2d 1086, 1089 (N.D. Cal. 2000) (noting that license prevented end users from "owning" copies of software they purchased); SCOTT, *supra* note 130.

172 *See* Perzanowski & Schultz, *supra* note 13, at 895 (arguing that secondary markets increase incentives to create and innovate).

173 *See* Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 477 (1984).

174 *Cf.* Meurer, *supra* note 22, at 94 ("Lacking copyright protection, the creator of a work would face competition from free-riders who copy and sell the work.").

175 *See* Bradford L. Smith, *Technology and Intellectual Property: Out of Sync or Hope for the Future*, 23 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 619, 639 (2013) ("Yet one probably should not expect the debate about online piracy to fade into the night. Piracy of music, movies, software, and other intellectual property remains a serious and persistent problem."); *see also* Andrew V. Moshirnia, *Giant Pink Scorpions: Fighting Piracy with Novel Digital Rights Management Technology*, 23 DEPAUL J. ART, TECH. & INTELL. PROP. 1, 4 n.11 (2012) (discussing the copyright protections videogame consoles afford and the allure of those protections in light of threat of digital piracy).

Developers claim that billions of dollars are lost each year to parties obtaining illegal copies of software.[176] In response to this, developers take measures to ensure they are in total control of their work, including merely "licensing" the product as opposed to outright selling it, as demonstrated in cases such as *One Stop Micro*, or requiring users to connect to the internet at *all times* when using the software.[177]

Tight control is important to the developer, not only to prevent piracy, but also to protect against possible arbitrage when engaging in price discrimination.[178] Price discrimination often allows developers to reach a wider audience, giving them the opportunity to recoup the costs of investment and encourage them to continue investing in new works.[179] It seems, on paper, that these justifications sufficiently promote the "Progress of Science and the Useful Arts."[180]

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[176] *See Ninth Annual BSA Global Software 2011 Piracy Study*, BUSINESS SOFTWARE ALLIANCE, http://globalstudy.bsa.org/2011 (last visited Apr. 9, 2014) (noting that $63.4 billion was lost to pirated software in 2011).

[177] *See* Adobe Sys. Inc. v. One Stop Mirco, Inc., 84 F. Supp. 2d 1086, 1089–92 (N.D. Cal. 2000) ("'[S]oftware companies license because they need the control that licensing affords.'"); David R. Collins, *Shrinkwrap, Clickwrap, and Other Software License Agreements: Litigating a Digital Pig in a Poke in West Virginia*, 111 W. VA. L. REV. 531, 536–37 (2009) ("In making the license exclusive and non-transferable, 'software producers hoped to avoid the reach of the first sale doctrine and to establish a basis in state contract law for suing the software rental companies directly.'") (footnote omitted); Zinda, *supra* note 166, at 1255 ("Unfortunately, the first sale doctrine only applies to the outright sale of a copyrighted work. As long as a copyright holder merely issues a license, he is able to forbid the resale of the copyrighted work. Software companies are fully aware of this legal loophole and often times circumvent the first sale doctrine by licensing, instead of outright selling, their software.") (footnotes omitted); Evan Lahti, *Maxis Explains the Use of SimCity Always-online DRM*, PC GAMER (Dec. 20, 2012, 5:29 PM), http://www.pcgamer.com/2012/12/20/maxis-explains-the-use-of-simcity-always-online-drm (discussing the new Sim City game that requires users to be online at all times while playing it).

[178] *See* Meurer, *supra* note 22, at 59–60 ("Copyright law is a key factor affecting the feasibility and profitability of price discrimination in markets for copyrighted works."); Note, "*Recoding" and the Derivative Works Entitlement: Addressing the First Amendment Challenge*, 119 HARV. L. REV. 1488, 1496 (2006) ("Other important reasons for copyright owners to have control are to encourage their own expression and to maximize the social value of works by allowing them to practice 'good husbandry' of cultural objects, which may include price discrimination schemes that help ensure access to cultural objects for less wealthy consumers.").

[179] *See* Meurer, *supra* note 22, at 58–60 (noting the "profitability of price discrimination in markets for copyrighted works").

[180] *See* Olson, *supra* note 31, at 187 ("[O]ne should interpret the phrase "promote the Progress of Science" to mean promote the creation and dissemination of knowledge at large.").

But these protections neglect another important goal in copyright law: the interest in the wide dissemination of information and increased public access.[181] Restricting the end user's right to sell their lawfully owned copies of digital software may allow software developers to comfortably permit users to download their products, but it comes at the cost of limiting the end users' right to alienate their property.[182] The licenses that developers require end users to sign are merely digital versions of a sale restriction in the cover page of a book.[183] One thing that many developers fail to consider in a short-term drive for profit is that customers, especially in software, are loyal, and often the secondary market boosts sales of the primary market.[184] They may be unwilling to pay a large sum for an untested product, but after an opportunity to use a product, and see its value, they may be persuaded to purchase the product or any subsequent products directly from the developer.[185]

In the end, however, current § 117 fails to be effective

[181] *See* Golan v. Holder, 132 S. Ct. 873, 888 (2012) ("Nothing in the text of the Copyright Clause confines the 'Progess of Science' exclusively to 'incentives for creation.' Evidence from the founding, moreover, suggesting that inducing *dissemination*—as opposed to creation—was viewed as an appropriate means to promote science.") (citations and footnote omitted); Olson, *supra* note 31, at 187 (arguing copyright protection is not appropriate when conferring such protection does not encourage "creation or dissemination of creative works.").

[182] *See One Stop Micro*, 84 F. Supp. 2d at 1091 (noting the restriction on a user's ability to sell the software); Zinda, *supra* note 166, at 1255 ("The copyright misuse doctrine . . . should invalidate licenses created primarily for the purpose of restricting alienability.")

[183] *But see* Bobbs-Merrill Co. v. Straus, 210 U.S. 339, 350 (1908) ("[C]opyright statutes . . . do not create the right to impose, by notice . . . a limitation at which the book shall be sold at retail by future purchasers . . . .").

[184] *See* Perzanowski & Schultz, *supra* note 13, at 895 (arguing that secondary markets increase incentives to create and innovate); Hal R. Varian, *Reading Between the Lines of Used Book Sales*, N.Y. TIMES (July 28, 2005), http://www.nytimes.com/2005/07/28/technology/28scene.html?_r=0&ei=5090&en=33765024cbf62d4c&ex=1280203200&adxnnl=1&partner=techdirt&emc=rss&adxnnlx=1366756037-LlSzplYqg+I035Mix0ci5A (noting that sales of used books increases the sale of new books).

[185] *See* Mike Jackson, *Take-Two Eyes 5m BioShock 2 Sales Hopes It'll Rake in the Cash in a non GTA-Release Year*, CVG US (June 18, 2009, 6:30 AM), http://www.computerandvideogames.com/217826/take-two-eyes-5m-bioshock-2-sales (noting that because of the extremely positive reception of the videogame *Bioshock*, the developers expected to benefit from brand awareness, even from people who did not play the original). *Bioshock 2* was the number-one selling game in February 2010, selling over 500,000 copies. *See generally* Matt Helgeson, *Bioshock 2 Tops the February NPD Sales Charts*, GAMEINFORMER (Mar. 11, 2010, 6:15 PM), http://www.gameinformer.com/b/news/archive/2010/03/11/news-bioshock-2-tops-the-npd-sales-charts.aspx.

copyright policy. As a supposed analogue of § 109, it requires that an end user be an "owner" before she is allowed to sell a copy of her work.[186] Because clever software developers never make end users an "owner," and because courts allow software developers to restrict an end user's rights, subsequent sale of a purchased copy of software is eliminated.[187]

But, as scholars note, end users traditionally own the copy they purchased and, as courts have held consistently since *Bobbs-Merrill*, a copyright owner's interest in a single copy is extinguished after the initial sale.[188] Together, these theories prevent copyright ownership from reaching into the land of antitrust.[189] By exhausting the copyright owner's grip on a copy of digital software once a sale is made, the author has realized a reward for the creation of the work, and now the end user is free to disseminate the work at will, because it is *his* property.[190] The

186 *See* 17 U.S.C. § 117 (2012); Perzanowski & Schultz, *supra* note 13, at 922 ("Outside of section 109, the Copyright Act's most explicit recognition of the exhaustion principle is its treatment of computer programs. Section 117 of the Act guarantees owners of lawfully made copies of programs the right to reproduce, adapt, and redistribute them. In section 117, the Copyright Act acknowledges that copy owners require more than the freedom of alienation to make use of the copies they own. In that sense, section 117 echoes the pre-Bobbs-Merrill exhaustion case law").

187 *See* 17 U.S.C. § 117 (authorizing an owner to distribute copies of a computer program); Zinda, *supra* note 166, at 1255 ("Software companies are fully aware of this legal loophole and often times circumvent the first sale doctrine by licensing, instead of outright selling, their software.").

188 *See Bobbs-Merrill*, 210 U.S. at 350 ("[T]he copyright statutes . . . do not create the right to impose . . . a limitation at which the [product] shall be sold at retail by future purchasers, with whom there is no privity of contract."); Liu, *supra* note 1, at 1249 ([T]he "first sale" doctrine . . . generally bars copyright owners from exerting certain types of control over copies of their works once they have parted with title over a particular copy."); Perzanowski & Schultz, *supra* note 13, at 893 ("The first sale rule prevents restraints on the transfer of lawfully acquired copies by limiting the scope of the copyright holder's distribution right. Once a copyright holder parts with title to a copy of a work, she no longer retains an exclusive right over the disposition of that particular copy.").

189 *See* Herbert Hovenkamp, *Innovation and the Domain of Competition Policy*, 60 ALA. L. REV. 103, 104 (2008) ("Well-established rules within intellectual property policy, such as the doctrines of patent and copyright misuse or the first sale doctrine, serve to protect competition by applying the policies of those statutes as a kind of substitute for the antitrust laws.").

190 *See* Daniela Alvarado, Note, *Seamaster-ing the First Sale Doctrine: A Tripartite Framework for Navigating the Applicability of Section 109(A) to Gray Market Goods*, 22 FORDHAM INTELL. PROP. MEDIA & ENT. L.J 885, 891 (2012) ("The first sale doctrine provides that once a copyright holder has made and sold her copies, she has transferred her title to that copy, she has received her reward through the purchase price of that sale, and she has thereby

end user is not authorized to make copies, and the copyright owner is not selling his copyright.[191] To allow the developer to retain power, even over the copy he sold to the end user, begins to create monopolies far in excess of the purpose of "Promot[ing] the Progress of Science and the Useful Arts."[192]

Further, some scholars note that courts are currently capable of administering a form of digital exhaustion, applying first sale doctrine to digital software.[193] While this suggestion makes functional and legal sense, courts are currently choosing not to follow this path.[194] A statute that creates a right of resale for digital software would not only allow courts to dismiss cases at the summary judgment stage, but also allow lawful users of copyrighted software to assert copyright misuse against aggressive copyright owners.[195] To effectuate change in a way that is consistent with the interest of the end user, then, the statute must be amended.

B. What Must a New Statute Protect?

Amending § 117 requires an understanding of two important considerations. A new statute must allow users to sell their lawfully purchased digital software, but, must also continue to allow software developers to protect their interests.[196] Therefore,

relinquished all further rights to sell or dispose of that copy.") (footnote omitted).

191 *See* Van Houweling, *supra* note 13, at 911 ("[T]here are some things that the owner of a copyright-embodying chattel is not permitted to do with it (for example, reproduce each of its pages) on account of the non-possessory intellectual property rights created by copyright.").

192 *See Bobbs-Merrill*, 210 U.S. at 351 ("To add to the right of exclusive sale the authority to control all future retail sales, by a notice that such sales must be made at a fixed sum, would give a right not included in the terms of the statute . . . .").

193 *See* Perzanowski & Schultz, *supra* note 13, at 892 ("Specifically, the basic rule courts should adopt is one that entitles the owner of a digital copy to reproduce or prepare derivative works based on that copy to the extent necessary to enable the use, preservation, or alienation of that particular copy or any lawful reproduction of it.").

194 *E.g.*, Adobe Sys. Inc. v. One Stop Micro, Inc., 84 F. Supp. 2d 1086, 1092 (N.D. Cal. 2000) (holding the first sale doctrine did not apply because the software products were licensed, not sold).

195 *See* Zinda, *supra* note 166, at 1273–74 (arguing that "copyright misuse" should be a defense when a copyright holder either licenses software in order to restrict resale by users or interferes with a customer's ability to have his computer serviced by a third party).

196 *See* Meurer, *supra* note 22, at 59–60 (stating importance of price discrimination to copyright holders).

concessions must be made in order to effectuate change.

To ensure that developers' rights are retained, the new statute would need to include provisions that allow developers to continue to price discriminate, prevent end users from breaking down software packages and selling the individual components, and continue to enforce their § 106 rights when appropriate.[197] Many of these concerns are solvable by creating a new class of user once a transaction is completed.[198] These new users would need a set of rights that sets them apart from the rest of the general public, but at the same time does not allow them to be exempt from most responsibilities the general public has towards the software developer.[199] But this new class of user must also be saddled with the unfortunate burden of not being able to sell his copy of a product to the open market.[200] While the new user may be able to sell his product, in order for price discrimination to be effective for software developers, the statute must limit to *whom* the end user may sell the end product.[201]

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[197] *See* 17 U.S.C. § 106 (2012) (setting forth the exclusive rights of copyright holders); SoftMan Prods. Co. v. Adobe Sys. Inc., 171 F. Supp. 2d 1075, 1089 (C.D. Cal. 2001) (holding the sale of software copies entitles the customer to the full rights of use as the "owner" of that copy, while the original copyright holder's intellectual rights are still protected); Zinda, *supra* note 166, at 1260–61 (discussing the benefits of price discrimination).

[198] *See, e.g.*, 17 U.S.C. § 117 (2012) (stating that the "owner" of software may make copies for sale); MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511, 517–18 (9th Cir. 1993) (finding that because the user was not an "owner" and merely a licensee, the user was unauthorized to make copies).

[199] *See* 17 U.S.C. §§ 106, 109, 117 (setting forth the rights of copyright holders and owners of copyrighted products); *MAI Systems*, 991 F.2d at 517–18 (making unauthorized copies is outside the scope of the license, and therefore infringement).

[200] *Cf.* Bobbs-Merill Co. v. Straus, 210 U.S. 339, 350 (1908) (noting that owner of a copy may sell the copy, but may not create a new edition of the work); Brian Mencher, *Digital Transmissions: To Boldly Go Where No First Sale Doctrine Has Gone Before*, 10 UCLA ENT. L. REV. 47, 52 (2002) ("The first sale doctrine solely limits a copyright owner's vending/distribution right. The first sale doctrine, therefore, has never granted the owner of a particular copy or phonorecord the right to reproduce that copy and subsequently distribute the reproductions.").

[201] This is not unusual; restrictions on the sale of items exist in numerous consumer goods. *Cf.* Ilona Cheyne *Environmental Unilateralism and the WTO/GATT System*, 24 GA. J. INT'L & COMP. L. 433, 434 (1995) (noting restriction of the sale of alcohol to control alcohol distribution and protect health and morals); Shannon McCoy, *The Government Tunes in to Tune out the Marketing of Violent Entertainment to Kids: The Media Violence Labeling Act, the Media Marketing Accountability Act and the First Amendment*, 4 VAND. J. ENT. L. & PRAC. 237, 244 (2002) ("[The Media Violence Labeling Act of 2000] strictly prohibits the sale of any product without a rating label or in violation of

Additionally, the users must not be allowed to abuse their new right of sale by breaking a software package into its components and individually selling the pieces.[202] Generally, software is sold as a single package.[203] But each of the individual components of software, from the artwork to the code, is copyrighted material themselves.[204] To prevent events similar to those found in *Softman*, the end user must not be allowed to sell pieces of the product she purchased.[205] If the statute limits the sales only to the product that the developer intended to purchase, this problem is prevented.[206] It is unlikely that a court will find that the software developer intends to individually sell each pixel of artwork or line of code, but instead intends to sell an entire product.[207]

It is worth noting, too, that for digital software to be sold, a copy must be made, but that the developer must still be able to protect its § 106 rights.[208] This "problem" is largely what the

its accompanying age restriction, thus making it unlawful to show R-rated movies to children under the age of 17 and PG-13 movies to children under the age of 13.") (footnote omitted).

[202] *See Softman*, 171 F. Supp. 2d at 1092 (findng that SoftMan's reselling of the product without access to customer support and technical assistance went "beyond the mere resale of trademarked goods" creating a "materially different product [that] is not genuine, and therefore its unauthorized sale constitutes trademark infringement.") (citation omitted); Robert W. Gomulkiewicz, *Enforcement of Open Source Software License: The MDY Trio's Inconvenient Complications*, 14 YALE J. L. & TECH. 106, 119 (2011) ("Some software publishers distribute packages or suites of software at a discount compared to the price of the individual components. Sometimes a party in the chain of distribution unbundles the software packages to sell the components separately, hoping to profit from the higher prices that can be charged for the individual components. Software vendors use license contracts to prevent this unbundling.").

[203] *See* Gomulkiewicz, *supra* note 202.

[204] *Id.*

[205] *See id.* ("Software vendors use license contracts to prevent this unbundling [of software and then resale of the individual components]. Courts have enforced these licenses on many occasions . . . .") (footnote omitted); *see also id.* at n.63.

[206] *Id.*

[207] *Softman*, 171 F. Supp. 2d at 1092; *see also* Todd J. Anlauf, Comment, *Severing Ties with the Strained Per Se Test for Antitrust Tying Liability: The Economic and Legal Rationale for a Rule of Reason*, 23 HAMLINE L. REV. 476, 501 (2000) (noting that in software bundles, such as Microsoft Windows with Internet Explorer, the two programs are designed to function together, each adding functionality to the other, which is why they are not intended to be sold separately). *But cf.* Gomulkiewicz, *supra* note 202 ("Courts have enforced these licenses on many occasions although not when the transaction more resembled a first sale than a license").

[208] *See* 17 U.S.C. §§ 106(1), 117(a) (2012); Capitol Records, LLC v. ReDigi

court focused on when examining the sale of digital music in *Capitol Records, LLC v. ReDigi, Inc*.[209] The court noted, like many opponents of digital resale, that not only is copying a direct violation of the copyright owner's rights under § 106, but that enforcement is difficult.[210] For sale of digital software to be effective, the rights of the original owner must be extinguished after the sale.[211] Any actions of the end user that violate § 106, outside the scope of their protection as end users, make them liable for infringement.[212] This includes copying and distributing outside the intention or purpose of making a sale, and continuing to access the software after the work has been sold.[213]

Previously, commentators and legislators were concerned about the ability to administrate the resale of software because it would be difficult to ensure that the seller's copy is deleted.[214] As noted in the recent *ReDigi* case, and seen in numerous software distribution platforms, technology exists to address this concern.[215] Some software distribution programs, such as Valve's Steam, give users a key when they purchase a product through the system.[216] This key allows users to play the video game, and access it as the developer intended.[217] But, prior to the initial use, the game connects briefly to the internet to verify the key, if the key is used by another person the program will terminate and the user will no longer have access.[218] If the key is sold to another

Inc., 934 F. Supp. 2d 640, 648 (S.D.N.Y. 2013).

[209] *ReDigi*, 934 F. Supp. 2d at 648.

[210] *Id. at* 648–49.

[211] 17 U.S.C. § 109; Bobbs-Merill Co. v. Straus, 210 U.S. 339, 350 (1908) (noting that the copyright holder no longer has rights once the sale is made).

[212] *See* MDY Indus. v. Blizzard Entm't., Inc., No. CV-06-2555-PHX-DGC 2008 WL 2757357 at *10 (D. Ariz. July 14, 2008) (noting that acting outside the scope of the allowed use of the program violated Blizzard's § 106 rights).

[213] *See id.*; *id.* at n.7.

[214] *See, e.g.*, *ReDigi*, 934 F. Supp. 2d at 648.

[215] *Id.*; A.H. Rajani, Note, Davidson & Associates v. Jung*: (Re)interpreting Access Controls*, 21 BERKELEY TECH. L.J. 365, 370–72 (noting the use of CD Keys to give users access to software they purchased).

[216] *See generally id.* at 369; *id.* at n.31 (overview of CD access keys).You can redeem activation keys from retailers such as Amazon.com or Valve's Steam in order to download software. Greg Voakes, *European Courts Rule in Favor of Consumers Reselling Downloaded Games*, FORBES (Jul. 3, 2012, 12:21 PM), http://www.forbes.com/sites/gregvoakes/2012/07/03/european-courts-rule-in-favor-of-consumers-reselling-downloaded-games.

[217] *See* Rajani, *supra* note 215; Voakes, *supra* note 216.

[218] *See* Ben Depoorter, *The Several Lives of Mickey Mouse: The Expanding Boundaries of Intellectual Property Law*, 9 VA. J.L. & TECH 4, 44 (2004) ("Digital encryption technology fences intellectual goods from non-authorized

person, and the original key owner validates the new user's use of the key, the original user's ability to use the software will be terminated, and any methods he takes to circumvent the need for a key will infringe the developer's copyright.[219]

Finally, a new statute must also recognize that when a developer gives all substantial rights to an end user to access the software, this is essentially a sale.[220] While these users are now saddled with some extra responsibility in terms of to whom they may sell their product, and what they may do with the product when they sell it, they are still able to alienate their property.[221] They may transfer their property, which will, in the end, increase the dissemination of information and ultimately increase public access to new works.[222]

C. A Proposal for § 117

Taking into consideration the dual goals that an amended § 117 must achieve, the proposed language looks to preserve the developers' incentive to create, yet also create rights for the end user to alienate their copy.[223] Specifically, § 117(b) must be amended to address the right of sale.[224]

1. A New Proposal for § 117

The proposed language is as follows:[225]

uses. Software of this kind establishes effective rights of exclusion in digital content—be it text, pictures, music, or movies - because access to the encrypted content requires an individualized, non-duplicable digital key. In some instances the developments in digital technology have tilted the protection of intellectual property rights toward more individualized, stronger enforcement. Automated rights management systems allow content providers to restrict access to a fee-per-use basis and to monitor with accuracy the use of the content."); Voakes, *supra* note 216.

219 17 U.S.C. § 1201(a) (2012); Voakes, *supra* note 216.

220 Softman Prod. Co. v. Adobe Sys., Inc. 171 F. Supp. 2d 1075, 1082 (C.D. Cal. 2001).

221 *See id.*; Van Houweling, *supra* note 13, at 940–41.

222 *Cf.* Van Houweling, *supra* note 13, at 940–41 (discussing the issues restrictions on transferring property creates).

223 *See* Olson, *supra* note 31, at 187 (noting that one purpose of Progress Clause is to promote dissemination of information); Meurer, *supra* note 23, at 59–60 (stating the importance of price discrimination to copyright holders); Perzanowski & Schultz, *supra* note 13, at 925–38 (explaining that the first sale doctrine should fall into a larger exhaustion principle).

224 *See* 17 U.S.C. § 117 (1998).

225 The proposal builds on existing and proposed § 117, the proposed § 109, and European case law. *See* 17 U.S.C. § 109 (2012); *Id.* § 117; Case C-128/11,

§ 117: Limitations on exclusive rights: computer programs

(b) Sale or Other Transfer of Additional Copies or Adaptation. Notwithstanding the provisions of sections 106 and 1201, it is not an infringement for the lawful user of a copy of a computer program to make or authorize the making of another copy of that computer program, provided:

(1) that such a new copy of the computer program is made only for the purposes of a sale, is part of an essential step for the purposes of completing the sale, and contains all elements of the original copy;

(2) that the purchaser of a copy under this section shall be bound to all rights and restrictions of the original copy, and shall be a lawful user of the exact copy; and

(3) that the copy is only transferred pursuant to the restrictions of the original lawfully acquired computer program, including: (i) restrictions against status as defined by this section; (ii) restrictions against alteration aside from temporary translation, adaptation, and arrangement for the purposes of using the computer program consistent with its intended use; (iii) restrictions against rentals.

The lawful user's rights in the computer program are terminated upon sale or transfer of a new copy to another or otherwise granting access consistent with the intended use by the copyright owner.

(d) Definitions. (For the purposes of this section)

(3) "Lawful user" is any person who acquires via purchase or gift the right to use a computer program consistent with its intended use by the copyright owner;

(4) "Original copy" is the copy purchased by the lawful user, comprised of all of the elements intended to be sold by the copyright owner or the lawful user; and

(5) "Status" includes, but is not limited to, individuals such as students, teachers, citizens of specified nations, or non-profit institutions.

2. Application of the Proposed Language

The proposed language makes a number of changes in an effort

UsedSoft Gmbh v. Oracle Int'l Corp., 2012 E.C.R 7, *available at* http://curia.europa.eu/juris/document/document.jsf?docid=124564&doclang=en (finding that digital resale of software is legal); FINAL REPORT OF THE NAT'L COMM'N ON NEW TECHNOLOGICAL USES OF COPYRIGHTED WORKS, CHAPTER 3: COMPUTERS AND COPYRIGHT 12–13 (1978) (proposing § 117).

to promote the goal of increasing public access and dissemination of information.[226] First, the language changes the end user from an "owner" of a work to a "user" of a work.[227] Second, it grants the "user" the right to sell or otherwise transfer her rights in the work, but no longer permits "leas[ing]" a work.[228] Third, it allows developers to restrict certain users' abilities to sell their digital property freely.[229]

First, by changing from "owner" to "lawful user," end users escape the shadow of *One Stop Micro* and similar cases.[230] Now, as seen in proposed § 117(d), if an end user is allowed to access the program in a way consistent with how the developer intended, she is a "lawful user" of the program.[231] Now, so long as the user is "lawful," she may qualify for § 117.[232] This creates a new class of users that not only gain a new set of rights through their purchase, but must use these rights responsibly or they will violate § 106.[233] They are largely excused, albeit temporarily, from certain violations of §§ 106 and 1201 so that they may take whatever means necessary to sell their lawfully purchased copy.[234] But, like § 109, they must first lawfully purchase the program.[235] Anyone who purchases a program illegally, or

[226] *See* Olson, *supra* note 31, at 187.

[227] *See* 17 U.S.C. § 117.

[228] *Id.*

[229] *See id.*

[230] *See* MAI Sys. Corp. v. Peak Computer, 991 F.2d 511 (9th Cir. 1993) (indicating that because the defendant did not own software in question, it was prohibited from copying said software onto any of its computers); Adobe Sys., Inc. v. One Stop Micro, Inc., 84 F. Supp. 2d 1086 (N.D. Cal. 2000) (holding liable for copyright infringement a company that redistributed software because the company did not own the software but merely licensed it).

[231] *See* Krause v. Titleserv, Inc., 402 F.3d 119, 130 (2d Cir. 2005); SoftMan Prod.Co. v. Adobe Sys., Inc., 171 F. Supp. 2d 1075, 1091–92 (C.D. Cal. 2001).

[232] *See Krause*, 402 F.3d at 122–24; *SoftMan*, 171 F. Supp. 2d at 1082.

[233] *See* Bobbs-Merill Co. v. Straus, 210 U.S. 339, 350 (1908) (noting that the owner of a copy of a book could not make copies of the book or prepare derivative works, but could only sell the copy); *Krause*, 402 F.3d at 122–24; *SoftMan*, 171 F. Supp. 2d at 1089.

[234] *See* Sean N. Kass, *Misinterpreting the Record Rental Amendment:* Brilliance Audio v. Haights Cross Communications, 21 HARV. J.L. & TECH. 297, 315 (2007) ("In addition, the first sale doctrine is traditionally justified as a limitation on the exclusive rights of the copyright holder that is necessary to preserve the rights of the purchaser.").

[235] *See* Maureen Steimer, Case Note, *Restoring the Balance: Bringing Back Consumer Rights in* UMG Recording v. Augusto *by Reaffirming the First Sale Doctrine in Copyright Law*, 16 VILL. SPORTS & ENT. L.J. 313, 327 (2009) ("In order for copyrighted material to be subject to the first sale doctrine, the statute requires that the material be possessed by a lawful owner. The critical factor in

purchases it outside the restrictions outlined in § 117(b)(2) and (3) is not a "lawful user," and therefore liable for copyright infringement.[236]

Second, the lawful user now has the right to sell or otherwise dispose of their software.[237] The proposed § 117(b) gives lawful users the right, under § 117(b)(1), to make a copy of a program only for the purposes of a sale.[238] Then, the lawful user must terminate or extinguish his right to use the software after the sale, and adhere to the restrictions in § 117(b)(2) and (3) upon transfer of the copy.[239] There is no longer a need for the copyright owner to transfer "ownership" to the end user.[240] So long as they lawfully purchased the copy of their software, they are free to transfer it.[241]

Third, proposed § 117(b)(2) and (3) allows developers to prevent arbitrage or dismantling of a computer program package.[242] The first set of restrictions, under § 117(b)(2) states that any subsequent purchaser, after the original purchaser, shall be subject to any restrictions to which the original purchaser was subject.[243] This is similar to an assignment of license,[244] and prevents end users from circumventing any

determining lawful ownership is whether the copyright owner has transferred title of the material, thus giving up ownership via a 'first sale.'")(footnotes omitted).

[236] *Id.*

[237] *See Id.* at nn.71–72; Kass, *supra* note 234, at 303.

[238] *See* 17 U.S.C. § 117 (2012) (granting owners the ability to make copies incidental to utilization of the program). This includes any incidental copies that are made during the transfer period. This would allow people to upload them to third party sources, similar to *ReDigi*, and sell them from there. Capitol Records, LLC v. ReDigi Inc., 934 F. Supp. 2d 640, 646 (S.D.N.Y. 2013).

[239] *See* Bobbs-Merill Co. v. Straus, 210 U.S. 339, 350 (1908); Alvarado, *supra* note 190 ("The first sale doctrine therefore caps the distribution right bestowed on a copyright owner because it terminates the copyright holder's distribution right following the first sale.").

[240] *Cf.* MAI Sys. Corp. v. Peak Computer, 991 F.2d 511, 518 (9th Cir. 1993) (stating that without ownership of the copy right of expression permission via license, the loading of a program from a floppy disk onto a computer would constitute copyright infringement); Perzanowski & Schultz, *supra* note 13, at 901–02, 923.

[241] *See* Kass, *supra* note 234, at 297.

[242] *See generally* Gomulkiewicz, *supra* note 202, at 119 (discussing the unbundling of software); Meurer, *supra* note 22, at 59–60 (discussing price discrimination and arbitrage).

[243] *See supra* Part IV.C.1 (discussing the proposed statute and its applicability to the rights associated with the purchase of a copy of a computer program.).

[244] RAYMOND T. NIMMER & JEFF C. DODD, MODERN LICENSING LAW §5:3 (2012),

restrictions placed upon them with the purchase of their software. The application of this provision becomes clearer upon examination of the restrictions found in § 117(b)(3).

The proposed § 117(b)(3) states that if the developer sold a product only under certain conditions to a favored class or user, the end user may only sell the product she purchased to similarly situated users.[245] For example, if a lawful user purchased a product because she qualified for a price based on status, such as a student rate or a corporate discount, she is only allowed to sell to individuals who also qualify for that status. If the original user sells to someone outside of that group, they violate their sale right.

In addition to restrictions on to whom the original user may sell, § 117(b)(3)(ii) prevents any unauthorized derivative work, consistent with *MDY*.[246] Together, these provisions protect the copyright holder while still allowing the end user to freely dispose of his or her copy of lawfully purchased software.

3. Hypothetical Considerations

The proposed § 117 seeks to promote the copyright goal of promoting dissemination of information while at the same time reserving the protection for the developer's copyright.[247] The following two hypotheticals will help illustrate how application of the proposed statute promotes both of these goals.

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available at Westlaw MLL ("The term, 'assignment,' connotes the most complete transfer of the four types with respect to the rights conveyed in the information or intellectual property. An 'assignment' ordinarily refers to an absolute conveyance of full rights in the information. Assignments can be analogized to sales, although they apply to intangible property rather than to tangible items. In many true assignments, the transferor retains no current rights in the transferred information, although some assignments include rights of reversion in the event of a breach (say, as to an obligation to pay a royalty) or other specified event.") (footnotes omitted).

[245] *Compare supra* Part IV.C.1 (restricting the selling of products to users with the same status), *with* NIMMER & DODD, *supra* note 244 n.1 ("'All that is required for the completion of an assignment is that the assignor 'manifest an intention to transfer the right to another person . . . . The manifestation may be made to the other or to a third person on his behalf and, except as provided by statute or by contract, may be made either orally or by a writing.' No particular formality is required, except to the extent required by statute.'").

[246] *See* MDY Indus. v. Blizzard Entm't, No. CV-06-2555-PHX-DGC, 2008 WL 2757357 at *10 (D. Ariz. July 14, 2008).

[247] *See supra* Part IV.C; *see also* Meurer, *supra* note 23, at 60, 62; Olson, *supra* note 31, at 187; Perzanowski & Schultz, *supra* note 13, at 925, 929–30, 935–36.

First, consider a normal transaction between a consumer and a developer.[248] The consumer purchases a copy of an electronic game for $60[249] through an online retailer and digitally downloads his copy to his hard drive. The software developer issues an access key that he must register with the developer before he can play.[250] After his initial activation, he no longer needs online access[251] and is free to enjoy the game.[252] Upon completion, he informs a friend of how fantastic the game is, but his friend cannot afford the price tag.[253] Under the original § 117, the friend is out of luck; he is forced to wait until the price comes down, if it ever does.[254] The original user now has a game that he has finished playing that he will either delete from his hard drive, or forget about entirely.[255] The proposed § 117, however, allows the original user to sell the game to his friend.[256] So long

[248] In this particular hypothetical, no special pricing for students, teachers, or other status is offered. This is designed to be a normal transaction between the average customer and the retailer. *See, e.g.*, U.C.C. §§ 2-204, 2-206 (2012) (defining the formation of a contract for sale as any conduct sufficient to show agreement and explaining the importance of an offer and acceptance).

[249] This is the average price of a video game. *See* Kyle Orland & Jonathan Gitlin, *Why Retail Console Games Have Never Been Cheaper, Historically*, ARS TECHNICA (June 30, 2013, 4:00 PM), http://arstechnica.com/gaming/2013/06/why-retail-console-games-have-never-been-cheaper-historically.

[250] Rajani, *supra* note 215, at 365.

[251] The one-time internet access is all that is needed. Users have shown they are adamantly opposed to programs that require constant online access when the program does not have multi-user functionality. For example, recently Electronic Arts released a new version of *SimCity*, a computer game that allows users to simulate building a city. The game is single player, but Electronic Arts designed the program to require users to be online at all times. While Electronic Arts never articulated why they required users to be online at all times, users still lashed out against Electronic Arts, including many users boycotting the purchase of the program. *See* Parker Higgins, *A Tale of SimCity: Users Struggle Against Onerous DRM*, ELEC. FRONTIER FOUND (Mar. 8, 2013), https://www.eff.org/deeplinks/2013/03/tale-simcity-users-struggle-against-onerous-drm.

[252] *See* Rajani, *supra* note 215, at 369.

[253] *See generally* E. THOMAS SULLIVAN & JEFFERY L. HARRISON, UNDERSTANDING ANTITRUST AND ITS ECONOMIC IMPLICATIONS 9–10 (4th ed. 2003) (indicating that a consumer's demand for a product is dependent on the price that the consumer is willing and able to pay).

[254] *See* 17 U.S.C. § 117 (2012) (barring unauthorized copies of copyrighted computer programs).

[255] *See* Don Reisinger, *How Much Do Industry CEOs Hate Used Games? A Whole, Whole Lot* (Mar. 28, 2012, 10:21 AM), http://news.cnet.com/8301-13506_3-57405801-17/how-much-do-industry-ceos-hate-used-games-a-whole-whole-lot (stating that once users are done with games they just return them to stores for money).

[256] *See supra* Part IV.C.1.

as his friend is not restricted due to considerations such as citizenship, the sale is lawful.[257] The original user transfers a single copy of the game to his friend, and the original user's copy is either deleted or locked out because he no longer has the right to use it.[258] The friend now enjoys full access to the software, as he lawfully purchased it from the original user, and is free to make a single copy to transfer to a third party should he ever desire.[259]

Second, consider a student who purchases a copy of a productivity suite at a discount rate, due to his attendance at a university.[260] He purchases the program for the lawful price, and becomes a "lawful user" of the program.[261] At the end of the year, he graduates, and no longer has any need for his student-edition program, so he wants to sell it to his friend who is still a student.[262] Under the current § 117, this is impossible unless the original student was an "owner" of the software, which he was likely not.[263] But, under the proposed § 117(b)(2) and (3), if the original student purchased the program at a discount rate, because he qualified as a "student," and his friend also qualifies as a "student" under the same set of limitations, then the proposed § 117 will allow the original student to sell his copy to his friend.[264] Conversely, if the original student seeks to sell his purchased copy to someone who does *not* qualify as a "student,"

[257] *See supra* Part IV.C.1 (assuming that geography would impede the completion of a lawful sale).

[258] *See* Rajani, *supra* note 215, at 370; *supra* Part IV.C.1.

[259] *See supra* Part IV.C.1 (allowing the lawful user to make a copy as a necessary step of sale).

[260] As noted earlier, many students are given preferential rates on software, such as Microsoft Office. *See supra* text accompanying note 119.

[261] *See supra* Part IV.C.1.

[262] This is strictly precluded under the licensing agreements. *See* 17 U.S.C. § 117 (2012) (barring unauthorized transfer of a copyrighted program); MAI Sys. Corp. v. Peak Computer, 991 F.2d 511, 518 (9th Cir. 1993) (holding that unauthorized copies made by a licensee infringed the rights of the copyright owner); Adobe Sys. Inc. v. One Stop Micro, Inc., 84 F. Supp. 2d 1086, 1089 (N.D. Cal. 2000) (holding that the first sale doctrine does not apply to licensees).

[263] *See* 17 U.S.C. § 117 (allowing the owner of a copy of a computer program to sell the copy if the owner transfers all of his ownership rights in the sale); *MAI Sys. Corp.*, 991 F.2d at 517–18 (holding that MAI software customers were licensees, so any copies of the software violated MAI's copyright); *One Stop Micro*, 84 F. Supp. 2d at 1089 (holding that the copyright owner's exclusive right to sell a product is terminated only when the product is sold, not when licensed).

[264] *See supra* Part IV.C.1.

then the original student's sale does not qualify for protection under § 117(b), and therefore is infringement.[265] The developer's ability to charge different prices for different markets is protected, and the end user is still able to freely alienate the software that he owns.[266] The goal of increasing dissemination of information and public access is met.[267]

V. CONCLUSION

The right to sell digitally purchased software has been debated for decades. While the right of first sale has existed for physical copies for more than a century, this right has been circumvented by software developers for years. Developers are justified in desiring close control over their work, it allows them to price discriminate, and as a result provide access to their work to a wider audience. By restricting the resale of this work through licensing software instead of selling it, the copyright goal of dissemination of information and increased public access is ignored.

This Article proposed a solution by reinvigorating § 117 to include provisions that address the loopholes developers use, but still allowing them to price discriminate through restricting certain types of resale. The proposed § 117 no longer requires a "sale" from the copyright owner, and instead grants any lawful user the right to resell their lawfully purchased copy of digital software. The proposed § 117 then restricts the resale to only certain purchasers who share the same consumer status as the original purchaser. By combining these two these two provisions, software developers cannot restrict sales by merely licensing their works, and end users cannot commit arbitrage and harm the developer's beneficial price discrimination. In the end, the work may be disseminated to more members of the public, and the goal of increased public access is met.

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[265] *Cf.* 17 U.S.C. §§ 106, 109, 117 (providing the copyright owner with an exclusive right to distribute copies that is terminated only when a copy is sold, not licensed); *MAI Systems*, 991 F.2d at 517 (making unauthorized copies is outside the scope of the license, and therefore infringement).

[266] *See* Liu, *supra* note 1, at 1283 (noting the potential for price discrimination); Meurer, *supra* note 22, at 58 (indicating that price discrimination is prevalent in markets containing copyrighted products); Perzanowski & Schultz, *supra* note 13, at 901 (highlighting the consumer's ability to legally sell a copy of a computer game that he "owns").

[267] Olson, *supra* note 31, at 187.