

Notes and Comments

TOWARD A “DIGITAL TRANSFER DOCTRINE”? THE FIRST SALE DOCTRINE IN THE DIGITAL ERA

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ABSTRACT—The first sale doctrine in copyright law allows a person who owns a copy of a copyrighted work to sell, lend, or give away the copy to someone else. An owner of a copy of a copyrighted work can take advantage of the first sale doctrine, but a licensee cannot. In today’s digital environment, people are increasingly purchasing digital music files and e-books instead of CDs and physical books. Customers often mistakenly believe they become owners of the digital content they purchase when in actuality they merely become licensees most of the time. Licensing agreements impose use restrictions on digital content. As licensees, customers are unable to invoke the first sale doctrine and legally resell or transfer their digital content to others. This Note explores the feasibility of applying the first sale doctrine to digital content and concludes that a better solution would be to operate a digital secondary marketplace outside the scope of the first sale doctrine. This solution is referred to as a “digital transfer doctrine.” A digital secondary marketplace that provides a portion of revenues from secondary sales to the copyright holders most effectively balances the interests of both consumers and copyright holders.

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INTRODUCTION

Tablets and e-readers are becoming increasingly popular commodities among Americans, but to legally enjoy most of the newest movies, books, or music on these devices, users must purchase digital content from online retailers such as Apple or Amazon. The price of a digital copy of a movie or an e-book, however, may not differ much from the price of a DVD or the paperback edition of the book¹ even though the customer does not receive a physical object in exchange for her money. Transactions for digital content involve payment of money just like transactions for physical goods, and yet several restrictions are imposed on customers' use of digital content. Many customers do not realize that when they buy digital content from retailers such as Apple or Amazon, they only receive a license to use the digital content instead of receiving any ownership rights over the digital files.² No digital secondary marketplace for reselling or exchanging digital content purchased from these retailers currently exists, and the lack of a digital secondary marketplace is bound to frustrate consumers.

¹ See Jeffrey A. Trachtenberg, *E-book Readers Face Sticker Shock*, WALL ST. J. ONLINE (Dec. 11, 2011), <http://online.wsj.com/news/articles/SB10001424052970204336104577096762173802678> [<http://perma.cc/ZX5W-LNVD>] (noting how prices for certain popular e-book titles have "soared").

² See, e.g., *Kindle Store Terms of Use*, AMAZON (Sept. 6, 2012), <http://www.amazon.com/gp/help/customer/display.html?nodeId=201014950> [<http://perma.cc/ST4U-N53K>].

In copyright law, the first sale doctrine allows a customer who owns a copyrighted work to lend, sell, or give away the item to someone else.³ As a result, it serves as a significant limitation on copyright holders’ rights. When someone purchases a physical book from the bookstore, she becomes the owner of that copy. Under the first sale doctrine, she may sell that copy to a used bookstore, donate it to the library, or give it away to a friend. In contrast, when someone purchases a Kindle e-book from Amazon or a song or movie from the iTunes store, she cannot resell or transfer any of these digital files to anyone else because she only became a “licensee” of the digital content rather than an “owner” of it. When a customer is merely a licensee of a copy of a copyrighted work, the first sale doctrine does not apply because there was no initial “sale.”

Recently, the Supreme Court ruled in *Kirtsaeng v. John Wiley & Sons, Inc.* that the first sale doctrine does not have geographic restrictions.⁴ The ruling favored a student who had invoked the first sale doctrine as an affirmative defense against a publisher that was the copyright holder of the textbooks at issue.⁵ Because the decision reaffirmed the significance of the first sale doctrine in copyright law, many scholars and practicing attorneys viewed this ruling as a consumer-friendly decision.⁶ But two weeks later, copyright holders were the ones rejoicing instead of consumers. The U.S. District Court for the Southern District of New York limited the scope of the first sale doctrine in *Capitol Records, LLC v. ReDigi Inc.* by holding that the doctrine did not apply to digital music files—specifically, MP3 files purchased from iTunes.⁷ *ReDigi* calls into question the actual effect *Kirtsaeng* will have in a culture where digital content is becoming increasingly popular.⁸

Although *Kirtsaeng* reinforced the importance of the first sale doctrine by holding that the doctrine is not subject to geographic limitations, its focus was on physical textbooks and not on digital content. *ReDigi*’s focus, however, was on the application of the first sale doctrine to MP3 files purchased from iTunes, and the district court explicitly limited the doctrine’s scope by stating that customers were not entitled to resell their digital music files to others. In the year following *ReDigi*, no other cases

³ See 17 U.S.C. § 109 (2012).

⁴ 133 S. Ct. 1351, 1355–56 (2013).

⁵ *Id.*

⁶ See, e.g., *Supreme Court OKs ‘Gray-Market’ Product Sales in the United States*, 14 INTELL. PROP. REP., July 2013, at 3, available at http://www.leydig.com/files/leydig_void_mayer_july_2013_newsletter.pdf [<http://perma.cc/8G89-EYJ8>] (calling *Kirtsaeng* a “very consumer-friendly decision”).

⁷ 934 F. Supp. 2d 640, 655 (S.D.N.Y. 2013).

⁸ For example, digital movie purchases increased by 47% in 2013, while purchases of movies on DVDs and Blu-ray discs dropped by 8%. Ben Fritz, *Sales of Digital Movies Surge*, WALL ST. J. ONLINE (Jan. 7, 2014, 9:44 PM), <http://online.wsj.com/news/articles/SB10001424052702304887104579306440621142958> [<http://perma.cc/HS5W-RXZN>].

were decided in federal courts regarding the first sale doctrine's application to copyrighted works in digital formats.

The *Kirtsaeng* and *ReDigi* decisions give copyright holders an incentive to favor distributing their media to consumers in digital formats rather than in physical formats. Most importantly, copyright holders can exert a significant degree of control over digital content because customers are not legally authorized to resell it if they buy it from the major digital retailers such as Amazon or Apple because both companies impose licensing agreements on the content they sell. For instance, John Wiley & Sons, the publisher in *Kirtsaeng*, cannot prevent people from importing the publisher's textbooks from foreign countries where they are sold at lower prices and reselling them to customers in the United States. But John Wiley & Sons can exert a great deal of control over textbooks sold as e-books through the Kindle store because no purchaser of one of their textbooks as an e-book would be able to legally resell it or transfer it to someone else.

In this Note, I argue that customers who purchase digital content should be able to resell or transfer it to others. The following sections explore whether and how the first sale doctrine could be applied to digital content. Part I provides an overview and history of the first sale doctrine in copyright law, highlighting the three Supreme Court cases that have extensively considered the first sale doctrine: *Bobbs-Merrill Co. v. Straus*; *Quality King Distributors, Inc. v. L'Anza Research International, Inc.*; and *Kirtsaeng v. John Wiley & Sons, Inc.* Part II provides an overview of today's digital environment, which is full of uncertainty and confusion due to the "owner" and "licensee" dichotomy. Part III discusses the application of the first sale doctrine to digital content. Part III also includes a discussion of *Capitol Records, LLC v. ReDigi Inc.*, as well as an overview of how Europe has embraced a first sale doctrine for used software in contrast to the United States. In Part IV, I propose a solution for constructing a digital secondary marketplace that would allow customers to resell digital content that they have lawfully purchased from retailers such as Amazon or Apple. I refer to this solution, which will operate as an alternative to a first sale doctrine for digital works, as a "digital transfer doctrine."

I limit the scope of this Note mostly to e-books when discussing both the need for, and feasibility of, creating a digital secondary market. Many scholars have already written about the recording industry's response to digitization and copyright protection of digital music files, but comparatively little ink has been spilled on e-books.⁹ This disparity is likely caused by the book industry's slower adoption of digital media than the music, movie, and television industries. But the "age of the e-book has

⁹ See, e.g., Sarah Abelson, *An Emerging Secondary Market for Digital Music: The Legality of ReDigi and the Extent of the First Sale Doctrine*, 29 ENT. & SPORTS LAW. 8 (2012).

undeniably arrived,¹⁰ and so it is time to give more attention to how copyright law affects e-books. This Note focuses on Kindle e-books in particular because Amazon is the leading e-book retailer.¹¹ Kindle e-book sales exceed sales from all other e-book retailers combined, including Barnes & Noble’s Nook store, Apple’s iBooks store, and Kobo’s store.¹² As discussed in Part IV, Amazon is already considering ways in which it can develop a digital secondary marketplace for Kindle e-books.

I. FIRST SALE DOCTRINE OVERVIEW

A. Section 109(a): Limitation on Copyright Owners’ Rights

Copyright law provides copyright holders with several exclusive rights over their copyrighted works, including the rights to reproduce, perform, display, and prepare derivative works.¹³ One of the most important of these is the distribution right, which gives a copyright holder the exclusive ability to distribute the copyrighted works, or to authorize another to do so on his behalf.¹⁴ Section 106(3) of the Copyright Act states that the copyright owner “has the exclusive rights . . . to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending.”¹⁵

But the first sale doctrine, also known as the principle of copyright exhaustion, imposes a significant limitation on the distribution right granted by § 106(3). Section 109(a) states:

Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.¹⁶

The first sale doctrine, therefore, is an affirmative defense to claims of copyright infringement because it takes away the ability of copyright

¹⁰ Matthew Chiarizio, Note, *An American Tragedy: E-books, Licenses, and the End of Public Lending Libraries?*, 66 VAND. L. REV. 615, 625 (2013). E-books are “digital books that you can read on a computer screen or an electronic device” and are “created by converting digitized text into a format readable by computer software.” *Random House, Inc. v. Rosetta Books LLC*, 150 F. Supp. 2d 613, 614–15 (S.D.N.Y. 2001).

¹¹ Data through 2011 indicate that more than 70% of e-book buyers used Amazon’s Kindle store to buy e-book titles, followed by 27% using Barnes & Noble’s digital bookstore, and around 10% using Apple’s iBooks store. RÜDIGER WISCHENBART, GLOBAL EBOOK: A REPORT ON MARKET TRENDS AND DEVELOPMENTS 21 (2013), available at http://www.wischenbart.com/upload/Global-Ebook-Report2013_final03.pdf [<http://perma.cc/ZDY5-DTY2>].

¹² *Id.*

¹³ 17 U.S.C. § 106 (2012).

¹⁴ *See id.* § 106(3).

¹⁵ *Id.*

¹⁶ *Id.* § 109(a).

holders to exert control over copies of their copyrighted works once they are sold to customers.

B. History of the First Sale Doctrine

According to the *Kirtsaeng* court, the “first sale doctrine is a common law doctrine with an impeccable historic pedigree” and has “played an important role in American copyright law” for over a century.¹⁷ Scholars generally regard *Bobbs-Merrill Co. v. Straus* as establishing the first sale doctrine in the United States.¹⁸ In *Bobbs-Merrill*, the Supreme Court held that a publisher could not impose a limitation on the price at which future retailers could sell the publisher’s books.¹⁹ The court stated that “one who has sold a copyrighted article, without restriction, has parted with all right to control the sale of it.”²⁰ However, in dicta, the Supreme Court noted that the case did not involve a contract limitation or a license agreement that would control subsequent sales of the book.²¹ Even over a century ago, the Court found it important to mention how customer rights would differ if the customer obtained a book through a licensing agreement as opposed to obtaining ownership rights over it.

One year after the Supreme Court’s ruling in *Bobbs-Merrill*, Congress codified the first sale doctrine in the Copyright Act of 1909.²² In 1947, the first sale doctrine was recodified, using virtually identical language as the Copyright Act of 1909.²³ The Copyright Act of 1976 set the modern form of the first sale doctrine in § 109, which is still followed today.²⁴ The Copyright Act is codified in Title 17 of the United States Code and outlines the subject matter and scope of copyright, ownership and transfer of copyright, copyright duration, procedures for obtaining a copyright, as well as copyright infringement and remedies.²⁵ Section 109 is only one limitation on the exclusive rights of copyright owners—other sections of

¹⁷ *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013) (internal quotation marks omitted).

¹⁸ 210 U.S. 339 (1908).

¹⁹ *Id.* at 350.

²⁰ *Id.*

²¹ *Id.* (“There is no claim in this case of contract limitation, nor license agreement controlling the subsequent sales of the book.”). This point about a contract or license will be important for later discussion in this Note. See *infra* Part II.B.

²² Copyright Act of 1909, ch. 320 § 41, 35 Stat. 1075, 1084 (“That the copyright is distinct from the property in the material object copyrighted, and the sale or conveyance, by gift or otherwise, of the material object shall not of itself constitute a transfer of the copyright, nor shall the assignment of the copyright constitute a transfer of the title to the material object; but nothing in this Act shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained.”).

²³ See Copyright Act of 1947, ch. 391 § 27, 61 Stat. 652, 660.

²⁴ See Copyright Act of 1976, Pub. L. No. 94-553, § 109, 90 Stat. 2541, 2548–49.

²⁵ See 17 U.S.C. §§ 101–1332 (2012).

the Copyright Act also impose additional limitations, such as the fair use defense²⁶ and reproduction of copyrighted works made by libraries.²⁷

Ninety years after introducing the first sale doctrine in *Bobbs-Merrill*, the Supreme Court strengthened the doctrine in *Quality King Distributors, Inc. v. L’Anza Research International, Inc.*²⁸ The Court held that the first sale doctrine allowed lawful owners of copyrighted hair care products to import and resell them without obtaining permission from the manufacturer.²⁹ Specifically, the Court stated that “[t]he whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution.”³⁰ However, the decision expressly distinguished owners from licensees when it noted that “the first sale doctrine would not provide a defense to . . . any nonowner such as a bailee . . . [or] a licensee.”³¹ Like in *Bobbs-Merrill*, the Supreme Court reiterated that a distinction between owners and licensees exists when it comes to the first sale doctrine.

C. *Supreme Court: Kirtsaeng v. John Wiley & Sons, Inc.*

In March 2013, the Supreme Court addressed the issue of the first sale doctrine again.³² The issue in this case was whether the first sale doctrine would protect a buyer or lawful owner of a copy of a copyrighted work that was manufactured abroad.³³ In *Kirtsaeng*, a publisher alleged that a student infringed its exclusive distribution right by importing textbooks from Thailand—where the publisher sold them for much lower prices—and reselling them in the United States.³⁴ In holding that the first sale doctrine does not have geographic restrictions, the Supreme Court expanded the reach of the doctrine. In a 6–3 holding, the Court based its decision on the language of § 109(a), the statute’s context, and the common law history of the first sale doctrine.³⁵ Justice Breyer, delivering the opinion for the Court, stated that “for at least a century the ‘first sale’ doctrine has played an important role in American copyright law.”³⁶ The opinion also acknowledged the importance of the first sale doctrine for booksellers,

²⁶ *Id.* § 107.

²⁷ *Id.* § 108.

²⁸ 523 U.S. 135 (1998).

²⁹ *Id.* at 152.

³⁰ *Id.*

³¹ *Id.* at 146–47.

³² *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013).

³³ *Id.* at 1354–55.

³⁴ *Id.* at 1356–57.

³⁵ *Id. passim.*

³⁶ *Id.* at 1363.

libraries, museums, and retailers.³⁷ With this acknowledgment, the Court recognized how secondary markets can benefit consumers, businesses, and non-profit organizations. Even though licensing was not the main focus of the opinion because the textbooks at issue did not have licensing agreements attached to them, the Court still made sure to point out that § 109(a) “now makes clear that a lessee of a copy will *not* receive ‘first sale’ protection but one who *owns* a copy *will* receive ‘first sale’ protection, *provided*, of course, that the copy was ‘*lawfully made*’ and not pirated.”³⁸ Consequently, *Kirtsaeng* appeared to limit the holding to physical copyrighted works.

Some scholars have expressed concern that the *Kirtsaeng* decision will not have a meaningful effect unless the first sale doctrine is expanded to cover digital content. For example, Professor Clark D. Asay argued, “The *Kirtsaeng* decision helped further cement the first-sale doctrine as an important limitation on the rights of copyright holders. But more cement is needed. . . . If *Kirtsaeng* is to avoid becoming the first-sale doctrine’s ‘swan song,’ courts and Congress must respond to save it.”³⁹ Leaving § 109 as is does not offer customers who purchase digital content the benefits of the first sale doctrine that they currently enjoy after purchasing copyrighted works in physical formats.

II. TODAY’S DIGITAL ENVIRONMENT

A. Purchases of Digital Content

Today, one in four American adults owns an e-reader such as a Kindle or Nook,⁴⁰ and over a third own a tablet computer such as an iPad or Kindle Fire.⁴¹ The amount of purchased digital content has concomitantly increased at a rapid rate.⁴² Unfortunately, many consumers do not realize

³⁷ *Id.* at 1366.

³⁸ *Id.* at 1361.

³⁹ Clark D. Asay, *Kirtsaeng and the First-Sale Doctrine’s Digital Problem*, 66 STAN. L. REV. ONLINE 17, 23 (2013); see also John Villasenor, *Rethinking a Digital First Sale Doctrine in a Post-Kirtsaeng World: The Case for Caution*, COMPETITION POL’Y INT’L, May 2013, at 13 (“It seems reasonable, therefore, to contemplate some expansion of § 109 to allow consumers to do with electronic copies of works what they have long been able to do with tangible copies. However, an immediate wholesale expansion of § 109 to eliminate any distinction between electronically and physically transferred works with respect to distribution . . . would be a mistake.”).

⁴⁰ Lee Rainie & Aaron Smith, *Tablet and E-reader Ownership Update*, PEW RES. CTR. (Oct. 18, 2013), <http://www.pewinternet.org/2013/10/18/tablet-and-e-reader-ownership-update/> [<http://perma.cc/JP9M-CXGY>].

⁴¹ *Id.*

⁴² E-book sales have “skyrocketed an astounding 4,660% since the format first began to gain traction in 2008.” Jim Milliot, *BEA 2013: The E-book Boom Years*, PUBLISHERS WKLY. (May 29, 2013), <http://www.publishersweekly.com/pw/by-topic/industry-news/bea/article/57390-bea-2013-the-e-book-boom-years.html> [<http://perma.cc/Z8KQ-97HM>]. Additionally, a 2013 study indicated that the

the transactions they engage in whenever they purchase digital content convey only licenses for them to use the digital content rather than ownership of the digital works.

Many people do not take the time to read the terms of use for the Kindle Store before purchasing e-books so they are later surprised when they find out that they do not “own” their content.⁴³ The Kindle Store Terms of Use states, “Upon your download of Kindle Content and payment of any applicable fees (including applicable taxes), the Content Provider grants you a non-exclusive right to view, use, and display such Kindle Content”⁴⁴ Furthermore, the Kindle Store Terms of Use expressly restricts how consumers can use the purchased Kindle Content:

Unless specially indicated otherwise, you may not sell, rent, lease, distribute, broadcast, sublicense, or otherwise assign any rights to the Kindle Content or any portion of it to any third party, and you may not remove or modify any proprietary notices or labels on the Kindle Content. In addition, you may not bypass, modify, defeat, or circumvent security features that protect the Kindle Content.⁴⁵

Once someone purchases digital content, she is often subjected to various use restrictions. The major book publishers rely on digital rights management (DRM) as a method of restricting customers from transferring e-books to others.⁴⁶ DRM technology, which is embedded in a digital work before it is distributed to a consumer, assists copyright owners in controlling access to digital works as well as tracking and limiting uses of digital works.⁴⁷ When the music industry began selling songs online through iTunes, the music companies relied on DRM in an attempt to prevent music piracy, but the top music companies abandoned the use of DRM in 2007 and 2008.⁴⁸ However, other digital media industries,

sale of e-books grew 45% since 2011. Andi Sporkin, *BookStats 2013 Now Available*, ASS’N OF AM. PUBLISHERS (May 15, 2013), <http://www.publishers.org/press/103/> [<http://perma.cc/7GGA-2URD>].

⁴³ For example, in 2009, after Amazon deleted two books from users’ devices, including George Orwell’s *1984*, many customers expressed outrage. See Brad Stone, *Amazon Erases Orwell Books from Kindle*, N.Y. TIMES, July 17, 2009, http://www.nytimes.com/2009/07/18/technology/companies/18amazon.html?_r=0 [<http://perma.cc/E82A-J75L>]; see generally Jennifer Lahm, Note, *Buying a Digital Download? You May Not Own the Copy You Purchase*, 28 TOURO L. REV. 211 (2012).

⁴⁴ “Kindle Content” is defined as “digitized electronic content obtained through the Kindle Store, such as books, newspapers, magazines, journals, blogs, RSS feeds, games, and other static and interactive electronic content.” *Kindle Store Terms of Use*, *supra* note 2.

⁴⁵ *Id.*

⁴⁶ See Elizabeth McKenzie, Note, *A Book by Any Other Name: E-books and the First Sale Doctrine*, 12 CHI.-KENT J. INTELL. PROP. 57, 63 (2013).

⁴⁷ See *Digital Rights Management (DRM) & Libraries*, AM. LIBR. ASS’N, <http://www.ala.org/advocacy/copyright/digitalrights> [<http://perma.cc/D88E-HLHD>].

⁴⁸ In February 2007, Apple CEO Steve Jobs posted an open letter on Apple’s website, in which he appealed to music companies to stop selling music with DRM. See *Apple CEO Steve Jobs’ Posts Rare Open Letter: ‘Thoughts on Music’—Calls for DRM-Free Music*, MACDAILYNEWS (Feb. 6, 2007, 2:59 PM), http://macdailynews.com/2007/02/06/apple_ceo_steve_jobs_posts_rare_open_letter_thought

including most of the major movie studios and book publishers, still insist on using DRM for their digital copyrighted works.⁴⁹

B. Licensee vs. Ownership Dichotomy

Whereas an owner can take advantage of the first sale doctrine, a licensee cannot.⁵⁰ But it can be difficult to distinguish an owner from a licensee when a transaction involves the exchange of money for a good—in some cases the transaction is considered a sale, while in other cases the customer receives a license. *Black's Law Dictionary* defines a sale as “[t]he transfer of property or title for a price.”⁵¹ Similarly, the Uniform Commercial Code defines a sale as “the passing of title from the seller to the buyer for a price.”⁵² Typically, the contract governing a transaction when someone buys and downloads digital content is not considered a sale and does not transfer title.⁵³ Rather, it would be considered a license, which is defined by *Black's* as “[a] permission, [usually] revocable, to commit some act that would otherwise be unlawful.”⁵⁴ Licenses grant fewer rights and impose more restrictions on customers than sales.

Cases involving software products provide guidance about how courts distinguish licensees and owners. In *Vernor v. Autodesk, Inc.*, the Ninth Circuit set out three factors to consider in determining whether a software

s_on_music/ [http://perma.cc/EPY7-CQ8J]. Within a year, all of the major music companies abandoned the use of DRM. See Catherine Holahan, *Sony BMG Plans to Drop DRM*, BLOOMBERG BUSINESSWEEK (Jan. 4, 2008), <http://www.businessweek.com/stories/2008-01-04/sony-bmg-plans-to-drop-drm-business-week-business-news-stock-market-and-financial-advice> [http://perma.cc/V58V-WTYK] (“In a move that would mark the end of a digital music era, Sony BMG Music Entertainment is finalizing plans to sell songs without the copyright protection software that has long restricted the use of music downloaded from the Internet Sony BMG would become the last of the top four music labels to drop DRM”).

⁴⁹ See Cyrus Farivar, *The Music Industry Dropped DRM Years Ago. So Why Does It Persist on E-books?*, ARSTECHNICA (Dec. 24, 2012, 8:02 AM), <http://arstechnica.com/business/2012/12/the-music-industry-dropped-drm-years-ago-so-why-does-it-persist-on-e-books/> [http://perma.cc/42AW-Z66F] (discussing the use of DRM by book publishers on e-books); Nilay Patel, *DRM Comes Back with a Vengeance as Digital Media Moves to the Cloud*, VERGE (Jan. 24, 2012, 1:02 PM), <http://www.theverge.com/2012/1/24/2726874/drm-comeback-digital-media-cloud-ultraviolet> [http://perma.cc/WT8V-5R9K] (discussing the use of DRM by Hollywood studios on digital movies).

⁵⁰ See *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175, 1180 (9th Cir. 2011) (“[A] copyright owner who transfers title in a particular copy to a purchaser or donee cannot prevent resale of that particular copy. We have recognized, however, that not every transfer of possession of a copy transfers title. . . . [W]e have recognized that copyright owners may create licensing arrangements so that users acquire only a license to use the particular copy . . . and do not acquire title that permits further transfer or sale of that copy without the permission of the copyright owner.”).

⁵¹ BLACK'S LAW DICTIONARY 1537 (10th ed. 2014).

⁵² U.C.C. § 2-106(1) (2012).

⁵³ Lukas Feiler, *Birth of the First-Download Doctrine—The Application of the First-Sale Doctrine to Internet Downloads Under EU and US Copyright Law*, J. INTERNET L., Oct. 2012, at 1, 16.

⁵⁴ BLACK'S LAW DICTIONARY 1059 (10th ed. 2014).

user was a licensee or an owner of a copy.⁵⁵ These factors included (a) “whether the copyright owner specifies that a user is granted a license,” (b) “whether the copyright owner significantly restricts the user’s ability to transfer the software,” and (c) “whether the copyright owner imposes notable use restrictions.”⁵⁶ The court held that the software user was a licensee of the software rather than an owner because the software company reserved title to its software and imposed both transfer and use restrictions.⁵⁷ Consequently, the software user could not invoke the first sale doctrine as a defense to reselling the software.⁵⁸ Although *Vernor v. Autodesk, Inc.* involved software that was stored on physical discs, the discussion about factors for determining whether someone is a licensee as opposed to an owner is relevant when considering whether customers of digital content should be viewed as owners or licensees of their purchased content.

As discussed in more detail in Part III.F, customers often mistakenly believe that they are owners of their purchased digital content rather than licensees because the sales page generally does not indicate that the transaction is a license instead of a sale.⁵⁹ To discern whether the transaction is a license, customers must often read through lengthy terms and conditions on the retailers’ websites. Most customers likely skip this step, as one study indicated that fewer than 8% of users actually read end-user license agreements.⁶⁰ Consequently, customers who were unaware of the licensing agreement may be surprised to later find out that they are not allowed to resell Kindle e-books to anyone else.

III. APPLYING THE FIRST SALE DOCTRINE TO DIGITAL CONTENT

The issue of whether the first sale doctrine should be extended to digital content has been considered and debated for several years. One of the more recent and significant copyright acts since the Copyright Act of 1976 is the Digital Millennium Copyright Act of 1998 (DMCA), which was enacted as part of the United States’ effort to implement World Intellectual Property Organization treaties.⁶¹ Section 104 of the DMCA

⁵⁵ 621 F.3d 1102, 1110–11 (9th Cir. 2010). The court purported to synthesize and reconcile the software cases of *United States v. Wise*, 550 F.2d 1180 (9th Cir. 1977) and the so-called MAI trio. The MAI trio consists of *Wall Data, Inc. v. Los Angeles County Sheriff’s Department*, 447 F.3d 769 (9th Cir. 2006), *Triad Systems Corp. v. Southeastern Express Co.*, 64 F.3d 1330 (9th Cir. 1995), and *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993).

⁵⁶ *Vernor*, 621 F.3d at 1110–11.

⁵⁷ *Id.* at 1116.

⁵⁸ *Id.*

⁵⁹ See McKenzie, *supra* note 46, at 65–66 (describing the “significant searching” customers must do to find the “Terms of Use that purport to govern the transaction”).

⁶⁰ See Jeff Sauro, *Do Users Read License Agreements?*, MEASURING USABILITY (Jan. 11, 2011), <http://www.measuringusability.com/blog/eula.php> [<http://perma.cc/R6ZS-75X7>].

⁶¹ Digital Millennium Copyright Act, Pub. L. No. 105-304, 112 Stat. 2860 (1998).

directed the Register of Copyrights and the Assistant Secretary for Communications and Information of the Department of Counsel to submit a joint report to Congress about “the development of electronic commerce and associated technology on the operations of [17 U.S.C. §§ 109 and 117]” as well as “the relationship between existing and emergent technology and the operation of [§§ 109 and 117].”⁶² Section 109 is the first sale doctrine, while § 117 sets out computer program exemptions that allow an owner of a computer program to make another copy if it is “an essential step in the utilization of the computer program” or for archival purposes.⁶³

The DMCA Section 104 Report advised against expanding § 109 to include a digital first sale doctrine because the U.S. Copyright Office did not find the analogy of digital transmissions to transfers of material objects to be a compelling one.⁶⁴ Whereas physical copies of works will degrade with time and use, digital copies will not. Transferring digital content is much easier than transferring physical copies of copyrighted works from one person to another, because “[t]ime, space, effort[,] and cost no longer act as barriers to the movement of copies.”⁶⁵ The report indicated that allowing people to transfer digital content through voluntary deletion or automatic deletion schemes was “unworkable” due to the possibility of cheating.⁶⁶ Furthermore, the report deemed “forward-and-delete” technology, which is when a digital file is automatically deleted from a transferor’s computer or device once she transfers it to someone else, as unworkable as well because sufficient technology did not exist when the report was written.⁶⁷ The U.S. Copyright Office indicated that there were too many differences between online digital transmissions and transfers of material objects to allow the first sale doctrine to apply to digital content. One significant difference, in addition to how digital files do not degrade over time, is the increased risk of piracy of digital content.⁶⁸

However, the DMCA Section 104 Report did concede that “a lawfully made and owned copy of a work on a floppy disk, Zip™ disk, CD-ROM or similar removable storage medium can easily be transferred by physical transfer of the item and that activity is within the current reach of section

⁶² *Id.* at § 104.

⁶³ 17 U.S.C. § 117 (2012).

⁶⁴ U.S. COPYRIGHT OFFICE, DMCA SECTION 104 REPORT 97 (2001), available at <http://www.copyright.gov/reports/studies/dmca/sec-104-report-vol-1.pdf> [<http://perma.cc/KP79-V87L>].

⁶⁵ *Id.* at 82.

⁶⁶ *Id.* at 97–98. The Copyright Office believed that “[r]elying on voluntary deletion is an open invitation to virtually undetectable cheating, and there is no reason to believe there would be general compliance with such a requirement.” *Id.* at 97.

⁶⁷ The U.S. Copyright Office viewed “forward-and-delete” technology as unavailable when the report was written, stating, “Even assuming that it is developed in the future, the technology would have to be robust, persistent, and fairly easy to use.” *Id.* at 98.

⁶⁸ *Id.* at 99.

109.”⁶⁹ This report was written several years before Amazon released its first Kindle.⁷⁰ The Kindle Store Terms of Use specifies that users may not transfer Kindle devices to others with purchased digital content still loaded on them.⁷¹ Because a Kindle device itself is nontransferable while loaded with digital content, and because individual Kindle e-books are not transferable either, customers are left with no means to permanently transfer Kindle e-books to others.

The digital environment over a decade ago was very different than the digital landscape today. Arguably, technology exists today and is available to facilitate digital transmissions while avoiding risks of piracy and alleviating concerns about cheating. The report did not appear to anticipate the extent to which digital content would be encumbered by licensing agreements that impose significant restrictions on a customer’s ability to alienate purchased digital content.

A. Capitol Records, LLC v. ReDigi Inc.

Just a couple weeks after the Supreme Court’s *Kirtsaeng* decision, the United States District Court for the Southern District of New York held that the first sale doctrine would not allow customers to resell their pre-owned digital music files.⁷² The issue in *Capitol Records, LLC v. ReDigi Inc.* was whether a lawful owner of a digital music file could resell the file through ReDigi’s website under the first sale doctrine.⁷³ ReDigi allowed users to resell music files that they had purchased either from iTunes or from other ReDigi users. A software program called Media Manager validated the users’ music files to ensure that they were eligible for sale.⁷⁴ After the verification process, users could upload their eligible files to a remote server called the Cloud Locker.⁷⁵ The Cloud Locker stored users’ music files for their own personal use or allowed them to offer the files for sale in the marketplace.⁷⁶ After a user sold a file, he could no longer access

⁶⁹ *Id.* at 100.

⁷⁰ Amazon introduced its first Kindle on November 19, 2007. See Press Release, *Introducing Amazon Kindle*, AMAZON (Nov. 19, 2007), <http://phx.corporate-ir.net/phoenix.zhtml?c=176060&p=irol-newsArticle&ID=1079388> [<http://perma.cc/R63-WUB4>] (“Amazon.com . . . today introduced Amazon Kindle, a revolutionary portable reader that wirelessly downloads books, blogs, magazines[,] and newspapers to a crisp, high-resolution electronic paper display that looks and reads like real paper, even in bright sunlight.”).

⁷¹ See *Kindle Store Terms of Use*, *supra* note 2 (noting that Kindle content is for “personal, non-commercial use” and cannot be sold, rented, leased, distributed, broadcasted, sublicensed, or assigned to any third party).

⁷² *Capitol Records, LLC v. ReDigi Inc.*, 934 F. Supp. 2d 640, 655 (S.D.N.Y. 2013).

⁷³ *Id.* at 648.

⁷⁴ Files copied from a CD or downloaded from file-sharing websites were ineligible for sale on ReDigi’s website. *Id.* at 645.

⁷⁵ *Id.*

⁷⁶ *Id.* at 646.

it, and the file would be transferred to the new owner at the time of the transaction.⁷⁷

The court found that sales on ReDigi's website infringed Capitol Records's exclusive rights of reproduction and distribution.⁷⁸ In rejecting ReDigi's policy argument that technological changes have rendered § 109(a) ambiguous, the court held that the first sale doctrine applies to an owner's *particular* phonorecord.⁷⁹ Because users did not upload and transfer their particular phonorecord, but rather uploaded and sold a reproduction of that phonorecord on ReDigi's website, the first sale doctrine did not protect their actions from infringement suits.⁸⁰ The court also viewed physical limitations on the first sale doctrine to be desirable and stated that "the first sale defense is limited to material items, like records, that the copyright owner put into the stream of commerce."⁸¹ However, the court concluded that it "cannot of its own accord condone the wholesale application of the first sale defense to the digital sphere, particularly when Congress itself has declined to take that step."⁸² Section 109 has never been revised to allow people to invoke the first sale doctrine for digital content so the *ReDigi* court believed it lacked authority to expand the doctrine. This case is significant because it directly addressed the issue of the applicability of the first sale doctrine to digital content, but is not a Supreme Court decision. Nevertheless, it is the only case in the year following *Kirtsaeng* to address this specific issue.

B. Europe's First Sale Doctrine

Unlike the United States, Europe has recently embraced the idea of a digital first sale doctrine. The European Union's first sale doctrine states:

Copyright protection under this Directive includes the exclusive right to control distribution of the work incorporated in a tangible article. The first sale in the Community of the original of a work or copies thereof by the rightholder or with his consent exhausts the right to control resale of that object in the Community. This right should not be exhausted in respect of the

⁷⁷ *Id.*

⁷⁸ *Id.* at 651.

⁷⁹ *Id.* at 655 ("[A] ReDigi user owns the phonorecord that was created when she purchased and downloaded a song from iTunes to her hard disk. But to sell that song on ReDigi, she must produce a new phonorecord on the ReDigi server. Because it is therefore impossible for the user to sell her 'particular' phonorecord on ReDigi, the first sale statute cannot provide a defense. . . . Here, ReDigi is not distributing such material items; rather, it is distributing *reproductions* of the copyrighted code embedded in new material objects, namely, the ReDigi server in Arizona and its users' hard drives. The first sale defense does not cover this any more than it covered the sale of cassette recordings of vinyl records in a bygone era.")

⁸⁰ *Id.*

⁸¹ *Id.* at 655; *id.* at 656 ("[T]he first sale doctrine was enacted in a world where the ease and speed of data transfer could not have been imagined.")

⁸² *Id.* at 660.

original or of copies thereof sold by the rightholder or with his consent outside the Community.⁸³

In 2012, the Court of Justice of the European Union (ECJ) held in *UsedSoft GmbH v. Oracle International Corp.* that the first sale doctrine applies to used copies of software downloaded over the Internet and sold in the European Union.⁸⁴ This case reached the opposite outcome as the Ninth Circuit reached in *Vernor v. Autodesk, Inc.*,⁸⁵ mentioned above.⁸⁶ However, the ECJ defined sale differently than American courts. The ECJ held that a sale is “an agreement by which a person, in return for payment, transfers to another person his rights of ownership in an item of tangible or intangible property belonging to him.”⁸⁷ Therefore, unlike the United States’ definition of sale,⁸⁸ the European Union’s definition of sale explicitly includes “intangible property.” The breadth of the *UsedSoft* court’s reasoning suggested that the “first-download doctrine” may apply to other types of copyrighted works beyond software in the European Union.⁸⁹

Countries within the European Union have differed in their interpretations of the ECJ’s ruling. For instance, after the *UsedSoft* decision, the German District Court of Bielefeld ruled that purchased e-books could not be resold by customers.⁹⁰ The court distinguished e-books and digital audiobooks from physical works, for which the principle of copyright exhaustion clearly exists.⁹¹ But in 2014, the District Court of Amsterdam ruled that an e-book reselling website could stay in business and declined Dutch publishers’ requests to shut down the website.⁹² Before reselling an e-book on the website, the seller must declare that he obtained the copy legally and also must agree to delete the copy once it is sold to another.⁹³ The website marks the e-book with a digital watermark and stores this watermark information in a database to prevent illegal

⁸³ Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001, 2001 O.J. (L 167) 28.

⁸⁴ Case C-128/11, 2012 E.C.R. I-0000.

⁸⁵ 621 F.3d 1102 (9th Cir. 2010).

⁸⁶ The Court of Justice of the European Union did not address piracy concerns in its judgment.

⁸⁷ *UsedSoft*, 2012 E.C.R. I-0000, at para. 42.

⁸⁸ See *supra* notes 51–52 and accompanying text.

⁸⁹ See Feiler, *supra* note 53, at 18.

⁹⁰ *German Court Nixes Selling Used E-books*, PUBLISHERS WKLY. (Apr. 22, 2013), <http://www.publishersweekly.com/pw/by-topic/digital/retailing/article/56916-german-court-nixes-sellin-g-used-e-books.html> [<http://perma.cc/Z47U-X3YM>].

⁹¹ See *id.*

⁹² Loek Essers, *Dutch Courts Lets Ebook Reseller Stay Online*, TECHWORLD (July 22, 2014), http://www.techworld.com.au/article/print/550527/dutch_courts_lets_ebook_reseller_stay_online/ [<http://perma.cc/6GUD-GKSN>]; Andreas Udo de Haes, *Ebook Reselling Dispute Erupts in the Netherlands*, PC ADVISOR (July 2, 2014), <http://www.pcadvisor.co.uk/news/tech-industry/3528449/ebook-reselling-dispute-erupts-in-the-netherlands/> [<http://perma.cc/G6JN-CF7M>].

⁹³ Udo de Haes, *supra* note 92.

distribution of e-books.⁹⁴ However, the service does not have a way to verify whether a copy was legally obtained or whether the original owner actually deletes the copy once he sells it to someone else.⁹⁵ Nevertheless, the court said the website was different than “pirate websites” and appeared to view shutting down the website as too drastic of a measure.⁹⁶ Significantly, the court noted that it was unclear whether the website infringed the rights of copyright holders⁹⁷ so the issue of whether a digital first sale doctrine applies to e-books in the European Union is still not resolved.

C. *Current Lack of Legal Means to Transfer Digital Content*

In contrast to how Europe appears to have accepted that the first sale doctrine should be applied to at least some types of digital content, the United States has not given any indication of doing the same. A digital secondary marketplace for e-books, digital music files, or digital movies does not currently exist in the United States. Because no legal means of transferring digital content exists in the United States, some consumers have chosen to engage in illegal activity—piracy—to “share” content with friends or other Internet users.⁹⁸ In doing so, these individuals commit copyright infringement by violating the exclusive distribution and reproduction rights of copyright owners. The loss of revenue to entertainment industries as a result of piracy is significant; many agree that it amounts to billions of dollars per year, but there is much debate about how these costs should be measured.⁹⁹ The rate of digital piracy of movies, television shows, games, music, books, and software has increased in the past few years.¹⁰⁰ Some scholars, including Professor Clark D. Asay, believe that if a digital first sale doctrine existed, piracy would decrease

⁹⁴ *Id.*

⁹⁵ *Id.*

⁹⁶ Essers, *supra* note 92.

⁹⁷ *Id.*

⁹⁸ Even if there were a legal means to transfer digital content, some people would still choose to continue pirating content for financial or other reasons. However, a secondary digital marketplace would likely cut down on the number of people who engage in piracy.

⁹⁹ Kal Raustiala & Chris Sprigman, *How Much Do Music and Movie Piracy Really Hurt the U.S. Economy?*, FREAKONOMICS (Jan. 12, 2012, 3:09 PM), <http://freakonomics.com/2012/01/12/how-much-do-music-and-movie-piracy-really-hurt-the-u-s-economy/> [<http://perma.cc/ESB8-V9ZY>].

¹⁰⁰ See Paul Resnikoff, *Study Finds that Piracy Is Growing Rapidly and Becoming More Profitable . . .*, DIGITAL MUSIC NEWS (Oct. 21, 2013), <http://www.digitalmusicnews.com/permalink/2013/10/21/studymediapiracy> [<http://perma.cc/6TKW-2SQJ>] (“[I]n November of 2011, we saw 297 million infringing users. By January 2013, that figure has grown to 327 million unique internet users, who are accessing infringing content at least once a month.”). A study released in 2013 indicated that 432 million unique Internet users worldwide (327 million of those in North America, Europe, and Asia-Pacific) “regularly turn to piracy . . . to obtain infringing content.” See DAVID PRICE, *SIZING THE PIRACY UNIVERSE* 90 (2013), available at <http://copyrightalliance.org/sites/default/files/2013-netnames-piracy.pdf> [<http://perma.cc/7TJ2-U9CR>].

because consumers would be able to purchase content from legitimate secondary markets instead.¹⁰¹ Presently, customers who purchase digital content from retailers such as Amazon or Apple only have illegal options available to them if they wish to permanently transfer their content to others. But were a legal means to exist, it would be reasonable to assume that the rate of piracy would decrease.

D. Policy Arguments Favoring Copyright Exhaustion

Copyright exhaustion (the first sale doctrine) has been a significant principle in United States copyright law for over a century. Scholars have identified access, preservation, privacy, and transactional clarity as benefits derived from the first sale doctrine.¹⁰² Professors Aaron Perzanowski and Jason Schultz have also suggested two additional benefits: increased innovation and platform competition.¹⁰³ Imposing a limitation on the copyright owner’s control over a copy of a work after it has been sold is also important for antitrust reasons because it introduces competition to the digital marketplace, and competition has always been looked upon favorably in this country: “American law too has generally thought that competition, including freedom to resell, can work to the advantage of the consumer.”¹⁰⁴

I. Access.—Access is the most obvious policy reason in support of a first sale doctrine. The broad concept of access can be broken into two components: affordability and availability.¹⁰⁵ Without the first sale doctrine, secondary markets such as used bookstores could not exist, and “[w]ithout secondary markets, there is [no] downward pressure on price[s].”¹⁰⁶ Secondary markets are beneficial to consumers because they offer the same products, albeit pre-owned, at cheaper prices. Some customers may not be able to afford a brand new, hardcover book when it first hits the shelves on its release date, but they are able to afford that same book a year later when they find it in a used bookstore at a discounted price. The Constitution states that the purpose of copyright is “[t]o promote the Progress of Science and useful Arts.”¹⁰⁷ Courts must remember this utilitarian purpose of copyright law and prioritize the public interest in accessing educational and written materials over copyright owners’ desire to assert control over a

¹⁰¹ See, e.g., Asay, *supra* note 39, at 22.

¹⁰² See Joseph P. Liu, *Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership*, 42 WM. & MARY L. REV. 1245 (2001) (discussing access, preservation, privacy, and transactional clarity); R. Anthony Reese, *The First Sale Doctrine in the Era of Digital Networks*, 44 B.C. L. REV. 577, 584 (2003) (discussing access, preservation, and privacy).

¹⁰³ Aaron Perzanowski & Jason Schultz, *Digital Exhaustion*, 58 UCLA L. REV. 889, 894 (2011).

¹⁰⁴ *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013).

¹⁰⁵ Perzanowski & Schultz, *supra* note 103, at 894.

¹⁰⁶ *Id.* at 904.

¹⁰⁷ U.S. CONST. art. I, § 8, cl. 8.

copy of a work after a first sale.¹⁰⁸ As society continues to transition into the digital age, precautions should be taken to ensure that people retain adequate access to copyrighted works that are necessary for educational purposes.¹⁰⁹

2. *Preservation.*—Preservation of copyrighted works also benefits society because it enables people to access copyrighted works that are part of their cultural history, but which may not be available from the copyright owner anymore.¹¹⁰ Many traditional book publishers have recently established digital imprints, meaning that the books acquired and published through these imprints are made available in digital format only—no paper copies of these books are printed.¹¹¹ This is problematic for preservation purposes and poses a new challenge for libraries, which are institutions the public relies on to keep an archive of publications.¹¹² For instance, if an author published her novel as an e-book only and later decided to remove the publication from all e-retailers for whatever reason, then assuming that the e-book was sold with a licensing agreement similar to the Kindle Store Terms of Use, no future readers would ever be able to legally read this work. The right to preserve a digital work is generally considered to be a fair use issue,¹¹³ but the first sale doctrine can help facilitate preservation activities undertaken by libraries and archivists.

3. *Privacy.*—Copyright exhaustion also protects consumer privacy because it allows customers to transfer works to others without obtaining

¹⁰⁸ McKenzie, *supra* note 46, at 70 (“E-books possess immense potential to change the spread of knowledge and education. The public interest in the right to educational and written materials should supersede any attempt by copyright owners to expand their rights beyond the first sale.”); *see also* Jonathan C. Tobin, *Licensing as a Means of Providing Affordability and Accessibility in Digital Markets: Alternatives to a Digital First Sale Doctrine*, 93 J. PAT. & TRADEMARK OFF. SOC’Y 167, 171 (2011) (“By weakening the copyright holder’s monopoly over their work, the first sale doctrine creates social benefit in line with the constitutional goal of Copyright . . .”).

¹⁰⁹ McKenzie, *supra* note 46, at 70 (“Libraries and second-hand markets serve as crucial, low-cost sources of knowledge for many underprivileged or undereducated individuals, and we should not justify a policy that would inhibit their growth in the digital age.”); Michael Seringhaus, Note, *E-book Transactions: Amazon “Kindles” the Copy Ownership Debate*, 12 YALE J.L. & TECH. 147, 199 (2009) (“A free society depends upon open access to books and freedom from censorship.”).

¹¹⁰ Perzanowski & Schultz, *supra* note 103, at 895.

¹¹¹ Jim Milliot et al., *Digital Imprints Take Root*, PUBLISHERS WKLY. (July 13, 2012), <http://www.publishersweekly.com/pw/by-topic/industry-news/publisher-news/article/53006-digital-imprints-take-root.html> [<http://perma.cc/CC2D-UMYN>].

¹¹² *See* Chiarizio, *supra* note 10, at 629 (“Moving forward in the digital world, where it is very likely that some publishers and distributors will release certain books or works only in digital formats and not at all in physical form, the inability to rely on the first sale doctrine could be catastrophic to lending by public libraries.”).

¹¹³ *See* H.R. REP. NO. 94-1476, at 73 (1976) (“The efforts of the Library of Congress, the American Film Institute, and other organizations to rescue and preserve this irreplaceable contribution to our cultural life are to be applauded, and the making of duplicate copies for purposes of archival preservation certainly falls within the scope of ‘fair use.’”).

permission from the copyright holder. Consequently, customers can transfer works to each other privately. The first sale doctrine allows customers to resell their copies of copyrighted works to others without “notify[ing] the copyright holder and seek[ing] permission for each new transfer of a work, [thereby] allowing rights holders to track the movement of the work and the identity of each participant in the transaction.”¹¹⁴ As evidenced by the problem with orphan works (copyrighted works that are still protected by copyright law but whose copyright owner cannot be identified or located), it may be difficult or even impossible for people to track down copyright owners.¹¹⁵ The solution proposed in Part IV of this Note unfortunately does not address the benefits of privacy with copyright exhaustion because it involves giving a portion of the revenue derived from each sale in digital secondary marketplaces back to the copyright owners.

4. *Transactional Clarity.*—The first sale doctrine promotes transactional clarity and market efficiency because it reduces information and transaction costs.¹¹⁶ Licenses that apply to digital content often confuse consumers and impose high information costs on consumers during transactions.¹¹⁷ Customers are forced to “parse the differences and new terms at an even higher cost” whenever the companies modify or update end user licensing agreements or terms of use.¹¹⁸ As opposed to a straightforward sale of a physical book, where a customer knows that she can use it or dispose of it however she wants as long as she does not infringe on the copyright holder’s other exclusive rights (such as the reproduction or performance rights), it is much less clear to a customer about what she can do with an e-book subject to various use restrictions that can change at any time.

5. *Innovation.*—Copyright exhaustion also leads to innovation in three ways: (1) innovation by copyright holders, (2) innovation by secondary market providers, and (3) innovation by users.¹¹⁹ An example of innovation by copyright holders would be incentivizing an author to release a new version of a work that includes extra content to compete with the circulating used copies.¹²⁰ Textbook publishers already frequently engage in this type of innovation: authors add in recent material to the textbooks and release them as new editions. Innovation by secondary-market providers means that retailers will create new business models and technologies that

¹¹⁴ Perzanowski & Schultz, *supra* note 103, at 896.

¹¹⁵ See Laura N. Bradrick, Note, *Copyright—Don’t Forget About the Orphans: A Look at a (Better) Legislative Solution to the Orphan Works Problem*, 34 W. NEW ENG. L. REV. 537, 538–39 (2012).

¹¹⁶ Perzanowski & Schultz, *supra* note 103, at 896.

¹¹⁷ See Tobin, *supra* note 108, at 175–76.

¹¹⁸ Perzanowski & Schultz, *supra* note 103, at 906 n.80.

¹¹⁹ *Id.* at 897.

¹²⁰ *Id.*

consumers can take advantage of, such as how Netflix developed its mail-order DVD program for movies.¹²¹ User innovation refers to users developing or modifying uses of products that consequently increases the value of the products.¹²²

6. *Platform Competition.*—An antitrust benefit of the first sale doctrine is the promotion of platform competition by reducing consumer lock-in.¹²³ If the cost of switching to a competing vendor or platform is high enough to discourage a consumer from making the switch, then a lock-in occurs.¹²⁴ The only beneficiaries of consumer lock-ins are retailers, who enjoy increased profits when a customer is tied to their company by virtue of the device she owns, even though the retailers risk alienating consumers who realize they cannot freely transfer or use the digital content on any device.¹²⁵

The problem of consumer lock-in can be clearly illustrated with the Amazon Kindle and Kindle e-books. Kindle e-books are available in a proprietary format (.azw), compatible only on Kindle devices sold by Amazon.¹²⁶ This means that a customer cannot purchase a Kindle e-book and then read it on an e-reader sold by another vendor, such as Barnes & Noble's Nook or Kobo's or Sony's e-readers.¹²⁷ If a customer's Kindle device stops working and the customer decides that she wants to switch to a Barnes & Noble Nook device, she cannot read the Kindle e-books she previously paid for from the Amazon Kindle store on her new Nook device. Assuming that the customer has bought several Kindle e-books during the lifespan of her Kindle device, it might be too cost-prohibitive for the customer to switch to a competitor's e-reader device instead of just purchasing a new Kindle. The customer likely does not want to abandon the ability to read purchased Kindle e-books on an e-reader device, so she is therefore "locked in" to the Amazon Kindle device. Barnes & Noble and

¹²¹ *Id.* at 897–98.

¹²² *Id.* at 898 (“Users often experiment in unanticipated ways with goods they purchase, leading to new product advances and markets.”).

¹²³ *Id.* at 900.

¹²⁴ *Id.*

¹²⁵ McKenzie, *supra* note 46, at 64.

¹²⁶ Chris Snyder, *Amazon's E-book Strategy Re-Kindles Debate on Open Standards*, WIRE (Feb. 25, 2009, 7:55 AM), <http://www.wired.com/business/2009/02/amazons-e-books> [<http://perma.cc/57A6-SBCA>].

¹²⁷ Technologically, it is possible for a customer to read an e-book purchased from the Amazon Kindle store on a device from a different vendor such as Barnes & Noble's Nook, but this raises legal issues. To do so, the customer would need to illegally strip the digital rights management protection from the Kindle e-book and then convert it to ePub format (the proprietary format that is readable on a Nook).

Kobo use ePub formats for the e-books that they sell.¹²⁸ A customer can buy an e-book from the Kobo store and read it on a Barnes & Noble Nook device, but lock-in still occurs because any e-book purchased from those e-retailers cannot be used on an Amazon Kindle device.¹²⁹

7. *Reducing Piracy.*—Some scholars have identified reducing piracy as an industry advantage that could arise out of expanding the first sale doctrine to cover digital content and allowing digital secondary markets.¹³⁰ Providing customers with the option to purchase digital content at cheaper prices through a secondary market may contribute to more legitimate, legal sales. A robust secondary market also helps assure customers that they will be able to recoup some costs of digital content that they purchase new through a primary market and later decide they do not want anymore. If customers knew that they could resell digital files, they might be more willing to pay full price for new content.¹³¹

Back in 2002, five years before Amazon’s first generation Kindle device was released, Jeff Bezos, founder and CEO of Amazon, wrote in an e-mail, “[W]hen someone buys a book, they are also buying the right to resell that book, to loan it out, or to even give it away if they want. Everyone understands this.”¹³² In this e-mail, Bezos also claimed that the

¹²⁸ See *Digital Editions Supported Devices*, ADOBE DIGITAL PUBLISHING, <http://blogs.adobe.com/digitalpublishing/supported-devices> [<http://perma.cc/U66M-6L4B>] (listing devices that support ePub content, including Kobo and B&N Nook devices).

¹²⁹ Tablet devices such as Apple’s iPad are making the “lock-in” issue less of a problem because they offer applications that allow customers to read e-books purchased from various vendors on one device. However, the “lock-in” issue is not obsolete: if customers prefer to read on e-ink e-readers, they are still “locked in” to vendors due to device compatibility restrictions. See *E-Ink Readers*, OVERDRIVE (Mar. 19, 2014, 12:00 PM), <http://help.overdrive.com/customer/portal/articles/1481736-e-ink-readers> [<http://perma.cc/BF54-MHT9>] (indicating that compatible formats for e-ink readers such as the Kobo or Barnes & Noble Nook consist of Adobe and open ePub ebooks and noting that “E-Ink Kindles work a little differently than the E-Ink readers covered in this profile because they’re made for Kindle Books”); *Kindle*, OVERDRIVE (Mar. 19, 2014, 12:00 PM), <http://help.overdrive.com/customer/portal/articles/1481738-kindle> [<http://perma.cc/YQ6F-KFGT>] (indicating that “Kindle Books” are the only compatible format on e-ink Kindle devices).

¹³⁰ See, e.g., Abelson, *supra* note 9, at 10 (“If more legitimate sources of content exist, consumers will be less likely to turn to illegal or pirated sources of content.”). But see Tobin, *supra* note 108, at 176 (“Some commentators have argued that failure to explicitly expand the first sale doctrine to the digital marketplace ‘will prevent the market from reaching its potential’, because unsatisfied consumers will look to illicit, and free alternatives to authorized works. Unfortunately, this seems like a threat. The question is not ‘first sale or piracy’ - it is more complicated” (internal footnote omitted)).

¹³¹ Abelson, *supra* note 9, at 10; Theodore Serra, Note, *Rebalancing at Resale: ReDigi, Royalties, and the Digital Secondary Market*, 93 B.U. L. REV. 1753, 1778 (2013) (“Where a secondary market offers another avenue to acquire musical works, it may draw consumers away from streaming services That may, on the one hand, decrease the performance royalties that the copyright holder receives But to the extent that those services serve as substitutes for the traditional purchase-and-download business model, any loss of performance royalties may be offset by royalties from sales.”).

¹³² Tim O’Reilly, *Jeff Bezos’ Open Letter on Used Book Sales*, O’REILLY NETWORK (Apr. 15, 2002, 11:17 AM), <http://www.oreillynet.com/pub/wlg/1291> [<http://perma.cc/J2U7-B32Q>].

used books business does not take business away from new book sales but rather leads to higher sales of new books because the used books business allows customers to try authors and genres they might have been reluctant to try at full price.¹³³ Bezos further stated that customers benefit both from the ability to sell used books (because it gives them a budget to buy more new books) and from the ability to buy used books (because the books are more affordable and available).¹³⁴ In this e-mail, Bezos clearly recognized the value of a first sale doctrine—without it, he would not have been able to establish Amazon Marketplace. Now, however, Amazon takes advantage of the first sale doctrine for physical books but ignores the same consumer benefits that would apply to being able to resell or transfer Kindle e-books, as evidenced by the restrictive Kindle Terms of Use.

E. Digital First Sale Doctrine Concerns

Copyright owners fear a digital first sale doctrine because it would take away much of the control that they have been able to assert over digital content thus far and might also stifle the creation of new works.¹³⁵ Their fears are not unfounded. Digital content like e-books can be exchanged much more quickly and easily between people than tangible products, such as hardcover or paperback books, and digital files suffer little to no degradation in quality. People can almost instantaneously transfer digital content to each other regardless of distance, something that is not possible with tangible property.¹³⁶

As an illustration, if a person in Maryland wanted to sell a book to a person in California, he would have to either meet up with the person in California to hand off the book, or, more likely, mail the book. Shipping the book would entail postage costs as well as a delay of several days before the recipient receives the book. However, if a digital first sale doctrine were to exist, and the person in Maryland had an e-book that he wanted to sell to the person in California, he could send the e-book to the person in California via the Internet at little or no cost, and the person in

¹³³ *Id.*

¹³⁴ *Id.*

¹³⁵ The restrictions that some publishers have placed on public libraries for lending out e-books, such as imposing a limit on the number of times an e-book can be circulated before a new license must be purchased, are illustrative of the publishers' concerns. See Press Release, HarperCollins Publishers, Open Letter to Librarians (Mar. 1, 2011), available at http://harperlibrary.typepad.com/my_weblog/2011/03/open-letter-to-librarians.html [<http://perma.cc/R9BJ-T7MY>] (“We have serious concerns that our previous e-book policy, selling e-books to libraries in perpetuity, if left unchanged, would undermine the emerging e-book eco-system, hurt the growing e-book channel, place additional pressure on physical bookstores, and in the end lead to a decrease in book sales and royalties paid to authors.”).

¹³⁶ Eurie Hayes Smith IV, *Digital First Sale: Friend or Foe?*, 22 CARDOZO ARTS & ENT. L.J. 853, 854 (2005) (“The digital revolution has upset the first sale balance Expression stored in digital code can readily be fixed, manipulated, duplicated, distributed, and transferred at almost no expense.”).

California would receive it within a matter of seconds. This hypothetical demonstrates how much quicker and easier it is for customers to transfer digital content to each other as opposed to a physical copy of a copyrighted work.

The biggest concern copyright holders seem to have regarding a digital first sale doctrine centers on piracy. As a latecomer to the digital world, the publishing industry witnessed the widespread piracy of music files and is worried about similar rampant piracy of e-books.¹³⁷ Additionally, publishers also have concerns that people would stop purchasing new e-books if they knew that they could obtain a copy through a digital secondary marketplace at a cheaper price with no difference in quality.¹³⁸ Consequently, publishers have imposed many technological and licensing restrictions on e-books as a way to try to prevent illegal file sharing.¹³⁹ Even though DRM proved to be unsuccessful in curbing music piracy, most publishers still rely on DRM and will only sell e-books with DRM protection.¹⁴⁰ But piracy of e-books is already occurring, and Internet users can easily find out how to remove the DRM from their Kindle e-books.¹⁴¹ Offering a secondary market for digital content might actually *prevent* some people from engaging in piracy and allow copyright owners to receive compensation from the digital resales.¹⁴²

¹³⁷ Serra, *supra* note 131, at 1758–59. “Apart from sheer resistance to competition, copyright holders have cause to fear any Internet-driven-distribution or -sales system outside their control. Still haunted by the scourge of the Napster-era file-sharing epidemic, the music and recording industries fear that even legal and well-intentioned digital first sale could rapidly spin out of control, heralding a new era of piracy where consumers unlawfully share and profit from files.” *Id.* at 1786.

¹³⁸ *Id.*

¹³⁹ McKenzie, *supra* note 46, at 62 (“The approach of e-book publishers is thus two-fold. Most e-book files are embedded with technological restrictions known as DRM to prevent unauthorized copying, sharing, or lending of the file and are also sold under a restrictive licensing agreement.”).

¹⁴⁰ *Id.* at 63 (“All of the ‘big four’ record labels have now abandoned DRM efforts and are instead embracing alternative revenue models, such as streaming and fixed-fee services like Pandora, Rhapsody, and Spotify, which allow users to listen to unlimited music through ad-supported streaming services and allow users to upgrade to ad-free versions for a flat monthly fee. Although the music industry’s experiment with DRM is generally regarded to be a failure, e-book publishers and retailers are aggressively pursuing DRM. Almost all e-books from major publishing houses are protected by DRM that prevents or limits a purchaser’s ability to re-sell, lend, or otherwise transfer ownership of e-books.” (footnotes omitted)).

¹⁴¹ A Google search of “remove DRM Kindle” leads to thousands of tutorials that advise users how to circumvent the copy prevention measures placed on Kindle e-books. *See, e.g.*, Charlie Sorrel, *How to Strip DRM from Kindle E-books and Others*, WIRED (Jan. 17, 2011, 7:06 AM), <http://www.wired.com/gadgetlab/2011/01/how-to-strip-drm-from-kindle-e-books-and-others/> [<http://perma.cc/Z8D3-DC7S>].

¹⁴² Asay, *supra* note 39, at 22 (“[T]he possibility of piracy in the physical world has never been justification enough to eliminate first-sale rights there. Nor should it be in the digital world. A digital first-sale doctrine might also reduce piracy as consumers rely on legitimate secondary markets instead of piracy. Secondary markets might also result in increased sales of other copyrighted works because secondary markets expose consumers to a broader spectrum of copyrighted works, which often leads them to purchase complementary goods.”).

Copyright holders fear that with the availability of a secondary digital market consumers will no longer purchase new copyrighted works.¹⁴³ But this fear is unfounded because customers eager for new releases will not want to wait until the work eventually makes its way to the secondary digital market:

A secondary market, though digital, remains second best. New releases, which often constitute the greatest portion of a copyright holder's earnings, seldom appear on the secondary market until after their novelty and popularity have ebbed. . . . Consequently, even with a robust secondary market present, a copyright holder will retain the ability to capture the lion's share of revenues from initial sales to customers seeking access to the work sooner rather than later.¹⁴⁴

Additionally, copyright holders fear that if they can no longer control the sales of digital copies of their works, they will lose their ability to price discriminate.¹⁴⁵ Price discrimination means that a copyright holder can charge one price for a copyrighted work in a certain region or for a certain group of customers and a different price somewhere else or for other customers, similar to how John Wiley & Sons had charged less money for textbooks in Thailand than in the United States. However, as evidenced by *Kirtsaeng v. John Wiley & Sons, Inc.*, price discrimination as an argument for limiting the first sale doctrine has proved to be unsuccessful.¹⁴⁶ Even though price discrimination is not a valid reason for rejecting the first sale doctrine, if secondary digital marketplaces were created, the secondary digital marketplace might allow copyright holders to price discriminate: “[D]igital first sale may allow a copyright holder to actually raise prices on the primary market, knowing that consumers can later recoup some costs at resale, and that less interested consumers will remain on the sidelines until the work appears in the secondary market anyway.”¹⁴⁷

¹⁴³ This fear is probably what motivated Penguin, a major publishing house, to impose a six-month embargo on its frontlist e-book titles, which prevented public libraries from lending new e-book titles to patrons from November 2011 until September 2013. See Andrew Albanese, *Penguin Expands E-books in Libraries*, PUBLISHERS WKLY. (Sept. 26, 2013), <http://www.publishersweekly.com/pw/by-topic/digital/content-and-e-books/article/59255-penguin-expands-e-books-in-libraries-adds-friction-to-kindle-lends.html> [<http://perma.cc/74L9-MV5C>].

¹⁴⁴ Serra, *supra* note 131, at 1777.

¹⁴⁵ See Perzanowski & Schultz, *supra* note 103, at 904 (“Copyright holders maintain that freedom from unauthorized secondary markets would empower them to engage in price discrimination that could result in lower prices for individual consumers and casual users at the expense of instructional customers and professionals.”).

¹⁴⁶ 133 S. Ct. 1351, 1370 (2013) (“A publisher may find it more difficult to charge different prices for the same book in different geographic markets. But we do not see how these facts help Wiley, for we can find no basic principle of copyright law that suggests that publishers are especially entitled to such rights.”).

¹⁴⁷ See Serra, *supra* note 131, at 1777.

F. Enforceability of Browse-Wrap Agreements

As mentioned earlier, only owners of a particular copy are entitled to invoke the first sale doctrine. The Kindle Terms of Use states that customers of the Amazon Kindle store only receive licenses for the e-books.¹⁴⁸ However, as a browse-wrap agreement, the Kindle Store Terms of Use might not even be enforceable. A browse-wrap agreement is a type of licensing agreement that “exist[s] in the background, and purport[s] to bind users simply by virtue of their visiting a [website].”¹⁴⁹ A browse-wrap agreement is not the same thing as a click-wrap agreement. A click-wrap agreement, in contrast to a browse-wrap agreement, requires users to affirmatively check a box to assent to terms or to click an “I agree” or “Yes” icon before they are allowed to download digital content.¹⁵⁰ Whereas courts typically enforce click-wrap agreements,¹⁵¹ the validity of browse-wrap agreements depends on “whether a website user has actual or constructive knowledge of a site’s terms and conditions prior to using the site.”¹⁵²

The Kindle Store Terms of Use is best classified as a browse-wrap agreement instead of a click-wrap agreement.¹⁵³ When a customer visits Amazon to purchase a Kindle device, the term “license” does not appear on the product page. The product page also leads customers into believing that they will own the Kindle e-books they purchase through the Amazon Kindle Store. For example, the website states, “Enjoy your purchased content in any way you choose.”¹⁵⁴ Additionally, Amazon advertises that customers can participate in the Kindle Owner’s Lending Library, borrow e-books from their public library, or lend eligible e-books to other Kindle users.¹⁵⁵ Emphasizing to customers that they can borrow e-books or loan them to others gives the impression that all purchased e-books become the

¹⁴⁸ *Kindle Store Terms of Use*, *supra* note 2.

¹⁴⁹ Seringhaus, *supra* note 109, at 174.

¹⁵⁰ *Id.*

¹⁵¹ *See, e.g.*, *Specht v. Netscape Commc’ns Corp.*, 306 F.3d 17, 22 n.4 (2d Cir. 2002).

¹⁵² *Sw. Airlines Co. v. BoardFirst, L.L.C.*, No. 3:06-CV-0891-B, 2007 WL 4823761, at *5 (N.D. Tex. Sept. 12, 2007).

¹⁵³ However, some would characterize the Kindle Terms of Use as a shrink-wrap agreement. A shrink-wrap agreement is type of license common in the software industry that “gets its name from the fact that retail software packages are covered in plastic or cellophane ‘shrinkwrap,’ and some vendors . . . have written licenses that become effective as soon as the customer tears the wrapping from the package.” *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1449 (7th Cir. 1996). Courts are more likely to enforce a shrink-wrap agreement than either a browse-wrap agreement or a click-wrap agreement. Caitlin J. Akins, Note, *Conversion of Digital Property: Protecting Consumers in the Age of Technology*, 23 LOY. CONSUMER L. REV. 215, 223–24 (2010) (“Unlike the EULAs used for most online transactions, though, the *Amazon Kindle: License Agreement and Terms of Use* takes the form of a classic shrinkwrap agreement . . . [C]ourts have upheld shrinkwraps over the last two decades.”).

¹⁵⁴ *Kindle – Best-Selling Ereader – Only \$69*, AMAZON, <http://www.amazon.com/dp/B007HCCNJU> [<http://perma.cc/4T7-A79R>].

¹⁵⁵ *Id.*

property of the customer, instead of being licensed or rented to them. However, as discussed in Part IV, only books from certain publishers are available for customers to lend or borrow rather than the entire collection of Kindle e-books. At no point during the checkout process for buying a Kindle device—with either one-click or a full checkout—does Amazon warn customers that the Kindle e-books they will later purchase to use on the device are subject to a licensing agreement.

Nor does Amazon mention a licensing agreement when a user purchases a Kindle e-book. A review of a typical transaction highlights this concern. For instance, if a customer were to purchase *New York Times* bestseller *Gone Girl* by Gillian Flynn, the product page for that Kindle e-book makes no mention of the fact that the purchase constitutes a license only.¹⁵⁶ Additionally, the webpage for that e-book states that the Kindle e-book is “Sold by” Random House LLC and entices customers to “Buy Now with 1-Click.”¹⁵⁷ The only indication on the webpage that the book might not be treated in the same way as a hardcover or paperback book is that the product details section indicates: “Lending: Not Enabled.”¹⁵⁸ However, a customer must scroll down far on the product page, past the book description, “Customers Who Bought This Item Also Bought,” and “Editorial Reviews” sections before reaching the product details.¹⁵⁹ Additionally, under the “Formats” section of the product page, “Kindle Edition” is listed along with “Hardcover,” “Paperback,” and “Mass Market Paperback,”¹⁶⁰ suggesting that a Kindle e-book is just another edition of the title, not subject to any special use restrictions.

Kindle Unlimited, a lending library operated by Amazon for Kindle e-books, also may contribute to confusion about whether customers own the Kindle e-books that they have purchased.¹⁶¹ The service, introduced in mid-2014, allows subscribers to enjoy “unlimited access” to various Kindle e-books and Audible audiobooks for a monthly fee.¹⁶² The word “access” appears frequently on the webpage that describes the service,¹⁶³ making it

¹⁵⁶ See *Gone Girl: A Novel eBook: Gillian Flynn: Kindle Store*, AMAZON, <http://www.amazon.com/gp/product/B006LSZEEO> [<http://perma.cc/F27X-TDBN>].

¹⁵⁷ *Id.*

¹⁵⁸ *Id.*

¹⁵⁹ *Id.*

¹⁶⁰ *Id.*

¹⁶¹ See *Kindle Unlimited Terms of Use*, AMAZON (July 18, 2014), <https://www.amazon.com/gp/help/customer/display.html?nodeId=201556940> [<http://perma.cc/H6GF-8587>]; *Learn More About Kindle Unlimited*, AMAZON, <https://www.amazon.com/gp/feature.html?docId=1002872331> [<http://perma.cc/XTK2-PFXS>].

¹⁶² *Learn More About Kindle Unlimited*, *supra* note 161.

¹⁶³ See *id.* (stating that customers can “[e]njoy unlimited access to over 600,000 titles” and will “automatically get access to both the Kindle book and the audiobook” upon clicking a button to read an eligible title for free, and listing “How can I access Kindle Unlimited books?” under the frequently asked questions (emphases added)).

clear that Kindle Unlimited subscribers borrow Kindle e-books through the program and do not add the e-books permanently to their collections. Consequently, this program might cause more customers to mistakenly believe that the Kindle Unlimited service is for borrowing e-books, whereas clicking the “Buy Now” buttons on the product pages of Kindle e-books, in contrast, leads to ownership of the e-books.

Furthermore, the Kindle licensing agreement is not easy to find on Amazon’s website even for customers who really do want to read it. Although one might expect the product pages for each Kindle device and Kindle e-book to link directly to the Kindle Terms of Use, they do not clearly display a link. Instead, to navigate to the licensing agreement a customer needs to click “Help” at either the top or bottom of the home page, and then “Kindle” under “Topics.”¹⁶⁴ At the bottom of the page, a list of links to “Additional Help,” is provided.¹⁶⁵ One of these is a link to “Kindle Terms, Warranties, and Notice,” which is a webpage that allows the user to read through the “Kindle Terms,” “Kindle Terms of Use,” and “Kindle Store Terms of Use.”¹⁶⁶ These three licensing agreements govern a customer’s use of Kindle e-books on her Kindle device, yet the customer must actively search for this information rather than being presented with it upfront. It seems peculiar that such important documents as these licensing agreements would not be more visible on the website, as it is only by reading these agreements that a customer realizes she “may not sell, rent, lease, distribute, broadcast, sublicense, or otherwise assign any rights to the Kindle Content or any portion of it to any third party.”¹⁶⁷

Because it is unlikely that customers would engage in all of these steps just to read a licensing agreement they did not know existed, it is difficult to see how Amazon expects a customer to do the following, which is not shown during the transaction process:

Please read these Amazon Kindle Store Terms of Use, the Amazon.com Privacy Notice, the Amazon.com Conditions of Use, and the other applicable rules, policies, and terms posted on the Amazon.com website or the Kindle Store (collectively, this “Agreement”) before purchasing or using any Kindle Content. By using the Kindle Store or purchasing or using any Kindle Content, you agree to be bound by the terms of this Agreement. If you do not accept the terms of this Agreement, then you may not use the Kindle Store or any Kindle Content.¹⁶⁸

If Amazon truly expects customers to read the licensing agreement first, Amazon should present it as a much more visible option, such as a

¹⁶⁴ *Help & Customer Service*, AMAZON, <http://www.amazon.com/gp/help/customer/display.html> [<http://perma.cc/GT7S-AAP2>].

¹⁶⁵ *Id.*

¹⁶⁶ *Id.*; *Kindle Store Terms of Use*, *supra* note 2.

¹⁶⁷ *Kindle Store Terms of Use*, *supra* note 2.

¹⁶⁸ *Id.*

hyperlink on each product page in the Kindle Store and before the customer purchases a Kindle device or any Kindle e-books.

At this time, it is unclear whether courts would enforce licensing agreements like the Kindle Store Terms of Use. Professors Perzanowski and Schultz have noted that copyright owners often try to attach licensing terms to works to evade the first sale doctrine, but they are skeptical about its enforceability: “We doubt that a license alone is sufficient to transform a transaction that is otherwise indistinguishable from a sale into something else for the purpose of first sale. But that remains an open question.”¹⁶⁹

A licensing agreement like the Kindle Store Terms of Use should not be enforced because it is not easily accessible and because the terms should be fully disclosed to potential customers before any transactions take place.¹⁷⁰ If Amazon wants to strengthen its argument that the Kindle Store Terms of Use is enforceable, Amazon should make it more transparent that a licensing agreement governs Kindle e-book purchases.¹⁷¹ If a court were to determine that the Kindle Store Terms of Use is not enforceable, customers would be considered owners of their purchased Kindle e-books and the first sale doctrine would protect them if they decided to transfer or resell their Kindle e-books. However, even if a court were to rule that the Kindle Store Terms of Use are unenforceable, other barriers would still potentially prevent consumers from invoking the first sale doctrine.

G. Other Hurdles for Consumers

1. *Reproduction Right (§ 106(1)).*—Many scholars have pointed out that there cannot be a digital first sale defense because a digital transfer requires reproduction of the content in addition to distribution, and the reproduction right is a distinct exclusive right of copyright holders granted by § 106 and not mentioned in § 109(a).¹⁷² When “moving a file from one digital location to another,” that file is reproduced in the process.¹⁷³ This seems to follow the same line of reasoning that the District Court in *ReDigi* followed in concluding that the music files resold by customers through ReDigi’s service were not the same “particular copy,” and therefore the

¹⁶⁹ Perzanowski & Schultz, *supra* note 103, at 904–05 n.72.

¹⁷⁰ See Seringhaus, *supra* note 109, at 150 (“In its promotional materials and on the Kindle itself, Amazon reinforces the notion of traditional sale and ownership . . . Amazon has buried its true contractual terms in a so-called ‘browsewrap’ agreement—meaning users are bound by its terms simply by visiting the Amazon [website].”).

¹⁷¹ *Id.* at 202–03. “Amazon has not been forthright about the true nature of Kindle e-book transactions. It is not clear whether users—or courts—will tolerate such duplicity. They should not.” *Id.* at 206.

¹⁷² See 2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.12[E] (Matthew Bender, rev. ed. 2009); Serra, *supra* note 131, at 1763 (“[T]he transfer of a digital work implicates the copyright holder’s exclusive *reproduction* right as well. . . . This copying, a byproduct of technology, is a major hurdle for would-be resellers.”).

¹⁷³ Serra, *supra* note 131, at 1763.

first sale doctrine did not cover the digital music files.¹⁷⁴ *Nimmer on Copyright*, one of the leading copyright treatises, states that the elements to assert the first sale doctrine defense are: “(a) was the copy lawfully produced with authorization of plaintiff copyright owner; (b) was that particular copy transferred under plaintiff’s authority; (c) does defendant qualify as the lawful owner of that copy; and (d) did defendant thereupon simply distribute that particular copy?”¹⁷⁵ The problem of making a digital transfer arises with step (d); the digital file that originated on Person A’s computer or device is different from the digital file received by Person B’s computer or device because the file consists of “reassembled bits, having passed through cyberspace.”¹⁷⁶

The use and copying of digital works are “deeply intertwined.”¹⁷⁷ Congress recognized this fact, and in 1998, added § 117 to the Copyright Act, which states:

Notwithstanding the provisions of section 106 [exclusive rights in copyrighted works], it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided . . . that such a new copy or adaptation is created as an *essential step* in the utilization of the computer program in conjunction with a machine and that it is used in no other manner¹⁷⁸

Section 117 grants consumers who purchase copies of computer programs an essential-step defense, which means that they are allowed to reproduce a computer program if it is necessary for them to do so to use it on their computer. In contrast, customers who purchase other types of digital works do not receive the same statutory protections and therefore are not entitled to make a copy of those types of works.¹⁷⁹ A similar statute should be drafted and enacted to apply to digital works beyond software because the same issues arise with other types of digital copyrighted works.¹⁸⁰ The lack of a statute makes creating a digital resale market for e-books even more challenging and perhaps impossible because a copy needs to be made to transmit digital media. The first sale doctrine only restricts a copyright owner’s exclusive right to distribute a copyrighted work under § 106(3) and

¹⁷⁴ *Capitol Records, LLC v. ReDigi Inc.*, 934 F. Supp. 2d 640, 655 (S.D.N.Y. 2013).

¹⁷⁵ 2 NIMMER & NIMMER, *supra* note 172, § 8.12[E], at 8–180.

¹⁷⁶ *Id.* at 8–182.

¹⁷⁷ Perzanowski & Schultz, *supra* note 103, at 942.

¹⁷⁸ 17 U.S.C. § 117(a)(1) (2012) (emphasis added).

¹⁷⁹ Perzanowski & Schultz, *supra* note 103, at 902 n.60.

¹⁸⁰ *Id.* at 936 (“Perhaps most importantly, the alienability of digitally distributed works is just as deeply intertwined with reproduction as the resale of computer programs.”).

does not offer any sort of allowance for reproduction of the copyrighted work.¹⁸¹

2. *Anticircumvention Provision (§ 1201).*—Even if a court were to rule that a licensing agreement like the Kindle Store Terms of Use is unenforceable, it still might not be possible for consumers to transfer digital content to others without violating 17 U.S.C. § 1201, a provision of the DMCA.¹⁸² Section 1201 is the anticircumvention provision, and states: “No person shall circumvent a technological measure that effectively controls access to a work protected under this title.”¹⁸³ In other words, a customer cannot legally remove or alter the DRM on a Kindle e-book to make it possible to sell or transfer the e-book to someone else. Therefore, “[i]f DRM ties a copy of a work to a particular device or user account, copy owners who wish to exercise their use or alienation privileges will often be forced to circumvent technological protection measures.”¹⁸⁴ Congress did not intend for copyright holders to rely on § 1201 to restrict the sale or use of digital works.¹⁸⁵ Nevertheless, § 1201 thus far has served as a powerful tool for copyright holders to do just that.

IV. PROPOSED DIGITAL SECONDARY MARKETPLACE

A successful solution for designing a digital first sale doctrine must balance the interests of copyright owners in protecting their intellectual property with the policy reasons for copyright exhaustion discussed in Part III.D and the rights of consumers to freely alienate their property.¹⁸⁶ Additionally, the solution must recognize the real differences between physical and digital formats because digital works do present unique concerns for copyright holders. Broadly applying § 109 to digital content fails to strike such a balance and thus is unlikely to gain enough support in Congress or by copyright owners to succeed.

The importance of striking this balance is highlighted by several bills proposed in 2003 that never made it out of legislative committees.¹⁸⁷ For

¹⁸¹ Tobin, *supra* note 108, at 172 (“Although the owner of a digital work will typically incur no legal liability under the right to distribute, the first sale doctrine would not provide a legal shield against the owner who has reproduced a digital good.”).

¹⁸² Perzanowski & Schultz, *supra* note 103, at 902–03 (“[S]ection 1201 of the [DMCA] has raised doubts about the viability of first sale. . . . Without the legal ability to engage in self-help to circumvent DRM, consumers would be unable to make noninfringing uses of lawfully purchased copies.”).

¹⁸³ § 1201(a)(1)(A).

¹⁸⁴ Perzanowski & Schultz, *supra* note 103, at 943.

¹⁸⁵ H.R. REP. NO. 105-551, pt. 1, at 18 (1998) (“Paragraph (a)(1) does not apply to the subsequent actions of a person once he or she has obtained authorized access to a copy of a work protected under Title 17, even if such actions involve circumvention of additional forms of technological protection measures.”); Perzanowski & Schultz, *supra* note 103, at 945 n.306.

¹⁸⁶ See Smith, *supra* note 136, at 854.

¹⁸⁷ Consumers, Schools, and Libraries Digital Rights Management Awareness Act of 2003, S. 1621, 108th Cong. (2003); Digital Consumer Right to Know Act, S. 692, 108th Cong. (2003); Benefit

example, the BALANCE Act of 2003 sought to add a digital first sale provision to § 109. This bill would have allowed the owner of a copy of a copyrighted work in digital format to “sell[] or otherwise dispose[] of the work *by means of a transmission* to a single recipient, if the owner does not retain the copy or phonorecord in a retrievable form and the work is so sold or otherwise disposed of in its original format.”¹⁸⁸ Additionally, the bill would have made nonnegotiable license terms attached to digital works unenforceable, and the bill also would have amended 17 U.S.C. § 1201 (DMCA anticircumvention provisions) to allow someone who lawfully obtained a copy of a work to circumvent technological protection measures if doing so would be necessary to make noninfringing use of the work.¹⁸⁹ But the BALANCE Act and the other proposed bills were never enacted, at least partially because they were so one-sided, only benefitted consumers, and failed to consider the interests or concerns of copyright owners at all.¹⁹⁰

Although some argue that the Copyright Act must be amended, others have suggested that new or amended legislation might not be the most effective solution.¹⁹¹ They contend that no statutory change is necessary because the common law principles of copyright exhaustion already cover digital content. Professors Perzanowski and Schultz, for example, argue that “courts are already empowered and should be encouraged to apply the full measure of exhaustion limitations to nonsoftware digital works.”¹⁹²

Some scholars have also suggested that a first sale doctrine for digital content already exists: if someone desires to resell, lend, or give away e-books or digital content to another, all that person has to do is hand over his Kindle full of e-books. But this action would violate the Kindle Store Terms of Use¹⁹³ and is thus not a viable solution. Additionally, handing

Authors Without Limiting Advancement or Net Consumer Expectations (BALANCE) Act of 2003, H.R. 1066, 108th Cong. (2003).

¹⁸⁸ H.R. 1066, at § 4 (emphasis added).

¹⁸⁹ *Id.* § 5.

¹⁹⁰ Serra, *supra* note 131, at 1783–84 (“Perhaps the bills simply went too far. . . . In effect, House Bill 1066 and its peers offered consumers the privilege to resell digital works while simultaneously offering nothing to the copyright holders of those works.”).

¹⁹¹ Compare Abelson, *supra* note 9, at 9 (“[T]he Copyright Act in its current form is simply not equipped to address the complications of contemporary technology. Congress should amend the Copyright Act to clarify the application of the first sale doctrine to digital files.”), with Perzanowski & Schultz, *supra* note 103, at 925 (“Although a statutory solution could offer timely clarification of the scope of exhaustion in the digital economy, legislative efforts in the copyright arena, particularly those aimed at shifting the balance of exclusivity in favor of users, have an inconsistent track record at best. Moreover, in the long term, detailed statutory schemes exacerbate the risk that today’s law will be outpaced by tomorrow’s technological and market developments.”).

¹⁹² Perzanowski & Schultz, *supra* note 103, at 936.

¹⁹³ *Kindle Store Terms of Use*, *supra* note 2.

over an expensive electronic device like a Kindle to someone who simply wants to borrow a single book is impractical.¹⁹⁴

Others have suggested that e-book purchasers should simply be deemed owners with no licensee designation. They argue that e-books are fundamentally and functionally equivalent to paper books, and therefore should be treated no differently.¹⁹⁵ But this proposal ignores real distinctions between the ease of transferring a digital file compared to the more difficult task of selling or giving a tangible copy of a work to another.

The most promising solution is to modify licensing schemes to allow customers to resell purchased Kindle e-books, but in such a way that copyright owners share some of the proceeds of this resale. The solution would operate outside of the scope of § 109 so it would not require changing the text of the statute—something that has failed in the past¹⁹⁶—nor would it need be referred to as a digital first sale doctrine. Rather, this solution would more appropriately be described as a digital transfer doctrine. Customers would remain licensees of digital content, but Amazon and other vendors would be required to be much more transparent about the fact that purchases of digital content constitute licenses only. Transparency about licensing agreements would give customers the opportunity to make informed decisions before agreeing to enter into a licensing agreement when they purchase digital content. Customers have already shown that they do not mind being licensees of digital content, as long as companies are upfront that a licensing agreement governs the transaction.¹⁹⁷

Similar to compulsory licenses for music, in which copyright owners receive fees as compensation for uses of their works but cannot refuse to license their works to others who wish to use them,¹⁹⁸ granting customers the ability to resell or transfer digital content should also be compulsory. The system will only work if copyright holders cannot opt out of the digital

¹⁹⁴ See Serra, *supra* note 131, at 1770 (“But the notion that a computer hard drive is the ‘copy’ of a novelist’s work as opposed to the actual, digital file she typed and saved, simply because the hard drive is a tangible object, is at best artificial, if not outright bizarre.”). Kindles are becoming much cheaper. The first generation Kindle device cost \$399 in November 2007, whereas the cheapest Kindle device in August 2014 costs \$69. Nilay Patel, *Kindle Sells Out in 5.5 Hours*, ENGADET (Nov. 21, 2007, 1:01 PM), <http://www.engadget.com/2007/11/21/kindle-sells-out-in-two-days> [<http://perma.cc/GM27-XVXZ>]; *Kindle – Best-Selling Ereader – Only \$69*, *supra* note 154. Nevertheless, expecting someone to give an electronic device to another when he wishes to lend a copy of one e-book still seems unreasonable.

¹⁹⁵ Seringhaus, *supra* note 109, at 198–99 (“Technological novelties aside, e-books are books: the work of authors, embodied in printed type. . . . Reading copyrighted text on a screen and reading the same text on a printed page are not just fundamentally similar: they are functionally equivalent.”).

¹⁹⁶ See *supra* notes 187–90 and accompanying text.

¹⁹⁷ Tobin, *supra* note 108, at 186 (“Consumers don’t balk at the fact that they do not ‘own’ the videos that they rent from a video store. Because the terms are fully disclosed, customers know that they are merely leasing the video for a lower price.”).

¹⁹⁸ See JULIE E. COHEN ET AL., COPYRIGHT IN A DIGITAL GLOBAL INFORMATION ECONOMY 432 (3d ed. 2010) (“A compulsory license is a compromise between giving the copyright owner complete control over certain uses and granting users a complete exemption from liability.”).

secondary marketplaces. But the digital secondary marketplaces can and should provide resale royalties to the copyright owners. This solution fairly considers the interests of both copyright holders and customers in addition to acknowledging actual differences between physical books and e-books.

Copyright holders do not benefit from the resale of tangible copyrighted works, but a resale royalty is appropriate for digital works because it “recognizes the unique risks that nondegrading digital formats, connected to a vast and limitless distribution system, pose for copyright owners. At the same time, it stays true to the axiom that a consumer has the right to alienate his personal property, though it be digital.”¹⁹⁹ Hence, a resale royalty will help offset some risks unique to digital content.²⁰⁰ Digital copyrighted works cannot be treated the same as physical copyrighted works because there are differences between the two formats, which is why the first sale doctrine cannot just be expanded to include digital content, as this ignores valid concerns of copyright owners.

The DMCA Section 104 Report issued in 2001 stated that “forward-and-delete” technology did not exist at the time.²⁰¹ However, technologies to implement digital marketplaces do exist today. Amazon has already envisioned implementing a solution similar to what is proposed in this Note; the company obtained a patent in early 2013 for a system that would permit resale of digital works.²⁰² The abstract of this patent indicates,

An electronic marketplace for used digital objects is disclosed. . . . When the user no longer desires to retain the right to access the now-used digital content, the user may move the used digital content to another user’s personalized data store when permissible and the used digital content is deleted from the originating user’s personalized data store.²⁰³

Consequently, this invention would allow Amazon to set up a secondary marketplace for digital content (including Kindle e-books) and facilitate the transactions between customers. Each time a customer transfers a Kindle e-book from her possession to someone else, the copyright owner of that work should receive a portion of whatever the new buyer paid for it to help compensate for potential lost revenue from sales of new copies of digital works.

No solution, including the one proposed in this Note, is perfect. Customers who are determined to find a way to circumvent the technological controls that ensure that transferors can no longer access transferred files will surely figure out how to do so. Additionally, one

¹⁹⁹ Serra, *supra* note 131, at 1799.

²⁰⁰ *Id.* at 1756, 1787.

²⁰¹ U.S. COPYRIGHT OFFICE, *supra* note 64, at 98.

²⁰² U.S. Patent No. 8,364,595 (filed May 5, 2009), *available at* <http://www.google.com/patents/US8364595> [<http://perma.cc/G96E-PZP7>].

²⁰³ *Id.*

major downside of this solution is that it would give e-retailers a lot of control over the secondary marketplace for digital content. But technologically, e-retailers such as Amazon are in the best position to ensure that the sellers lose access to files after they transfer them to buyers. A solution like this has already proven feasible. Amazon currently allows customers to lend certain e-books to other customers for a loan period of fourteen days.²⁰⁴ Each eligible title can only be loaned out once, and the lender cannot access the content of the e-book when it is out on loan.²⁰⁵ With the lending program, the customer who loans his Kindle e-book does not give his “particular copy” of the Kindle e-book to the recipient because the lender’s highlights and annotations are not visible to the recipient.²⁰⁶ Certainly if the license agreement can be modified to allow the lending program to operate, the license agreement can also be modified to allow a digital secondary marketplace to operate.

Rather than attempting to rewrite the first sale doctrine to allow customers to invoke it when transferring digital content, we should adopt a new system. The system proposed in this Note would benefit consumers by allowing them to participate in secondary marketplaces for digital content and improving transactional clarity. Although a digital secondary marketplace will take away some control copyright owners currently enjoy over their digital copyrighted works, the proposed system would not leave them without compensation because the copyright owners would be entitled to some revenues from each subsequent resale.

CONCLUSION

The Supreme Court’s decision in *Kirtsaeng v. John Wiley & Sons, Inc.* indicated that the first sale doctrine and principle of copyright exhaustion is still viewed as an important limitation on copyright. This Note considered the licensee and owner dichotomy that arises in the context of digital content, and concluded that e-retailers should be required to be much more transparent about licensing agreements when selling digital content. Customers should be allowed to resell or transfer purchased digital content, but the process of reselling must be carefully controlled to prevent the seller from retaining a copy of the digital work that was sold. The retailer

²⁰⁴ *Lend or Borrow Kindle Books*, AMAZON, <http://www.amazon.com/gp/help/customer/display.html?nodeId=200549320> [<http://perma.cc/H4HM-8X9J>].

²⁰⁵ *Id.*

²⁰⁶ Amy Ostrom, *Comparing Sharing: Lending eBooks Between the Amazon Kindle and Barnes and Noble Nook*, C. OF CHARLESTON TEACHING, LEARNING & TECH. (Mar. 19, 2012), <http://blogs.cofc.edu/tlt/2012/03/19/comparing-sharing-lending-ebooks-between-the-amazon-kindle-and-barnes-and-noble-nook> [<http://perma.cc/C64P-H648>] (“When a book is lent, it is lent as a clean slate. All of the lender’s highlights and notes will not be visible to the recipient. While an eBook is in the recipient’s possession, they can alter the format, make highlights, and take notes within the text. Upon the return of the eBook, the formatting will be restored to the lender’s specification with all notes and highlights intact. Any adjustment made by the recipient will not be seen to the lender.”).

or vendor is currently in the best position to oversee digital resales and transfers. Copyright owners should receive a royalty on each digital work resold in the secondary digital marketplace to offset the unique risks present in transactions of digital content, which do not exist with those of physical goods. The proposed solution will effectively balance the interests of consumers with the concerns of copyright holders in the digital age, consistent with the purpose of copyright.

