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Buying a Digital Download? You May Not Own the Copy You Purchase

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BUYING A DIGITAL DOWNLOAD? YOU MAY NOT OWN THE COPY YOU PURCHASE

*Jennifer Lahm**

I. INTRODUCTION

Recent Ninth Circuit decisions in which the court examined the traditional notion that ownership of an authorized copy of a copyrighted work transfers when that copy is first publicly distributed by the copyright owner may have oppressive effects for consumers of digital downloads. Historically, upon this first distribution, also known as a first sale,¹ the owner of the copy is able to raise certain affirmative defenses to copyright infringement.² However, complica-

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¹ See H.R. REP. NO. 94-1476 (1976), *reprinted in* 17 U.S.C.A. § 106 (West 2011) (“Under [§ 106(3)] the copyright owner would have the right to control the first public distribution of an authorized copy or phonorecord of his work, whether by sale, gift, loan, or some rental or lease arrangement.”); *United States v. Wise*, 550 F.2d 1180, 1187 (9th Cir. 1977) (referring to the distribution as a “first sale”).

² See 17 U.S.C. §§ 109(a) (2006) (first sale doctrine), 117(a) (2006) (essential step defense). The first sale doctrine states, in pertinent part,

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

17 U.S.C. § 109(a) (emphasis added). The essential step defense states, in pertinent part,

Notwithstanding the provisions of section 106, 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:

(1) 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 manner, or

tions arise when restrictive contractual agreements accompany the copy, because these agreements may place enough constraints upon a consumer's use that he may not own the purchased copy. For example, a consumer who purchases digital downloads often does so through an online music store and must agree to the store's terms; however he generally does not receive an express transfer of title to the copy³ purchased.⁴ Moreover, by agreeing to the store's terms, the consumer likely agrees to terms that limit ownership rights granted by the Copyright Act, effectively becoming a licensee rather than an owner of a copy. Because licenses and contracts play such an active role in the purchase of digital downloads, consumers of these downloads probably do not own the copies they purchase and are therefore not protected by the ownership rights under the Copyright Act. This Comment will demonstrate that consumers of digital downloads need additional protection as possessors of copies.

(2) that such new copy or adaptation is for archival purposes only and that all archival copies are destroyed in the event that continued possession of the computer program should cease to be rightful.

17 U.S.C. § 117(a).

³ For purposes of this Comment, all material objects, such as phonorecords, which embody the copyright, such as sound recordings, will often be referred to as "copies." See MELVILLE B. NIMMER & DAVID NIMMER, *NIMMER ON COPYRIGHT*, § 2.03[C] (Matthew Bender, rev. ed. 2010) (hereinafter NIMMER & NIMMER) ("The same distinction is made as between 'sound recordings,' which are works of authorship, and 'phonorecords,' which merely embody such sounds."). A "phonorecord" is not included in the definition of "copy," which strictly refers to the material object embodying a copyrighted work that is not a sound recording. 17 U.S.C. § 101 (2006 & Supp. IV 2010); NIMMER & NIMMER, *supra*. However, in many instances, the two are treated the same under the Copyright Act, *see id.* (referring to the distinction as an "unnecessary complexity"), and thus, will collectively often be referred to as "copies." Any relevant distinctions will be noted as necessary.

⁴ See Raymond T. Nimmer, *Copyright First Sale and the Over-riding Role of Contract*, 51 SANTA CLARA L. REV. 1311 (2011) ("In the digital era, all of the traditional content industries have moved to a mixed model of distribution and many new industries only use digital distributions subject to license agreements."); *see, e.g., Software License Agreement for iTunes*, APPLE, <http://images.apple.com/legal/sla/docs/itunes.pdf> (last updated Feb. 10, 2010) (requiring that the consumer agree to the agreement in order to use the software); *iTunes Store Terms and Conditions*, APPLE, <http://www.apple.com/legal/itunes/us/terms.html> (last updated June 21, 2010) (indicating that the agreement governs the consumer's use of the iTunes music store to access digital content); *Purchasing Music*, iTunes Store Category listed on *iTunes A to Z*, APPLE, <http://www.apple.com/itunes/features/#purchasingmusic> (last visited Dec. 31, 2010) (describing the iTunes store and how consumers use it to purchase music); *see also* Greg Raburn, *Digital Content and the Repo Man*, 39 AIPLA Q.J. 35, 49 (Winter 2011) (describing the similar effect the digital era is having on the distribution of books, stating that, for example, the Terms of Use used for Amazon's Kindle "likely means that Amazon does not consider an e-book to be covered by the first sale doctrine, and therefore views an e-book as more akin to software than an actual book").

In September 2010, the Ninth Circuit held in *Vernor v. Autodesk, Inc.*⁵ that the lawful possessor of authorized copies of a computer software program did not own those copies.⁶ Rather, the court found that the copyright owner granted a license to the possessor, as evidenced by a written agreement that provided for limited use of the copies and restrictions on distribution and reproduction rights.⁷

Only months later, with respect to music recordings, the Ninth Circuit in *UMG Recordings, Inc. v. Augusto*⁸ held that the possessor of copies of promotional compact discs (“CDs”) did in fact own those copies, despite the copyright owner’s attempt to enforce licensing language and use restrictions placed on the products’ packaging.⁹ The court distinguished the CD recipients in *UMG* from the computer program users in *Vernor* based on their respective relationships with the copyright owners.¹⁰ Notwithstanding the attempt to create a licensing notice on the package,¹¹ UMG did not control or formally monitor the use or further transfer of the copies,¹² whereas Autodesk imposed and executed significant use and transfer restrictions.¹³ Moreover, UMG mailed the CDs without receiving such a request or payment from the recipients;¹⁴ Autodesk typically received payment for the software copies following the customers’ requests for the program.¹⁵ As a result, the court in *UMG* limited the holding in *Vernor*

⁵ 621 F.3d 1102 (9th Cir. 2010), *cert. denied*, No. 10-1421, 2011 WL 4530222 (Oct. 3, 2011); see Christopher Barnett, *Supreme Court Allows Pro-Autodesk Decision to Remain Intact in Ninth Circuit*, SOFTWARE AUDIT BLOG (Oct. 2011), http://www.scottandscottllp.com/main/Supreme_Court_Allows.aspx#page=1 (“The Supreme Court’s refusal to hear the case means that, at least in the Ninth Circuit, software publishers like Autodesk may continue to seek injunctions and other remedies against those who attempt to distribute copies of a copyrighted software product without a license.”).

⁶ *Vernor*, 621 F.3d at 1111.

⁷ *Id.* (“We hold today that a software user is a licensee rather than an owner of a copy where the copyright owner (1) specifies that the user is granted a license; (2) significantly restricts the user’s ability to transfer the software; and (3) imposes notable use restrictions. Applying our holding to Autodesk’s [software license agreement], we conclude that [the possessor] was a licensee rather than an owner of the copies . . .”).

⁸ 628 F.3d 1175 (9th Cir. 2011).

⁹ *Id.* at 1180.

¹⁰ *Id.* at 1183.

¹¹ The court noted that there was no evidence that the recipients accepted the alleged license agreement or its restrictions. *Id.* at 1182, 1183.

¹² *Id.* at 1180, 1183.

¹³ *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1111-12 (9th Cir. 2010).

¹⁴ *UMG*, 628 F.3d at 1180-81 (citing Unordered Merchandise Statute, 39 U.S.C. § 3009(a), (b) (2006)).

¹⁵ *Vernor*, 621 F.3d at 1104.

to software users because software users were in “a very different position from that held by the recipients of UMG’s promotional CDs.”¹⁶

Although the Ninth Circuit must have believed that *Vernor* and *UMG* were consistent with respect to the rules of law for computer programs and promotional CDs individually,¹⁷ the decisions, when read broadly to apply beyond computer software and promotional CDs, left unanswered whether possessors of copies of digital music downloads were owners or licensees. Arguably, those that purchase digital downloads are not in a “very different position” from the computer software users in *Vernor*, because music downloads are often purchased and transmitted using computer software programs subject to license agreements.¹⁸ Therefore, the distinctions drawn by the Ninth Circuit to separate the recipient of a promotional CD from a computer software user do not exist with a buyer of a digital download.¹⁹ Although similar to *UMG* in that the downloaded file is a copy rather than software,²⁰ the downloaded file ultimately more closely resembles the software in *Vernor* because the copyright owner retains control through the use of a software program and software agreement.²¹ While digital downloads do not fall perfectly within the parameters of either case, *Vernor* seems more applicable due to the existence of the software program and the use and transfer restrictions placed upon possessors of the copies.²² Thus, digital download consumers are arguably licensees under *Vernor*.

The distinction between an owner of a copy and a licensee of the copyright who merely possesses a copy is important because an owner of a copy is entitled to certain rights under the Copyright Act (“the Copyright Act” or “the Act”).²³ Furthering this distinction, § 202 of the Copyright Act creates a statutory division between the

¹⁶ *UMG*, 628 F.3d at 1183 (“Th[e] formulation [from *Vernor*] . . . applies in terms to software users . . .”).

¹⁷ The judicial panel was the same for both cases. *Id.* at 1177; *Vernor*, 621 F.3d at 1103.

¹⁸ *See supra* note 4 (citing agreements used by Apple’s iTunes).

¹⁹ *See supra* text accompanying notes 10-16 (noting that the court in *UMG* justified its decision to find ownership based on: (1) the minimal level of control retained by the copyright owner and (2) the object’s dissimilarities from software).

²⁰ Compare *NIMMER & NIMMER*, *supra* note 3, at § 8.12[E], with *UMG*, 628 F.3d at 1183.

²¹ Compare *supra* note 4, with *Vernor*, 621 F.3d at 1111-12.

²² *See Vernor*, 621 F.3d at 1111-12 (describing the “significant” use and transfer restrictions placed on the software user).

²³ Copyright Act, 17 U.S.C. §§ 107-122 (2006 & Supp. V 2011); *Vernor*, 621 F.3d at 1107 (describing certain ownership rights that are “unavailable to those who are only licensed to use their copies of copyrighted works”).

copyright and the object embodying it.²⁴ An owner of a copy is able to raise certain affirmative defenses to infringement claims, and such ownership may be transferred separately from the copyright, regardless of whether rights in the copyright are licensed.²⁵ In other words, ownership of a copy is dependent on the physical object embodying the copyright, not the rights authorized by the copyright owner with respect to use of the copy.²⁶ Thus, ownership of the copyright is based on the ability to engage in acts reserved for the copyright owner,²⁷ regardless of whether a copy of the copyrighted work was sold, rented, leased, or loaned for the purposes of exercising such rights under the copyright.²⁸

Ownership of *copies* should not be determined by contractual restrictions governing the *copyright*.²⁹ In order to remain consistent with the Copyright Act, title in downloads should pass to the consumers with the sale of the copy, regardless of the restrictions placed on the use of the copyright.³⁰ Of course, consistent with contract

²⁴ See 17 U.S.C. § 202 (2006).

Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied. Transfer of ownership of any material object, including the copy or phonorecord in which the work is first fixed, does not of itself convey any rights in the copyrighted work embodied in the object; nor, in the absence of an agreement, does transfer of ownership of a copyright or of any exclusive rights under a copyright convey property rights in any material object.

Id.

²⁵ *Id.*

²⁶ *Id.*; Robert J. Bernstein & Robert W. Clarida, *Promotional CDs and Software Face First Sale Doctrine*, N.Y.L.J., (Jan. 21, 2011), available at Lexis.

²⁷ See 17 U.S.C. § 101 (“A ‘transfer of copyright ownership’ is an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license.”). Note that one can be a copyright owner by obtaining an exclusive license, which authorizes that person or company to use some or all of the rights within the copyright. See *id.*

²⁸ See 17 U.S.C. § 202; Bernstein, *supra* note 26.

²⁹ See 17 U.S.C. § 202 (noting the separation between the copy and the copyright); NIMMER & NIMMER, *supra* note 3, at § 8.12[B][1][d][i] (“[T]he first sale inquiry examines ownership of the tangible property in which the copyrighted work has been embodied, not ownership of the copyright itself.”).

³⁰ See NIMMER & NIMMER, *supra* note 3. In *Nimmer & Nimmer’s* discussion of *Microsoft Corp. v. Harmony Computers & Elecs., Inc.*, 846 F. Supp. 208 (E.D.N.Y. 1994), where the court found that “Microsoft only license[d] and d[id] not sell its [p]roducts,” *id.* at 213, they stated that the court “entirely misunderstood the first sale doctrine” if it “inferred simply from the fact that the copyright to the software was licensed to end-users that Section 109(a) was therefore somehow inapplicable” NIMMER & NIMMER, *supra* note 3.

principles, a consumer could contract away his right to ownership; however, the consumer's lack of ownership would be the result of the agreement rather than the result of restrictions placed on the copyright.³¹ Thus, if rights under a copyright were licensed to the consumer, as they were in *Vernor*, it would be possible that the consumer nevertheless owned the *copies* being used to exercise those rights.³² The consumer would still be able to exercise his rights as an owner of a *copy* even though a license was granted with respect to the *copyright*.

Moreover, even if the language of § 202 was strictly construed, as previously proposed, and consumers were deemed to be owners of the downloaded copies in their possession, the defenses available to them would be nearly useless. The nature of digital downloads seemingly requires a license to use the copyright because consumers must be able to exercise rights exclusively reserved for the copyright owner which are not included in the defenses.³³ For example, to resell a download under the first sale doctrine, the consumer is

³¹ See *Vernor*, 621 F.3d at 1107 n.6 (stating that a person could be contractually liable if there was a violation of an agreement following a first sale; however, the person would not have infringed upon the copyright); Nimmer, *supra* note 4, at 1312 (stating that all transactions are not inherently first sales, and that the right to own a product may be limited by contract).

³² Cf. *Vernor*, 621 F.3d at 1111-12 (finding that the copy was not owned because the copyright was licensed).

³³ Compare 17 U.S.C. § 106 (2006), with 17 U.S.C. §§ 109(a), 117. Section 106 states,

Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

- (1) to reproduce the copyrighted work in copies or phonorecords;
- (2) to prepare derivative works based upon the copyrighted work;
- (3) 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;
- (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
- (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and
- (6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

17 U.S.C. § 106. See *supra* note 2 for 17 U.S.C. §§ 109(a) and 117 (first sale doctrine and essential step defense).

required to sell the machine on which the file was downloaded,³⁴ because the first sale doctrine does not grant to the owner of a copy the right to make any necessary reproductions in order to resell that copy.³⁵ Prohibited reproductions include making copies on to a CD or media player. On the other hand, if the download were a computer program, which is protected by the essential step defense, the consumer would be able to make the necessary reproductions, because such reproductions are necessary for the file's intended use.³⁶

Consequently, the only protection that would be available for owners of digital files under the current Copyright Act is the fair use doctrine.³⁷ However, reliance on the fair use doctrine is unreasonable when a license agreement accompanies a digital product, because the consumer's use of the copy will be restricted by that license agreement and the associated digital rights management systems used by copyright owners in an attempt to battle piracy and infringement in the digital age.³⁸ Although the consumer may be the owner of the

³⁴ See NIMMER & NIMMER, *supra* note 3, at § 8.12[E] (indicating that one qualifies as a lawful owner of a copy by owning the machine on which it is stored, because it is the machine's RAM which contains the copy).

³⁵ 17 U.S.C. § 106(1). *Cf.* 17 U.S.C. § 117 (allowing owners of *software program* copies to make necessary reproductions).

³⁶ See 17 U.S.C. § 117(a) (allowing necessary reproductions for software programs); *Krause v. Titleserv, Inc.*, 402 F.3d 119, 123-24 (2d Cir. 2005) (same).

³⁷ See 17 U.S.C. § 107 (2006). The fair use doctrine states,

Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include--

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

Id.

³⁸ See *infra* note 169.

physical product embodying the digital files,³⁹ a strict and overly controlling license agreement may have the effect of rendering useless the ownership rights under the Copyright Act.

As long as a license is required to use an object, owners and possessors of copies are contractually limited in their rights, regardless of the rights granted by the Copyright Act. These difficulties may demonstrate why courts have found that the existence of a license establishes a lack of ownership of the copy. Copies may be leased for purposes of exercising rights granted to the *possessors* by the copyright owner, meaning they are not *owned* by consumers. On the other hand, copies may be owned in addition to rights being licensed, but the license has the capability of hindering the effectiveness of the ownership rights. Either way, the existence of a license trumps, or at least has the potential to trump, the rights belonging to an owner of a copy.

This Comment demonstrates that consumers of digital downloads are likely not owners of the copies they purchase based on the Ninth Circuit's recent interpretations of the Copyright Act,⁴⁰ and therefore need additional protection as possessors of copies. However, even if court decisions in the near future hold otherwise, the current Act would be ineffective in governing their ownership rights when the use of the copies is subject to a license agreement, as are most digital downloads.⁴¹ Section I discusses the distinction between the exclusive rights comprised in the copyright and the object embodying the copyrighted work, and the difference between a copyright owner and an owner of a copy. Section II explores methods of determining ownership of copies and examines conflicts that have arisen between the Copyright Act and recent Ninth Circuit cases as digital media becomes increasingly popular. Section III evaluates the effects of the Ninth Circuit's decisions, ultimately concluding that consumers of digital downloads are limited in their rights regardless of whether they are found to own the copies of the musical recordings. Finally, Section IV discusses the need for changes in the Copyright Act to preserve consumers' rights as digital downloads become

³⁹ This includes digitally transmitted files. See NIMMER & NIMMER, *supra* note 3, at § 8.12[E].

⁴⁰ See *UMG v. Augusto*, 628 F.3d 1175, 1183 (9th Cir. 2011); *Vernor v. Autodesk*, 621 F.3d 1102, 1111 (9th Cir. 2010).

⁴¹ Cf. *UMG*, 628 F.3d at 1183 (finding that no effective license existed because UMG's attempt to limit use restrictions were insufficient to create a license).

the norm, and the line between the copy and the copyright begins to fade.

II. THE BASICS: DISTINGUISHING THE COPYRIGHT FROM THE COPY AND THE COPYRIGHT OWNER FROM THE OWNER OF THE COPY

The Copyright Act distinguishes between the copyright and the object embodying it.⁴² The Eleventh Circuit has aptly stated, “[C]opyright is a series of specified rights to which a designated work is subject One may use the work without using the copyright, but one cannot use the copyright without using the work – one does not infringe the work, rather one infringes the copyright.”⁴³

The Act grants varying protections to both the owners of the copyright and the owners of the embodying object.⁴⁴ The owner of a copyright has the exclusive rights of reproduction in copies or phonorecords, preparation of derivative works, public distribution of copies or phonorecords, public performance, public display, and public performance of sound recordings by digital audio transmission.⁴⁵ Accordingly, the copyright owner is entitled to authorize any of these rights, such as reproduction and distribution.⁴⁶ Copyright owners in the digital age authorize this publishing right to digital distributors and publishing companies, from which consumers may purchase copies of the embodying object.⁴⁷ Conversely, a consumer who owns a copy is, with few exceptions, prohibited from exercising or authorizing these exclusive rights.⁴⁸ Two exceptions are the first sale doc-

⁴² 17 U.S.C. § 202; *see supra* note 24.

⁴³ *Bateman v. Mnemonics, Inc.*, 79 F.3d 1532, 1543 n.23 (11th Cir. 1996).

⁴⁴ 17 U.S.C. § 202; *Vernor v. Autodesk*, 621 F.3d 1102, 1111-12; *F.B.T. Prods., LLC v. Aftermath Records*, 621 F.3d 958, 961-62, 965 (9th Cir. 2010).

⁴⁵ 17 U.S.C. § 106; *see supra* note 33.

⁴⁶ 17 U.S.C. § 101 (noting that copyright ownership may be transferred using an exclusive license); *Vernor*, 621 F.3d at 1111-12 (holding that Autodesk licensed its software to program users); *F.B.T. Prods.*, 621 F.3d at 967 (finding that the copyright owner licensed reproduction and distribution rights to third party distributors).

⁴⁷ *Nimmer*, *supra* note 4; *see* Michael I. Rudell & Neil J. Rosini, *Electronic Books Reshape Publishing Industry*, N.Y.L.J., Aug. 27, 2010, at 3 (noting that, based on state contract law and the original publishing license between parties, the right to publish e-books may lie with the publishing company distributing the physical book or may lie with the author, who may work directly with a digital distributor to distribute the work).

⁴⁸ *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175, 1178-79 (9th Cir. 2011) (“Although . . . the owner of the copyright[] has exclusive rights in the promotional CDs, ‘exemptions, compulsory licenses, and defenses found in the Copyright Act narrow [those] rights.’ ”)

trine and the essential step defense, both of which provide owners of copies with an affirmative defense to copyright infringement.⁴⁹

To see the difference between the copy and the copyright, review the classic example of a book⁵⁰: A consumer who enters a bookstore and purchases a book has the right to take the book home, read it, place it on a shelf, or even use it as a paperweight.⁵¹ The consumer owns a *copy* of the author's copyrighted work, and the uses just described would not conflict with the copyright owner's exclusive rights.⁵² The same can be applied to one who purchases and owns a copy of a music CD, in which the copyright owner has exclusive rights to the musical recording.⁵³

On the other hand, if the copyright owner were to license the *copyright*, say to a publishing company for purposes of public distribution, the copyright owner would be granting permission to exercise one of the exclusive rights.⁵⁴ This right is granted separately and regardless of whether ownership of a copy was transferred.⁵⁵ For ex-

(quoting *Wall Data Inc. v. Los Angeles Cnty. Sheriff's Dep't*, 447 F.3d 769, 777 (9th Cir. 2006)).

⁴⁹ 17 U.S.C. §§ 109(a), 117(a); *Vernor*, 621 F.3d at 1107.

⁵⁰ *Bobbs-Merrill v. Straus*, 210 U.S. 339, 350-51 (1908) (holding that the exclusive right to "vend" or sell does not include the right to control future retail sales merely by notice without privity of contract regarding such an exclusive right); *Krause v. Titleserv, Inc.*, 402 F.3d 119, 122 (2d Cir. 2005) ("[T]he author of a book, or her assignee, ordinarily owns the copyright in the book and thus the sole right to authorize copying; each purchaser of a copy of the book owns that copy, but is generally not entitled to make copies from it."); *NIMMER & NIMMER*, *supra* note 3, at § 2.03[C] ("A 'book' is merely a material object that may embody, and hence constitute, a copy of a given literary work. . . . There is but a single work of authorship, no matter how numerous and diverse the copies. By like reasoning, the 'author' is the originator of the intangible material (e.g., the novel) . . .").

⁵¹ See *Krause*, 402 F.3d at 122; Bernstein, *supra* note 26. An owner of a copy also has the rights prescribed under the first sale doctrine and the essential step defense, which will be discussed in Parts II and IV, respectively.

⁵² 17 U.S.C. § 106 (listing the copyright owner's exclusive rights); *Krause*, 402 F.3d at 122; Bernstein, *supra* note 26.

⁵³ *NIMMER & NIMMER*, *supra* note 3, at § 2.03[C] ("The same distinction is made as between 'sound recordings,' which are works of authorship, and 'phonorecords,' which merely embody such sounds.").

⁵⁴ See 17 U.S.C. § 101 (defining a "transfer of copyright ownership"); see 17 U.S.C. § 202 ("[T]ransfer of ownership of a copyright or of any exclusive rights under a copyright [does not] convey property rights in any material object."); *Bobbs-Merrill*, 210 U.S. at 350-51 (noting that the exclusive rights comprised in a copyright may be transferred by privity of contract but not by mere notice).

⁵⁵ H.R. REP. NO. 94-1476 (1976), reprinted in 17 U.S.C.A. § 202.

The principle restated in section 202 [this section] is a fundamental and important one: that copyright ownership and ownership of a material object in which the copyrighted work is embodied are entirely separate

ample, in order to exercise the exclusive rights granted, the copy's possession could transfer either in the form of a loan, rental, or lease (in which case the licensee would not own the copy), or in the form of a sale or gift (in which case the licensee would own the copy).⁵⁶ The fact that an agreement accompanied the transfer of the copy's possession does not bar a finding of ownership.⁵⁷ Importantly, when there is a transfer of ownership of the copy in addition to a contractual license of the copyright, a violation of the agreement beyond that which pertains to the copyright owner's rights is a breach of contract rather than copyright infringement.⁵⁸ As demonstrated, the ability to license a copyright and the ability to transfer ownership are distinct from each other as required by § 202 of the Copyright Act.

III. ADAPTING TO A DIGITAL AGE: FINDING A METHOD TO DETERMINE OWNERSHIP OF A COPY

Under the Copyright Act, the right to raise certain affirmative defenses to copyright infringement is limited to owners of copies.⁵⁹ Thus, for purposes of the defenses, "ownership" is based on owner-

things. Thus, transfer of a material object does not of itself carry any rights under the copyright, and this includes transfer of the copy or phonorecord--the original manuscript, the photographic negative, the unique painting or statue, the master tape recording, etc.--in which the work was first fixed. Conversely, transfer of a copyright does not necessarily require the conveyance of any material object.

Id.; *Krause*, 402 F.3d at 122 ("Ownership of a copy is something distinct from copyright ownership.").

⁵⁶ See 17 U.S.C. § 101 (defining "transfer of copyright ownership"); see 17 U.S.C. § 202 (indicating that ownership of the copy is separate from ownership of the copyright); NIMMER & NIMMER, *supra* note 3, at § 8.12[B][1][a].

⁵⁷ See NIMMER & NIMMER, *supra* note 3, at § 8.12[B][1][b] (stating that a resale or use restriction placed on the copyrighted item by the copyright holder would not render the purchaser liable in an infringement action for a violation of that restriction).

⁵⁸ *Vernor v. Autodesk*, 621 F.3d 1102, 1107 n.6 (9th Cir. 2010) ("If Autodesk's transfer of [the software] copies to CTA was a first sale, then CTA's resale of the software in violation of the SLA's terms would be a breach of contract, but would not result in copyright liability." (citing *United States v. Wise*, 550 F.2d 1180, 1187 (9th Cir. 1977))); see *Bobbs-Merrill*, 210 U.S. at 350-51 (noting that privity of contract is required between the copyright owner and an owner of a copy in order to limit the rights of the owner of the copy).

⁵⁹ *Vernor*, 621 F.3d at 1107 ("[The first sale doctrine] allows the 'owner of a particular copy' of a copyrighted work to sell or dispose of his copy without the copyright owner's authorization." (quoting 17 U.S.C. § 109(a))); *id.* at 1109 ("[A] software user who is the 'owner of a copy' of a copyrighted software program does not infringe by making a copy of the computer program, if the new copy is 'created as an essential step in the utilization of the computer program in conjunction with a machine and . . . is used in no other manner.'" (quoting 17 U.S.C. § 117(a)(1))).

ship of the copy rather than ownership of the copyright, and a person must own rather than merely possess a copy in order to raise these defenses.⁶⁰ This also means that ownership of the *copy* could be determined regardless of whether any of the rights comprised in the *copyright* have been transferred.⁶¹

Historically, the copyright owner's exclusive right of public distribution was limited to "the first public distribution of an authorized copy."⁶² This was, and still is, also known as a "first sale," and while a sale is not actually required, such a transfer of possession transfers ownership of the copy.⁶³ Upon the transfer of ownership of a particular copy, the copyright owner loses the exclusive right to control public distribution of that copy.⁶⁴ Thus, the owner of the copy could resell, lend, or dispose of the copy without infringing upon the exclusive rights of the copyright owner.⁶⁵ This first sale doctrine, which aids in establishing a transfer of ownership in a copy, also acts as an affirmative defense for owners of copies in a suit by copyright owners for infringement.⁶⁶

The leading Supreme Court case regarding the first sale doctrine, *Bobbs-Merrill Company v. Straus*,⁶⁷ held that a copyright owner's right to distribution, or right to "vend" as it was then called, does not include the right to control future retail sales merely by notice of such control absent privity of contract regarding the exclusive right at issue.⁶⁸ The Bobbs-Merrill Company, the copyright owner of the literary work embodied in the novel, *The Castaway*, attempted to restrict sales of copies of the novel by printing the following copyright statement in the book⁶⁹:

⁶⁰ NIMMER & NIMMER, *supra* note 3, at § 8.12[B][1][d][i] ("[T]he first sale inquiry examines ownership of the tangible property in which the copyrighted work has been embodied, not ownership of the copyright itself.").

⁶¹ *See id.* ("[T]he first sale inquiry examines ownership of the tangible property in which the copyrighted work has been embodied, not ownership of the copyright itself."); *see supra* note 55.

⁶² H.R. REP. NO. 94-1476, *reprinted in* 17 U.S.C.A. § 106; *see* 17 U.S.C. § 109(a); *Bobbs-Merrill*, 210 U.S. at 350.

⁶³ 17 U.S.C. § 109(a); *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175, 1179-80 (9th Cir. 2011); NIMMER & NIMMER, *supra* note 3, at § 8.12[B][1][a].

⁶⁴ *UMG*, 628 F.3d at 1179-80 (citing *Bobbs-Merrill*, 210 U.S. at 350).

⁶⁵ *See id.* ("[A] copyright owner who transfers title in a particular copy to a purchaser or donee cannot prevent resale of that particular copy."); Bernstein, *supra* note 26.

⁶⁶ *UMG*, 628 F.3d at 1179-80 (citing *Bobbs-Merrill*, 210 U.S. at 350).

⁶⁷ 210 U.S. 339 (1908).

⁶⁸ *Id.* at 350-51.

⁶⁹ *Id.* at 341.

The price of this book at retail is [one dollar] net. No dealer is licensed to sell it at a less price, and a sale at a less price will be treated as an infringement of the copyright.⁷⁰

In a suit against Macy & Company, which purchased the books from a wholesale dealer and then re-sold them for eighty-nine cents per copy,⁷¹ the Court found that Congress did not intend to grant copyright owners the ability to restrict future sales by use of a printed notice when it granted the “sole right to vend.”⁷² The right to vend does not secure a right to copyright owners past the “sale of the book to a purchaser” merely by printing a notice of such a restriction because the copyright owner is not in privity of contract with those future purchasers.⁷³ Thus, Macy & Company was not bound by the purported license in the copyright statement because the Bobbs-Merrill Company lost its exclusive right to distribute those copies beyond the first sale to a purchaser.⁷⁴

The first sale doctrine, established in *Bobbs-Merrill*, was later codified in § 109 of the Copyright Act.⁷⁵ It permits the sale or disposition of a copyrighted work if the possessor in fact owns that particular copy.⁷⁶ Just as in *Bobbs-Merrill*, the copyright owner loses its sole right to vend or distribute the material copy upon the first sale of a copy to a purchaser.⁷⁷ Because the doctrine applies only to “owners

⁷⁰ *Id.*

⁷¹ *Id.* at 342.

⁷² *Bobbs-Merrill*, 210 U.S. at 350-51. The Court further noted that copyright protection is “purely a question of statutory construction,” *id.* at 350, based on the rights created by Congress pursuant to Art. I, § 8 of the Constitution, *id.* at 346. At the time this case was decided, Section 4952 of the Revised Statutes of the United States granted to an author the “sole liberty of . . . vending” his work. Copyright Act of 1891, § 4952, 26 Stat. 1107, reprinted in *Bobbs-Merrill*, 210 U.S. at 348. Sections 106(3) and 109 of the current Copyright Act replaced the right to vend with the right to distribute, and “[l]ike the exclusive right to ‘vend’ that was construed in *Bobbs-Merrill*, the exclusive right to distribute is a limited right.” *Quality King Distribs., Inc. v. L’anza Research Int’l, Inc.* 523 U.S. 135, 144 (1998).

⁷³ *Bobbs-Merrill*, 210 U.S. at 350.

⁷⁴ *Id.* at 350-51.

⁷⁵ *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175, 1180 (9th Cir. 2011) (“The rule of *Bobbs-Merrill* remains in full force, enshrined as it is in § 109(a) of the [Copyright] Act: a copyright owner who transfers title in a particular copy to a purchaser or donee cannot prevent resale of that particular copy.”).

⁷⁶ 17 U.S.C. § 109(a) (“[T]he owner of a particular copy or phonorecord lawfully made under this title . . . is entitled . . . to sell or otherwise dispose of the possession of that copy or phonorecord.”); see *UMG*, 628 F.3d at 1179.

⁷⁷ See *Bobbs-Merrill*, 210 U.S. at 350 (“The purchaser of a book, once sold by authority of the owner of the copyright, may sell it again, although he could not publish a new edition

of copies,” the alleged first sale must transfer ownership of the copy; it cannot solely transfer the copy’s possession accompanied by a grant of the copyright owner’s exclusive rights.⁷⁸

The advent of digital content has required copyright owners to increase the amount of control they exercise over the copyright and consequently the copies that are subject to the terms of the copyright authorization. Thus, when possession of a digital copy is transferred, it is difficult to discern whether the transfer is intended as a transfer of copyright ownership, a transfer of ownership of the copy, or a transfer of both.⁷⁹ This results in a blurred distinction between the copy and the copyright.

The Ninth Circuit, while wrestling with the applicable standard for determining ownership of copies in recent decisions, failed to maintain the distinction set forth in § 202.⁸⁰ For example, in *F.B.T. Productions, LLC v. Aftermath Records*,⁸¹ the Ninth Circuit held that the transfer of copies from Aftermath Records, the copyright owner, to third party distributors such as iTunes constituted a license for the purpose of determining royalty payments due to the original copyright owners, F.B.T. Productions.⁸² The agreement between F.B.T. and Aftermath set forth a Records Sold provision and a Masters Licensed provision; the first required a royalty payment of twelve to twenty percent on all “records sold in the United States . . . through normal retail channels,”⁸³ and the second required payment of fifty percent of “masters licensed . . . for their manufacture and

of it.”).

⁷⁸ See *UMG*, 628 F.3d at 1179-80 (“Particularly with regard to computer software, we have recognized that copyright owners may create licensing arrangements so that users acquire only a license to use the particular copy of software and do not acquire title that permits further transfer or sale of that copy without the permission of the copyright owner.”); *Vernor v. Autodesk*, 621 F.3d 1102, 1107 n.6 (9th Cir. 2010).

⁷⁹ In other words, if possession of a digital copy is transferred to a consumer, the copyright owner may be intending to: (1) transfer title in that individual copy but retain ownership in the copyright, (2) retain title in the copy but license some or all of the copyright owner’s exclusive rights, or (3) transfer title in the copy and grant a license to some or all of the copyright owner’s rights. See *F.B.T. Prods., LLC v. Aftermath Records*, 621 F.3d 958, 964-65 (9th Cir. 2010) (citing *Quality King Distribs. v. Lanza Research Int’l, Inc.*, 523 U.S. 135, 145 (1998)); see also *UMG*, 628 F.3d at 1180; *Vernor*, 621 F.3d at 1110-11; *Krause v. Title-serv, Inc.*, 402 F.3d 119, 124 (2d Cir. 2005).

⁸⁰ See 17 U.S.C. § 202 (stating the distinction between the copy and the copyright).

⁸¹ 621 F.3d 958 (9th Cir. 2010).

⁸² *Id.* at 964.

⁸³ *Id.* at 961.

sale of records or for any other uses.”⁸⁴ F.B.T. argued that the Masters Licensed provision applied to the downloads transferred to third party distributors for purposes of reproduction and distribution, while Aftermath argued that the Records Sold provision applied, because the copies were sold to the distributors for distribution through “normal retail channels.”⁸⁵

Ultimately, the court held that the records were licensed to third party distributors rather than sold, and therefore F.B.T. was owed the royalties set forth in the Masters Licensed provision.⁸⁶ In other words, if the masters were licensed, then they could not have been sold and the transaction would not fall within the Records Sold provision.⁸⁷ The court acknowledged that the Masters Licensed provision was broad, but noted that its breadth did not make it ambiguous.⁸⁸ With respect to the transaction between Aftermath and the distributors, the court found that Aftermath retained title to the copyright and the digital files, retained the right to regain possession, and received recurring benefits.⁸⁹ Therefore, no sale occurred, rendering the transaction a license.⁹⁰

Finally, to further support its finding, the court cited statutory and case law, stating:

It is easily gleaned from these sources of federal copyright law that a license is an authorization by the copyright owner to enable another party to engage in behavior that would otherwise be the exclusive right of the copyright owner, but without transferring title in those rights. This permission can be granted for the copyright itself, for the physical media containing the copyrighted work, or for both the copyright and the physical media.⁹¹

⁸⁴ *Id.* The parties defined a “master” in the agreement as “recording of sound, without or with visual images, which is used or useful in the recording, production or manufacture of records.” *Id.* at 961-62.

⁸⁵ *F.B.T. Prods.*, 621 F.3d at 961-62.

⁸⁶ *Id.* at 964.

⁸⁷ *Id.*

⁸⁸ *Id.*

⁸⁹ *Id.* at 965.

⁹⁰ *F.B.T. Prods.*, 621 F.3d at 965.

⁹¹ *Id.* (citing *Wall Data, Inc. v. Los Angeles Cnty. Sheriff’s Dep’t*, 447 F.3d 769 (9th Cir. 2006); *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993); *United States v. Wise*, 550 F.2d 1180 (9th Cir. 1977); *Hampton v. Paramount Pictures Corp.*, 279 F.2d 100

The court's analysis conflates the distinction between ownership of the copy and ownership of the copyright in two ways. First, it found that the transaction between Aftermath and the distributors was a license because it was not a sale.⁹² In other words, the court attempted to define a "sale" and a "license" as if they were two opposing methods to obtain possession of the combined copy and copyright.⁹³ As a result, if the transaction cannot be categorized as one, then it must be the other.⁹⁴ Because there was no transfer of title in the copies and Aftermath retained control over the copies, the court concluded that no records were sold, and therefore, the transaction must have fallen within the Masters Licensed provision.⁹⁵ Consequently, ownership of the copyright was dependent on ownership of the copy. This was not the intent of § 202, which allows for the possibility of a sale of copies independent from the licensing of the rights under the copyright.⁹⁶

Second, the court's definition of "license" allows a copyright owner to license the copy rather than the copyright.⁹⁷ Yet, the definition also defines licensing as "enabl[ing] another party to engage in behavior that would otherwise be *the exclusive right of the copyright owner*," which correctly speaks to licensing the copyright.⁹⁸ Although a copy may be necessary to exercise rights licensed under the copyright, it is not the copy itself that is being licensed when the copyright is being licensed.⁹⁹ Rather, the transfer of possession of the copy, depending on the circumstances, takes place in the form of a

(9th Cir. 1960)). Moreover, the court found, "[I]t is well settled that where a copyright owner transfers a copy of copyrighted material, retains title [to the material copy], limits the uses to which the material may be put, and is compensated periodically based on the transferee's exploitation of the material, the transaction is a license." *Id.*

⁹² *Id.* at 964-65.

⁹³ *Id.* at 965 ("Much as Section 109 describes a 'sale' under the 'first sale' doctrine, various other sections of the Copyright Act illuminate the meaning of the term 'license.' For example, section 114(f), titled 'Licenses for Certain Nonexempt Transmissions,' describes the statutory authorization for a third party to exercise public performance rights that otherwise remain the exclusive rights of a copyright holder and defines this authorization as a 'license.'").

⁹⁴ *Id.*

⁹⁵ *F.B.T. Prods.*, 621 F.3d at 965-66.

⁹⁶ 17 U.S.C. § 202.

⁹⁷ *See F.B.T. Prods.*, 621 F.3d at 965.

⁹⁸ *Id.* (emphasis added); *see* 17 U.S.C. §§ 101, 202.

⁹⁹ *See Bobbs-Merrill v. Straus*, 210 U.S. 339, 350-51 (1908) (holding that the copyright owner was unable to place restrictions on the copies by attempting to license its exclusive right to vend); *NIMMER & NIMMER*, *supra* note 3, at § 2.03[C].

sale, rental, lease, or loan.¹⁰⁰

Just a few months later, in *Vernor v. Autodesk*, the Ninth Circuit held that the user of a software program was a licensee rather than the owner of copies, and therefore, the user did not have the right to redistribute physical copies of the software under the first sale doctrine because the distribution was in violation of the software's license agreement.¹⁰¹ The court noted that licensees may "rightfully possess, but do not own, [] cop[ies] of copyrighted software" and therefore are not entitled to the same rights as an owner of a copy.¹⁰²

Timothy Vernor came into possession of copies of Autodesk's copyrighted software by purchasing these copies from Cardwell/Thomas & Associates, Inc. ("CTA"). CTA had obtained these copies directly from Autodesk, accompanied by a software license agreement ("SLA"), which granted CTA a nontransferable license for the software and which imposed use and transfer restrictions on the use of the copy.¹⁰³ For example, under the SLA, CTA was barred from "renting, leasing, or transferring the software without Autodesk's prior consent and from electronically or physically transferring the software out of the Western Hemisphere."¹⁰⁴ Nevertheless, CTA sold the used copies to Vernor in an office sale, accompanied by the license agreements, and Vernor proceeded to sell the copies on eBay where Autodesk discovered them.¹⁰⁵

The court considered the issue whether CTA and therefore Vernor were owners of the copies in their possession.¹⁰⁶ If a "first sale" of the copies occurred when CTA purchased the license granting CTA rights under the copyright, then CTA was an owner of the copies and had a right to resell them to Vernor.¹⁰⁷ A violation of any terms of the "license" barring him from doing so would be a breach

¹⁰⁰ See 17 U.S.C. § 101 (defining "transfer of copyright ownership"); 17 U.S.C. § 202 (indicating that ownership of the material object is separate from ownership of the copyright); NIMMER & NIMMER, *supra* note 3, at § 8.12[B][1][a].

¹⁰¹ *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1103-04 (9th Cir. 2010); see 17 U.S.C. § 109(a).

¹⁰² *Vernor*, 621 F.3d at 1112; see *id.* at 1112 n.13 ("[T]he Copyright Act confers this [essential step] defense only on owners of software copies. . . . [A] licensee's right to use the software . . . is conferred by the terms of its license agreement." (citing 17 U.S.C. § 117)).

¹⁰³ *Id.* at 1103-04.

¹⁰⁴ *Id.* at 1104.

¹⁰⁵ *Id.* at 1104-05.

¹⁰⁶ *Vernor*, 621 F.3d at 1107.

¹⁰⁷ *Id.*

of contract rather than copyright infringement.¹⁰⁸ On the other hand, if the copies were only provided to CTA for the purpose of exercising the rights licensed under the copyright, then CTA would not be considered an owner of copies, and any sale of the copies would infringe upon Autodesk's right of distribution.¹⁰⁹

The decision reconciled prior precedents and established a three-factor test to determine whether a software user is a licensee or an owner of the software copy.¹¹⁰ Similar to *F.B.T. Productions*, the court decided whether CTA and Vernor were owners of copies based on whether they were licensees.¹¹¹ The court found that a software program user is a licensee (and therefore not an owner of a copy) when (1) the user is specifically granted a license by the copyright owner; (2) significant restrictions are placed on the user's ability to transfer the product; and (3) any other significant use restrictions exist.¹¹² The court noted that copies of copyrighted software can only be licensed and rightfully possessed rather than owned, and therefore those in possession are not entitled to the same rights as owners of copies.¹¹³ Autodesk, as the copyright owner, retained title to the copyright and imposed restrictions on the software user, leading the court to a finding that the software was licensed.¹¹⁴

Significantly, the court did not determine whether there was a public distribution of authorized copies of the software, resulting in a

¹⁰⁸ *Id.* at 1107 n.6.

¹⁰⁹ *Id.*

¹¹⁰ *Id.* at 1110-11 (citing *Wall Data, Inc. v. Los Angeles Cnty. Sheriff's Dep't*, 447 F.3d 769, 777 (9th Cir. 2006); *Triad Sys. Corp. v. Se. Express Co.*, 64 F.3d 1330 (9th Cir. 1995); *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 517-18 (9th Cir. 1993); *United States v. Wise*, 550 F.2d 1180 (9th Cir. 1977)); see *Vernor*, 621 F.3d at 1110 ("Citing *MAI*, we held [in *Wall Data*] that the essential step defense does not apply where the copyright owner grants the user a license and significantly restricts the user's ability to transfer the software." (citing *Wall Data*, 447 F.3d at 773; *MAI Sys. Corp.*, 991 F.2d 511)); *id.* at 1109 ("[U]nder *Wise*, where a transferee receives a particular copy of a copyrighted work pursuant to a written agreement . . . [w]e may consider (1) whether the agreement was labeled a license and (2) whether the copyright owner retained title to the copy, required its return or destruction, forbade its duplication, or required the transferee to maintain possession of the copy for the agreement's duration. We did not find any one factor dispositive" (citing *Wise*, 550 F.2d at 1190-92)).

¹¹¹ See *id.* at 1107. The court refers to the licensing of the copies, rather than licensing of the copyright, which again added to the confusion between the copy and the copyright. See *id.* This analysis will be further scrutinized below, following the discussion of *UMG*. See text accompanying notes 142-159.

¹¹² *Id.* at 1110-11.

¹¹³ *Vernor*, 621 F.3d at 1112.

¹¹⁴ *Id.* at 1111.

transfer of ownership in those particular copies.¹¹⁵ The court instead found that, because the transaction satisfied the test for the licensing of the copyright, the particular copies could not have been owned and must have merely been possessed.¹¹⁶

This analysis is problematic under the first sale doctrine and § 202 of the Copyright Act.¹¹⁷ Once a particular copy has been publicly distributed for sale by the copyright owner, the copyright owner no longer has the right to control distribution of that copy.¹¹⁸ Although the distributor could request that the consumer agree to restrictions regarding distribution, such an agreement serves as a contractual restriction on the material object rather than a license for copyright.¹¹⁹ In other words, a violation of any contractual agreement would only be a breach of contract, rather than copyright infringement.¹²⁰ Similarly, if the distribution were accompanied by a license for the copyright, that license would not be able to limit distribution because distribution is not an exclusive right of the copyright owner beyond the first sale.¹²¹ Consequently, a license for the copyright cannot limit the transfer of ownership, which can only be accomplished through a contractual agreement limiting an owner's use of the *copy*.¹²² Although the court in *Vernor* acknowledged this breach of contract theory and the first sale doctrine as established in *Bobbs-Merrill*, it found that an express and restrictive license bars a finding of ownership of particular copies, and stated, “*Bobbs-Merrill* did not and

¹¹⁵ Ironically, the district court *did* hold that a first sale took place and therefore found that CTA and Vernor owned the copies of the software program, regardless of the licensing restrictions placed on the use of the copyright. *Vernor v. Autodesk, Inc.*, 555 F. Supp. 2d 1164, 1175 (W.D. Wash. 2008). The district court also found that the precedential cases were irreconcilable with respect to the effect of the license agreement, but nevertheless determined that there was a transfer in ownership of the copies. *Id.* at 1172. Prior to the circuit court's reversal of this decision, it was cited by scholars who agreed that a first sale had taken place. *See, e.g.*, NIMMER & NIMMER, *supra* note 3, at § 8.12[B][1][d][i].

¹¹⁶ *See Vernor*, 621 F.3d at 1111.

¹¹⁷ *See* 17 U.S.C. §§ 109(a), 202.

¹¹⁸ *See* 17 U.S.C. § 109(a); *Bobbs-Merrill v. Straus*, 210 U.S. 339, 350 (1908).

¹¹⁹ *See* 17 U.S.C. § 202; *Vernor*, 621 F.3d at 1107 n.6.

¹²⁰ *See* 17 U.S.C. § 202; *Vernor*, 621 F.3d at 1107 n.6.

¹²¹ *See* 17 U.S.C. § 109; *Bobbs-Merrill*, 210 U.S. at 350.

¹²² *See* 17 U.S.C. § 109; *Bobbs-Merrill*, 210 U.S. at 350. If a contract limits a potential owner's right to exercise various ownership rights, such as resale of the copy, this may be indicative that a transfer of ownership did not take place, as is also the case with rentals. *See* Nimmer, *supra* note 4, at 1312. Even in this case, however, limitations placed upon the possessor as a potential owner of a copy, and not limitations placed upon the copyright, determine whether there was a transfer of ownership. *See id.*

could not address the question of whether the right to use software is distinct from the ownership of copies of software.”¹²³ This statement regarding *Bobbs-Merrill* furthers the contention that *Vernor* has conflated the distinction between the copy and the copyright.

Finally, in *UMG Recording, Inc. v. Augusto*, despite certain licensing language on the labels, the court found that recipients of promotional CDs were owners of those copies and therefore could raise the first sale doctrine as a defense to copyright infringement after reselling the copies.¹²⁴ Troy Augusto, an unintended recipient of promotional CDs who then sold his copies, alleged that he was protected by the first sale doctrine.¹²⁵ The Ninth Circuit affirmed the decision of the district court in favor of Augusto, but supported his ownership rights for different reasons.¹²⁶

The district court stated that, in order to be protected by the first sale defense, Augusto would have to prove: “(1) the CDs were lawfully manufactured with UMG’s authorization; (2) UMG transferred title to the CDs; (3) Augusto was the lawful owner of the CDs; and (4) Augusto disposed of, but did not reproduce, the CDs.”¹²⁷ UMG disputed parts two and three of this standard – that it transferred title in the copies and that Augusto was the lawful owner of the CDs.¹²⁸ The district court, on two separate grounds, found that UMG did transfer title in the copies and thus Augusto was the lawful owner.¹²⁹ First, the court looked to the “economic realities of the transaction,” noting that UMG’s inability to regain possession coupled with the recipients’ freedom from obligation to UMG was indicative of a sale.¹³⁰ Second, the court found that the CDs were gifts under the federal Unordered Merchandise Statute, resulting in a transfer of title from UMG to the recipients.¹³¹

¹²³ See *Vernor*, 621 F.3d at 1107, 1114 (citing *Bobbs-Merrill*, 210 U.S. 339). Cf. NIMMER & NIMMER, *supra* note 3, at [B][1][d][i].

¹²⁴ *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175, 1183 (9th Cir. 2011).

¹²⁵ *Id.* at 1179.

¹²⁶ *Id.* at 1182.

¹²⁷ *UMG Recordings, Inc. v. Augusto*, 558 F. Supp. 2d 1055, 1059 (C.D. Cal. 2008), *aff’d*, *UMG*, 628 F.3d at 1177.

¹²⁸ *Id.* at 1060.

¹²⁹ *Id.* at 1060, 1062.

¹³⁰ *Id.* at 1060.

¹³¹ *Id.* at 1062 (“The Postal Reorganization Act prohibits ‘the mailing of unordered merchandise’ without ‘the prior expressed request or consent of the recipient.’ This merchandise ‘may be treated as a gift by the recipient, who shall have the right to retain, use, discard, or dispose of it in any manner he sees fit without obligation whatsoever to the sender.’” (quot-

The circuit court affirmed, but noted that its decision was based on “somewhat different grounds.”¹³² The court focused on the distribution method, finding that (1) the nature of UMG’s distribution did not provide for sufficient control or monitoring of the use and transfer of the CDs by the recipients,¹³³ and (2) UMG’s mailing of the CDs without having received an order or request for the copies from the recipients fell within the Unordered Merchandise Statute, thereby allowing the recipients to use or dispose of the received copy as they saw fit.¹³⁴ It criticized the district court for “rel[ying]” on UMG’s inability to regain possession of the copies.¹³⁵ Citing *Vernor*, the court noted that an inability to regain possession was not conclusive evidence of a sale.¹³⁶ Rather, the court considered UMG’s “means of distribution,” and found it indicative of a transfer of ownership of the copy because UMG’s method left them with no control over the copies.¹³⁷ The failure to regain possession was evidence of that lack of control, although it could not be used conclusively to show ownership.¹³⁸

The circuit court’s decision makes two important points. First, similar to *Bobbs-Merrill*, the court correctly found that there had been a transfer of ownership in the copies, distinct from any attempted restrictions on the use of the copyright.¹³⁹ However, the court claimed that the district court relied on the copyright owner’s inability to regain possession, when in fact, the district court focused on the economic realities of the transaction, just as the circuit court relied on the means of distribution.¹⁴⁰ Second, both courts looked to

ing 39 U.S.C. § 3009)).

¹³² *UMG*, 628 F.3d at 1182.

¹³³ *Id.* at 1180, 1183.

¹³⁴ *Id.* at 1180-81 (citing 39 U.S.C. § 3009(a), (b)).

¹³⁵ *Id.* at 1182-83.

¹³⁶ *Id.* at 1183 (citing *Vernor v. Autodesk*, 621 F.3d 1102, 1110-11 (9th Cir. 2010); *United States v. Wise*, 550 F.2d 1180, 1183 (9th Cir. 1977)).

¹³⁷ *UMG*, 628 F.3d at 1183.

¹³⁸ *Id.*

¹³⁹ *Bobbs-Merrill v. Straus*, 210 U.S. 339, 350 (1908).

¹⁴⁰ See *UMG*, 628 F.3d at 1182; *UMG Recordings, Inc. v. Augusto*, 558 F. Supp. 2d 1055, 1062 (C.D. Cal. 2008). The circuit court even used the same language as the district court by stating that a failure to return a product may be evidence that a copyright owner did not “retain ‘sufficient incidents of ownership . . . to be sensibly considered the owner of the copies.’” *UMG*, 628 F.3d at 1183 (quoting *Krause v. Titleserv, Inc.*, 402 F.3d 119, 124 (2d Cir. 2005)). *Krause* used this standard to determine ownership of a computer program copy, subsequently noting that a formal transfer of title is not required for a finding of ownership. *Krause*, 402 F.3d at 124. “The presence or absence of formal title may of course be a factor

the Unordered Merchandise Statute to find that there had been a transfer in ownership of the copies.¹⁴¹

At first reading, the circuit court did not affirm the decision on different grounds. However, it appeared to use the decision as an attempt to reconcile the *UMG* holding with its decision in *Vernor* just a few months earlier. The district court in *UMG* looked to the four elements used to determine whether a first sale had occurred through a public distribution of authorized copies.¹⁴² Such an analysis did not take place in *Vernor*, nor did it take place in *UMG*'s circuit court decision. The circuit court in *UMG* used a "means of distribution" analysis, whereas *Vernor* applied a three-part test, requiring the copyright owner to specify that the user is granted a license.¹⁴³ The court in *UMG* found it permissible to use different standards because recipients of promotional CDs were in a "very different position" from users of software programs.¹⁴⁴ Software users "order and pay" for the copies transferred into their possession, while recipients of promotional CDs receive unordered copies without agreeing to be bound by any terms of their use.¹⁴⁵ In *Vernor*, the acceptance of the terms by the software user was undisputed.¹⁴⁶ However, *UMG* failed to obtain such an agreement.¹⁴⁷ It did not even have arrangements in place to

in this inquiry, but the absence of formal title may be outweighed by evidence that the possessor of the copy enjoys sufficiently broad rights over it to be sensibly considered its owner." *Id.* The court held in favor of the possessor of the copies, observing that the copyright owner allowed the possessor to "possess and use the programs forever" and thus did not "exercise[] sufficient incidents of ownership over [the] copy of the program to be sensibly considered the owner of the copy." *Id.*

¹⁴¹ *UMG*, 628 F.3d at 1180; *UMG*, 558 F. Supp. 2d at 1062.

¹⁴² See *UMG*, 558 F. Supp. 2d at 1059; *NIMMER & NIMMER*, *supra* note 3, at § 8.12[B][1][a].

¹⁴³ *UMG*, 628 F.3d at 1183 (citing *Vernor v. Autodesk*, 621 F.3d 1102, 1110-11 (9th Cir. 2010)).

¹⁴⁴ *Id.* at 1183.

¹⁴⁵ *Id.*

[S]oftware users . . . are in a very different position from that held by the recipients of *UMG*'s promotional CDs. . . . *UMG* has virtually no control over the unordered CDs it issues because of its means of distribution, and it has no assurance that any recipient has assented or will assent to the creation of any license or accept its limitations.

Id.

¹⁴⁶ *Vernor*, 621 F.3d at 1104-05 ("[C]ustomers must accept [the software license agreement ("SLA")] before installing the software. A customer who does not accept the SLA can return the software for a full refund. . . . CTA agreed to the SLA.").

¹⁴⁷ *UMG*, 628 F.3d at 1182 & n.6. *UMG* had stated in its promotional statement, "Acceptance of this CD shall constitute an agreement to comply with the terms of the license." *Id.*

track the recipients' use and transfer of the particular copies.¹⁴⁸ Thus, UMG did not "retain 'sufficient incidents of ownership' " over the copies, as Autodesk had in *Vernor* through its accepted license agreement, in order to establish that ownership of the copies had not been transferred to the recipients.¹⁴⁹

The court in *UMG* further distinguished *Vernor* by applying the Unordered Merchandise Statute to the distribution of the promotional CDs.¹⁵⁰ The statute treats unordered merchandise as gifts and allows the recipients of such items to "retain, use, discard, or dispose of [them] in any manner [they] see fit without any obligation whatsoever to the sender."¹⁵¹ Accordingly, the promotional CDs, which were mailed by UMG without being ordered by the recipients, qualify as "unordered merchandise" and therefore establish the recipients as owners, granting them the right to do with the CDs as they wish.¹⁵²

Despite the Ninth Circuit's efforts to create a standard for determining ownership, the court failed to enunciate a standard for a situation similar to one involving digital downloads.¹⁵³ The court in *UMG* limited the standard set forth in *Vernor* to software users¹⁵⁴ and emphasized the nature of UMG's distribution to support its conclusion that those in possession of music recordings own the CDs.¹⁵⁵ The promotional distribution was distinguished from that of a software program based on the distribution method, which lacked copyright owner control and involved an application of the Unordered Merchandise Statute.¹⁵⁶ Although the *UMG* holding was not express-

The court noted that "acceptance" of a CD may in fact be able to constitute an agreement, however there was no evidence that the individual recipients "accept[ed]" the CD. *Id.* at 1182. Silence or inaction following the receipt of an unsolicited offer does constitute an acceptance of the offer. *Id.* at 1182 n.6 (citing RESTATEMENT (SECOND) OF CONTRACTS § 69 cmts. a, c).

¹⁴⁸ *Id.* at 1180 ("[T]he promotional CDs are dispatched to the recipients without any prior arrangement as to those particular copies. The CDs are not numbered, and no attempt is made to keep track of where particular copies are or what use is made of them.").

¹⁴⁹ *UMG*, 628 F.3d at 1183 (citing *Krause*, 402 F.3d at 124).

¹⁵⁰ *Id.* at 1180-81 (citing 39 U.S.C. § 3009(a), (b)). "Th[e] effect of the Unordered Merchandise Statute distinguishes this case from those involving computer software, where the software consumers clearly ordered and paid for the software licensed to them." *Id.* at 1181.

¹⁵¹ *Id.* (quoting 39 U.S.C. § 3009(b)).

¹⁵² *Id.* at 1180-81 (citing 39 U.S.C. § 3009(a), (b)).

¹⁵³ *See infra* Part III.

¹⁵⁴ *UMG*, 628 F.3d at 1183 ("This formulation . . . applies in terms to software users.").

¹⁵⁵ *Id.* at 1180 ("Our conclusion that the recipients acquired ownership of the CDs is based largely on the nature of UMG's distribution.").

¹⁵⁶ *Id.* at 1180-83.

ly limited to promotional CDs,¹⁵⁷ the court in *Vernor* noted that the “economic realities of the transaction” (in other words, the method of the copies’ distribution as used in *UMG*), were *not* dispositive of ownership of the copies.¹⁵⁸ The court instead focused on the effect of the distribution on the copyright, rather than the effect on the object embodying it.¹⁵⁹ Thus, the court left unresolved the applicable standard to resolve a claim in which a non-computer program copy, such as a music recording, is ordered and purchased, and the copyright owner asserts control over the transfer and use of the copies, such as ensuring the possessors’ acceptance of a license agreement.

IV. LOOKING TO THE FUTURE: THE EFFECT OF THE NINTH CIRCUIT DECISIONS ON DIGITAL DOWNLOADS

A. If the Ninth Circuit’s Rule Applies, Consumers Do Not Own the Digital Downloads They Purchase Through Software Programs.

The Ninth Circuit cases create two distinct categories, and digital downloads are a hybrid. *Vernor*, according to *UMG*, applies to software cases only, and precludes a finding of ownership in the copy when parties have expressly entered into a license agreement for the copyright that imposes significant use and transfer restrictions on the copy.¹⁶⁰ *UMG* uses a “means of distribution” standard instead of relying upon accompanying license agreements in cases where, such as with promotional CDs, the copyright owner lacks some level of

¹⁵⁷ All statements of the holding refer to the nature, means, method, or circumstances of the distribution of promotional CDs, finding that the copies of CDs transferred ownership because of the means of distribution. *See id.* at 1183 (“UMG’s distribution of the promotional CDs *under the circumstances* effected a sale (transfer of title) of the CDs to the recipients.”) (emphasis added). *See also id.* at 1180 (“We conclude that, under all the circumstances of the CDs’ distribution, the recipients were entitled to use or dispose of them in any manner they saw fit, and UMG did not enter a license agreement for the CDs with the recipients.”); *UMG*, 628 F.3d at 1182 (“[W]e conclude that UMG’s transfer of possession to the recipients, without meaningful control or even knowledge of the status of the CDs after shipment, accomplished a transfer of title.”); *id.* at 1183 (“[W]e conclude that UMG’s method of distribution transferred the ownership of the copies to the recipients . . .”).

¹⁵⁸ *Vernor v. Autodesk*, 621 F.3d 1102, 1114 (9th Cir. 2010). *Cf.* Jim Graves, *Who Owns a Copy?*, 2 *CYBARIS* 45, 70 (2011) (arguing that the “economic realities” test would be a more suitable test than the one used by the circuit court in *Vernor*).

¹⁵⁹ *See Vernor*, 621 F.3d at 1111.

¹⁶⁰ *See id.* at 1110-11.

control over the distribution of the CDs or enforcement of the purported license agreement.¹⁶¹ On the other hand, the court in *F.B.T. Productions* required, for the finding of a license, a transfer of the copy's possession, retention of ownership in the copyright, and restrictions on use of the copy, although it did not limit this standard to a particular good.¹⁶²

Digital downloads have qualities of the copies and distribution methods found in each of these Ninth Circuit cases, making it difficult to determine which standard to use for the purpose of defining ownership of copies. First, downloads of music recordings are copies, similar to the CDs transferred in *UMG*.¹⁶³ A download is the transmission from an online server to a local hard drive of an electronic file which contains a copy of the digital form of a work.¹⁶⁴ This digital file cannot be opened, and in the case of music, listened to, until after the file has been transmitted and saved on the user's hard drive.¹⁶⁵

At that point, however, the file must be opened using a compatible software program, also known as an online music store.¹⁶⁶ This makes the transfer more like the situation in *Vernor*, because the use of the software program requires the consumer to sign a software license agreement.¹⁶⁷ These software agreements typically require that the consumer update the program upon the release of the latest software, ensuring the distributor's constant contact with the user of the program, as well as that consumer's compliance with the license agreement.¹⁶⁸ Additionally, due to the risks of piracy and copyright

¹⁶¹ *UMG*, 628 F.3d at 1182-83.

¹⁶² *F.B.T. Prod., LLC v. Aftermath Records*, 621 F.3d 958, 965 (9th Cir. 2010). Arguably, *F.B.T. Productions*, similar to *Vernor*, was incorrectly decided because it did not determine ownership of the copy as distinct from licensing of the copyright. *Id.* This distinction was most closely realized in *UMG*, but the court failed to fully address it by not affirming that part of the district court decision. See *UMG*, 558 F. Supp. 2d at 1059.

¹⁶³ See *NIMMER & NIMMER*, *supra* note 3, at § 8.12[E].

¹⁶⁴ *United States v. A.S.C.A.P.*, 627 F.3d 64, 69 (2d Cir. 2010), *cert. denied*, No. 10-1337, 2011 WL 4536526 (Oct. 3, 2011).

¹⁶⁵ *Id.* at 71.

¹⁶⁶ *Id.*; see *In re Apple*, No. C 05-00037 JW, 2010 WL 2629907, at *4; *Purchasing Music*, iTunes Store Category listed on *iTunes A to Z*, *supra* note 4.

¹⁶⁷ See *Software License Agreement for iTunes*, *supra* note 4; *iTunes Store Terms and Conditions*, *supra* note 4.

¹⁶⁸ See *In re Apple*, 2010 WL 2629907, at *4. Arguably, distributors like Apple also use these software updates to maintain their alleged monopoly over audio downloads and digital media players. See *id.*

infringement involving digital media,¹⁶⁹ the transferred copies are often encrypted with technological security measures called digital rights management, or “DRM,” which further increases the amount of control the copyright owner retains over the copies.¹⁷⁰

F.B.T. Productions involved copies of music recordings, such as digital downloads; however, the court still found, due to the restrictions placed on the use of the copy by the licensing provision, the possessor of the copies was a licensee rather than the owner of the copies.¹⁷¹ The court focused on the language of the agreement, which it was unable to do in *UMG* because the CD recipients never accepted the purported license.¹⁷² In this respect, the acquisition of a digital

¹⁶⁹ A copyrighted work in its digital format can be identically reproduced and copied through downloads without owning a physical copy. *See Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 928-29 (2005) (discussing the popularity of file-sharing and noting that “every copy [in digital distribution] is identical to the original . . .”). As digital downloads grow in popularity due to the increase in quality and convenience at a decreased cost, the risk of piracy and copyright infringement increases. Richard Raysman & Peter Brown, *Digital Rights Managing, Content Identifying Via Hi-Tech*, 240 N.Y.L.J. 3, 3 (2008) (“[W]ith the emergence of new technologies that allow manipulation of media, content owners have had diminished control over downstream users and consumers.”); *see Grokster*, 545 U.S. at 929 (imposing indirect liability on a software company due to “the number of infringing downloads that occur every day using [the] software”); *Maverick Recording v. Harper*, 598 F.3d 193, 197 (5th Cir. 2010) (collecting circuit court cases supporting the district court’s ruling that the defendant directly infringed upon plaintiff’s copyright by downloading audio files), *cert. denied*, 131 S. Ct. 590 (2010); *A&M Record, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1018 (9th Cir. 2001) (“[Defendant’s peer to peer file sharing program] has adverse effects on the developing digital download market.”).

¹⁷⁰ *See Raysman & Brown, supra* note 169.

[D]igital rights management is a generic term referring to a variety of technologies to prevent or minimize the unauthorized distribution, copying or access to copyrighted materials. . . . The goals of DRM are multifaceted: to prevent widespread, unauthorized distribution and piracy; facilitate adoption of legitimate digital content delivery methods; and perhaps enable enhanced commercialization of content displayed in new technological formats.

Id. The use of these measures is enforced by the Digital Millennium Copyright Act (DMCA). 17 U.S.C. § 1201(a)(1)(A) (2006); *MGE UPS Sys., Inc. v. GE Consumer and Indus., Inc.*, 622 F.3d 361, 365 (5th Cir. 2010) (“One of Congress’ purposes behind enacting the DMCA was targeting the circumvention of technological protections.”). There are many forms of DRM, each having varying security levels. For example, some files are formatted so that they are only compatible with the distributor’s media players. *See In re Apple*, 2010 WL 2629907, at *4. Other forms include “content identification technology” such as “watermarks and [digital] fingerprints,” encryption technology such as CSS technology, and product activation. Raysman & Brown, *supra* note 169; *see also* Matt Williams, *Fending Off Hackers*, NAT’L L.J. (Nov. 3, 2008), *available at* LAW.COM (discussing forms of DRM).

¹⁷¹ *F.B.T. Prods., LLC v. Aftermath Records*, 621 F.3d 958, 965 (9th Cir. 2010).

¹⁷² *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175, 1183 (9th Cir. 2011).

download is more like *F.B.T. Productions* because of the software agreement between the parties.

This begs the question: because a digital download is a copy of a music recording but requires the use of software and consequently an agreement to the software license terms, do consumers own the copies they purchase as in *UMG*, or do they license them from the copyright owners as in *F.B.T. Productions* and *Vernor*? The Ninth Circuit cases leave a gap in their decisions for finding a standard to use for copyrighted works in the form of digital downloads. As noted, digital downloads and the circumstances surrounding their distribution contain similarities with each of the cases, but do not fit perfectly with any of them.

The court in *UMG* limited the standard used in its *Vernor* decision to software.¹⁷³ Digital downloads themselves are not software programs, although software programs are often required. *UMG*, which applied to copies of music recordings rather than software, found ownership of the copies by relying on the level of control retained by the copyright owner through the means of distribution rather than the language of the purported license.¹⁷⁴ Although digital downloads are copies of music recordings, the copyright owners retain a high level of control over these copies, and therefore *UMG*'s distinction of software fails when applied to digital downloads. Like the software users in *Vernor*, digital download consumers are required to accept license agreements, are entitled to software updates, and are subjected to some form of DRM.¹⁷⁵ Finally, in *F.B.T. Productions*, also a music recording case, the court found that the relevant copies were licensed rather than sold, relying on the language in the parties' agreement.¹⁷⁶

Applying these various cases to digital downloads, a distinction must be made between the required software, such as iTunes, and the copies being purchased through the required software. If this

¹⁷³ *Id.*; see *Vernor v. Autodesk*, 621 F.3d 1102, 1110-11 (9th Cir. 2010).

¹⁷⁴ *UMG*, 628 F.3d at 1180. The distribution methods used in *Vernor* and *UMG* were also distinguishable under the Unordered Merchandise Statute. See *id.* at 1180-81. However, the court in *UMG* did not simply find a "first sale" as a result of this statute (which it likely could have), and therefore, the remainder of this section will focus on the rest of the court's rationale – the means of distribution and lack of control. See *id.* at 1180-83.

¹⁷⁵ *Vernor*, 621 F.3d at 1103-05; see *Software License Agreement for iTunes*, *supra* note 4; *iTunes Store Terms and Conditions*, *supra* note 4; *supra* note 170 (discussing types of digital rights management).

¹⁷⁶ *F.B.T. Prods.*, 621 F.3d at 964.

distinction were maintained, the license agreement would apply only to the software program, and a court would be able to find a “first sale” of the downloads just as if the consumer had purchased them from the local music store. However, this distinction is often not maintained. The “software” license agreements for these music store programs lay out the terms of use for any digital content purchased through the product.¹⁷⁷ Additionally, the agreements do not necessarily grant express ownership of the copy to the consumer.¹⁷⁸ Although the terms often refer to a purchase of the copies, the Ninth Circuit has indicated that an accepted and restrictive license agreement is evidence that a transfer of ownership has not occurred, therefore making the first sale doctrine inapplicable.¹⁷⁹

Despite consumers’ belief that they own authorized digital downloads just as they have owned their CDs and cassettes,¹⁸⁰ it seems that under this new Ninth Circuit standard, consumers are licensees of digital downloads rather than owners of copies. In *UMG*, the rationale used by the court to distinguish *Vernor* and the software

¹⁷⁷ See *iTunes Store Terms and Conditions*, *supra* note 4 (“You agree that the Service and certain Products include security technology that limits your use of Products and that . . . you shall use Products in compliance with the applicable usage rules established by Apple and its licensors. . . . [Apple] reserve[s] the right to change, suspend, remove, or disable access to any Products [or] content.”); *Software License Agreement for iTunes*, *supra* note 4; *Amazon MP3 Music Service: Terms of Use*, AMAZON.COM, http://www.amazon.com/gp/dmusic/help/amd.html/ref=sv_dmusic_6 (follow “terms of use” link) (last updated Oct. 5, 2010) (“[W]e grant you a non-exclusive, non-transferable right to use the Digital Content for your personal, non-commercial, entertainment use, subject to and in accordance with the Terms of Use.”); *supra* note 170 (discussing types of digital rights management); see also Raburn, *supra* note 4, at 47-49 (discussing the Terms of Use and DRM used for the Amazon Kindle).

¹⁷⁸ See *iTunes Store Terms and Conditions*, *supra* note 4. Apple refers to its consumers as end users who purchase digital content which is subject to the terms and conditions agreement. *Id.* The Terms also refer to the transaction as a “sale,” and state that “title for all electronically delivered transactions pass to the purchaser . . . upon electronic transmission to the recipient.” *Id.* However, as demonstrated by *F.B.T.* and *UMG*, these formal titles are not dispositive of a particular transaction. See *UMG*, 628 F.3d at 1180 (holding that the transfers of possession resulted in ownership of the copies despite the licensing notice); *F.B.T. Prods.*, 621 F.3d at 964 (holding that, despite the lack of express licensing language, the parties’ agreement constituted a license).

¹⁷⁹ See *Vernor*, 621 F.3d at 1110-11; *F.B.T. Prods.*, 621 F.3d at 964-65.

¹⁸⁰ The copyright owner’s public distribution of authorized copies, even in the form of digitally downloaded copies, should trigger the first sale doctrine just as it does for the physical hardcopy versions. See *Vernor*, 621 F.3d at 1106 (asserting that Vernor owned the purchased, authentic copies in his possession). Many consumers do not immediately notice the difference in their title because, although copyright owners and distributors retain a high level of control over the copies, they allow consumers extra freedoms that the consumers would have expected had they owned the copies. See *Purchasing Music*, iTunes Store Category listed on *iTunes A to Z*, *supra* note 4.

cases is limited in applicability to distinguishing the promotional CD distribution method; the distinction between software and CDs fails when applied to digital downloads because the copyright owners retain a substantial amount of control over the digital copies.¹⁸¹ Additionally, because this high level of control is partially in the form of a software program with an accompanying license agreement which includes terms regarding the use of the copies, it seems that under *F.B.T.* and arguably under *Vernor* as well, digital downloads are distributed in the form of licenses. Consequently, this means that there is no “first sale” of the download due to the restrictive licensing terms, and therefore a consumer cannot act pursuant to the first sale doctrine without permission under the license.

B. If Consumers Owned Digital Downloads, Their Ownership Rights Could Not Be Exercised When the Copies are Subject to License Agreements and DRM

Arguably, the Ninth Circuit’s decisions in *Vernor* and *F.B.T. Productions* are incorrect when viewed in light of §§ 109 and 202, and the decision in *UMG*, although correct when it was based on the Unordered Merchandise Statute, is wrongly decided when based on the means of distribution theory. Ownership of the *copy*, which permits the use of the first sale defense, is not a determination that should be based on the copyright owner’s control over its *copyright*; the two aspects are statutorily distinct.¹⁸²

For example, if the first sale doctrine were to be strictly applied to *Vernor*, then there would have been a first sale based on the following analysis¹⁸³: (1) The copies were lawfully manufactured because the copyright owner made them; (2) The physical copies were lawfully transferred with Autodesk’s authorization to CTA; (3) The physical copies were owned by,¹⁸⁴ rather than leased or rented to,

¹⁸¹ See *supra* note 177 (providing language from both Apple and Amazon’s license agreements and terms and conditions).

¹⁸² 17 U.S.C. § 202; see NIMMER & NIMMER, *supra* note 3, at § 8.12[B][1][d][i].

¹⁸³ See NIMMER & NIMMER, *supra* note 3, at § 8.12[B][1][d][i] (stating that, even with respect to licenses, “the first sale inquiry examines ownership of the tangible property in which the copyrighted work has been embodied, not ownership of the copyright itself,” yet noting that many courts have wrongly interpreted this).

¹⁸⁴ For purposes of this analysis, “ownership” is assumed under a traditional approach, prior to any analysis under *Vernor*, which stated that there would be no ownership where there is a restrictive license. *Vernor*, 621 F.3d at 1116.

CTA (assuming there were no restrictions imposed on the copyright affecting use of the copy); and (4) CTA disposed of the copies by selling them to Vernor.¹⁸⁵ Because all four elements were satisfied, there would have been a first sale of the copy, the material object embodying the copyright; the copyright owner publicly distributed the particular authorized copies into the stream of commerce thus exhausting his exclusive distribution right.¹⁸⁶ Notably, the use of the copyrighted work is still restricted by any agreements to the extent that any exist; however, if consumers were not considered the owners of their copies, they would be unable to simply sell or dispose of the products when they want to rid themselves of them.¹⁸⁷

Assume, then, that consumers of digital downloads are in fact owners of the copies in their possession. Under the first sale doctrine, this only gives them the right to sell, lend, or dispose of their copy.¹⁸⁸ Copies of digital downloads are presumably stored on the consumers' hard drives, which limits the consumers to the sale of the machine on which the file was downloaded.¹⁸⁹ The consumers, as owners of copies, may only assert the first sale doctrine as an affirmative defense with respect to the transfer of the copies, but not with respect to any reproduction necessary to do so.¹⁹⁰ Reproduction of the copy, which would be required in order to transfer the digital download, would infringe upon the copyright owners' exclusive right.¹⁹¹

¹⁸⁵ See NIMMER & NIMMER, *supra* note 3, at § 8.12[B][1][a] (illustrating the same test); *id.* at § 8.12[B][1][d][i] (supporting the district court's decision in *Vernor* prior to the circuit court's ruling which reversed the applicability of the first sale doctrine).

¹⁸⁶ See UMG Recordings, Inc. v. Augusto, 628 F.3d 1175, 1179 (9th Cir. 2011) (quoting Quality King Distribs., Inc. v. L'anza Research Int'l, Inc., 523 U.S. 135, 152 (1998)).

¹⁸⁷ See *Vernor v. Autodesk*, 621 F.3d 1102, 1112 (9th Cir. 2010); Nimmer, *supra* note 4, at 1312 (discussing the relationship between contract principles and transfers of ownership).

¹⁸⁸ 17 U.S.C. § 109(a).

¹⁸⁹ See NIMMER & NIMMER, *supra* note 3, at § 8.12[E] (indicating that one qualifies as a lawful owner of a copy by owning the machine on which it is stored, because it is the machine's RAM or hard drive which contains the copy).

¹⁹⁰ *Id.* at § 8.12[D].

¹⁹¹ 17 U.S.C. § 106; see NIMMER & NIMMER, *supra* note 3, at § 8.12[E]

Consider the consequences of Amalyah, who holds a copy of her favorite copyrighted work (be it musical recording, motion picture, novel, or other) in RAM, sending it to Benjamin's PC, who uploads it to Cindy, who transmits it to Dharmuta's hard drive. . . . [T]he copyright owner whose work traverses the Amalyah--Dharmuta chain has suffered trespass on its "right to reproduce the copyrighted work *in copies*."

Id.

Accordingly, it would seem as though, simply by the nature of digital downloads, licenses would be necessary in order for consumers to use copies in the way that they would have used CDs or cassettes. A CD can easily be moved from one location to another and played from different players without infringing upon the exclusive rights of the copyright owner.¹⁹² A digital file, however, requires the file to be copied in order to play it on different machines, such as another computer or a portable player.¹⁹³ Absent licenses allowing such reproduction and absent an application of the essential step defense, consumers would have to sell their entire hard drive if they wanted to sell or share their music collection.¹⁹⁴

If a license to the copyright was in fact granted along with a transfer of ownership in the copies, the current Ninth Circuit would simply call this a license and the owner of the copies would no longer be deemed an owner.¹⁹⁵ However, even if a court considered the possessor both an owner and a licensee, as permissible under § 202, it is possible that the owner of the copies would not be able to exercise ownership rights. The license at issue would likely serve to grant rights under the copyright, such as reproduction, as well as contractually restrict some nonexclusive rights, such as resale and private use of the copy.¹⁹⁶

¹⁹² This statement is limited to the playing of CDs in stereo systems or on computers without compressing the discs into an MP3 file.

Digital MP3 files are created through a process colloquially called “ripping.” Ripping software allows a computer owner to copy an audio compact disk (“audio CD”) directly onto a computer’s hard drive by compressing the audio information on the CD into the MP3 format. The MP3’s compressed format allows for rapid transmission of digital audio files from one computer to another by electronic mail or any other file transfer protocol.

A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1011 (9th Cir. 2001). This compression is actually a violation of the copyright owner’s exclusive right to reproduction. *See Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 819 (9th Cir. 2002); *see also* Sydney Aaron Beckman, *From CD to MP3: Compression in the New Age of Technology Overlooked Infringement or Fair Use?*, 42 GONZ. L. REV. 469, 476 (2007) (discussing Apple’s part in encouraging this alleged infringement).

¹⁹³ *See NIMMER & NIMMER, supra* note 3, at § 8.12[E]. The copyright owner could further include DRMs to ensure compliance with the agreement. *See supra* note 169.

¹⁹⁴ *See supra* note 191; *infra* Part IV(A) (discussing proposed changes to the essential step defense).

¹⁹⁵ *See Vernor v. Autodesk*, 621 F.3d 1102, 1112 (9th Cir. 2010); *F.B.T. Prods., LLC v. Aftermath Records*, 621 F.3d 958, 965 (9th Cir. 2010).

¹⁹⁶ This is precisely what the agreement in *Vernor* did. *Vernor*, 621 F.3d at 1104. The court found these contractual restrictions to be indicative of a copyright license and wrongly

Although not an infringement of the copyright, consumers may still be unable to use the digital downloads as they would CDs or cassettes due to the restrictions placed on them by the contractual agreement. If consumers tried to sell their downloads, which they would be entitled to do under the first sale doctrine, they may be found in breach of contract for violating the terms of the agreement.¹⁹⁷ Consequently, the rights belonging to possessors of copies are limited, regardless of whether they are owners or licensees.

V. AMENDING THE COPYRIGHT ACT: PROTECTING THE RIGHTS OF OWNERS OF COPIES

Commentators are currently debating whether a digital first sale doctrine exists under the current Copyright Act. Many believe, as found above,¹⁹⁸ that § 109 already applies to digital media, although its usefulness is limited without permission to reproduce.¹⁹⁹ Thus, the most effective way to protect both the rights of owners of authorized digital copies while continuing to protect the copyright owners from piracy and infringement may be to amend the Copyright Act.²⁰⁰

A. Amending The Essential Step Defense

Congress considered amending the Act with respect to the rights belonging to owners of copies when it enacted the Digital Millennium Copyright Act of 1998 (“DMCA”).²⁰¹ While the first sale

barred ownership of the copy. *Id.* at 1111. With respect to digital downloads, most contractual agreements are in the form of “click-through agreements” and cannot be negotiated. *See, e.g.*, agreements cited *supra* note 4 (appearing in the form of a “click-through agreement” when first presented to the consumer).

¹⁹⁷ *See Vernor*, 621 F.3d at 1107 n.6 (“If Autodesk’s transfer of [the software] copies to CTA was a first sale, then CTA’s resale of the software in violation of the SLA’s terms would be a breach of contract, but would not result in copyright liability.” (citing *United States v. Wise*, 550 F.2d 1180, 1187 (9th Cir. 1977))).

¹⁹⁸ *See supra* Part III(A).

¹⁹⁹ *See NIMMER & NIMMER*, *supra* note 3, at § 8.12[E].

²⁰⁰ *See id.*

²⁰¹ Digital Millennium Copyright Act, Pub. L. No. 105-304, § 104(a)(2), 112 Stat. 2860 (Note, 17 U.S.C. §§ 109, 117) (1998) (“The Register of Copyrights and the Assistant Secretary for Communications and Information of the Department of Commerce shall jointly evaluate--(1) the effects of the amendments made by this title and the development of electronic commerce and associated technology on the operation of sections 109 and 117 of title 17, United States Code; and (2) the relationship between existing and emergent technology and the operation of sections 109 and 117 of title 17, United States Code.”). *See* 17 U.S.C. §§

doctrine can be used to limit the copyright owner's right to distribution, the "essential step defense" limits the exclusive right to reproduction.²⁰² The essential step defense states that the copying of a copyrighted software program by the owner of a copy is not infringement if the copy is "created as an essential step in the utilization of the computer program in conjunction with a machine and . . . is used in no other manner."²⁰³ Similar to the first sale doctrine, the essential step defense requires ownership of the particular copy.²⁰⁴ However, this defense is limited in applicability to software and is therefore of little use to owners of digital music downloads.²⁰⁵ Significantly, Congress did not elect to amend the defense's unnecessary limitation to software after it enacted the DMCA.²⁰⁶

As noted with respect to the first sale doctrine, the tests used by the Ninth Circuit to determine ownership often result in a finding against first sales and thereby prevent use of owners' affirmative defenses when they should otherwise be allowed. Consequently, if a court finds that a consumer does not own the copies of a software program, the user is barred from protection under the essential step defense.²⁰⁷ Absent terms in the license stating otherwise,²⁰⁸ the consumer would be unable, for example, to copy the program from the purchased disc to a computer or back up a downloaded software program for purposes of archiving without infringing the copyright.²⁰⁹ The court in *Vernor* acknowledged the difficulty in limiting the use of this defense to owners, but noted that, based on the specific language of the statute, it was Congress's intent to do so²¹⁰:

109, 117, 1201; NIMMER & NIMMER, *supra* note 3, at § 8.12[E].

²⁰² *Vernor*, 621 F.3d at 1107 ("The exclusive distribution right is limited by the first sale doctrine The exclusive reproduction right is limited within the software context by the essential step defense"); *see* 17 U.S.C. §§ 106, 109, 117.

²⁰³ 17 U.S.C. § 117(a)(1) *construed by Vernor*, 621 F.3d at 1109; *see also* Krause v. Title-serv, Inc., 402 F.3d 119, 124-25 (2d Cir. 2005) (finding that, because the possessor of the software copy exercised "sufficient incidents of ownership" to be considered the owner of the copy, the use and modification of the software was protected by the essential step defense).

²⁰⁴ 17 U.S.C. § 117; *Vernor*, 621 F.3d at 1107 (restricting this defense to use by owners of copies).

²⁰⁵ 17 U.S.C. § 117; *Vernor*, 621 F.3d at 1107.

²⁰⁶ *See* 17 U.S.C. § 117.

²⁰⁷ *See Vernor*, 621 F.3d at 1112.

²⁰⁸ *Id.* at 1112 n.13.

²⁰⁹ *See* 17 U.S.C. § 117(a).

²¹⁰ *Vernor*, 621 F.3d at 1112 & n.13 (citing 17 U.S.C. § 109(a)).

It may seem intuitive that every lawful user of a copyrighted software program, whether they own their copies or are merely licensed to use them, should be entitled to an “essential step defense” that provides that they do not infringe simply by using a computer program that they lawfully acquired. However, . . . a licensee’s right to use the software, including the right to copy the software into RAM, is conferred by the terms of its license agreement.²¹¹

In other words, the court assumes that the copyright owner will grant to the consumer all rights that are “essential” to the utilization of the program, such as reproduction, just as the consumer would have received under the essential step defense.²¹² If this were in fact true, however, there would be no need for the essential step defense; Congress could abandon this section of the Act and depend on copyright owners to voluntarily give all consumers the rights necessary to use the copyrighted work. Instead, however, Congress found a need to guarantee reproduction rights to owners of software copies when such reproduction was essential, but has failed to grant similar protection to other classes of owners.²¹³

The essential step defense was created as part of the Copyright Act of 1976 and has seen no major changes since.²¹⁴ Now, in a world of digital media where there is only a thin line between the copy and the copyright, courts are simply ignoring the distinction, failing to find a first sale and ownership of copies, and therefore denying consumers the ability to raise defenses such as the essential step defense.²¹⁵ Additionally, digital music downloads are being distributed through and controlled by software programs. For this reason, the essential step defense should apply equally to software programs and digital content, such as music downloads, so that consumers do not need to rely on contractual agreements from the copyright owners in order to be granted these “essential” rights. Of course, such a protection for consumers of digital downloads would

²¹¹ *Id.* at 1112 n.13.

²¹² *Id.*

²¹³ *See* 17 U.S.C. § 117.

²¹⁴ *See* Digital Millennium Copyright Act, Pub. L. No. 105-304, § 302, 112 Stat. 2860 (1998). In 1998, subdivisions (c) and (d) were added, and titles were given to subdivisions (a) and (b). *See id.*

²¹⁵ *See, e.g., Vernor*, 621 F.3d at 1110-11.

only be effective if courts return to a strict application of §§ 202 and 109, finding ownership of the *copy* when there has been an authorized distribution.²¹⁶

B. Amending the Fair Use Doctrine

Another potential source of protection for consumers comes from the fair use doctrine.²¹⁷ The fair use doctrine, like the first sale doctrine and the essential step defense, serves “as an exception to the exclusive rights of the copyright holder,” and thus fair use of the copyright would not be an infringing use.²¹⁸ It allows the public to freely use a copyrighted work for purposes of “criticism, comment, news reporting, teaching . . . scholarship, or research,” “including such use by reproduction in copies or phonorecords.”²¹⁹ Courts have found that these uses “afford[] considerable ‘latitude for scholarship and comment’ ” as well as for parody.²²⁰ However, as previously stated, a licensee’s rights are expressly limited by the terms of the licensing agreement and, as a result, there may be greater difficulty proving fair use.²²¹ Notably, the fair use defense is not limited to those with ownership of a copy; one who is a licensee or merely in possession of the copy without owning it may raise this defense.²²² Thus, regardless of the future of the Ninth Circuit decision regarding the ownership of digitally downloaded copies, consumers will still be

²¹⁶ If courts continue to find, as the Ninth Circuit has, that copyrighted works embodied in digital forms cannot be sold but instead are licensed, the essential step defense will be inapplicable even to the software users it was written to protect, furthering the need to amend the Act.

²¹⁷ See 17 U.S.C. § 107; *supra* note 37.

²¹⁸ 17 U.S.C. § 107; *Sony BMG Music Entm’t v. Tenenbaum*, 672 F. Supp. 2d 217, 229 (D. Mass. 2009).

²¹⁹ 17 U.S.C. § 107.

²²⁰ *Eldred v. Ashcroft*, 537 U.S. 186, 220 (2003) (quoting *Harper & Row Publishers, Inc. v. Nation Enter.*, 471 U.S. 539, 560 (1985)) (citing *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 571-72 (1994)).

²²¹ See, e.g., *Bowers v. Baystate Technologies, Inc.*, 320 F.3d 1317, 1325 (Fed. Cir. 2003) (acknowledging the existence of a “contractual waiver of affirmative defenses” (citing *United States v. Spector*, 55 F.3d 22, 24-25 (1st Cir. 1995))).

²²² See, e.g., *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1014-15 (9th Cir. 2001). The court held that users of the Napster software program “who upload[ed] file names to the search index for others to copy violate[d] plaintiffs’ distribution rights[and] Napster users who download[ed] files containing copyrighted music violate[d] plaintiffs’ reproduction rights.” *Id.* at 1014. Although these users possessed unauthorized copies, Napster asserted that those users were fair users – a defense which was ultimately rejected by the court. *Id.* at 1014-15.

able to assert a fair use defense, although they may be restricted if there is a license accompanying the transaction.²²³

This determination is made by evaluating four factors laid out by Congress, weighing the results together, and viewing them in light of the purposes of copyright.²²⁴ These factors include:

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.²²⁵

Although fair use protects digital download consumers regardless of whether they own or merely possess the copies, courts have already made clear that certain uses of digital downloads, such as unauthorized peer-to-peer file sharing, constitute copyright infringement and are not excepted by the fair use doctrine.²²⁶ In *A&M Records v. Napster, Inc.*,²²⁷ the defendant software company asserted that the consumers' use of the copyrighted works, accessed through the Napster software, was "fair" and therefore non-infringing.²²⁸ Napster argued that it could not be held liable as secondary infringers absent a direct infringer.²²⁹ The court had little difficulty finding that "Napster does not facilitate infringement of the copyright laws in the absence of direct infringement,"²³⁰ or that the acts of reproduction and distribution by the software users constituted copyright infringe-

²²³ See, e.g., *Sony Corp. of America v. Universal City Studio, Inc.*, 464 U.S. 417 (1983) (holding that consumers' use of Sony's VCRs was fair where the VCR enabled consumers to record television shows that were licensed for broadcast).

²²⁴ See *Campbell*, 510 U.S. at 576-77 (citing 17 U.S.C. § 107).

²²⁵ 17 U.S.C. § 107; see *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1014 (9th Cir. 2001).

²²⁶ See *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 919 (2005). The Court in *Grokster* determined that there was no evidence of fair use by users of Grokster's or StreamCast's software. *Id.* at 945 (Ginsburg, J., concurring). See also *Napster*, 239 F.3d at 1014-15 (stating that Napster's peer-to-peer software does not fit within fair use).

²²⁷ 239 F.3d 1004 (9th Cir. 2001).

²²⁸ *Id.* at 1014 ("Napster asserts an affirmative defense to the charge that its users directly infringe plaintiffs' copyrighted musical compositions and sound recordings.").

²²⁹ *Id.* at 1013 n.2.

²³⁰ *Id.* ("Secondary liability for copyright infringement does not exist in the absence of direct infringement by a third party.").

ment.²³¹ Thus, the court was left to determine whether the use by Napster's consumers was fair, and it did so by addressing each of the four factors available in § 107.²³²

The first element, purpose and character of the use, examines whether the work is "transformative," as well as whether the work is "commercial or noncommercial."²³³ Digital downloads were found to be non-transformative, as they were merely retransmitted copies of the work in a different medium.²³⁴ A transformative use is more likely to be fair.²³⁵ Moreover, a noncommercial use weighs more towards a finding of fair use, although it is not dispositive.²³⁶ A finding of commercial use, or "repeated and exploitative copying of copyrighted works," does not require the sale of copies for profit, nor does it require direct economic benefit to the owner of the copies.²³⁷ In *Napster*, the court found that the digital downloads were being used for commercial purposes because users would download the work to spare the expense of purchasing authorized copies.²³⁸

The second element of fair use is the nature of the use.²³⁹ In other words, "[w]orks that are creative in nature are 'closer to the core of intended copyright protection' than [the] more fact-based works."²⁴⁰ The fact that the musical compositions and the sound recordings were "creative" worked against the defendant in its fair use defense.²⁴¹

The third element reflects an analysis used to determine how much of the copyrighted work was used.²⁴² By engaging in the "wholesale copying" of copyrighted work, Napster users helped

²³¹ *Id.* at 1014 ("We agree that plaintiffs have shown that Napster users infringe at least two of the copyright holders' exclusive rights: the rights to reproduction, § 106(1); and distribution, § 106(3). Napster users who upload file names to the search index for others to copy violate the plaintiffs' distribution rights. Napster users who download files containing copyrighted music violate plaintiffs' reproduction rights.")

²³² *Napster*, 239 F.3d at 1014-15 (citing 17 U.S.C. § 107).

²³³ *Id.* at 1015 (citing *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579, 584-85 (1994)).

²³⁴ *Id.*

²³⁵ *Id.*

²³⁶ *Id.* (citing *Campbell*, 510 U.S. at 584-85).

²³⁷ *Napster*, 239 F.3d at 1015.

²³⁸ *Id.*

²³⁹ 17 U.S.C. § 107.

²⁴⁰ *Napster*, 239 F.3d at 1016 (citing *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 586 (1994)).

²⁴¹ *Id.* (citing *Campbell*, 510 U.S. at 586).

²⁴² 17 U.S.C. § 107.

to weigh the evidence against fair use for the digital downloads.²⁴³

Finally, the court in *Napster* evaluated the effect of the use on the market²⁴⁴ and found that Napster harmed the market in two ways.²⁴⁵ First, downloaders were able to permissibly download, resulting in a reduction of audio CD sales.²⁴⁶ Second, the use of Napster's software raised copyright owners' barriers of entry into the market of digital downloads, because consumers had the unauthorized Napster software as an option.²⁴⁷ Based on this negative effect on the market, in combination with the court's prior analysis under the fair use factor, the use of digital downloads in *Napster* did not fall within fair use.²⁴⁸

Similarly, the Supreme Court held in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster*²⁴⁹ that software distributors could be held liable for indirect infringement based on the infringing acts of its users, implicitly finding that file sharing constitutes copyright infringement.²⁵⁰ First, the Court distinguished this case from *Sony Corp. of America v. Universal City Studios, Inc.*,²⁵¹ in which Sony was held not liable for indirect infringement based on its distribution of the VCR.²⁵² In *Sony*, evidence revealed that the VCR was primarily used for " 'time-shifting,' . . . which the Court found to be a fair, not an infringing, use."²⁵³ Second, the Court noted the district court's holding that "those who used the Grokster and Morpheus software to download copyrighted media files directly infringed MGM's copyrights," which was not disputed on appeal.²⁵⁴ Although the indirect infringers, rather than the direct infringers, were actually held liable, this was likely based on the difficulty and impracticality of tracking down

²⁴³ *Napster*, 239 F.3d at 1016 ("While 'wholesale copying does not preclude fair use per se,' copying an entire work 'militates against a finding of fair use.'" (quoting *Worldwide Church of God v. Phila. Church of God, Inc.*, 227 F.3d 1110, 1118 (9th Cir. 2000))).

²⁴⁴ *Id.* at 1016-17.

²⁴⁵ *Id.* at 1016.

²⁴⁶ *Id.*

²⁴⁷ *Id.*

²⁴⁸ *Napster*, 239 F.3d at 1014-18; see also *Maverick Recording v. Harper*, 598 F.3d 193, 197, 199 (5th Cir. 2010) (holding a teenager directly liable for peer-to-peer file sharing after downloading various unauthorized sound recordings).

²⁴⁹ 545 U.S. 913 (2005).

²⁵⁰ See *id.* at 929-30.

²⁵¹ 464 U.S. 417 (1983).

²⁵² *Grokster*, 545 U.S. at 931-32 (citing *Sony*, 464 U.S. at 442).

²⁵³ *Id.* (citing *Sony*, 464 U.S. at 423-24).

²⁵⁴ *Id.* at 927.

the direct infringers.²⁵⁵

Some courts have encouraged owners of copies to look to the fair use doctrine, stating that courts should begin to interpret it more broadly. In *Sony BMG Music Entertainment v. Tenenbaum*,²⁵⁶ the court stated that “file sharing for the purposes of sampling music prior to purchase or space-shifting to store purchased music more efficiently might offer a compelling case for fair use.”²⁵⁷ Ultimately, however, the court held against a fair use finding, because the defendant “mounted a broadside attack that would excuse all file sharing for private enjoyment. It is a version of fair use so broad that it would swallow the copyright protections that Congress created, defying both statute and precedent.”²⁵⁸ Evidently, this court may have been willing to accept that some uses of digital downloads constitute fair use albeit not all uses.

Based on these decisions and the four factors described above, it is possible to distinguish illegal file sharing from the sharing of authorized copies, potentially allowing for protection of authorized copies under the fair use doctrine. The court in *Napster* held that peer-to-peer file sharing was a commercial use because users of the software were downloading music to avoid the cost of purchasing authorized copies.²⁵⁹ Conversely, when consumers purchase copies from online stores such as iTunes, they are purchasing authorized copies from authorized distributors. Consumers must be able to copy these files onto their own computers or media players to listen to the music anywhere besides the machine on which the file was downloaded, just as they would move a single CD or cassette to multiple players. Arguably, use of one purchased copy in this way is noncommercial and does not affect sales, despite its requiring reproduction of the copy. Just as consumers would not buy separate CDs for their cars,

²⁵⁵ *Id.* at 929-30.

²⁵⁶ 672 F. Supp. 2d 217 (D. Mass. 2009).

²⁵⁷ *Id.* at 220-21.

²⁵⁸ *Id.* at 221.

²⁵⁹ *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1015 (9th Cir. 2001). The court also found that the sharing of digital downloads was not transformative, which is supported by holdings which find that CDs compressed to MP3 files, despite the change in format, are also non-transformative. See *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 819 (9th Cir. 2003). However, a finding that a work is transformative is not required to hold that the use is protected by the fair use doctrine. See *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994) (“Although such transformative use is not absolutely necessary for a finding of fair use, the goal of copyright, to promote science and the arts, is generally furthered by the creation of transformative works.”).

computers, and every stereo in their homes, digital download consumers should not be required to do the same, nor should they be required to rely on agreements from the distributors for such permission. When the sharing of authorized digital downloads is analyzed under the four factors of fair use, two of the four factors are satisfied, while none of the factors were satisfied with respect to illegal file sharing.²⁶⁰ Therefore, courts should examine the fair use doctrine more broadly with respect to digital downloads, or the legislature should amend the fair use doctrine to draw a clearer distinction between illegal uses and authorized uses.

C. Amending the DMCA Based on Fair Use

Other proponents of fair use have tried to argue, with little success, that the DMCA is not intended to prohibit fair use, and therefore, circumvention is permitted for such fair use purposes.²⁶¹ In *Universal City Studios, Inc. v. Corley*,²⁶² the defendant, Corley, was unsuccessful in raising a similar claim to prevent being enjoined from posting a copy of a DVD decryption program on his website.²⁶³ He argued that the DMCA provides that it shall not limit rights under fair use, which should be interpreted to “allow the circumvention of encryption technology protecting copyrighted material” so long as the material “will be put to ‘fair uses.’”²⁶⁴ Further, Corley asserted that an owner of a copy has the authorization from the copyright owner to access the work, or, in the case of a DVD, to view it.²⁶⁵ Thus, when the buyer is the one circumventing the encryption technology on the disc, he is doing so simply to view it using a different DVD player.²⁶⁶

The court immediately rebutted both arguments.²⁶⁷ With respect to the first defense, the court stated that § 1201(c)(1) “simply clarifies that the DMCA targets the *circumvention* of digital walls guarding copyrighted material (and trafficking in circumvention tools), but does not concern itself with the use of those materials after

²⁶⁰ See 17 U.S.C. § 107; *Napster*, 239 F.3d at 1014.

²⁶¹ See *Universal City Studios, Inc. v. Corley*, 273 F.3d 429, 443 (2d Cir. 2001) (citing 17 U.S.C. § 1201(c)(1)).

²⁶² 273 F.3d 429 (2d Cir. 2001).

²⁶³ *Id.* at 436, 459-60.

²⁶⁴ *Id.* at 443.

²⁶⁵ *Id.* at 444.

²⁶⁶ *Id.*

²⁶⁷ *Corley*, 273 F.3d at 443 & n.13.

circumvention has occurred.”²⁶⁸ In other words, the DMCA is limited in scope in terms of what it aims to prevent, and thus, by its very definition, does not interfere with fair use.²⁶⁹ With respect to the defendant’s second argument, the court noted that, regardless of whether a copyright holder granted authority to use, view, or listen to a work, such authority does not inherently imply authority to circumvent any encryptions.²⁷⁰ Rather, § 1201(a)(3)(A), the provision cited by the defendants, exempts from liability only those people with authority to decrypt a protected DVD.²⁷¹ Such authority does not come from mere ownership of the copy.²⁷²

This decision indicates one of the major problems with the DMCA – it requires a person to obtain permission from the copyright owner, either through a license or by obtaining an unprotected copy which the copyright owner has authorized, in order to exercise any rights under the fair use doctrine. However, this directly conflicts with the fair use doctrine because, by definition, any use under the doctrine is non-infringing and does not require the permission of the copyright owner.²⁷³ Consequently, DMCA should be amended, or at least, more broadly interpreted by courts, to allow circumvention for purposes of fair use.²⁷⁴ Absent permission from the copyright owner or a change in the essential step defense, consumers of digital downloads, who wish to play their encrypted music on media players other than the one on which it was purchased, must be able to circumvent the protection without penalty. Although copyright owners may fear an increased risk of piracy and infringement, they can use DRM to track consumers’ uses without limiting those uses, because a limitation may lead to consumers’ inability to own the copies.

D. Summary of Proposed Amendments

As long as the courts continue to interpret legislation against the rights of the owners of copies, it is necessary to amend the Act in

²⁶⁸ *Id.* at 443.

²⁶⁹ *See id.*

²⁷⁰ *Id.* at 444.

²⁷¹ *Id.*

²⁷² *See Corley*, 273 F.3d at 444.

²⁷³ 17 U.S.C. § 107.

²⁷⁴ *See generally* Devon Thurtle, *A Proposed Quick Fix to the DMCA Overprotection Problem That Even a Content Provider Could Love . . . Or at Least Live With*, 28 SEATTLE U. L. REV. 1057 (2005).

order to clearly preserve rights such as the first sale doctrine, the essential step defense, and the fair use doctrine. As recently as September 2011, the Ninth Circuit revisited the first sale doctrine as applied to software in *Apple, Inc. v. Psystar, Corp.*²⁷⁵ and, consistent with *Vernor*, held that the manufacturer-copyright owner licensed rather than sold its software program to its competitor through the use of a software licensing agreement.²⁷⁶ In contrast to *Vernor*, the court in *Apple* acknowledged the existence of agreements that are too restrictive, such as where copyright holders “us[e] the conditions to stifle competition.”²⁷⁷ Although this concession is helpful in more commercial cases between a manufacturer holding the copyright and its competitors, it does little to help the average consumer who is not purchasing software or digital downloads through software for purposes of competition.²⁷⁸ The legislature must step in to amend the Act, prohibiting the overly restrictive licenses mentioned in *Apple* and protecting the consumers.

With respect to digital downloads, it is important that consumers still be deemed owners based on a first sale standard rather than the inevitable license that will accompany the required software. Moreover, based on the nature of the technology, consumers of these downloads must be able to make necessary reproductions of the copies and should be able to do so without relying on a license from the copyright owner; this requires a change in the essential step defense. Otherwise, and as in the current situation, consumers must obtain permission from copyright owners to make reproductions, such as copies for different rooms in the house or for the car, whereas transporting a CD from one’s car to computer is acceptable. Obtaining all rights through a contractual agreement vests a significant amount of power in the copyright owner and may result in the consumer’s inability to own the copy. In other words, the consumer would not be entitled to ownership protections under the Copyright Act, simply because the nature of a digital download requires that the copyright owner grant permission for uses such as reproductions. Thus, the Copyright Act should be amended so that consumers of digital down-

²⁷⁵ 658 F.3d 1150 (9th Cir. 2011).

²⁷⁶ *Id.* at 1159-60.

²⁷⁷ *Id.* at 1159 (“The copyright misuse doctrine does not prohibit using conditions to control use of copyrighted material, but it does prevent copyright holders from using the conditions to stifle competition.”).

²⁷⁸ *But see supra* notes 169-70 (discussing piracy with respect to digital downloads and DRM).

loads are not required to obtain permission from copyright owners to make necessary reproductions, which would otherwise be considered fair uses. Finally, regardless of whether a court finds ownership in a copy, consumers should not be prevented from using the product under the fair use doctrine as a result of DRM encrypted in the download.

VI. CONCLUSION

Copyright protections and use restrictions placed on digital copies have blurred the distinction between a consumer's ownership of a material object embodying a copyright and a license to the copyright by use of the material object. Although a copy of the material product is statutorily distinguishable from the copyright, consumers who wish to purchase digital copies are often forced to agree to restrictive terms of use, purchase copies with encrypted protections, or accept software license agreements. Further, consumers may only be able to access their purchased digital content through related, licensed software programs, granting the distributor yet another means to control the consumer's use. Thus, a consumer purchasing the digital version of an author's literary work is apparently no longer purchasing a copy for ownership, but rather being granted a license. As a result, consumers do not have many of the rights they once had and expected after purchasing music products, including use of the defenses under the first sale doctrine and the essential step defense. The Copyright Act is no longer effective in providing consumers with such ownership rights as digital media becomes increasingly ubiquitous.