19 Tex. Intell. Prop. L.J. 1

Texas Intellectual Property Law Journal
Summer 2010

Article

SALE OR LICENSE? UMG V. AUGUSTO, VERNOR V. AUTODESK, AND THE FIRST SALE DOCTRINE

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*2 Introduction

Under the first sale doctrine, the owner of a particular copy of a copyrighted work is entitled to sell or otherwise dispose of that copy without the authority of the copyright owner.[1] As the Supreme Court explained in Bobbs-Merrill Co. v. Straus, which established the first sale doctrine at American common law before it was codified in the Copyright Act, "[t]he 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 it."[2] The doctrine recognizes that "[o]wnership of a copyright . . . is distinct from ownership of any material object in which the work is embodied"[3] and rests on the principle that the copyright owner has received full value for a copy of his work when that copy is first sold.[4] After the first sale, "the policy favoring a copyright monopoly for authors gives way to the policy opposing restraints of trade and restraints on alienation."[5] Because of the doctrine, libraries, used book stores, movie rental businesses, and half.com can exist.

A mere licensee, however, cannot claim the protection of the first sale doctrine.[6] A licensee infringes the copyright owner's rights under § 106(3) of the Copyright Act if he attempts to sell, rent, lease, give away, or otherwise "distribute" the work.[7] For example, "a person who has rented a print of a motion picture from the copyright owner would have no right to rent it to someone else without the owner's permission."[8] The distinction between an "owner" and a "licensee" is thus of major significance, yet the Copyright Act defines neither term. Two recent cases currently ***3** on appeal before the Ninth Circuit grapple with the surprisingly unsettled question of how to determine when a transaction confers ownership of a copy of a copyrighted work for purposes of the first sale doctrine. The two cases are UMG Recordings, Inc. v. Augusto, which concerns the transfer of promotional compact disks (promo CDs) of music,[9] and Vernor v. Autodesk, Inc., which concerns the transfer of software CDs.[10] In both cases, the district courts ruled against the copyright holders, finding that when they distributed their CDs, they transferred ownership, thereby subjecting them to the first sale doctrine.[11] UMG and Autodesk both appealed to the Ninth Circuit, which heard arguments in both cases on June 7, 2010.[12]

This paper examines whether routine transfers of promo CDs and software CDs should be treated as transfers of ownership for purposes of the first sale doctrine. It concludes that the answer is an unequivocal "yes" for promo CDs and a more hesitant "yes" for software CDs. Just as consumers of traditional media, such as books, videotapes, and digital video disks (DVDs), a consumer who has paid for the right to use a software CD indefinitely should be able to transfer those rights if he no longer wants to use the software. The problem, however, with applying the first sale doctrine to software CDs is that § 117 of the Copyright Act permits the original user to retain a copy of the software on his hard drive.[13] This loophole allows for the proliferation of the software without compensation to the copyright owner. Nevertheless, this problem should not be grounds for a court to refuse to apply the first sale doctrine to software CDs.

Part I of the paper summarizes the procedural posture of Vernor v. Autodesk and UMG Recordings v. Augusto and sketches out the unsettled state of the law on the issue. Part II compares the functional arguments that the content holders have advanced--which I will describe as "user substitution" arguments and "user proliferation" arguments--to the policies underlying the first sale doctrine and the Copyright Act. This exercise demonstrates that promo CDs and software CDs should both be subject to the first sale doctrine, although such treatment is admittedly imperfect ***4** when it comes to software CDs because of § 117 of the Copyright Act. Part III examines the conflicting legal tests for distinguishing between ownership and licenses in the Ninth Circuit. It argues that the Wise test,[14] which inquires whether a consumer is required to return the CD to the copyright holder,[15] is superior to the Wall Data test,[16] which inquires whether the "copyright owner makes it clear that she or he is granting only a license to the copy of software and imposes significant restriction on the purchaser's ability to redistribute or transfer that copy."[17] Part IV considers how copyright holders such as UMG and Autodesk are likely to respond to a ruling that the first sale doctrine applies to their products. Such a ruling will probably accelerate a trend that is already underway, which is that the industries are shifting from distributing their content via physical compact discs to distributing their content via direct download from the Internet.

Part I: Procedural Posture of UMG Recordings, Inc. v. Augusto and Vernor v. Autodesk, Inc.

A. UMG Recordings, Inc. v. Augusto

UMG Recordings, Inc. v. Augusto concerns the transfer of promo CDs.[18] Before the mass-market release of a music album, record companies such as Universal Music Group (UMG) create promo CDs and mail them at no charge to music industry insiders such as music critics, disc jockeys, and radio stations.[19] The promo CDs are similar to the mass-market albums, except that a "promotional CD may contain fewer songs and may not include the artwork included with the new CD."[20] But unlike mass-market CDs, promo CDs assert that the transaction is a license by labeling with the following, or similar, language:

This CD is the property of the record company and is licensed to the intended recipient for personal use only. Acceptance of this CD shall constitute an agreement to comply with the terms of the license. Resale or transfer of possession is not allowed and may be punishable under federal and state laws.[21] ***5** In this case, eBay seller Troy Augusto obtained various UMG promo CDs from secondhand shops and online auctions and then posted them for auction on eBay.[22] UMG brought a copyright infringement claim against Augusto on grounds that it licenses and never transfers ownership of its promo CDs.[23] So according to UMG, neither Augusto nor any other person possessing the promo CDs could be an owner, and therefore, could not be protected by the first sale doctrine.[24] Augusto disagreed.[25] Technically, Augusto did not contend that the promo CDs were "sold" by UMG to the initial recipients, since UMG distributes them at no cost to music industry insiders, but he nevertheless asserted ownership.[26] As the court recognized, the first sale doctrine "does not require a 'sale"' and can apply "when copies are given away or are otherwise permanently transferred without the accoutrements of a sale."[27] For example, a gift "qualif[ies] as a 'first sale' to the same extent as an actual sale for consideration."[28] On June 10, 2008, Judge S. James Otero of the Central District of California granted Augusto's motion for summary judgment, finding the "economic realities of the transaction" demonstrated that "UMG's distribution of promo CDs to the music industry insiders is properly characterized as a gift or sale, not a license."[29] UMG appealed.

B. Vernor v. Autodesk, Inc.

In the other case before the Ninth Circuit, Vernor v. Autodesk, Inc.,[30] eBay seller Timothy Vernor acquired CD copies of Autodesk's copyrighted software program AutoCAD from an architecture firm, Cardwell/Thomas Associates (CTA), at its office sale. CTA had acquired these CDs from Autodesk in 1999 as part of a dispute settlement.[31] In 2002, CTA upgraded its Autodesk software and entered ***6** into an agreement with Autodesk to destroy all copies of the Autodesk CDs it had acquired in 1999.[32] In breach of that agreement, CTA transferred the CDs to Vernor.[33] Vernor then put the CDs up for auction on eBay, and Autodesk sent him takedown notices pursuant to the Digital Millenium Copyright Act, asserting copyright infringement.[34] Autodesk claimed that it only licensed and never sold copies of its software.[35] The standard packaging of its CDs bears a "shrinkwrap" notice that the "software is subject to the license agreement that appears during the installation process or is included in the package."[36] The standard license agreement accompanying the CDs contains the following key terms: "it limits [the] installation of AutoCAD software to two computers, with a ban on simultaneous use of the software on those computers"; "[i]t prohibits modification or reverse engineering of the software"; "[i]t bars any use or transfer of the software outside the western hemisphere"; "it bars any transfer of the software without Autodesk's written permission"; it declares that "[t]itle and copyrights to the Software . . . remain with Autodesk"; and it requires "users who obtain the software via an upgrade from Autodesk [] to destroy any copies of older AutoCAD software in his possession."[37] Vernor filed a declaratory judgment action against Autodesk, asserting that he owned the CDs.[38] On September 30, 2009, Judge Richard A. Jones of the Western District of Washington granted Vernor's motion for summary judgment.[39] Following the approach of a 1977 Ninth Circuit case, United States v. Wise,[40] and rejecting the approach of subsequent Ninth Circuit cases, the court concluded that "the transfer of AutoCAD copies . . . [wa]s a transfer of ownership."[41] Autodesk has appealed.

C. "Inconsistent and Unpredictable" Precedents

Vernor and Augusto are the latest cases in a substantial but conflicting list of cases that address the license-versus-sale question in the context of the first sale ***7** doctrine. Augusto seems to be the first case to raise the question with respect to promo CDs, but many cases have previously addressed this issue with respect to software. As Pamela Samuelson summarizes, "There is, oddly enough, no definitive court ruling [on the issue],"[42] and "the case law on whether the first sale rule applies to mass-marketed software is mixed."[43] William Fisher similarly states, "[T]he law governing the permissibility of resales of software is, to an unusual degree, inconsistent and unpredictable."[44] Others have echoed Samuelson's and Fisher's observations.[45] Some relevant cases have more or less accepted at face value the manufacturers' characterizations of their software distributions as licenses.[46] Other cases have conducted a somewhat deeper analysis, looking to various characteristics of the "license" agreements. Some of these cases have then concluded that the software copy was licensed,[47] while others have concluded that the software copy was sold.[48]

*8 Part II: What are the Copyright Holders' Motivations?

For a moment, set aside the admittedly discordant case law, and consider instead the functional reasons underlying the copyright holders' objections to the application of the first sale doctrine to copies of their copyrighted works. Content industries, such as those providing mass media, recognizing the stake that they have in these cases, have filed amicus curiae briefs before the Ninth Circuit in these cases. The Motion Picture Association of America (MPAA) and the Software & Information Industry Association (SIIA) have filed amicus briefs in support of Autodesk, and the Recording Industry

Association of America (RIAA) has filed an amicus brief in support of UMG.[49] These amici briefs, together with UMG's and Autodesk's appellate briefs,[50] advance a variety of results-oriented arguments as to why the first sale doctrine should not apply in these cases. What exactly are content holders trying to prevent, and how do these motivations compare with the purposes of the first sale doctrine and copyright law as a whole?

The content holders' arguments can be separated into two distinct motivations: First, a desire to prevent downstream "user substitution," and second, a desire to prevent downstream "user proliferation." "User substitution" occurs when a user who has acquired the right to enjoy a copy of a copyrighted work transfers those usage rights to someone else while simultaneously forfeiting his own ability to use the work. In other words, the net number of users following such a transaction remains unchanged after the transfer of the copy of the copyrighted work. "User proliferation," ***9** in contrast, occurs when a user, who has acquired the right to use and benefit from a copy of a copyrighted work, transfers those rights to someone else while simultaneously retaining his own ability to enjoy the work. In other words, the net number of users after such a transaction increases after the transfer of the copy of the copyrighted work.

A. Preventing "User Substitution"

The ability to prevent user substitution benefits the copyright holder in a number of ways. John Rothchild explained that "[w]hen the end user of a good lends, gives, sells, or rents it to somebody else, the manufacturer of the item may lose a sale. . . . In addition, by suppressing competition with its own products, the manufacturer may be able to maintain a higher selling price."[51] Moreover, the prevention of user substitution facilitates price discrimination. Price discrimination is the practice of "charging different consumers different prices for access to the same good or service" or variants of the same good or service, where the disparity in pricing for the different versions "cannot be explained by differences in the costs of the versions."[52] Price discrimination usually increases a firm's profits because it enables the firm to capture more profit from those consumers with higher willingness and ability to pay.[53] Classic examples of price discrimination include airlines charging higher prices for business-class tickets than coach tickets and movie theaters offering student and senior discounts.[54]

As Anthony Reese explained, the first sale doctrine "complicate[s] price discrimination by allowing buyers to . . . engage in arbitrage. If a copyright owner tried to price discriminate in the sale of her works, the buyer of a copy could resell access to the work to a second consumer at a price lower than the price the copyright owner would charge the second consumer directly (but higher than the price the copyright owner charged to the first consumer)."[55] The very existence of the first sale doctrine indicates that preventing user substitution is simply not a goal of copyright law. Instead, the doctrine exists to promote user substitution. The Copyright Office, citing the Supreme Court's reasoning in Bobbs-Merrill Co. v. Strauss, ***10** noted that allowing the copyright holder to exert "control . . . over resales would not further [the Copyright Act's] main purpose of protecting the reproduction right."[56] The Copyright Office added, "[C]ompetition policy is viewed as one of the underlying bases for the first sale doctrine."[57]

Like UMG and Autodesk, copyright holders in "traditional" media for which the first sale doctrine is well-established--such as books, mass-marketed music CDs, and DVDs--have strong economic reasons to prevent user substitution. It is clear, however, that the copyright holders in these traditional media cannot use copyright law as a means to facilitate price discrimination or suppression of the secondary market. For example, Scholastic Books, an educational publishing company, "regularly sells paperback versions of children's books to school markets at greatly reduced prices" in comparison to the prices in other retail outlets.[58] Scholastic labels these reduced-price versions with a notice on the back cover: "This edition is for distribution by schools only."[59] This notice serves to discourage retailers "from buying these books from unscrupulous third parties because doing so reflects poorly on the retailers," but it does nothing to "prevent purchasers from reselling their copies of books on eBay . . . or to used book stores."[60] Thus, any control that Scholastic can wield over resale comes from a type of shaming built into industry norms, not from the tools of copyright law.

The movie industry has also found its desires to prevent user substitution inconvenienced by the first sale doctrine. This inconvenience has proven particularly acute with the advent of DVD rental "vending machines" such as those operated by Redbox. Redbox's grocery store vending machines offer new-release rentals for $1 per night almost immediately after the movies are first released for sale on DVD. Since "DVD sales historically have been how the studios earn a profit on movies,"[61] and sales traditionally did not have to compete with rentals until a certain period after the movie's initial release on DVD, Redbox's business model has made ***11** movie studios "[f]urious about a potential cannibalization of DVD sales."[62] Because of the first sale doctrine, Redbox can stock its vending machines with freshly released DVDs that it purchases from wholesale and retail sellers. The movie studios seem to have accepted this application of the first sale doctrine and have not attempted to use copyright law to transform their DVD distributions to retailers and wholesalers into "licenses" with a prohibition on "sub-licensing" to Redbox.[63] Instead, the studios have looked to contractual mechanisms for dampening competition from Redbox.[64]

It is debatable whether price discrimination ultimately increases or decreases net social welfare.[65] Copyright law, however, simply does not facilitate price discrimination beyond the first sale. It is quite startling then, that UMG, Autodesk, and their amici in Augusto and Vernor continued to cling tightly to this price discrimination prevention rationale, which should be dismissed as a red herring. For example, Autodesk argued that "allowing copyright holders . . . to specify that the user is merely licensing the software copy . . . permits software developers to price their software differently for different markets."[66] The SIIA's amicus brief in Vernor mentioned software manufacturers' desire to prevent "a university computer store employee or student 'reselling' academic-licensed titles as unrestricted consumer software."[67] The RIAA's amicus brief in Augusto pointed out that that record companies wanted to prevent promo CDs from being "tak [en] . . . out of the ***12** hands of [music industry] insiders" because the industry places special value on those insiders due to their ability to generate publicity for the music.[68] The MPAA's amicus brief points to the "negative economic impact of forcing copyright owners into single-price models of dissemination."[69] These arguments are unpersuasive, given that copyright law is unsympathetic to similar claims that could be made by copyright holders in traditional media. There is no principled way to credit copyright holders' desire to control user substitution when it comes to promo CDs and software CDs but not when it comes to books, mass-marketed CDs, and DVDs.[70]

B. Preventing "User Proliferation"

The second of the copyright holders' motivations, the need to prevent user proliferation, is entirely distinct from the desire to prevent user substitution. Preventing user proliferation is countenanced by--indeed fundamental to--copyright law. Proliferation requires reproduction, and a copyright holder's reproduction right under § 106(1) is the "main purpose" of copyright law.[71] The reproduction right prevents one user from legally gaining access to a copyrighted work, copying it, and then keeping a copy or copies for himself while distributing the original copy to another user. Such a scenario could entirely undermine the Copyright Act's ability to "promote the Progress of Science and useful Arts"[72] since others would be able to reap value from a copyright holder's work without compensation to the copyright holder.

The content holders' briefs in Augusto and Vernor repeatedly pointed to the problem of user proliferation. Autodesk argued that a ruling in its favor would help "protect[] against unauthorized reproductions of the software,"[73] noting that "software users can easily retain . . . the identical working copy of the software loaded on their computers, even after they transfer the physical medium."[74] UMG's opening brief similarly argued that treating promo CDs as licensed goods would help restrict ***13** users from "making multiple, unlawful, digital copies or uploading a copy of the promotional CD to the [I]nternet to be made 'virally' and prematurely available to millions of computer users."[75] The RIAA echoed in its amicus brief, "Because the [p]romotional CDs are digital copies, they can easily be reproduced as perfect physical or virtual copies. . . . [A] single upload of a 'leaked' [p]romotional CD to a peer-to-peer file sharing site, from which it could then be globally distributed, could be catastrophic."[76] The MPAA's amicus brief in Vernor argued that embracing the licensing regime helps copyright owners "limit [] unauthorized reproduction of their copyrighted works."[77] These concerns are entirely consistent with the purposes behind the Copyright Act.

These arguments, however, must be considered in conjunction with the fact that the first sale doctrine embodies a certain level of risk tolerance for user proliferation. Consider the traditional media to which the first sale doctrine applies. When the original owner of a book is permitted to resell the book to a secondhand bookstore, some users may photocopy the entire book before reselling it. In practice, this may be an infrequent occurrence because it is generally rather time-consuming and labor-intensive to photocopy an entire book. The same rule applies, however, to mass-produced music CDs. The owner of a music album is permitted to resell it despite the possibility that some owners will burn copies of the CD--a very quick and inexpensive process--before doing so. Such infringing activity would probably be diminished if resale were altogether abolished, but in adopting the first sale doctrine, Congress made the judgment that the benefits of user substitution generally outweigh the costs of any user proliferation that occurs from abusing the doctrine.

In certain situations, Congress found that the abuses overshadow the legitimate uses of the first sale doctrine, and it responded by enacting specific exceptions to the doctrine. For example, Congress enacted the Record Rental Amendment of 1984 after recognizing that there was a "direct link between the commercial rental of a phonorecord and the making of a copy of the record without the permission of or compensation to the copyright owners."[78] The House noted that, according to industry estimates at the time of the amendment, there were approximately 200 ***14** commercial record rental stores in existence, which rented phonorecords for twenty-four to seventy-two hours for fees of $0.99 to $2.50 per album.[79] Tellingly, the stores would also offer blank cassette tapes for sale, and one store even advertised, "Never, ever buy another record."[80] Similarly, the Computer Software Rental Amendments Act of 1990 was Congress's response to a "concern that commercial rental of computer programs encourage[d] illegal copying of the rented programs, depriving copyright owners of a return on their investment and discouraging creation of new works."[81] These two amendments, codified at §109(b) of the Copyright Act, now forbid the owner of a phonorecord or a copy of a computer program from renting, leasing, or lending it for commercial advantage.[82]

These exceptions may seem arbitrary. Why forbid the rental of phonorecords and software CDs, but not the rental of books and movies? Why forbid the rental but not the resale of phonorecords and software CDs? Determining when the abuse outweighs the benefit for a particular type of media and a particular kind of transaction is a judgment that the legislature is suited to make based on data and other evidence. When that determination is made, the remedy to the problem is conceptualized as a carveout, an amendment to existing law, rather than an interpretation of it, so a court would seem to lack the authority to institute this kind of remedy. Congress has determined that the abuse outweighs the benefit with respect to the rental of phonorecords and software CDs, but not with respect to resale of the same types of media or to the rental of other types of media such as books and movies.

C. The Answer Consistent with the Goals of Copyright Law

To summarize, the content holders' arguments in Augusto should be separated into two prongs. The first prong, the anti-user-substitution argument, should be disregarded because it contradicts the purposes of the first sale doctrine. The second prong, the anti-user-proliferation argument, articulates a concern that is consistent with the purposes of the Copyright Act; however, it is in tension with the first sale doctrine's willingness to tolerate some level of abuse in order to promote user substitution. ***15** Only Congress can determine when the abuse becomes so severe as to warrant enacting a carveout to the first sale doctrine.

1. Promo CDs

In light of these observations, Augusto presents an easy question. The transfer of promo CDs should be treated as transfers of ownership protected by the first sale doctrine. While UMG and its amici were rightly concerned that promo CDs will be illegally copied, resulting in user proliferation, this concern is no more compelling than it is for mass-marketed CDs. Congress simply has not deemed the potential user proliferation of mass-marketed music CDs sufficiently worrisome to warrant amending the first sale doctrine, and promo CDs seem to be no different. Therefore, just like copyright holders of content in traditional media, UMG and other producers of promo CDs must use their exclusive reproduction right as the means to go after those who actually engage in copying before selling the original CD. Producers should not be allowed to avoid the first sale doctrine and use their exclusive distribution right to bar all users from transferring promo CDs, regardless of whether the user has actually copied any of the content.

2. Software CDs

Software CDs, however, present a more difficult question, though the difference may not be readily apparent. In theory, the following kind of software transaction should be permitted, consistent with the first sale doctrine: User A pays for a software CD and uses it. When she decides that she no longer wants to use the software, User A should be free to sell the software CD to User B, assuming that User A no longer retains her ability to use the software. Forbidding this kind of transaction under copyright law would be contrary to the user substitution policies of the first sale doctrine. At first, this software transaction seems analogous to transactions in other media under the first sale doctrine: if User A bought a CD of Lady Gaga's "The Fame Monster," she should be able to sell it to User B once she tires of the album. We assume that User A has not copied the album onto another CD, her hard drive, or her iPod; if she has, she would be liable for copyright infringement under 17 U.S.C. § 106(1).[83]

The problem arises from the fact that copyright law currently contains a loophole that permits user proliferation when it comes to software CDs. Section 117(a)(1), the "essential step" exemption from a software copyright holder's reproduction right, permits "the owner of a copy of a computer program to make . . . another copy . . . of that computer program provided . . . that such a new copy . . . is ***16** created as an essential step in the utilization of the computer program in conjunction with a machine."[84] Both § 109 and § 117 use the word "owner," and it has generally been assumed that the meaning of the word is the same for both provisions.[85] Thus, whenever the first sale doctrine applies to a software CD, § 117 also applies.[86] It is also generally accepted that an "essential step" under § 117 includes the copying of the software from the CD to the hard drive of a computer.[87]

***17** Therefore, if User A sells her copy of a software CD and yet, retains a copy installed on her hard drive, there seems to be no way to penalize her for the § 117-sanctioned copy on her hard drive. Unlike the music studios, who could at least theoretically use their § 106(1) reproduction right against the user who had copied "The Fame Monster" onto her computer or iPod before selling the album, the copyright holder of the content of a software CD cannot do so because of § 117. Therefore, software CDs and music CDs are different. Subjecting software CDs to the first sale doctrine, in conjunction with § 117, would mean that user proliferation would be explicitly sanctioned by the Copyright Act. In contrast, with music CDs (of either the mass-produced or promotional variety), no user proliferation can occur as long as consumers do not engage in infringing reproductions of the content. If the first sale doctrine can be consistent with the rest of the Copyright Act only because of the premise that the doctrine does not facilitate proliferation in the absence of consumers' misbehavior, this fundamental premise is lacking when it comes to transactions involving software CDs.

Surprisingly, Autodesk's briefing in Vernor draws scant attention to this problem. Autodesk does allude to the possibility that user proliferation has occurred, pointing out that "Vernor stated in his eBay listing for these packages that '[t]his software is not currently installed on any computer,' but he did not know whether or not that was true."[88] The MPAA's amicus brief in Vernor described the problem more explicitly, albeit in a footnote. The MPAA stated that if Vernor was deemed the owner of the AutoCAD CDs,

Vernor could argue that as an owner of the particular copy he could make copies of the Autodesk software as an essential step in the utilization of that software, as could a person that purchases the software from Vernor, who could then give the software to a friend, who could also copy the software, and so on, ad infinitim. The net effect of such a scenario would be that Autodesk would have "sold" one copy of the software, and yet the software could be reproduced by multiple transferees, leaving Autodesk with no remedy or ability to stop the copying.[89]

***18** In Augusto, UMG has also recognized this point, noting that "[t]he owner of computer software has the right to make a copy to use it on a computer" because of § 117.[90]

The Vernor court did not grapple much with the user proliferation problem that results from § 117 and the first sale doctrine. The court rightly realized that completely exempting the AutoCAD CDs from the first sale doctrine would lead to the problematic result of foreclosing user substitution in the absence of user proliferation. It observed that "even if CTA had never opened its AutoCAD packages [and] never installed the software on its computer, . . . Autodesk would still take the position that CTA's resale of those packages was a copyright violation," a position which made the court uncomfortable.[91] At summary judgment, the court indeed assumed that Vernor had not installed the software on any of his own computers.[92] While recognizing these reasons why it would be problematic not to apply the first sale doctrine, the court did not address the user proliferation problems that can result from allowing the first sale doctrine to apply. The court did not explain if or why its ruling should still hold if there was evidence that Vernor had used the CDs to install AutoCAD on his computer before auctioning them on eBay. The court also did not seem troubled by the fact that CTA, the firm that had sold the CDs to Vernor, had installed the CDs on its computers and sold the CDs after it had received an "enormous discount" on its upgrade to the next generation of AutoCAD.[93]

The preceding analysis of why it is more problematic to apply the first sale doctrine to software CDs than to promo CDs is based on the assumption that copyright law forbids the copying of the promo CDs under § 106(1) but permits the copying of software CDs onto hard drives under § 117. While these assumptions are generally accepted, they admittedly are not entirely settled. One commentator noted that while the RIAA currently appears to take the position that it is infringement for a consumer to copy music from his CD onto a hard drive, mp3 player, or backup CD, the RIAA had previously argued that such copies are permissible.[94] As ***19** for software CDs, one court has held that "[t]he copy authorized by Section 117 . . . must be destroyed when the original copyrighted work is resold."[95] If one takes seriously the possibility that a consumer copying a promo CD onto her hard drive is not infringement, and that § 117 somehow bars the consumer from retaining a hard drive copy of software if she sells the CD that the copy came from, then the implications of applying the first sale doctrine to promo CDs versus software CDs would converge. These views, however, seem difficult to derive from the plain text of the statute. Therefore, such wrinkles notwithstanding, it seems that under prevailing understandings of § 106 and § 117, it is reasonable to expect that the first sale doctrine will affect promo CDs and software CDs differently, as it would result in legally sanctioned user proliferation for only the latter.

Part III: The Legal Tests: The Wise Test Is Wiser

Part II explored what outcomes are consistent with the policies underlying the first sale doctrine and copyright law in general. Under this approach, the promo CDs at issue in Augusto should be treated as transfers of ownership. For the software CDs at issue in Vernor, however, neither pole of the license-versus-sale dichotomy offers an answer that fully harmonizes with the policies underlying copyright law. Calling transfers of software CDs licenses undermines the first sale doctrine's user substitution policies. Calling such transfers sales introduces a user proliferation problem that runs counter to the purposes of copyright law, a problem that does not arise in the context of books, music CDs, videos, and DVDs.

Part III, turning away from the policy-based analysis, takes a narrower approach and examines the merits of the specific legal tests proffered in Augusto and Vernor. The Ninth Circuit has taken a variety of approaches to differentiating between licenses and sales. The Vernor court focused primarily on four Ninth Circuit cases --United States v. Wise,[96] MAI Systems Corp. v. Peak Computer, Inc.,[97] Triad Systems Corp. v. Southeastern Express Co.,[98] and Wall Data Inc. v. Los Angeles ***20** County Sheriff's Department[99]--and found that these cases constitute "two sets of conflicting precedent."[100] There is the Wise test, and alternatively there is the approach taken by the other three cases, which I will refer to as the Wall Data test. The Augusto court relied mainly on yet another Ninth Circuit case, Microsoft Corp. v. DAK Industries, Inc. (In re DAK),[101] but In re DAK's approach is fundamentally similar to, and can be discussed along with, the Wise test.

Part III argues that the Wise test is the superior legal test for resolving the license-versus-sale question because it is more faithful to common law concepts of ownership and is more workable. The Wall Data test, in contrast, is flawed because it is circular in its reasoning, and if it were applied in a principled manner, it would make the first sale doctrine vanish altogether.

A. The Wise Test

United States v. Wise involved a prosecution for willful copyright infringement against Woodrow Wise, who had attempted to sell 16 and 35 mm films of copyrighted feature-length movies.[102] In defense, Wise contended that the movie studios routinely distributed the films at issue as sales, thus subjecting the films to the first sale doctrine.[103] The court therefore analyzed the terms of several types of agreements through which the studios had distributed the films to determine whether the transactions were sales or licenses.[104] These included movie studios' agreements with theaters, the military, hotels, television networks, and actors.[105]

Wise noted various characteristics of the agreements in its analysis, including whether the movie studio retained title, whether the agreement required the recipient of the film to destroy the transferred copies, and whether the recipient paid a single upfront payment for the film.[106] The Vernor court observed, however, that none of those factors proved dispositive.[107] In contrast, there was a single characteristic ***21** that appeared only in agreements that Wise deemed to be a transfer of ownership: "In each instance in which the transferee could, at his election, retain possession of the transferred copy indefinitely, and the copyright holder had no right to regain possession, [Wise] found an ownership transfer."[108] The Vernor court therefore regarded this characteristic as dispositive and held that "Wise leads to the conclusion that the transfer of AutoCAD copies . . . is a transfer of ownership."[109] It likened Autodesk's "license terms" accompanying the AutoCAD CDs to one of the agreements in Wise.[110] That agreement also "purported to reserve title in the copy to the copyright holder" and "severely restrict[ed] the use and transfer of the copy," but did not require the transferee to surrender possession at any point and was deemed to be a sale despite the restrictions in the agreement.[111]

The court's analysis in Augusto noted an "economic realities" test, citing a bankruptcy case, Microsoft Corp. v. DAK Industries, Inc. (In re DAK), but it ended up relying largely on the Wise test.[112] Under In re DAK, "the fact that [an] agreement labels itself a 'license' . . . does not control [the] analysis," and the court looks instead to indicators of the "economic realities" of the transaction.[113] The Augusto court found that a "hallmark" of a license is the owner's intent to gain repossession, citing Wise, and concluded that Augusto was protected by the first sale doctrine.[114]

Since the Copyright Act does not define "owner" or "ownership," one should look to common law and ordinary meanings and understandings of these words.[115] ***22** The Wise test comports with common understandings of ownership. The definition of "ownership" in Black's Law Dictionary includes the statement that "[o]wnership rights are . . . permanent."[116] The entry for "lease," on the other hand, refers to a "lease term [which] can be for life, for a fixed period, or for a period terminable at will."[117] The Uniform Commercial Code also distinguishes between sales (governed by UCC Article 2) and leases (governed by UCC Article 2A).[118] Corinne Cooper states that one of the "basic assumptions" about how a sale and a lease differ is that "in an unconditional sale, the buyer gets to keep the goods," whereas "in a lease, the lessor gets the goods back."[119] Courts have observed that one indication that a transaction is really a sale and not a lease is if the supposed "lessor's known practice is not to bother with reclaiming the used goods."[120] A bankruptcy court clarified the term "lease": "By definition, a lease is an arrangement whereby the use of property is temporarily reserved to one who is not the owner of the property. When the lease term ends, the lessor thereafter 'can do as he pleases with his property.'"[121] These traditional understandings of ownership with respect to other physical goods has led Reese to conclude that "[i]f the consumer essentially obtains permanent dominion over the physical object that is the copy, the transaction should probably . . . be characterized as a sale.[122] Rothchild similarly declared that the "critical question is whether the 'licensee' of the CD-ROM or floppy diskette has to give it back during its useful life: if not, the transaction is a sale, and the acquirer is the 'owner' of the software copy for purposes of sections 109(a) and 117(a)."[123]

The most compelling argument against the Wise test that the content holders have raised in Augusto and Vernor is that the return requirement is "pointless and ***23** inefficient."[124] Why should a copyright holder be able to transform its distributions of CDs from sales into licenses simply by, but only by, requiring users to return the physical discs? As Autodesk stated, "the physical media has almost no value . . . independent from the software contained on the media," and it would be "economically nonsensical" to require customers to return the CDs, generating postage and processing costs.[125] Similarly, UMG stated that it would be "logistically difficult, expensive, and time consuming" to seek return of its promo CDs, "only to arrange for and pay for their destruction."[126] Autodesk and UMG argued that instead of incurring such wasteful expenses, their license terms stipulating non-transferability should have the same legal effect of making their transactions licenses.[127]

But a non-transferability requirement and a return requirement do not achieve the same result. Requiring returns proves that a copyright holder intends for the consumer to possess the work for a limited period of time. A non-transferability requirement permits a user to retain the work indefinitely. If duration of possession is the substantive "hallmark" that distinguishes between a license and a sale, a non-transferability clause would not be enough to classify the transaction as a license. It might be more compelling if, rather than prohibiting transfers, the shrinkwrap terms instead required the user to destroy the work after a specified period of time. This scenario is still problematic, however, in that one would question whether the copyright holder was serious about imposing temporal limitations if it did not plan to enforce them. Moreover, UMG candidly admits that it does not want to impose temporal limitations on its recipients because it hopes that the recipients will use the music repeatedly over time (for example, to write reviews of a subsequent album by the same artist or to play the music in a club or on the radio).[128]

Additionally, Autodesk and UMG's argument is problematic. If shrinkwrap terms forbidding transfers could be sufficient to establish that a transaction is a license rather than a sale, there is no reason that copyright holders in traditional media could not do this as well. It is hard to imagine what would prevent a book publisher or movie studio from imposing similar terms for its products, enabling them to avoid the first sale doctrine as well.

*24 B. The Wall Data Test

A non-transferability clause is central to the Wall Data test, the test that Autodesk and UMG embrace in their appellate briefs.[129] The Vernor court treated Wall Data as part of the "MAI trio,"[130] grouping it with two earlier cases that had readily accepted the distribution of software as licenses. However, Wall Data provided the most thorough articulation of the legal test: "Generally, if the copyright owner makes it clear that she or he is granting only a license to the copy of software and imposes significant restrictions on the purchaser's ability to redistribute or transfer that copy, the purchaser is considered a licensee, not an owner, of the software."[131] In Wall Data, the court found that the defendant could not invoke § 117 because the agreement under which the defendant acquired its software CDs contained "severe restrictions," making it a licensee, not an owner.[132] The transfer of promo CDs in Augusto and of the Autodesk CDs in Vernor would certainly be licenses under the Wall Data test, given the restrictions on transfers contained in notices conveyed with the CDs. As the Vernor court acknowledged, under the Wall Data test, "[T]he court would have to conclude that the Autodesk License did not transfer ownership of any software copy."[133]

The Wall Data approach, however, is flawed because it uses circular reasoning. If the purpose of asking whether someone is an "owner" is to determine whether he is entitled to alienate his goods against the copyright holder's wishes, it does not make sense to look to whether he is restrained in his ability to alienate his goods to determine whether he is an "owner." If the Wall Data test was adopted ***25** and applied to traditional media--again, there seems to be no principled way to limit this rule to software or promo CDs--it would virtually eviscerate the first sale doctrine. Content holders would be able to simply contract around the first sale doctrine by giving sufficiently prominent and clear notice that a consumer only "licenses," rather than "buys," their product. A book publisher or movie studio could label its products with notices akin to those in Augusto and Vernor: "[This product] is licensed to the intended recipient for personal use only. Acceptance of this [product] shall constitute an agreement to comply with the terms of the license. Resale or transfer of possession is not allowed."[134] Autodesk hastily dismissed this possibility, contending that it is inconsistent with the business models of other media industries,[135] but there is evidence to the contrary. For example, the bar exam preparation company, BarBri, currently uses a form contract that attempts to characterize its distribution of instructional materials as "leases," presumably in an attempt to prevent downstream user substitution and thus boost enrollment in its courses.[136] Though such notices may be sufficient to create valid contracts between the copyright holder and the first recipient of a copy his work,[137] the legislative history of § 109 indicates that Congress did not intend for parties to be able to contract around the first sale doctrine.[138] The House stated that the existence of the first sale doctrine "does not mean that conditions on future disposition of copies or phonorecords, imposed by a contract between their buyer and seller, would be unenforceable between the parties as a breach of contract, but it does mean that they could not be enforced by an action for infringement of copyright."[139] In other words, Autodesk should be able to bring a breach of contract claim against CTA for selling the AutoCAD CDs to Vernor, but it should not be able to assert a copyright claim ***26** against CTA or against a downstream purchaser such as Vernor. Accepting the Wall Data test would strip this distinction of significance.

Part IV: What Next? Congressional Action, or Self-Cure by the Industry?

If courts ultimately find that software CDs and promo CDs are subject to the first sale doctrine, what recourse is available to copyright holders in these industries? The copyright holders can lobby Congress to amend the Copyright Act as it did with the Record Rental Amendment Act of 1984 and Computer Software Rental Amendments Act of 1990.[140] However, music studios would probably have difficulty demonstrating why their promo CDs should be treated differently than mass-marketed music CDs. Software manufacturers, on the other hand, may have a more compelling case to differentiate software CDs from mass-marketed music CDs. In addition to the § 117 loophole, there are other plausible reasons why software should be treated differently than other copyrighted media. One possible reason is that users are simply more tempted to pirate software because it is typically more expensive than other types of copyrighted works. When contemplating a $100+ software package, in contrast to a music album that costs around $15, consumers' moral hesitations about copyright infringement may be more likely to yield to their desire to save money. Another possible difference is that software manufacturers have reasons to engage in a wider range of price discrimination than traditional media industries. Perhaps facilitating price discrimination in software does result in greater net social efficiency.

If software CDs are subject to the first sale doctrine, software manufacturers are likely to respond by distributing more of their content by direct download from the Internet, rather than by physical compact disks. The transition to Internet distribution of software is already substantially underway. For example, Microsoft has made its Office 2010 suite available for download online.[141] Moreover, it charges up to 30% less for the downloaded version than for the CD version, leading some to predict that it "will ultimately help turn boxed software into an endangered species."[142] Some software is now available via "cloud computing," which refers to accessing "software and data on the Internet (a.k.a., the cloud) instead of on your hard drive."[143] As one reporter stated, "Ten years ago if you wanted to do something ***27** with your PC you needed to buy software and install it[,] . . . [but now] [t]he ascent of Web 2.0 . . . is making that practice obsolete."[144]

The availability of Internet distribution of software means "fewer works [are] being distributed . . . in the form of copies . . . that are effectively transferable as a practical or legal matter."[145] This is because "the first sale privilege is generally unavailable in cyberspace."[146] When User A downloads a software program or a music album from the Internet to his hard drive, the copy of the work that he owns is the copy imprinted on the hard drive inside his computer. Unless User A sells his entire hard drive with the software on it (which should be permissible under the first sale doctrine for all the same user substitution reasons why he should be able to sell a software CD), User A cannot transfer the software or music to User B without infringing the copyright holder's reproduction rights. Thus, the transition to Internet distribution of software may make the Vernor ruling that favors first sale doctrine protection, even if upheld by the Ninth Circuit, "ever less relevant."[147] Indeed, Autodesk stated in its briefing that it currently distributes AutoCAD both via CD and via Internet download, although it does not disclose what proportion of its sales are generated by each method.[148]

Record companies may also turn to more Internet distribution of promotional music, but its transition may be more difficult than the software industry's transition. Sony Music UK announced that as of May 2010, it has "switch[ed] to a digital e-card system for the distribution of promotional music" and simultaneously phased out the mailing of promo CDs.[149] Greg Sandoval of CNET reported that the record label EMI Group has also "drastically scaled back the numbers of CDs it sen[ds] out as promos" and now "distributes secure online access where retailers or reviewers can hear songs."[150] According to MusicWeek, there are "several established ***28** systems in use" for distributing promotional music online, but "the idea of phasing out the CD has created controversy."[151] For example, one music blogger, referring to digital promos, comments that he "frankly feel[s] less inclined to review something that has such [an] impersonal approach and [so] little effort put into it."[152] Another music critic, in response to Sony UK's announcement, predicts that "within a year[,] when they want reviewers to take notice of something they'll start sending out copies again."[153] Thus, physical discs still seem to command an aura in the music world, a phenomenon that does not similarly encumber the software industry.[154]

Conclusion

Promo CDs and software CDs should be no less alienable than other personal property, assuming that the user who sells his CD no longer retains his ability to enjoy the CD's content. This view is consistent with the first sale doctrine's policy of promoting user substitution. It is also the result reached by applying the Wise test, which is the better of the two opposing legal tests that the parties are championing before the Ninth Circuit. The Wise test is faithful to longstanding understandings of ownership with respect to other types of material property, and the Wise test is more workable than the Wall Data test, which would permit copyright holders to easily contract around the first sale doctrine. It is important to acknowledge, however, that applying the first sale doctrine to software CDs would also facilitate user proliferation, contrary to the purposes of copyright law. This loophole is due to the "essential step" exemption under § 117 of the Copyright Act, which seems to permit a user to sell his copy of a software CD while retaining a copy of the software on his hard drive.[155] While this problem could be cured by amending the Copyright Act, the loophole will eventually lose significance as software manufacturers transition to distributing their products through the Internet. Record companies, on the other hand, may struggle more than software manufacturers in shifting to the Internet model for distributing promotional music.

Footnotes

a1 J.D. 2010, Stanford Law School. I am grateful to Prof. Paul Goldstein, Prof. G. Marcus Cole, Brad Handler, and the editors and staff of the Texas Intellectual Property Law Journal for their help with this paper, and to Jason Hom for his constant support.

1 17 U.S.C. §109 (2006).

2 210 U.S. 339, 350 (1908).

3 17 U.S.C. §202 (2006) (emphasis added); see also Stevens v. Royal Gladding, 58 U.S. 447 (1854) (holding that ownership of the copyright in a map is distinct from ownership of the copperplate bearing the design of the map).

4 2 Paul Goldstein, Goldstein on Copyright §7.6.1.1 (3d ed. 2005).

5 2 Melville B. Nimmer & David Nimmer, Nimmer on Copyright §8.12[A] (Matthew Bender, rev. ed. 2010); see also H.R. Rep. No. 98-987, at 2 (1984), reprinted in 1984 U.S.C.C.A.N. 2898, 2899 ("The first sale doctrine has its roots in the English common law rule against restraints on alienation of property. American courts have affirmed the doctrine and distinguished between the owner's exclusive rights in the copyright and the rights of the owner of an object embodying a work that is under copyright." (citing Bobbs-Merrill, 210 U.S. at 350; Harrison v. Maynard, Merrill & Co., 61 F.2d 689, 690 (2d Cir. 1894); Zechariah Chafee, Jr., Equitable Servitudes on Chattles, 41 Harv. L. Rev. 945, 982 (1928)).

6 See 17 U.S.C. §109(d) (2006) ("The privilege[] prescribed by [§109(a)] do[es] not, unless authorized by the copyright owner, extend to any person who has acquired possession of the copy or phonorecord from the copyright owner, by rental, lease, loan, or

otherwise, without acquiring ownership of it.”).

7 17 U.S.C. §106(3) (2006).

8 H.R. Rep. No. 94-1476, at 80 (1976).

9 558 F. Supp. 2d 1055, 1055 (C.D. Cal. 2008).

10 No. C07-1189RAJ, 2009 U.S. Dist. LEXIS 90906, at *2 (W.D. Wash. Sept. 30, 2009).

11 UMG Recordings, 558 F. Supp. 2d at 1065; Id. at *48.

12 Notice of Oral Argument on June 7th Calendar, UMG Recordings, Inc. v. Augusto, No. 08-55998 (9th Cir. Apr. 29, 2010); Notice of Oral Argument on June 7th Calendar, Vernor v. Autodesk, Inc., No. 09-35969 (9th Cir. Apr. 29, 2010).

13 See 17 U.S.C. §117(a)(1) (2006); ProCD, Inc. v. Zeidenberg, 908 F. Supp. 640, 647?50 (W.D. Wis. 1996), rev’d on other grounds, 86 F.3d 1447 (7th Cir. 1996) (noting that software copied onto a hard drive for personal use and not distributed may be entitled to the exception from infringement set out in 17 U.S.C. §117).

14 This refers to the approach in United States v. Wise, 550 F.2d 1180 (9th Cir. 1977).

15 See Wise, 550 F.2d at 1191-93.

16 This refers to the approach in Wall Data Inc. v. Los Angeles Sheriff’s Dep’t., 447 F.3d 769 (9th Cir. 2006).

17 Wall Data, 447 F.3d at 785.

18 558 F. Supp. 2d 1055, 1055 (C.D. Cal. 2008).

19 Id. at 1058.

20 Id.

21 Id. (emphasis added).

22 Id.

23 Id.

24 See UMG Recordings, Inc. v. Augusto, 558 F. Supp. 2d 1055, 1058-59 (C.D. Cal. 2008).

25 Id. at 1059.

26 Id. at 1059-60.

27 Id. at 1059 (quoting 4 William F. Patry, Patry on Copyright §13:15 (2006)).

28 Id. (quoting 2 Paul Goldstein, Goldstein on Copyright §7.6.1 n.4 (3d ed. 2005)).

29 Id. at 1062. The court also had an alternative ground for its ruling that the promo CDs were gifts. It found that the promo CDs were gifts under the Postal Reorganization Act, id. at 1064, which provides that "unordered merchandise" sent via mail "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." 39 U.S.C. §3009 (2006). UMG has also appealed this alternative ruling, but this paper will not discuss the Postal Reorganization Act.

30 No. C07-1189RAJ, 2009 U.S. Dist. LEXIS 90906, at *3 (W.D. Wash. Sept. 30, 2009).

31 Id. at *10-11.

32 Id. at *5.

33 Id. at *7 (citation omitted).

34 Id. at *2 (citation omitted).

35 Id. at *10.

36 Vernor v. Autodesk, Inc., No. C07-1189RAJ, 2009 U.S. Dist. LEXIS 90906, at *2 (W.D. Wash. Sept. 30, 2009) (citations omitted).

37 Id. at *11 (citations omitted).

38 Id. at *3, 9.

39 Id. at *1.

40 550 F.2d 1180, 1190-93 (9th Cir. 1977).

41 Vernor, 2009 U.S. Dist. LEXIS 90906, at *22.

42 Pamela Samuelson, When is a "License" Really a Sale?, 52 Comm. ACM 27, 27 (2009).

43 Id. at 29.

44 William W. Fisher III, When Should We Permit Differential Pricing of Information?, 55 UCLA L. Rev. 1, 15 (2007).

45 See, e.g., Nimmer & Nimmer, supra note 5, at §8.12[B][1][d] (noting that there has been "confusion" in case law applying the first sale doctrine to computer software); John A. Rothchild, The Incredible Shrinking First-Sale Rule: Are Software Resale Limits Lawful?, 57 Rutgers L. Rev. 1, 48 (2004) ("[C]ourts, as well as commentators and even the Copyright Office, have evinced a good deal of confusion in applying the first-sale doctrine to software copies."); Michael Seringhaus, E-Book Transactions: Amazon "Kindles" the Copy Ownership Debate, 12 Yale J.L. & Tech. 147, 151 (2009) ("Under a variety of circumstances, courts--often sitting in the same judicial circuit--have issued conflicting opinions on the matter of whether software is sold or merely licensed.").

46 See, e.g., Triad Sys. Corp. v. Se. Express Co., 64 F.3d 1330, 1333 (9th Cir. 1995), overruled in part on other grounds by Gonzales v. Texaco Inc., 344 F. App'x 304 (9th Cir. 2009) (discussing a manufacturer's switch from selling to licensing its software); MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511, 519 n.5 (9th Cir. 1993) (noting that customers no longer qualify as owners of software once a manufacturer licensed its software); Davidson & Assocs. v. Internet Gateway, 334 F. Supp. 2d 1164, 1178 (E.D. Mo. 2004) ("When license terms provide that ownership of the copy remains in the copyright owner, they preclude the transfer of title to the copy of the license."); Microsoft Corp. v. Harmony Computers & Elecs., Inc., 846 F. Supp. 208, 213 (E.D.N.Y. 1994) (noting that "[e]ntering a license agreement is not a 'sale' for purposes of the first sale doctrine") (citation omitted); CMAX/Cleveland, Inc. v. UCR, Inc., 804 F. Supp. 337, 356 (M.D. Ga. 1992) (concluding that defendants never owned a copy of the software and thus infringed the manufacturer's copyrights by breaching the license agreement); ISC-Bunker Ramo Corp. v. Altech, Inc., 765 F. Supp. 1310, 1331 (N.D. Ill. 1990) (finding that distribution of software pursuant written licensing agreements precludes licensees from redistributing the software).

47 See, e.g., DSC Commc'ns. Corp. v. Pulse Commc'ns., Inc., 170 F.3d 1354, 1362 (Fed. Cir. 1999) (holding that the district court improperly concluded that defendants were owners of the software in light of the written agreement); Adobe Sys. Inc. v. Stargate Software Inc., 216 F. Supp. 2d 1051, 1059 (N.D. Cal. 2002) (holding that parties should be free to characterize software distribution as a license and to negotiate and enter into their own terms); Adobe Sys. Inc. v. One Stop Micro, Inc., 84 F. Supp. 2d 1086, 1092 (N.D. Cal. 2000) (concluding the parties formed a licensing agreement based on factors such as intent "in entering into the agreement, trade usage, the unique nature of distributing software, as well as the express restrictive language of the contract").

48 See, e.g., Krause v. Titleserv, Inc., 402 F.3d 119, 124 (2d Cir. 2005) (holding that the defendant owned the software after considering numerous factors); Softman Prods. Co. v. Adobe Sys. Inc., 171 F. Supp. 2d 1075, 1085 (C.D. Cal. 2001) (finding that circumstances suggest the transaction at issue was a sale rather than a license and that many "shrinkwrap license" transactions are similarly sales of goods rather than licenses); Novell, Inc. v. CPU Distrib., Inc., No. H-97-2326, 2000 U.S. Dist. LEXIS 9975, at *19 (S.D. Tex. May 4, 2000) (finding that the unambiguous agreement was a sales contract but recognizing that possibility of drafting an agreement to avoid the application of the first sale doctrine); Novell, Inc. v. Network Trade Ctr., Inc., 25 F. Supp. 2d 1218, 1230 (D. Utah 1997) (holding that the first sale doctrine applied to the chain of transactions because the attached shrinkwrap license was invalid).

49 Brief of Amicus Curiae the Motion Picture Association of America, Inc. in Support of Appellant's Position Seeking Reversal on Appeal at 20, Vernor v. Autodesk, Inc., No. 09-35969 (9th Cir. Jan. 12, 2010) (citations omitted) [hereinafter MPAA Amicus Brief]; Brief of Amicus Curiae Software & Information Industry Association (SIIA) in Support of Appellant and Reversal at 7, Vernor v. Autodesk, Inc., No. 09-35969 (9th Cir. Jan. 14, 2010) [hereinafter SIIA Amicus Brief]; Brief for Amicus Curiae Recording Industry Association of America in Support of Reversal at 17, UMG Recordings, Inc. v. Augusto, No. 08-55998 (9th Cir. Dec. 22, 2008) [hereinafter RIAA Amicus Brief].

50 My analysis draws only on the appellate briefs in UMG Recordings, Inc. v. Augusto and Vernor v. Autodesk, Inc. and does not consider the district court briefs.

51 Rothchild, supra note 45, at 15-16.

52 Fisher, supra note 44, at 3.

53 See Fisher, supra note 44, at 3.

54 Fisher, supra note 44, at 4. For a discussion of more examples of price discrimination in industries including transportation, higher education, DVDs, patented medical devices, textbooks, pharmaceuticals, and fashion, see id. at 29.

55 R. Anthony Reese, The First Sale Doctrine in the Era of Digital Networks, 44 B.C. L. Rev. 577, 625-26 (2003); see also Fisher, supra note 44, at 14 (noting that arbitrage would discourage copyright owners from engaging in price discrimination).

56 U.S. Copyright Office, DMCA Section 104 Report: A Report of the Register of Copyrights Pursuant to §104 of the Digital Millennium Copyright Act, at 2021 (2001) (citing Bobbs-Merrill Co. v. Strauss, 210 U.S. 339, 350-51 (1908)).

57 Id. at 21.

58 Nancy S. Kim, The Software Licensing Dilemma, 2008 BYU L. Rev. 1103, 1150 (2008).

59 Id. (internal quotations omitted).

60 Id.

61 Dawn C. Chmielewski, Redbox's $1 Vending-Machine Video Rentals Worry Studios, L.A. Times, Mar. 30, 2009, at 2, available at http:// articles.latimes.com/2009/mar/30/business/fi-cotown-redbox30?pg=2.

62 Brooks Barnes, Movie Studios See a Threat in Growth of Redbox, N.Y. Times, Sept. 6, 2009, at B1, available at http:// www.nytimes.com/2009/09/07/business/media/07redbox.html?r=1&adxnnl=1&adxnnlx=1269198514-GwElauUw9VWQ/eldAa+kVQ.

63 See Defendants' Opening Brief in Support of Their Motion to Dismiss Complaint Pursuant to Rule 12(b)(6) at 15, Redbox Automated Retail, LLC v. Home Entm't, LLC, No. 08-766 (RBK) (D. Del. Dec. 5, 2008) (noting that "there is no allegation that Universal has asserted or threatened any copyright claims against Redbox").

64 See, e.g., Alex Dobuzinskis, Warner, Redbox Strike Deal on DVDs, Avert Lawsuit, Reuters, Feb. 16, 2010, at 1 (describing agreement under which Redbox cannot rent new Warner Brothers DVDs until 28 days after their release), available at http://www.reuters.com/article/idUSN1623984420100216; Sarah McBride, Sony Pictures, Redbox Sign Movie Agreement, Wall St. J., July 21, 2008, at B6 (describing a deal in which Sony agrees to sell DVDs to Redbox but prohibits Redbox from selling used Sony DVDs to the public), available at http://online.wsj.com/article/SB124813913097467201.html.

65 See, e.g., Fisher, supra note 44, at 27 ("In some specific settings, it will turn out that differential pricing is benign.... In other settings, discrimination will turn out to be malign.").

66 Appellant's Opening Brief at 44, Vernor v. Autodesk, Inc., No. 09-35969 (9th Cir. Jan. 5, 2010) [hereinafter Autodesk's Opening Brief]; see also Appellant's Reply Brief at 32, Vernor v. Autodesk, Inc., No. 09-35969 (9th Cir. Feb. 26, 2010) [hereinafter Autodesk's Reply Brief] ("Licensing permits different markets and users to obtain software at varying prices.... Different prices ... can be charged for commercial users, students, educational institutions, and nonprofits ... as appropriate.").

67 SIIA Amicus Brief, supra note 49, at 7.

68 RIAA Amicus Brief, supra note 49, at 17. One can view the music insiders as receiving a discounted (i.e. free) version of the CD

because of their status, akin to students receiving discounted versions of software because of their status.

69 MPAA Amicus Brief, supra note 49, at 20 (citations omitted).

70 See Kim, supra note 58, at 1149 ("The pricing dilemma faced by software producers is no different from that faced by producers in other industries.").

71 U.S. COPYRIGHT OFFICE, supra note 56, at 21.

72 U.S. Const. art. I, §8, cl. 8.

73 Autodesk's Opening Brief, supra note 66, at 48.

74 Autodesk's Reply Brief, supra note 66, at 28.

75 Appellant's Opening Brief at 33, UMG Recordings, Inc. v. Augusto, No. 08-55998 (9th Cir. Dec. 18, 2008) [hereinafter UMG's Opening Brief]; see also Appellant's Reply Brief at 12, UMG Recordings, Inc. v. Augusto, No. 08-55998 (9th Cir. Feb. 25, 2009) [hereinafter UMG's Reply Brief] (expressing concern about the "ease with which digital recordings can be and are copied and 'virally' distributed over the [I]nternet, and the resulting harm to copyright owners").

76 RIAA Amicus Brief, supra note 49, at 1516.

77 MPAA Amicus Brief, supra note 49, at 1819.

78 H.R. Rep. No. 98-987, at 1 (1984), reprinted in 1984 U.S.C.C.A.N. 2898, 2899.

79 Id.

80 Id. (internal quotations omitted).

81 U.S. Copyright Office, Report on Computer Software Rental Amendments Act of 1990: The Nonprofit Library Lending Exemption to the "Rental Right," *1 (1994), available at http://www.copyright.gov/reports/software_ren.html.

82 17 U.S.C. §109(b)(1)(A) (2006) ("[N]either the owner of a particular phonorecord nor any person in possession of a particular copy of a computer program (including any tape, disk, or other medium embodying such program), may, for the purposes of direct or indirect commercial advantage, dispose of, or authorize the disposal of, the possession of that phonorecord or computer program (including any tape, disk, or other medium embodying such program) by rental, lease, or lending, or by any other act or practice in the nature of rental, lease, or lending.").

83 17 U.S.C. §106(1) (2006) ("[T]he owner of copyright under this title has the exclusive rights to do and authorize ... reproduc[tion of] the copyrighted work in copies or phonorecords.").

84 17 U.S.C. §117(a)(1) (2006) (emphasis added).

85 See Vernor v. Autodesk, Inc., No. C07-1189RAJ, 2009 U.S. Dist. LEXIS 90906, at *37-38 (W.D. Wash. Sept. 30, 2009) ("The court has already noted the presumption that identical terms within the same statute have the same meaning. At least in their briefs, Mr. Vernor and Autodesk agree that the phrases 'owner of a copy' in §117 and 'owner of a particular copy' in §109 have the same meaning.... A more detailed review of the legislative history, moreover, strongly suggests that 'owner' has the same meaning in §117 and §109."); cf. Nimmer & Nimmer, supra note 5, §8.08[B][1][c] (noting that the significance of distinguishing "between copyright ownership and ownership of the physical good in which the work of authorship is embodied is not limited to Section 117. Cases have misconstrued copyright's first sale doctrine on the same basis"); see generally U.S. Copyright Office, supra note 56, at v (discussing "the relationship between existing and emergent technology and the operation of sections 109 and 117" without mentioning any distinction between "owner" as used in §109 and "owner" as used in §117).

86 But see MDY Indus., LLC v. Blizzard Entm't, Inc., No. CV-06-2555-PHX-DGC, 2008 U.S. Dist. LEXIS 53988, at *30 (D. Ariz. July 14, 2008). MDY involved a §117 defense but not a first sale defense to software manufacturer Blizzard's copyright infringement claim. In granting summary judgment for Blizzard, the court refused to consider case law on the meaning of "ownership" in the context of first sale doctrine and considered only case law on the meaning of ownership in the context of §117. See id. at *30 ("The Court is not free to disregard Ninth Circuit precedent directly on point."). Nevertheless, commentators have grouped MDY with Vernor and Augusto in discussing the sale-versus-license issue, and the Ninth Circuit heard oral argument in MDY on the same day as it heard oral arguments in Vernor and Augusto. Notice of Oral Argument on June 7th Calendar, MDY Indus., LLC v. Blizzard Entm't, Inc. (9th Cir. Apr. 29, 2010). This paper, however, does not discuss MDY elsewhere because MDY does not present the user substitution and user proliferation concerns in as high relief as Vernor and Augusto. Unlike Vernor and Augusto, who wanted to buy and sell copies of compact discs, the defendant in MDY wants a form of access to the copyrighted software. The defendant manufactures a "bot," a software program that plays Blizzard's copyrighted computer game for its owner while the owner is away from his computer, id. at *4, which entails copying the computer game from the hard drive to the computer's random access memory, id. at *10.

87 See, e.g., Vault Corp. v. Quaid Software Ltd., 847 F.2d 255, 261 (5th Cir. 1988) ("Congress recognized that a computer program cannot be used unless it is first copied into a computer's memory, and thus provided the §117(1) exception to permit copying for this essential purpose."); Madison River Mgmt. Co. v. Bus. Mgmt. Software Corp., 387 F. Supp. 2d 521, 538 (M.D.N.C. 2005) (A "copy made by the very act of installing a program into a computer ... is privileged."); Nimmer & Nimmer, supra note 5, §8.08[B][1][b] ("[C]opying navigation software off of CD-ROMs to the hard drive, in order to access more quickly the vast data stored on the CD-ROM, is essential to efficient operation. Given that efficiency lies at the heart of the rationale for computerization in the first place, to forbid such practices--or to limit them to instances in which the copyright owner has explicitly licensed them--represents an impoverished view of users' rights under Section 117. The trend is to read Section 117 broadly.") (internal quotations and citations omitted); Robert A. Kreiss, Section 117 of the Copyright Act, 1991 BYU L. Rev. 1497, 1527 (1991) ("[I]nstalling a program on the user's hard drive is virtually indispensable for efficient use. This is known by both users and copyright owners. Therefore, as a matter of practical reality this practice falls within the conduct permitted under §117(1).").

88 Autodesk's Opening Brief, supra note 66, at 14; see also Autodesk's Reply Brief, supra note 66, at 28 n.17 ("Vernor, in fact, admitted that he did not know whether CTA had kept copies of the AutoCAD R14 software on its computers.").

89 MPAA Amicus Brief, supra note 49, at 22 n.11.

90 UMG's Opening Brief, supra note 75, at 36.

91 Vernor v. Autodesk, Inc., No. C07-1189RAJ, 2009 U.S. Dist. LEXIS 90906, at *46 (W.D. Wash. Sept. 30, 2009).

92 Id. at *3 ("There is no evidence ... that Mr. Vernor used AutoCAD software himself, or even installed it on his computer.").

93 Id. at *14 (explaining that the next generation of AutoCAD software "retailed for $3750, but sold for $495 as an upgrade").

94 Eliyahu R. Babad, So You're an Attorney; Tell Me: Can I Backup My CDs Without Being Sued?, Fordham Intell. Prop. Media & Ent. Law Blog, May 14, 2008, http://iplj.net/blog/archives/135 ("The RIAA used to say that that any copying of copyrighted music onto your personal computer was infringement. It did not matter why or for what purposes you were making the copy....

Somewhere along the way they changed their position. The RIAA now states on their website that the record companie[s] have 'never' objected to copies for personal use.... [But] [i]n reply comments to proposed rules from the U.S. Copyright Office, the RIAA ... stated 'creating a back-up copy of a music CD is not a non-infringing use[.]' Once again, the recording industry is fairly clearly stating that the RIAA takes the position that it is illegal to make these back-ups of your own CDs.").

95 Apple Computer, Inc. v. Formula Int'l, Inc., 594 F. Supp. 617, 622 (C.D. Cal. 1984).

96 550 F.2d 1180 (9th Cir. 1977).

97 991 F.2d 511 (9th Cir. 1993).

98 64 F.3d 1330 (9th Cir. 1995) overruled in part on other grounds by Gonzales v. Texaco Inc., 344 F. App'x 304 (9th Cir. 2009).

99 447 F.3d 769 (9th Cir. 2006).

100 Vernor v. Autodesk, Inc., No. C07-1189RAJ, 2009 U.S. Dist. LEXIS 90906, at *36 (W.D. Wash. Sept. 30, 2009).

101 66 F.3d 1091 (9th Cir. 1995).

102 United States v. Wise, 550 F.2d 1180, 1183-84 (9th Cir. 1977).

103 Id. at 1190.

104 Id. at 1190-92.

105 Id.

106 Id.

107 Vernor v. Autodesk, Inc., No. C07-1189RAJ, 2009 U.S. Dist. LEXIS 90906, at *17-19 (W.D. Wash. Sept. 30, 2009).

108 Id. at *20-21.

109 Id. at *22.

110 Id. at *23.

111 Id. at *22-23.

112 UMG Recordings, Inc. v. Augusto, 558 F. Supp. 2d 1055, 1060 (C.D. Cal. 2008).

113 Id. at 1060 n.2.

114 Id. Augusto also pointed to two other factors that it found indicative of a sale. It found that "[t]he [a]bsence of a [r]ecurring [b]enefit to UMG [s]uggests the [t]ransfer to [m]usic [i]ndustry [i]nsiders [i]s a [g]ift or [s]ale." Id. at 1061 (emphasis omitted). This point is somewhat related, however, to Wise's emphasis on the duration of the recipient's possession. It drew on In re DAK's observation that most rental arrangements entail recurring benefits to the lessor because payment is typically calculated based on "the duration of the 'use' of the property." Microsoft Corp. v. DAK Indus., Inc., 66 F.3d 1091, 1095 (9th Cir. 1995). The final factor that Augusto found indicative of a transfer of ownership was that the only apparent benefit to UMG of treating the transfer of promo CDs as licenses is to restrain trade. Augusto, 558 F. Supp. 2d at 1061.

115 See Rothchild, supra note 45, at 17 ("The Copyright Act does not contain a definition of 'owner' or 'ownership,' and the primary source of legislative history, the 1976 House Report, is not helpful. We must therefore assume that Congress intended the ordinary meaning of the term, taking account of the context and purposes of the statute. State common law may serve as a source of this ordinary meaning. However, a[s] common law ownership is not a well-defined concept ... reliance upon the non-technical meaning of the term is unavoidable.") (internal citations omitted).

116 Black's Law Dictionary 1131 (7th ed. 1999) (emphasis added).

117 Id. (emphasis added).

118 U.C.C. §§2, 2A (2007).

119 Corinne Cooper, Identifying a Personal Property Lease Under the UCC, 49 Ohio St. L.J. 195, 203 (1988); see also Rothchild, supra note 45, at 19 ("In a lease or other bailment, the acquirer must return the copy at some point. In a sale-with-restrictions, on the other hand, the acquirer may keep the copy indefinitely, or destroy it with impunity. In ordinary understanding, if you are the 'owner' of some item you are free to treat it as badly as you like, and are under no obligation to return it.").

120 Hill v. Bentco Leasing, Inc., 708 S.W.2d 608, 610 (Ark. 1986).

121 Woodson v. Tom Bell Leasing, 58 B.R. 379, 385 (Bankr. N.D. Okla. 1986) (quoting Adelman v. Gen. Motors Acceptance Corp., 4 B.R. 801, 805 (Bankr. N.D. Okla. 1980) (emphasis added)).

122 Reese, supra note 55, at 645 (emphasis added).

123 Rothchild, supra note 45, at 35.

124 Autodesk's Opening Brief, supra note 66, at 46.

125 Autodesk's Reply Brief, supra note 66, at 29-30, 30 n.19.

126 UMG's Opening Brief, supra note 75, at 6.

127 See id.; Autodesk's Reply Brief, supra note 66, at 29-30, 30 n.19.

128 UMG's Opening Brief, supra note 75, at 6.

129 See id. at 14-17; UMG's Reply Brief, supra note 75, at 3-12; id. at 11 ("The resolution of the issue here is controlled by this Court's precedent ... as confirmed by Wall Data."); Autodesk's Opening Brief, supra note 66, at 25-32; Autodesk's Reply Brief, supra note 66, at 4 ("Wall Data is the controlling case.").

130 See Vernor v. Autodesk, Inc., No. C07-1189RAJ, 2009 U.S. Dist. LEXIS 90906, at *16 (W.D. Wash. Sept. 30, 2009). The other two cases in the "MAI trio" are MAI Systems Corp. v. Peak Computer, Inc., 991 F.2d 511 (9th Cir. 1993) and Triad Systems Corp. v. Se. Express Co., 64 F.3d 1330 (9th Cir. 1995), overruled in part on other grounds by Gonzales v. Texaco Inc., 344 F. App'x 304 (9th Cir. 2009). In MAI, the court found that the defendant computer repair company infringed the plaintiff's copyright in its software programs when the defendant performed repairs that entailed copying the software onto random access memory. The court stated, without any other analysis on the issue, that "[s]ince MAI licensed its software, [its] customers do not qualify as 'owners' of the software and are not eligible for protection under §117." MAI, 991 F.2d at 519 n.5. In Triad, the court similarly found that the defendant computer repair company infringed plaintiff's copyright in its software programs because the software was licensed, not sold. See Triad, 64 F.3d at 1333. As in MAI, the court in Triad accepted the copyright holder's labeling of the transaction as a "license" without further analysis. See id.

131 Wall Data Inc. v. Los Angeles Sheriff's Dep't., 447 F.3d 769, 785 (9th Cir. 2006).

132 Id.

133 Vernor, 2009 U.S. Dist. LEXIS 90906 at *32.

134 UMG Recordings, Inc. v. Augusto, 558 F. Supp. 2d 1055, 1058 (C.D. Cal. 2008) (emphasis added).

135 Autodesk's Reply Brief, supra note 66, at 29 (asserting that "there is no evidence ... to suggest any realistic risk that [book publishers] will suddenly attempt to destroy the secondary market for used books ... by using shrinkwrap licenses prohibiting resale").

136 BarBri, Agreement for California Bar Review Course, Mar. 24, 2010, on file with author, at P 4(a) (stating that BarBri's instructional materials "shall remain the sole property of BAR/BRI throughout the period of ENROLLEE'S use and possession. Said materials are not offered for sale by BAR/BRI under the terms of this agreement").

137 See, e.g., ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1449 (7th Cir. 1996); Kim, supra note 58, at 1126 ("[M]any courts have held that 'assent occurs when the customer, after purchasing and possessing the product, opens the shrinkwrap, notices the paper agreement contained therein, and declines to return the product.... Cases discussing browsewrap agreements have generally held them enforceable if the user had notice of their existence.").

138 See H.R. Rep. No. 94-1476, at 79 (1976).

139 Id. (emphasis added).

140 See 17 U.S.C. §109 (2006).

141 Buy Microsoft Office 2010, http://office.microsoft.com/en-us/buy/? CTT=97 (last visited July 15, 2010).

142 Preston Gralla, Office 2010 Will Speed Demise of Boxed Software, PCWorld, Jan. 5, 2010, at 1, available at http:// www.pcworld.com/article/185954/office_2010_will_speed_demise_of_boxed_ software.html.

[143] Brian Braiker, Living in the Clouds: Is Computer Software Becoming Obsolete?, Newsweek, June 10, 2008, at 1, available at http:// www.newsweek.com/2008/06/09/living-in-the-clouds.html (emphasis added); see also Rothchild, supra note 45, at 72 (describing software offered through an "application service provider" (ASP), which allows customers to access software "by shipping data across the network to the ASP's computers").

[144] Braiker, supra note 143, at 1.

[145] Reese, supra note 55, at 611.

[146] Justin Graham, Preserving the Aftermarket in Copyrighted Works: Adapting the First Sale Doctrine to the Emerging Technological Landscape, 2002 Stan. Tech. L. Rev. 1, P 4 (2002).

[147] Thomas A. Hackett, Where Vernor v. Autodesk Fits Into First Sale Decisions, 5 Shidler J.L. Com. & Tech. 17, *6 (2009).

[148] Autodesk's Opening Brief, supra note 66, at 9.

[149] Sony Set for Digital Promo Switch, MusicWeek, Mar. 3, 2010, available at http://www.musicweek.com/story.asp?sectioncode=1&storycode=1040255&c=1.

[150] Greg Sandoval, At EMI, Could Digital Music Kill the "Record" Promo?, CNET News Blog, Apr. 10, 2008, http://news.cnet.com/8301-10784_3-9915837-7.html.

[151] Sony Set For Digital Promo Switch, supra note 149.

[152] Erik Thomas, My First Editorial for Metal Review and Screw the Digital Age, MetalReview, Mar. 3, 2010, http:// community2.metalreview.com/blogs/editorials/archive/2010/03/03/my-first-editorial-for-metalreview-and-screw-the-digital-age.aspx.

[153] David Hepworth, The End of the Promo Copy, And Another Thing, Mar. 3, 2010, http://whatsheonaboutnow.blogspot.com/2010/03/end-of-promo-copy.html.

[154] Music artist Yelle, whose work EMI Group has successfully distributed exclusively via the Internet, also alludes to the aura of the physical album: "I don't know when my first EP on vinyl will come out[,] ... I don't know whether it will[,] ... [b]ut I would be really proud if my album will be out in vinyl." Sandoval, supra note 150.

[155] 17 U.S.C. §117(a)(1) (2006).