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It Looks Like a Sale; It Quacks Like a Sale...But It's Not? An Argument for the Application of the Duck Test in a Digital First Sale Doctrine

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**IT LOOKS LIKE A SALE; IT QUACKS LIKE
A SALE. . . BUT IT’S NOT?
AN ARGUMENT FOR THE APPLICATION
OF THE DUCK TEST IN A DIGITAL FIRST
SALE DOCTRINE**

MATTHEW J. TURCHYN*

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ABSTRACT

What are you purchasing when you buy a print of Picasso’s *Guernica*? The piece of paper it is printed on, several courts have replied. In these instances, courts have created a pragmatic legal fiction that allows for the transfer of a copy of a work while the author retains his or her rights and privileges under copyright law. Therefore, the purchaser of the *Guernica* print could resell his or her legally created print of the painting on the secondary market. This is the essence of the First Sale Doctrine of the U.S. Copyright Act. This practice breaks down, however, when applied to copies of intellectual property that consist of pure data, as is the case with software purchased through digital distribution platforms. Through

these platforms, software is downloaded from the internet and there is nothing to symbolize a transfer of physical property ownership as there is in the sale of a print of a painting. This lack of a tangible medium has allowed publishers to characterize the transfer of pure data as a license rather than a sale of property. Publishers can use these licenses to strip property rights from consumers, such as the right of resale under the First Sale Doctrine. This practice insulates the software publisher from losses to the resale market to the detriment of consumers who would benefit from purchasing used software for a discounted price. In the continuing transition to a digital world where a great deal of business is done in pure data, rights could easily be stripped from a purchaser's property interests that would be fully protected in a more traditional medium. It is important that courts recognize a property right in this data to protect the rights of consumers during this transition. The First Sale Doctrine must be applied to all software transactions—not just those conducted through physical media such as compact disks and DVD's—so that all transactions are treated equally. Publishers should not be able to take rights away from consumers simply by conducting business through a popular new medium that is purely digital.

Until recently, a trend was developing across several circuits that favored a digital First Sale Doctrine for software. In September 2010, the Ninth Circuit dealt a serious blow to this movement when it issued its decision in *Vernor v. Autodesk, Inc.* This decision calls for a strict constructionist approach to the interpretation of software licensing agreements. A right of resale that would be protected under the First Sale Doctrine in a different medium, such as paper, is no longer protected under this precedent, as this right can be eliminated through the use of a licensing contract. This circuit split comes at a time when an increasing amount of software transactions are conducted via digital distribution. Software purchasers are uncertain of their rights in this new medium, and discussion of the ownership privileges that consumers have in downloaded software has become a subject of public speculation with no certain answer at the present time. Popular concern and differing judicial approaches converge in this topic, resulting in a scenario that is certain to reach courts with increasing frequency over the coming years.

This Comment stretches beyond the world of legal scholarship and explores a topic that is receiving mainstream attention. The legal community will benefit from the simple summary of the evolving state of the First Sale Doctrine contained herein. Furthermore, this explanation will prove helpful for mainstream media reporters, bloggers, lobbyists, publishers, consumers, or anyone else seeking background information and solutions to make for a more informed public discussion of the rights that consumers and publishers have in downloaded software.

I. INTRODUCTION

What are you purchasing when you purchase a print of Picasso's *Guernica*? The piece of paper it is printed on, several courts have replied.¹ In this instance,

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¹ See discussion *infra* Part II.B (discussing the various ways that courts have treated transactions

courts have created a pragmatic legal fiction that allows for a transfer of a copy of a work while the author retains his or her rights and privileges under copyright law.² The fiction breaks down, however, when applied to copies of intellectual property that consist of pure data.³ Software purchased through digital distribution platforms, consists of nothing but data.⁴ There is no medium attached and nothing to symbolize a transfer of physical property ownership.⁵ This lack of a tangible medium has allowed publishers and courts to consider a transfer of pure data as a reason for characterizing such a transaction as a licensing agreement rather than a sale of property.⁶ These licenses allow publishers to strip property rights from consumers, and perhaps, most importantly, a right of resale under the First Sale Doctrine.⁷ This forced license insulates the producer from losses to the resale market—sales that the publishers are not able to profit from—to the detriment of consumers who would benefit from purchasing used software for a discounted price.⁸

This licensing approach is problematic in light of the continuing transition to a digital world where a great deal of business is done in pure data and rights can easily be stripped from property interests that would be fully protected in a more traditional medium.⁹ It is important that courts recognize a property right in this data to protect the rights of consumers during this transition, even if this protection

involving software).

² See discussion *infra* Part II.B (discussing the various ways that courts have treated software licensing agreements). Under copyright law:

[T]he owner of copyright . . . 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 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 (2006).

³ See discussion *infra* Part IV (analyzing the problems in adapting the First Sale Doctrine to purely digital media).

⁴ See discussion *infra* Part II.C (discussing the mechanics of software sales through digital distribution platforms).

⁵ See discussion *infra* Part II.C (discussing the characteristics of digital software distribution).

⁶ See discussion *infra* Part II.B (discussing software publishers' use of licensing agreements to characterize transactions involving software as licenses).

⁷ See discussion *infra* Part II.B (discussing the ways that software publishers utilize licensing agreements to shift property rights from the consumer to the publisher).

⁸ See discussion *infra* Part II.C (discussing the economics of software resale and the benefits to consumers that result from a secondary market).

⁹ See discussion *infra* Part II.C (discussing the properties of digital software distribution transactions and the problems posed by the lack of a physical medium for a transaction).

causes minor losses to the publishers.¹⁰ The First Sale Doctrine must be applied to all software transactions—not just those conducted through physical media such as compact discs and DVDs—so that all transactions are treated equally. Publishers should not be able to take rights away from consumers only by conducting business through a popular new medium.¹¹ Digital media should be subject to the same standards and traditions that have developed around traditional media that largely contains identical information in a different format.¹²

A change in legal analysis that would protect a consumer's rights in a digital copy would represent a return to the bedrock principles of the First Sale Doctrine.¹³ The motive behind the creation of the First Sale Doctrine is that copyright creators should not be able to control the resale of a copy of an item of intellectual property after it is out of the copyright holder's hands.¹⁴ The use of licensing agreements in software sales attempts to eviscerate this principle.¹⁵ In the past, courts have held that the transfer of the physical property that contains the copy of intellectual property signifies a transfer of ownership of the property.¹⁶ When applied to software being sold through digital means, this analysis would bring about interesting results, and does not reflect the value of the item seen by the consumer.¹⁷ The consumer purchases a Picasso print for the art itself, not for the paper it is put upon, or in the software context, the consumer purchases the data or software, as opposed to the media it is transferred upon.

The application of the First Sale Doctrine will require active steps by Congress to overcome the negative incentives that software publishers have to keep these measures from being installed.¹⁸ The software that is being sold is more important than the media upon which it is transferred; therefore, different modes of

¹⁰ See discussion *infra* Part V (analyzing the incentives to publishers to provide mechanisms for digital software distribution).

¹¹ See discussion *infra* Part III (discussing the shifting of rights that the First Sale Doctrine entails).

¹² See discussion *infra* Part II.B (discussing the various ways that courts have treated software licensing agreements).

¹³ See discussion *infra* Part II (analyzing the origins and policy rationale of the First Sale Doctrine).

¹⁴ *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350–51 (1908). The Court grounded this policy stance in its view of the goals of the copyright statutes of the time, stating:

In our view the copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose, by notice, such as is disclosed in this case, a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract. This conclusion is reached in view of the language of the statute, read in the light of its main purpose to secure the right of multiplying copies of the work, a right which is the special creation of the statute.

Id.

¹⁵ See discussion *infra* Parts II.B, III.A (discussing the use of licensing agreements to change the distribution of property rights between publisher and purchaser).

¹⁶ See, e.g., *SoftMan Products Co. v. Adobe Sys., Inc.*, 171 F. Supp. 2d 1075, 1084 (C.D. Cal. 2001) (describing the process of looking to the “economic realities of the exchange” to determine the true nature of a transaction).

¹⁷ See discussion *infra* Part IV (analyzing the application of traditional First Sale Doctrine principles to digital media).

¹⁸ See discussion *infra* Part V.B (discussing the possible use of legislation to enforce a digital First Sale Doctrine).

transfer should not be treated differently.¹⁹ Prospective resellers would benefit by being able to recognize an economic benefit through the sale of the used software, and buyers on the secondary market would also receive a substantial economic benefit from being able to purchase software that would otherwise be unaffordable.²⁰ Courts should break free from terminology and apply the “Duck Test:” if a transaction looks like a sale and quacks like a sale, it is probably a sale and it should be treated as such, with all of the property rights that a full transfer of ownership entails.²¹

Part II of this Comment discusses the background of the First Sale Doctrine generally, the history of characterizations of transactions involving software as licenses, and recent cases addressing the transfer of software. Part III analyzes the substance of software distributed through hard copies and through digital methods, and argues that the products are essentially the same, and therefore the First Sale Doctrine should apply equally in both mediums. Part IV discusses methods that would be required in applying the First Sale Doctrine to the sale of software digitally, such as the forward and delete, and centralized license management methods. Finally, Part V discusses the incentives that software distributors have to keep these measures from being applied to their software, and advocates for the use of legislation to force compliance with a digital First Sale Doctrine.

II. THE EVOLUTION OF THE FIRST SALE DOCTRINE

The First Sale Doctrine has evolved over time to accommodate new developments in the swiftly changing media landscape. The doctrine has persevered despite technological advancement due to the willingness of courts to preserve the values at the core of its establishment. Courts should continue to respect the protection of these values when determining how to cope with the challenges presented by digital distribution platforms.

A. Early Foundations

The First Sale Doctrine was born in the 1908 U.S. Supreme Court decision *Bobbs-Merrill Co. v. Straus*.²² The Court reasoned that though the copyright statutes create a number of rights regarding the reproduction of a piece of intellectual property, these rights do not include the ability to restrict future resale of a copy.²³ This interpretation was based on a strict constructionist view of the copyright sta-

¹⁹ See discussion *infra* Part II.C (comparing the properties of software sold on traditional media and software sold via digital distribution).

²⁰ See discussion *infra* Part III.B (discussing the economic benefits provided by the First Sale Doctrine).

²¹ The term, “Duck Test,” was coined by poet James Whitcomb Riley. ROBIN S. DAVIS, WHO’S SITTING ON YOUR NEST EGG?: WHY YOU NEED A FINANCIAL ADVISOR AND TEN EASY TESTS FOR FINDING THE BEST ONE 7 (2007). It is used as a simplistic analytical tool to determine the identity of something by observing its characteristics. *Id.*

²² *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 341–43 (1908) (involving the resale of a book that had a licensing agreement affixed to the inside of its cover that included terms prohibiting resale).

²³ *Id.* at 350–51. The Court stressed that the primary right created under the statute is “an exclusive right to the multiplication of the copies.” *Id.* at 347.

tutes of the time, and clarified that though the copyright statutes grant the copyright owner the exclusive right to reproduce and sell new copies of the work, the statute does not give the copyright owner the ability to control the sale of those copies once they are out of the copyright owner's hands.²⁴ The Court also recognized longstanding principles of property law disfavoring restrictions on alienation of property.²⁵ Property is one of the fundamental rights protected by the United States Constitution and, therefore, protecting the rights associated with the copies of intellectual property purchased by consumers was a critical consideration in the decision.²⁶ Furthermore, the Court stated that it strongly disfavours the use of a licensing agreement to control the resale of a book once the copy is out of the hands of the author.²⁷

Congress later codified the essence of the *Bobbs-Merrill Co.* holding, requiring that "the owner of a particular copy or phonorecord lawfully made under[17 U.S.C. § 109(a)], 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."²⁸ The statute is limited in scope, it utilizes the word "owner," limiting its protection to only those consumers who actually own the copy they wish to resell.²⁹ The statute does not explicitly extend its protection to licensees.³⁰

Ninety years after *Bobbs-Merrill* was decided, the Supreme Court included a powerful line of *dicta* in the 1998 case of *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, that provided an exception to the First Sale Doctrine if the reseller is not a true owner of a copy and allowed for publishers to restrict important property rights through the use of licensing agreements.³¹ This opinion

²⁴ *Id.* The Court viewed the creator of a copyrighted work as having two different sets of rights that can never coexist. *Id.* at 346–47. The first is a set of common law property rights to control one's own property. *Id.* at 346. The second is the set of rights that arise under copyright law when the work is published. *Id.* at 347. This second set overrides the first, and is one of the reasons that the copyright creator has no controlling interest in the property upon publication. *Id.*

²⁵ *Id.* at 349–50. The Court recognized that the author relinquishes control of the copy after sale, stating:

What does the statute mean in granting "the sole right of vending the same?" Was it intended to create a right which would permit the holder of the copyright to fasten, by notice in a book or upon one of the articles mentioned within the statute, a restriction upon the subsequent alienation of the subject-matter of copyright after the owner had parted with the title to one who had acquired full dominion over it and had given a satisfactory price for it? It is not denied that one who has sold a copyrighted article, without restriction, has parted with all right to control the sale of it. 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 it.

Id.

²⁶ *Id.*

²⁷ *See id.*

²⁸ 17 U.S.C.A. § 109(a) (West 2011).

²⁹ *Id.*

³⁰ *See id.*

³¹ *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 146–47 (1998) ("[B]ecause the protection afforded by [the First Sale Doctrine] is available only to the 'owner' of a lawfully made copy (or someone authorized by the owner), the first sale doctrine would not provide a

explicitly allowed for the use of a licensing agreement that could limit resale of a copy.³² By emphasizing that the First Sale Doctrine only applies to an owner of a copy, as opposed to a licensee, the Court left open the possibility of a license being used to re-characterize a transaction that would otherwise be a sale.³³ The case did not deal with a licensing agreement, however, so the proposition in the *dicta* was left vague and undefined.³⁴

Courts generally look to the clarity of a licensing agreement to determine whether a contract eviscerates the First Sale Doctrine.³⁵ When a contract is unclear, the doctrine is generally held to apply.³⁶ When the terms are clear, however, the First Sale Doctrine can be eliminated in the contract.³⁷ For example, the Ninth Circuit has held that a license restricting the resale of film reels was valid because resale was explicitly prohibited under the terms of a valid licensing agreement.³⁸ In contrast, the Southern District of Texas has declined to eliminate the First Sale Doctrine from a transaction because the terms of the licensing agreement were not explicit as to a restraint on resale and rental.³⁹ These early cases laid the backdrop against which the important problems involving software unfold.

B. *Sale v. License: Problems Defining the Nature of Transactions Involving Software*

Publishers began attaching a license to their software at sale in an attempt to

defense to a [copyright infringement] action against any nonowner such as a bailee, licensee, a consignee, or one whose possession of the copy was unlawful.”)

³² *Id.*

³³ *Id.*

³⁴ *See generally id.* For example, in *Vernor v. Autodesk, Inc.*, the Ninth Circuit cited this line of *dicta* before going on to hold that a license agreement is valid and can remove First Sale Doctrine rights from the consumer. *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1107–08 (9th Cir. 2010), *cert. denied*, No. 10-1421, 2011 WL 4530222 (Oct. 3, 2011).

³⁵ Judith Klerman Smith, *The Computer Software Rental Act: Amending the “First Sale Doctrine” to Protect Computer Software Copyright*, 20 Loy. L.A. L. Rev. 1613, 1631–32 (1987).

³⁶ *Id.* at 1632.

³⁷ *Id.*

³⁸ *See generally* *United States v. Wise*, 550 F.2d 1180 (9th Cir. 1977) (involving a case of criminal copyright infringement stemming from the resale of film governed by a licensing agreement). In *Wise*, the court analyzed the substance of the transaction to determine the true nature of the transaction, rather than just analyzing the plain language. *Id.* at 1191. This was accomplished by looking at the appearance of the transaction, rather than the label applied to the transaction by the publisher. *Id.* The court concluded that there was no first sale due to the presence of a valid licensing agreement that had the characteristics of a licensing agreement rather than a sale, and therefore, the party attempting to sell the copies was not within his rights. *Id.* at 1193–94. The license at issue in the case reads:

The Distributor grants the Exhibitor and the Exhibitor accepts a limited license under the respective copyrights of the motion picture . . . to exhibit said motion picture.

. . . .

Title to all prints and tapes shall be and remain in Licensor (Warner) subject to the rights granted to NBC under this agreement.

Id. at 1190–91.

³⁹ *See generally* *United States v. Wells*, 176 F. Supp. 630 (S.D. Tex. 1959) (involving the copying of aerial geographical survey maps). The court held that there is a presumption favoring ownership unless a licensing agreement explicitly removes that right and associated rights. *Id.* at 635–36.

restrict hackers from copying the underlying code of a program and as a way of maintaining trade secret protection of the software.⁴⁰ These agreements quickly evolved to include other terms, such as restrictions on resale, rental, and reiterations of the copyright owners' rights that prevent holders of copies from duplicating their own copies.⁴¹ Licenses originally came inside of the cellophane wrapping that the software was contained in, and the agreement could not be read until after the item had been purchased and opened, hence the term "shrinkwrap" agreement.⁴² The contracts later moved into the software itself, often becoming a part of an installation program where the user would need to click "I agree" after scrolling through an agreement.⁴³ The licenses are now commonly referred to as "keywrap," "clickwrap," or "click-on" agreements due to the modern form that they typically take.⁴⁴

Courts are split as to whether these licensing agreements can bind users of software after a sale. Some courts have looked no further than the substance of the sale in deciding that the transfer of software is a sale.⁴⁵ The approach taken in these opinions—sometimes simply referred to as the "*SoftMan* approach" for the case it originated in—has been to consider the media that the software is sold on,⁴⁶ rather than the software itself, as the item that is being sold.⁴⁷ This approach ignores the contents of the disc and any click-wrap agreement that may be contained as a part of it, and looks at the "economic realities of the exchange."⁴⁸ The transfer that occurs is viewed as a transfer of goods, and therefore, the restrictions con-

⁴⁰ David A. Rice, *Licensing the Use of Computer Program Copies and the Copyright Act First Sale Doctrine*, 30 *Jurimetrics J.* 157, 159 (1990). It is unknown when exactly software licenses first entered usage amongst publishers, but they became common during the 1980s. Mark A. Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 *S. Cal. L. Rev.* 1239, 1241 n.5 (1995).

⁴¹ Rice, *supra* note 40, at 159–62.

⁴² Michael J. Madison, *Legal-Ware: Contract and Copyright in the Digital Age*, 67 *Fordham L. Rev.* 1025, 1055–56 (1998).

⁴³ *Id.* at 1058.

⁴⁴ *Id.* Whether or not these agreements are binding as a general matter is debatable due to issues of adhesion, but these problems are beyond the scope of this Comment. See generally Batya Goodman, *Honey, I Shrink-Wrapped the Consumer: The Shrink-Wrap Agreement as an Adhesion Contract*, 21 *Cardozo L. Rev.* 319 (1999). Results have been mixed when courts have been confronted with shrink-wrap agreements, but the majority rule seems to be that they are invalid. Lemley, *supra* note 40, at 1249–50. There are three reasons that these agreements can be held to be invalid: 1) Merger under Uniform Commercial Code § 2-207 does not allow for the inclusion of the new terms in the contract after sale; 2) terms in the contract, especially those that restrict common property rights, are likely to be held unconscionable; and 3) copyright law preempts these new contractual terms. *Id.* at 1248–59.

⁴⁵ See, e.g., *In re DAK Indus., Inc.*, 66 F.3d 1091, 1097 (9th Cir. 1995) (finding that a transaction involving computer software was a sale, and therefore, the software could be re-sold to finance bankruptcy proceedings); *Downriver Internists v. Harris Corp.*, 929 F.2d 1147, 1151 (6th Cir. 1991) (finding that the sale of software to a hospital was a sale of goods, as opposed to services); *SoftMan Products Co. v. Adobe Sys., Inc.*, 171 F. Supp. 2d 1075, 1094 (C.D. Cal. 2001) (stating that the sale of a bundle of software to a distributor is a sale, not a license, due to the transfer of physical copies of the software).

⁴⁶ This physical medium is typically a compact disc or DVD.

⁴⁷ *SoftMan Products Co.*, 171 F. Supp. 2d at 1084 (involving the unauthorized distribution of bundled software).

⁴⁸ *Id.* The economic realities of an exchange can consist of any part of an exchange, down to the wording. *Id.* The court held that because a payment was called a royalty rather than a licensing fee, that the transaction in question was a sale. *SoftMan Products Co.*, 171 F. Supp. 2d at 1084 (citing *Microsoft Corp. v. DAK Indus.*, 66 F.3d 1091 (9th Cir. 1995)).

tained within the agreements are invalid.⁴⁹ The *SoftMan* court indicated that the term of the license can also be a factor in whether a license will be controlling.⁵⁰ If the license expires and the user must return the software or renew the license, the transfer is more in line with the realities of a license agreement.⁵¹ In this case, the license is more likely to govern the transfer and the buyer has no right to resell the software.⁵²

The Third Circuit has taken this a step further by applying the Uniform Commercial Code (U.C.C.) in a way that bars the removal of the First Sale Doctrine from a transaction.⁵³ In *Step-Saver Data Systems, Inc. v. Wyse Technology*, the court used the U.C.C. to omit a shrink-wrap agreement from the terms of a transfer.⁵⁴ The court viewed this as a two-step process because the software was purchased at a store, then taken home and opened before the shrink-wrap agreement was discovered.⁵⁵ The initial agreement is forged at the initial purchase of the software.⁵⁶ When the shrink-wrap agreement is found, new terms are incorporated or omitted as governed by the U.C.C.⁵⁷ The court held that because the subject provisions materially altered the initial agreement without a bargained agreement between the two parties, the new terms were not brought in as terms of the transfer and the shrink-wrap license was effectively removed from the transaction.⁵⁸

The Seventh Circuit has also used the U.C.C. to analyze whether a license agreement governs the sale of software, but arrived at a different result.⁵⁹ In *ProCD, Inc. v. Zeidenberg*, the court used U.C.C. principles to arrive at the conclusion that the retention of software after discovery of a shrink-wrap agreement is conduct that can be treated as an acceptance.⁶⁰ Under this analysis, the shrink-wrap agreement functions as a new offer that can only be rejected by returning the software to where it was purchased.⁶¹ Retaining the software effectively acts as an acceptance of the licensing agreement on the part of the purchaser, and the court recognized the license that governed the transaction in this case.⁶² This case illustrated a willingness on the part of the court to make inferences about the consum-

⁴⁹ *Id.*

⁵⁰ *Id.* at 1085.

⁵¹ *Id.*

⁵² *Id.*

⁵³ *See generally*, *Step-Saver Data Sys., Inc. v. Wyse Tech.*, 939 F.2d 91 (3d Cir. 1991) (involving the validity of a shrink-wrap license attached to the inside of a software box). Under U.C.C. § 2-201, "an additional term . . . will not be incorporated into the parties' contract if the term's addition to the contract would materially alter the parties' agreement." *Id.* at 105.

⁵⁴ *Id.* at 100-04. Specifically, the court applied § 2-207 to determine which new terms under the licensing agreement would become a part of the contract governing the transaction. *Id.* at 100.

⁵⁵ *Id.* at 100-04.

⁵⁶ *Id.*

⁵⁷ *Id.*

⁵⁸ *Id.*

⁵⁹ *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1452-53 (7th Cir. 1996) (involving the resale of information contained in a phone directory sold on a compact disc).

⁶⁰ *Id.* at 1452.

⁶¹ *Id.*

⁶² *Id.* at 1452-53.

er's preferences based on whether the consumer returned the software, but left such inferences out of the initial bargaining process.⁶³

A recent Ninth Circuit case, *Vernor v. Autodesk, Inc.*, explicitly addressed the First Sale Doctrine and declined to recognize that the doctrine applies to software governed by a licensing agreement.⁶⁴ Prior to reaching the Ninth Circuit, the Western District of Washington cited *SoftMan* and held that a licensing contract could not remove the First Sale Doctrine from the terms of the transaction because the transfer substantially appeared to be a sale.⁶⁵ On appeal, the Ninth Circuit reversed the decision.⁶⁶ The court of appeals used a strict constructionist approach to interpret the licensing agreement and honored it because the parties had essentially assented to the licensing agreement and, therefore, had assented to the elimination of the right of resale.⁶⁷ The *SoftMan* approach of analyzing the substance of the licensing contract was ignored, and the court took an approach that strictly adhered to the explicit terms of the contract.⁶⁸ An importance was placed on the actual terms of the contract, as opposed to an inference drawn by the court as to what the agreement should have been according to its substance, as was the case in *SoftMan*.⁶⁹ *Vernor* is one of the latest decisions involving licensing and software, and the court's departure from majority precedent represents a significant development due to the Ninth Circuit's prominence in the area of media law and the presence of important media producers on the West Coast, specifically of the multimedia mecca that is Silicon Valley.⁷⁰

C. The Emergence of Digital Distribution

Digital distribution is the practice of distributing files or software over the internet without the use of disks or other hard copies.⁷¹ The method began primarily

⁶³ See *id.*

⁶⁴ *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1107 (9th Cir. 2010) (involving the resale of AutoCAD software by a private consumer).

⁶⁵ *Vernor v. Autodesk, Inc.*, No. C07-1189RAJ, 2009 WL 3187613 (W.D. Wash. Sept. 30, 2009), *vacated*, 621 F.3d 1102 (9th Cir. 2010).

⁶⁶ *Vernor*, 621 F.3d at 1116.

⁶⁷ *Id.* ("We hold that because CTA is a licensee, not an owner, the 'sale' of its Release 14 copies to Vernor did not convey ownership.")

⁶⁸ *Id.*

⁶⁹ *Id.*

⁷⁰ For a list of companies with a significant presence in Silicon Valley, see *Silicon Valley Companies*, THE SILICON VALLEY GATEWAY, <http://www.siliconvalley-usa.com/companie/> (last visited Nov. 6, 2011).

⁷¹ See *The Evolution of Digital Distribution: About Impulse*, GAMESTOP, <http://www.impulsdriiven.com/about> (last visited Nov. 6, 2011) [hereinafter *About Impulse*]. Stardock sold Impulse to GameStop in the Spring of 2011. Kyle Orland, *Stardock Bringing Games to Steam Following Impulse Sale*, GAMASUTRA (Nov. 16, 2011), http://www.gamasutra.com/view/news/38604/Stardock_Bringing_Games_To_Steam_Following_Impulse_Sale.php. Stardock, the company behind creating Impulse, has embraced digital software distribution fully, and is very open about their practices. Stardock's documentation and publicity regarding Impulse is a vital source of information on the subject, and is relied on heavily throughout this Note as other companies are not as forthcoming about their motivations and practices.

with the distribution of simple music files through services such as iTunes.⁷² Software later became available through services such as Steam and Impulse and other large publishers as the distribution methods became more advanced.⁷³ Business is conducted entirely over the internet, through programs called digital distribution platforms that serve as a means of downloading and installing the software that is purchased.⁷⁴ Software purchases are tied to a user account so that when a purchase is made, the account is authorized to download the software.⁷⁵ Once the software is downloaded and installed, it performs identically to software purchased through a traditional storefront, and is identical in function to a traditional hard disk copy.⁷⁶

Publishers often use copy protection on software to protect software from piracy.⁷⁷ When software is sold via a digital distribution platform, the software is effectively linked to the users account, which is a form of copy protection in and of itself.⁷⁸ Only the owner can get updates to the software that may be released on the digital distribution platform and directly download the software from the publisher's servers.⁷⁹ Both of these measures can serve as a deterrent to piracy, as critical updates are often distributed after the release of the main piece of software that can be highly desirable.⁸⁰ Potential pirates would either be required to download the software legitimately themselves to get the copy that they distribute, or to find a legitimate buyer who is willing to get his or copy duplicated.⁸¹ Some publishers take this a step further, requiring the owning user to be signed into a host server that houses the software.⁸² Though no transactions may be occurring during this time, this prevents users who are not true owners from using the software.⁸³

⁷² Cabel Sasser, *The True Story of Audion*, PANIC, INC., <http://panic.com/extras/audionstory/> (last visited Nov. 6, 2011). iTunes, founded in 2001, was the first major and viable online digital distribution platform for music. *Id.*

⁷³ Steam and Impulse are software programs that facilitate the downloading of other programs over the internet. *See, e.g., About Impulse*, *supra* note 71; *Steam, the Ultimate Online Game Platform*, STEAM, <http://store.steampowered.com/about/> (last visited Nov. 6, 2011).

⁷⁴ *See, e.g., About Impulse*, *supra* note 71.

⁷⁵ *See, e.g., Can I Give My Copy of Software to a Friend?*, STARDOCK SUPPORT CENTER, http://esupport.stardock.com/index.php?_m=knowledgebase&_a=viewarticle&kbarticleid=353 (last visited Dec. 2, 2011) (stating that “[Stardock’s] software is single-user and non-transferable.”).

⁷⁶ In some cases, retail disk versions of software are recognized and compatible with a digital distribution platform because the versions are identical. *See, e.g., Retail CD Keys*, STEAM SUPPORT, https://support.steampowered.com/kb_article.php?ref=7480-wusf-3601 (last visited Dec. 3, 2011) (listing games where a serial key from a retail disk can be entered into Steam to allow a digital version of the software to be downloaded).

⁷⁷ *See Brad Wardell on Spore DRM and the Gamer’s Bill of Rights*, 1UP.COM (Sept. 23, 2008), <http://www.1up.com/news/brad-wardell-spore-drm-gamer> [hereinafter *Wardell Interview*].

⁷⁸ *See, e.g., Can I Give My Copy of Software to a Friend?*, *supra* note 75.

⁷⁹ *See, e.g., About Impulse*, *supra* note 71.

⁸⁰ *Wardell Interview*, *supra* note 77.

⁸¹ *Id.*

⁸² Steam is an example of a service that uses digital rights management to authenticate software purchased through its service. Dave Spohn, *Using Steam to Download and Play Games*, ABOUT.COM (Jan. 29, 2010), <http://internetgames.about.com/od/tweaks/a/steamprofile.htm>. When a game is purchased, it is registered on Steam’s servers. *Id.* The Steam client authenticates downloaded software each time the software is launched. *Id.*

⁸³ *See Impulse Support Sales F.A.Q.*, GAMESTOP, <http://www.impulsedriven.com/support/sales-faq>

This method totally locks out pirates, but unfortunately both of these systems also lock out the secondary market; licenses in these software purchases are not typically transferable, and therefore, a prospective seller would not be able to transfer ownership of the software to a buyer.⁸⁴

It is unclear how courts will deal with digital distribution when it is implicated in a lawsuit.⁸⁵ Amazon's Kindle utilizes extensive licensing agreements in an attempt to control electronic books sold through its service after sale.⁸⁶ One of the terms of the agreement involved in the Kindle service disallows resale of the books purchased, which is made simple for Amazon because the Kindle is a closed device and system with little possibility for user modification.⁸⁷ Amazon has total control of the devices and the books sold through them.⁸⁸ Though these agreements have not reached a court yet, it is unknown how the court will treat the terms that strip many of the rights that you were to have if you bought the paper copy of the book at a similar price.⁸⁹

III. APPLYING THE FIRST SALE DOCTRINE TO DIGITAL SOFTWARE SALES

To shift the focus from the *medium* through which an item is transferred to the *value* of the item itself—that is, the incorporated data or program—courts must recognize a property right in this data. Recognition of such a property right would then permit courts to employ traditional property law principals, which disfavor restraints on alienability, thus protecting data transfers from such restraints.⁹⁰ Implementation of the First Sale Doctrine in the realm of digital software distribution would be a benefit to both prospective buyers and sellers on a theoretical secondary market. The U.S. Supreme Court and Congress created the First Sale Doctrine generally recognizing a benefit in allowing consumers to resell their legally created

(Last visited Jan. 24, 2012).

⁸⁴ Digital distribution publishers, to this point, have not given users the tools to transfer licenses, leaving the consumer unable to transfer the software that they have purchased to other users. *See, e.g., Create an Account*, STEAM, <https://store.steampowered.com/join/> (last visited Dec. 2, 2011) (indicating that under Steam's Subscriber Agreement, "you are not entitled to: (i) sell, grant a security interest in or transfer reproductions of the Software to other parties in any way, nor to rent, lease or license the Software to others without the prior written consent of Valve."); *Can I Give My Copy of Software to a Friend?*, *Supra* note 75 (stating that "[Stardock's] software is single-user and non-transferable.>").

⁸⁵ *See, e.g.,* Michael Seringhaus, *E-Book Transactions: Amazon "Kindles" the Copy Ownership Debate*, 12 *Yale J.L. & Tech.* 147, 197–98 (2010). The Kindle is a small computer device designed for reading electronic copies of books. *Id.* Though Seringhaus uses the Amazon Kindle as the subject of his article, the principle governing the sale of the Kindle and software over its respective digital distribution platforms are similar. Seringhaus suggests that whether the First Sale Doctrine will apply to Kindle books is a function of whether the courts chose to follow *SoftMan*, or a strict constructionist approach that respects the licensing agreement similarly to *Vernor*. *Id.* *See* *SoftMan Products Co. v. Adobe Sys., Inc.*, 171 F. Supp. 2d 1075, 1094 (C.D. Cal. 2001); *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1107 (9th Cir. 2010).

⁸⁶ Seringhaus, *supra* note 85, at 197.

⁸⁷ *Id.*

⁸⁸ *Id.*

⁸⁹ *Id.*

⁹⁰ Recognizing such a property right would keep the law governing digitally distributed software consistent with general First Sale Doctrine and property law principals. *See* discussion *supra* Part II.A (discussion *Bobbs-Merrill Co.* and the property law considerations behind the First Sale Doctrine).

copies of intellectual property on an open secondary market.⁹¹ To determine whether the First Sale Doctrine would have the same societal benefit in the context of digital software distribution as it does generally, two questions must be asked: (1) Is there a secondary market for used software? (2) Is it the label of a transaction, or the substance of a transaction that is more important in determining whether important property rights can be stripped upon the transfer of a copy of intellectual property?

A. Is There a Secondary Market for Used Software?

The first inquiry asks whether there is a secondary market at all. If there is not a viable secondary market, a First Sale Doctrine would have little purpose.⁹² This is not the case in the software market, where there would be a benefit to a significant amount of consumers. One example of the existence of a secondary market can be found in the used video game market.⁹³ Games make up a significant portion of the digital software distribution market, perhaps a majority.⁹⁴ There are entire computer platforms dedicated primarily to games, such as Steam and Impulse.⁹⁵ Furthermore, games and content are available digitally on gaming consoles produced by Sony, Microsoft, and Nintendo.⁹⁶ None of the platforms, neither on the PC nor on the gaming consoles, contain a method for reselling content that is downloaded or merely transferring it to another user. In stark contrast however, resale of hard copy games is not only legal, but also is a multi-million dollar industry.⁹⁷ Retail outlets make a significant profit off of buying used copies of games and reselling them at a discount.⁹⁸ A significant number of consumers pur-

⁹¹ See discussion *supra* Part II.A (discussing *Bobbs-Merrill Co.* and 17 U.S.C. § 106 (2006) and the policy choices that the Supreme Court and Congress made in setting up the First Sale Doctrine).

⁹² Costs would be imposed upon publishers and government to arrive at a solution that no consumers would take advantage of.

⁹³ See *The Used Video Games Market*, JJGAMES.COM, <http://www.jjgames.com/page/used-games-infographic> (last visited Dec. 2, 2011) (noting that used game and console sales approached \$2.5 billion in 2009); Kris Graft, *Stardock Reveals Impulse, Steam Market Share Estimates*, GAMASUTRA (Nov. 19, 2009), http://www.gamasutra.com/php-bin/news_index.php?story=26158 (discussing the estimated market shares of digital distribution platforms).

⁹⁴ Steam, the most widely used digital distribution platform, does not release any sales statistics, but Stardock CEO Brad Wardell estimates that Steam controls seventy percent of the digital distribution market, while Stardock's Impulse has captured ten percent. Graft, *supra* note 93. Together, these companies represent eighty percent of the market, and the two companies manage this primarily through game sales as opposed to more utilitarian software.

⁹⁵ Steam and Impulse allow games to be downloaded at or around their standard retail prices, ranging anywhere from approximately ten to fifty dollars depending on the age of the game. See, e.g., *About Impulse*, *supra* note 71. The game is downloaded and installed to one's computer, where it can then be accessed just as a copy of the same program stored on traditional media would be. *Id.*

⁹⁶ These three companies distribute software through their proprietary services tied to their gaming consoles. *Xbox Marketplace*, XBOX, <http://marketplace.xbox.com/en-US/?xr=shellnav> (last visited Jan. 18, 2011); *PLAYSTATION STORE*, <http://us.playstation.com/psn/playstation-store/index.htm> (last visited Jan. 18, 2011); *Wii Virtual Console*, NITENDO, <http://www.nintendo.com/wii/online/virtualconsole> (last visited Jan. 18, 2011).

⁹⁷ See Kyle Orland, *Gamestop's Used Game Sales Data in Beautiful Chart Form*, JOYSTIQ, <http://www.joystiq.com/2008/02/05/gamestops-used-game-sales-data-in-beautiful-chart-form/> (last visited Jan 18, 2011).

⁹⁸ A typical discount is approximately twenty percent of the retail value of the game. See, e.g.,

chase these discounted games—one retailer, GameStop, had over \$600 million in sales on the used software market in 2007.⁹⁹ These sales illustrate that there would most likely be a similar market for the same software in its digitally distributed form. This data not only suggests that there are consumers willing and ready to purchase the software, but also a market demand for the sale of software. Consumers who are finished with the software will want to sell it and realize an economic benefit just as they would if they had a hard copy on a disk. Such a sale would provide a benefit to a secondary market purchaser who desires the software but would not otherwise be able to purchase it. An implemented First Sale Doctrine would allow each side of the equation to benefit in a more free market.

In addition to the gaming market, it is easy to imagine that there is a significant number of consumers who cannot afford to purchase more utilitarian software that would partake of a secondary market. Consumers who are looking to save money or who cannot afford the high prices that office software such as Microsoft Office or Adobe products are sold for, may not want to pay a high price for the content that would assist them in operating their business.¹⁰⁰ However, these same consumers might be willing to pay for the software at a discounted price on the secondary market. Such a purchase would provide a benefit for the secondary market purchaser who desires the software but would not otherwise be able to purchase the software because of the benefit that would be brought to the person or business.

The seller on the secondary market also benefits in the form of a return on the initial investment, even though this may be at a significant discount due to aging of the software. Discounts on resold software would be a boon to small business owners and students who are unable to afford the software at its full market value, but could utilize the software in their day-to-day activities. Opening up a secondary market for digitally distributed software would provide a benefit to a variety of consumers whether the software is utilitarian in nature or for leisure purposes. For example, such a market would allow a small business owner to purchase an old version of software at a discounted price from a larger corporation that does not need it anymore, and in turn allow a college student to buy the small business's outdated version. More consumers would be able to access productivity-enhancing software in the business context, allowing for a positive impact on the economy as a whole.

Halo Reach, GAMESTOP, <http://www.gamestop.com/xbox-360/games/halo-reach/75976> (last visited Feb. 24, 2011) (displaying and comparing the prices for the new and pre-owned popular video game "Halo Reach").

⁹⁹ GameStop has seen its sales of used software grow 444% between 2003 and 2007. Orland, *supra* note 97. Furthermore, approximately 53% of GameStop's sales are in used games, indicating that perhaps used games have a greater value than new games to the majority of shoppers at GameStop. *Id.*

¹⁰⁰ Prices on this type of software can reach up to \$2,500. *See, e.g., Adobe Creative Suite Family*, ADOBE, <http://www.adobe.com/products/creativesuite.html> (last visited Feb. 20, 2011). A discount in line with the above statistics from the video game market could represent a savings of up to \$500 for some consumers.

B. Label v. Content: Which Is More Important?

The second inquiry is whether the label is more important than the content of a transaction. Retail software is almost always accompanied by a licensing agreement when it is purchased. Courts should look beyond the text of these agreements and look to the realities of a transaction to determine the true nature of the transaction.¹⁰¹ When software is transferred, whether by hard copy or digital distribution, it typically changes hands permanently.¹⁰² If the software is not returned to the publisher after a fixed period of time, as is the case with almost all software purchases, the transaction represents a purchase rather than a license or a rental.¹⁰³ Additionally, the hesitancy of courts to honor these licenses, as in *Softman* and *Vernor*, illustrates that some courts are already skeptical of the status of these agreements.¹⁰⁴ Because a substantial market would be opened up by the enforcement of a digital First Sale Doctrine, and because the transaction already substantially resembles a sale, the First Sale Doctrine should be implemented for digitally distributed software.

To make for a clearer First Sale Doctrine that governs software, it is necessary that the Ninth Circuit's decision in *Vernor* is quickly overturned either by statute or by case law and that courts use an approach more akin to *SoftMan* for analyzing software transactions.¹⁰⁵ Reaching all the way back to *Bobbs-Merrill*, the Supreme Court has recognized that not only does the copyright creator have rights in the copies of intellectual property,¹⁰⁶ but a purchaser of a copy of the intellectual property in question has an interest in selling the particular copy that he or she purchased.¹⁰⁷ The purchaser's rights are not absolute and they do not override the creator's right to reproduction, but they are rights worthy of being protected, and this is where the courts should step in.¹⁰⁸

The *SoftMan* approach conforms to the aforementioned Duck Test.¹⁰⁹ Under

¹⁰¹ See discussion *supra* Part II.B (discussing *SoftMan* and the Central District of California's approach of examining the "economic realities of the exchange").

¹⁰² Even if software licensing provides for a right of repossession on the part of a publisher, this is a right that is rarely exercised. At the time of this writing, not even an anecdotal story on a message board could be found illustrating a software publisher retaking a copy of software. This speaks to the realities of the transaction as mentioned in *SoftMan*. See discussion *supra* Part II.B. A licensed property is usually repossessed at some point. See discussion *supra* Part II.B. The fact that there is no repossession tends to indicate that a sale has occurred. See discussion *supra* Part II.B.

¹⁰³ In this case, the economic realities of the exchange represent a sale due to the permanency of the exchange, and would likely be a sale under the *SoftMan* analysis. See discussion *supra* Part II.B. If return of the software was to be required, this would represent the economic realities of a rental or a lease, and would be considered as such under that same line of analysis. See discussion *supra* Part II.B.

¹⁰⁴ See discussion *supra* Part II.B (discussing the approaches of courts when dealing with modern software-related cases).

¹⁰⁵ See discussion *supra* Part II.B (discussing the approaches used in *Vernor* and *SoftMan*).

¹⁰⁶ The creator has the right to be the sole original distributor of that piece of intellectual property, among other rights. See *supra* Part III.B (listing the rights provided under U.S. copyright law).

¹⁰⁷ The Supreme Court highlighted this interest in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350–51 (1908). See *Bobbs-Merrill Co., v. Straus*, 210 U.S. 339, 350–51 (1908) (discussing the Court's rationale in creating the First Sale Doctrine).

¹⁰⁸ See discussion *supra* Part II.A (discussing the early policy rationale behind the First Sale Doctrine and the rights and interests sought to be protected on both sides of a transaction).

¹⁰⁹ See *Davis*, *supra* note 21.

the *Softman* line of analysis, if a transaction looks like a sale and quacks like a sale, it is a sale.¹¹⁰ A transaction is a sale if a consumer is granted unlimited rights to possess and access the software with no discontinuation of access in exchange for a one time lump sum, and if the consumer is granted the ability to utilize the software as he or she wishes without making illegal copies in violation of the creator's copyright, including reselling the software.¹¹¹ Likewise, transactions where limited access is granted for limited periods of time in exchange for incremental payments are considered licenses. This analysis cuts both ways, but current trends indicate that this would end up being of the biggest benefit to consumers who may or may not be fully informed as to what their rights are under a transaction.¹¹² Placing greater weight on the substance of the transaction will keep the consumer from getting into a deal that is not as it appears to be, and the approach will keep a consumer's expectations of their rights in line with their observations from the way the transaction is carried out, as opposed to a licensing agreement that was never read and just clicked upon in "agreement."

A second compelling reason that courts should follow the *SoftMan* line of reasoning is that the Ninth Circuit's *Vernor* decision could create a dangerous line of precedent where the "economic realities of the exchange" are not taken into account, and where a purported purchaser in a sale can have important rights stripped away merely by the designation of the transaction as something other than a sale.¹¹³ The *SoftMan* analysis keeps the substance of a transaction firmly grounded in reality rather than allowing reality to be defined by a meaningless label.¹¹⁴ As a result, *SoftMan* keeps the publishers and other retailers from stripping rights from consumers, and thus increasing profit margins for themselves.¹¹⁵ *SoftMan* prevents bizarre results from happening when a transaction looks like a sale, but is labeled something else.¹¹⁶ Deceptive labeling could be the start down a slippery slope in intellectual property law—if software sales are being labeled as licenses today when they are substantially sales, it seems entirely possible that the same

¹¹⁰ See discussion *supra* Part II.B (discussing the *SoftMan* approach of examining the "economic realities of the transaction").

¹¹¹ See discussion *supra* Part II.B.

¹¹² Consumers rarely read licensing agreements attached to software, and to prove this point PC Pitstop included a clause in one of its seven-page end user licensing agreements that offered cash to anyone who sent a note to the company. Larry Magid, *It Pays to Read License Agreements*, PC PITSTOP, <http://www.pcpitstop.com/spycheck/eula.asp> (last visited Jan. 23, 2011). After more than 3,000 downloads, one user finally mailed a note to the company and received \$1,000, as promised. *Id.*

¹¹³ This is in direct contrast with the court's mandate in *SoftMan*. See *SoftMan Products Co. v. Adobe Sys., Inc.*, 171 F. Supp. 2d 1075, 1084 (C.D. Cal. 2001).

¹¹⁴ The *SoftMan* approach gives very little weight to a label, in contrast to the *ProCD Inc.* approach and the Ninth Circuit's *Vernor* analysis. See discussion *supra* Part II.B.

¹¹⁵ See discussion *supra* Part II.B (comparing the *SoftMan* approach of comparing the economic realities of the exchange with the *ProCD Inc.* approach of relying on the text of the licensing agreement); see discussion *supra* Part III.A (discussing the economic incentives of allocating rights to consumers rather than publishers of software).

¹¹⁶ Focusing on the economic realities of the exchange does just that, and prevents bizarre results in the presence of a licensing agreement that imposes restrictions on a transaction that otherwise resembles a sale. See *Softman*, 171 F. Supp. 2d at 1084. This approach is also in the spirit of *Bobbs-Merrill Co.* where the Court ignored the presence of a licensing agreement in a transaction that was a sale in every other factual aspect. See *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350–51 (1908); discussion *supra* Part II.A (discussing *Bobbs-Merrill Co.*).

kind of labeling could take place with books, paintings, or any other form of intellectual property in the future. In software, deceptive labeling is very similar to the contract affixed to the inside cover of the book that was sold in *Bobbs-Merrill Co.*, and therefore, this deceptive labeling does not comport with the mandates of the First Sale Doctrine as presented in that case.¹¹⁷ Courts should regard the sale of software with a licensing agreement just as the Supreme Court treated the book with the licensing agreement in *Bobbs-Merrill*, and the *SoftMan* approach is a modern way to reach a uniform result where different forms of intellectual property are treated the same way regardless of media.

On a larger scale, the debate about whether to follow the substance or the form of an agreement is a debate as to whether the consumer or the publisher should have the edge in a transaction.¹¹⁸ The publisher is often a multimillion-dollar corporation capable of hiring a legal team competent for the task of formulating favorable licensing agreements for the corporation.¹¹⁹ The publishers use this advantage to cut out rights of resale so that the publisher effectively controls the entire market for the product with the elimination of any kind of secondary resale market. On the other hand, consumers are typically just one person, or in some cases, small businesses.¹²⁰ These kinds of consumers do not have anywhere near the level of resources that the publishers do, and do not have the day-to-day experience with the licensing agreements that the publishers craft. In the interests of public policy and fairness, the consumers should be favored in software transactions.¹²¹ The consumer is the more likely of the two actors in the transaction to be taken advantage of and to lose his or her rights due to a lack of understanding or resources.

General contract law also mandates that the economic realities of a transaction are followed.¹²² If a transaction that resembles a sale is not treated as such in a software context, there is nothing to stop other distributors of goods from characterizing their transactions as licenses to strip rights from consumers.¹²³ Imagine the instance of a homebuilder characterizing sales of new houses as a licensing agreement and preventing purchasers of these houses from reselling them, stripping the right to realize any investment in the purchase from the buyer. Any indi-

¹¹⁷ See discussion *supra* Part II.A; *Bobbs-Merrill Co.*, 210 U.S. at 350–51 (discussing the book involved in *Bobbs-Merrill Co.* and the Court's treatment of the affixed contract).

¹¹⁸ See discussion *supra* Part V (discussing the incentives of software publishers to implement measures that would allow or a digital First Sale Doctrine).

¹¹⁹ Some of the most prominent software manufacturers on the market, such as Microsoft Corporation and Oracle Corporation, have gross profits in the billions of dollars and profit margins approaching ninety percent. *Chart: Software Companies: Gross Profit Margins*, SEEKING ALPHA (May 7, 2006), <http://seekingalpha.com/article/10166-chart-software-companies-gross-profit-margins>.

¹²⁰ Certainly, almost all of GameStop's customers that purchase used video games are individuals seeking a leisure activity. See *Orland*, *supra* note 98. Sales of productivity-related software are more likely to be mixed between individuals and businesses.

¹²¹ See discussion *infra* Part V.A (discussing the incentives on each side of a transaction involving software).

¹²² See discussion *supra* Part III (discussing the judicial approach of analyzing the economic realities of a transaction).

¹²³ See discussion *supra* Part II.B (discussing the approach of strictly adhering to contractual agreements that was presented in *ProCD*).

vidual that desires to purchase a house in the style created by the builder would need to go straight to the builder, rather than, perhaps, buying an older version on the secondary market. Such a result would be absurd and intolerable in the housing market, and the same should be the case in the software context. Courts should level the playing field between consumers and publishers, and develop law that brings software sold through digital distribution under the umbrella of the First Sale Doctrine in the interest of sound public policy. Under such a law, a consumer should be able to look at a transaction and be secure in knowing that he or she is receiving the same package of rights in a software transaction as in any other, and a right of resale should be protected in this process of securing consumer rights.

IV. PROPOSED SOLUTIONS

If the First Sale Doctrine is implemented for digital distribution, active measures must be taken to ensure that the software can be transferred from one consumer to another on the secondary market. Unlike more traditional forms of copyrighted media such as photographs, prints of paintings, compact disks containing music, or even software sold on compact disk or DVD, software sold via digital distribution is not manifested on a copy that is easily transferable.¹²⁴ The sale of digitally distributed software is only practical if the sale is enabled by a device that allows for the transfer of the copy of software to the hard disk of the secondary market purchaser. There are several ways that publishers could allow for this.¹²⁵ The first would entail a transfer from the hard disk of the first owner of the copy to the secondary market purchaser, whereupon the original copy of the software is deleted, leaving no trace. A possible alternative is a transfer of a serial key from the first owner to the secondary market owner, resulting in the second purchaser having the ability to download the software from the digital distribution platform as the first owner did. Finally, the ability could be provided to the first owner to place the software on a more transferable form of media—such as a compact disk or DVD—that would then allow for the sale of that copy.

A. *The Piracy Problem*

Piracy is a significant problem lurking in the background of any proposed solution. The copy protection that is a part of almost all modern software is actually

¹²⁴ It is true that the software becomes a copy as soon as it is downloaded and installed to the user's hard disk; however, a copy on a hard disk cannot be parted with easily. See Brian Mencher, *Online Music Distribution: Proposal for A Digital First Sale Doctrine*, 21 Ent. & Sports Law 16, 17 (2004). The modern hard disk is typically a storage medium that has many times the capacity of the software that is sold, and it is likely that the hard disk contains the personal documents and the other software owned by the consumer; therefore, a hard disk containing a copy of software sold via digital distribution cannot be sold easily as a hard copy. *Id.* at 18.

¹²⁵ Creative programmers are inventing unique solutions to open up secondary markets for digital distribution, particularly for electronically stored music. See, e. g., Mike Masnick, *Yet Another Company Says It Can Help You Sell Used MP3s*, TECHDIRT (Feb. 18, 2011), http://www.techdirt.com/articles/20110218/12432213167/article_main.php?sid=20110218/12432213167 (discussing ReDigi, a startup business focused on selling used MP3 files); Eliot Van Buskirk, *Byte This*, HOUSTONPRESS (June 17, 2009), <http://www.houstonpress.com/2009-06-18/music/byte-this/> (discussing Bopaboo, a platform focused on selling used MP3 files).

one of the devices that prevents digitally distributed software from being resold.¹²⁶ Digital distribution platforms almost always tie the ability to download software to an account of which that the user has control.¹²⁷ Once the user purchases a copy of a program, the key for the software is added to the user's account, granting the ability to download the program to the hard drive.¹²⁸ The installation programs that are sold via digital distribution are also typically directly incorporated into the download process, making it impossible to arrange the file structure of a program in a way that would make it usable on a computer that the software was not directly downloaded onto.¹²⁹ Software piracy is a significant problem, and the industry loses a significant amount of profits to software piracy every year.¹³⁰ If measures such as these were not taken, it would be easy for any software owner to make copies of software and open up a piracy ring out of her home, either for profit or for the purpose of distributing the software to others free of charge.

This rationale also works against the First Sale Doctrine with digitally distributed software because copying the software is an essential step involved in transferring the software to a new owner.¹³¹ The same machinery that protects publishers against piracy also hurts users who desire to sell their copy because the copy cannot easily be transferred to a different form of media that would facilitate a sale.¹³² A transfer would be prevented from occurring even if a more portable form of media is not used because the software used to guard the publisher from losses to criminal pirates is also harming the innocent consumer who wants more control over his or her software.

There are three methods that could be implemented to facilitate the First Sale Doctrine in a way that would alleviate piracy concerns: (1) a forward and delete method, (2) free transfer of centralized licensing, and (3) the elimination of copy protection and implementation of other methods that would deter copying. The problem that each of these solutions tackles is the copy that could potentially remain on the computer of the first owner of the software after "selling" the copy on the secondary market. When a traditional hard copy of a piece of intellectual property is transferred, it literally "changes hands." The seller of a print of the

¹²⁶ Copyright protection software is unable to distinguish between consumers that wish to use a copy of software on multiple computers and consumers that distribute copies of their software to far-flung corners of the world for piracy purposes. See *Wardell Interview*, *supra* note 77.

¹²⁷ See, e.g., *About Impulse*, *supra* note 71.

¹²⁸ *Id.*

¹²⁹ *Id.*

¹³⁰ Kevin J. O'Brien, *Silver Lining in Report on Software Piracy*, N.Y. TIMES (May 5, 2008), <http://www.nytimes.com/2008/05/13/technology/13iht-piracy.4.12855344.html>. The software industry lost \$47.8 billion to piracy in 2007. *Id.* The industry suffered \$8 billion worth of losses due to piracy in the United States during that year, the largest volume of losses to piracy in the world. *Id.* In contrast, the piracy rate—a country's losses to piracy compared to volume of legitimate sales—was relatively low in the United States at twenty percent compared to rates of seventy-three percent and eighty-two percent in Russia and China, respectively. *Id.*

¹³¹ A copy of the software must be produced to transfer it to another computer. Two copies of a legitimately purchased item of software will exist for at least a moment while the software is transferred to a new computer, or to another storage medium, even under a fast forward and delete scheme.

¹³² Anti-piracy software makes free use of software difficult for legitimate purchasers who wish to use their copy of software on multiple machines. *Wardell Interview*, *supra* note 77.

aforementioned Picasso work does not retain the print after sale.¹³³ The print is transferred to the purchaser, who then assumes full control of that unique copy of the work, subject to the owner's copyright privileges. When a copy of software is transferred, the transaction is not so simple. There is a significant possibility that a copy of the software will remain on the seller's computer without any affirmative step taken by the seller. Each of the aforementioned solutions attempts to eliminate the problem of a copy being left behind, protecting the publisher from piracy caused by multiple illegitimate users of one copy, and protecting the legitimate user from penalty.

1. *Forward and Delete*

The forward and delete method is one of the more commonly cited solutions to the First Sale Doctrine with software.¹³⁴ This approach takes direct aim at the copy that can remain on a seller's computer directly after a sale by ensuring that no trace of the software is left on the first owner's computer after the sale.¹³⁵ Forward and delete requires a publisher to implement a program or protocol in its software that allows the software to be forwarded, either directly to another user via email, streaming transfer, or some other direct method; or by allowing the seller to place the program on a transferrable form of media, such as a compact disk or DVD.¹³⁶ As the name of the method implies, the "forward" action is immediately followed by a "delete" action that deletes the software from the seller's computer, leaving no trace.¹³⁷ The procedure would be completely automated, and does not leave open a possibility that a seller intent on retaining the software is unable to do so.¹³⁸

Because the method leaves no trace of the program on the seller's computer, the publisher's piracy concerns are alleviated. Forward and delete insures that one legal copy does not multiply into additional illegal copies. The drawback, however, is that this method is not without cost. The coding that would need to be included in the software to enable this approach would require several steps to be taken on the part of the publisher.¹³⁹ Additionally, the forwarding function could require maintenance costs, especially if the forwarding process merely transfers a

¹³³ Unless of course, affirmative steps are taken by the seller to illegally copy the print before the transfer.

¹³⁴ See, e.g., Mencher, *supra* note 124, at 16; Justin Graham, *Preserving the Aftermarket in Copyrighted Works: Adapting the First Sale Doctrine to the Emerging Technological Landscape*, 2002 Stan. Tech. L. Rev. 1, ¶43 (2002).

¹³⁵ Graham, *supra* note 134, at 43.

¹³⁶ *Id.*

¹³⁷ *Id.*

¹³⁸ See *id.*

¹³⁹ Programming would need to be inserted into the software to facilitate both the forwarding and the deletion procedures. See *Id.* at 29 (describing different types of security measures that must be inserted into the coding of the protected software). This programming could bog down an already complex piece of software, increase the amount of space the program inhabits on a user's hard drive, or divert the publisher's resources away from working on substantial portions of the software. See Evan Narcisse, *Download Site Says DRM Causes Piracy*, TIME TECHLAND, (Apr. 12, 2011) <http://techland.time.com/2011/04/12/download-site-says-drm-causes-piracy/> ("As it's currently implemented by the film, music and game industries, [digital rights management programming] has been known to slow down system performance.").

key to the purchaser to allow for a download.¹⁴⁰ This would create a scenario where the software would be downloaded at least twice, perhaps doubling the bandwidth usage of the publisher, and increasing the publisher's costs for its distribution services.¹⁴¹ Despite these problems, however, the forward and delete method provides a way to facilitate the First Sale Doctrine that protects both users and publishers.

2. *Serial Key Transfer*

When software is sold via a digital distribution platform, the ability to download the software is tied to a serial key that becomes a part of the user's account upon purchase.¹⁴² A serial key is a piece of data that becomes embedded in the computer, and identifies that computer to the digital distributor.¹⁴³ It allows the purchaser of the key to download her copy of the software from the publisher's server. Purchasing this key is what allows the owner of the software to download a copy onto her computer.¹⁴⁴ The software cannot be downloaded otherwise, and it cannot be copied onto a computer that does not have the key. Making these keys freely transferable would allow for the implementation of the First Sale Doctrine. A user could sell her key to a purchaser, rather than directly selling the software. Selling the key would terminate the seller's ability to use the software and download it in the future, and grant those rights to the purchaser. Additionally, this method is fairly painless to the user, as methods have been created that eliminate all user interaction with digital rights management software, and integrate the licensing mechanism directly into the background operations of the software.¹⁴⁵

The benefits to this approach are similar to the forward and delete method. Two or more usable copies of the software could not be created from one legal copy of the software.¹⁴⁶ The difference is that the solution is at the server level rather than the software level, meaning that the publisher would not need to embed

¹⁴⁰ Bandwidth is the amount of data that can be carried on an internet connection, and there is almost always a cost associated with this data transfer. *Bandwidth*, WEBOPEDIA, <http://www.webopedia.com/TERM/B/bandwidth.html> (last visited Feb. 24, 2011). Bandwidth usage on the part of the publisher might increase if software is resold, and thus, downloaded again. This may be an irrelevant argument however, as more data may not necessarily be used. Licenses do not typically allow a user to download the software only once, therefore, a legitimate user may download a copy of software multiple times.

¹⁴¹ Increased bandwidth usage increases costs that the publisher must pay to its internet service provider for that bandwidth. *See How Much Does One Terabyte of Bandwidth Cost?*, JOSEPH SCOTT (Jan. 22, 2009), <http://josephscott.org/archives/2009/01/how-much-does-one-terabyte-of-bandwidth-cost/> (survey of bandwidth prices).

¹⁴² *See, e.g., Impulse Support*, *supra* note 84.

¹⁴³ The serial key can be a number or an account with an online service provider. *See id.* The form is largely irrelevant; what matters is that the key grants only one user the ability to download and use the software per purchase.

¹⁴⁴ Victor F. Calaba, *Quibbles 'N Bits: Making A Digital First Sale Doctrine Feasible*, 9 Mich. Telecomm. & Tech. L. Rev. 1 (2002).

¹⁴⁵ *See, e.g., About Impulse*, *supra* note 71.

¹⁴⁶ Two copies would be created when the software is copied to the new host computer, but left behind on the first owner's computer. This is a problem that would be resolved by the deletion step of the forward and delete method. This would ensure that only one version of a particular copy can exist at a time. *See discussion supra* Part IV.A.1 (discussing the forward and delete method).

measures directly into the software.¹⁴⁷ This could be more or less costly than implementing forward and delete measures, depending on the relative complexities of the software and the serial key scheme, but it is likely that implementing the ability to transfer keys would be less costly because the transfer process could be conducted by the methods already in place that allow for the purchase of software. The drawback to allowing these transfers is similar to the primary drawback of forward and delete: allowing for the free transfer of serial keys is not a costless endeavor.¹⁴⁸ The bandwidth costs would be even higher given that these downloads would be the only way to transfer the property, and this bandwidth may be significant depending on the volume of business done digitally.¹⁴⁹ However, like forward and delete, this is a very effective way of preventing piracy while effectuating the First Sale Doctrine; therefore, it is an effective solution to implement.

3. *Eliminating Copy Protection*

A final way to effectuate a transfer would be to eliminate copy protection altogether, allowing for consumers to place their copy of the software onto physical media and transfer the copy to a new user manually, or to transfer to the new purchaser by using a digital method. Though this method seems radical given the significant piracy problems that publishers deal with, several publishers, primarily publishers of computer games, have eliminated copy protection from their software altogether.¹⁵⁰ Their reasoning is that modern software pirates are sophisticated enough to hack into whatever kind of copy protection that is devised to copy software despite the protection.¹⁵¹ No copy protection, in their eyes, is just as effective as having the protection, so the protection is dropped.¹⁵² Additionally, users tend to prefer software that lacks copy protection for a variety of reasons—it allows for multiple installations if the user owns several computers, it allows for resale, and general freedom to do what one wishes with the software—therefore, some publishers have been led to believe that the practice of dropping copy protection increases sales due to the positive image created.¹⁵³ The publisher would be seen as less restrictive by the consumers, and the consumers value this trust, perhaps leading to increased respect for the company and increased sales.¹⁵⁴

¹⁴⁷ See discussion *supra* Part IV.A.1 (discussing the software coding required to implement the forward and delete method).

¹⁴⁸ See discussion *supra* Part IV.A.1. (discussing the forward and delete method).

¹⁴⁹ See *How Much Does One Terabyte of Bandwidth Cost?*, *supra* note 141 and accompanying text.

¹⁵⁰ See, e.g., Marcus Yam, *Game Developers Speaking Out Against DRM*, TOM'S HARDWARE (May 13, 2009), <http://www.tomshardware.com/news/pc-game-drm-copy-protection,7777.html> (including the input of several CEO's of game development companies speaking against copy protection); Andrew Burnes, *Brad Wardell Interview*, VODOO EXTREME VE3D (Apr. 18, 2009), <http://ve3d.ign.com/articles/news/46282/Brad-Wardell-Interview> (focusing on Stardock's copy protection-free approach).

¹⁵¹ See Yam, *supra* note 150.

¹⁵² *Id.*

¹⁵³ See *id.*

¹⁵⁴ Brad Wardell of Stardock believes that rewarding consumers for purchasing software, rather than punishing pirates and consumers alike, is a more productive way to ensure that users buy the software rather than pirating it. Alex Wawro, *Analysis: Digital Rights Management in PC Gaming*,

The primary benefit to using this method is that it is near costless and possibly even cost reducing. This approach does not require the implementation of any active device to facilitate a transfer of the software, making this approach immediately less costly than forward and delete and free transfer of serial keys. Modern copy protection and licensing systems are very complex, requiring development that can require the investment of significant resources, and even then these measures are not failsafe.¹⁵⁵ Eliminating this cost could be a significant incentive to pursue this method of effectuating the First Sale Doctrine. Despite the reduction in front-end costs, however, the method can be very costly because of the losses that could happen due to piracy, which would likely be more common given the lack of a barrier to piracy. These competing costs would need to be weighed; if the gains from cutting the costs of implementing the copyright protection would outweigh the anticipated losses to piracy. If the cost of implementing the policy would outweigh possible losses to piracy, the measures would be worthwhile. This approach would be appealing to companies that want to cut upfront costs that would be involved in copy protection in enforcing one of the other methods.

Other interests can come into play when analyzing whether copy protection should be eliminated. The goodwill generated cannot be understated, as consumers are likely to purchase software more frequently from publishers that they do not consider paternalistic.¹⁵⁶ Additionally, there is a habit-building argument that resonates closely with piracy arguments made in the music industry—if people do end up pirating the software, perhaps they are more likely to build a habit of using the software, and will be more likely to purchase the software in the future and recommend it to friends.¹⁵⁷ Furthermore, copy protection is almost always broken by pirates, regardless of how sophisticated it is and how much money a publisher put into it.¹⁵⁸ Abandoning copy protection altogether is something that very few publishers have done, but it may be a sound choice in light of the rate of software piracy at the present, and in light of growing consumer disdain for paternalistic digital rights management software.

B. Which Method Provides the Optimal Outcome?

Of the three methods presented above, the optimal choice depends on the company that is developing the software in question. The choice represents the kind of private business decision that the government is unlikely to interfere with, therefore, it is improbable that a certain method would be preferred via legislation.

GAMEPRO (Feb. 25, 2010), <http://www.gamepro.com/article/news/214178/analysis-digital-rights-management-in-pc-gaming/>.

¹⁵⁵ See discussion *supra* Parts IV.A.1–2 (discussing the costs of implementing the forward and delete and centralized licensing methods).

¹⁵⁶ See, e.g., Wardell Interview, *supra* note 77.

¹⁵⁷ *Id.* Stardock's Brad Wardell has, in at least one respect, admitted defeat in the war against piracy. *Id.* He strongly believes that pirates would not have bought the software that they pirate a vast majority of the time regardless of any circumstances. *Id.* To him, copy protection is nothing more than a delaying mechanism, as all copy protection is broken through by pirates at some point, and the more complex it is, the more of a nuisance it is to lawful consumers of the software. *Id.*

¹⁵⁸ *Id.*

The method of choice will depend upon the pre-existing practices and methods of the publishing corporation. If a publisher has an extensive serial key system in place already, they are likely to choose to make these keys transferable if the corporation wishes to implement the First Sale Doctrine. The choice between forward and delete, centralized licensing, and proceeding without protection measures will depend upon the preferences of the company. A publisher with more money that wants to protect its software as effectively as possible is more likely to implement forward and delete, while a smaller publisher that is looking to save money could just remove copy protection altogether. It is up to the individual publisher to make the choice that is best for its own interest, and though this may be challenging, perhaps the greatest challenge is not a decision between these actions, but a decision to do anything at all.

V. PROBLEMS MOVING FORWARD

Implementing a digital First Sale Doctrine may be easier said than done. There are numerous competing interests involved, including a battle between the interests of the end user and the interests of the publisher.¹⁵⁹ Under the status quo situation, the publisher has the product, and therefore has the power. Software companies are unlikely to want to implement measures that would reduce their share of the market by allowing for the existence of a secondary market for resale. The government, therefore, must step in to protect the rights of consumers and to ensure that software companies implement one of the above mechanisms that would allow for users to resell their software.

A. *Paying to Sabotage Your Own Market? Why Content Providers Will Not Comply on Their Own*

The major problem in implementing the First Sale Doctrine is that publishers are unlikely to have an incentive to implement any of the above measures. Both forward and delete and free alienation serial keys require up-front costs on the part of the publisher to implement them, while eliminating copy protection altogether bears an indirect cost, the potential to lose sales to increased piracy. Additionally, these are costs that are expended to open up a secondary market for the product, which piles another indirect cost on the publisher. Each sale made in the secondary market is a potential lost sale of the software that is available directly from the publisher.¹⁶⁰ When viewed in this light, a publisher would be effectively paying to introduce a market that could undercut its prices and take sales away from the primary market. This approach would effectively sabotage the market for the publisher's products while the publisher makes expenditures to allow this to happen.

¹⁵⁹ See discussion *supra* Part II.A (discussing the competing incentives involved in the First Sale Doctrine generally).

¹⁶⁰ Granted, this is an oversimplification; it does not take into account the likelihood that the secondary market copies will be available at a significant cost reduction from the primary market version of the software, and therefore, a number of people who would not buy the software at all at full price will purchase the good on the secondary market in addition to the consumers merely looking for a discount.

When only pure economics are taken into account, publishers have almost no incentive to allow consumers to resell their software for a discount, to the detriment of the users that would want to sell the software and to the users who would want to purchase it.

The only rationale that a publisher would have to implement these measures would be non-economic, and therefore, difficult to measure.¹⁶¹ A publisher could value the goodwill of customers, and could place a high level of importance on establishing trust in the marketplace. These efforts in and of themselves are likely to yield economic benefits for the publisher, but they are difficult to measure through conventional means. Most corporations have a preference for an economically optimal outcome, in the interest of expanding their profit margins. Because of this economics-centric approach, it is unlikely that a vast majority of publishers would implement measures that would allow the First Sale Doctrine to exist in the digital setting. This set of preferences necessitates the intervention of government and lawmakers if the rights of consumers are to be fully recognized.

B. Legislation: The Only Answer?

Legislation could be the best way to effectuate the implementation of devices that would allow for a digital First Sale Doctrine. At a highly abstract level, the First Sale Doctrine debate is a debate involving the allocation of rights. Under the First Sale Doctrine, the right of consumers to freely alienate their copy of a given piece of intellectual property is recognized, while honoring restrictive licensing agreements elevates the rights of the corporation to control its product and prevent resale. The Supreme Court made this policy decision long ago in *Bobbs-Merill Co.*, Congress then codified the doctrine, and therefore, the consumers' free right of alienation has been recognized as superior to the right of publishers to control the works they own.¹⁶² Congress has made the choice by codifying the First Sale Doctrine, and should follow up by recognizing these same rights in the realm of digital distribution. How this is enacted could be left vague, leaving a choice as to how publishers could handle First Sale Doctrine implementation by choosing the method that best fits the company's needs.¹⁶³ The legislation would merely be a way to force action on the part of the publishers to implement the First Sale Doctrine measures that they are unlikely to implement on their own, leaving choice to the publishers. This seems like a likely course of action, given the judiciary's tendency to favor the First Sale Doctrine, and the legislature's recognition of the doctrine generally.¹⁶⁴ It is likely only a matter of time before digital distribution is treated the same way as other methods of distribution that deliver goods that are substantially identical to digitally distributed goods.

¹⁶¹ Some publishers, such as Stardock, see fostering consumer goodwill as a critical aspect of their business model. See *Wardell Interview*, *supra* note 77. Wardell believes that balancing the protection needs of the software against consumer analysis is an important decision that a publisher must make. *Id.*

¹⁶² See *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350–51 (1908).

¹⁶³ See discussion *supra* Part IV.B (discussing the differing considerations involved in choosing an implementation of the digital First Sale Doctrine).

¹⁶⁴ See discussion *supra* Part II.A (discussing the policy rationale for the First Sale Doctrine).

Software should be treated the same as paintings, books, and other intellectual property that have traditionally been held to be included under the umbrella of First Sale Doctrine protections.¹⁶⁵ Digital, web-centric transactions will become increasingly prominent as time passes, but it is not necessary that the law change to accommodate these developments. Digital distribution should be considered a medium in and of itself, one protected by the same mechanisms as the more traditional media that the law was built upon. Digital distribution cannot come to be symbolized by and likened to intellectual property without a manifestation for the purchaser to take ownership of. Software sold through digital distributors is quite simply a *Guernica* print without the paper, and should be recognized as such. The new electronic media should be embraced, not singled out and exempted from existing law.

VI. CONCLUSION

Though the institution of the First Sale Doctrine in the context of digital distribution platforms will be costly to software publishers, these costs do not outweigh the detriment caused by the evisceration of property rights through licensing.¹⁶⁶ The sale of software through digital means produces the same product for the end user as does a sale over the counter involving a hard copy: a copy of the computer program in question.¹⁶⁷ In an age where elaborate copy protection measures are a standard part of most consumer software, the use of different forms of media does not justify differing treatment between distribution methods based on outdated fears of widespread infringement. The means exist to institute a digital First Sale Doctrine at a reasonable cost, and these measures should be pursued.¹⁶⁸ Legislation is an ideal way to force the publishers' hands, causing them to take the necessary steps to secure the rights of consumers by applying the Duck Test to a digital First Sale Doctrine.¹⁶⁹ Recognition of what the consumer is purchasing, the data rather than its attached medium, like the art upon the paper rather than the paper itself, is the key to recognizing consumer rights in this evolving frontier of intellectual property law.

¹⁶⁵ See discussion *supra* Part II.A (discussing the First Sale Doctrine generally).

¹⁶⁶ See discussion *supra* Part V.A (discussing the competing incentives involved in a digital First Sale Doctrine).

¹⁶⁷ See discussion *supra* Part II.C (discussing the properties of software sold through digital distribution platforms).

¹⁶⁸ See discussion *supra* Part IV.B (discussing methods for the implementation of a digital First Sale Doctrine).

¹⁶⁹ See discussion *supra* Part V.B (discussing the use of legislation to implement a digital First Sale Doctrine).