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## Exhausted? Video Game Companies and the Battle Against Allowing the Resale of Software Licenses

Alice J. Won

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# Exhausted? Video Game Companies and the Battle Against Allowing the Resale of Software Licenses

By Alice J. Won\*

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## I. INTRODUCTION

Many video game companies may have cause to worry about a recent case holding<sup>1</sup> from the European Union (EU), which allows the resale of used software licenses.<sup>2</sup> Potentially, video games on CD-ROM as well as online, downloadable, personal computer (PC) games, like those developed by Steam or Blizzard,<sup>3</sup> might not be able to protect their exclusive right of distribution in copyright and may be at a hazard of losing out on profits due to the second-hand market for reselling video games. However, is this really any different from the resale of used books and video game cartridges, or is this an expansion of the second-hand market and copyright law that should be approached with caution? This might not even come as a surprise to video game companies, as the United States in 1990 exempted video games from the same copyright protection afforded to other types of computer software.<sup>4</sup> If the U.S. were to adopt a model such as the EU's, what role should administrative agencies take in regulating this? This article looks at the potential effects that the recent EU case may have in the U.S. and whether the U.S. should

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<sup>1</sup> Case C-128/11, *UsedSoft GmbH v. Oracle Int'l Corp.*, 2012 E.C.R. I-0000.

<sup>2</sup> A used software license refers to a license of a copy of copyrighted software that was first purchased by a consumer, and then later resold in the secondary market. See *UsedSoft GmbH*, 2012 E.C.R. at § 24.

<sup>3</sup> Steam and Blizzard are examples of two of the many online and personal computer (PC) video game companies that exist. Specifically, Steam is purely based on a digital platform known for downloadable games such as *Civilization*, *Call of Duty: Black Ops*, and *EverQuest*; and Blizzard games, such as *Diablo*, *World of Warcraft*, and *StarCraft*, and can be purchased in CD-ROM or digital download forms. See BLIZZARD, <http://us.blizzard.com/en-us/> (last visited Jan. 31, 2013), and STEAM, <http://store.steampowered.com> (last visited Jan. 31, 2013).

<sup>4</sup> See *infra* text accompanying notes 76–85. The Copyright Act exempted computer programs from the first sale doctrine, but did not extend this protection to video games. 17 U.S.C. § 109(a)-(b)(1)(B)(ii) (2006).

adopt a copyright framework like the European community. While this article focuses on the EU case's effect on the video game industry in the U.S., it specifically relates to online PC games that can be downloaded or purchased through hard-copy CD-ROM forms.

This article looks at several aspects surrounding the EU's *UsedSoft GmbH v. Oracle International Corp.*<sup>5</sup> case and its potential effects. Part II of this article explains the EU's perspective on copyright law for reselling used software licenses by looking at Articles 4(2) and 5(1) of Directive 2009/24/EC and the 2012 European Union *UsedSoft* case. Part III summarizes the United States' first sale doctrine through recent case law and section 109 of title 17 of the United States Code (the Copyright Act). While Part II and III summarize the differences in copyright law between the EU and the U.S., part IV analyzes the potential effects the EU case may have in the U.S. and policy considerations on whether the U.S. should adopt an open policy to resell used software licenses with the similar disregard to end user license agreements like the EU has. Part V analyzes the potential role the Federal Trade Commission and the Department of Justice may have if the U.S. were to adopt the EU's model and why video game companies and consumers should care about the *UsedSoft* case. Part VI recommends alternatives and possible remedies that video game companies may adopt if the EU trend continues to spread. Lastly, Part VII concludes this article.

## II. THE EUROPEAN UNION'S DISREGARD FOR END USER LICENSE AGREEMENTS

In 1971, European case law<sup>6</sup> adopted the exhaustion doctrine for copyrights and placed it in Directive 91/250/EC as of 1991.<sup>7</sup> The European framework states that once the software right-holder gives his consent and sells or distributes a copy within the EU, he no longer

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<sup>5</sup> Case C-128/11, *UsedSoft GmbH v. Oracle Int'l Corp.*, 2012 E.C.R. I-0000.

<sup>6</sup> Case 78/70, *Deutsche Grammophon Gesellschaft mbH v. Metro-SB-Großmärkte GmbH & Co. KG.*, 1971 E.C.R. 0487.

<sup>7</sup> Tjeerd Overdijk et al., *Exhaustion and Software Resale Rights*, CRi 34 (Feb. 2011), <http://www.vondst-law.com/files/Exhaustion%20and%20Software%20Resale%20Rights%20CRI%202011-02.pdf> [hereinafter CRi, *Exhaustion*].

can control or prevent distribution of that copy within the EU.<sup>8</sup> Furthermore, the lawful acquirer of that software copy—even if he is a second-hand acquirer—will have the statutory right to use the program for its intended purpose.<sup>9</sup> The principle of exhaustion was necessary to balance awarding the software owner for his creativity while also advocating the concept that goods should freely circulate in Europe.<sup>10</sup>

A. *The European Union’s Exhaustion Doctrine and Articles 4(2) and 5(1) of Directive 2009/24/EC*<sup>1</sup>

The European Union establishes directives<sup>11</sup> in order to align its twenty-seven Member States and their differing national laws most commonly in “matters affecting the operation of the single market.”<sup>12</sup> In 2009, the European Parliament and Council issued the European Software Directive for the legal protection of computer programs, or Directive 2009/24/EC.<sup>13</sup> This Directive gave software owners the exclusive right to control the distribution of software through licenses and to control the software’s use or technical reproductions.<sup>14</sup>

<sup>8</sup> *Id.*; Article 4(2) of Directive 2009/24/EC of the European Parliament and the Council of 23 April 2009 on the Legal Protection of Computer Programs (OJ 2009 L 111, p.18).

<sup>9</sup> CRi, *Exhaustion*, *supra* note 7; Article 5(1) of Directive 2009/24/EC.

<sup>10</sup> *See* CRi, *Exhaustion*, *supra* note 7.

<sup>11</sup> EU directives are legislative acts that dictate a particular result, but allows each member state to execute the means of that result. *Application of EU Law: What are EU Directives?*, EUROPEAN COMMISSION (July 25, 2012), [http://ec.europa.eu/eu\\_law/introduction/what\\_directive\\_en.htm](http://ec.europa.eu/eu_law/introduction/what_directive_en.htm). In a sense, this is similar to enacted federal law within the United States where each state can interpret the law and provide the scope of the law.

<sup>12</sup> *Id.* Directives are legally binding for each Member State in the European Community because “the recitals clarify which results the Member States have to achieve in implementing a directive.” Lothar Determann & Aaron Xavier Fellmeth, *Don’t Judge a Sale by its License: Software Transfers Under the First Sale Doctrine in the United States and the European Community*, 36 U.S.F. L. REV. 1, 73–74 (2001) [hereinafter Determann, *Don’t Judge*].

<sup>13</sup> Directive 2009/24/EC; *see also* CRi, *Exhaustion*, *supra* note 7. Software license agreements of the Member States of the European Community are governed by EU law provided by Directive 2009/24/EC, and are also governed by national contract law, which differs from Member state to Member state in the EU. *See* Determann, *Don’t Judge*, *supra* note 12, at 70–71.

<sup>14</sup> CRi, *Exhaustion*, *supra* note 7.

However, Article 4(2) provides an exhaustion exception, and Article 5 relates to a “second hand” software exception for users of software copies.<sup>15</sup>

Specifically at issue in the *UsedSoft GmbH v. Oracle International Corp.* case<sup>16</sup> was Directive Article 4(2) and Article 5(1), which refer to limitations of the copyright holder’s right of distribution and right of reproduction respectively. Directive Article 4(2) states that “[t]he first sale in the Community of a copy of a program by the rightholder or with his consent shall exhaust the distribution right within the Community of that copy, with the exception of the right to control further rental of the program or a copy thereof.”<sup>17</sup> In essence, Article 4(2) is the EU’s version of the United States’ first sale doctrine for copyrights: once an owner of a program sells a copy in the EU, he loses distribution rights (or his rights are “exhausted”) to that particular copy sold. Article 5(1) states that “[i]n the absence of specific contractual provisions, the acts referred to in points (a) and (b) of Article 4(1) shall not require authorisation by the rightholder where they are necessary for the use

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<sup>15</sup> *Id.*

<sup>16</sup> *UsedSoft GmbH*, 2012 E.C.R.

<sup>17</sup> Article 4(2) of Directive 2009/24/EC. “Sale” within Article 4(2) is to be given broad interpretation and may encompass

all forms of product marketing characterized by the grant of a right to use a copy of a computer program, for an unlimited period, in return for payment of a fee designed to enable the copyright holder to obtain a remuneration corresponding to the economic value of the copy of the work of which he is the proprietor.

*See UsedSoft GmbH*, 2012 E.C.R. at § 49. Otherwise, Article 4(2)’s exhaustion provision could easily be bypassed by merely substituting a contract as a “license” rather than a “sale.” *Id.* Perpetual licenses granted to a user of software amounts to a “sale” of a copy of that software. Alexander Ross & David Deakin, *Legal Views: Does European Court Decision Open up a New Market in Second Hand Downloads?*, WIGGIN BLOG (Aug. 7 2012), <http://www.wiggin.co.uk/wigginviews/?p=57> [hereinafter Ross, *Legal Views*]. Rather than looking at the contract terms, CJEU looked at the economic substance of the transaction to find that a sale occurred, and the fact that Oracle charged a price that was not indicative of a short-term rental of the software. Randal C. Picker, *UsedSoft GmbH v. Oracle: Are You Exhausted Yet?*, MEDIA INSTITUTE (July 19, 2012), <http://www.mediainstitute.org/IPI/2012/071912.php>.

of the computer program by the lawful acquirer in accordance with its intended purpose, including for error correction.”<sup>18</sup> Due to Article 5(1), the owner of the copy does not need the program owner’s consent to permanently or temporarily reproduce the computer program if it is necessary to do so for the copy to work for its intended purpose, such as repairing<sup>19</sup> the computer.

While Article 4(2) provides that the software owner exhausts his distribution rights in that copy in the EU after that copy’s first sale specifically in the EU, Article 5(1) gives lawful acquirers of the software copy a statutory license right to use the program.<sup>20</sup> These directives keep the right holder, or program owner, from holding a “monopoly of exploitation” over the program.<sup>21</sup> This leads to Oracle International Corporation’s main argument and the issue in the *UsedSoft* case: whether this exhaustion principle from the Directives applies to user licenses for computer programs that are downloaded from the Internet.<sup>22</sup>

#### B. *The Case: UsedSoft GmbH v. Oracle International Corp.*

Oracle International Corporation (Oracle) developed and distributed computer “client-server software” computer programs where customers freely downloaded a copy of the program directly onto their computers from Oracle’s website or could request a CD-ROM or DVD.<sup>23</sup> However, in order to run the program, Oracle’s users had to purchase a license agreement, which gave users the right

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<sup>18</sup> Article 5(1) of Directive 2009/24/EC. Article 4(1) provides that the right holder’s exclusive rights include the right to do or to authorize: (a) the reproduction of a computer program in regards to its loading, displaying, running, transmission or storage; and (b) “the translation, adaptation, arrangement and any other alteration of a computer program and the reproduction of the results thereof.” *Id.*

<sup>19</sup> For example, this can include reinstalling software if the computer with the installed program needed repair.

<sup>20</sup> CRI, *Exhaustion*, *supra* note 7.

<sup>21</sup> Press Release No 94/12: *An Author of Software Cannot Oppose the Resale of his “Used” Licences Allowing the Use of his Programs Downloaded from the Internet*, COURT OF JUSTICE OF THE EUROPEAN UNION (July 3, 2012), available at <http://curia.europa.eu/jcms/upload/docs/application/pdf/2012-07/cp120094en.pdf>.

<sup>22</sup> *Id.*

<sup>23</sup> Case C-128/11, *UsedSoft GmbH v. Oracle Int’l Corp.*, 2012 E.C.R. I-0000, at §§ 20-21.



to store a copy permanently on a server and allow up to twenty-five users to access it.<sup>24</sup> The download and the license together were an indivisible whole, as having one without the other would be pointless.<sup>25</sup> The software license terms gave the user an unlimited period and a non-exclusive, non-transferrable right to use the program for internal business purposes.<sup>26</sup> Despite the language of Oracle's license terms, UsedSoft marketed used software licenses and offered to sell used licenses of Oracle's client-server software program.<sup>27</sup> UsedSoft customers downloaded the free program from the Oracle website, but bought licenses from UsedSoft to run the client-server.<sup>28</sup>

Directive 4(2) exhausted the copyright holder's rights of distribution in the EU<sup>29</sup> after the first sale in the EU of a copy of a computer program, but Oracle argued that this did not apply to user licenses for computer programs downloaded from the Internet.<sup>30</sup> Surprisingly, the Court of Justice of the European Union (CJEU) interpreted the directives to mean that the exhaustion of distribution rights applied not only to where the copyright holder made copies of the software on material medium, such as CD-ROM or DVD, but also when the holder distributed intangible, downloadable copies from its website.<sup>31</sup> The exhaustion or first sale doctrine was not limited solely to hard-copies because the court reasoned that copyright holders, like Oracle, would still control all resale of *downloadable* Internet copies when the specific subject matter of

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<sup>24</sup> *Id.* at §§ 22, 43.

<sup>25</sup> *Id.* at § 44. Thus, a free downloadable program on Oracle's website still constitutes a sale for the "first sale" needed to invoke Directive Article 4(2), even if the "sale" is from purchasing a separate license agreement to use the program.

<sup>26</sup> *Id.* at § 23.

<sup>27</sup> *Id.* at §§ 24–25.

<sup>28</sup> Case C-128/11, *UsedSoft GmbH v. Oracle Int'l Corp.*, 2012 E.C.R. I-0000, at § 26.

<sup>29</sup> *Id.* at § 8. This right to control resale of the original or that copy is not exhausted outside European Community.

<sup>30</sup> *Id.* at § 36.

<sup>31</sup> *Id.* at §§ 47, 58. In addition, Article 4(2) extends even to copies of "computer program sold as corrected and updated by the copyright holder," so even if the software was updated from when it was first purchased, the second purchaser was still considered to be buying the same software that the first copy-owner purchased. *Id.* at § 68.

concern was the intellectual property at issue, not whether it came in a hard- or soft-copy medium.<sup>32</sup> Otherwise, under a narrow application of the directive—that is, if this directive only targeted hard-copy medium—copyright holders would be able to bypass these directives by making all their programs downloadable, thus providing only minimal protection for the purchaser of a copy of the program and for his ability to dispose of that copy.<sup>33</sup> The CJEU held that Oracle’s exclusive distribution rights were exhausted when it made copies of its computer program available and granted a license agreement in exchange for payment to its customers to have the right to use that copy for an unlimited period.<sup>34</sup> This was held to be a transaction that involved the transfer of a right of ownership of that particular copy by the copyright owner to the customer, and thus copyright holders could not prohibit resale of copies sold despite any license agreement language prohibiting resale of the program.<sup>35</sup>

Despite Oracle’s license agreement terms prohibiting any transfers, the CJEU held that Oracle could not oppose the resale of copies already sold by Oracle and purchased by consumers.<sup>36</sup> However, the court limited this only to copies subject to first sale in the EU by the copyright holder or with his consent, and did not extend this to contracts for services, which are separable from such a sale and concluded by the sale.<sup>37</sup> Also, this resale was only allowed

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<sup>32</sup> Case C-128/11, *UsedSoft GmbH v. Oracle Int’l Corp.*, 2012 E.C.R. I-0000, at § 63.

<sup>33</sup> *See id.* From an economic point of view, selling hard-copy CD-ROMs and downloading programs are similar. “The on-line transmission method is the functional equivalent of the supply of a material medium.” *Id.* at § 61.

<sup>34</sup> *Id.* at § 72.

<sup>35</sup> *Id.* at § 42.

<sup>36</sup> Case C-128/11, *UsedSoft GmbH v. Oracle Int’l Corp.*, 2012 E.C.R. I-0000, at § 77.

<sup>37</sup> *Id.* at § 66. In other words, service agreements or software maintenance agreements cannot be resold because the exhaustion principle does not extend to services; thus, second-hand license acquirers cannot compel the software company to provide services. Also, if there is a license for a single block of users, the license holder cannot split up the license and sell off only parts of the license; it must be sold as a whole. *See Sarah Byrt & Mark A. Prinsley, When is a Software License Transferable Even if it Says it is Non-Transferable?*, MAYER BROWN (Aug. 21, 2012), [http://m.mayerbrown.com/files/Publication/5eb89806-d109-48cd-b86a-949c0598cfe6/Presentation/PublicationAttachment/f9ea6bbd-0a40-4eaf-a44e-a58941c92a1a/IP\\_update\\_aug12\\_software-licence-transferable.pdf](http://m.mayerbrown.com/files/Publication/5eb89806-d109-48cd-b86a-949c0598cfe6/Presentation/PublicationAttachment/f9ea6bbd-0a40-4eaf-a44e-a58941c92a1a/IP_update_aug12_software-licence-transferable.pdf).

if the original acquirer of the copy of the computer program made his downloaded copy on his own computer unusable at the time of resale.<sup>38</sup> If the original acquirer continued to use it, then he would be infringing on the copyright holder's right of reproduction, which is not exhausted upon first sale, like the right of distribution.<sup>39</sup> Thus, any subsequent acquirers of a license, such as UsedSoft and its customers, were lawful acquirers<sup>40</sup> of that copy and could download that copy from the copyright holder's website.<sup>41</sup>

### C. *The Case's Effect on Video Games in the European Union*

The *UsedSoft* case held that software licenses that are granted for an unlimited time could be resold because the EU complies with the exhaustion doctrine.<sup>42</sup> Once the copyright holder sold a particular copy, the copyright holder's rights in that copy were exhausted, and a purchaser of a copy could resell it without the copyright holder's authorization.<sup>43</sup> This effectively negated license agreements<sup>44</sup> that

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<sup>38</sup> *UsedSoft GmbH*, 2012 E.C.R. at § 70. However, this in itself is not a very large protective measure for companies as it would be technically and practically hard to discern whether an original user is still using the program while a second-hand copy is being used. See Byrt, *supra* note 37.37

<sup>39</sup> *UsedSoft GmbH*, 2012 E.C.R. at §§ 70, 78.

<sup>40</sup> *Id.* at §§ 82–83. Oracle argued that “lawful acquirers” under Article 5(1) were those who signed a license agreement with the developer. *Id.* at § 82. However, the court disagreed and held that Oracle's argument would cause the copyright holder to rely on its right of reproduction and would invalidate Article 4(2)'s exhaustion of the copyright holder's distribution rights. *Id.* at § 83.

<sup>41</sup> *Id.* at §§ 80, 85.

<sup>42</sup> On the other hand, if a software license is for anything other than for a perpetual basis, the exhaustion principle is inapplicable as this would amount to less than a “sale” of the licensed software. For example, if a license was only given for a finite five-year period, then the distribution rights are not exhausted by the initial license and the licensee would not be entitled to resell the software copy without the licensor's authorization. Alistair Payne & Gerard Kelly, *Volume Software Licensing – A Landmark CJEU Decision*, MATHESON (July 17, 2012), <http://www.lexology.com/library/detail.aspx?g=1fbc7c03-5266-4bba-a805-fa816c1c1bce>.

<sup>43</sup> Article 4(2) of Directive 2009/24/EC.

<sup>44</sup> As this is a recent case, it is unlikely that companies have abolished license terms from their software altogether because language accompanied by how the copy of the computer program is actually used can still be a significant safeguard to copyright owners.

prohibited resale of computer programs, and may possibly even negate end user license agreements (EULA) in the video game context. EULAs—also known as software license agreements—are made between the end user (licensee) and the software vendor (licensor).<sup>45</sup> The licenses apply when the end user agrees to the vendor’s terms, most commonly in the form of shrink-wrap or click-wrap agreements.<sup>46</sup>

Because the CJEU was not specific on its meaning of “software,” this could still potentially affect the EU’s second hand market in the video game industry.<sup>47</sup> If the game developer or publisher sells a game and, thus, gives ownership of a game for an unlimited period of time to the customer, then that is what the customer gets—despite any language in the EULA.<sup>48</sup> The consequences of this case for video game companies are that it may be “legal for users to download titles from places like Steam, Xbox Live or the App Store” and resell those games once the user is finished playing with it.<sup>49</sup> Therefore, companies will be prohibited from exercising control of their right to distribution of games and may lose out on the extra sales that could have been made. On the other hand, this is perhaps a victory for gamers to buy games cheaper, to legally rid themselves of online games not worth playing twice, and to protect users by being able to hold onto their rights of possessing copies under copyright.<sup>50</sup>

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<sup>45</sup> CRi, *Exhaustion*, *supra* note 7.

<sup>46</sup> *Id.* Commonly, click wrap licenses are issued when the end user clicks on the “I agree” button when “downloading, installing and/or using the software.” *Id.* Shrink-wrap terms are contained on or inside the software box, which are read and accepted by the consumer upon opening the box. *Hill v. Gateway 2000, Inc.*, 105 F.3d 1147 (7th Cir. 1997); *see also* Kevin W. Grierson, *Enforceability of “Clickwrap” or “Shrinkwrap” Agreements Common in Computer Software, Hardware, and Internet Transactions*, 106 A.L.R. 5th 309 (2003).

<sup>47</sup> Jas Purewal, *The Legality of Second Hand Software sales in the EU*, GAMER|LAW (July 3, 2012), <http://www.gamerlaw.co.uk/2012/the-legality-of-second-hand-software-sales-in-the-eu/>.

<sup>48</sup> Keith Stuart, *Coming Soon to the EU: The Used Digital Game Market?*, GUARDIAN (July 5, 2012), <http://www.guardian.co.uk/technology/gamesblog/2012/jul/05/eu-used-digital-games-market> [hereinafter Stuart, *Coming Soon*] (citing Jas Purewal).

<sup>49</sup> *Id.*

<sup>50</sup> *EU Court Says, Yes, You Can Resell Your Software, Even if the Software Company Says You Can’t*, TECHDIRT (July 3, 2012),

Further, this may align the second-hand market for downloadable video games on the same level as the market for tangible copies of games on discs and cartridges, allowing all hard-copy and digital software sales.<sup>51</sup>

However, recent cases on technology may not take immediate effect in the EU or in other countries affected by it, as there may need to be “some kind of legal catalyst to actually spark implementation of the case.”<sup>52</sup> Because of the ambiguity of the case, its effect on mobile games, cloud computing,<sup>53</sup> freemium games,<sup>54</sup> subscription models,<sup>55</sup> and product keys<sup>56</sup> is still unknown.<sup>57</sup> Even with this ambiguity, it is clear that the EU judgment shows that there is little

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<http://www.techdirt.com/articles/20120703/11345519566/eu-court-says-yes-you-can-resell-your-software-even-if-software-company-says-you-cant.shtml>.

<sup>51</sup> Ross, *Legal Views*, *supra* note 17.

<sup>52</sup> Stuart, *Coming Soon*, *supra* note 48.

<sup>53</sup> Similar to cloud computing, cloud gaming would allow users to stream games onto home computers or televisions without the need for game systems or consoles. *Taking Gaming into the ‘Cloud,’* BBC (June 9, 2009), [http://news.bbc.co.uk/2/hi/programmes/click\\_online/8085937.stm](http://news.bbc.co.uk/2/hi/programmes/click_online/8085937.stm).

<sup>54</sup> Eric Savitz, *Something from Nothing: The Freemium Game Model Pays Off*, *Forbes* (Apr. 23, 2012), <http://www.forbes.com/sites/eric savitz/2012/04/23/something-from-nothing-the-freemium-game-model-pays-off> (The freemium software model adopted by many video game companies is to give the game away freely to users, but requiring a fee for upgrades or extra features of the game).

<sup>55</sup> Subscription models require the user to make payments for hourly or monthly game play and are essentially for hard-core Massively Multiplayer Online Games. *New Business Models: Subscription*, GAMEINVESTOR CONSULTING (Oct. 2008), <http://www.gamesinvestor.com/content/Research/Insights/New-business-models-Subscription/>.

<sup>56</sup> Product keys may be required for online computer games in order to complete the installation process of the game and to ensure that one copy of the game is used by only one user so as not to violate terms and conditions of the gaming service provider. *CD Key Issues*, BATTLE.NET SUPPORT, <https://sea.battle.net/support/en/article/cd-key-issues>, (last visited Dec. 20, 2012).

<sup>57</sup> Jas Purewal, *The Legality of Second Hand Software sales in the EU*, GAMERLAW (July 3, 2012), <http://www.gamerlaw.co.uk/2012/the-legality-of-second-hand-software-sales-in-the-eu/>. This may be an issue with the game models mentioned because the EU case was about giving the user ownership of the game for an unlimited time, while these models have different nuances that may get around the EU Court’s judgment. For example, some games do not have upfront sale value if it is under a subscription model, nor is there a “sale” if it is under the freemium model and no upgrades are purchased.

regard by courts in the EU for EULAs enforced by software companies.<sup>58</sup>

### III. THE UNITED STATES' CURRENT STANCE ON RESELLING USED LICENSES

While the United States and the European Union have differing models of copyright law, the EU's exhaustion doctrine and the U.S.'s first sale doctrine provide similar copyright protection for purchasers of copies of copyrighted software.<sup>59</sup> This paper will cover the potential effect of applying the EU *UsedSoft* case in the U.S. and the legal considerations of whether or not the U.S. should expand its copyright law to make it similar to the EU's framework.

#### A. *First and Foremost: The Ability to Copyright Video Games*

Computer software programs, specifically video games, are copyrightable subject matter. To have a copyright, the work must be a work of authorship, have originality, and be fixed in a tangible medium of expression.<sup>60</sup> In regards to works of authorship, video

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<sup>58</sup> Stuart, *Coming Soon*, *supra* note 48.

<sup>59</sup> It should be noted that the United States adopts a domestic exhaustion principle where "exhaustion applies only to authorized sales within a domestic market," while the European Union has a regional exhaustion doctrine where "exhaustion applies regionally to any sale within a market in the EU." Michael v. Sardina, *Exhaustion and First Sale in Intellectual Property*, 51 SANTA CLARA L. REV. 1055, 1057 n.11 (2011).

<sup>60</sup> The Copyright Act of 1976 is the United States' copyright law, which provides for, among other things, the basis for copyrighting works, registration, infringement actions, and fair use. See UNITED STATES COPYRIGHT OFFICE, COPYRIGHT BASICS (May 2012), available at <http://www.copyright.gov/circs/circ01.pdf>. "Copyright protection subsists, in accordance with this title, in *original* works of authorship *fixed in any tangible medium of expression*, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. *Works of authorship* include the following categories: (1) *literary* works; (2) musical works, including any accompanying words; (3) dramatic works, including any accompanying music; (4) pantomimes and choreographic works; (5) pictorial, graphic, and sculptural works; (6) motion pictures and other *audiovisual* works; (7) sound recordings; and (8) architectural works." 17 U.S.C. § 102(a) (2006) (emphasis added).

games have been recognized to be both an audiovisual work<sup>61</sup> and literary work.<sup>62</sup> Originality, or independent creation of the author, asks whether the work owes its origin to the author and if it has some minimal threshold of creativity.<sup>63</sup> An example of minimal creativity or originality is made by adding changes, additions, and modifications to an underlying work to make the game a completely separate game.<sup>64</sup> Lastly, Congress broadened the fixation requirement to include a tangible medium of expression where the copy can be perceived, reproduced, or communicated for more than a transitory duration.<sup>65</sup> Video games are fixed because the “memory device” or computer program that is essential to the work satisfies the fixation requirement.<sup>66</sup> Once a copyright is established, the copyright owner has exclusive rights of reproduction, derivative works, distribution, public performance (for literary and audiovisual works and sound recordings), and display of the copyrighted work.<sup>67</sup>

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<sup>61</sup> See *M. Kramer Mfg. Co. v. Andrews*, 783 F.2d 421, 436 (4th Cir. 1986) (“We thus conclude that video games are copyrightable as audiovisual works under the 1976 Copyright Act and we note that every other federal court (including our own) that has confronted this issue has reached the same conclusion.”)

<sup>62</sup> 53 Fed. Reg. 21817-18 (June 10, 1988) (stating that video games are audiovisual works for their pictorial and graphic screen displays, and also literary works for their source codes underlying the computer program). Thus, video games can actually be copyrighted once as an audiovisual work or have separate registrations for the display and the code. *Id.*

<sup>63</sup> *Atari Games Corp. v. Oman*, 888 F.2d 878, 882 (D.C. Cir. 1989).

<sup>64</sup> *M. Kramer Mfg. Co.*, 783 F.2d at 440 (holding addition of a flashing card feature and split screen showing the poker hand and options available to the poker video game to be sufficient for originality)

<sup>65</sup> 17 U.S.C. § 101 (2006). It makes no difference the type of form, manner, or medium of expression the work is “fixed” as. *M. Kramer Mfg. Co.*, 783 F.2d at 433.

<sup>66</sup> *M. Kramer Mfg. Co.*, 783 F.2d at 441.

<sup>67</sup> 17 U.S.C. § 106(1)–(6) (2006). These exclusive rights are limited to several exceptions, such as fair use and the first sale doctrine, depending on the type of work protected.

*B. Statutory Exceptions in Copyright Law*

1. 17 U.S.C. § 109

a. 17 U.S.C. § 109(a): The First Sale Doctrine

Under United States copyright law, the copyright owner has the exclusive rights to reproduce, prepare derivative works, distribute, publicly perform, and display his work.<sup>68</sup> However, there is an exception under the first sale doctrine for distribution rights, which is similar to the EU's exhaustion doctrine. The first sale doctrine, codified in section 109(a) of the Copyright Act, allows the "owner of a particular copy . . . to sell or otherwise dispose of the possession of that copy . . ." <sup>69</sup> The "first sale" deals with the "conditions under which the property rights of the copyright owner are excluded or compromised with respect to the ability of a copy owner's ability to redistribute that copy"—which means that the transferee gets ownership of a copy following that first sale.<sup>70</sup> This affirmative defense is not available to those who are only licensed<sup>71</sup> to use their

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<sup>68</sup> 17 U.S.C. § 106(1)–(6) (2006).

<sup>69</sup> 17 U.S.C. § 109(a) (2006). The first sale doctrine was first articulated by the Supreme Court in 1908 when the Court stated that a copyright owner's exclusive distribution rights are exhausted after a copyright owner's first sale of a particular copy of the copyrighted work. *See* *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350–51 (1908).

<sup>70</sup> Raymond T. Nimmer, *Copyright First Sale and the Over-Riding Role of Contract*, 51 SANTA CLARA L. REV. 1311, 1330 (2011) [hereinafter Nimmer, *Copyright*]. As opposed to the EU's definition of "sale," which includes entering into a license agreement that was purchased by the owner of a copy of a computer program, entering into a license agreement in the United States does not constitute a "sale" for the purposes of the first sale doctrine. *Microsoft Corp. v. Harmony Computers & Elecs., Inc.*, 846 F. Supp. 208, 213 (E.D.N.Y. 1994). *But see* *SoftMan Prods. Co. v. Adobe Sys., Inc.*, 171 F. Supp. 2d 1075 (C.D. Cal. 2001) (holding that a shrink-wrap license transaction involving a single payment for an unlimited period to possess the copy was a sale of goods, rather than a license, and was enough to invoke the first sale doctrine); Michael V. Sardina, *Exhaustion and First Sale in Intellectual Property*, 51 SANTA CLARA L. REV. 1055, 1057 n.12 (2011) (stating that copyright owners attempt to circumvent the first sale doctrine's defense by characterizing a "sale" of a computer program as a mere "license").

<sup>71</sup> Licenses encompassing only "pure" publishing or license are not enough to invoke the first sale doctrine, unless accompanied by a sale of the copy of the computer program. *See* Determann, *Don't Judge*, *supra* note 12, at 15.



copies of the copyrighted work, but is triggered by an actual transfer of ownership<sup>72</sup> and, thus, only applies to owners of a particular copy.<sup>73</sup> This is based on a “single-reward principle”—where the copyright owner is rewarded only once with the price he demands to distribute of a copy of his copyrighted work and is not entitled to any additional reward for that purchaser’s subsequent sale, whether it is resold inside or outside the U.S.<sup>74</sup> Therefore, the first sale doctrine depends largely on whether the person obtaining a copy of the software is an owner or a licensee of that particular copy.<sup>75</sup>

b. 17 U.S.C. § 109(b): Exceptions to the First Sale Doctrine

To narrow the first sale doctrine, President George H. W. Bush signed the Computer Software Rental Agreements Act of 1990 as an

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<sup>72</sup> See 17 U.S.C. § 109(d). The most important consideration for a “sale” is that there is a transfer of ownership to that copy. *See id.* at 12. *See also* Davidson & Assocs., Inc. v. Internet Gateway, Inc., 334 F. Supp. 2d 1164, 1177 (E.D. Mo. 2004), *aff’d*, Davidson & Assocs., Inc. v. Jung, 422 F.3d 630 (8th Cir. 2005) (requiring an actual sale). *But see* Nimmer, *Copyright*, *supra* note 70, at 1312 (stating that a “sale” is not only limited to an actual sale, but may include a gift — as long as there is transfer of ownership). Also, the term “actual sale” is not used necessarily to distinguish between a physical or intangible copy, but rather is used to distinguish ownership from an actual sale versus a mere license. *Internet Gateway, Inc.*, 334 F. Supp. 2d at 1177. It might also be instructive to note that in a phonorecord case (as opposed to a case involving “copies”), peer-to-peer networks that transferred music were still considered “distribution” of “material objects,” showing that there are other means to the Copyright Act’s fixation requirement other than actual physical copies. *London-Sire Records, Inc. v. Doe 1*, 542 F. Supp. 2d 153, 171 (D. Mass. 2008).

<sup>73</sup> 17 U.S.C. § 109(d) (2006); *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1107 (9th Cir. 2010). The first sale doctrine only applies to those who possess a copy of the copyrighted work as an owner of that copy, but is inapplicable to those who merely hold a license.

<sup>74</sup> John A. Rothchild, *Exhausting Extraterritoriality*, 51 SANTA CLARA L. REV. 1187, 1188 (2011).

<sup>75</sup> *Vernor*, 621 F.3d at 1107. If the customer becomes the owner of that copy, then subsequent sales of that copy will not be considered an infringement to the copyright owner under the first sale doctrine. *Id.* However, if the customer is merely a licensee to the copy, then subsequent sales are not protected by the first sale doctrine and would be infringement upon the copyright owner’s exclusive distribution right. *Id.*

amendment to section 109(a) of the Copyright Act.<sup>76</sup> Under the Computer Software Rental Agreements Act, or section 109(b)(1)(A), no person in possession of a particular copy of a computer program may, “for the purposes of direct or indirect commercial advantage, dispose of, or authorize the disposal of, the possession of that . . . computer program by rental, lease, or lending;” otherwise, it will constitute copyright infringement.<sup>77</sup>

Under the same act, as an exception to section 109(b)(1)(A), section 109(b)(1)(B) states that computer programs that are “embodied in or used in conjunction with a limited purpose computer that is designed for playing video games” may be rented, leased, or lent by the owner of the copy for commercial purposes.<sup>78</sup> Therefore, copyright owners have no rights to control the owners of a particular copy from renting, leasing, or lending their copies. This video game exception was based off the realities of the extensive video game rental market and the short entertainment value of games.<sup>79</sup> However, this is a limited exception: it only applies to video games that are used with limited purpose computers, or consoles, designed for the primary purpose of playing home video games and where “[t]hese games cannot be copied on such computers or by using any

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<sup>76</sup> *Executive Summary: The Computer Software Rental Amendments Act of 1990: Nonprofit Library Lending Exemption to the “Rental Right,”* COPYRIGHT OFFICE (Sept. 15, 1994), [http://www.copyright.gov/reports/software\\_ren.html](http://www.copyright.gov/reports/software_ren.html) [hereinafter *Executive Summary*].

<sup>77</sup> 17 U.S.C. § 109(b)(1)(A) (2006). Computer programs include “any tape, disk, or other medium embodying such program.” *Id.*

<sup>78</sup> 17 U.S.C. § 109(b)(1)(B). While the Software Publishers Association favored extending rental rights over video games, the issue was not fully discussed in the Computer Software Rental Amendments Act and thus is recommended for review by the appropriate Congressional committee. *Executive Summary, supra* note 76.

<sup>79</sup> Kenneth R. Corsello, *The Computer Software Rental Amendments Act of 1990: Another Bend in the First Sale Doctrine*, 41 CATH. U. L. REV. 177, 203 (1991) [hereinafter Corsello, *Act of 1990*]. Even at the congressional hearing for the Computer Software Protection Act, the argument of allowing video game companies to prohibit rental for a year until after the game’s release was unpersuasive to the committee as games are popular upon their release, not one or ten years down the line. Computer Software Protection Act of 1990, H.R. 5297, 101st Cong. 11, at 16, 41 (1990). This argument was raised to liken it to movies where movie producers could profit from exclusive release in theaters for a period before having others purchase or rent it later. H.R. 5297, at 134.

other equipment ordinarily available in this country.”<sup>80</sup> This exception was originally created to target game cartridges<sup>81</sup> played on video game consoles like Nintendo’s Super Nintendo system, which are limited-purpose computers designed for playing such games.<sup>82</sup>

More recently, section 109(b)(1)(B)(ii) allows video games on compact disc form for Xbox and PlayStation 3 to be available for rent or resale as these discs are only compatible with limited-purpose computers, such as Xbox<sup>83</sup> and PlayStation game consoles which have no reproducing capacity. However, *computer* games that use CD-ROMs or are downloaded are not normally available for rent because these games are not played on limited-purpose computers,

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<sup>80</sup> Corsello, *Act of 1990, supra* note 79; *see also* 17 U.S.C. § 109(b)(1)(B)(ii). These limited purpose computers have the primary sole purpose of playing video games and are not used to copy computer programs that generate the games. *The Computer Software Rental Agreements Act of 1990: The Nonprofit Library Lending Exemption to the “Rental Right”*, 41 J. COPYRIGHT SOC’Y U.S.A. 231, 241 (1994); *see also* Computer Software Rental Amendments Act of 1989, S. 198, 101st Cong. 7, at 8–9 (1990), and H.R. 5297, at 25 (statement of Ralph Oman).

<sup>81</sup> *See* Michael Poh, *Evolution of Home Video Game Consoles: 1967–2011*, HONGKIAT, <http://www.hongkiat.com/blog/evolution-of-home-video-game-consoles-1967-2011/> (last visited Jan. 31, 2013) (showing the evolution of cartridge games in 1978 to 1980, as well as CD-based consoles and games beginning in 1994 to 1997; both of which can only be used on specifically made consoles). *But see* *Blizzard Store*, BLIZZARD, <http://us.blizzard.com/store/index.xml> (last visited Jan. 31, 2013) (showing that PC video games can be either downloaded or bought on CD-ROM form only for computers).

<sup>82</sup> *The 1990 Computer Software Amendments – Exemptions from the Computer Program Rental Ban – The Nintendo Exemption*, 4 Patry on Copyright § 13:30 (2012). The Video Software Dealer’s Association advocated for this exception to allow the continued use of renting home video game cartridges as it was argued that cartridge rentals would not displace sales. *Id.*; Evan Finkel, *Copyright Protection for Computer Software in the Nineties*, 7 SANTA CLARA COMPUTER & HIGH TECH. L.J. 201, 283–84 (1991). At the congressional hearing, legislation was clarified that cartridge-type video games that were not easily copied were able to be rented out. H.R. 5297, at 57.

<sup>83</sup> Additionally, Xbox games that are downloaded from Xbox LIVE Marketplace and stored on the console’s hard drive are only considered a license and cannot be reproduced or distributed/transferred to other users or consoles due to Digital Rights Management technology that controls how the game file will be used and distributed. *Xbox 360 Digital Rights Management*, XBOX, <http://support.xbox.com/en-US/xbox-live/marketplace-and-purchasing/download-content> (last visited Mar. 14, 2013).

and thus must be purchased.<sup>84</sup> Because computer games are not on limited-purpose computers, computer games do not technically fall within the section 109(b)(1)(B)(ii) exception, but are more likened to that of section 109(b)(1)(A)'s computer programs that are exempt from the first sale doctrine.

In sum, the amendment provides that copyright owners of computer programs have the right to prohibit rental, leasing, or lending of their computer programs for direct or indirect commercial advantage, except<sup>85</sup> as to computer programs embodied in limited purpose computers designed for playing video games.

c. 17 U.S.C. § 109(d): The First Sale Doctrine's Limitation

Rather than an exception, an important limitation to the first sale doctrine is under section 109(d) of the Copyright Act. This states that the first sale doctrine does not "extend to any person who has acquired possession of the copy . . . from the copyright owner, by rental, loan, or otherwise, without acquiring ownership of it."<sup>86</sup> The first sale doctrine only applies if the possessor of the copy is actually the owner who has ownership transferred to him; being a licensee or borrower of the copy is not enough.

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<sup>84</sup> The standard at-home computer or laptop is not a "limited-purpose computer" as it has more functions and capabilities than just playing the video game. Also, see websites like GameFly.com and redbox.com, where Xbox and PlayStation 3 games are available for rental and purchase, but online computer games like StarCraft and Guild Wars are only available for purchase and not rental. This difference is attributed to the fact that computer game companies have placed more protective measures on their games, such as product CD keys, monthly subscriptions, and limited license agreements, in order to protect their profits and copyrights in the game.

<sup>85</sup> In addition to video game programs embodied in limited purpose computers, the exception also includes nonprofit libraries, nonprofit educational institutions, and computer programs embedded in a machine or product (like automobiles and calculators). 17 U.S.C. § 109(b)(1)(A), (B). Additionally, the software rental provision for computer programs embodied in machines, products, or limited purpose computers for video games was subject to expire on October 1, 1997, but could be extended indefinitely under legislation implementing the General Agreement on Tariffs and Trade in 1994. *Executive Summary*, *supra* note 76.

<sup>86</sup> 17 U.S.C. § 109(d).

## 2. 17 U.S.C. § 117: The Essential Step Doctrine

Another similarity to the EU's model of copyright law is section 117 of the Copyright Act. Subsection 117(a) allows the owner of a copy of a computer program to make copies or adapt that copy of the computer program if it is essential for the use of the computer program and for back-up or archival purposes.<sup>87</sup> Additionally, under subsection 117(b), the owner of a copy of a computer program may make copies for purposes of maintenance or repair of a machine for which the computer program was used.<sup>88</sup> Section 117 is similar to the EU's Article 5(1) of the Software Directive because both allow for the reproduction of a particular copy of a computer program that complies with how the computer program should and can be used by the owner of the copy.<sup>89</sup>

### *C. The United States' Hostility Towards Reselling Software Licenses and its Preference for Upholding End User License Agreements*

Downloadable computer games are becoming an overall trend because products that were once delivered as physical goods are now being turned into data and streamed into the home.<sup>90</sup> To protect their copyrights and ensure earnings from sales, many online video game companies have end user license agreements (EULAs) that forbid the resale of online games, gold farming,<sup>91</sup> character leveling services, or

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<sup>87</sup> 17 U.S.C. § 117(a)(1)–(2).

<sup>88</sup> 17 U.S.C. § 117(c)(1)–(2), (d). In order to lawfully make a copy of a computer program for purposes of maintenance or repair of a machine, the new copy cannot be used in any other manner and must be immediately destroyed after the maintenance or repair is completed. 17 U.S.C. § 117(c)(1).

<sup>89</sup> Overdijk, *supra* note 7.

<sup>90</sup> See CHRIS ANDERSON, *THE LONG TAIL: THE NEW ECONOMICS OF CULTURE AND COMMERCE* 97 (2006). For example, websites like Gamefly.com charge a monthly fee for subscribers to rent games and ValveSoftware.com sells video games through direct download from its website.

<sup>91</sup> Gold farming is where game players will “farm” gold in the game by killing monsters, finding treasure, selling accessories in the game, and then selling the virtual gold in exchange for real currency. Richard Scott, *The Business End of Playing Games*, BBC (Apr. 25, 2007), <http://news.bbc.co.uk/2/hi/technology/6592335.stm>. However, specific to real-money trades of virtual goods, eBay announced in 2007 that it would ban all listings of online games' virtual assets because of the large amounts of fraud

using the game for commercial purposes.<sup>92</sup> For virtual worlds and online games, EULAs are a “contractual agreement between a virtual world resident and the company that operates the virtual world.”<sup>93</sup> While EULAs permit the copyright holder to place restrictions on the distribution of its products,<sup>94</sup> the EULA’s effectiveness depends on whether a license was actually established or whether ownership was transferred.<sup>95</sup>

In the United States, it is important to ask whether a copyright owner can use the terms of a license or contract in order to prohibit the resale of its computer software in the second-hand market.<sup>96</sup> While contracting on federal rights under the copyright law is not permissible, other contract terms that are lawfully contracted for are still upheld in video game agreements. Under case law,<sup>97</sup> the

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occurring. Daniel Terdiman, *eBay Bans Auction of Virtual Goods*, CNET (Jan. 29, 2007), [http://news.cnet.com/2100-1043\\_3-6154372.html](http://news.cnet.com/2100-1043_3-6154372.html).

<sup>92</sup> For example, Blizzard’s World of Warcraft EULA states that its game can only be used for non-commercial entertainment purposes only, thus prohibiting gathering in-game currency/items or performing any power-leveling service in exchange for commercial sale outside the game. *World of Warcraft End User License Agreement*, BLIZZARD (Aug. 22, 2012), [http://us.blizzard.com/en-us/company/legal/wow\\_eula.html](http://us.blizzard.com/en-us/company/legal/wow_eula.html). Riot Games’ League of Legends massively multiplayer online role-playing game also has similar prohibitions for any commercial use of its game. *End User License Agreement (EULA): League of Legends*, LEAGUE OF LEGENDS (Oct. 23, 2012), <http://na.leagueoflegends.com/legal/eula>.

<sup>93</sup> Brian D. Sites, et al., *End-User License Agreements: The Private Law in Video Games and Virtual Worlds*, in *COMPUTER GAMES AND VIRTUAL WORLDS* 5, 9 (Ross A. Dannenberg, et al. eds., 2010) [hereinafter Sites, *EULAs*].

<sup>94</sup> *Adobe Sys., Inc. v. Stargate Software Inc.*, 216 F. Supp. 2d 1051, 1055 (N.D. Cal. 2002).

<sup>95</sup> *Id.* at 1054. With a license, the copyright owner would win because he would be able to control further distribution of copies. If ownership in a copy was transferred, then the copyright owner would not be protected because the first sale doctrine could be used against him.

<sup>96</sup> The Third Circuit questioned whether contracts could avoid the first sale doctrine and whether the federal government preempted state contract in *Step-Saver Data Systems, Inc. v. Wyse Technology* in a footnote. See 939 F.2d 91, n.7 (1991) (forgoing any real analysis of the issue however).

<sup>97</sup> See Determann, *Don’t Judge*, *supra* note 12, at 59–60. This article points to two cases—*Brode v. Tax Management, Inc.*, 14 U.S.P.Q.2d 1195 (N.D. Ill. 1990) and *Step-Saver Data Systems*—to advocate the position that the first sale doctrine preempts state contract law.

proposition stands that “it would be contrary to federal policy to allow licensors to use state contract law to impose breach of contract penalties for conducts (specifically, the resale of copies of a copyrighted work) that is explicitly approved in the federal Copyright Act.”<sup>98</sup> The express language of the Copyright Act points to federal law preempting contrary state law in regard to copyright matters because it states that “the owner of a particular copy . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy . . . .”<sup>99</sup> Thus, an owner of a copy of copyrighted computer programs can lawfully and without permission resell his copy. Also, copyright law is a field that is exclusively occupied by federal law,<sup>100</sup> so the federal Copyright Act preempts any state contract or license breach remedies that the copyright owner may seek for copyright-related causes of action.<sup>101</sup> However, the Ninth Circuit and many other courts have held that the Copyright Act does not preempt the enforcement of other contract rights,<sup>102</sup> unless the subject matter is under copyright and the contract claim is equivalent to a copyright claim.<sup>103</sup>

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<sup>98</sup> Determann, *Don't Judge*, *supra* note 12, at 60.

<sup>99</sup> 17 U.S.C. § 109(a).

<sup>100</sup> Nimmer, *Copyright*, *supra* note 70, at 1324. Federal preemption over state law may exist under three circumstances: (1) when state law is expressly preempted by federal law; (2) when federal law exclusively occupies a field of law and state law attempts to intrude into that field; and (3) when state law is inconsistent with federal policy. *Id.*

<sup>101</sup> However, Lothar Determann & Aaron Xavier Fellmeth, the authors of *Don't Judge*, find this argument to be weak as this may prove inefficient in application. See Determann, *Don't Judge*, *supra* note 12, at 60–61, 64.

<sup>102</sup> *Nw. Home Designing, Inc. v. Sound Built Homes Inc.*, 776 F. Supp. 2d 1210, 1215 (W.D. Wash. 2011). The Seventh Circuit in *ProCD Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996), held that rights created by contracts were not equivalent to the exclusive rights of copyright. *Nw. Home Designing, Inc.*, 776 F. Supp. 2d at 1215 (also citing other circuits in *National Car Rental System, Inc. v. Computer Assocs. Int'l, Inc.*, 991 F.2d 426, 433 (8th Cir. 1993); *Taquino v. Teledyne Monarch Rubber*, 893 F.2d 1488, 1501 (5th Cir. 1990); and *Acorn Structures, Inc. v. Swantz*, 846 F.2d 923, 926 (4th Cir. 1988)). The argument is that breach of contracts have an extra element in that there is an exchange of promises and representations between the parties. *Nw. Home Designing, Inc.*, 776 F. Supp. 2d at 1216.

<sup>103</sup> See *infra* Part III(c)(ii) of this article.

### 1. Contract Terms are Necessary to Determine Whether a Transferee Obtained Ownership or a License

Despite the power of federal copyright law over state law, contracts still have immense power over copyrights in regard to the first sale doctrine for several reasons. First, contract terms are necessary to determine whether a purchaser of a copy of a computer program is an “owner” who can invoke the first sale defense or merely a “licensee.”<sup>104</sup> If the transferee pays a single, lump sum to have perpetual use of the copy, this will likely be a conveyance of ownership, though these two factors alone are not dispositive.<sup>105</sup> However, limited use licenses or acquisition by lease, loan, or rental will not constitute transfer of ownership of a copy.<sup>106</sup>

#### a. *Vernor v. Autodesk, Inc.*

In *Vernor v. Autodesk, Inc.*, the Ninth Circuit held that Autodesk’s software license agreement (SLA) was indicative of giving its users a license rather than ownership of a particular copy.<sup>107</sup> Autodesk’s SLA stated that it retained title to all copies of its AutoCAD program; customers had nonexclusive and nontransferable licenses to use it; there were significant transfer and use restrictions; licenses would be terminated if the user copied the software without authorization; and previously licensed software had

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<sup>104</sup> Nimmer, *Copyright*, *supra* note 70, at 1312. For example, a license agreement can state that the transferee has possession of the copy to rent, lease, or loan it, but did not acquire ownership over it. *Id.* at 1331.

<sup>105</sup> “Ownership” is an imprecise concept and is not defined by the Copyright Act. *DSC Commc’ns Corp. v. Pulse Commc’ns, Inc.*, 170 F.3d 1354, 1360 (Fed. Cir. 1999). The fact that the possessor’s right of possession of the copy is perpetual and obtained through a single payment is relevant to determine “ownership,” but is not itself determinative because the possessor’s right to use the software may be heavily encumbered by contract restrictions. *Id.* at 1362.

<sup>106</sup> “The privileges prescribed by [the first sale doctrine] do not, unless authorized by the copyright owner, extend to any person who has acquired possession of the copy or phonorecord from the copyright owner, by rental, lease, loan, or otherwise, without acquiring ownership of it. 17 U.S.C. § 109(d). See Nimmer, *Copyright*, *supra* note 70, at 1337.

<sup>107</sup> *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1104 (9th Cir. 2010).



to be destroyed when AutoCAD was updated.<sup>108</sup> To determine whether the customer or transferee is an owner or a licensee, the court considered: (1) “whether the copyright owner specifi[ed] that a user [was] granted a license;” (2) “whether the copyright owner significantly restrict[ed] the user’s ability to transfer the software; and (3) “whether the copyright owner impos[ed] notable use restrictions.”<sup>109</sup> The court held that Autodesk gave licenses of copies of its AutoCAD software to Cardwell/Thomas & Associates, Inc. (CTA), who was Autodesk’s direct customers.<sup>110</sup> Vernor bought several copies from CTA and then resold these copies on eBay.<sup>111</sup> While CTA was Autodesk’s direct customer, CTA was merely a licensee of the software copies and not an owner.<sup>112</sup> Thus, Vernor did not purchase his second-hand copies from an owner, was not conveyed ownership, and could not invoke the first sale doctrine when reselling the software on eBay.<sup>113</sup>

b. *UMG Recordings, Inc. v. Augusto*

On the other hand, the Ninth Circuit in *UMG Recordings, Inc. v. Augusto* held that UMG sold or gave radio programmers ownership of its promotional CDs.<sup>114</sup> UMG’s distribution method did not track

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<sup>108</sup> *Id.*

<sup>109</sup> *Id.* at 1110–11.

<sup>110</sup> *Id.* at 1105.

<sup>111</sup> *Id.* at 1106.

<sup>112</sup> *Vernor*, 621 F.3d at 1105. Along with the first sale doctrine, Vernor could not invoke the essential step defense either because he did not purchase it from an owner. *Id.* at 1109. The essential step defense is where a “software user who is the ‘owner of a copy’ of copyrighted software program does not infringe by making a copy of a the computer program, if the new copy is ‘created as an essential step in the utilization of the computer program in conjunction with a machine and . . . is used in no other manner.’” *Id.* (quoting 17 U.S.C. § 117(a)(1) (2006)).

<sup>113</sup> 621 F.3d at 1116. *See also* *Davidson & Assocs., Inc. v. Internet Gateway, Inc.*, 334 F. Supp. 2d 1164 (E.D. Mo. 2004) (holding that Blizzard’s end user license agreement and terms of use explicitly stated that Blizzard owned and held all title of its games and Battle.net, and the first sale doctrine was inapplicable because Internet Gateway only had a license).

<sup>114</sup> *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175, 1180 (9th Cir. 2011). The court stated that a “sale” is not only a monetary exchange, but that it is also when a copy is “given away or title is otherwise transferred without the accouterments of a sale.” *Id.* at 1179.

or police its copies of promotional CDs, and instead gave recipients freedom to dispose of their copies.<sup>115</sup> Although UMG had language stating that the CDs were subject to a license, the court made it clear that merely labeling copies as a “license” was insufficient to constitute a license, especially when there is no indication that recipients agreed to a license.<sup>116</sup> UMG’s lack of control over its distributed copies showed insufficient “incidents of ownership . . . to be sensibly considered the owner of the copies.”<sup>117</sup> Thus, UMG’s CD copies could be resold without UMG’s permission under the first sale doctrine.<sup>118</sup>

The considerations mentioned in the cases and in this discussion of contract law are important for the effects it has on the resale of computer programs in light of the recent EU case. It is obvious that U.S. law differs from that of the EU because the EU Directive and *UsedSoft* case preempts contracts or EULAs made between the copyright owner and the transferee who has a perpetual license or ownership in a copy of the computer program. However, in America, whether the user is a licensee or owner controls whether the first sale doctrine will apply. While U.S. copyright law preempts state contract law concerning altering rights in copyright, the U.S. gives a little more breathing room to copyright owners. The effects of adopting the EU model will be discussed in Part IV.

## 2. Scope of End User License Agreements: Remedies for Breach of Contract may be Recovered if Unrelated to the Rights of Copyright

The second reason why contracts still hold power in copyright cases is because contract remedies are still available for breach obligations under license agreements, which is applicable to both licensees and owners of copies. Depending on the contract terms, preemption of federal copyright law will not occur under the “extra-element” test if (1) the cause of action involves copyright law, but (2) there are “one or more qualitatively different elements” that

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<sup>115</sup> *Id.* at 1180.

<sup>116</sup> *Id.* at 1182.

<sup>117</sup> *Id.* at 1183.

<sup>118</sup> *Id.*

constitute an additional state-created cause of action that “does not lie ‘within the general scope of copyright.’”<sup>119</sup> This so-called “extra-element test” allows properly worded contract claims to not be preempted by copyright law because the contract breach would not be related to copyright law.<sup>120</sup> This is important because it balances copyright law and the ability to modify relationships or create obligations through contract.<sup>121</sup> For example, in *ProCD, Inc. v. Zeidenberg*, the Seventh Circuit stated that shrink-wrap licenses included with software purchases were binding on the consumer, but that these licenses could not preempt nor create rights that were equivalent to the exclusive rights under copyright law.<sup>122</sup> Thus, contracts restricting use or creating privileges that are unrelated to altering rights in copyright are enforceable.

In *Penpower Technology LTD. v. S.P.C. Technology, GLZ Services Inc.*, the court held that only remedies under copyright law were available because copyright law preempted Penpower’s unfair competition and unfair or fraudulent business practices claim against the defendants for its Chinese-to-English handwriting recognition software program.<sup>123</sup> Federal law preempted the California unfair

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<sup>119</sup> *Computer Mgmt. Assistance Co. v. Robert F. DeCastro, Inc.*, 220 F.3d 396, 404 (5th Cir. 2000); *see also Nat’l Basketball Ass’n v. Motorola, Inc.*, 105 F.3d 841, 850 (2d Cir. 1997). To clarify the extra-elements test, the “extra element” must be based on contract law and independent from the exclusive property rights of the copyright claim. For example, I cannot make a contract that attempts to invalidate the first sale doctrine by prohibiting you from reselling your copy of my video game cartridge. This claim would be related to copyright law because I would be attempting to give myself the right to distribution of all copies of my game when, in fact, the first sale doctrine gives you the right to resell or rent it out. However, a contract stating that you cannot use my game for commercial purposes by prohibiting gold-farming is independent of copyright law and is likely to be upheld.

<sup>120</sup> While contract law is based on enforceable promises, copyright law involves the field of property law with “copyrights” as the subject matter. Thus, “[e]nforcing the terms of these promises [under contract law] is not equivalent to enforcing property rights [for copyrights].” Nimmer, *Copyright, supra* note 70, at 1326.

<sup>121</sup> Parties may contractually agree to waive fair use privileges or impose use restrictions on copyright. Nimmer, *Copyright, supra* note 70, at 1329.

<sup>122</sup> *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1452–53 (7th Cir. 1996).

<sup>123</sup> *Penpower Tech. LTD. v. S.P.C. Tech., GLZ Servs. Inc.*, 627 F. Supp. 2d 1083, 1091 (N.D. Cal. 2008). Penpower’s unfair competition and business

business cause of action because (1) equivalent (identical) rights existed between the state unfair competition claim and the federal copyright infringement claim where there was no qualitative difference between the two claims; and (2) Penpower's computer software was proper subject matter for copyright claims.<sup>124</sup>

If one of the two elements of the extra-element test were to fail, like in *Davidson & Associates, Inc. v. Internet Gateway*, then the Copyright Act will not preempt the alleged claim.<sup>125</sup> In *Davidson, Davidson & Associates, Inc. (doing business as Blizzard Entertainment)* brought a breach of EULA and Terms of Use (ToU) claim against Internet Gateway (IG) when IG made the bnetd<sup>126</sup> software program as an alternative service that allowed hacking, rather than using Blizzard's required Battle.net server to play its games.<sup>127</sup> The court held that Blizzard's EULA and ToU claim was not preempted because IG's bnetd software program was proper copyright subject matter, but Blizzard's contract claim that banned cheats and hacking were rights not existing under copyright law.<sup>128</sup>

Similarly, in *MDY Industries v. Blizzard Entertainment Inc.*, the Ninth Circuit held that a licensee's violation of a contract constituted copyright infringement if there was a "nexus between the condition and the licensor's exclusive rights to the copyright."<sup>129</sup> MDY sold

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practices claim was under California Professional and Business Code § 17200. *See id.*; *infra* notes 172–83.

<sup>124</sup> *Penpower*, 627 F. Supp. 2d at 1091–92.

<sup>125</sup> *Davidson & Assocs., Inc. v. Internet Gateway*, 334 F. Supp. 2d 1164, 1175 (E.D. Mo. 2004).

<sup>126</sup> Blizzard has a battle.net server specifically for its users to play Blizzard games. Because some consumers were experiencing problems on the battle.net server due to client hacks (or modification of Blizzard software to cheat during the game), IG made the bnetd program so that game players could play Blizzard games through www.bnetd.org—IG's version of battle.net's services. The www.bnetd.org server allowed users to bypass Blizzard's restrictions and terms of use. *Id.* at 1171–72.

<sup>127</sup> *Id.* at 1172.

<sup>128</sup> *Id.* at 1175.

<sup>129</sup> *MDY Indus., LLC v. Blizzard Entm't, Inc.*, 629 F.3d 928, 941 (9th Cir. 2011), *vacated*, Nos. 09-15932, 09-16044, 2011 WL 538748 (9th Cir. 2010) (incorporating the corrections of the amending order into the original opinion of *MDY Indus., LLC*, 629 F.3d 928); *see also id.* at 939 (stating that "[a] copyright owner who grants a nonexclusive, limited license ordinarily waives the right to sue licensees for copyright infringement, and it may sue only for breach of contract").

Glider programs, which were automated bots that played Blizzard's World of Warcraft (WoW) game for the user, but that did not alter WoW's copyrights in any way.<sup>130</sup> The court held that there was no copyright infringement because bot-users still paid monthly subscription dues to Blizzard and no WoW player was considered to be an owner of his copy of the software.<sup>131</sup> WoW players were licensees of the game client software because Blizzard gave players a non-exclusive, non-transferrable, limited license and imposed use restrictions for only non-commercial entertainment purposes.<sup>132</sup> Copyright owners who gave nonexclusive, limited licenses could ordinarily sue for breach of contract and for copyright infringement based on license breach if there was (1) copying that exceeded the scope of the license and (2) if the copyright owner's complaint was based on its exclusive right of copyright.<sup>133</sup> Because Glider only violated Blizzard's contractual rights of prohibiting disruption of another player's game play experience, MDY did not infringe upon Blizzard's exclusive copyright rights.<sup>134</sup> Rather, Blizzard only had a cause of action under state contract law against the use of the Glider program.<sup>135</sup>

These Blizzard cases show a distinction between violating a licensing term that amounts to a breach of contract and one that infringes upon the copyright owner's exclusive right of a copyright.<sup>136</sup> In an ordinary breach of contract, or license agreement, as set forth by the video game company who owns the copyright, the copyright owner would only have traditional breach of contract remedies. However, if a breach of a licensing term concerned copyright infringement, such as unauthorized use, reproduction, or distribution, then copyright remedies would be available.

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<sup>130</sup> *Id.* at 935.

<sup>131</sup> *Id.*

<sup>132</sup> *Id.* at 938.

<sup>133</sup> *Id.* at 940.

<sup>134</sup> *MDY Indus., LLC*, 629 F.3d at 941; *see* 17 U.S.C. § 106 (stating the exclusive rights of copyright owners).

<sup>135</sup> *MDY Indus., LLC*, 629 F.3d at 940.

<sup>136</sup> *See* Greg Lastowka, *MDY v. Blizzard Opinion*, TERRA NOVA (Dec. 29, 2010), [http://terranova.blogs.com/terra\\_nova/2010/12/legal-commentators-in-the-blogsphere-eg-nic-suzor-technollama-rebecca-tushnet-venkat-eric-have-already-offered-some.html](http://terranova.blogs.com/terra_nova/2010/12/legal-commentators-in-the-blogsphere-eg-nic-suzor-technollama-rebecca-tushnet-venkat-eric-have-already-offered-some.html).

*D. The Effects of United States Case Law and Statutes  
on the Video Game Industry*

The statutes and case law in the U.S. can be summarized as follows in regards to the video game industry and the second-hand market for games. First, computer programs are exempt from the first sale doctrine and cannot be resold, rented, leased, or loaned by the copy owner.<sup>137</sup> However, the copy owner may dispose of video games used with limited purpose computers, like a PlayStation 3 console. While the effects of online computer games may be murky, this is likely to be categorized as a computer program because online games use multi-function computers, rather than limited-purpose computers.

Second, the U.S. has a preference to uphold contract and EULA terms, but this is limited to whether the EULA specifies that only the user has a license or ownership, and if the terms are unrelated to rights of the copyright. While a licensee does not have property rights to dispose of his “copy” by reselling, renting, leasing, or lending, an owner may be able to invoke the first sale doctrine<sup>138</sup> to arguably have the right to dispose of his copy. Even if contract terms affecting the rights of disposal under the first sale doctrine are not allowed, rights involving the use of the game, like gold-farming and terminating a player’s online account will be, because it is not a copyright-related contract term. Therefore, even if video game companies transferred ownership of a copy of their online computer game, video game companies may still have remedies against the copy owner who resells his copy in the secondary market.

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<sup>137</sup> 17 U.S.C. § 109(b)(1)(A) (2006).

<sup>138</sup> This will depend on two considerations: (1) whether online computer games will be considered a computer program according to 17 U.S.C. § 109(b)(1)(A) and not subject to the first sale doctrine (thus cannot be resold in the secondary market), or (2) whether ownership is sufficient for resale of computer programs, like *Vernor v. Autodesk Inc.*, 621 F.3d 1102 (9th Cir. 2010) where a software license’s language controls whether a user is an owner or a licensee.

#### IV. ANALYSIS: SHOULD THE UNITED STATES ADOPT THE EUROPEAN UNION'S FRAMEWORK

In order to adopt the *UsedSoft* case, United States copyright law would need to flip its current stance on EULAs, with the largest hurdle being section 109(d) of title 17 of the United States Code.<sup>139</sup> Adopting the EU framework would be contrary to the U.S. Copyright Act and the preference for upholding contract terms. While the U.S. advocates a position of providing economic incentives for copyright owners,<sup>140</sup> it appears that the EU endorses a position favoring consumers and the secondary market. Until actual consequences of *UsedSoft* are felt by the U.S. and international software and video game companies through increased profit-loss from the secondary market, companies may have to wait and see what rights they have internationally with the EU and how the U.S. market will be affected. Additionally, until U.S. courts take cases on international conflicts between the EU's exhaustion doctrine and the U.S.' first sale doctrine, the software industry and consumers may have to wait to see where the U.S. will stand.

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<sup>139</sup> Section 109(d) limits the first sale doctrine by only allowing the first sale doctrine to be evoked by owners of the copy, not to licensees or renters of a copy of a copyrighted work.

<sup>140</sup> See Nimmer, *Copyright*, *supra* note 70, at 1319. Providing economic incentives to copyright owners is a way to compensate for the large investments and substantial resources that may be put into making a software program. Unfortunately, the secondary market threatens the initial market, which then reduces the copyright owner from wanting to create more works if profits will not be realized. *Id.*

To make video games, there are development costs of around \$5 to 10 million, licensing fees per unit, marketing, and distribution. Ralph Edwards, *The Economics of Game Publishing*, IGN (May 5, 2006), <http://www.ign.com/articles/2006/05/06/the-economics-of-game-publishing>. For example, Call of Duty: Modern Warfare 2 cost about \$250 million: \$50 million to develop and \$200 million for production, marketing, and distribution. *Modern Warfare 2 Cost \$40-50 Million*, VIDEOGAMER (Nov. 19, 2009), [http://www.videogamer.com/xbox360/cod\\_modern\\_warfare\\_2/news/modern\\_warfare\\_2\\_cost\\_40-\\_50\\_million.html](http://www.videogamer.com/xbox360/cod_modern_warfare_2/news/modern_warfare_2_cost_40-_50_million.html).

A. *The Potential Effects the European Union UsedSoft Case may have on American Video Game Companies and Consumers*

Even if the United States does not adopt the EU's recent case, it may still feel some effects from the EU's decision because software companies doing business in the EU may be adversely affected in the long run with regards to earnings.<sup>141</sup> Through *UsedSoft*, the EU essentially struck down the concept of personal and non-transferable software licenses,<sup>142</sup> and overruled software companies' EULA terms. The EU currently holds a position that both licensees and owners of a particular copy can resell the copies of their tangible or intangible software because the copyright owner exhausted his distribution right after the first "sale" occurred in the EU. In terms of video games, *UsedSoft* takes the position that gamers are no longer purchasing permanent licenses, but rather they are purchasing ownership of their copy of the game based on the first sale that occurred in the EU. On the other hand, according to U.S. case law and statutes, software license terms are used to determine whether a licensee or owner possesses a copy of the software program, where only owners of a copy may invoke the first sale doctrine. Because the EU case is contrary to the U.S. view of exhaustion or first sale doctrine and in the validity of contracts, there are several potential effects *UsedSoft* may have with the U.S. video game industry importing games into the EU.

1. Lost Profits

First, video game companies in the U.S. will lose out on income in the EU from what could have been sold for full price to a new user because of the opened secondary market for computer programs. Companies that relied on the digital distribution market in order to avoid the secondary market can no longer do so because of the

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<sup>141</sup> John C. Dvorak, *The EU Fly in the Ointment*, WALL STREET JOURNAL (July 6, 2012), [http://articles.marketwatch.com/2012-07-06/commentary/32562665\\_1\\_eu-parliament-licenses-software](http://articles.marketwatch.com/2012-07-06/commentary/32562665_1_eu-parliament-licenses-software).

<sup>142</sup> Alistair Payne & Gerard Kelly, *Volume Software Licensing – A Landmark CJEU Decision*, MATHESON (July 17, 2012), <http://www.lexology.com/library/detail.aspx?g=1fbe7c03-5266-4bba-a805-fa816c1c1bce>.



CJEU's decision in *UsedSoft*.<sup>143</sup> Therefore, online companies, like Valve's Steam and Electronic Arts, may need to add facilities into their systems to allow digital transfers if they want to continue selling their games in the EU.<sup>144</sup>

## 2. Retroactivity

Second, *UsedSoft* applies retroactively.<sup>145</sup> This decision applies to license agreements that were created before the CJEU decision and thus is likely to apply to software sold into the EU regardless of the date of first sale or exhaustion.

## 3. Conflict of International Laws Between the United States and the European Union

Lastly, there is a conflict of international laws between the U.S. and EU. If an EULA, formed by a U.S. company, states that the EU purchaser is a "licensee," the first sale doctrine will not apply due to section 109(d) of the Copyright Act, which states that the first sale doctrine only applies to owners of copies of copyrighted works, but not to licensees of copies of a copyrighted work. However, the EU will disregard the language of the EULA term and only look at whether an actual sale transaction occurred. So, whose law applies?

### a. 17 U.S.C. § 602: Foreign Importation and Manufacturing

Not only might U.S. companies worry that EULA terms will be invalidated in the EU, but U.S. companies may also have to worry about the EU buying U.S. products and reselling them for a profit back into the U.S. EU's Directive 4(2) exhausts the copyright

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<sup>143</sup> Gareth Halfacree, *EU Court Rules Second-Hand Sales of Digital Goods Legal*, BIT-TECH (July 4, 2012), <http://www.bit-tech.net/news/gaming/2012/07/04/curia-digital-distribution/1>.

<sup>144</sup> *Id.*

<sup>145</sup> *What Effect Will the UsedSoft v. Oracle Decision Have on U.S. Software Companies?*, COOLEY LLP (Aug. 9, 2012), <http://www.cooley.com/what-effect-will-the-usedsoft-v-oracle-decision-have-on-US-software-companies>.

owner's distribution right *within the EU* after the first sale.<sup>146</sup> Can this then be interpreted to mean that if a U.S. company sells goods into the EU and loses its distribution rights in the EU, the U.S. company can regulate the copy-purchaser's resale and importation back into the U.S.?

Section 602(a)(1) of the Copyright Act states that "[i]mportation into the United States, without the authority of the owner of [the] copyright . . . of copies . . . of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies . . . under section 106."<sup>147</sup> Similarly, one infringes on the copyright owner's right to distribute if one makes infringing copies of copyrighted material and imports it into or exports it from the U.S. without the copyright owner's authority.<sup>148</sup> Exceptions to section 602 infringements, as stated in section 602(a)(3), are importation or exportation under the U.S. Government's authority; for the private, non-distribution use of the importer or exporter; or for scholarly, educational, or religious purposes that involve no private gain.<sup>149</sup> Lastly, while importing infringing copies is prohibited, copies that are lawfully made can be imported into the US.<sup>150</sup>

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<sup>146</sup> Article 4(2) of Directive 2009/24/EC of the European Parliament and the Council of 23 April 2009 on the Legal Protection of Computer Programs (OJ 2009 L 111, p.18).

<sup>147</sup> 17 U.S.C. § 602(a)(1) (2006).

<sup>148</sup> 17 U.S.C. § 602(a)(2).

<sup>149</sup> 17 U.S.C. § 602(a)(3)(A)-(C).

<sup>150</sup> This is stated more clearly in the Copyright Act:

In a case where the making of the copies . . . would have constituted an infringement of copyright if this title had been applicable, their importation is prohibited. In a case where the copies . . . were lawfully made, the United States Customs and Border Protection Service has no authority to prevent their importation. In either case, the Secretary of the Treasury is authorized to prescribe, by regulation, a procedure under which any person claiming an interest in the copyright in a particular work may, upon payment of a specified fee, be entitled to notification by United States Customs and Border Protection Service of the importation of articles that appear to be copies . . . of the work.

17 U.S.C. § 602(b).

Section 109(a)'s first sale doctrine provides a defense to copyright claims only to owners of copies that are made either domestically or abroad, as both fit within the definition of "lawfully made under this title."<sup>151</sup> In *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, the Supreme Court held that the first sale doctrine applied to imported copies if the copyrighted items in question were *manufactured in the U.S.*<sup>152</sup> The copyright owner has importation rights under section 602(a) of the Copyright Act, but is limited by section 109(a)'s first sale doctrine when operating in connection with section 106(3)'s distribution right.<sup>153</sup> As Justice Ginsburg states in her concurring opinion in *Quality King*, the first sale doctrine applies to cases involving copies that made "round trip" journeys—that is, copies manufactured in the U.S. that are distributed abroad, and then imported and resold back into the U.S.<sup>154</sup>

In a more recently decided case, *Kirtsaeng v. John Wiley & Sons, Inc.*,<sup>155</sup> the Supreme Court settled the long standing debate of whether the first sale doctrine applied to works not only manufactured in the U.S., but also to whether it would apply to copies manufactured abroad.<sup>156</sup> In *Kirtsaeng*, the Court stated that

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<sup>151</sup> See 17 U.S.C. 109(a); *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013).

<sup>152</sup> *Quality King Distributors, Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 152 (1997). L'anza, a U.S. shampoo manufacturer with copyrighted labels, made first sales of shampoo to companies in the United Kingdom, who resold it to back to the U.S. *Id.* at 139. L'anza exhausted its exclusive statutory to control distribution after putting its shampoo in the stream of commerce by selling it to a foreign market, despite the language of 17 U.S.C. § 602(a). *Id.* at 152. The same result was found in *Sebastian International v. Consumer Contacts Ltd.*, where the Third Circuit held that foreign retailers could resell Sebastian's American hair products back into the U.S. because Sebastian exhausted its right after its first sale, regardless of where the first sale occurred in the U.S. or abroad. 847 F.2d 1093 (3d Cir. 1988).

<sup>153</sup> See *Quality King Distributors, Inc.*, 523 U.S. at 148. See also John A. Rothchild, *Exhausting Extraterritoriality*, 51 SANTA CLARA L. REV. 1187, 1225 (2011).

<sup>154</sup> *Quality King Distributors, Inc.*, 523 U.S. at 154 (Ginsburg, J., concurring).

<sup>155</sup> *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013).

<sup>156</sup> *Quality King* stated that the first sale doctrine applies to copies *made in the U.S.* However, there was long debate on whether it was *only* limited to U.S. manufactured copies. For examples, cases like *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008), and *Microsoft Corp. v. Big Boy Distribution*,

the first sale doctrine *does* apply to copies of copyrighted works that are lawfully manufactured abroad.<sup>157</sup> The Court held that the word “under” in the requirement that copies be made “lawfully made under this title” means that the copy must be made in accordance with the Copyright Act, in order to distinguish it from copies that were not lawfully made.<sup>158</sup> In doing so, the Court rejected a view that the first sale doctrine held a geographical interpretation or limitation,<sup>159</sup> pointing to Congress’s lack of intent of having geography in mind when writing the first sale doctrine,<sup>160</sup> as well as other statutory interpretations of the first sale doctrine that show there is no geographical distinction in the doctrine.<sup>161</sup> The Court adopted a non-geographical reading of the first sale doctrine to promote the traditional copyright objective of combating piracy.<sup>162</sup> Thus, now, both copies that are lawfully made in accordance with the Copyright

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*LLC*, 589 F. Supp. 2d 1308 (S.D. Fla. 2008) state that copies *made abroad* were not protected by the first sale doctrine. This specific question of whether “lawfully made under this title” of 17 U.S.C. 109(a) was finally decided on March 19, 2013 by the Supreme Court through *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013).

<sup>157</sup> *Kirtsaeng*, 133 S. Ct. at 1356.

<sup>158</sup> *Id.* at 1358.

<sup>159</sup> Specifically, the respondent, John Wiley & Sons, Inc., argued that the first sale doctrine applied only to copies that were “made in territories *in which the Copyright Act is law*” (or that is made domestically). *Id.* at 1357. Petitioner Kirtsaeng interpreted “lawfully made under this title” as imposing a non-geographical limitation. *Id.* at 1358. The Court ultimately found Kirtsaeng’s argument persuasive. *Id.* at 1371.

<sup>160</sup> *Id.* at 1360-62. The Court compared section 109(a) present language to that of its predecessor, which showed there was no indication that the first sale doctrine would be limited by geography. *Id.* Rather the former first sale doctrine’s language was changed so that the first sale doctrine refers to owners of a copy of work, not merely a possessor of a work who just lawfully obtained a work. *Id.* at 1361.

<sup>161</sup> *Id.* at 1362. Relevant canon of statutory interpretation also favors Kirtsaeng’s non-geographical reading of the first sale doctrine because there is a presumption that “Congress intended to retain the substance of the common law” for statutes that cover issues originally governed by common law. *Id.* (quoting *Samantar v. Yousuf*, 130 S. Ct. 2278, 2289 n.13 (2010)).

<sup>162</sup> *Id.* at 1358.

Act, whether manufactured abroad or domestically in the U.S., can invoke the first sale doctrine.<sup>163</sup>

b. 17 U.S.C. § 602 and the European Union

While *Quality King* applied to *owners* of copies, whether U.S. companies may prohibit resale of software by EU *licensees* of a copy is another issue.<sup>164</sup> Also, *UsedSoft* and Directive 4(2) exhausts all rights within the EU (not necessarily outside the EU) for software sold within the EU, but this may depend on whether imported sales are considered “sales” and whose law applies. If the EU’s law applied, then the EU would only regard whether a “first sale” occurred. Alternatively, U.S. law would consider the language of EULA terms to determine whether, after the first sale, the possessor of a copy was a licensee or owner.

Because Article 4(2) of the EU Directive clearly states that it *exhausts all rights within the EU for software sold within the EU*, U.S. copyright law on copies produced abroad will likely control.<sup>165</sup> However, whose law applies may ride on several considerations: where the case is held; where the copy was manufactured, sold, and re-sold; and who is bringing the case. Software companies may find it more favorable to litigate in the U.S., while consumers and those in the secondary market will find EU law more favorable.

In some cases, the U.S. may well have to accept and adapt to the fact that the *UsedSoft* case will be upheld in the EU. Even the Berne Convention for the Protection of Literary and Artistic Works requires that member-countries of the Convention provide a minimum level of copyright protection and treat authors of other member countries in

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<sup>163</sup> This position taken by the Court can be seen as favoring the consumers more because now copyright owners cannot stop the resale of its copy for both copies manufactured abroad or domestically.

<sup>164</sup> *What Effect Will the UsedSoft v. Oracle Decision Have on U.S. Software Companies?*, COOLEY LLP (Aug. 9, 2012), <http://www.cooley.com/what-effect-will-the-usedsoft-v-oracle-decision-have-on-US-software-companies>.

<sup>165</sup> Pillsbury Winthrop Shaw Pittman LLP, *Could Software Imports from Europe Bypass U.S. First Sale and IP Exhaustion Laws?*, JDSUPRA (July 25, 2012), <http://www.jdsupra.com/legalnews/could-software-imports-from-europe-bypas-07612/>. This position is not yet solidified as the Supreme Court had an equally divided court on the issue in *Quality King*. *Quality King Distrib., Inc. v. L’anza Research Int’l, Inc.*, 523 U.S. 135 (1998).

the same way as authors of its own nationals would be treated.<sup>166</sup> Thus, because the EU implements its weak protection for redistribution of copies of copyrighted works to even its own national works, the EU could fairly do the same to non-national works seeking protection in the EU from member-countries of the Berne Convention.<sup>167</sup> While the EU's model might not be favorable to copyright holders, the EU could still impose its copyright law on member countries of the Berne Convention who sell copies in the EU. However, It would not be shocking if the U.S. lags in its adoption of another country's copyright framework if the U.S. lacks an incentive to do so for its authors.<sup>168</sup>

## V. WHO SHOULD BE REGULATING THIS?

### A. *Concerns for the Federal Trade Commission and the Department of Justice*

If the United States were to adopt the European Union's model of exhaustion,<sup>169</sup> both consumers and software companies in the U.S. may want the software market to be regulated by a uniform policy. Thus, insight into the Federal Trade Commission's stance on unfair business practices, as well as the Department of Justice's history in prosecuting video game issues are appropriate. Whether these

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<sup>166</sup> Article 5(3) of Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, as revised at Paris on July 24, 1971; *see also* *Golan v. Holder*, 132 S. Ct. 873, 874 (2012).

<sup>167</sup> Both the U.S. and all of the EU's Member States are signatories of the Berne Convention. *See Contracting Parties: Berne Convention (Total Contracting Parties:* 166), WIPO, [http://www.wipo.int/treaties/en/ShowResults.jsp?treaty\\_id=15](http://www.wipo.int/treaties/en/ShowResults.jsp?treaty_id=15) (last visited Jan. 21, 2013).

<sup>168</sup> The U.S. joined the Berne Convention in 1988, whereas other countries first adopted the Berne Convention in 1886. *Id. Golan*, 132 S. Ct. at 889 (stating a reason for adopting the Berne Convention was that a "well-functioning international copyright system would encourage the dissemination of existing and future works").

<sup>169</sup> As mentioned in Part II of this article, the EU recently held in the *UsedSoft* case that perpetual software licenses sold in the EU can be resold because perpetual licenses amount to a transfer of ownership (or first sale), despite any contrary language forbidding resale.

agencies work independently or together, both agencies may offer some relief to consumers and companies alike.<sup>170</sup>

### 1. The Federal Trade Commission

The Federal Trade Commission (FTC) exists to protect consumers from anticompetitive, deceptive, or unfair business practices.<sup>171</sup> The Federal Trade Commission Act<sup>172</sup> (FTC Act) codified the unlawful nature of “[u]nfair methods of competition, . . . and unfair or deceptive acts or practices in or affecting commerce.”<sup>173</sup> While video game companies and software businesses are able to create their own contract and license terms, they are subject to the FTC Act or a state’s adopted version of it.<sup>174</sup>

Software and video game companies may find relief from the FTC Act or individual states’ adoption of the Act. In *Hernandez v. Internet Gaming Entertainment, Ltd.* (IGE), Hernandez initiated a class action against IGE for IGE’s deceptive and unfair business practice of selling virtual gold currency for real money and thereby violating Blizzard’s World of Warcraft (WoW) end user license agreement terms prohibiting such gold-farming activities.<sup>175</sup> Hernandez brought the claim under Florida’s Statutes section 501,<sup>176</sup>

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<sup>170</sup> At one point, the Federal Trade Commission and the Department of Justice have worked together to issue the Antitrust Guidelines for Licensing Intellectual Property. FTC & DOJ, *Antitrust Guidelines for Licensing Intellectual Property*, FTC & DOJ (Apr. 6, 1995), <http://www.justice.gov/atr/public/guidelines/0558.htm>. The FTC & DOJ intended for these guidelines to regulate antitrust behavior to extend to domestic and international matters, however the 1995 DOJ and FTC Antitrust Enforcement Guidelines for International Operations may also be helpful for specific issues. *Id.* at § 2.2 (discouraging anti-competitive behavior by intellectual property owners).

<sup>171</sup> *About the Federal Trade Commission*, FTC, <http://www.ftc.gov/ftc/about.shtm> (last visited Jan. 2, 2013).

<sup>172</sup> 15 U.S.C. §§ 41–58 (2006). This includes the 1938 amendments to the FTC Act of 1914.

<sup>173</sup> 15 U.S.C. § 45(a)(1).

<sup>174</sup> Sites, *EULAs*, *supra* note 93, at 35.

<sup>175</sup> Complaint, *Hernandez v. Internet Gaming Entertainment, Ltd.*, No 07-21403 (S.D. Fla. May 30, 2007).

<sup>176</sup> Florida Statutes § 501.203, .204, .2075, .211 (2006).

which mirrors that of section 45 of the FTC Act.<sup>177</sup> In the end, IGE settled and agreed to stop selling WoW virtual assets.<sup>178</sup> Similarly, in *Adobe Systems Inc. v. Kornrumpf*, Adobe brought a copyright infringement claim because the defendants were reselling copies of Adobe's software on eBay.<sup>179</sup> The defendants counterclaimed that Adobe violated California's Unfair Competition Law<sup>180</sup> (UCL), claiming that Adobe attempted to extend its copyright protection by eliminating the secondary sales market.<sup>181</sup> The court held that the defendants could not use the first sale doctrine because there was no evidence that the defendant was given ownership of copies of the software.<sup>182</sup> Also, because Adobe was lawfully enforcing its valid rights to copyright, the defendants' UCL claim of Adobe harming competition by eliminating the resale market failed.<sup>183</sup>

Consumers may also find relief using unfair competition and business practice law or unconscionability in contract law, invoking the same principals from the FTC Act. In *Bragg v. Linden Research, Inc.*, the court held that Linden's Terms of Service (TOS) in its Second Life online video game were unconscionable due to its arbitration clause.<sup>184</sup> The court found procedural unconscionability because the TOS was a contract of adhesion that consumers must accept on a take-it-or-leave-it basis, and substantive unconscionability as the terms were one-sided as Linden, at its sole

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<sup>177</sup> "Unfair methods of competition in or affecting commerce, and unfair or deceptive acts or practices in or affecting commerce, are hereby declared unlawful." 15 U.S.C. § 45(a)(1).

<sup>178</sup> Joint Stipulation with Attached Order Adopting Joint Stipulation As Order of Court, *Hernandez*, No. 07-civ-21403 (Aug. 26, 2008), [http://virtuallyblind.com/files/hernandez/hernandez\\_stipulation.pdf](http://virtuallyblind.com/files/hernandez/hernandez_stipulation.pdf);

Tateru Nino, *GDC09: How to Avoid New Legal Pitfalls in Virtual World Design and Policy*, Massively (Mar. 30, 2009), <http://massively.joystiq.com/2009/03/30/gdc09-how-to-avoid-new-legal-pitfalls-in-virtual-world-design-a/>.

<sup>179</sup> *Adobe Sys. Inc. v. Kornrumpf*, 780 F. Supp. 2d 988, 991 (N.D. Cal. 2011).

<sup>180</sup> *Id.* California's UCL is established under Cal. Bus. & Prof. Code §§ 17200, *et seq.* (2006). *Id.*

<sup>181</sup> *Id.*

<sup>182</sup> *Id.* at 994.

<sup>183</sup> *Id.* at 995.

<sup>184</sup> *Bragg v. Linden Research, Inc.*, 487 F. Supp. 2d 593, 605 (E.D. Penn. 2007).



discretion, could initiate arbitration and impose large costs for the user.<sup>185</sup> Also, revising *Davidson & Associates, Inc. v. Internet Gateway, Inc.*,<sup>186</sup> while Internet Gateway (IG) was unable to prove unconscionability, this case is instructive because it shows that consumers can bring a claim against video game company's EULA and Terms of Use provisions.

In the past, the FTC has been involved with software contract and license issues. In 2000, the FTC investigated complaints by end users for the Uniform Computer Information Transaction Act (UCITA), which are a recommended set of contract laws that heavily favor software vendors.<sup>187</sup> States are individually considering the adoption of a version of UCITA's provisions, where it would, to the consumer's detriment, benefit software companies because it would allow companies to label their EULAs as license and bar consumers from using the first sale doctrine.<sup>188</sup>

Also, the FTC continues to stay involved in software matters, most recently prohibiting the use of computer spying software on rent-to-own computers and addressing the issue of violent video games. Software companies settled with the FTC after being charged with unfair business practices of deceptively gathering and disclosing consumers' personal information and using the information to collect debts.<sup>189</sup> Additionally, the FTC issues reports for parents because not

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<sup>185</sup> *Id.* at 606–09.

<sup>186</sup> *See supra* notes 125–27. In *Davidson*, IG claimed that Blizzard's EULA and ToU were unconscionable contracts of adhesion because they were clickwrap agreements where consumers were forced to accept terms in order to play the games without bargaining power. *Davidson & Assocs., Inc. v. Internet Gateway, Inc.*, 334 F. Supp. 2d 1164, 1179 (E.D. Mo. 2004). However, because IG could not show substantive unconscionability or one-sided results, no unconscionability was found even if procedural unconscionability of unequal bargaining power could be found. *Id.*

<sup>187</sup> *Warranty Protection for High-Tech Products and Services*, FTC (Oct. 26–27, 2000), <http://www.ftc.gov/bcp/workshops/warranty/>.

<sup>188</sup> *See UCITA Online*, UCITA, <http://www.ucitaonline.com> (last visited Jan. 3, 2013).

<sup>189</sup> *FTC Halts Computer Spying*, FTC (Sept. 25, 2012), <http://www.ftc.gov/opa/2012/09/designware.shtm>. Complaint, In re Matter of Designerware, LLC, at 23–31 (2012), <http://www.ftc.gov/os/caselist/1123151/designerware/120925designerwarecmpt.pdf>.

only do entertainment companies market violent games towards children, but also these games are easily obtained by minors.<sup>190</sup>

It is obvious that while the FTC may not have directly been involved with handling issues regarding the resale of software licenses in the secondary market, the FTC still keeps an interest in the field of video games and on licensing agreement terms in order to protect consumers and software companies alike. Therefore, in the future, consumers and software companies may want to invoke the aid of the FTC if U.S. law were to expand and take the EU's position of exhaustion after the first sale of a copy of a copyrighted work.

## 2. The Department of Justice

The Department of Justice (DOJ) exists to enforce U.S. law in both criminal and civil litigation. Based on previous cases, it is obvious that the DOJ has not turned a blind eye to issues regarding video games.<sup>191</sup>

While the DOJ has not handled cases involving reselling software in the secondary market contrary to software agreement terms, the DOJ has taken measures against individuals who violated federal copyright laws. In 2006, the Attorney General brought a charge against three co-conspirators who modified Xbox game consoles by pre-loading and installing pirated games onto the consoles and selling them to customers.<sup>192</sup> The three were found guilty of, among other

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<sup>190</sup> *FTC Releases Report on the Marketing of Violent Entertainment to Children*, FTC (Sept. 11, 2000), <http://www.ftc.gov/opa/2000/09/youthviol.shtm>; *Kids, Parents, and Video Games*, ONGUARDONLINE, <http://www.onguardonline.gov/articles/0270-kids-parents-and-video-games> (last visited Jan. 31, 2013).

<sup>191</sup> For example, in 2004, the DOJ investigated 148 cases, thirty-eight of which involved infringement on video games. DEPARTMENT OF JUSTICE, FY 2004 PERFORMANCE AND ACCOUNTABILITY REPORT C-2 (2004), *available at* <http://www.justice.gov/ag/annualreports/pr2004/Appd/A-c.pdf>. In 2012, the DOJ does not break down copyright infringement cases according to specific categories, but still investigated seventy-nine copyright infringement cases and filed forty cases. DEPARTMENT OF JUSTICE, FY 2012 PERFORMANCE AND ACCOUNTABILITY REPORT D-3 (2012), *available at* <http://www.justice.gov/ag/annualreports/pr2012/app-d.pdf>.

<sup>192</sup> Release No. 06-052, *Hollywood Game Store Owner Pleads Guilty to Pirating Video Games and Illegally Modifying Xbox Game Consoles*, DOJ (May 9, 2006), <http://www.justice.gov/usao/cac/Pressroom/pr2006/052.html>.

things, willful copyright infringement for reproducing and distributing pirated works for financial gain.<sup>193</sup> In another case brought by the DOJ, a man pled guilty to selling illegal copies of downloaded, pirated software and video games through his websites at significantly lower prices than legitimate retailers.<sup>194</sup>

More recently, the DOJ got involved in the copyright software issue by submitting an amicus curiae brief<sup>195</sup> that supported the respondents John Wiley & Sons, Inc. for the Supreme Court case of *Kirtsaeng v. John Wiley & Sons, Inc.*<sup>196</sup> The DOJ supported the Second Circuit's position in *Kirtsaeng* that infringers should be barred from invoking the first sale doctrine on foreign-made copies of U.S. copyrighted works that are imported into the U.S. The DOJ stated that federal administrative agencies as well as the copyright office had a large interest in the case due to importation of goods and copyright issues.<sup>197</sup> However, in the end, the Supreme Court held for the petitioners, basically favoring the consumers who would now be able to shop worldwide for their copyrighted content and benefit

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<sup>193</sup> *Id.*

<sup>194</sup> Release No. 05-212, *Texas Man Pleads Guilty to Felony Copyright Infringement for Selling More Than \$1 Million of Copyright Protected Software and Video Games Over the Internet*, DOJ (June 23, 2005), <http://www.justice.gov/criminal/cybercrime/press-releases/2005/poncedeleonPlea.htm>. See also Release No. 07-577, *Illinois Man Sentenced to Two Years in Prison for Selling Thousands of Copyrighted Video Games and Movies*, DOJ (Aug. 2, 2007), [http://www.justice.gov/opa/pr/2007/August/07\\_crm\\_577.html](http://www.justice.gov/opa/pr/2007/August/07_crm_577.html) (sentencing a man to two years in prison for selling copyrighted video games on recordable compact discs for various game consoles).

<sup>195</sup> Brief for Donald R. Verrilli & Stuart F. Delery, et al. as Amici Curiae Supporting Respondents, *Kirtsaeng v. John Wiley & Sons, Inc.*, 132 S. Ct. 1905 (2012) (No. 11-697), <http://www.justice.gov/osg/briefs/2012/3mer/1ami/2011-0697.mer.ami.pdf>. The DOJ submitted this amicus brief under the Solicitor General Verilli and the Acting Assistant Attorney General Delery.

<sup>196</sup> *Kirtsaeng v. John Wiley & Sons, Inc.*, 132 S. Ct. 1905 (2012), *rev'd*, 133 S. Ct. 1351 (2013). However, the Supreme Court held in favor of the petitioner, basically allowing the first sale doctrine to apply to copies made lawfully abroad. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013).

<sup>197</sup> Brief for Donald R. Verrilli & Stuart F. Delery, et al. as Amici Curiae Supporting Respondents, *Kirtsaeng v. John Wiley & Sons, Inc.*, 132 S. Ct. 1905 (2012) (No. 11-697), at 1, <http://www.justice.gov/osg/briefs/2012/3mer/1ami/2011-0697.mer.ami.pdf>.

from technology companies, retailers and bookstores that could now import and sell copies for lower prices to consumers.<sup>198</sup>

These issues are not spot-on with the issues presented by the EU *UsedSoft* case holding, yet the DOJ shows interest in the area of software importation and resale through the first sale doctrine, which will be necessary to evaluate in light of the recent EU case. However, the DOJ shows interest in the software issues and may find itself investigating future international cases on piracy and the resale of copies of software programs and video games in the EU.

### B. Who Cares?

While the FTC & DOJ may possibly be invoked by the video game companies and consumers alike in the future, companies and consumers may ask: why should they even care about this *UsedSoft* case? Online video game companies—and online businesses in general—use EULAs to govern the majority of their relationships with consumers.<sup>199</sup> Usually, contracts are in the favor of the businesses and so consumers may try to push back on their own or can wait for courts to address what contract terms are unconscionable. The EU's case implications are still worth considering for companies and consumers alike to better understand how they are affected and what they can do in response to the case.

#### 1. Video Game Companies

There are several policy considerations in regards to enforcing software license agreements to restrict redistribution of copies of copyrighted work. As considered in *Vernor v. Autodesk*, software companies are in favor of EULA terms because these terms allow for tiered pricing of software in different markets, like commercial or educational purposes; they increase sales for software companies;

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<sup>198</sup> Gary Shapiro, *Supreme Court Gives American Consumers Victory Over Copyright Owners in Kirtsaeng vs. John Wiley & Sons*, FORBES (Mar. 20, 2013), <http://www.forbes.com/sites/garyshapiro/2013/03/20/supreme-court-gives-american-consumers-victory-over-copyright-owners-in-kirtsaeng-vs-john-wiley-sons/>.

<sup>199</sup> Sites, *EULAs*, *supra* note 93, at 35.

they spread costs for consumers;<sup>200</sup> and they reduce piracy because copyright owners can bring infringement cases against unauthorized resellers.<sup>201</sup> Piracy can be a big issue because many commentators<sup>202</sup> are skeptical that consumers will actually delete their personal copies of video games before selling it to another.

Incentivizing game developers' creativity with reward of profit may be another factor regarding the EU's decision, which downplays copyright owners' attempts at protecting their work through EULAs. Congress enacted copyright law to give a limited monopoly privilege to copyright owners in order to reward and motivate creative activity.<sup>203</sup> Congress was only concerned with copyright owners receiving a single compensation per copy, not a principle that developers should be compensated more than once for each copy.<sup>204</sup> Because the first sale doctrine applies to video games using limited purpose computers, video game developers argued that allowing the redistribution of video games through renting destroyed their incentives to create new games.<sup>205</sup> For this reason, many game developers moved their games to solely digital platforms in order to protect their profits and avoid the first sale doctrine by having games

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<sup>200</sup> Game developers have stated that day-one sales are mostly what developers of single-player only titles can rely on because most consumers will finish these high production games and return or resell it, thus creating a large secondary market, which may cause developers and publishers to discontinue making high production value games due to the high risk of low sales. *Braben: "Second-Hand Games Market is Killing Single-Player Titles,"* VG24/7 (Mar. 19, 2012), <http://www.vg247.com/2012/03/19/braben-second-hand-games-market-is-killing-single-player-titles/>.

<sup>201</sup> *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1114–15 (9th Cir. 2010).

<sup>202</sup> *Poll: Would You Delete Your Copy of a Game You Resold?*, GAMEPOLITICS (July 17, 2012), <http://www.gamepolitics.com/2012/07/17/poll-would-you-delete-your-copy-game-you-resold#.UOCIL6Uz7jQ>.

<sup>203</sup> *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984).

<sup>204</sup> Corsello, *Act of 1990*, *supra* note 79, at 203 n.138.

<sup>205</sup> *Id.* at 203. Mediagenic, a video game developer and publisher, opposed the Computer Software Protection Act because while many other types of software programs could recoup their losses, even allowing rental of video games would cause financial loss to developers because there were heavy risks and costs in making a game, as well as consumers may rather rent a game twice than buy it permanently. See Computer Software Protection Act of 1990, H.R. 5297, 101st Cong. 106–12 (1990) (statement of Bruce Davis).

played on computers that were not “limited purpose.” Under *UsedSoft*, essentially all private EULAs were invalidated for game companies, even digital copies of games, and, instead, the first sale doctrine applied. Thus, incentivizing video game companies to continue producing high quality games for a reasonable price to the first purchasers would push copyright law in favor of U.S. video game companies and its current stance on EULA terms carrying great weight. This would give companies stronger copyright protection over their works and ensure that these companies get the profits due to them for their work per game, rather than having to overcharge first purchasers in order to compensate for the high possibility of reselling or lending out a game.

## 2. First Purchasers and the Second Hand Market

Consumers and secondary market service providers, like eBay and Amazon Marketplace, may find the EU case to be more advantageous to their positions and advocate for its adoption. Policy considerations supporting a position of putting less value on EULAs for consumers include the fact that EULAs would restrict alienation rights of personal property and ignore the economic realities of sales transactions,<sup>206</sup> focusing instead on the labeling of a transaction as “license.” Another positive aspect for consumers may be that they are no longer “paying for a glorified rental,” but rather get to own the game itself.<sup>207</sup> Lastly, consumers may actually have legitimate reasons for getting rid of their copies because some people finish games fast, some do not even like the games they purchased, or just want to free up space in their homes.

Also, second-hand service providers like eBay contend that the first sale doctrine should be broadly applied in order for the secondary market to give consumers the ability to buy and sell copyrighted works for cheaper prices, help consumers obtain discontinued copyrighted works, and for the proliferation of businesses.<sup>208</sup> The second-hand market for video games is made of

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<sup>206</sup> *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1115 (9th Cir. 2010).

<sup>207</sup> Jim Sterling, *EU Court Rejects EULAs, Says Digital Games can be Resold*, DESTRUCTOID (July 3, 2012), <http://www.destructoid.com/eu-court-rejects-eulas-says-digital-games-can-be-resold-230641.phtml>.

<sup>208</sup> *Vernor*, 621 F.3d at 1115.

approximately 47.3 million people per year, where approximately 60% of gamers will buy used games and 42% will trade them in.<sup>209</sup> As the secondary market for games is a large industry, a narrow reading of the first sale doctrine would suggest that copyright owners should not interfere with the secondary market nor be able to restrict or contract away the rights of purchasers of copies.<sup>210</sup>

However, gamers should not be getting ready to sell their online games and accounts based on the EU case just yet. While some gamers believe this gives unobstructed access to trading accounts and selling online characters,<sup>211</sup> consumers of used products and the secondary market need to be mindful of the fact that this is a European Union case and that it only applies to sales with transfer of ownership, which may include perpetual licenses that are paid for by one lump sum. Thus, purchasers of copies of copyrighted software first sold outside of the EU or software that is sold purely as a license without being conveyed ownership will not enjoy the “benefits” of the EU’s exhaustion doctrine.

Both consumers and video game companies have their own share of worries in protecting their interests. Administrative agencies, such as the FTC and DOJ have already been involved in domestic and international cases with software contracts and the first sale doctrine. It is likely that, in the future, the FTC, DOJ, and perhaps the International Trade Commission will investigate matters based on the effects of the *UsedSoft* case.

## VI. ALTERNATIVES FOR VIDEO GAME COMPANIES

### A. *Invoke the Help of the Federal Trade Commission and the Department of Justice*

As seen in Part V, video game companies may invoke the aid of administrative agencies that have a unique interest in software licensing issues. The FTC gives insight to software companies on how to write licenses and how to avoid unfair business practices in its

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<sup>209</sup> *The Used Video Games Market*, JJGAMES, <http://www.jjgames.com/page/used-games-infographic> (last visited Dec. 30, 2012).

<sup>210</sup> Nimmer, *Copyright*, *supra* note 70, at 1344.

<sup>211</sup> *Did the EU Just Okay Game Accounts Trading?*, PLAYERAUCTIONS (July 10, 2012), <http://blog.playerauctions.com/did-eu-just-okay-game-accounts-trading/>.

relationship with consumers and other companies. Also, video game companies may find support from the DOJ against the EU *UsedSoft* case due to the FTC's current stance on the invalidity of the first sale doctrine on foreign-made and imported software goods.

*B. Contract Remedies for End User License Agreement Breach and Copyright Remedies*

Licenses and contract terms can be worded to give rise to state breach of contract claims, as well as willful infringement claims.<sup>212</sup> Contract laws will govern remedies for contract breaches, while federal copyright law will govern copyright infringement claims. Video game companies should make sure that their EULAs, and terms of use or service, are not unconscionable<sup>213</sup> and also take precautions with self-help provisions. Many video game companies have EULA terms containing a self-help provision where the company can remotely disable a player's software or account for violating EULA terms, such as for gold-farming or reselling accounts. While these clauses can be controversial for contract terms, they are usually in relation to violating terms that uphold the "spirit of the game"—that is, a contract term that has an "extra element"<sup>214</sup>—rather than federal copyright infringement.

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<sup>212</sup> John M. Neclerio & Matthew C. Mousley, *Copyright Law Implications in Video Games and Virtual Worlds*, in *COMPUTER GAMES AND VIRTUAL WORLDS* 47, 84 (Ross A. Dannenberg, et al. eds., 2010).

<sup>213</sup> See *supra* notes 184–186.

<sup>214</sup> See *supra* note 119 and accompanying text.



*C. Self Remedies: Changing Business Models and New Legal Measures*

While the movement towards digital movies and books through Netflix and Kindle killed stores like Blockbuster and Borders, video game companies have too been gravitating towards the digital market for selling their games.<sup>215</sup> Steam had the right idea on its all-digital platform where games could never be resold, but this is no longer enough in light of the EU case. The following is a non-exhaustive list of what video game companies can do to get more creative in order to reduce the secondary market.

1. Time-Limited License Agreements and Subscription-Based Models

*UsedSoft* was partially dependent on the fact that Oracle gave perpetual licenses to purchasers, which the CJEU likened to ownership. The language of limited licensing agreements<sup>216</sup> pushes software towards the “license end of the spectrum” rather than indicating ownership, thus getting around the copy user’s resale ability under the first sale doctrine in the U.S.<sup>217</sup> Even using over-inclusive EULA terms that may end up being unenforceable could still be used to deter users from violating terms in fear of negative consequences.<sup>218</sup> Also, companies may carefully word EULAs to prohibit redistribution of copies and so no ownership is transferred.

To avoid giving ownership of a copy to a purchaser, subscription-based models may also be used so that the user is more like a renter

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<sup>215</sup> Paul Tassi, *The Coming War on Used Games*, FORBES (Mar. 29, 2012), <http://www.forbes.com/sites/insertcoin/2012/03/29/the-coming-war-on-used-games/>.

<sup>216</sup> See *End User License Agreement (EULA)*, LEAGUE OF LEGENDS (Oct. 23, 2012), <http://na.leagueoflegends.com/legal/eula>, and *StarCraft II End User License Agreement*, BLIZZARD (Aug. 22, 2012), <http://us.blizzard.com/en-us/company/legal/sc2eula.html>, for language of a limited, non-transferable, non-sublicenseable, non-exclusive license to install and use the game.

<sup>217</sup> Pillsbury Winthrop Shaw Pittman LLP, *Could Software Imports from Europe Bypass U.S. First Sale and IP Exhaustion Laws?*, JDSUPRA (July 25, 2012), <http://www.jdsupra.com/legalnews/could-software-imports-from-europe-bypas-07612/>.

<sup>218</sup> Sites, *EULAs*, *supra* note 93, at 12.

or licensee of the video game. Because a sale with transfer of ownership does not technically occur, the user of the copy would be unable to invoke the first sale doctrine.

## 2. Software-as-a-Service Model

The CJEU expressly stated that “exhaustion does not arise in the case of services and on-line services in particular.”<sup>219</sup> To avoid exhausting distribution rights and the secondary market completely, video game companies can provide games as a service through models such as cloud-gaming to make games only rentable, rather than a good that can be owned.<sup>220</sup> While the EU is moving towards equalizing the handling of tangible and intangible copies of copyrighted material, video game companies can likely avoid the secondary market because users cannot own licenses of a rental-only model in cloud-gaming. Also, copyright owners can make distribution platform services to facilitate the resale of video games through their own websites and make some profit from reselling the game.

## 3. Tracking Ownership of Protective Digital Rights Management

To comply with *UsedSoft*'s holding that the copy owner must render his copy unusable before reselling his copy, companies may want to track each owner and user of its software<sup>221</sup> because deleting

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<sup>219</sup> Case C-128/11, *UsedSoft GmbH v. Oracle Int'l Corp.*, 2012 E.C.R. I-0000, at §§ 8, 66.

<sup>220</sup> Stephen Charkoudian et al., *EU Court of Justice Rules First Sale Doctrine Applies to Software Downloads*, GOODWIN PROCTOR (July 11, 2012), [http://www.goodwinprocter.com/Publications/Newsletters/IP-Alert/2012/0711\\_EU-Court-of-Justice-Rules-First-Sale-Doctrine-Applies-to-Software-Downloads.aspx?article=1](http://www.goodwinprocter.com/Publications/Newsletters/IP-Alert/2012/0711_EU-Court-of-Justice-Rules-First-Sale-Doctrine-Applies-to-Software-Downloads.aspx?article=1); see also Computer Software Protection Act of 1990, H.R. 5297, 101st Cong., at 25 (1990) (statement of Ralph Oman) (stating that to avoid the first sale doctrine, software manufacturers should only rent their works and find legal protection through licensing terms).

<sup>221</sup> For example, upon installation or download of the game, the game can be tied to the owner's phone number, credit card number, or e-mail address. However, there are probably many data protection and privacy issues with this.

the first copy would largely be based on an honor system<sup>222</sup> of the first purchaser. Another alternative would be to use protective digital rights management software to have online authorization to “prevent copies of software from being disseminated beyond their original point of installation” and eliminating the possibility of secondary sales,<sup>223</sup> but this is highly unpopular to consumers.<sup>224</sup>

#### 4. If You Can’t Beat Them, Join Them

Facing reality, there are definitely those who do and will violate EULA terms. For example, Blizzard’s Battle.net Terms of Use prohibit users from using the game or server for commercial uses like gold-farming.<sup>225</sup> Despite these EULAs prohibitions, many people still find a way to sell characters and currency online.<sup>226</sup> To adapt to these inevitable violations, in its latest Diablo game, Blizzard allows in-game gold and items to be sold through Auction House.<sup>227</sup> If companies like Blizzard cannot stop players from selling digital items, then it might as well profit from it.<sup>228</sup>

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<sup>222</sup> See *Super Podcast Action Committee – Episode 10*, GAMEPOLITICS (July 11, 2012), <http://www.gamepolitics.com/2012/07/11/super-podcast-action-committee-episode-10#.UN3qD6Uz7jQ>.

<sup>223</sup> Pillsbury Winthrop Shaw Pittman LLP, *supra* note 216.

<sup>224</sup> *Id.* DRMs are highly unpopular because it sends a message to consumers that they are not trusted to use the game properly in regards to redistribution and piracy. *Super Podcast*, *supra* note 222.

<sup>225</sup> *Battle.net Terms of Use*, BLIZZARD (June 7, 2012), <http://us.blizzard.com/en-us/company/about/termsfuse.html>. Blizzard and many other game companies discourage gold-farming or selling in-game accessories for real currency because it dampens the spirit of game-play for others.

<sup>226</sup> In China, labor camps required prisoners to farm gold to sell for real currency. Ysolt Usigan, *Chinese Labor Camp Prisoners Forced to Play World of Warcraft, Says Report*, CBS NEWS (May 26, 2011), [http://www.cbsnews.com/8301-501465\\_162-20066594-501465.html](http://www.cbsnews.com/8301-501465_162-20066594-501465.html). Also, see websites like d2magic.com for character leveling-up services. D2MAGIC.COM, [http://www.d2magic.com/index.php?cPath=886\\_893](http://www.d2magic.com/index.php?cPath=886_893) (last visited Dec. 27, 2012).

<sup>227</sup> *Diablo III End User License Agreement*, BLIZZARD (Aug. 22, 2012), [http://us.blizzard.com/en-us/company/legal/d3\\_eula.html](http://us.blizzard.com/en-us/company/legal/d3_eula.html).

<sup>228</sup> See also *Bragg v. Linden Research, Inc.*, 487 F. Supp. 2d 593, 595 (E.D. Penn. 2007) (stating facts that Second Life game developers publicly recognized digital property rights of players and allowed virtual goods to be sold for real currency).

## 5. Charge First Purchasers More

Charging the first purchaser more for a software copy may be hard to calculate for video game companies.<sup>229</sup> The company would need to determine, among other things, the development cost of the video game, the price to charge the first purchaser, and the estimated cost for a probable resale of the game in order to make up for the loss due to the secondary market. This will still need to be balanced with incentivizing purchasers to buy original copies.

### *D. Do Nothing*

In the EU, the intangible, digital market was equalized with the tangible market of goods. Perhaps companies may find it easier to let the law catch up to technology to simply find that used digital goods like online computer games and e-books are similar to used game cartridges and hard-copy books that can be resold. After all, many game players are already selling their used games online (but probably through ignorance of the law and EULA terms).

### *E. Future Considerations*

The second-hand market for software programs is quiet appealing to businesses and other companies because approximately \$250 billion to \$275 billion is spent on software purchases.<sup>230</sup> In the digital era, software sales are usually accompanied by licenses,<sup>231</sup> while hard-copy books and clothes are sold on a one-time basis and subject to the first sale doctrine. As the *UsedSoft* case's effect on digital media and software in America is still a gray area, software companies may have to wait for the effects and cases on the e-book and online video game industry.

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<sup>229</sup> Randal C. Picker, *UsedSoft GmbH v. Oracle: Are You Exhausted Yet?*, MEDIA INSTITUTE (July 19, 2012), <http://www.mediainstitute.org/IPI/2012/071912.php>.

<sup>230</sup> Cornelius Rahn, *Second-Hand Software Sales Set to Soar on Oracle Ruling*, BLOOMBERG (Sept. 16, 2012), <http://www.bloomberg.com/news/2012-09-16/second-hand-software-sales-set-to-soar-on-oracle-ruling.html>.

<sup>231</sup> Nimmer, *Copyright*, *supra* note 70, at 1322.

Another consideration is for video game companies to wait for courts to decide on future issues dealing with video games of the software industry. Given the opportunity, U.S. video game companies may be able to mitigate the effects of the EU case by only applying and advocating a very narrow meaning of the case.<sup>232</sup> As seen under Part VI, companies can avoid the secondary market by not giving copy-users (1) permanent, unlimited licenses for software programs that are (2) sold and (3) transfer ownership.

Lastly, though the U.S. has not adopted the EU model of exhaustion, if the U.S. were to adopt it, its potential effect on video games might not be so shocking as one might think. As shown earlier in Part III of this article, U.S. copyright owners have the exclusive right to distribution, but lawful owners of copies of a copyrighted work can dispose (or resell) their copies due to the first sale doctrine. Fortunately, computer programs were exempt from the first sale doctrine—meaning owners of copies of copyrighted software could *not* resell their copies—but the Computer Software Rental Agreements Act specifically singled out video games on limited purpose computer from enjoying this protection.<sup>233</sup> Instead, video game companies were forced against their will to allow the rental and resale of their video games, placing them on a level more equivalent to hard-copy books rather than software.<sup>234</sup> Just like how video game companies for games on limited purpose computers were excluded from distribution protection in the past, online video game companies today might face a similar dilemma. While it is too early to tell, the U.S. has exempted video games from some copyright protection and may do so again in the future through a narrow adoption of the EU's *UsedSoft* case in the form of extending section 109(b)(1)(B)(ii) of the Copyright Act to not only include video games on limited purpose computers, but to all video games—even in digital platforms.

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<sup>232</sup> *EU Decision in Oracle v. UsedSoft Case Undermines Software Licenses in Narrow Set of Circumstances, Says BSA*, BSA (July 3, 2012), <http://www.bsa.org/country/News%20and%20Events/News%20Archives/en/2012/en-07032012-usedsoft.aspx>.

<sup>233</sup> 17 U.S.C. § 109(b)(1)(A)-(B)(ii).

<sup>234</sup> See *supra* text accompanying notes 76–85.

## VII. CONCLUSION

It may still be too early to tell what affects the EU *UsedSoft* case may have in the U.S. for software companies, and in the video game industry specifically. However, it is obvious that the EU's support of the secondary software market is broader than that of the U.S.. While the EU has essentially abolished upholding the language in EULAs that identifies purchasers as licensees, the U.S. continues to uphold the language of its contracts to determine if a license of ownership was transferred. Because of these opposing views, the EU's exhaustion doctrine has broader effects in the software industry, rather than the first sale doctrine of the U.S.. To summarize, U.S.' first sale doctrine allows owners of a particular copy to re-distribute (resell) their copy of a copyrighted work, but computer programs are exempt from this doctrine; however, video games on limited purposes computers may be rented, leased or lent (which has essentially been extended to include resale of these types of games).<sup>235</sup> While the case does not necessarily affect video games using cartridges or games played on limited-purpose computers, it may have a large potential effect for games bought through digital platforms or, more specifically, online PC-games that are purchased through either downloadable or hard-copy formats.<sup>236</sup> Whether the issue of allowing the resale of software licenses stays solely in the EU or expands internationally into the U.S., American software companies may want to seek the aid of the Federal Trade Commission and the Department of Justice. If all else fails, U.S. video game companies, especially those concentrated on online video games to whom may largely be affected by the EU case, may still have other strategies in order to alleviate the effects of the *UsedSoft* case.

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<sup>235</sup> See 17 U.S.C. § 109(a), (b)(1)(A)-(B) (2006).

<sup>236</sup> This is namely because online video games are not made for limited purpose computers, but instead are on computers which have capabilities to reproduce these games. Essentially, this throws "online video games" back into section 109(b)(1)(A)'s exception to the first sale doctrine's exception.