

**CONSUMER RIGHTS NEED A REBOOT: THE  
SUPREME COURT’S DECISION IN *KIRTSAENG V.  
JOHN WILEY & SONS, INC.* MAY HAVE  
UNINTENDED CONSEQUENCES FOR THE FIRST  
SALE DOCTRINE AND CONSUMERS**

Comment\*

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#### I. FIRST SALE: A FAMILIAR RIGHT OF THE CONSUMER

The factual scenario is common: a college student, for example, buys her books for class from the campus bookstore. Throughout the semester, the student uses the books in class, writes in them, and learns from them. When the semester is over, the student no longer needs the books and decides to sell them to a used bookstore. After the initial sale—from the bookstore to the student—the student now has the right under the “first sale” doctrine to resell the book to anyone.<sup>1</sup> Another example is the videogame player who buys the newest game from the videogame store. The gamer takes the game home and puts it to its intended use. After several days or weeks of gaming sessions, the gamer finishes the game and sells it back to the videogame store.

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1. See 17 U.S.C.A. § 109(a) (West 2005 & Supp. 2014) (stating that the lawful owner of a lawfully made copy of a copyrighted work may sell or dispose of that copy without permission from the copyright owner).

What the student and the gamer do not realize is that if the first sale doctrine were not a defense to copyright owners' exclusive rights, they would not have the right to sell their items after using them.<sup>2</sup> Generally, the Copyright Act gives the copyright owner the exclusive right to distribute, sell, manufacture, and copy a copyrighted work; however, the first sale doctrine (§ 109(a) of the Copyright Act) allows lawful purchasers of a copy "lawfully made" under the Copyright Act to dispose of that copy however they want.<sup>3</sup>

Now, consider a slightly different scenario: if the student or the gamer had lawfully bought their copyrighted items abroad, imported them into the United States, and then sold them, they would be participating in what is frequently called the "gray market."<sup>4</sup> Gray market goods, unlike black market goods, are not illegal.<sup>5</sup> These goods are manufactured either domestically or abroad, sold outside the United States, and then imported back into the United States and sold in competition with authorized sellers.<sup>6</sup> The goods are "genuine" goods: they are neither pirated nor illegally reproduced.<sup>7</sup> While the term gray market is normally associated with trademarks, it applies to copyrighted items as well.<sup>8</sup>

Recently, the first sale doctrine and the gray market made headlines as the United States Supreme Court decided whether the doctrine applies to copies manufactured abroad and then imported into the United States.<sup>9</sup> *Kirtsaeng v. John Wiley & Sons, Inc.* considered an issue that circuit courts debated for years: What does "lawfully made under this title" mean?<sup>10</sup> The circuit courts disagreed over whether the phrase means the doctrine applies to copies manufactured domestically where the Copyright Act is law, or whether it means the doctrine applies to all copies regardless of where they are manufactured as long as the copies are copyrighted under the Copyright Act and there is a lawful "first sale."<sup>11</sup> The Court held that Congress did not intend to put a geographical limitation on the first sale doctrine, and that copyrighted items legally purchased abroad could be imported and resold in the United States without violating the copyright owner's rights.<sup>12</sup>

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2. *See id.* *See generally* 17 U.S.C.A. § 106 (West 2005) (stating that copyright owners have the exclusive right to manufacture, distribute, or sell copies of their copyrighted work).

3. *See* 17 U.S.C.A. §§ 106, 109(a).

4. *See* Lynda J. Oswald, *Statutory and Judicial Approaches to Gray Market Goods: The "Material Differences" Standard*, 95 KY. L.J. 107, 107–08 (2006–2007).

5. *Id.* at 108.

6. *Id.* at 107–08.

7. *See id.*

8. *See id.* at 108 n.5 (explaining the gray market as it applies to trademarked items); David A. Gerber & David Bender, *The Gray Market: A Legal Enigma*, 59 N.Y. ST. B.J. 41, 42–44 (Jan. 1987) (explaining that copyright owners have had issues with the gray market and that copyright law may provide an easier remedy to gray market goods than trademark law).

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

10. *Id.* at 1354–55 (emphasis omitted).

11. *See id.* at 1357.

12. *Id.* at 1360.

Unfortunately, the Supreme Court's decision in *Kirtsaeng* may be the unwitting death toll for the first sale doctrine.<sup>13</sup> The decision restricts copyright owners' ability to control the importation of lawfully sold copies of their copyrighted works.<sup>14</sup> As a result, copyright owners will look for other methods of controlling the distribution of their works.<sup>15</sup> This could lead to copyright owners digitizing and licensing their copyrighted works, which—since the first sale doctrine does not currently protect consumers from either—could leave customers at the mercy of the copyright owners.<sup>16</sup> But there is a solution.<sup>17</sup> Technology is evolving to allow the application of the first sale doctrine to digital goods.<sup>18</sup> While there is a risk of piracy, the risk has never stopped courts from applying the first sale doctrine to protect consumers.<sup>19</sup> In order to protect consumers, though, Congress must amend the Copyright Act to apply the first sale doctrine to digital goods.<sup>20</sup> The Supreme Court took a stand for consumers with its decision in *Kirtsaeng*.<sup>21</sup> The effect of this decision should not be extinguished just because copyright owners have developed new ways to maintain control of their copyrighted works.<sup>22</sup>

This Comment analyzes the evolution of the first sale doctrine and concludes that the rise of the digital age has left the courts divided and confused over how to apply the doctrine to digital goods.<sup>23</sup> This Comment calls on Congress to amend the Copyright Act to provide clarity and protection for consumers.<sup>24</sup> Part II outlines the evolution of the Copyright Act and the first sale doctrine from the Constitution's signing to today.<sup>25</sup> Part III considers the

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13. See generally *id.*; *infra* Part V.C.

14. See *Kirtsaeng*, 133 S. Ct. at 1360.

15. See discussion *infra* Part V.A.2.

16. See *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 146–47 (1998) (“[T]he protection afforded by § 109(a) is available only to the ‘owner’ of a lawfully made copy . . . the first sale doctrine would not provide a defense to . . . any nonowner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful.”); see also Eric Goldman, *The Supreme Court's First Sale Ruling Will Spur Price Competition in the Short Run, But Enjoy It While It Lasts*, FORBES (Mar. 20, 2013, 11:59 AM), <http://www.forbes.com/sites/ericgoldman/2013/03/20/the-supreme-courts-first-sale-ruling-will-spur-price-competition-in-the-short-run-but-enjoy-it-while-it-lasts/> (discussing the first sale doctrine's lack of applicability to digital items).

17. See discussion *infra* Part VI.

18. John Villasenor, *Rethinking a Digital First Sale Doctrine in a Post-Kirtsaeng World: The Case for Caution*, 2 COMPETITION POL'Y INT'L ANTITRUST CHRON., 1–4 (2013).

19. See Clark D. Asay, *Kirtsaeng and the First-Sale Doctrine's Digital Problem*, 66 STAN. L. REV. ONLINE 17, 22 (2013), available at <http://www.stanfordlawreview.org/sites/default/files/online/articles/Kirtsaeng.pdf>. When VCRs came out, copyright owners argued that it would damage their ability to generate revenue from their copyrighted works. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 459 (1984) (Blackman, J., dissenting). The Supreme Court held that VCRs did not violate copyright owners' rights and upheld its use by consumers. *Id.* at 456 (majority opinion). Copyright owners found a way to make money off of the new technology regardless of the risks. Asay, *supra*, at 22.

20. See discussion *infra* Part VI.B.

21. See *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363–64 (2013).

22. See discussion *infra* Part V.A.2.

23. See discussion *infra* Part VI.

24. See discussion *infra* Part VI.B–C.

25. See discussion *infra* Part II.

case law leading up to the Supreme Court's decision in *Kirtsaeng v. John Wiley & Sons*.<sup>26</sup> Part IV examines the Court's decision in *Kirtsaeng* and the reasoning behind its holding that the first sale doctrine protects copyrighted works manufactured outside of the United States.<sup>27</sup> Part V analyzes the Court's decision and its possible implications for copyright owners and lawful purchasers.<sup>28</sup> Part V also discusses the future of the first sale doctrine and the possibility that the Supreme Court's decision could be meaningless in the long run.<sup>29</sup> Part VI then concludes that to protect consumers, Congress must amend the Copyright Act to apply the first sale doctrine to digital goods.<sup>30</sup> Part VI also calls for Congress to amend the Copyright Act to clear up confusion among the circuits over the first sale doctrine in this digital age by making an exception for digital reproductions made in the process of a legal secondary transfer and limiting copyright owners' ability to license digital goods.<sup>31</sup>

## II. COPYRIGHT AND THE DEVELOPMENT OF THE FIRST SALE DOCTRINE

In the Constitution, the founding fathers specifically provided for the creation of patents and copyrights.<sup>32</sup> The Constitution grants Congress the power “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”<sup>33</sup> The Supreme Court has stated that the purpose of protecting the exclusive rights of authors is to motivate creativity and “to allow the public access to the products of their genius after the limited period of exclusive control has expired.”<sup>34</sup> The ultimate goal of the Copyright Act is to encourage creativity for the good of the public (i.e., the consumer).<sup>35</sup> Copyright owners are granted exclusive rights—such as the right to reproduce, distribute, sell, or lease their copyrighted works—in order to encourage them to create works to benefit the consumer.<sup>36</sup> Over the last several decades, though, courts have debated the question of when the copyright owner's exclusive right to distribute, sell, and lease a copy is exhausted.<sup>37</sup>

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26. See discussion *infra* Part III.

27. See discussion *infra* Part IV.

28. See discussion *infra* Part V.

29. See discussion *infra* Part V.B–C.

30. See discussion *infra* Part VI.B.

31. See discussion *infra* Part VI.

32. U.S. CONST. art. I, § 8, cl. 8.

33. *Id.*

34. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984).

35. *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975).

36. 17 U.S.C.A. § 106 (West 2005).

37. See generally *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013) (holding that the copyright owner's right to prohibit importation of a lawfully made copy manufactured abroad is exhausted upon a lawful first sale); *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135 (1998) (holding that the copyright owner's right to prohibit importation of copies lawfully manufactured in the United States is exhausted after a lawful first sale); *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908) (holding that

### A. *The Copyright Act*

The debate stems from the question of how the different sections of the Copyright Act interact together.<sup>38</sup> The Copyright Act has evolved over the years, resulting in its most recent codification, the Copyright Act of 1976 (the Act).<sup>39</sup> The Act is split into several sections that explain the rights and protections guaranteed therein, such as the exclusive right of copyright owners to reproduce copies of their copyrighted works.<sup>40</sup>

Several amendments have been added to the Copyright Act since its recodification in 1976.<sup>41</sup> The most important amendment is the Berne Convention Implementation Act of 1988, which allowed the United States to become a party to the Berne Union.<sup>42</sup> The amendment changed certain parts of the Copyright Act so it would not conflict with the provisions of the Berne Convention for the Protection of Literary and Artistic Works.<sup>43</sup> This amendment becomes particularly important in the Supreme Court's interpretation of the first sale doctrine in *Kirtsaeng*, in which the Court determined whether the first sale doctrine should apply to copies lawfully manufactured abroad.<sup>44</sup> In 1998, Congress amended the Copyright Act to address problems presented by the proliferation of digital technology.<sup>45</sup> While this amendment gives substantial protection to copyright owners, it ignores consumers.<sup>46</sup> Congress needs to amend the Copyright Act once again to give consumers protections that the increase in digital technology can potentially take away.<sup>47</sup> There have been several other amendments to the Copyright Act

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the copyright owner's exclusive right to control the distribution of a copy of the copyrighted work is exhausted upon a lawful first sale).

38. See *Quality King*, 523 U.S. at 138.

39. MARSHALL LEAFFER, UNDERSTANDING COPYRIGHT LAW 9–11 (4th ed. 2005).

40. See *id.* at 10; 17 U.S.C.A. § 106(3).

41. See generally LEAFFER, *supra* note 39, at 11–15 (explaining the amendments added to the Copyright Act of 1976).

42. See *id.* Several European countries formed the Berne Union at a convention in Berne, Switzerland, in 1886. Michael T. Crowley, *Raise the Yellow Submarine! Subafilms and Extraterritorial Application of the Copyright Act*, 48 FED. COMM. L.J. 133, 136 (1995). The purpose of the Berne Union was to create multinational copyright standards that could be applied across Europe and, therefore, protect literary and artistic rights throughout Europe. See *id.* Through the agreement that resulted (the Berne Convention for the Protection of Literary and Artistic Works), foreign artists from signing countries enjoyed the same protections as native artists in all party nations. *Id.*

43. 7 WILLIAM F. PATRY, PATRY ON COPYRIGHT § 23:45 (2014) (“[S]ection 104(b) was amended to include the Berne Convention as a basis for national eligibility. . . .”); LEAFFER, *supra* note 39, at 12; see Crowley, *supra* note 42, at 136.

44. See *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1359–60 (2013).

45. R. Anthony Reese, *The First Sale Doctrine in the Era of Digital Networks*, 44 B.C. L. REV. 577, 581–82 (2003).

46. See discussion *infra* Part VI.A.

47. See discussion *infra* Part VI.C.

since it was recodified; however, those amendments are outside the scope of this Comment.<sup>48</sup>

To better understand the debate over the first sale doctrine, one must first understand a few key sections of the 1976 Copyright Act.<sup>49</sup> First, § 102 explains the particular works that qualify for protection and the extent of that protection.<sup>50</sup> Works that qualify for copyright protection can be anything, such as a book, a song, or a DVD.<sup>51</sup> In addition, the work has to be tangible.<sup>52</sup> For example, a copyright can protect a song because a song can be fixed to a tangible medium, such as sheet music, from which it can be communicated and reproduced.<sup>53</sup> Conversely, ideas, processes, systems, and procedures do not qualify for protection.<sup>54</sup> Works that can be protected by copyright include: “(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.”<sup>55</sup>

Next, Congress granted exclusive rights to copyright owners in § 106.<sup>56</sup> These rights are completely statutory, and therefore, remedies for copyright infringement are only those that Congress specifically provides.<sup>57</sup> Accordingly, if a dispute arises based on the use of a copyrighted work that does not conflict with a copyright owner’s exclusive right under the Copyright Act, then there is no infringement.<sup>58</sup> Under the Act, copyright owners have the exclusive right, subject to the limitations spelled out in §§ 107–122, to reproduce, distribute, perform, and display their copyrighted works.<sup>59</sup> Courts have been reluctant to expand the rights granted by the Act and have left that job to Congress.<sup>60</sup>

Then, in § 602, Congress granted copyright owners the right to prevent importation of a copyrighted work into the United States without the copyright

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48. See, e.g., LEAFFER, *supra* note 39, at 11–15 (explaining the amendments to the Copyright Act of 1976).

49. See 17 U.S.C.A. § 102 (West 2005) (explaining that copyright protection only extends to works fixed in any tangible medium of expression); 17 U.S.C.A. § 106 (West 2005); 17 U.S.C.A. § 109 (West 2005 & Supp. 2014); 17 U.S.C.A. § 602 (West 2005 & Supp. 2014) (stating that importation into the United States without the copyright owner’s permission is an infringement of the copyright owner’s exclusive rights under § 106).

50. 17 U.S.C.A. § 102.

51. *Id.*

52. *Id.*

53. See *id.*

54. *Id.* § 102(b). They may, however, be protected by patent law. See 35 U.S.C.A. § 101 (West 2014) (explaining that patent protection extends to processes, procedures, and discoveries).

55. 17 U.S.C.A. § 102(a).

56. 17 U.S.C.A. § 106 (West 2005).

57. Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 431 (1984).

58. Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 155 (1975).

59. 17 U.S.C.A. § 106.

60. See *Sony Corp.*, 464 U.S. at 431.

owner's permission.<sup>61</sup> This section was intended to prohibit the bane of all copyright owners' existence: piracy.<sup>62</sup> With the evolution of the digital age, piracy has become an increasingly prevalent problem around the world.<sup>63</sup> Under § 602(b), copyright owners have a remedy via the United States Customs Service (Customs Service), which may confiscate items suspected of being pirated.<sup>64</sup> The Customs Service, however, has no authority to confiscate lawfully made and obtained items.<sup>65</sup>

Sections 602(a) and 109(a), discussed below, are at the center of the debate generated in the *Kirtsaeng* line of cases.<sup>66</sup> The focus of the debate is whether the first sale doctrine limits the copyright owner's right to prohibit importation.<sup>67</sup>

### B. The "First Sale" Doctrine: A Common-Law Tale

The first sale doctrine was designed as a protection for consumers.<sup>68</sup> It developed as a way for the law to restrict a copyright owner's ability to hoard the rights in copies of their copyrighted works to the detriment of consumers.<sup>69</sup> The doctrine's story begins with the Supreme Court's decision in *Bobbs-Merrill Co. v. Straus*.<sup>70</sup> The defendants in that case bought copies of the book, *The Castaway*, from the copyright owners, the Bobbs-Merrill Company.<sup>71</sup> Inside the book, the copyright owners printed a notice that forbade the sale of the book for a sum less than \$1.<sup>72</sup> The copyright owners sued the defendants—who had lawfully purchased the copyrighted books—when they sold several

61. See 17 U.S.C.A. § 602(a)(1) (West 2005 & Supp. 2014).

62. See LEAFFER, *supra* note 39, at 576–78. Some video game developers have placed traps for pirates who hack their video games instead of purchasing a copy legally. See, e.g., Andrew Heaton, *5 Hilarious Ways Game Designers Are Messing with Pirates*, CRACKED (June 15, 2013), [http://www.cracked.com/article\\_20482\\_5-hilarious-ways-game-designers-are-messing-with-pirates.html](http://www.cracked.com/article_20482_5-hilarious-ways-game-designers-are-messing-with-pirates.html); Kyle Nazario, *6 Hilarious Ways Game Designers Are Screwing with Pirates*, CRACKED (Apr. 22, 2011), [http://www.cracked.com/article\\_19162\\_6-hilarious-ways-game-designers-are-screwing-with-pirates.html](http://www.cracked.com/article_19162_6-hilarious-ways-game-designers-are-screwing-with-pirates.html).

63. See Richard Verrier, *Online Piracy of Entertainment Content Keeps Soaring*, L.A. TIMES Sept. 17, 2013, 6:00 AM, <http://www.latimes.com/entertainment/envelope/cotown/la-fi-ct-piracy-bandwith-20130917-story.html>.

64. LEAFFER, *supra* note 39, at 577; See also *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 146 (1998) (“[T]he enforcement of § 602(b) is vested in the Customs Service.”).

65. 17 U.S.C.A. § 602(b)

66. See generally *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013) (ruling on the question of whether the first sale doctrine applies to copies legally manufactured abroad); *Quality King*, 523 U.S. 135 (ruling on the question of whether the first sale doctrine limits copyright owners' right to restrict importation of copies of their copyrighted works).

67. See generally *Quality King*, 523 U.S. 135 (ruling that the first sale doctrine limits the exclusive rights of copyright owners and, therefore, limits their right to prohibit importation).

68. See *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 347–51 (1908).

69. See *id.* at 350–51.

70. See generally *id.* (ruling that the copyright statutes do not give the copyright owner the right to limit future sales of the copyrighted item by notice).

71. *Id.* at 341–42.

72. *Id.* at 341.



copies for \$0.89 each.<sup>73</sup> Under copyright law at the time, copyright owners had the exclusive right “of printing, reprinting, publishing, completing, copying, executing, finishing, and vending” their copyrighted works.<sup>74</sup> The Court focused its attention on the right to “vend” and held that this right was extinguished after the copyright owner lawfully sold the copy to another.<sup>75</sup> Regardless of the printed notice in the book, *Bobbs-Merrill* was not entitled to control the future sale of the copies after they had been lawfully sold to the defendants.<sup>76</sup> In the majority opinion, Justice William Day declared:

In our view the copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose, by notice, such as is disclosed in this case, a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract.<sup>77</sup>

The Court’s opinion in *Bobbs-Merrill* was the first application of the first sale doctrine in American law.<sup>78</sup> A year after the Court’s decision, Congress adopted the first sale doctrine and codified it into the Copyright Act of 1909.<sup>79</sup> The new section, § 27 of the Copyright Act of 1909, read, “[N]othing in this Act shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been ‘lawfully obtained.’”<sup>80</sup>

Nearly seventy years later, Congress once again revised and recodified the then-existing copyright laws into the Copyright Act of 1976.<sup>81</sup> The former § 27 became § 109, which now reads: “Notwithstanding the provisions of section 106(3), the owner of a particular copy . . . lawfully made under this title . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy.”<sup>82</sup> The new language specifically placed a limitation on the copyright owner’s exclusive rights where the language of § 27 did not.<sup>83</sup> Instead of a disclaimer, the first sale doctrine became a limitation.<sup>84</sup> While there was no doubt that the first sale doctrine limits the

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73. *Id.* at 342.

74. *Id.* at 348.

75. *See id.* at 350–51.

76. *See id.*

77. *Id.* at 350.

78. *See* 17 U.S.C.A. § 109 (West 2005 & Supp. 2014); 4 WILLIAM F. PATRY, PATRY ON COPYRIGHT § 13:19 (2014) [hereinafter 4 PATRY].

79. *See* 4 PATRY, *supra* note 78, § 13:19.

80. *Id.* (quoting 17 U.S.C.A. § 27 (repealed 1978)) (internal quotation marks omitted).

81. *See id.* § 13:20.

82. 17 U.S.C.A. § 109(a).

83. *Compare id.* (stating that, regardless of the copyright owner’s exclusive rights, the lawful owner of a copy has a right to dispose of the copy without the copyright owner’s permission), *with* 17 U.S.C.A. § 27 (stating that nothing in the Copyright Act of 1909 shall forbid an owner of a lawfully made copy from transferring the copy).

84. *See* 17 U.S.C.A. § 109(a). Obviously, the first sale doctrine does not apply to pirated items because pirated items are not lawfully made. *See id.*

rights granted to copyright owners in § 106, the *Kirtsaeng* line of cases focused on whether the doctrine limits the right granted in § 602(a).<sup>85</sup>

### III. THE ROAD TO *KIR TSAENG*

#### A. CBS, Inc. v. Scorpio Music Distributors, Inc.

The question at issue in *Kirtsaeng* (whether the first sale doctrine limited the copyright owner's right to prohibit importation) first arose out of the Eastern District of Pennsylvania in 1983 in *CBS, Inc. v. Scorpio Music Distributors, Inc.*<sup>86</sup> In that case, the plaintiff, CBS, authorized a company in the Philippines, Vicor Music Corporation (Vicor), to manufacture and distribute copies of specific phonorecords in the Philippines.<sup>87</sup> Several months later, CBS severed its agreements with Vicor and gave it six months to liquidate its stock of the phonorecords.<sup>88</sup> Vicor then sold the records to a third party, who in turn sold the records to the defendant, Scorpio Music Distributors, Inc. (Scorpio).<sup>89</sup> Scorpio, a Pennsylvania corporation, imported the records into the United States and sold them.<sup>90</sup> CBS proceeded to sue Scorpio under § 602 of the Copyright Act for unlawful importation without the consent of the copyright owner.<sup>91</sup> Scorpio argued that it was protected under § 109(a)'s first sale doctrine since there was a lawful first sale between Vicor and the third party.<sup>92</sup>

The main issue in *CBS* was the language of § 109(a)—specifically, “lawfully made under this title”—because the phonorecords were manufactured and initially sold outside the United States and, as a result, might not be protected by the doctrine.<sup>93</sup> The first sale doctrine grants a defense to lawful purchasers who want to resell their purchased goods “lawfully made under this title.”<sup>94</sup> The question, though, was whether “lawfully made under this title” meant lawfully protected under the Copyright Act or lawfully manufactured inside the United States where the Copyright Act is law?<sup>95</sup>

The district court held that the protection under § 109(a)'s first sale doctrine only extended to purchasers of goods legally manufactured and sold *inside* the United States.<sup>96</sup> The court observed that interpreting the first sale

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85. See *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 138 (1998); *Sebastian Int'l, Inc. v. Consumer Contacts Ltd.*, 847 F.2d 1093, 1094 (3d Cir. 1988).

86. *CBS, Inc. v. Scorpio Music Distribs., Inc.*, 569 F. Supp. 47, 47–48 (E.D. Pa. 1983), *abrogated by* *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013).

87. *Id.* at 47.

88. *Id.*

89. *Id.*

90. *Id.*

91. *Id.*

92. *Id.* at 48–49.

93. *Id.* at 49.

94. 17 U.S.C.A. § 109(a) (West 2005 & Supp. 2014).

95. See *CBS, Inc.*, 569 F. Supp. at 49.

96. *Id.*

doctrine as limiting the copyright owner's right to prohibit importation would leave § 602 "virtually meaningless."<sup>97</sup> The district court feared that importers would circumvent the statute if the first sale doctrine were interpreted to limit the prohibition on importation, thereby altering the intent of Congress.<sup>98</sup> The district court's opinion was later affirmed without an opinion by the Third Circuit Court of Appeals.<sup>99</sup> This, however, would not be the last time this issue would arise in the Third Circuit.<sup>100</sup>

*B. Sebastian International, Inc. v. Consumer Contacts Ltd.*

A few years later in 1988, the issue appeared again in the Third Circuit in *Sebastian International, Inc. v. Consumer Contacts Ltd.*<sup>101</sup> Though the decision came only five years after *CBS*, the court took a completely different standpoint.<sup>102</sup> The plaintiff, Sebastian International, Inc. (Sebastian), was a California corporation that manufactured beauty and hair care products.<sup>103</sup> The labels on its products were copyrighted for the text and artistic content contained therein.<sup>104</sup> Sebastian entered into a contract with the defendant, Consumer Contacts, Ltd. (Consumer Contacts), which gave the defendant the authority to distribute the beauty products to professional hair salons in South Africa.<sup>105</sup> Once Consumer Contacts received the products, instead of distributing them only in South Africa, it shipped the products back to the United States to be sold there.<sup>106</sup> Sebastian sued to enjoin Consumer Contacts from distributing the products inside the United States.<sup>107</sup>

In accordance with the *CBS* holding, the district court held that "the copyright holder has a right to control importation of copies, regardless of where they were made and despite the occurrence of a 'first sale.'"<sup>108</sup> Therefore, Sebastian's right to prohibit the importation of the beauty products was not exhausted after the first sale to Consumer Contacts, and Consumer Contacts had distributed the products in violation of that right.<sup>109</sup> On appeal, Consumer Contacts argued that the first sale doctrine exhausted Sebastian's

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97. *Id.*

98. *Id.* at 49–50.

99. *See CBS, Inc. v. Scorpio Music Distributions, Inc.*, 738 F.2d 421, 421 (3d Cir. 1984).

100. *See generally Sebastian Int'l, Inc. v. Consumer Contacts Ltd.*, 847 F.2d 1093 (3d Cir. 1988) (holding that the first sale doctrine prevented a manufacturer from asserting copyright infringement of unauthorized importation into the United States).

101. *Id.* at 1094.

102. *See id.* at 1097–99.

103. *Id.* at 1094.

104. *Id.*

105. *Id.*

106. *Id.*

107. *Id.* at 1094–95.

108. *Id.* at 1095.

109. *Id.* (citing *Sebastian Int'l, Inc. v. Consumer Contacts Ltd.*, 664 F. Supp. 909, 920 (D.N.J. 1987)).

right to prohibit importation, thus, Sebastian had no right to continue to control the distribution of the product after its lawful first sale to Consumer Contacts.<sup>110</sup>

In contrast to its opinionless affirmation of *CBS*, the Third Circuit reversed the district court's *Sebastian* decision, holding § 109(a) limits § 602(a).<sup>111</sup> In its holding, the Third Circuit discussed the two possible interpretations of § 602(a).<sup>112</sup> The first interpretation, the court explained, granted copyright owners the right to restrict importation as an independent right "in addition to the distribution rights conferred by section 106(3)."<sup>113</sup> Basically, this method would interpret § 602(a) as separate and distinct from § 106(3) and § 109(a).<sup>114</sup> This would mean that copyright owners' ability to restrict importation of their copyrighted works is not a right conferred through § 106; instead, it is an independent right.<sup>115</sup> The second interpretation, however, would read § 602(a) with § 106(3) and would not enlarge the distribution rights.<sup>116</sup> Section 602(a) would only be a "specific example of those rights."<sup>117</sup> Therefore, the ability to restrict importation would just be another right given to copyright owners, like the right to distribution and reproduction.<sup>118</sup> As such, the ability to restrict importation would be limited by the first sale doctrine just like the other rights given to copyright owners are limited by the first sale doctrine.<sup>119</sup> The circuit court correctly followed the second interpretation.<sup>120</sup>

The Third Circuit found it significant that the beauty products and labels—first manufactured in the United States and then exported to South Africa—were ultimately imported back into the United States.<sup>121</sup> In its holding, the court stated that:

Under the first sale doctrine, when [Sebastian] made and then sold its copies, it relinquished all further rights "to sell or otherwise dispose of possession of that copy." Unquestionably that includes any right to claim infringement of the section 106(3) distributive rights for copies made and sold in the United States. With respect to future distribution of those copies in this country, clearly the copyright owner already has received its reward through the purchase price.<sup>122</sup>

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110. *Id.*

111. *Id.* at 1099.

112. *Id.* at 1097.

113. *Id.*

114. *See id.*

115. *See id.*

116. *See id.*

117. *Id.*

118. *See id.*

119. *Id.*

120. *Id.*

121. *Id.* at 1098.

122. *Id.* at 1098–99 (quoting 17 U.S.C.A. § 109(a) (West 2005 & Supp. 2014)).

The court decided that the copyright owner was not entitled to another payment for the copies—because they had already been paid for in the first sale to Vicor—or the right to limit importation simply because it decided to sell the copies abroad as opposed to domestically.<sup>123</sup> The Third Circuit rightly concluded that copyright owners' right to prohibit importation of their copyrighted works is not an additional right—it is dependent on the exclusive rights granted to copyright owners in § 106(3)—and is therefore limited by the first sale doctrine.<sup>124</sup> The Third Circuit's opinion allowed for the first sale doctrine to be applied to goods that were lawfully made inside the United States and then sold outside of the country, in contrast to the district court's decision in *CBS*.<sup>125</sup>

C. *Quality King Distributors, Inc. v. L'anza Research International, Inc.*

Ten years later, for the first time, the Supreme Court finally reached the issue of whether the first sale doctrine restricts § 602(a) in *Quality King Distributors, Inc. v. L'anza Research International, Inc.*<sup>126</sup> In a case similar to *Sebastian*, the Supreme Court held that § 602(a) is limited by § 109(a).<sup>127</sup> The case again involved beauty products, this time manufactured by L'anza Research International (L'anza) in California.<sup>128</sup> L'anza sold its products internationally through a foreign distributor in the United Kingdom.<sup>129</sup> Its foreign market prices at the time were generally 35%–40% cheaper than its domestic prices.<sup>130</sup> Therefore, L'anza had an interest in prohibiting its cheaper exported products from being imported back into the United States, where it was afraid the cheaper products would flood the market and undermine its domestic products.<sup>131</sup> L'anza purposefully sold its domestic products to specific retailers inside the United States (professional salons, barber shops, and professional hair care colleges) to guarantee that only those authorized retailers would sell the products in order to keep the domestic market value of the products high.<sup>132</sup>

After L'anza sold its products through its foreign distributor, the products wound up in the hands of Quality King Distributors (Quality King), who

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123. *Id.*

124. *Id.*

125. *Compare id.* at 1099 (ruling that the copyright owner's right to prohibit importation is limited by the first sale doctrine to copies lawfully made inside the United States), *with CBS, Inc. v. Scorpio Music Distribs., Inc.*, 569 F. Supp. 47, 49–50 (E.D. Pa. 1983), *abrogated by Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013) (ruling that the first sale doctrine does not limit the copyright owner's right to prohibit importation).

126. *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 138 (1998).

127. *Id.* at 145.

128. *Id.* at 138.

129. *Id.* at 139.

130. *Id.*

131. *See id.* at 138–39.

132. *Id.*

imported them back into the United States and sold them to unauthorized retailers.<sup>133</sup> This case involved a “round trip” importation—the goods were manufactured inside the United States, sold outside the United States, and then imported back into the United States.<sup>134</sup> L’anza then sued, alleging copyright infringement and violation of its rights under §§ 602(a) and 106(3).<sup>135</sup>

In deciding this case, the Court closely considered the language of § 602(a).<sup>136</sup> Section 602(a) states that it is an infringement of the copyright owner’s exclusive rights “*under section 106*” to import copies into the United States without the copyright owner’s permission.<sup>137</sup> Based on the language, the Court found that only § 106 grants an independent right; § 602(a) is dependent on § 106.<sup>138</sup> Therefore, since a copyright owner’s right to prohibit importation (§ 602(a)) is derived from the same section that grants copyright owners exclusive rights over their copyrighted items (§ 106), the importation right is subject to the same limitations that the other rights are subjected to.<sup>139</sup> Accordingly, since the first sale doctrine (§109) is a limitation on the exclusive rights (§106), it is also a limitation on the importation right (§ 602(a)).<sup>140</sup> As a result, copyright owners cannot control the importation of their lawfully made items after those items have been lawfully sold to a purchaser.<sup>141</sup>

The Court also touched on the purpose of § 109(a).<sup>142</sup> Justice Stevens, writing for the majority, observed that “[t]he whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution.”<sup>143</sup> The owner of a lawfully obtained copy has the right to dispose of that copy in whatever way he chooses without having to ask for permission from the copyright owner.<sup>144</sup> This holding signified an important step for consumer rights because it gave consumers the same rights to lawful foreign goods as to lawful domestic goods.<sup>145</sup> This holding, however, only extended to goods manufactured in the United States and then purchased abroad.<sup>146</sup>

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133. *Id.* at 139.

134. *Id.* at 154 (Ginsberg, J., concurring); *see id.* at 138–39 (majority opinion).

135. *Id.* at 139–40.

136. *See id.* at 143–44.

137. 17 U.S.C.A. § 602(a) (West 2005 & Supp. 2014) (emphasis added).

138. *See Quality King*, 523 U.S. at 149–51.

139. *See id.* Section 106 is limited by the exceptions listed in §§ 107–122. 17 U.S.C.A. § 106 (West 2005). Because § 602(a) is a right in addition to the rights listed in § 106, it is also limited by §§ 107–122. *See Quality King*, 523 U.S. at 149–51.

140. *See Quality King*, 523 U.S. at 149–51.

141. *See id.*

142. *Id.* at 151–52.

143. *Id.* at 152.

144. *See id.* at 141.

145. *See id.* at 152.

146. *See id.* at 148.

The Supreme Court did not reach the issue of whether the first sale doctrine applied to copies manufactured abroad in *Quality King*; however, it did mention the issue in dicta.<sup>147</sup> The Court stated that if a copyright owner manufactured copies abroad, “[t]he first sale doctrine would not provide [a lawful purchaser who imported the copies] with a defense to an action under § 602(a).”<sup>148</sup> This statement would later give fuel to the dissent in *Kirtsaeng*.<sup>149</sup> Since the Court did not reach this issue, though, it left the controversy open for continued confusion and debate by the lower courts.<sup>150</sup>

#### D. Omega S.A. v. Costco Wholesale Corporation

In 2008, ten years after the Supreme Court’s decision in *Quality King*, the Ninth Circuit decided *Omega S.A. v. Costco Wholesale Corp.*<sup>151</sup> In deciding this case, the court reached a part of the first sale doctrine debate that had not been decided upon by the Supreme Court in *Quality King*.<sup>152</sup> In *Omega*, Omega S.A. (Omega), a Swiss company, manufactured watches in Switzerland; however, in the United States, a registered copyright protected those watches.<sup>153</sup> Omega sold the watches to a distributor, and through the chain of commerce and the gray market, the watches wound up in the hands of the defendant, Costco Wholesale Corp. (Costco).<sup>154</sup> Costco then imported the watches into the United States and sold them to its customers.<sup>155</sup> As a result, Omega sued Costco for copyright infringement in violation of its rights under §§ 106 and 602(a).<sup>156</sup>

The Ninth Circuit held that § 109(a) (the first sale doctrine) only applies to copies manufactured within the United States.<sup>157</sup> The court interpreted § 109(a)’s language, “lawfully made under this title,” to mean lawfully made where the Copyright Act is law, inside the United States.<sup>158</sup> The court feared that if it interpreted § 109(a) to apply to copies manufactured outside of the United States, it would impermissibly allow the Copyright Act to apply

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147. *Id.*

148. *Id.*

149. See *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1375 (2013) (Ginsburg, J. dissenting); see also *infra* Part IV.C.

150. See *infra* Part III.D.

151. See generally *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008) (discussing a part of the first sale doctrine), *abrogated by Kirtsaeng*, 133 S. Ct. at 1351.

152. *Id.* at 987.

153. *Id.* at 983. Section 104 of the Copyright Act allows foreign companies based in treaty party nations to enjoy United States copyright protection. See 17 U.S.C.A. § 104(b)(2) (West 2005). The Berne Convention, discussed earlier, is one of the treaties that grants reciprocal copyright protection to its members. See *supra* notes 42–43 and accompanying text.

154. *Omega*, 541 F.3d at 984.

155. *Id.*

156. *Id.*

157. See *id.* at 990.

158. *Id.* at 989.

extraterritorially.<sup>159</sup> The Ninth Circuit determined that the Copyright Act can only apply inside the United States, where it is law, and there is a presumption against applying any United States law outside of the country, even if not doing so would cause harm inside the United States.<sup>160</sup> As a result, the Ninth Circuit ruled in favor of Omega because it held that the first sale doctrine was not a defense to the unauthorized importation of copyrighted goods manufactured outside of the United States.<sup>161</sup> This ruling granted Omega complete control over the distribution of its copyrighted works, even after a first sale in another country.<sup>162</sup>

The Ninth Circuit distinguished *Omega* from *Quality King* by explaining that *Quality King* involved a round trip importation.<sup>163</sup> A round trip importation occurs when the copyright owner manufactures copies inside the United States, then either personally exports and sells them outside of the United States or authorizes a distributor to do so.<sup>164</sup> The copies are then sold to a third party who imports them back into the United States without the copyright owner's permission and sells them.<sup>165</sup> *Omega*, on the other hand, involved "unauthorized importation of copies made abroad."<sup>166</sup> So, while *Quality King* involved goods made inside the United States and then exported out, *Omega* involved goods manufactured outside of the United States and then imported in.<sup>167</sup> This difference was crucial to the court's holding.<sup>168</sup>

In 2010, the Supreme Court granted certiorari and affirmed the Ninth Circuit's holding by an equally divided Court without a written opinion.<sup>169</sup> This would be the last time the Supreme Court reached this issue before deciding *Kirtsaeng* in 2013.<sup>170</sup>

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159. *Id.* at 988. Although Switzerland's citizens may take advantage of the Copyright Act inside the United States, it does not extend the Copyright Act's reach beyond the border of the United States. *See id.*

160. *See id.*

161. *Id.* at 990.

162. *See id.*

163. *Id.* at 987.

164. *Id.*

165. *Id.*

166. *Id.*

167. *Compare* *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 138–40 (1998) (involving goods that were manufactured inside the United States), *with* *Omega*, 541 F.3d at 987 (involving goods that were manufactured outside the United States).

168. *See Omega*, 541 F.3d at 987.

169. *Costco Wholesale Corp. v. Omega S.A.*, 131 S. Ct. 565, 565 (2010). Because the Court was equally divided, it issued a per curiam opinion with no written analysis affirming the Ninth Circuit's holding. Anandashankar Mazumdar, *Court Splits 4-4, Lets Stand 9th Cir. Refusal to Apply First Sale Rule to Gray Goods*, BLOOMBERG BNA (Dec. 17, 2010), <http://www.bna.com/court-splits-44-n6455/>.

170. *See Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1357 (2013).



IV. *KIRRTSAENG V. JOHN WILEY & SONS, INC.*A. *Background*

In March 2013, the Supreme Court, through an opinion written by Justice Breyer, ruled on the question of whether the phrase “lawfully made under this title” imposed a geographical limitation on § 109(a) of the Copyright Act.<sup>171</sup> The case involved a student from Thailand, Supap Kirtsaeng, who was attending Cornell University to study mathematics.<sup>172</sup> While in school, he asked his friends and family to send him the foreign edition, English language versions of his textbooks from Thailand.<sup>173</sup> He then sold those books inside the United States and, because the books were cheaper in Thailand than in the United States, he made a profit.<sup>174</sup> When this came to the attention of John Wiley & Sons, Inc. (John Wiley), the publisher and copyright owner, the company sued Kirtsaeng for copyright infringement.<sup>175</sup> Inside each of its Asian market textbooks, John Wiley had printed a notice that read:

This book is authorized for sale in Europe, Asia, Africa, and the Middle East only and may [not be] exported out of these territories. Exportation from or importation of this book to another region without the Publisher’s authorization is illegal and is a violation of the Publisher’s rights. The Publisher may take legal action to enforce its rights.<sup>176</sup>

John Wiley argued that Kirtsaeng had violated its rights to restrict importation under § 602.<sup>177</sup> Kirtsaeng countered by arguing that, because the books were lawfully made and acquired via a lawful first sale, he was protected by the first sale doctrine and, therefore, was allowed to sell or dispose of the books without John Wiley’s permission.<sup>178</sup>

The district court held in favor of John Wiley because it believed that the first sale doctrine did not apply to “foreign-manufactured goods.”<sup>179</sup> Kirtsaeng appealed the decision to the Second Circuit, which affirmed the district court’s ruling.<sup>180</sup> The circuit court reasoned that the language “lawfully made under this title” meant that § 109(a) did not apply to goods manufactured outside of the United States, where the Copyright Act is not law.<sup>181</sup> As a result of the

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171. *Id.* at 1354–56.

172. *Id.* at 1356.

173. *Id.*

174. *Id.*

175. *Id.* at 1357.

176. *Id.* at 1356 (quoting JEARL WALKER ET AL., *FUNDAMENTALS OF PHYSICS* vi (8th ed. 2008)).

177. *Id.* at 1357.

178. *Id.*

179. *Id.*

180. *Id.* (citing *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210, 224 (2d Cir. 2011), *rev’d*, 133 S. Ct. 1351 (2013)).

181. *Id.* (citing *Kirtsaeng*, 654 F.3d at 218–19).

conflicting decisions from several circuit courts, the Supreme Court granted certiorari to settle the debate.<sup>182</sup>

*B. Does the Phrase “Lawfully Made Under This Title” Restrict the First Sale Doctrine Geographically?*

In its consideration of the case, the Court tackled the issue of whether the phrase “lawfully made under this title” placed a geographic restriction on the first sale doctrine.<sup>183</sup> The circuit courts and John Wiley had read the phrase as meaning that the doctrine applied to copies lawfully made where the Copyright Act is law: *inside* the United States.<sup>184</sup> This interpretation would mean that a copyright owner could manufacture copies both inside and outside the United States, but only the lawful purchaser of a copy made inside the United States could take advantage of the protection of the first sale doctrine.<sup>185</sup> As a result, copyright owners could divide the domestic and international market on their products and guarantee that their cheaper international copies would not make their way into the more expensive United States market.<sup>186</sup>

The Supreme Court, however, did not agree with John Wiley’s and the circuit courts’ interpretation of the first sale doctrine.<sup>187</sup> The Court extended the interpretation of the doctrine to include not only works manufactured inside the United States, but in foreign countries as well.<sup>188</sup> The Court found in favor of Kirtsaeng, holding that the language of § 109(a) does not mention geography.<sup>189</sup> The word “under” in the disputed language meant “‘in accordance with’ or ‘in compliance with’ the Copyright Act” instead of “where

182. *Id.*

183. *Id.*

184. *Id.* at 1357–58. Initially, in *CBS*, the Third Circuit (through an opinionless affirmation of the district court’s decision) held that the first sale doctrine does not protect the unauthorized importation of copyrighted goods into the United States. *See CBS, Inc. v. Scorpio Music Distrib., Inc.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983), *abrogated by Kirtsaeng*, 133 S. Ct. at 1351. The Third Circuit, however, overturned that decision in *Sebastian* when it held that copies manufactured inside the United States were protected by the first sale doctrine. *See Sebastian Int’l, Inc. v. Consumer Contacts Ltd.*, 847 F.2d 1093, 1099 (3d Cir. 1988); *supra* note 126 and accompanying text. The Supreme Court agreed that copies manufactured in the United States were protected in *Quality King*, but did not reach the issue of whether copies manufactured outside the United States were granted the same protection. *See Quality King Distrib., Inc. v. L’anza Research Int’l, Inc.*, 523 U.S. 135, 145 (1998); *supra* note 148 and accompanying text. In *Omega*, protection of copies manufactured outside the United States was put to the test, and the Ninth Circuit found that the first sale doctrine did not protect them. *See Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 990 (9th Cir. 2008), *abrogated by Kirtsaeng*, 133 S. Ct. 1351. The Supreme Court then affirmed the Ninth Circuit’s holding in *Omega* without an opinion. *Costco Wholesale Corp. v. Omega S.A.*, 131 S.Ct. 565, 565 (2010); *see supra* note 169 and accompanying text.

185. *See Kirtsaeng*, 133 S. Ct. at 1357–58.

186. *See* Michael Stockalper, Comment, *Is There a Foreign “Right” of Price Discrimination Under United States Copyright Law? An Examination of the First-Sale Doctrine as Applied to Gray-Market Goods*, 20 DEPAUL J. ART TECH. & INTEL. PROP. L. 513, 518–19 (2010).

187. *Kirtsaeng*, 133 S. Ct. at 1358.

188. *Id.*; *see* Ralph Oman, *The Supreme Court to Congress: “Help!”*, 5 LANDSLIDE 34, 35 (2013).

189. *Kirtsaeng*, 133 S. Ct. at 1358.

the Copyright Act is applicable.”<sup>190</sup> The books were properly copyrighted in the United States, even if they were not made there, and in the Court’s opinion, this was enough to guarantee first sale doctrine protection to a lawful purchaser after a lawful first sale.<sup>191</sup> This opinion abrogated the Ninth Circuit’s decision in *Omega*.<sup>192</sup>

The Supreme Court also studied other sections of the Copyright Act to determine Congress’s intent, especially to determine where the Copyright Act is applicable.<sup>193</sup> In particular, the Court examined § 104 of the Copyright Act.<sup>194</sup> That section allows foreign treaty parties (such as signing nations of the Berne Convention, discussed earlier) to take advantage of United States copyright protections.<sup>195</sup> The Court reasoned that Congress intended the Copyright Act to reach works made by citizens of treaty-party nations, even if those works were manufactured abroad.<sup>196</sup> Since Congress intended to grant copyright protection to citizens of treaty-party nations, it would not make sense to read a geographical limitation into the first sale doctrine and limit that protection.<sup>197</sup>

The Court also looked at other sections of the Copyright Act where the phrase “lawfully made under this title” appeared and determined that a geographical interpretation would have consequences that Congress could not have intended.<sup>198</sup> For example, § 109(c) allows a lawful purchaser of a copyrighted work “lawfully made under this title” to display that work without permission from the copyright owner.<sup>199</sup> A geographical interpretation of “lawfully made under this title,” however, would restrict this right to only works manufactured inside the United States.<sup>200</sup> As a result, a lawful purchaser of a poster or a bumper sticker made outside of the United States, such as in Mexico or Canada, could not display it in the United States without further permission from the copyright owner.<sup>201</sup> A geographical interpretation of “lawfully made under this title” would unduly restrict the American consumers’ right to dispose of or use their lawfully purchased property in a way that the consumer sees fit.<sup>202</sup> This interpretation would “trample” the very purpose of

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190. *Id.* (emphasis omitted).

191. *See id.* at 1358–59.

192. *Id.* at 1358; *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 989 (9th Cir. 2008), *abrogated by Kirtsaeng*, 133 S. Ct. at 1351 (holding that lawful copies manufactured abroad did not receive first sale doctrine protection).

193. *Kirtsaeng*, 133 S. Ct. at 1359.

194. *Id.*

195. *See supra* note 153 and accompanying text (explaining that the copyrighted work is subject to protection under the Copyright Act if “the work is first published in the United States or in a foreign nation that . . . is a treaty party”); *supra* note 42 and accompanying text.

196. *See Kirtsaeng*, 133 S. Ct. at 1359.

197. *See id.*

198. *Id.* at 1362.

199. *Id.*; 17 U.S.C.A. § 109(c) (West 2005 & Supp. 2014).

200. *Kirtsaeng*, 133 S. Ct. at 1362.

201. *See id.*

202. *See id.*

copyright protection, which is to encourage creativity and creation for the good of the public.<sup>203</sup>

To further expand on its point that a geographical interpretation is incorrect, the Court came up with a “parade of horrors” derived from amicus briefs submitted by various companies, museums, and library associations, describing what the result of a geographical interpretation of the first sale doctrine could be.<sup>204</sup> Based on the brief from the American Library Association, for example, the Court feared that over 200 million books published abroad and located in America’s libraries would require further permission from the copyright owner before these books could be lent and distributed to library patrons.<sup>205</sup> People have been bringing foreign books into America for centuries under the assumption that the first sale doctrine applies; to put a geographical limitation on the doctrine would be unduly burdensome to the consumer.<sup>206</sup>

Continuing with the “parade,” the Court explained the effects a geographical interpretation would have on the technology industry.<sup>207</sup> Almost every piece of technology that an American consumer can buy—computers, cars, cell phones, etc.—contains programs or parts that are manufactured abroad.<sup>208</sup> A geographical interpretation would prevent the lawful owners of one of those technologies from reselling the item after they are done with it.<sup>209</sup> Imagine trying to sell a car and needing to obtain permission from the copyright owner for each piece of software and program before being able to sell the car to a used car dealership.<sup>210</sup> Under these circumstances, a geographical interpretation of the first sale doctrine is obviously unreasonable and burdensome to consumers.<sup>211</sup>

The first sale doctrine evolved from common law as a protection for consumers.<sup>212</sup> As such, the Supreme Court argued, there was a presumption that Congress intended to keep the common-law meaning.<sup>213</sup> For guidance, the Court referred to Lord Coke’s explanation of the common law purpose of the first sale doctrine and came to the conclusion that “[a] law that permits a copyright holder to control the resale or other disposition of a chattel once sold

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203. See U.S. CONST. art. I, § 8, cl. 8; Alex N. Rosenblum, Comment, *Wiley’s First Sale Folly: The Irrelevance of Location of Manufacture When Raising a First-Sale Defense*, 19 SW. J. INT’L LAW 231, 246 (2012).

204. *Kirtsaeng*, 133 S. Ct. at 1364–67, 1373.

205. *Id.* at 1364.

206. *Id.* at 1364–65.

207. *Id.* at 1365.

208. *Id.*

209. *Id.*

210. *Id.*

211. See *id.* at 1366.

212. *Id.* at 1363.

213. *Id.* “[W]hen a statute covers an issue previously governed by the common law, we must presume that Congress intended to retain the substance of the common law.” *Id.* (alteration in original) (quoting *Samantar v. Yousuf*, 560 U.S. 305, 320 n.13 (2010) (internal quotation marks omitted)).

is similarly ‘against Trade and Traffi[c], and bargaining and contracting.’”<sup>214</sup> It is important to a competitive market society, such as that of the United States, to allow lawful purchasers the freedom to control their lawful goods after they have purchased them.<sup>215</sup> Restraints on that right would be anticompetitive, against the American free market economy, and against the consumer.<sup>216</sup> As a result, the Court determined that the common law did not restrict the first sale doctrine geographically.<sup>217</sup>

The basis behind the Supreme Court’s decision in *Kirtsaeng* was a desire to protect the American competitive market and consumers’ right to control the use of their lawfully purchased goods.<sup>218</sup> The majority understood the importance of safeguarding consumers’ right to control the property that they had purchased because that right enables the “Progress of Science and useful Arts,” as supported by the Constitution.<sup>219</sup> The dissent, however, focused on protecting the rights of the copyright owners.<sup>220</sup>

### C. Dissent

Justice Ginsburg, writing for the dissent, argued that the Supreme Court in *Quality King* never meant for the first sale doctrine to apply to goods manufactured outside of the United States.<sup>221</sup> In dicta to its decision in *Quality King*, the majority considered the possible differences between goods manufactured inside the United States and those manufactured outside the United States.<sup>222</sup> The Court concluded that first sale doctrine protection would extend to a copy of a book published in the United States, but not to a copy of a book published in the United Kingdom.<sup>223</sup> The dissent in *Kirtsaeng* used this language to conclude that the first sale doctrine does not protect lawful copies manufactured abroad.<sup>224</sup>

The dissent echoed copyright owners’ concern for what the *Kirtsaeng* majority’s interpretation of the first sale doctrine would mean for them.<sup>225</sup> Ultimately, the majority’s interpretation makes it difficult, if not impossible, to engage in price discrimination.<sup>226</sup> Justice Ginsburg argued that Congress’s intent was to protect copyright owners from unauthorized importation of their

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214. *Id.* (quoting 1 EDWARD COKE, INSTITUTES OF THE LAWS OF ENGLAND § 360, at 223 (1628)).

215. *See id.*

216. *See id.*

217. *Id.* at 1363–64.

218. *See id.* at 1358.

219. *Id.* at 1364 (quoting U.S. CONST. art. I, § 8, cl. 8).

220. *See id.* at 1373–91 (Ginsburg, J., dissenting).

221. *See id.* at 1374–76; *supra* notes 147–49 and accompanying text.

222. *Quality King Distribs., Inc. v. L’anza Research Int’l, Inc.*, 523 U.S. 135, 148 (1998).

223. *Id.*

224. *Kirtsaeng*, 133 S. Ct. at 1375.

225. *Id.* at 1373.

226. *Id.* at 1374.

cheaper, foreign-made, copyrighted goods.<sup>227</sup> She argued that allowing the first sale doctrine to grant international exhaustion to copyrighted works after they have been lawfully sold would undermine copyright owners' ability to engage in price discrimination.<sup>228</sup> This would, in turn, allow their lower-priced, foreign-made copyrighted works to be imported into the United States, where the copyrighted work is generally more expensive, thus, undermining the market.<sup>229</sup>

## V. IMPLICATIONS OF THE SUPREME COURT'S DECISION IN *KIRTSAENG*

### A. *Impact on Copyright Owners*

#### 1. *Copyright Owners Concerned About Their Ability to Engage in Price Discrimination*

In its decision in *Kirtsaeng*, the Supreme Court essentially justified the existence of the gray market.<sup>230</sup> Undoubtedly, this decision benefits consumers.<sup>231</sup> The decision also benefits entities such as Amazon, eBay, and other used book and item retailers.<sup>232</sup> These retailers directly benefit from the gray market for new and used goods, which is estimated to be worth around \$240 billion annually.<sup>233</sup> The Court's decision in *Kirtsaeng* has the potential to strengthen the gray market and undermine copyright owners' ability to charge lower prices in international markets and higher prices in the domestic market.<sup>234</sup>

One of copyright owners' main concerns in *Kirtsaeng* was the potential for the decision to restrict their ability to engage in price discrimination across foreign and domestic markets.<sup>235</sup> Price discrimination can be beneficial not only to copyright owners, but also to people in less developed countries.<sup>236</sup> People living in developing nations generally have less capital to purchase copyrighted goods and would, therefore, be much less likely to purchase or

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227. *Id.* at 1373.

228. *Id.* at 1374.

229. *See id.*

230. Nina Totenberg, *Supreme Court OKs Discounted Resale of 'Gray Market' Goods*, NPR (Mar. 19, 2013, 3:28 PM), <http://www.npr.org/blogs/thetwo-way/2013/03/19/174757355/supreme-court-oks-discounted-resale-of-gray-market-goods>.

231. Gary Shapiro, *Supreme Court Gives American Consumers Victory over Copyright Owners in Kirtsaeng vs. John Wiley & Sons*, FORBES (Mar. 20, 2013, 9:16 AM), <http://www.forbes.com/sites/garyshapiro/2013/03/20/supreme-court-gives-american-consumers-victory-over-copyright-owners-in-kirtsaeng-vs-john-wiley-sons/>.

232. *See* Rosenblum, *supra* note 203, at 274.

233. *Id.*

234. *See Kirtsaeng*, 133 S. Ct. at 1374.

235. *Id.*

236. *See generally* Catalin Cosovanu, *Piracy, Price Discrimination, and Development: The Software Sector in Eastern Europe and Other Emerging Markets*, 31 AIPLA Q.J. 165, 187–95 (2003) (arguing that price discrimination is a solution to the technology and economic gap in less developed countries).

even be able to afford those goods if they were charged the same price that the goods were sold for in the United States.<sup>237</sup> Consumers are also more likely to purchase the copyrighted goods from pirates instead of through lawful means if the pirated goods are less expensive than the lawful goods.<sup>238</sup> Although, if the lawful goods were comparably priced with the pirated goods, consumers would be more likely to purchase the goods lawfully as opposed to through the black market.<sup>239</sup> Price discrimination can also increase access to copyrighted works, which can in turn cultivate development in less developed countries.<sup>240</sup>

In *Kirtsaeng*, however, copyright owners were concerned that allowing lawful purchasers to import their lawfully made goods into the United States from markets where the goods were much cheaper would cause the imported goods to flood the domestic market, significantly reducing the value of the goods sold in the United States, and therefore significantly decreasing revenue.<sup>241</sup> As the majority points out, though, copyright owners do not have a right to price discrimination.<sup>242</sup> Copyright owners were concerned that they would not be able to charge higher prices for the copyrighted goods inside the United States and, therefore, not make as much money; however, “the primary purpose of copyright is to enrich society, not copyright holders.”<sup>243</sup> The Court was not going to limit a statutory right just so copyright owners could make more money.<sup>244</sup> This is especially true when copyright owners have other possible avenues of controlling their copyrighted goods, such as utilizing the remedies in trademark law or transferring their products into a digital medium.<sup>245</sup>

## 2. Copyright Owners Will Continue to Fight to Control the Distribution of Their Copyrighted Goods

The Supreme Court’s decision in *Kirtsaeng* has a significant impact on copyright owners.<sup>246</sup> Because copyright owners have an interest in keeping the markets divided and preventing competition from gray market goods, they are going to attempt to find a way to protect that interest.<sup>247</sup> With the increasing dominance of digital technology in society’s everyday use, copyright owners are beginning to take advantage of that technology to restrict the use of their

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237. *See id.* at 187–89.

238. *See id.* at 184.

239. *See id.* at 189–90.

240. *See id.* at 190–91.

241. *See Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1373–74 (2013) (Ginsburg, J., dissenting).

242. *Id.* at 1370–71 (majority opinion).

243. Asay, *supra* note 19, at 22.

244. *See id.*

245. *See infra* Part V.B.

246. *See Kirtsaeng*, 133 S. Ct. at 1374 (Ginsburg, J., dissenting).

247. *See Goldman*, *supra* note 16.

copyrighted items to specific areas.<sup>248</sup> Several copyright owners have already begun to use “region-locking” to do so.<sup>249</sup> Region-locking occurs when a copyright owner restricts the ability to use a product outside of a certain geographical region.<sup>250</sup> This typically occurs with products that require a digital connection to either the Internet or to another product that it is used with, such as DVDs and DVD players, or videogames and videogame consoles.<sup>251</sup> In June 2013, for example, when Microsoft unveiled its newest generation gaming console, the Xbox One, it also announced that the console would be region-locked.<sup>252</sup> This would prevent lawful purchasers of the Xbox One from either playing video games purchased from other countries on their locally purchased consoles or from operating the Xbox One outside of the purchase country.<sup>253</sup> This plan, however, did not work out well for Microsoft.<sup>254</sup> Because of the consumer backlash following the announcement and a delay in the release of the console to several European markets, Microsoft backed down and announced that the Xbox One would no longer be region-locked.<sup>255</sup> It is also common for computers, DVDs, and video games to be region-locked.<sup>256</sup> Most copyright owners region-lock their copyrighted works in order to prevent piracy, but with the Supreme Court’s decision in *Kirtsaeng*, some may try to use this or other techniques in order to control the importation of their copyrighted works.<sup>257</sup>

### 3. Trademarks May Save the Day for Copyright Owners

With the Supreme Court’s decision in *Kirtsaeng*, copyright will no longer be a “weapon to enforce a territorial rights trade,” and copyright owners will have to turn to other areas of law to maintain control over their copyrighted works.<sup>258</sup> Even with the Court’s opinion, copyright owners can still use

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248. See *id.*

249. Adam Turner, *Are Region-Free DVD Players Legal?*, SYDNEY MORNING HERALD (Feb. 8, 2012), <http://www.smh.com.au/digital-life/computers/blog/gadgets-on-the-go/are-regionfree-dvd-players-legal-2012-0208-1qs42.html>; Luke Villapaz, *Xbox One Region Locked: Microsoft Game Console Will Not Work Outside of 21 Launch Countries*, INT’L BUS. TIMES (June 12, 2013, 11:01 PM), <http://www.ibtimes.com/xbox-one-region-locked-microsoft-game-console-will-not-work-outside-21-launch-countries-1304945>.

250. See Villapaz, *supra* note 249.

251. See Turner, *supra* note 249.

252. Villapaz, *supra* note 249.

253. See *id.*

254. See Nick Broughall, *Xbox One’s 180 Flip on Region Locking is Great News for Australians*, TECHRADAR (June 20, 2013), <http://www.techradar.com/us/news/gaming/consoles/xbox-one-s-180-flip-on-region-locking-is-great-news-for-australians-1160286>.

255. *Id.*; Nick Statt, *Microsoft to Euro Gamers: Xbox One Games Not Region-Locked*, CNET (Aug. 16, 2013, 10:05 AM), <http://www.cnet.com/news/microsoft-to-euro-gamers-xbox-one-games-not-region-locked/>.

256. See Lucille M. Ponte, *Coming Attractions: Opportunities and Challenges in Thwarting Global Movie Piracy*, 45 AM. BUS. L.J. 331, 344 (2008).

257. See *id.*

258. Andrew Albanese, *What Does Kirtsaeng v. Wiley Mean for the Industry?*, PUBLISHERS WKLY. (Mar. 23, 2013), <http://www.publishersweekly.com/pw/by-topic/industry-news/publisher-news/article/56491-a-textbook-case.html>.



trademark protection to circumvent the first sale doctrine, preventing unauthorized importation into the United States.<sup>259</sup>

Trademark law is a mixture of state and federal law that exists to protect a registered mark from infringement, which would cause confusion about the trademarked good's source among consumers.<sup>260</sup> In Texas, for example, Chapter 16 of the Business and Commerce Code governs trademark law.<sup>261</sup> A mark is in use when placed on goods or on any containers, displays, documents, or labels relating or affixed to the goods, and vendors use and sell the goods in Texas.<sup>262</sup> A person infringes a trademark if, without the trademark registrant's consent, that individual uses a copy of the mark to sell or advertise goods or services in such a way that makes it likely that consumers will be deceived or confused as to the source of the goods or services.<sup>263</sup>

The first sale doctrine also applies to trademark law.<sup>264</sup> This right is not codified—it is a common-law right—but it is essentially the same as the first sale doctrine found in the Copyright Act.<sup>265</sup> Because the right of first sale is considered to be a common-law right, registration of a trademark in Texas will not eliminate that right.<sup>266</sup> Although, if copyright owners are looking to avoid the Supreme Court's ruling in *Kirtsaeng*, a key difference between first sale in trademark and copyright law may be the answer.<sup>267</sup>

In *Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA, Co.*, for example, the Fifth Circuit held that a lawful purchaser of porcelain was not protected under the trademark first sale rule when he tried to import and resell the porcelain in the United States.<sup>268</sup> The court determined that in trademark, the first sale rule only applies to genuine goods that are identical.<sup>269</sup> The first sale rule does not apply when the goods are materially different from those

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259. Charles Colman, *Post-Kirtsaeng, Trademark Law Can Still Stop Gray Goods*, LAW360 (Apr. 4, 2013, 12:24 PM) <http://www.law360.com/articles/429231/post-kirtsaeng-trademark-law-can-still-stop-gray-goods>.

260. CRAIG ALLEN NARD ET AL., *THE LAW OF INTELLECTUAL PROPERTY* 7–8 (4th ed. 2014).

261. See TEX. BUS. & COM. CODE ANN. §§ 16.001–107 (West 2012 & Supp. 2014) (explaining how trademark law is applied and enforced).

262. BUS. & COM. CODE § 16.003(a) (West Supp. 2014).

263. BUS. & COM. CODE § 16.102(a)(1) (West 2013 & Supp. 2014).

264. See *Martin's Herend Imps., Inc. v. Diamond & Gem Trading USA, Co.*, 112 F.3d 1296, 1303 (5th Cir. 1997) (finding policies for copyright law “underlie recognition of a first sale rule in trademark law”); *NEC Elecs. v. CAL Circuit Abco*, 810 F.2d 1506, 1509 (9th Cir. 1987) (“Trademark law generally does not reach the sale of genuine goods bearing a true mark even though such sale is without the mark owner's consent.”).

265. See *Martin's Herend*, 112 F.3d at 1303.

266. See BUS. & COM. CODE § 16.107 (West 2012 & Supp. 2014).

267. Compare *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1371 (2013) (holding that a lawful purchaser of foreign-edition textbooks was able to use copyright first sale protection to import and resell the books in the United States without copyright holder authorization), with *Martin's Herend*, 112 F.3d at 1303–04 (holding that a lawful purchaser of porcelain was *not* able to use trademark first sale protection to import and resell the porcelain without trademark registrant authorization).

268. *Martin's Herend*, 112 F.3d at 1303–04.

269. *Id.* at 1303.

authorized for sale in the market.<sup>270</sup> Unauthorized imports materially differ from the authentic goods and “may well turn an otherwise ‘genuine’ product into a ‘counterfeit’ one.”<sup>271</sup> Based on this line of reasoning, if John Wiley & Sons, Inc. had brought an action against Kirtsaeng for trademark infringement instead of copyright infringement, it would have prevailed.<sup>272</sup> Kirtsaeng’s unauthorized importation of the foreign-edition books would have made the books materially different from the ones authorized for sale in the United States, and he therefore would not have been able to claim first sale protection.<sup>273</sup> Trademark law is one of the ways copyright owners can avoid the effects of the Supreme Court’s ruling in *Kirtsaeng*—one which they should take advantage of.<sup>274</sup>

*B. Escape Clause for Copyright Owners?: Kirtsaeng’s Effect on Digital Goods*

*1. Kirtsaeng Does Not Apply to Licensed Goods*

The Court’s decision in *Kirtsaeng* does not affect digital copies of goods such as digital books, movies, and songs downloaded from Amazon and iTunes.<sup>275</sup> These digital goods are not sold; instead, they are licensed.<sup>276</sup> Some copyright owners would argue that since the copyrighted digital copies are merely licensed to purchasers, the purchasers are not “owner[s],” but only “licensee[s].”<sup>277</sup>

Copyright owners do not have to transfer copies of their copyrighted works through outright sale.<sup>278</sup> Moreover, copyright owners may grant licenses that specify the ways in which the copy may or may not be used.<sup>279</sup> Licensing thus allows the copyright owner to restrict and control the future use of the copy.<sup>280</sup> Licenses are typically enforceable as “clickwrap” agreements, which require the purchaser to “click through” and agree to the license’s terms before gaining the ability to use the product.<sup>281</sup>

270. *Id.*

271. *Id.* (quoting *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 638 (1st Cir. 1992)).

272. *See id.*; *see also Kirtsaeng*, 133 S. Ct. at 1357–67 (interpreting the first sale doctrine with regard to the Copyright Act).

273. *See Kirtsaeng*, 133 S. Ct. at 1358.

274. *See id.* at 1371.

275. *See Asay*, *supra* note 19, at 21–22.

276. *See Copyright Act of 1976—First Sale Doctrine—Kirtsaeng v. John Wiley & Sons, Inc.*, 127 HARV. L. REV. 348, 355 (2013) [hereinafter *Copyright Act of 1976*].

277. *Asay*, *supra* note 19, at 18.

278. *See* 17 U.S.C.A. § 106 (West 2005).

279. *See In re Porter*, 498 B.R. 609, 669 (Bankr. E.D. La. 2013).

280. *See Lulirama Ltd., Inc. v. Axxcess Broad. Servs., Inc.*, 128 F.3d 872, 879–82 (5th Cir. 1997).

281. *See* Nathan J. Davis, Note, *Presumed Assent: The Judicial Acceptance of Clickwrap*, 22 BERKELEY TECH. L.J. 577, 579 (2007) (finding that courts have generally accepted clickwrap agreements as valid, except where there was little evidence of actual “clicking”). Clickwrap agreements are different from “shrinkwrap”

While there is confusion and debate over whether licenses of digital copies are in fact actual licenses or hidden outright sales, copyright owners undoubtedly have the ability to grant licenses for their digital goods.<sup>282</sup> Amazon is already the leader in the market for e-readers, such as the Kindle, and licenses its e-books to purchasers through the Kindle instead of selling them outright.<sup>283</sup> Amazon and other e-book retailers license instead of sell their e-books because it is prohibitively easy for pirates to copy and download e-books and other digital goods if they are sold outright.<sup>284</sup> It is almost impossible for publishers to stop the piracy without keeping a hold on the title and placing restrictions on the use of the e-books through licenses.<sup>285</sup>

## 2. No First Sale Protection for Licensees

Unfortunately, licenses have the potential to undermine the protections of the first sale doctrine and, therefore, the Supreme Court's ruling in *Kirtsaeng*.<sup>286</sup> Licensees do not enjoy first sale protection because they are not owners of the copies they have purchased; they merely have the license to use the product, but not the right to transfer it to anyone else.<sup>287</sup> For example, in the Ninth Circuit case, *Vernor v. Autodesk, Inc.*, the court held that licensees do not receive first sale doctrine rights.<sup>288</sup> In that case, Autodesk, Inc. (Autodesk) distributed a copy of its Release 14 software to Timothy Vernor.<sup>289</sup> The software was accompanied by a software license agreement, which specified that Autodesk retained the title to all software and that customers had a

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agreements. *Id.* at 577. In clickwrap agreements, the terms of the agreement appear on the screen of the electronic device before the purchaser may access the purchased digital content. *Id.* at 577 n.3. The purchaser must then click "I agree" before accessing the digital content. *Id.* at 577 nn.3, 5. Shrinkwrap agreements, by contrast, are written agreements printed on a piece of paper, which are typically placed inside the package of a physical copy of a software program. *Id.* at 577 n.4.

282. See Brian W. Carver, *Why License Agreements Do Not Control Copy Ownership: First Sales and Essential Copies*, 25 BERKELEY TECH. L.J. 1887, 1897 (2010); Rachel Ann Geist, *A "License to Read": The Effect of E-Books on Publishers, Libraries, and the First Sale Doctrine*, 52 IDEA 63, 65 (2012).

283. See BJ Ard, *Confidentiality and the Problem of Third Parties: Protecting Reader Privacy in the Age of Intermediaries*, 16 YALE J.L. & TECH. 1, 44 (2013), available at [http://www.yjolt.org/sites/default/files/Ard\\_CONFIDENTIALITY\\_AND\\_THE\\_PROBLEM\\_OF\\_THIRD\\_PARTIES\\_0.pdf](http://www.yjolt.org/sites/default/files/Ard_CONFIDENTIALITY_AND_THE_PROBLEM_OF_THIRD_PARTIES_0.pdf); see also *Kindle License Agreement and Terms of Use*, AMAZON, <https://www.amazon.com/gp/kindle/kcp/install.html?ie=UTF8&mobile=1&tou=1> (last updated Feb. 16, 2011) ("Unless otherwise specified, Digital Content is licensed, not sold, to you by the Content Provider.").

284. Geist, *supra* note 282, at 65.

285. See *id.*

286. See *id.*

287. See *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 146–47 (1998) (stating that "because the protection afforded by § 109(a) is available only to the 'owner' of a lawfully made copy, . . . the first sale doctrine would not provide a defense to . . . any nonowner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful").

288. *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1104 (9th Cir. 2010).

289. *Id.* at 1103.

nontransferable license to use the software.<sup>290</sup> All users were required to accept the software license agreement in order to use the software.<sup>291</sup>

Vernor acquired several used copies of the software and sold them on eBay without using them or opening the packages.<sup>292</sup> Autodesk noticed the sales and filed a complaint with eBay alleging copyright infringement, which resulted in the suspension of Vernor's account.<sup>293</sup> Vernor then brought an action against Autodesk to determine if his sales of the used software on eBay were protected by the first sale doctrine and, thus, did not infringe Autodesk's copyright.<sup>294</sup>

The Ninth Circuit held that since Autodesk retained title to its product and only granted purchasers a license to use the software as opposed to ownership of the software, Vernor was not entitled to first sale doctrine protection.<sup>295</sup> Accordingly, Vernor's sales of the software through eBay infringed Autodesk's copyright.<sup>296</sup> Vernor did not have title to the software and, therefore, had no right to transfer it to someone else.<sup>297</sup> The Ninth Circuit correctly held that the first sale doctrine did not apply to licensees; however, with some copyright owners licensing in order to retain control over their digital goods after distribution, Congress needs to amend the law to restrict copyright owners' ability to license in order to protect consumers.<sup>298</sup>

As a result of the difference between ownership and licensing, it is likely that copyright owners will move more rapidly toward digitizing the copies they intend to sell to avoid the Supreme Court's ruling in *Kirtsaeng* and to control the further distribution of copies.<sup>299</sup> A move toward digitization would restrict, or eliminate, a lawful purchaser's ability to dispose of the copy or transfer it to someone else.<sup>300</sup> It also has the potential to wipe out the first sale doctrine (at least for books, movies, and games) as technology evolves and the availability of physical copies diminishes.<sup>301</sup>

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290. *Id.* at 1104.

291. *Id.*

292. *Id.* at 1105–06.

293. *Id.* at 1106.

294. *Id.*

295. *Id.* at 1111–12.

296. *Id.* at 1112.

297. *See id.*

298. *See id.*; *Copyright Act of 1976*, *supra* note 276, at 355.

299. *Copyright Act of 1976*, *supra* note 276, at 355.

300. *See Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 146–47 (1998).

301. *See Reese*, *supra* note 45, at 579.

*C. Court's Decision a Moot Point?: Rise of Digital Transmission, Fall of First Sale*

*1. Increase in Digital Transmission of Goods Will Substantially Diminish the Market for Physical Copies*

The rise of digital goods has already claimed its first victims by putting hundreds of bookstores and video stores out of business.<sup>302</sup> In 2011, Borders Group Inc., the second largest bookstore in the country, closed its doors forever after filing for bankruptcy.<sup>303</sup> The company had been steadily declining for the past decade due specifically to its inability to compete with Amazon's and Barnes & Noble's advances in e-readers and e-books.<sup>304</sup> Blockbuster met the same fate in 2013, closing all its stores and liquidating its inventory because it could not compete with video-streaming giants Netflix and Hulu.<sup>305</sup>

It would seem that physical copies of books, videos, and even videogames are heading for extinction, and the first sale doctrine might be joining them.<sup>306</sup> While companies are developing technology that would allow the first sale doctrine to apply to digital goods, the current method of distributing digital goods may prevent the doctrine's application.<sup>307</sup> Currently, copyright owners are licensing digital goods as opposed to selling them outright.<sup>308</sup> The first sale doctrine, however, does not apply to licenses.<sup>309</sup> If copyright owners continue to use licenses to distribute digital goods, application of the first sale doctrine to digital goods will have no effect.<sup>310</sup>

*2. With Physical Copies Heading for Extinction the First Sale Doctrine May be Following Suit*

With the rise of digital transmission of copyrighted works, the first sale doctrine might be severely diminished because physical copies of copyrighted works, such as books, are becoming increasingly unpopular.<sup>311</sup> Digital delivery

302. See Courtney Subramanian, *The End of an Era: Blockbuster Ceases Rentals in Advance of Closing*, TIME (Nov. 9, 2013), <http://business.time.com/2013/11/09/the-end-of-an-era-blockbuster-ceases-rentals-in-advance-of-closing/>; Rachel Syme, *Bye Bye Borders: What the Chain's Closing Means for Bookstores, Authors and You*, NPR (July 19, 2011, 3:53 PM), <http://www.npr.org/blogs/monkeysee/2011/07/20/138514845/bye-bye-borders-what-the-chains-closing-means-for-bookstores-authors-and-you>.

303. Yuki Noguchi, *Why Borders Failed While Barnes & Noble Survived*, NPR (July 19, 2011, 3:32 PM), <http://www.npr.org/2011/07/19/138514209/why-borders-failed-while-barnes-and-noble-survived>.

304. *Id.*

305. Subramanian, *supra* note 302.

306. See Victor Luckerson, *Sony's Plan to Squash Game Retailers Is a Longshot—For Now*, TIME (Jan. 9, 2014), <http://business.time.com/2014/01/09/sonys-plan-to-squash-game-retailers-is-a-longshot-for-now/>; Reese, *supra* note 45, at 615.

307. See Asay, *supra* note 19, at 21.

308. See *Copyright Act of 1976*, *supra* note 276, at 355.

309. See 17 U.S.C.A. § 109 (West 2005 & Supp. 2014).

310. See Asay, *supra* note 19, at 20.

311. See *id.*

for books, movies, and video games has expanded, and it seems that the distribution of physical copies of those copyrighted works will soon be a thing of the past.<sup>312</sup> This idea raises the question of how the redistribution of digital copies of copyrighted goods should be handled: Can the first sale doctrine be applied to digital copyrighted goods?<sup>313</sup> If not, the Supreme Court's decision in *Kirtsaeng* will rapidly become meaningless.<sup>314</sup> Due to the confusion that the increased use of technology has caused for the first sale doctrine's application to digital copies, Congress will need to amend the Copyright Act either to find a way to apply the first sale doctrine to digital copies or exclude them from its application.<sup>315</sup>

#### VI. IMPENDING DEMISE OF FIRST SALE: ONLY CONGRESS CAN SAVE THE DOCTRINE

The Supreme Court's decision in *Kirtsaeng* took an important step for consumer rights.<sup>316</sup> The Court clearly stated that restraints on consumers' right to resell their lawfully acquired goods should not be restricted.<sup>317</sup> Accordingly, Congress needs to revisit the Copyright Act, especially since the Court's decision in *Kirtsaeng* will likely drive copyright owners toward digitizing their copyrighted works in order to maintain control over distribution.<sup>318</sup> Many copyright owners have already taken to digitizing and licensing their copyrighted works to control distribution.<sup>319</sup> While this method helps prevent piracy, it also robs consumers of the ability to control the goods they purchase and allows copyright owners to avoid the first sale doctrine.<sup>320</sup>

With digital copies of copyrighted works becoming increasingly prevalent, Congress will eventually have to amend the Copyright Act to adapt to the new digital era.<sup>321</sup> Courts have been confused and divided on how to handle digital sales.<sup>322</sup> To protect consumers, Congress needs to adapt the first sale doctrine

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312. Reese, *supra* note 45, at 610–15.

313. See Aaron Perzanowski & Jason Schultz, *Digital Exhaustion*, 58 UCLA L. REV. 889, 901–02 (2011).

314. Goldman, *supra* note 16.

315. See Reese, *supra* note 45, at 581; see also *Copyright Act of 1976*, *supra* note 276, at 355–56 (discussing the implication of *Kirtsaeng* and changing technology); Perzanowski & Schultz, *supra* note 313, at 891–92 (explaining the problems surrounding the first sale doctrine).

316. See *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363–64 (2013).

317. See *id.*

318. See Goldman, *supra* note 16.

319. *Id.*

320. See Carver, *supra* note 282, at 1950–51.

321. See Reese, *supra* note 45, at 580–83.

322. See generally *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175 (9th Cir. 2011) (holding that a purchaser is an owner instead of a licensee, regardless of a license agreement, when the purchaser is given perpetual possession of the goods); *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010) (holding that a licensee is not an owner of the purchased copy when the copyright owner specifies that the copy is licensed and imposes transfer and use restrictions); *Krause v. Titleserv, Inc.*, 402 F.3d 119 (2d Cir. 2005) (holding that courts should look for “incidents of ownership” when determining whether a purchaser is a licensee or an

to include digital copies and adopt a method for determining whether a transaction is an outright sale or a license.

*A. Digital Millennium Copyright Act Does Not Protect Consumers*

Congress had already amended the Copyright Act to include the Digital Millennium Copyright Act (DMCA) in 1998, but this revision only provided legal support for copyright owners' methods of technological protection of their works to prevent piracy; there is no protection for consumers included in the DMCA.<sup>323</sup> It has been over fifteen years since Congress amended the Copyright Act to include the DMCA, and it is time to revisit the Copyright Act and adapt it to the changes in technology.<sup>324</sup>

*B. Congress Should Apply the First Sale Doctrine to Digital Goods*

*1. Technology Is Evolving to Allow the Application of the First Sale Doctrine to Digital Goods*

In 2001, the Copyright Office produced a report on the effect of technology on the first sale doctrine.<sup>325</sup> In its report, the Copyright Office recommended that Congress "wait and see" how technology would evolve and affect the first sale doctrine.<sup>326</sup> Since 2001, though, technology has evolved dramatically, and it is time for Congress to reassess technology's impact on the first sale doctrine.<sup>327</sup>

The main question, however, is: Can the first sale doctrine be adapted to cover digital copies without increasing the risk for piracy?<sup>328</sup> The answer is

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owner); *DSC Commc'ns Corp. v. Pulse Commc'ns, Inc.*, 170 F.3d 1354 (Fed. Cir. 1999) (holding that a licensee can be an owner of the purchased copy).

323. Reese, *supra* note 45, at 581–82. See generally 17 U.S.C.A. §§ 1201–04 (West 2005 & Supp. 2014) (demonstrating the provisions concerning copyright protection). The DMCA amended the Copyright Act to include provisions that allowed copyright owners to implement Digital Rights Management measures that would protect the owner's digital copyrighted works from infringement. See Reese, *supra* note 45, at 581–82. Section 1201 made it a violation of the Copyright Act to "circumvent a technological measure that effectively controls access to a work protected under" the Copyright Act. 17 U.S.C.A. § 1201(a)(1)(A). Section 1202 states that providing false copyright management information and removing or altering the copyright management information is a violation of the Copyright Act. U.S.C.A. § 1202. Section 1203 provides civil remedies for copyright owners harmed by violations of §§ 1201 or 1202. U.S.C.A. § 1203. Finally, § 1204 makes it a criminal offense to violate §§ 1201 or 1202. U.S.C.A. § 1204. Congress also added § 512 to the Copyright Act to protect Internet service providers from liability for infringing content posted on their websites by third parties. U.S.C.A. § 512 (West 2005 & Supp. 2014). These sections only offer protection for copyright owners and Internet service providers; they do nothing to protect consumer rights. Reese, *supra* note 45, at 581–82.

324. See Reese, *supra* note 45, at 581.

325. *Id.* at 582.

326. *Id.* at 583.

327. See Perzanowski & Schultz, *supra* note 313, at 903–04.

328. See Asay, *supra* note 19, at 21.

yes.<sup>329</sup> Recently, companies like Amazon and Apple have patented technology that would make it possible for consumers to resell their digital goods in a virtual marketplace and then delete the original copy to avoid duplication and pirating.<sup>330</sup> Formerly, the concern was that there was no technology capable of ensuring that once a lawful purchaser transferred his copy to someone else, the original copy would be simultaneously destroyed.<sup>331</sup> The reason the first sale doctrine is applicable to physical copies is because once a lawful purchaser transfers the copy to someone else, the purchaser no longer has access to that copy.<sup>332</sup> With digital copies, however, people can easily make perfect digital copies and keep those copies or send them to others, pirating the copyrighted material.<sup>333</sup> This could mean “digital first-sale rights would lead to increased piracy and thereby undermine markets for copyrighted works.”<sup>334</sup> The new technology proposed by Amazon and Apple, however, can ensure that the original copy is destroyed when the good is transferred, which would help prevent piracy.<sup>335</sup> “If such a transfer can occur while also ensuring that the original owner does not retain his copy, good reasons for eliminating first-sale rights in the digital transfer context vanish.”<sup>336</sup>

Even though applying the first sale doctrine to digital goods would still be risky, the possibility of piracy has never stopped copyright owners from adapting to technology, nor has it stopped courts from protecting consumer rights.<sup>337</sup> Copyright owners will adapt as they always have.<sup>338</sup> The risk of piracy “has never been justification enough to eliminate first-sale rights.”<sup>339</sup> There is always a risk of piracy with physical copies, but that does not stop copyright owners from distributing physical copies, and it should not stop them from distributing digital copies either.<sup>340</sup> Under the current law, however, courts are striking down the first sale doctrine’s applicability to digital goods.<sup>341</sup>

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329. See Villasenor, *supra* note 18, at 4.

330. *Id.* at 4–5.

331. Keith Kupferschmid, *Lost in Cyberspace: The Digital Demise of the First-Sale Doctrine*, 16 J. MARSHALL J. COMPUTER & INFO. L. 825, 845–48 (1998); see also Nakimuli Davis, *Reselling Digital Music: Is There a Digital First Sale Doctrine?*, 29 LOY. L.A. ENT. L. REV. 363, 370 (2009) (discussing the possibilities for deleting works).

332. See 17 U.S.C.A. § 109 (West 2005 & Supp. 2014).

333. Geist, *supra* note 282, at 65; Kupferschmid, *supra* note 331, at 828–29.

334. Asay, *supra* note 19, at 21.

335. Villasenor, *supra* note 18, at 4.

336. Asay, *supra* note 19, at 21.

337. See *supra* note 19 and accompanying text.

338. Asay, *supra* note 19, at 22.

339. *Id.*

340. *Id.*

341. See *Capitol Records, LLC v. ReDigi, Inc.*, 934 F. Supp. 2d 640, 655–56 (S.D.N.Y. 2013).



2. *To Make the First Sale Doctrine Applicable to Digital Goods, Congress Must Make an Exception for Digital Copies Made in the Process of a Legal Secondary Transfer*

Courts are striking down the first sale doctrine's applicability to digital goods because there is a question of whether transferring a digital copy would infringe copyright owners' exclusive right of reproduction.<sup>342</sup> Several courts are in debate over whether downloading the original file onto an electronic device's random access memory (RAM) is the creation of a copy that could implicate the reproduction right.<sup>343</sup> RAM-made copies are not considered to be the original copy of the copyrighted work.<sup>344</sup> Section 117 of the Copyright Act provides an exemption to copies of digital works made on an electronic device's RAM, but only when that copy is made as an essential step in running a computer program or the copy is made for archival purposes only and will be destroyed when the possession of the digital work itself ceases to be lawful.<sup>345</sup> This exception, however, does not extend to copies intended for transfer.<sup>346</sup> Accordingly, consumers who transfer their copies, even if legally acquired, could be committing an act of reproduction, which the first sale doctrine does not protect against in any case.<sup>347</sup> If the RAM-made copy is found to be an infringing reproduction, then expanding the first sale doctrine to include digital goods will be meaningless unless Congress creates an exception for first sale transfers.<sup>348</sup>

In March 2013, the issue of whether a secondary market for used digital goods (similar to that proposed by Amazon and Apple) amounted to copyright infringement was brought before the United States District Court for the Southern District of New York.<sup>349</sup> In *Capital Records, LLC v. ReDigi, Inc.*, Capitol Records, LLC (Capitol Records) sued ReDigi, Inc. (ReDigi), an online secondary market for used digital music, for copyright infringement.<sup>350</sup> ReDigi requires all users of its online marketplace to download its "Media Manager" before buying or selling music.<sup>351</sup> This program analyzes all of the user's music

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342. Perzanowski & Schultz, *supra* note 315, at 902.

343. *Id.* RAM is a temporary, short-term storage memory that is separate from an electronic device's hard drive. Gretchen McCord Hoffmann, Note, *Arguments for the Need for Statutory Solutions to the Copyright Problem Presented by RAM Copies Made During Web Browsing*, 9 TEX. INTELL. PROP. L.J. 97, 102 (2000). Once the electronic device is turned off, all of the data on the device's RAM is deleted. *Id.* RAM automatically makes a temporary copy of whatever program or digital good is currently being viewed on the electronic device. *See id.*

344. *See* Asay, *supra* note 19, at 21.

345. 17 U.S.C.A. § 117(a) (West 2005).

346. *See id.*

347. Perzanowski & Schultz, *supra* note 313, at 902; *see also* 17 U.S.C.A. § 109(a) (West 2005 & Supp. 2014) (discussing the right of the owner of a copy to transfer that copy without authorization from the copyright owner).

348. *See* 17 U.S.C.A. § 109(a); Perzanowski & Schultz, *supra* note 313, at 902.

349. *Capitol Records, LLC v. ReDigi, Inc.*, 934 F. Supp. 2d 640, 645 (S.D.N.Y. 2013).

350. *Id.*

351. *Id.*

files to build a list of music eligible to be sold on the site.<sup>352</sup> Only music legally purchased from iTunes or another ReDigi user is eligible for sale.<sup>353</sup> The user then has the ability to upload the music to ReDigi's "Cloud Locker," where it is stored until the user decides to sell it.<sup>354</sup> Once uploaded to the Cloud Locker, the Media Manager deletes the original music file from the user's computer.<sup>355</sup>

Capitol Records claimed that ReDigi violated its exclusive right to reproduction by selling the digital music online.<sup>356</sup> The district court agreed with Capitol Records and held that "the unauthorized transfer of a digital music file over the Internet—where only one file exists before and after the transfer—constitutes reproduction."<sup>357</sup> The court reasoned that when a user downloads a digital file onto his hard drive, the file is reproduced within the meaning of the Copyright Act because it is "impossible [for] the same 'material object' [to] be transferred over the Internet."<sup>358</sup> Therefore, a new "material object" must be created at the end of the transfer and is thus a reproduction.<sup>359</sup>

While the district court's interpretation of the first sale doctrine and the right of reproduction in *ReDigi* may be correct under current law, Congress needs to change the law to allow the application of the first sale doctrine to digital goods.<sup>360</sup> The first sale doctrine was implemented to encourage and maximize public access to copyrighted works.<sup>361</sup> To carry out that goal, Congress must make an exception to the reproduction right for RAM-made copies and all digital copies made in the process of a legal secondary transfer.<sup>362</sup> But, this exemption is not the only amendment Congress needs to make to the Copyright Act.<sup>363</sup>

### C. Congress Must Address Licensing of Digital Goods

#### 1. Copyright Owners Have Taken to Licensing Their Digital Goods in Order to Control the Goods After Distribution

The Internet has shrunk the world for copyright owners and has made it easier for consumers to ship and import copyrighted works into the United

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352. *Id.*

353. *Id.* Music downloaded onto the user's computer from a CD or thumb drive is not eligible for sale on ReDigi's website. *See id.* This helps ensure that users are not able to keep a copy of the digital music after sale on ReDigi. *See id.*

354. *Id.*

355. *Id.* at 646.

356. *Id.* at 647.

357. *Id.* at 648.

358. *Id.* at 649.

359. *Id.*

360. *See id.*

361. Reese, *supra* note 45, at 577.

362. *See supra* text accompanying note 349.

363. *See* discussion *supra* Part VI.B.

States without requiring permission from the copyright owner.<sup>364</sup> As a result, the Supreme Court's decision in *Kirtsaeng* expanded the first sale doctrine's protection to the detriment of copyright owners.<sup>365</sup> The Internet, however, may be copyright owners' salvation against this expansion of the first sale doctrine.<sup>366</sup> Licensing digital copies to consumers instead of selling the digital copies has become increasingly prevalent for copyright owners of digital goods.<sup>367</sup> Copyright owners put license agreements into the software of the digital goods that consumers have to click through in order to access the goods.<sup>368</sup> These agreements allow copyright owners to retain certain rights and potentially contract the first sale doctrine away.<sup>369</sup> With this approach, however, there is still debate over whether copyright owners can license their digital goods to consumers if the goods are not meant to be returned to the copyright owners, but are perpetually retained by the licensees without a requirement to renew the license.<sup>370</sup> This is another area of confusion and debate between the circuits that Congress must address.<sup>371</sup>

If copyright owners continue to license their digital goods rather than sell them outright, it will be meaningless for Congress to apply the first sale doctrine to digital goods because the first sale doctrine does not apply to licenses.<sup>372</sup> Therefore, in order to make the first sale doctrine applicable to digital goods and reduce confusion in the courts, Congress must limit the use of licenses and clarify when a transaction is a license and when it is an outright sale.<sup>373</sup>

## 2. Congress Should Apply the Perpetual Possession Approach to Prevent Copyright Owners From Claiming That a Digital Good Is Licensed When It Is Really Sold

A license on a good typically implies that the use of that good is temporary, and the right to use the good will either expire or need to be renewed.<sup>374</sup> Copyright owners, however, are using licensing to provide digital

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364. Albanese, *supra* note 258; *see also* *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1358 (2013) (discussing the applicability of the Copyright Act to the importation of lawful foreign-made copies).

365. *See Kirtsaeng*, 133 S. Ct. at 1358.

366. Goldman, *supra* note 16.

367. *See* Matthew J. Turchyn, *It Looks Like a Sale; It Quacks Like a Sale. . . But it's Not? An Argument for the Application of the Duck Test in a Digital First Sale Doctrine*, 5 J. BUS. ENTREPRENEURSHIP & L. 31, 33 (2011), available at <http://digitalcommons.pepperdine.edu/cgi/viewcontent.cgi?article=1070&context=jbel>.

368. *Id.* at 38; *see also supra* note 283 and accompanying text (explaining the terms of clickwrap agreements).

369. *See* Carver, *supra* note 282, at 1890.

370. *Id.* at 1896–97, 1920–25.

371. *See id.* at 1898–99.

372. *See* 17 U.S.C.A. § 109 (West 2005 & Supp. 2014); *see also* Turchyn, *supra* note 367, at 42–43 (discussing the first sale doctrine's applicability to digital software).

373. *See supra* note 322 (listing cases to demonstrate the confusion among the circuits pertaining to the treatment of licenses and digital goods).

374. *See* Carver, *supra* note 282, at 1896–97.

copies to consumers without the expectation that the license is temporary; copyright owners do not expect consumers to renew the license or return the digital good to the copyright owner.<sup>375</sup> While this method of distribution was born from a desire to prevent piracy, it has evolved to hinder the spread of ideas and prevent lawful purchasers from exercising their first sale doctrine rights.<sup>376</sup>

If a copyright owner transfers a good under a license, but the owner does not mean for the good to eventually return to the owner, or the copyright owner does not mean for the consumer to renew the terms of the license, can the transfer really be called a license?<sup>377</sup> That transaction is not a license, it is a disguised sale, and Congress should amend the Copyright Act to limit copyright owners' ability to bind ordinary consumers to license agreements that look like outright sales.<sup>378</sup> Ordinary consumers typically do not read all of the terms of use and license agreements that pop up every time they click something on the Internet.<sup>379</sup> They, therefore, have very little understanding of what they are agreeing to when they click "I Agree."<sup>380</sup> Consequently, to bind ordinary consumers to license agreements when they think they are purchasing the digital goods outright is clearly detrimental to the interests of consumers.<sup>381</sup>

Copyright owners are using licenses to strip consumers of their right to first sale doctrine protections.<sup>382</sup> The perpetual possession approach would prevent copyright owners from claiming that they are licensing the digital goods in order to disguise an outright sale and wrongfully maintaining control over the goods when they already exhausted their right to control.<sup>383</sup> In this approach, "the right to perpetual possession of a copy is the primary, if not the dispositive factor in determining copy ownership."<sup>384</sup> Therefore, if the copyright owner transfers a digital good to a lawful purchaser with no expectations or requirements that the purchaser ever return the good, the lawful purchaser has perpetual possession of the goods.<sup>385</sup> Even if the purchaser accepts a license agreement, the transfer is determined to be a sale instead of a license.<sup>386</sup> Under this approach, the simple existence of a license agreement

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375. *Id.*

376. See Turchyn, *supra* note 367, at 37–38; see also Judith Klerman Smith, *The Computer Software Rental Act: Amending the 'First Sale Doctrine' to Protect Computer Software Copyright*, 20 LOY. L.A. L. REV. 1613, 1630–31 (1987) (discussing the concerns of licensing agreements).

377. See Carver, *supra* note 282, at 1896–97.

378. See Turchyn, *supra* note 367, at 35.

379. Woodrow Hartzog, *The New Price to Play: Are Passive Online Media Users Bound by Terms of Use?*, 15 COMM. L. & POL'Y 405, 408 (2010).

380. See *id.*

381. See *id.*; see also Turchyn, *supra* note 367, at 33 (discussing the propensity of license agreements to strip consumers of property rights).

382. Turchyn, *supra* note 367, at 33.

383. Carver, *supra* note 282, at 1915.

384. *Id.* at 1890.

385. *Id.* at 1922–23.

386. See *id.* at 1899.

does not determine whether the transaction is a license; rather, whether or not the transaction is a sale is based on the actual character of the transaction.<sup>387</sup>

Europe has already adopted the perpetual possession approach to determine when goods are licensed and when they are sold.<sup>388</sup> In *UsedSoft GmbH v. Oracle International Corporation*, the Court of Justice for the European Union (CJEU) held that the first sale doctrine's exhaustion of copyright owners' distribution rights extended to digital copies as well as physical copies.<sup>389</sup> In that case, Oracle International Corporation (Oracle) distributed digital and physical copies of its computer program.<sup>390</sup> Oracle required all purchasers of digital copies to purchase a license agreement with the copy that would give purchasers unlimited and perpetual use of the program.<sup>391</sup> The CJEU held that this transaction was a sale instead of a license, and that Oracle had exhausted any further distribution rights it had over the program once it was distributed.<sup>392</sup> The United States should follow Europe's lead and adopt this approach.

At least one court in the United States has laid the groundwork for a transition to the perpetual possession approach.<sup>393</sup> In *UMG Recordings, Inc. v. Augusto*, the Ninth Circuit held that UMG Recordings, Inc. (UMG) transferred ownership to Troy Augusto when it distributed its promotional CDs, even though there was a license agreement.<sup>394</sup> UMG sent out promotional CDs with the license agreement printed on the case.<sup>395</sup> Augusto acquired several of these CDs from some of the recipients and proceeded to sell them.<sup>396</sup> UMG sued Augusto for copyright infringement, and Augusto claimed the first sale doctrine as a defense.<sup>397</sup>

Ultimately, the Ninth Circuit held that because UMG did not require that the CDs ever be returned and because there was no evidence that any of the recipients had agreed to the license, "UMG had no control over the promotional CDs once it dispatched them."<sup>398</sup> The court determined that the distribution was a transfer of ownership, and therefore, UMG's right to control distribution

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387. *Id.* at 1915.

388. See Alice J. Won, *Exhausted? Video Game Companies and the Battle Against Allowing the Resale of Software Licenses*, 33 J. NAT'L ASS'N ADMIN. L. JUDICIARY 388, 394 (2013), available at <http://digitalcommons.pepperdine.edu/cgi/viewcontent.cgi?article=1552&context=naalj>.

389. *Id.* at 393.

390. *Id.*

391. *Id.*

392. *Id.*

393. See generally *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175, 1183 (9th Cir. 2011) (holding that regardless of the existence of a license agreement, the copyright owner did not have sufficient "incidents of ownership" for the transaction to be a license (quoting *Krause v. Titleserv, Inc.*, 402 F.3d 119, 124 (2d Cir. 2005))).

394. *Id.* at 1180.

395. *Id.* at 1177–78.

396. *Id.* at 1178.

397. *Id.*

398. *Id.* at 1183.

was exhausted.<sup>399</sup> While this case is not a perfect example of the perpetual possession approach because the Ninth Circuit looked to other factors (i.e., the fact that the recipients had not ordered the CDs) to help determine that the distribution was not a license, it is a step in the right direction.<sup>400</sup> Congress should expand on this progress and apply the perpetual possession approach to licenses. This application would greatly expand consumer rights and help ensure that the Supreme Court's decision in *Kirtsaeng* will not become meaningless.<sup>401</sup>

## VII. CONCLUSION

The Supreme Court's decision in *Kirtsaeng* was a landmark decision that will have far-reaching implications for copyright owners and consumers.<sup>402</sup> Lawful purchasers may now rely on the first sale doctrine to protect them when importing copyrighted goods without prior authorization.<sup>403</sup> The Court's decision, however, raises many questions as copyright owners look for alternatives to retain control of their copyrighted works after distribution.<sup>404</sup> With the increase in digital technology, the first sale doctrine may be severely diminished, and consumers may eventually find themselves without its protection.<sup>405</sup> Congress, therefore, should apply the first sale doctrine to digital goods.<sup>406</sup> Technology is being developed that would guarantee that the lawful purchaser's original copy is destroyed upon secondary transfer, thereby making the applicability of the doctrine feasible.<sup>407</sup>

Licensing of digital goods by copyright owners, however, could prove to be a problem with the implementation of a digital first sale doctrine.<sup>408</sup> Because there is so much confusion across the country regarding the licensing of digital copies to consumers, it is difficult to know exactly what the law is regarding licenses and what copyright owners can and cannot do.<sup>409</sup> Some copyright owners are using licensing to provide digital copies to consumers without the expectation that the license is temporary—consumers are not expected to renew

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399. *Id.*

400. *See id.*

401. *See* discussion *supra* Part V.C.

402. *See* discussion *supra* Part V.

403. *See Copyright Act of 1976, supra* note 276, at 351–52.

404. *See* discussion *supra* Part V.

405. *See* Asay, *supra* note 19, at 20.

406. *See* discussion *supra* Part VI.B.2.

407. *See* Villasenor, *supra* note 18, at 4; *see also* Gregory Capobianco, Note, *Rethinking ReDigi: How a Characteristics-Based Test Advances the "Digital First Sale" Doctrine Debate*, 35 *CARDOZO L. REV.* 391, 421 (2013).

408. *See* discussion *supra* Part VI.

409. *See* Carver, *supra* note 282, at 1898–99.

the license or return the digital good to the copyright owner.<sup>410</sup> If this is allowed to continue, it could mean the end to consumers' first sale rights.<sup>411</sup>

Consumers should have the right to resell items that they have legally purchased, and copyright owners' distribution rights should be exhausted when they give perpetual possession to the consumer.<sup>412</sup> This would allow for easier dissemination of information and would prevent copyright owners from hoarding the rights in the copies of their intellectual property, which is what the first sale doctrine was created to prevent.<sup>413</sup> Congress needs to act to save the first sale doctrine by applying it to digital goods.<sup>414</sup> The Supreme Court took a big step for consumer rights in *Kirtsaeng*; this progress should not be wiped away because copyright owners are finding new ways to deprive consumers of their rights.<sup>415</sup>

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410. *Id.* at 1896–97.

411. *See* Turchyn, *supra* note 367, at 42.

412. *See* discussion *supra* Part VI.C.

413. *See* 17 U.S.C.A. § 109 (West 2005 & Supp. 2014).

414. *See* discussion *supra* Part VI.C.

415. *See* *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013); discussion *supra* Part V.A.2.

