INTRODUCTION

In recent decades, the distribution of copyrighted works has transitioned from the delivery of tangible goods to the transmission of data over digital networks. This trend towards digital distribution includes digitally native works like computer software as well as traditionally analog forms like books, movies, and music.\(^1\) With the rise of delivery-via-download, device-embedded content such as apps and e-books, and practically unlimited online media storage, digital delivery is quickly becoming the norm.

---

\(^{†}\) Assistant Professor, Wayne State University Law School.
\(^{‡}\) Assistant Clinical Professor; Director, Samuelson Law, Technology \& Public Policy Clinic, UC Berkeley School of Law.

\(^{1}\) We will use the term “digital works” to refer to works distributed by the transmission of data rather than tangible media. Although media like CDs and DVDs are used to distribute works that are, in a strict sense, digital, the key distinction for our purposes is one between delivery via objects and delivery via data transmission.
Amazon now sells more e-books than hardbacks. CD sales are dropping while music downloads are surging, making Apple the biggest music retailer in the United States. Downloads dominate boxed products in online software sales. And online video games purchases now rival brick and mortar sales.

This shift to a digital marketplace gives rights holders greater control over the pricing and availability of their works, but equally importantly over the uses consumers can make with their purchases. That control constrains consumer welfare on a number of levels. It prevents consumers from reselling copies in secondary markets; it threatens their privacy and security; and it creates a risk of consumer lock-in that threatens competition.

Historically, the doctrine primarily responsible for addressing

---

5 Jacqui Cheng, Forget the Box: Downloads Dominate Online Software Purchases, ArsTechnica.
competition and post-sale consumer use in both copyright and patent law has been exhaustion. The basic principle of exhaustion – that when an embodiment of a work protected by some intellectual property right passes from the rights holder to a consumer, the rights holder’s power over that particular embodiment is diminished – is common to both patent and copyright law. Yet in contrast to patent law’s expansive common law approach to exhaustion, most courts and commentators have confined copyright’s exhaustion principle to the first sale doctrine embodied in § 109 of the Copyright Act.

While the first sale doctrine’s limitation of the copyright holder’s exclusive right of distribution was arguably an adequate embodiment of the exhaustion principle in the pre-digital era, it is insufficient today. For digital works, the use or transfer of a copy implicates exclusive rights beyond distribution, exposing consumers to infringement liability and leading many to call for a legislative expansion of § 109 that recaptures the traditional balance between copyright holders and copy owners.

This Article posits a different approach. Rather than accepting § 109 as the sole embodiment of copyright exhaustion, we argue that exhaustion is deeply rooted in a common law tradition that embraces the first sale rule, but extends beyond it. After detailing first sale’s practical benefits and increasing marginalization in Part I, Part II traces the history of copyright’s exhaustion principle. After describing first sale’s traditional origin story, this Part contextualizes the first sale doctrine within the broader evolution of copyright exhaustion, considering both early judicial holdings that articulate the copy owner’s rights to repair, adapt, and modify lawfully acquired copies, as well more recent statutory developments.

Part III calls on courts to reinvigorate and enforce the common law doctrine of copyright exhaustion. We argue that copyright exhaustion, like many principles recognized in the Copyright Act, was created and continues to develop through the common law process. Just as patent exhaustion has evolved to cope with new technological developments, copyright exhaustion must move beyond the first sale doctrine. In particular, we argue that if consumers are to see their long-standing privileges survive in the digital economy, copyright ex-

---

10 See infra note 48 and accompanying text.
haustion must apply not only to the distribution right, but also the
rights to reproduce and prepare derivative works based on lawfully
purchased copies.

I. THE MARGINALIZATION OF THE FIRST SALE DOCTRINE

Copyright law strives to strike “a balance between the artist’s
right to control [her] work … and the public’s need for access.”11 It
does this by granting exclusive rights subject to a series of exceptions
and limitations.12 The first sale doctrine is one of those limitations.

On its face, the exclusive right to distribute – or vend, in the
terminology of pre-1976 regimes13 – applies to any exchange of a
copy of a protected work.14 Unrestrained, the distribution right would
allow copyright holders to dictate the terms of a variety of common
transactions. Purchasing a new copy of *Geek Love* at Barnes & Noble,
picking up a used copy of *The Queen is Dead* at a local record store,
Netflying *The Dirty Dozen*, or even giving a friend a Lester Beall print
as a gift could trigger liability absent copyright holder permission.15

The first sale rule prevents restraints on the transfer of law-
fully acquired copies by limiting the scope of the distribution right.
Once a copyright holder parts with title to a copy of a work,16 she no

---

12 Copyright law provides authors several discrete exclusive rights,
among them the right to distribute copies of their works. *See* 17
U.S.C. § 106 (granting copyright owners the rights to to reproduce
the work, to prepare derivative works, to distribute copies, to per-
form the work publicly, and to to display the copyrighted work pu-
blicly). Several exceptions and limitations to those rights are found in
the Copyright Act. *See* 17 U.S.C. §§ 107-120.
13 Prior to the Copyright Act of 1976, federal copyright statutes pro-
vided the right to vend. *See* 17 U.S.C. § 1 (1909); Copyright Act of
1891, § 4952, 26 Stat. 1107; Copyright Act of 1790, ch. 15, 1 Stat.
124.
14 *See* 17 U.S.C. § 106(3).
15 *See* John A. Rothchild, *The Incredible Shrinking First-Sale Rule: Are
Software Resale Limits Lawful?*, 57 Rutgers L. Rev. 1, 11 (2004) (not-
ing “authority for the proposition that even a gift of a copy can con-
stitute a public distribution”); *see also* Ford Motor Co. v. Summit Mo-
tor Prods., Inc., 930 F.2d 277, 299 (3d Cir. 1991) (“The term ‘other
transfer of ownership’ is broad enough to encompass gifts”);
16 Despite its name, the first sale doctrine does not require that the
longer retains an exclusive right over the disposition of that particular copy. As a result, the owner of that copy can sell it, rent it, lend it to friends or strangers, or give it away – all over the objections of the copyright holder.

But why have such a rule? Why not allow rights holders absolute control over all forms of distribution and thereby maximizing incentives for copyright owners to create? As we discuss below, the answer lies in six pragmatic benefits that result from limiting copyright holder control over lawfully acquired copies. As this Part explains, four of those benefits – access, preservation, privacy, and transactional clarity – have been well documented. We posit two additional benefits: increased user innovation and platform competition. These benefits broaden the implications of changes to the structure and application of the first sale rule, highlighting its potential impact on innovation policy as a whole. Despite first sale's many upsides, changes in law, technology, and the marketplace have increasingly marginalized the doctrine and threaten to diminish its benefits.

A. Four Documented Benefits of First Sale

Previous scholarship identifies several normative rationales for the first sale doctrine, generally falling into four categories: access, preservation, privacy, and transactional clarity. COPYRIGHT OWNER INITIALLY DISPOSE OF THE COPY BY SELLING IT. GIVING A COPY AWAY IS ENOUGH TO EXHAUST THE DISTRIBUTION RIGHT. SEE UMG V. AUGUSTO.

17 See, e.g., Columbia Pictures Indus., Inc. v. Redd Horne, Inc., 749 F.2d 154, 159 (3d Cir. 1984) (noting that “the first sale doctrine prevents the copyright owner from controlling the future transfer of a particular copy once its material ownership has been transferred”); American Int'l Pictures, Inc. v. Foreman, 576 F.2d 661, 664 (5th Cir.1978) (stating that “[a]fter the first sale of a copy the copyright holder has no control over the occurrence or conditions of further sales of it.... The first sale thus extinguishes the copyright holder's ability to control the course of copies placed in the stream of commerce”).

In terms of access, first sale improves both the affordability and availability of copyrighted works by enabling thriving secondary markets for lawful copies and distribution models that operate outside of copyright holder control. These include everything from used bookstores, libraries, and video rental shops to online auction sites like eBay. These markets increase affordability by putting downward pressure on the prices charged by copyright owners and promote availability by augmenting the supply and geographic distribution of copyrighted goods. Secondary markets also increase both affordability and availability by enabling rental-based business models, product sampling, and the recouping of consumer costs through resale or gifting.

Second, first sale preserves public access to works that are no longer available from the copyright owner. These include works copyright owners have determined are no longer commercially viable, works withdrawn or suppressed by copyright owners for cultural or political reasons, and so-called “orphan works” where copyright

---

21 *Id.* at 585. As some commentators have argued, first sale’s flexibility and competition with the copyright owner’s initial sale also produces more efficient price discrimination that a single monopolistic approach. See Wendy Gordon, *Intellectual Property as Price Discrimination: Implications for Contract*, 73 CHI-KENT L. REV. 1367, 1383-1390 (1998) (noting that secondary markets are often much better at price discrimination than single monopolistic ones).
23 See Reese, *supra* note __, at 595.
owners are either unreachable or no longer exist. Since copyrighted works constitute a substantial portion of our cultural history, such preservation benefits society broadly. Secondary markets not only keep these works in circulation but also prevent their permanent loss by encouraging redundancy via broad geographic distribution of multiple copies.

Third, first sale protects consumer privacy. Under the doctrine, consumers can transfer works without permission of the copyright holder, thereby allowing them to transfer works privately and anonymously. Without the doctrine, consumers would have to notify the copyright owner and seek permission for each new transfer of a work, allowing rights holders to track the movement of the work and the identity of each participant in the transaction. Some assurance of

---


25 See Brewster Kahle, The Open Library, http://librivox.org/the-open-library-by-brewster-kahle/. While Reese argues that these “preservation” purposes fall under the overall rubric of “access”, we think the strength of the cultural preservation argument earns it separate categorization.


privacy is especially important for works with controversial or stigmatized content, as requiring copyright holder consent could chill access.28

Fourth, first sale promotes market efficiency and transactional clarity by protecting consumers from high information and transaction costs and deceptively complex limitations on the use of low-cost copyrighted goods. For example, consider if each physical copy of the latest *Twilight* novel or Lady Gaga CD came with a slightly different set of idiosyncratic copyright permissions. Some had the right to be read or listened to at night; others during the day. Some could be resold; others could not. If such practices became widespread, instead of engaging in the clear and relatively simple transaction of buying a books or CDs, consumers would have to wade through a fragmented and confusing constellation of terms and restrictions each and every time they wanted to participate in a secondary market. The costs of understanding these offers and obligations would be exorbitant not only for the initial purchaser but also any subsequent recipient,29 often exceeding the cost of the desired item. Consumers would be left in the unenviable position of either


28 See Cohen, *supra* note ___ at ___. It is also worth noting that personal privacy is not the only interest at stake. In situations involving product reviews, criminal investigations, or competitive reverse engineering, it is essential that access to copyrighted works be predicated on anonymity. First sale ensures such anonymity is available from secondary markets if the rights holder does not offer it directly.

29 See Van Houweling, *supra* note ___ at 897-898 (“The existence of unusual property rights increases the cost of processing information about all property rights. Those creating or transferring idiosyncratic property rights cannot always be expected to take these increases in measurement costs fully into account, making them a true externality.”)); see also Thomas W. Merrill and Henry E. Smith, *Optimal Standardization in the Law of Property: The Numerus Clausa Principle*, 110 YALE L. J. 1, 3 (2000) (“the law will enforce as property only those interests that conform to a limited number of standard forms”); Hovencamp, post-sale competitive harm at 25 (“In the simple story the first sale doctrine reduces downstream transaction costs.”)
forgoing their purchase or ignoring the terms in the hopes that they meet their needs or will go unenforced.\textsuperscript{30} The first sale rule, in contrast, gives consumers a reliable baseline that simplifies these transactions.\textsuperscript{31}

B. User Innovation and Platform Competition

In addition to these four well-documented benefits of first sale, we posit two others: increased user innovation and platform competition. User innovation is the ability of users to develop new uses for products or creatively modify them in order to increase their value. Users often experiment in unanticipated ways with goods they purchase, leading to new product advances or markets.\textsuperscript{32} One study found that mountain bike users developed or modified their bikes, clothing and equipment to create over forty new innovations in the sport.\textsuperscript{33} This user innovation occurs in both physical and information

\textsuperscript{30} See Van Houweling, \textit{supra} note __ at 9-10; \textit{Straus v. Victor Talking Machines}, 243 U.S. 490, 501 (1917) ("[I]t must be recognized that not one purchaser in many would read such a notice, and that not one in a much greater number, if he did read it, could understand its involved and intricate phraseology."). \textit{See also} Merrill and Smith, \textit{supra} note __ at 44-45 (2000) (discussing the costs of processing notice).

\textsuperscript{31} This protection from high information costs and transactional complexity stems from similar rules in real and personal property law, which have traditionally disfavored servitudes due to their tendency to provide insufficient notice, restrain alienation, limit future unforeseen usability and impose high information costs on subsequent purchasers. See Van Houweling, \textit{supra} note __ at 9-10, 22; Merrill and Smith, \textit{supra} note __ at 18 (2000); Zachariah Chafee, \textit{The Music Goes Round and Round: Equitable Servitudes and Chattels}, 69 \textit{Harv. L. Rev.} 1250, 1261 (1956).


\textsuperscript{33} These innovations included protective "cycling armor," enhanced carrying straps to increase storage capacity, and metal studs added to tires to increase traction. See von Hippel, \textit{supra} note __, at 35-36.
products.\textsuperscript{34}

The first sale doctrine supports user innovation in three ways. First, without first sale, the creation and diffusion of these innovations would be far more costly and difficult. Many user innovators transform existing products into entirely different objects,\textsuperscript{35} such as a handbag made from a classic novel\textsuperscript{36} or flashing bike light made from an old Nintendo NES video game controller.\textsuperscript{37} But for first sale, redistribution of these modified products could constitute infringement of the distribution right,\textsuperscript{38} potentially prohibiting users from sharing their innovations and recouping the costs of their experimentation.\textsuperscript{39}

Second, the access benefits of first sale support user innovation by allowing innovators to acquire multiple copies of works at low cost and from many sources, lowering the overall costs of experimentation and preventing rights holder attempts to limit access. For example, Netflix and Redbox were both able to experiment, innovate, and eventually build substantial DVD distribution businesses – mail-order envelopes and point-of-sale vending machines, respectively – because the first sale doctrine allowed them to do so without permission from movie studios.\textsuperscript{40}

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{34} See von Hippel, supra note __ at 1. For example, his research shows a significant percentage of user innovation in a range of fields including extreme sports, surgery, library information systems, printed circuit CAD software, and open source web server security. \textit{Id.} at 20 tbl. 2-1.
\item \textsuperscript{35} See von Hippel, supra note __ at TK.
\item \textsuperscript{36} See, e.g., \url{http://www.rebound-designs.com/}. See also \url{http://www.secretstoragebooks.com}.
\item \textsuperscript{37} See \url{http://www.instructables.com/id/Bike-Flasher-Made-from-NES-Controller/}; see also \url{http://blog.makezine.com/archive/2010/07/led_sneakers.html}.
\item \textsuperscript{38} This is not say that other legal doctrines might not constrain user innovation. See Samuelson, \textit{The Quest for a Sound Conception of Copyright's Derivative Work Right} (forthcoming); Fisher, supra note __ (the derivative work right, contract law); Strandberg, supra note (patents). However, as we argue below, a broad conceptualization of exhaustion in both copyright and patent law might well protect users in these circumstances.
\item \textsuperscript{39} Otherwise, user innovators would be forced to find rights holders and negotiating the right to re-distribute their modified goods, assuming the owner would grant such a right.
\item \textsuperscript{40} See Red Menace, Forbes.com, \url{http://www.forbes.com/2009/03/}
\end{itemize}
\end{footnotesize}
Third, first sale mitigates what Van Houweling and Mahoney call “the problem of the future” – restrictions on property imposed prior to its alienation that prove over time to be at odds with their original purpose or violate an evolving public policy. In such situations, “enforcement of servitudes undeniably limits the freedom of future generations to manage resources wisely and autonomously.” This worry has particular salience in the context of user innovation and creativity, as by their very definitions, these activities often focus on solving unanticipated problems. First sale limits the problem of the future, at least in regard to the right to distribute copyrighted works that have been modified to address previously unforeseen problems.

06/redbox-blockbuster-rentals-business-media-rebox.html. Note that several studios subsequently attempted to cut off Redbox’s supply via contractual pressure on their distributors not sell to Redbox. Redbox responded with an anti-trust claim and the case subsequently settled. http://www.zdnet.com/blog/btl/redbox-warner-bros-cut-deal-end-lawsuit/30837; However, without first sale, a single suit for violation of the distribution right would have been enough to put Redbox out of business. Compare to the Clearplay and Cleanflicks cases discussed infra, note 156.

41 See Van Houweling, supra note __, at 900 (citing Julia D. Mahoney, *Perpetual Restrictions on Land and the Problem of the Future*, 88 VA. L. REV. 739 (2002) (noting the problem of the future in the context of environmental conservation easements where conditions and scientific understanding of environmental impact change over time, making the easements outdated and potentially even antithetical to their original purpose)).

42 Id.

43 Van Houweling notes that “[t]he problem of the future is further compounded when a servitude arises in a context of rapid and unpredictable change, making unforeseen obsolescence especially likely.” Van Houweilling, supra note __ at 901; Bilski v. Koppes, 561 U.S. ___(2010) (stressing the importance of patent law to cover new and unforeseen inventions). Von Hippel, supra note ___, at 46 (noting users often see problems or innovations before original manufacturers), 7 (noting that manufacturers also have insufficient incentive to provide custom solutions for small groups of users, leaving users to provide their own solutions).

44 Cite to example of unforeseen problem addressed by user innovation.
Beyond its impact on user innovation, first sale also promotes platform competition by reducing consumer lock-in. Lock-in occurs when the costs of switching to a new vendor or technology platform are sufficient to discourage consumers from adopting an otherwise preferable competitive offering. Because lock-in disadvantages new market entrants with similar but superior products, it raises competitive concerns and inhibits incremental innovation. More porous platforms, in contrast, allow for increased competition and greater innovative incentives.

First sale reduces lock-in with respect to technology platforms in two ways. First, it enables consumers to alienate past purchases and recover much of their investment when switching platforms. A consumer who owns Microsoft’s Xbox video game system has invested several hundred dollars in Microsoft hardware and software. If that consumer wishes to switch to Nintendo’s Wii system, her increased enjoyment of the Wii must outweigh her investments in the Xbox platform in order for switching to make sense. The first sale doctrine allows her to recover a substantial portion of her investment by selling her Xbox and games on Craigslist or eBay, lowering the barriers to choosing a competing platform. Without first sale, the consumer would need Microsoft’s permission to alienate her investment, permission Microsoft would have little incentive to give. In addition, first sale further limits lock-in via secondary markets that reduce prices for competing devices and associated content, lowering the cost of adopting a new platform.45

In the analog era, the dialog between first sale and competition policy rarely addressed problems of lock-in.46 It was relatively easy for consumers to switch from one vendor or playback platform

---

45 Switching costs would be reduced further if consumers were assured data portability between platforms. If games purchased for the Xbox were playable on the Wii or could be modified to ensure interoperability, the switching costs facing consumers would be significantly lower from the outset. Because lock-in is a key component of the pricing and overall strategy in the video game market, private efforts to enable interoperability are unlikely. Other markets appear more amenable to cross-platform cooperation. See, e.g., Dave Caolo, Barnes & Noble Releases eReader App for iPad, http://www.tuaw.com/2010/05/27/barnes-and-noble-releases-e-reader-app-for-ipad/ (May 27, 2010).

46 See Hovenkamp, supra note 1 at 19-20 (citing Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502, 515-16 (1917)).
to another. Analog distribution ensured the severability of platform and content. Moreover, the mere private use of a work did not trigger copyright scrutiny. A consumer who wanted to switch from a Columbia phonograph to a Victor device faced minimal switching costs. As described below, the legal and technological landscapes have shifted significantly with the introduction of digital works and technological measures designed to restrict lawful access to them.

C. Digital Distribution as a Threat to First Sale

These benefits of first sale have traditionally depended on a single trigger: ownership of a copy of a work. Yet as digital technology has evolved, the distribution of copyrighted works has increasingly moved away from physical copies, leading numerous commentators to raise concerns about the loss of first sale’s benefits in the digital age.

In addition to changes in the marketplace, several legal developments have undermined the doctrine’s practical impact. First has been the fight over copy ownership. As copyright holders began to characterize the sale of copies as licenses defined by end user license agreements (EULA), they argued that purchasers of these copies do not own them. Courts are split on whether and to what extent granting a copyright license to a work undermines the users claim of ownership to their particular copy. As a result, lawyers for copyright holders engage in artful drafting of their license agreements to give consumers the appearance of ownership while at the same time attempting to legally restrict the transfer of title to the physical copy.

47 Of course, patents could play a role in controlling competition, but were almost always focused on competing manufacturers, not consumers who switched between vendors.

48 Van Houweling, supra note ___ at __.

49 See Liu, supra note ___ at __; Reese, supra note ___ at 581. DMCA Section 104 report

50 See Brian Carver, Why License Agreements Do Not Control Copy Ownership: First Sales and Essential Copies, 25 BERKELEY TECH L. J. ___ (2010); Reese, supra note __, at 614; Van Houweiling, supra note __, at __; Liu, supra note __, at __.

51 Id.

The legal treatment of RAM copies has become problematic for first sale as well. In the analog era, the purchase and use of copyrighted goods did not generally implicate the exclusive rights of the copyright holder. However, in order to use a work stored in a digital format, that work must be loaded into the random access memory (RAM) of a computing device. Many courts have held that loading a work into RAM creates a copy that implicates the reproduction right. Copyright holders have extended this argument further, claiming that transferring a digital work via a network is also an act of reproduction. Thus, consumer use of works, even those purchased via secondary markets, are potentially quite limited in the digital context by the RAM copy doctrine.

Finally, § 1201 of the Digital Millennium Copyright Act has raised doubts about the viability of first sale. Section 1201 prohibits both the circumvention of technological measures that restrict access to copyrighted works and the creation or distribution of tools that facilitate circumvention. At the time of its passage, critics of Section 1201 expressed concerns that technological protection measures, more commonly referred to as digital rights management or DRM technologies, would thwart first sale by preventing users from access-

---

Houweling, *supra* note __, at 938 (citing the Microsoft Vista EULA as an example). *See also* Vernor v. Autodesk, 555 F.Supp.2d 1164 (W.D. Wash 2008); MDY v. Blizzard; UMG v. Augusto.

53 Van Houweiling, *supra* note __ at 917 (“Before the advent of inexpensive and user-friendly copying technology, for example, most of the things that consumers did with copies of copyrighted works did not implicate copyright law at all. A consumer could buy a book and read it without thinking twice.”)


55 MAI Systems Corp. v. Peak Computer Inc., 991 F.2d 511 (9th Cir. 1993); *but see* Cartoon Network v. CSC Holdings, Inc., 536 F. 3d 121 (2nd Cir. 2008) (holding temporary buffer copies are not “reproductions” under the Copyright Act).

56 Section 117 of the Copyright Act provides some protection for consumers who purchase computer programs. This protection also depends on disputed question of copy ownership. *See* Carver, *supra* note __. Consumers who purchased digitally encoded works other than computer programs currently receive no statutory protection for their creation of copies necessary to use a work. *See infra.*

58 See DMCA 104 Report at 39 (noting library association concerns that DRM and Section 1201 would inhibit core library functions such as interlibrary loan programs, preservation of works, and accepting donations of works).

59 See DMCA 104 Report (Executive Summary).

60 104 Report at 78.
ultimate effect on consumers is unclear.\footnote{61}

The Register’s speculation has proven prescient. Since 2001, the marketplace for copyrighted goods has shifted dramatically. Physical objects are quickly losing their primacy as a distribution mechanism.\footnote{62} Moreover, the explosion of device-embedded and cloud-delivered content has put even further distance between physical distribution and the realities of consumer acquisition. Many of these systems are tethered not just to particular devices, but also to particular services, allowing copyright holders control over post-sale consumer uses by requiring access to these in order to enjoy the use of the purchased good.\footnote{63}

These legal and market developments have marginalized the first sale doctrine and diminished the benefits it offers consumers. With digital works, the access and affordability benefits of first sale disappear. A consumer who buys books on an iPad, Kindle, or Nook cannot resell them via secondary markets without either making a potentially infringing reproduction or selling the device itself, which is burdensome and unrealistic.\footnote{64} Without secondary markets, there is no downward pressure on price, and no unlicensed rental market.\footnote{65}

\footnote{61} Section 104 Report at xvi-xvii. See also id. at 75-76.
\footnote{64} Reese, supra note __, at 612; Section 104 Report at xvii (“The transmission of a work from one person to another over the Internet results in a reproduction on the recipient’s computer, even if the sender subsequently deletes the original copy of the work. This activity therefore entails an exercise of an exclusive right that is not covered by section 109.”).
addition, geographic availability is limited to jurisdictions where the copyright owner chooses to make sales. Copyright holders and digital distributors are also afforded greater power to render works unavailable. Through remote deletion, Amazon can eliminate copies stored on your Kindle.66 And cloud-based content can disappear when host companies discontinue service.67

Tethered works also diminish consumer privacy. Prior to the increasingly tethered world of digital goods, buyers and sellers of copyrighted works could transact relatively anonymously and without any notice, let alone the need for consent, from the copyright holder.68 Tethering, however, requires that users connect to the vendor’s server to access their content, risking disclosure of personally identifying information and viewing habits.69

66 This new level of control over consumer uses has also affected how free and open various platform and devices can be in terms of censorship and free speech. See http://www.businessweek.com/news/2010-07-08/apple-s-real-death-grip-is-on-its-customers-rich-jaroslovsky.html; Amazon Erases Orwell Books From Kindle Devices - NYTimes.com, , http://www.nytimes.com/2009/07/18/technology/companies/18amazon.html (last visited Aug 2, 2010). Compare to Worldwide Church of God case where despite injunction against publishing new versions of religious text, already existing versions could continue to be shared and distributed.


68 See supra, note __.

69 See Electronic Frontier Foundation, Google Book Search Settlement and Reader Privacy, http://www.eff.org/issues/privacy/google-book-search-settlement (last visited Aug 7, 2010). This potentially chills consumers, especially on controversial subjects. Id. In addition, vendors have developed technologies to spy on their customers. For example, Blizzard’s popular online game World of Warcraft installs a program called Warden, that monitors user activity to detect cheating, as subjectively defined by Blizzard. Blizzard’s new Warden, and our privacy, , http://www.wow.com/2007/11/15/blizzards-
Digital goods purportedly governed by the terms of EULAs subject consumers to high information costs for otherwise low cost and even free content. This is in stark contrast to the transactional clarity that first sale offers.

User innovation has also suffered. Whereas before, users and competitors could purchase copyrighted works and privately modify or innovate around or on top of them, many companies now monitor the use of their programs or content to make sure that no unauthorized modifications occur.

---


71 Moreover, companies frequently modify and update their TOS/EULA documents, forcing users to parse the differences and new terms at an even higher cost. For example, according to the Electronic Frontier Foundation’s terms-of-service tracking website, TOSBack, Apple’s iTunes Store has changed its Terms and Conditions twelve times between February 24, 2009 and June 24, 2010. The latest version was over 4,000 words long. The time and expense to read these terms carefully even a single time often outweighs the value proposition of the content by 10, 20, or even 100 fold. McDonald and Cranor, supra note __; Van Houweiling, supra note __ at 15 (noting psychological research that suggests buyers conserve effort during their decision-making process by focusing on a limited number of salient product features and may not accurately account for the costs of use restriction, especially when such restrictions are bundled with more salient features and terms such as price.).

72 See Sega, Connectix.

73 Consider Blizzard’s response when a programmer created code to automate rudimentary tasks in its World of Warcraft game. After 25,000 users purchased the unauthorized program, Blizzard relied on its terms of service, EULA, and § 1201 to shut down this user innovation. MDY Indus. v. Blizzard Entm’t, 616 F. Supp. 2d 958 (D. Ariz. 2009), supra note __. See also Davidson v. Jung, 422 F.3d 630 (8th Cir. 2005) (holding user innovated game servers for Blizzard games violate Section 1201); see also Microsoft Unleashes Banhammer on Xbox 360 Modders, ,
Consumer lock-in is also becoming more severe. In the world of digital goods, one cannot simply transfer one’s apps to a new phone or one’s e-books to a new reader, significantly increasing switching costs. In addition to purchased content, many tethered platforms do not allow user-generated data to be exported outside the device or system. For example, Amazon’s Kindle and Apple’s iBooks app both allow users to highlight and annotate sections of the books they purchase. However, none of these highlights or annotations can be copied or shared outside of the device – often not even with the user’s other devices.\textsuperscript{74}

With the switch from physical objects to digital works, consumers and competitors have lost many of the benefits of first sale.\textsuperscript{75} Yet, the principles that motivate that doctrine remain important. As we argue below, there remains a need – and a space – for these principles, even in the era of digital distribution. In the next section below, we demonstrate that, since its inception, the first sale doctrine functioned as one component of a set of broader exhaustion rules in copyright law.

II. COPYRIGHT’S EXHAUSTION PRINCIPLE

The prevailing wisdom holds that the genesis of and justifica-


\textsuperscript{75} In addition, the security and safety of users and their systems has also become more of an issue due to the end-run trend around first sale. There have always been security vulnerabilities in digital goods, including off-the-shelf software. However, cloud-based products and other tethers to vendors have also increased this risk for consumers. See Deirdre Mulligan & Aaron Perzanowski, The Magnificence of the Disaster: Reconstructing the Sony BMG Rootkit Incident, 22 Berkeley Tech. L.J. 1157 (2007). See also http://www.dmwmedia.com/news/2010/06/14/atampt-apologizes-ipad-email-breach-blames-quotheackersquot.
tion for the first sale doctrine are straightforward and self-contained. This tidy origin story is not altogether incorrect, but it is incomplete. What this narrative overlooks is the first sale doctrine’s contribution to a matrix of statutes, interpretations, and common law rules that together constitute a broader and more complex exhaustion principle at work in copyright law.

In order to more completely map the story of copyright exhaustion, this Part first recounts the established history of the first sale doctrine. Second, it contextualizes that doctrine, demonstrating that first sale is not just an isolated freestanding limitation on the distribution right, but an integrated component of a coherent exhaustion principle that cuts across all of the exclusive rights of the copyright grant.

A. The Familiar Story of First Sale

First sale’s typical origin story begins just over a century ago with the Supreme Court’s 1908 decision in *Bobbs-Merrill Company v. Strauss*. In 1904, Bobbs-Merrill published The Castaway, a novel by Hallie Herminie Rives. In an effort to maintain retail prices, Bobbs-Merrill printed the following notice in each copy:

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

THE BOBBS-MERRILL COMPANY”

Defendants, the proprietors of R.H. Macy & Company, sold copies of The Castaway for a mere eighty-nine cents. Macy’s acquired the majority of its copies from wholesalers for roughly sixty cents each. Those wholesalers, in turn, purchased their copies from Bobbs-Merrill either directly or through intermediary distributors. Bobbs-Merrill sued for copyright infringement, alleging that

---

76 210 U.S. 339 (1908).
77 *Id.* at 341.
78 *Id.* at 342.
79 *Id.* at 341-42.
80 *Id.* Ten percent of Macy’s stock was purchased at retail for the full one-dollar price. *Id.* at 342.
defendants violated its “sole right and liberty of ... vending”\textsuperscript{81} The Castaway by selling it below the approved retail price.\textsuperscript{82} Bobbs-Merrill contended that since the Copyright Act granted rights holders the “whole field of the right of exclusive sale,” a publisher could exercise that right by withholding copies from the market altogether, selling them without restriction, or selling them conditionally, reserving “so much of the right as [it] pleases.”\textsuperscript{83}

The Court rejected the contention that a copyright holder can retain downstream control over the disposition of a copy by reciting purported conditions on its initial sale. Once Bobbs-Merrill sold copies “in quantities and at a price satisfactory to it[,] it] exercised the right to vend,” exhausting that right with respect to the particular copies sold.\textsuperscript{84} Even if contractual obligations could support restrictions on future sales of copies, the Court made clear that copyright law could not.\textsuperscript{85}

Congress embraced the \textit{Bobbs-Merrill} decision almost immediately.\textsuperscript{86} Section 27 of the Copyright Act of 1909 provided that “nothing 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.”\textsuperscript{87} This provision reflected congressional recognition and approval of \textit{Bobbs-Merrill}. In the century that followed, neither the courts nor Congress were inclined to alter the basic operation of the first sale doctrine articulated in \textit{Bobbs-Merrill}.\textsuperscript{88}

\begin{thebibliography}{88}
\bibitem{81} 1790 Act, § 1.
\bibitem{82} 210 U.S. at 349.
\bibitem{83} \textit{Id}.
\bibitem{84} \textit{Id.} at 351.
\bibitem{85} \textit{Id.} Tellingly, Bobbs-Merrill tellingly brought no contract claim against Macy’s. \textit{Id}.
\bibitem{86} \textit{See} Quality King Distributors, Inc. v. L’anza Research Int’l, Inc., 523 U.S. 135, 141-142 (1998) (noting that “Congress subsequently codified our holding in \textit{Bobbs-Merrill} that the exclusive right to ‘vend’ was limited to first sales of the work”).
\bibitem{87} 1909 Act, § 41.
\bibitem{88} The next major revision of the Copyright Act brought only minor changes to the doctrine’s statutory formulation. Section 109 of the Copyright Act of 1976 offered one important clarification – the doctrine applies only to copies or phonorecords “lawfully made under this title.” 17 U.S.C. § 109(a). That is, in order for the distribution of a copy to be privileged by the first sale doctrine, that copy must have been created under the copyright holder’s authority or pursuant to a
a result, the history of the first sale doctrine traces a direct and undisturbed path from the Supreme Court’s 1908 decision in Bobbs-Merrill to the current doctrine as codified by Congress and interpreted by the courts.

Like the doctrine itself, the primary theoretical justifications for the first sale rule have remained intact. Two related principles underlie the first sale doctrine. The first is the distinction between the copyrighted work and the copy that embodies it. Copyright protection subsists in the work, the intangible creation of an author.\textsuperscript{89} Although that creation must be fixed in tangible form in order to qualify for copyright protection,\textsuperscript{90} it is the work rather than the copy that is the subject of the copyright grant. As early as 1852, the Supreme Court acknowledged that the copyright “was detached from the manuscript, or any other physical existence.”\textsuperscript{91} In other words, ownership of the copy is distinct from ownership of the copyright. Although Congress recognized this principle in the 1909 Act,\textsuperscript{92} some

\begin{itemize}
  \item statutory license or privilege. \textit{See} H.R. No. 94-1476, 94th Cong., 2d Sess. 79 (1976). This statutory tweak, consistent with prior judicial interpretation, clarified that the distribution of infringing reproductions falls outside of the protection of the first sale rule. \textit{Id.}
  \item The Copyright Act draws “a fundamental distinction between the ‘original work’ which is the product of ‘authorship’ and the multitude of material objects in which it can be embodied. Thus, in the sense of the [Act], a ‘book’ is not a work of authorship, but is a particular kind of ‘copy.’” H.R. Rep. 94-1476 at 53 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5675. \textit{See also} Matthew Bender & Co., Inc. v. W. Pub. Co., 158 F.3d 693, 702 (2d Cir. 1998) (noting the distinction between works and the copies in which they are fixed).
  \item “A work is ‘fixed’ in a tangible medium of expression when its embodiment in a copy or phonorecord, by or under the authority of the author, is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration.” 17 U.S.C. § 101.
  \item Stephens v. Cady, 55 U.S. 528, 531 (1852) (holding that the purchase of an engraving plate did not entail the right to reproduce copies). \textit{See also} Stevens v. Royal Gladding, 58 U.S. 447, 452 (1854) (recognizing the severability of a copyright from ownership of the material object embodying the protected work).
  \item 1909 Act, § 41 (“copyright is distinct from the property in the material object copyrighted”).
\end{itemize}
court continued to confuse the copy and the copyright. To counter this persistent conflation, Congress reiterated the distinction more explicitly in the Copyright Act of 1976.

The second principle motivating the first sale doctrine, the alienability of personal property, is rooted in English common law. Courts have long resisted limitations on downstream use and resale of personal property on the grounds that “they offend against the ordinary and usual freedom of traffic in chattels.” Restraints on alienation are inconsistent with “the essential incidents of a right of general property in movables, and ... obnoxious to public policy, which is best subserved by great freedom of traffic in such things as

---

93 See Pushman v. New York Graphic Soc., Inc., 287 N.Y. 302 (1942) (holding that transfer of an original work of art transferred the copyright in that work). Indeed, some courts continue this mistake today. See Carver, supra note __ at __ (noting the persistent confusion among courts on this point).

94 Section 202 states:

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


pass from hand to hand. The first sale doctrine is understood as copyright law’s reflection of this longstanding aversion to impeding the free flow of goods in the stream of commerce.

Within the traditional first sale narrative, the alienability principle also explains why the doctrine is limited to the distribution right. Because alienability is inherently concerned with the free movement of goods in commerce, the first sale doctrine targets acts of distribution. Not surprisingly, courts have consistently held that first sale is no defense to infringement of the other exclusive rights of the copyright holder.

Taken together, the copyright/copy distinction and the alienability principle lead almost syllogistically to the first sale doctrine. With ownership of the copyright divorced from ownership of the copy, when the copyright holder sells a book, she retains her copyright interest in her literary work but transfers title in the book qua chattel to the purchaser. The alienability principle strongly suggests that ownership of the book entails the right to dispose of it free from copyright holder demands. Absent an unambiguous congressional indication to the contrary, the distribution right should be interpreted to conform to the alienability principle.

The prevailing account of the first sale doctrine paints a picture of a rule with well-defined origins, established justifications, and

---

97 Id.
99 See, e.g., Buck v. Jewell-La Salle Realty Co., 283 U.S. 191, 197 (1931); Columbia Pictures Industries, Inc. v. Aveco, Inc., 800 F.2d 59 (3d Cir. 1986); Columbia Pictures Indus., Inc. v. Redd Horne, Inc., 749 F.2d 154 (3d Cir. 1984); U.S. v. Powell, 701 F.2d 70, 72 (8th Cir. 1983) (stating that “although the [copyright] holder’s other rights remain in tact (reprinting, copying, etc.), the vendee holds the right to distribute the transferred copy in whatever manner he chooses’’); Precious Moments, Inc. v. La Infantil, Inc., 971 F. Supp. 66, 67 (D.P.R. 1997) (“The first sale doctrine, however, limits only the distribution rights of the copyright owner; it does not limit the other exclusive rights enumerated in § 106, including the right to prepare derivative works’’).
specific limits. The doctrine that emerges from this tidy historical, theoretical, and practical context is one with significant implications, but implications restricted to the limited sphere of the distribution right and of little relevance to copyright law more generally. Moreover, first sale’s sphere of influence is rapidly contracting as the reproduction of data over networks displaces the distribution of copies as the preferred means of transmitting copyrighted material from authors, publishers, and intermediaries to consumers.

B. The Neglected Story of Copyright Exhaustion

Rather than understanding the first sale doctrine as an important but idiosyncratic limit on the distribution right, this Article suggests that first sale is the primary, but not solitary, illustration of a generalizable principle of copyright exhaustion. In the most general terms, the exhaustion principle holds that a fundamental set of user

100 Even within this narrative, some pressing questions about the application of the first sale doctrine remain. First, how do we reliably identify the owner of a copy in an environment of increasingly prevalent licensing of consumer products? See Carver, supra note __. Second, how does first sale interact with the copyright holder’s right to control the importation of copies, particularly copies made outside of the territorial bounds of the United States? Compare Quality King Distributors, Inc. v. L’anza Research Int’l, Inc., 523 U.S. 135 (1998) (holding that the first sale doctrine precludes liability for the reimportation of works into the United States) with Omega S.A. v. Costco Wholesale Corp., 541 F.3d 982 (9th Cir. 2008) cert. granted, 130 S. Ct. 2089, 176 L. Ed. 2d 720 (U.S. 2010) (holding that the first sale defense was unavailable where the defendant imported and sold watches manufactured and first sold outside of the United States).

101 See supra, Part I.

102 The terms “first sale” and “exhaustion” are occasionally used interchangeably. See PATRY § 13:15 (noting that outside of the United States, “the principal exception to the distribution right” is referred to as the “exhaustion” doctrine). See also WIPO Performances and Phonograms Treaty, Arts. 8 & 12; WIPO Copyright Treaty, Art. 6 (noting the exhaustion of the distribution right). We will use “first sale” to refer to the limitation of the distribution right and “exhaustion” to refer to the broader principle, which includes the first sale rule, that copyright owner interests are limited as against owners of copies.
rights or privileges flows from lawful ownership of a copy of a work. These privileges apply to the full range of exclusive rights, not just the distribution right. Although the precise shape and scope of exhaustion privileges vary, they permit activities incidental to the use and enjoyment of copies by their owners.

Situating first sale within the broader exhaustion principle begins with a closer look at the cases that came before Bobbs-Merrill. Decades before the Court’s recognition of the first sale rule, lower courts acknowledged exhaustion as an established limitation on the copyright grant. These early cases, in conjunction with subsequent congressional and judicial practice, reveal an exhaustion principle much broader than first sale’s limitation on the distribution right. Along with alienation, exhaustion embraces rights of repair and renewal, adaptation and modification, and even display and performance. Because of its historical economic significance, the distribution right has been exhaustion’s primary focus, overshadowing these other rights of copy owners. But as described below, reinvigorating this broader understanding of exhaustion is central to the preservation of the rights of copy owners in the digital marketplace.

1. Repair & Renewal

Early cases recognized an exhaustion rule that both anticipated the holding in Bobbs-Merrill and transcended it. This line of cases began with Harrison v. Maynard, Merrill & Co. There, unbound pages embodying a copyrighted literary work were damaged in a fire. The copyright holder, Maynard, instructed its bookbinder to sell the surviving sheets as waste paper. When a second hand book

---

103 In Henry Bill Pub. Co. v. Smythe, the court explained that “inseparably with the transfer of the title in any copy of the work must go the right of alienation, so far as the peculiar protection of the copyright statutes is concerned.” 27 F. 914 (1886). The “doctrine running through all the cases” confirmed that the violation of purported conditions on the resale copies is not infringement. Id. at __. The Henry Bill court held the first sale principle inapplicable because the defendants acquired their copies from a bailee entrusted to deliver the copies, but had no title to the books. Id. at __.

104 See infra, Part III.

105 61 F. 689 (2d Cir. 1894).

106 Id.

107 Id. The contract of sale provided that “all paper taken out of the
seller offered damaged copies of the work bound from the fire-damaged pages, Maynard sued for infringement. The Second Circuit sided with the book seller, explaining that “the right to restrain the sale of a particular copy of the book … has gone when the owner of the copyright and of that copy has parted with all his title to it.”

Although decided on a theory largely coextensive with the first sale doctrine, Maynard set the stage for a more expansive application of the exhaustion principle. In Doan v. American Book Co., the Seventh Circuit endorsed not only the familiar notion that the sale of a copy exhausts the exclusive right to vend, but that copy ownership also implies a right to renew or repair, even if repair entails altering or copying the underlying work. American Book published children’s schoolbooks. Doan acquired used books in various states of disrepair. Some were defaced, others “soiled and torn,” and the covers of still others were damaged or missing. Doan repaired the books in order to “render [them] serviceable,” then sold them.

The resale of second hand books, of course, falls squarely within the first sale rule, and many of the steps taken to renew and repair the books did not implicate American Book’s exclusive rights. But other steps endorsed by the court appear perilously close to acts of reproduction. For books with missing covers, Doan not only rebound the volumes in new covers, but attempted to replicate the original cover designs. The court concluded that the “right of repair or renewal” that passed to the owner of the copy extended to the preparation of an “exact imitation of the original” cover. Doan was entitled, as the owner of a copy, to restore the books to

building is to be utilized as paper stock, and all books to be sold as paper stock only, and not placed on the market as anything else.” Id. at 690.

Id. at 691.

Id. (stating that “the exclusive right to vend the particular copy no longer remains in the owner of the copyright by the copyright statutes”).

105 F. 772 (7th Cir. 1901).

Id. at 776-77.

Id. at 777.

Id.

Id. (noting that “no legal right of the appellee was invaded by” cleaning, trimming, or rebinding the books).

Id.

Id.
their original condition even if that required reproduction “in exact similitude” of copyrighted material.\textsuperscript{118} As the court characterized it, “a right of ownership in the book carries with it and includes the right to maintain the book as nearly as possible in its original condition”\textsuperscript{119} To deny that right would have been, in the court’s estimation, “intolerable and odious.”\textsuperscript{120}

The repair and renewal line of cases continued to develop independently from the first sale doctrine even after Bobbs-Merrill and its recognition in the 1909 Act. In Bureau of National Literature v. Sells, the court held that the right of repair and renewal undermined any cause of action for copyright infringement when Sells, a former employee, “overhauled and reconstructed” copies of Messages and Papers of the Presidents, a work published by Bureau.\textsuperscript{121} Although decided in 1914, Sells references the circuit court opinion in Bobbs-Merrill only in passing in the context of a quote from Doan.\textsuperscript{122} Neither the 1909 Act nor the Supreme Court decision in Bobbs-Merrill are mentioned, suggesting that the right of repair stood as a distinct limit on copyright holder authority.

Of course, title to a copy cannot confer on its owner an unbounded privilege to reproduce the work. Complete exhaustion of the reproduction right would undermine the incentive structure at the heart of copyright law. The question is how much of a work the lawful owner of a copy may reproduce and under what circumstances. In Ginn & Company v. Apollo Publishing, one court struggled with that question.\textsuperscript{123} Ginn, like American Books, published children’s schoolbooks.\textsuperscript{124} Apollo, like Doan, was in the business of acquiring, repairing, and reselling nooks secondhand.\textsuperscript{125} While Doan faithfully reproduced damaged and missing book covers, Apollo went one step further. It reproduced and replaced missing text and maps from damaged books before reselling them.\textsuperscript{126}

After noting the difficulty of drawing a line between permis-

\textsuperscript{118} Id. at 778. The court assumed that the cover design was a protectable component of the work. Id.

\textsuperscript{119} Id.

\textsuperscript{120} Id.

\textsuperscript{121} 211 F. 379 (W.D. Wash. 1914).

\textsuperscript{122} Id. at 382.

\textsuperscript{123} 215 F. 772 (E.D. Pa. 1914).

\textsuperscript{124} Id. at 775.

\textsuperscript{125} Id.

\textsuperscript{126} Id.
sible and infringing reproduction by the owner of a copy, the *Ginn* court adopted a rather unforgiving standard. According to the court, since Apollo was not entitled to publish a new edition of the book, it could not “reprint any material part of it.”\(^\text{127}\) Any material reproduction, even for the purposes of repair, infringed. The court’s approach, rather than confronting head on the admittedly challenging task of careful line drawing, treated exhaustion as an all or nothing proposition. At some point, repair slips into infringement. A copy owner who supplements a single chapter from a tattered copy with a dozen reproduced chapters is an infringer, not a repairer. But allowing Apollo to make limited reproductions of a few pages in the course of repairing copies appears to be the sort of reproduction sanctioned by *Doan*. But both *Ginn* and *Doan* recognize the tension between the reproduction right and the full enjoyment of copy ownership. And both cases underscore the need for flexible, but tailored exhaustion rules that strike an appropriate balance between the interests of copyright holders and copy owners.\(^\text{128}\)

2. Adaptation & Modification

In addition to distribution and reproduction, courts have applied the exhaustion principle to allow owners of copies to adapt or modify those copies. In one early case, Rudyard Kipling sued a publisher that purchased unbound pages of his copyrighted works from his licensee.\(^\text{129}\) Putnam’s Sons bound those pages in a multivolume

\(^{127}\) *Id.* at 779.
\(^{128}\) Occasionally, this balance is achieved legislatively. The Copyright Act entitles libraries, for example, to copy works in their collections to preserve against loss and deterioration. See 17 U.S.C. § 108. Congress has restricted the rights of copy owners when it has deemed doing so necessary to preserve incentives for creativity. See Computer Software Rental Amendments Act of 1990, Pub. L. No. 101-650, §§ 801-805, 104 Stat. 5089, 5134 (1990) (codified at 17 U.S.C. § 109(b)) (restricting the rights of copy owners to rent, lease, or lend computer programs for commercial purposes, but providing exceptions for video games and nonprofit libraries); Record Rental Amendment Act of 1984, Pub. L. No. 98-450, 98 Stat. 1727 (codified at 17 U.S.C. § 109(b)) (restricting the rights of copy owners to rent, lease, or lend phonorecords for commercial purposes, but providing an exception for nonprofit libraries).

\(^{129}\) *Kipling v. G.P. Putnam’s Sons*, 120 F. 631 (2d Cir. 1903).
set, along with Kipling’s copyrighted collection of poems The Seven Seas, several uncopyrighted Kipling poems, a biography of Kipling by author Will Clemens, and an index. The distribution of the lawfully acquired copies was privileged by the first sale rule, but what sets the Kipling case apart is the creation of a new work incorporating preexisting copies of Kipling’s writing. Nonetheless, the Second Circuit held that Putnam’s Sons, as the owner of copies of Kipling’s works, was entitled to create and distribute its new collection and arrangement of those copies.

Admittedly, Kipling was decided long before any explicit recognition of a general derivative work right. But the copyright law of the day did provide an exclusive right of adaptation that courts were willing to enforce under similar circumstances. Indeed, one court enforced that right against the lawful owner of copies. National Geographic Society v. Classified Geographic held that the adaptation right was infringed when the defendant purchased copies of National Geographic Magazine, cut out individual articles, and reassembled them in bound volumes organized by subject matter. The court attempted to distinguish Kipling by suggesting that G.P. Putnam’s Sons received permission to collect and arrange Kipling’s works, a conjecture at odds with the Kipling decision.

To the extent Kipling and National Geographic are reconcilable, a more workable distinction would consider the size of the component parts that make up each new work. Putnam’s Sons left Kipling’s copyrighted collections of poems intact when it combined them with other works. Classified Geographic, on the other hand, used the individual constituent articles from issues of National Geographic as the building blocks it rearranged into new works. Another cases decided just a few years after National Geographic lends some support to this distinction. Fawcett Publications made and sold comic books, includ-

130 Putnam’s Sons purchased its copies from D. Appleton & Co., presumably another Kipling licensee. Id. at 632.
131 Id.
132 Congress did not recognize a derivative work right until the 1976 Act. See 1-3 Nimmer on Copyright § 3.02 (noting the occasional difficulty of distinguishing derivative and collective works).
134 Id. at 660.
135 Id.
DIGITAL EXHAUSTION

ing Wow Comics, No. 2.\textsuperscript{136} Elliott Publishing purchased copies of Wow Comics, No. 2, bound them together with comic books published by Fawcett’s competitors, and sold the rebound titles under the name Double Comics.\textsuperscript{137} The court held that Elliott did not infringe.\textsuperscript{138}

Whether \textit{National Geographic} is ultimately consistent with \textit{Kipling} and \textit{Fawcett} remains an open question. But just as a line must be drawn between reproductions permitted by exhaustion and those that infringe, a viable exhaustion rule for the derivative work right needs to identify that subset of adaptations that an owner of a copy is entitled to prepare. The uses a copy owner could make of her copy in preparing an adaptation fall into three broad categories. At one end of the spectrum, the copy owner may rearrange the elements of copy in a way that borrows no expression from the original work. If an artist, for example, repurposes individual words from \textit{National Geographic} or small clusters of Benday dots from a comic book to create a new work, no infringement has occurred because no protectable subject matter has been exploited.\textsuperscript{139} At the other end of the spectrum, exhaustion protects copy owners who repackage their copies or combine them with other lawfully acquired copies or public domain works. Because these copies remain intact, with their purpose and expressive content unchanged, their reuse and modification is within the bundle of rights in the copy transferred from the copyright owner to the copy owner.

Somewhere in between these two poles, the adapter repurposes enough of the copy to borrow original expression but not enough to leave the expressive content of the original work unchanged. If the original work is sufficiently transformed through the manipulation of the copy, the resulting adaptation might be a fair use.\textsuperscript{140} But it would not be privileged by the exhaustion principle. The purpose of exhaustion is to allow the owner of copy to use that copy for its intended purpose. In this sense, the uses of copies endorsed by exhaustion are inherently consumptive. Exhaustion enables copy

\begin{itemize}
\item \textsuperscript{137} \textit{Id}.
\item \textsuperscript{138} \textit{Id} at 718.
\item \textsuperscript{139} Benday dots are an inexpensive method for printing color and shaded, named for printer Benjamin Day. \textit{See John Updike, More Matter: Essays and Criticism} 727 (1999).
\item \textsuperscript{140} \textit{See} Blanch v. Koons, 467 F.3d 244 (2d Cir. 2006).
\end{itemize}
DIGITAL EXHAUSTION

owners to preserve and transfer the value of their copies, but not to transform it.\footnote{141}

Recognizing the role of exhaustion in resolving disputes over adaptations could help avoid some of the messy definitional quandaries surrounding the derivative work right. The Ninth and Seventh Circuits, for example, reached very different conclusions when they considered claims of infringement against A.R.T., a company that transferred copies of protected images onto more durable media. A.R.T. would purchase books and prints of copyrighted images and affix them to ceramic tiles, allegedly creating derivative works.

The Seventh Circuit rejected the infringement claim brought by artist Annie Lee, concluding that mounting an image on a tile was insufficient to create a derivative work.\footnote{142} Surely, the court argued, mounting a painting in a frame would not trigger the derivative work right.\footnote{143} Affixing an image to a tile no more “recasts, adapts, or transforms” it than does framing it.\footnote{144} Equally importantly, the court acknowledged that “an alteration that includes or consumes a complete copy of the original lacks economic significance.”\footnote{145} Since A.R.T. did not create a derivative work and its distribution of the copies was protected by the first sale doctrine, it did not infringe.\footnote{146}

The Ninth Circuit, in contrast, agreed with plaintiff Mirage Editions that when A.R.T. affixed copyrighted images to ceramic tiles, A.R.T. prepared a derivative work.\footnote{147} With little explanation, the

\footnote{141} Lantern Press, Inc. v. American Publishers Co., 419 F. Supp. 1267 (1976). In Lantern Press, the court endorsed “pre-binding,” the practice of purchasing paperback books, binding them in hardcovers, and then reselling them. The goal of pre-binding is not to repair or restore a damaged copy, but to “extend the service life of the book and protect the text from destruction in use.” Id. at 1270. See also Ginn & Co., 215 F. at 778 (identifying the copy owners right to preserve and renovate his copy).

\footnote{142} 125 F.3d 580 (7th Cir. 1997).

\footnote{143} Id. at 581.

\footnote{144} 17 U.S.C. § 101.

\footnote{145} 125 F.3d at 581.

\footnote{146} See also C.M. Paul Co. v. Logan, 355 F. Supp. 189 (N.D. Tex. 1973) (holding that the transfer of copyrighted images from lawfully obtained greeting cards to ceramic plaques did not constitute a reproduction or an adaptation of the images).

\footnote{147} Mirage Editions, Inc. v. Albuquerque A.R.T. Co., 856 F.2d 1341, 1343 (9th Cir. 1988).
court concluded that removing copies of images from a book and affixing them to tiles was enough to “recast, adapt, or transform” the work.\textsuperscript{148} And like the Seventh Circuit, the Ninth recognized that the first sale doctrine did not extend beyond the distribution right to embrace the preparation of derivative works.\textsuperscript{149} 

Although the Seventh Circuit’s approach is better reasoned, the A.R.T. cases serve as useful illustrations of the difficulty courts face in applying the 1976 Act’s notoriously vague definition of derivative works. An exhaustion principle that goes beyond the distribution right could give courts a tool for resolving similar disputes without resorting to instinctual classifications.\textsuperscript{150} Even if the tiles created by A.R.T. are in a strict definitional sense derivative works, \textit{Kipling} strongly suggests that their lawful preparation is a natural and lawful extension of copy ownership.

3. Display & Performance

Congress granted copyright holders an exclusive right to display their works for the first time in 1976.\textsuperscript{151} A work is displayed

\textsuperscript{148} Id. at 1344.

\textsuperscript{149} Id. at 1343.

\textsuperscript{150} As the Clearplay controversy makes clear, the exhaustion principle does not provide easy answers to all derivative work questions. Clearplay developed DVD players capable of programmatically skipping or muting offensive content during playback. Copyright holders alleged that even though the performances were private and no permanent copy of the altered film was created, the performance constituted a derivative work. \textit{See generally} Alison R. Watkins, \textit{Surgical Safe Harbors: The Family Movie Act and the Future of Fair Use Legislation}, 21 BERKELEY TECH. L.J. 241, 248 (2006). Anticipating litigation, Clearplay and others sought a declaratory judgment of non-infringement. Before the court could decide whether such displays violate the derivative work right, Congress enacted the Family Movie Act, which permits automatic content skipping so long as no permanent copy is created. \textit{See} Pub. L. No. 109-9 (2005) (codified in 17 U.S.C. § 110(11)). This legislative fix could be seen as extension of the exhaustion principle that applies to both copy owners and those authorized to view performances. \textit{Id.}

\textsuperscript{151} See 17 U.S.C. § 106(5) (providing copyright with the exclusive right “in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the
when one shows a copy of it, either directly or indirectly through the
use some technology. concern over the risk of interference with
the public’s use and enjoyment of copyrighted works, Congress lim-
ited this new display right in two important respects. First, the scope
of the right was limited to public displays of a work, leaving dis-
plays within a typical social circle beyond the reach of copyright
holder control.

Second, even for displays that qualify as public, Congress en-
sured that exhaustion allows owners of copies to show those copies.
section 109(c) permits the owner of a lawfully made copy to display
that copy to the public at the place where it is located, either directly
or with the aid of technology, regardless of copyright holder con-
sent. As a result, museums, galleries, and other owners of copies
are not required to license public display rights for on-premises dis-

\footnotesize

individual images of a motion picture or other audiovisual work, to
display the copyrighted work publicly”).

\footnotesize\footnote{152} 17 u.s.c. § 101 (stating that “to ‘display’ a work means to show a
copy of it, either directly or by means of a film, slide, television im-
age, or any other device or process or, in the case of a motion picture
or other audiovisual work, to show individual images nonsequen-
tially”).

\footnotesize\footnote{153} 17 u.s.c. § 106(5). a public display is one that occurs in a place
open to either the public generally or a group of people exceeding a
“normal circle of a family and its social acquaintances.” 17 u.s.c. §
101. a public display also occurs when the display is transmitted to a
place open to the public or a group outside a typical social circle
“whether the members of the public capable of receiving the per-
formance or display receive it in the same place or in separate places
and at the same time or at different times.” \textit{id}.

\footnotesize\footnote{154} categorizing displays as public or private is not always as easy task.
\textit{compare} columbia pictures ibdus. v. aveco, 800 f.2d 59 (3d cir.
1986) (holding that the rental of rooms to members of the public for
the purposes of viewing performances of video cassettes violated the
public performance right) \textit{with} columbia pictures indus. v. profes-
sional real estate investors, 866 f.2d 278 1989 (holding that perfor-
manccs of motion pictures to renters of hotel rooms were not public).
\textit{see also} cartoon network lp v. csc holdings, inc., 536 f.3d
121 (2nd cir. 2008) (holding that the playback of recorded television
programs at the request of cable subscribers was not a performance
“to the public”).

\footnotesize\footnote{155} 17 u.s.c. § 109(c).
plays of works in their collections. If they own a copy, they are entitled to display it.156

While anyone can make a private display of a protected work, only the owner of a copy is privileged to make an otherwise infringing public display. Congress created the public display right and the privilege for copy owners simultaneously, suggesting an awareness on the part of the legislature of the importance of the parallel development of the exhaustion principle and copyright owner exclusivity.

The exhaustion of the public display right also suggests that the justifications for privileging copy owners go beyond alienability. The privilege of displaying a lawful copy of a work does not clear the way for resale of the copy. Instead, it allows copy owners to make a customary use inherent in the notion of copy ownership, the sort of use copy owners bargain for when they purchase copies. Section 109(c) recognizes the right to display a copy, like the right to alienate it, as a natural incident of copy ownership.157

But the display rights of copy owners are not without limits. In light of emerging technologies, Congress worried that displays of copies to large dispersed audiences could interfere with the ability of copyright holders to exploit their works through the more traditional means of reproduction and distribution.158 So Congress limited the public display privilege of copy owners to the physical location of the copy, preserving the balance between copyright owners and copy owners.

In contrast to the public display right, the right of public performance does not feature a corresponding general-purpose exhaustion.

156 The right of public display also applies to anyone authorized by the owner of a copy. So even if work is on loan from a private collection, a museum is entitled to display it publicly. Id.
157 See H.R. Rep. No. 1476, 94th Cong., 2d Sess. 79-80 (1976) (describing “the general principle that the lawful owner of a copy of a work should be able to put his copy on public display without the consent of the copyright owner” as a “traditional privilege of the owner of a copy”). For a detailed account of the legislative history of this provision see Patry § 15:10.
158 See H.R. Rep. No. 1476, 94th Cong., 2d Sess. 79-80 (1976) (stating “the Committee’s intention [] to preserve the traditional privilege of the owner of a copy to display it directly, but to place reasonable restrictions on the ability to display it indirectly in such a way that the copyright owner's market for reproduction and distribution of copies would be affected”).
tion rule. Congress created the first performance right in 1856, granting authors of dramatic works the exclusive right “to act, perform, or represent the same … on any stage or public place.” Over time, musical works, lectures, sermons, and other literary works were protected against unauthorized for-profit public performances. Motion pictures, omitted from the 1909 Act altogether, eventually received protection under the 1976 Act.

The owner of a copy of a work, a script for example, is entitled to publicly display, but not perform, that copy. Both the narrow scope of early performance rights and the contribution of new expression inherent in performance partially explain this discrepancy.

160 Act of January 6, 1897, 44th Cong., 2d Sess., 29 Stat. 481
161 1909 Act § 1.
163 Motion pictures were recognized as protectable subject matter in 1912. See Act of August 24, 1912, ch. 356, § 5, 37 Stat. 488.
164 See 17 U.S.C. § 106(4) (listing “literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works” as those that enjoy the exclusive right of public performance). To perform a work is “to recite, render, play, dance, or act it, either directly or by means of any device or process or, in the case of a motion picture or other audiovisual work, to show its images in any sequence or to make the sounds accompanying it audible.” 17 U.S.C. § 101. The performance and display rights share a common definition of “public.” Id. More recently, Congress provided a limited digital public performance right for sound recordings. 17 U.S.C. § 106(6).
165 Prior to the 1976 Act, public performance rights in lectures, sermons, addresses, musical works, and non-dramatic literary works extended only to for-profit and public performances. Therefore, copy owners were arguably given sufficient latitude to exploit their copies, rendering exhaustion largely unnecessary. Under the 1909 regime, however, the public performance of dramatic works infringed regardless of the defendant’s profit motive. See 1909 Act § 1. Likewise, current law does not condition infringement of the public performance right on commercial activity. 17 U.S.C. § 106(4).
166 Unlike the act of display, which generally entails little more than presenting an unaltered and unmediated copy of the author’s work to an audience, performance typically involves an element of interpretation, fusing the author’s expression with some original contribution.
But the best explanation for the differing treatment of the display and performance rights focuses on patterns of commercial exploitation. If the goal of the copyright system is to balance incentives to create new works with the ability of the public to use and enjoy them, the exhaustion principle should be sensitive to variations in the ways copyright holders commercialize their works. Copyright holders sometimes profit by selling copies. A painter might sell a single copy of her work at a high price, or she might sell mass produced prints at a lower price. In either case, she profits from the sale of copies. Contrast that strategy with that of the playwright or the early motion picture producer. Those authors did not exploit their works primarily by selling copies, but by public performances or exhibitions. If the value of a work is extracted through performance rather than the sale of copies, performances privileged by exhaustion could interfere with copyright’s incentive structure in a way that public displays do not.

Despite the general rule that exhaustion does not limit the performance right, Congress has applied the exhaustion principle to address transactions that intertwine copy ownership and public performance. After the Fourth Circuit held that video arcades violated the public performance right when they allowed customers to play lawfully purchased games in public, Congress intervened. Since enabling public use was the only common and obvious reason to purchase an expensive coin operated arcade game, Congress created a limited exception that exhausted the public display right in such cases.

---

by the performer. While a display is an exploitation of a copy, a performance is perhaps better understood as an exploitation of the underlying work. But not all performances add original expression. The projectionist at your local theater does not interpret the films she exhibits. See 17 U.S.C. § 101 (defining the performance of a motion picture as “show[ing] its images in any sequence”).

167 The choice between these strategies is informed by both consumer preferences and the available technology. Most audiences would rather watch a performance of Krapp’s Last Tape than read a copy of the play. And until the advent of the VCR, there was simply no consumer market for copies of motion pictures. Over time, these practices can change. Hollywood makes more money each year on home video purchases and rentals than at the box office. But longstanding practices can become embedded in both consumer expectations and copyright doctrine.

4. Exhaustion & Computer Programs

Outside of § 109, the Copyright Act’s most explicit recognition of the exhaustion principle is its treatment of computer programs. Section 117 of the Act guarantees owners of lawfully made copies of programs the right to reproduce, adapt, and redistribute them. In § 117, the Copyright Act acknowledges that copy owners require more than the freedom of alienation to make use of the copies they own. In that sense, § 117 echoes the pre- Bobbs-Merrill exhaustion case law.

The current § 117 grew out of initial congressional indecision about the scope of copyright protection for computer programs. Although the Copyright Office accepted registrations for programs under its “rule of doubt” as early as 1964, the 1976 Act failed to fully clarify lingering questions about their copyrightability and scope of protection. Instead, Congress did two things. First, it enacted the original version of § 117, which effectively preserved the status quo. Second, it established the National Commission on New

---

169 See 109(e). This provision lapsed in 1994. Pub. L. No. 101-650, § 804(b); see also PATRY § 14:32.
171 As originally enacted § 117 provided in relevant part:
“This title does not afford to the owner of copyright in a work any greater or lesser rights with respect to the use of the work in conjunction with automatic systems capable of storing, processing, retrieving, or transferring information, or in conjunction with any similar device, machine, or process, than those afforded to works under the law, whether title 17 or the common law or statutes of a State”

The House Report noted that § 117 was “intended neither to cut off any rights that may now exist, nor to create new rights that
Technological Uses of Copyrighted Works (CONTU), a panel of experts charged with studying the relationship between new technologies and copyright protection and recommending changes to existing law.\(^{172}\)

Among its recommendations, CONTU offered a definition of computer programs and called on Congress to explicitly endorse them as works protected by copyright.\(^{173}\) Second, CONTU recommended that § 117 as enacted in the 1976 Act be replaced with new statutory language designed to establish the rights of lawful possessors of copies of computer programs to copy and adapt those programs as necessary to make use of them.\(^{174}\)

CONTU proposed four distinct rights that would flow from the fact of ownership or rightful possession of a copy. First, copy owners should be permitted to create exact copies of programs to the extent necessary to run those programs. Storage of a program on a hard disk, or arguably in RAM, creates a copy.\(^{175}\) CONTU understood that unless copy owners were entitled to create “essential step” copies, mere use of their copies could trigger liability.\(^{176}\) Second, because digitally encoded works like computer programs are subject to accidental deletion and medium instability, CONTU suggested a right for copy owners to create archival copies of programs.\(^{177}\) Third, CONTU noted that because of a lack of standardization in computer hardware, operating systems, and programming languages, programs might be denied under the Act of 1909 or under common law principles currently applicable.” And “with respect to the copyright-ability of computer programs, the ownership of copyrights in them, the term of protection, and the formal requirements of the remainder of the bill, the new statute would apply.” H.R. No. 94-1476.

\(^{172}\) Pub. L. No. 93-573.

\(^{173}\) See National Commission on New Technological Uses of Copyrighted Works, Final Report 13 (1979) [hereinafter CONTU]. This definition was codified in § 101. See infra Part III.

\(^{174}\) CONTU at 13.

\(^{175}\) The notion that temporary instantiations of a work stored in memory are copies for the purposes of the Copyright Act is a controversial one. See Aaron Perzanowski, Fixing RAM Copies, 104 NW U. L. Rev. ____ (2010).

\(^{176}\) CONTU at 13 (recommending that “one who rightfully possesses a copy of a program . . . should be provided with a legal right to copy it to that extent which will permit its use by that possessor”).

\(^{177}\) Id.
written for one device may not run on another. To ensure some measure of portability between systems, CONTU recommended granting copy owners the “right to make those changes necessary to enable the use for which it was both sold and purchased.” These sanctioned adaptation copies included both conversions from one language to another to facilitate device-shifting as well as alterations that added new features to an existing program. Finally, CONTU endorsed a right of distribution that extended not only to the original purchased copy but to any exact copies made pursuant to the archival and essential step privileges. So long as all such copies were transferred together, along with the copy from which they were made, the copy owner was entitled to sell, lease, or otherwise transfer ownership of them.

In 1980, Congress adopted CONTU’s proposed changes to § 117. Enacted as part of the Government Patent Policy Act of 1980, the revisions to § 117 prompted no substantive discussion in the legislative history. Given the absence of any meaningful record of debate in Congress, the rationales put forth by CONTU stand as the only testament to the purpose of § 117. Nor does congressional alteration of CONTU’s proposed statutory text undermine the notion that § 117 was intended to clarify the application of exhaustion to computer programs. Congress made a single change to the language drafted by CONTU, substituting the word “owner” for

---

178 Id.

179 Id.

180 Id.

181 CONTU at 12-13. Without this limitation, § 117 could enable the sale of putative backup copies in direct competition with the copyright holder. See PATRY § 11:43. The copy owner’s right to redistribute copies under § 117 does not extend to adaptations. Since such copies are “lawfully made” under Title 17, § 117 functions in part as an implicit limit on § 109.


183 Although the CONTU report is frequently cited by courts and commentators, its authoritative weight is far from clear. However, to the extent Congress acted on CONTU’s recommendations without any additional legislative history, as it did with respect to § 117, the CONTU report is the best indication of Congress’s intent, by virtue of being the only evidence available. See PATRY § 11:30.
DIGITAL EXHAUSTION

CONTU’s preferred formulation, “rightful possessor.” Although this change may have limited the class of users who benefit from § 117, it is fully consistent with the exhaustion principle.

As enacted in 1980, § 117 established a set of copy owner rights that extended the pre-Bobbs-Merrill exhaustion tradition into the digital age. Copy owners are entitled to reproduce their copies for the purposes of preservation and renewal; they can create derivative works in order to add new features or ensure compatibility; and they can distribute exact copies of a program in conjunction with transfer of their original copy. The rights established in § 117 – along with the first sale doctrine, the public display privilege, and the exhaustion rules found throughout the early cases – serve the same basic purpose. They all allow copy owners to make uses otherwise within the literal scope of copyright holder exclusivity. Despite their similar goals and rationales, the statutory tweaks to the law of copyright exhaustion present an apparent tension with the common law approach favored by early courts. As discussed in the next Part, however, the common law process continues to play an important role in copyright law generally and in exhaustion policy in particular.

III. REVIVING EXHAUSTION IN THE DIGITAL ECONOMY

Understanding the first sale doctrine as a component of a larger exhaustion principle offers a promising solution to the threat of obsolescence the doctrine currently faces. Although a statutory solution could offer timely clarification of the scope of exhaustion in the digital economy, legislative efforts in the copyright arena, particu-

185 This change excluded those, like bailees, who rightfully possessed copies, but had no ownership interest in them. See Quality King, 523 U.S. at 146-47 (noting that the use of the term “owner” in § 109 excludes bailees). Some have argued that it excludes mere licensees from taking advantage of the privileges outlined in § 117. See id. But treating consumers who acquire copies through transactions that look like purchases as mere licensees of physical objects is difficult to square with reason or sound policy. See Carver, supra note ___.
186 See 17 U.S.C. § 117(a)-(b). In response to the Ninth Circuit’s decision in MAI v. Peak, 991 F.2d 511 (9th Cir. 1993), the Digital Millennium Copyright Act added a new subsection clarifying that the creation of copies of a program in the course of maintenance or repair of a computer does not infringe. See id. § 117(c).
larly those aimed at shifting the balance of exclusivity in the favor of users, have an inconsistent track record, at best. 187 Moreover, in the long term, detailed statutory schemes exacerbate the risk that today’s law will be outpaced by tomorrow’s technological and market developments. Instead, our proposal embraces the exhaustion principle’s tradition of common law development and its promise of greater flexibility and responsiveness to the interests of copy owners.

This Part begins by describing the central role common law adjudication has played and continues to play in copyright law, notwithstanding the increasingly regulatory tone of recent amendments to the Copyright Act. It argues that the exhaustion principle, like many central doctrines in copyright law, remains essentially a common law rule despite the statutory recognition of the first sale doctrine and § 117. Next, this Part draws on the common law development of patent law’s exhaustion rules to further support such an approach in copyright law. Finally, it concludes by outlining a set of principles intended to help courts apply the exhaustion principle to digitally distributed works.

A. Exhaustion & the Common Law of Copyright

The notion that the copyright is a creature of statutory law has attained something approaching axiomatic status. With its 1834 decision in *Wheaton v. Peters*, the Supreme Court held that federal copyright protection for published works could be created solely by legislative grant. 188 Although state common law and statutory protection for unpublished works persisted, those rights were largely extinguished by the Copyright Act of 1976. 189 Today, copyright interests

---

187 The BALANCE Act, for example, would have amended § 109 to allow the owner of a copy to transmit the work to a single recipient so long as the transferor did not retain a copy. *See Benefit Authors without Limiting Advancement or Net Consumer Expectations (BALANCE) Act, H.R. 1066, 108th Cong. (2003).* The BALANCE Act was never reported out of the House Committee on the Judiciary. Scholars have advocated statutory fixes to §§ 109 and 117 for well over a decade. *See, e.g.*, Fred H. Cate, The Technological Transformation of Copyright Law, 81 Iowa L. Rev. 1395, 1447-51 (1996).


189 Unlike its predecessors, the 1976 Act protected both published
arise exclusively under the Copyright Act.

Common law copyright may be a thing of the past, but the common law of copyright is alive and well. Many of copyright's central rules are deeply rooted in common law tradition. Core concepts and doctrines – among them, originality, authorship, substantial similarity, and secondary liability – spring from centuries of and unpublished works, bringing an end to the bifurcated system of state and federal protections. See Ralph S. Brown, Jr., Unification: A Cheerful Requiem for Common Law Copyright, 24 UCLA L. REV. 1070, 1070 (1977) (noting that under the 1976 Act, the “dual system that has persisted since the beginning of the republic gives way to a unified national copyright”). The 1976 Act continues to countenance state law protection for sound recordings created prior to 1972. 17 U.S.C. § 301(c).


191 In the context of joint authorship, for example, courts have held that an author must contribute expression to a protected work. See, e.g., Childress v. Taylor, 945 F.2d 500, 507 (2d Cir. 1991). Childress rejected Nimmer’s contention that the contribution of unprotectable elements, such as ideas, is sufficient to establish joint authorship. See 1 Nimmer on Copyright § 6.07.

192 The 1976 Act offers no definition of infringement. Instead, § 501 deems one who violates any of the exclusive rights defined in § 106 an infringer. See 17 U.S.C. § 501. Nor does the Act instruct courts as to the amount or type of copying that violates the reproduction right. Indeed, “no copyright statute, going back to the 1710 English Statute of Anne, has ever defined the degree or type of reproduction that will give rise to infringement.” PATRY § 9:64. The substantial similarity standard, the most prevalent formulation of the test for infringement, developed entirely through common law evolution.

193 Aside from the exceedingly thin reed offered by the phrase “to authorize,” the Copyright Act lacks any explicit recognition of secondary liability for infringement. See 17 U.S.C. § 106 (providing copyright holders “exclusive rights to do and to authorize” the enumerated acts). Despite this statutory silence, the common law of copyright has developed powerful and nuanced doctrines of secondary
common law adjudication and are almost entirely absent from the text of the Copyright Act. Other components of copyright law, such as the definition of works made for hire, are spelled out in the statute, but rely on embedded common law rules. Regardless of whether the Copyright Act enshrines existing common law or new legislative policy, Congress typically leaves the heavy lifting of interpretation and application to the courts.

But this history of delegation to the courts has not been an unbroken one. Recent additions to the Copyright Act display a level of regulatory detail more commonly seen in agency rulemakings or private industry agreements. Despite the ink spilled in these remote corners of copyright law, courts continue to answer the fundamental liability. Vicarious liability, an outgrowth of respondeat superior, applies when a defendant “has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities.” A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1022 (9th Cir. 2001). Contributory liability “originates in tort law and stems from the notion that one who directly contributes to another's infringement should be held accountable.” Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 264 (9th Cir. 1996). In Sony, the Supreme Court established the staple article doctrine, which limits contributory liability when a product is capable of substantial non-infringing use. Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 442, 104 S. Ct. 774, 789, 78 L. Ed. 2d 574 (1984). Most recently, the Court limited the practical effect of Sony by reinvigorating secondary liability premised on intentional inducement of infringement. See Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd., 545 U.S. 913, 914, 125 S. Ct. 2764, 2767, 162 L. Ed. 2d 781 (2005).

195 Cmty. for Creative Non-Violence v. Reid, 490 U.S. 730, 741 (1989) (holding that “employee” and “scope of employment” as used in the “work made for hire” definition “should be understood in light of the general common law of agency”).
197 See, e.g., 17 U.S.C. §§ 114 & 115. Indeed, these and other key provisions of the Copyright Act are effectively private agreements. See PATRY § 2:1 (describing the post-1995 amendments to the Copyright Act “in form if not content private industry standards agreements dressed up in legislative garb”). See also JESSICA LITMAN, DIGITAL COPYRIGHT 36-39 (2001).
questions – the establishment of exclusive rights, their ownership, scope, infringement, exceptions, and limitations – through the common law process.

The common law development of two particular limitations on the exclusive rights of copyright holders, misuse and fair use, shed some light on the viability of a non-statutory exhaustion defense. The doctrine of copyright misuse is found nowhere in the Copyright Act. It emerged from a series of cases that limited the rights, first of patent holders and, later, copyright holders who attempted to enlarge the scope of their statutory exclusivity in conflict with the underlying principles of the patent and copyright laws.\textsuperscript{198} If misuse is established, the rights holder is prevented from asserting its rights until it has purged itself of its misuse.\textsuperscript{199}

The misuse doctrine has expanded and evolved over time. While some early cases appeared to limit misuse to behavior that violated antitrust law, the modern doctrine embraces a much broader range of activities.\textsuperscript{200} This evolution occurred absent either guidance or recognition from Congress,\textsuperscript{201} demonstrating that statutory exceptions and limitations are only a subset of the available defenses to infringement.

Unlike misuse, exhaustion is not entirely absent from the

\textsuperscript{198} Morton Salt Co. v. G. S. Suppiger Co., 314 U.S. 488, 493, (1942) (holding that use of a patent to restrain competition with the sale of an unpatented product constitutes misuse); United States v. Paramount Pictures, Inc., 334 U.S. 131 (1948) (holding that block-booking, the conditioning of the sale or license of one copyrighted work on the sale or license of another work, unlawfully enlarged the scope of individual copyrights); United States v. Loew's, Inc., 371 U.S. 38 (1962) (affirming lower court decision that block-booking violated § 1 of the Sherman Act); Lasercomb Am., Inc. v. Reynolds, 911 F.2d 970 (1990) (recognizing misuse as a defense to copyright infringement).

\textsuperscript{199} Id. at 979 n.22 The defense applies even if the defendant was not itself subject to plaintiff’s misuse. Id.

\textsuperscript{200} See, e.g., qad inc. v. ALN Associates, Inc., 770 F. Supp. 1261, 1267 (N.D. Ill. 1991) aff’d, 974 F.2d 834 (7th Cir. 1992) (holding that the failure to disclose a work as a derivative constituted misuse).

Digital Exhaustion

Copyright Act. Both sections 109 and 117 are examples of exhaustion at work in the statute. Yet there is no doubt that common law defenses to infringement can thrive in the shadow of the Copyright Act; for evidence, one only need look to the fair use defense that continues to evolve despite its statutory recognition.

Fair use, arguably the single most important limitation on copyright exclusivity, began its life as a purely common law doctrine. Although its ancestry stretches back much further, the doctrine began to take its modern shape with Justice Story’s decision in *Folsom v. Marsh.*202 In the centuries that followed, fair use has evolved into a doctrine flexible enough to decide cases dealing with scholarly quotation, parodies of popular music, and technologies that facilitate new uses of works by consumers.203

After well over a century of common law development, Congress included fair use in the 1976 Act. Section 107 lays out several illustrative examples of potentially fair uses and a four factor test.204 These factors, derived from the doctrine’s common law history, led many to conclude that Congress codified fair use, synthesizing the constantly evolving common law accretion into a clearer, more manageable statutory bundle.205 However, Congress’s intent was not to replace the existing fair use doctrine with the four factor test in § 107 but to “restate the present judicial doctrine of fair use, not to change,

205 See, e.g., Harper & Row Publishers, Inc. v. Nation Enterprises, 471 U.S. 539, 547 (1985) (describing § 107 as “codifying] the traditional privilege of other authors to make ‘fair use’ of an earlier writer's work”); Suntrust Bank v. Houghton Mifflin Co., 268 F.3d 1257, 1264 (11th Cir. 2001) (stating that “until codification of the fair-use doctrine in the 1976 Act, fair use was a judge-made right”); Ty, Inc. v. Publications Int'l Ltd., 292 F.3d 512, 517 (7th Cir. 2002) (stating that “the defense of fair use, originally judge-made, now codified, plays an essential role in copyright law”); but see Triangle Publications, Inc. v. Knight-Ridder Newspapers, Inc., 626 F.2d 1171, 1174 (5th Cir. 1980) (noting that “in codifying the concept of fair use, Congress made clear that it in no way intended to depart from Court-created principles or to short-circuit further judicial development”).
narrow, or enlarge it in any way.\textsuperscript{206} As others have noted, the effect of § 107 is not codification in any strict sense, but statutory recognition of an evolving common law doctrine.\textsuperscript{207}

Much like fair use, the first sale doctrine and the exhaustion principle it embodies are rooted in judicial, rather than legislative, decision making.\textsuperscript{208} The conceptual antecedent of first sale, the rule favoring alienability of personal property, grew out of centuries of common law.\textsuperscript{209} And despite the Court’s claim that it acted merely as a faithful interpreter of the terms of the Copyright Act, \textit{Bobbs-Merrill} reveals a Court engaged in judicial weighing of competing interests and policies that parallels the fair use inquiry.\textsuperscript{210} The Copyright Act of the day provided rights holders the sole liberty to vend copies of their works, but said nothing of alienability, exhaustion, or first sale.\textsuperscript{211} The \textit{Bobbs-Merrill} Court did not discover the first sale doctrine nestled between the lines of the Act. It applied a common law defense to infringement previously recognized by other courts that, while not inconsistent with the text of the Act, was to be found nowhere within it.

Similarly, the cases that embraced the rights of renewal, re-

\textsuperscript{206} H.R. Rep. No. 94-1476, 94th Cong., 2d Sess. 66 (1976). Congress insisted that “the courts must be free to adapt the doctrine to particular situations on a case-by-case basis.” Id.

\textsuperscript{207} See PATRY § 10:8 (noting that “Congress was merely recognizing, not codifying, a common-law doctrine” in § 107).

\textsuperscript{208} See U.S. v. Atherton, 561 F.2d 747, 750 (9th Cir. 1977) (the first sale doctrine “has been judicially read into the statute from a gloss drawn in 17 U.S.C. § 27”).

\textsuperscript{209} See Zechariah Chafee, Jr., \textit{Equitable Servitudes on Chattels}, 41 HARV. L. REV. 945, 981-982 (1928).

\textsuperscript{210} Bobbs-Merrill, 210 U.S. at 350 (describing the Court’s task as “purely a question of statutory interpretation”). The line separating the development common law rules and statutory interpretation is not a clear one. See Louise Weinberg, \textit{Federal Common Law}, 83 NW. U. L. REV. 805, 807 (1989) (arguing that “there is no useful theoretical dividing line that would let us say with confidence, ‘On this side we have the common law, and on that we have statutory interpretation.’”); Craig Green, \textit{Repressing Erie’s Myth}, 96 CAL. L. REV. 595, 619 (2008) (noting “one could stare oneself blind trying to separate common law from statutory or constitutional interpretation, remedial law, and other common-law judicial decision-making”).

\textsuperscript{211} Copyright Act of 1891, § 4952, 26 Stat. 1107.
pair, adaptation, and modification relied on the same common law approach on display in *Bobbs-Merrill*.

These courts looked to the basic purposes of copyright protection, the necessity of balancing the interests of rights holders and the public, and the specific facts presented in order to address gaps in the statutory scheme and ease copyright’s core tension between incentives for creation and the accessibility and enjoyment of creative works. This flexible, fact sensitive approach closely mirrors the basic operation of the fair use doctrine, a methodology largely responsible for its power and longevity. We suggest that courts can employ a similarly flexible approach to exhaustion in order to rebalance the interests of rights holders and copy owners in our reordered information economy.

To the extent Congress intended the Copyright Act to serve as the exclusive statement of copyright’s exhaustion doctrine, there are arguably no statutory gaps left for courts to fill. But the avail-

---

212 See supra Part II.B.


214 This common law approach can still be seen today as courts struggle to apply § 109. See Quality King Distributors, Inc. v. Lanza Research Intern., Inc., 523 U.S. 135, 152 (1998), (reasoning that “an ordinary interpretation of the statement that a person is entitled ‘to sell or otherwise dispose of the possession’ of an item surely includes the right to ship it to another person in another country”); Parfums Givenchy, Inc. v. Drug Emporium, Inc., 38 F.3d 477, 482, n.8 (9th Cir. 1994) (recognizing a judicially created exception to the Ninth Circuit’s limitation of the first sale doctrine to works made in the United States if an authorized first sale occurs in the United States).

215 See Peter Westen & Jeffrey S. Lehman, *Is There Life for Erie After the Death of Diversity?*, 78 Mich. L. Rev. 311, 331-32 (1980) (“When a court in this country acts in a common law capacity, it performs precisely the same function as when it interprets a statute: It legislates ‘interstitially’ by ‘filling in the gaps left by the legislature,’ fully recognizing that the legislature ‘can by the ordinarily legislative process correct results if it does not approve’”) (quoting John Hart Ely, *The Supreme Court, 1977 Term—Foreword: On Discovering Fundamental Values, 92 Harv. L. Rev. 5, 50 (1978)*); Jay Dratler, Jr., *Common-Sense (Federal) Common Law Adrift in a Statutory Sea, or Why Grokster Was a Unani-
able evidence does not support the inference that Congress meant to foreclose future development of the exhaustion principle. Congress appears to have merely highlighted some particularly important exhaustion scenarios while leaving courts free to develop and apply the common law of copyright exhaustion.

When Congress first recognized the first sale doctrine in 1909, it did “not intend[] to change in any way existing law” and attempted “to make it clear that there is no intention to enlarge in any way the construction to be given to the word ‘vend,’” a construction developed by the courts and largely defined by the first sale rule. 216 This legislative intent, combined with the continued judicial development of exhaustion rules after the 1909 Act,217 confirms that the statutory recognition of first sale did not close the door on the common law of copyright exhaustion. This state of affairs continued under the 1976 Act regime. There Congress affirmed its intent to “restate[] and confirm[]” the first sale rule “established by court decisions” and reflected in § 27 of the existing Act.218 Congress had good reasons for highlighting the particular exhaustion rules contained in the Copyright Act. As discussed above, the distribution right historically has been the most economically significant of the copyright holder’s exclusive rights. Congress’s decision

*mous Decision, 22 SANTA CLARA COMPUTER & HIGH TECH. L.J. 413, 419 (2006) (noting that “when Congress is mute or unintelligible on an important point in an otherwise comprehensive statutory scheme, it is up to the courts to fill in the gaps. Doing so is neither judicial legislation nor judicial activism. Rather, it is an exercise in developing federal common law, within the interstices of federal statutes, universally recognized as legitimate, notwithstanding *Erie*.”).


217 See *supra* note __.

218 H.R. Rep. No. 94-1476, 94th Cong., 2d Sess. 79 (1976). See *also* id. at 80 (noting that § 109(b), now § 109(c), was intended to “preserve the traditional privilege of the owner of a copy to display it directly”); Quality King, 523 U.S. at 152 (“There is no reason to assume that Congress intended either § 109(a) or the earlier codifications of the doctrine to limit its broad scope.”) When Congress enacted § 117, applying the exhaustion principle to computer programs, it did so without any statement of its legislative intent. See H.R. Rep. No. 96-1307, 96th Cong., 2d Sess. (1980).
to outline the limitations on that right in the statute, therefore, is not surprising. And since Congress created the public display right in the 1976 Act, it could not rely on common law exhaustion limitations. So it created needed limitations simultaneously with the new right. Similarly, when Congress explicitly extended copyright protection to computer programs, it felt the need to clarify how longstanding exhaustion principles applied to that new class of works. Congress’s choice to remain silent about exhaustion more generally, however, reveals little about the viability of common law rules favoring copy owners.

Whether understood as codifications of specific rules or statutory recognitions of a broader common law trend, sections 109 and 117 appears consistent with continued judicial extension and application of copyright’s exhaustion principle. To treat sections 109 and 117 as foreclosing such common law evolution, particularly when Congress’s only statements on the subject evince its effort to recognize and preserve common law rules, would be to read far too much from legislative silence. Congress has not explicitly embraced the full scope of the exhaustion doctrine at work in the case law. But it has not rejected it either. So long as the rules applied by courts do not conflict with the terms of the Copyright Act, there appears to be no barrier to the parallel development of purely judicial exhaustion doctrines. As discussed below, the history of patent exhaustion offers a strong case for the virtues of judicial evolution of exhaustion rules.


While copyright law has focused largely on the statutory embodiment of the first sale rule, patent law has fully embraced an exhaustion regime firmly rooted in judicial decision-making. The common law origins and application of patent exhaustion make a strong case for the virtues of such an approach and help inform how courts deciding copyright cases could reincorporate a similar methodology.

Much like copyright exhaustion, patent exhaustion began as a common law method for ensuring the alienability of goods and the purchaser’s freedom to use them by limiting the patent owner’s exclusive rights. In its first patent exhaustion case, the Court held that the extension of a patent term could not interfere with the rights of purchasers who bought the item for use “in the ordinary pursuits of life.”\(^\text{219}\) Later, the Court held that, notwithstanding an explicit post-

\(^{219}\) Bloomer v. McQuewan, 14 How. 539, 549 (1853).
sale restriction, a purchase “carrie[s] with it the right to the use of that machine so long as it [is] capable of use.” The Court also used the exhaustion doctrine to hold territorial restrictions on resale unenforceable.

Patent exhaustion is based not on statutory language, but on normative policies, such as the idea that patent owners should not control post-sale consumer uses of patented goods, restrain the growth of secondary markets, or interfere with competition.

The flexibility to distinguish cases in light of competing policy objectives and changing economic conditions has served patent law well. For example, after the Supreme Court upheld a patent license price-fixing provision in A.B. Dick, many patent holders began limiting the use of their products and securing control of related, unpatented items. Recognizing the broader implications of such conduct, the Court reversed the rule just one year later. Unconstrained by rigid statutory language, the Court relied on first principles – the constitutional purpose of patents – to determine that post-sale control of the item and related goods were beyond the scope of patent protection.


221 Id. at 456.

222 See Keeler v. Standard Folding-Bed Co., 157 U.S. 659, 666 (1895) (holding that “one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place.”).


224 See Quanta (citing Motion Picture Patent Co.)

225 Id.

226 See Van Houweiling, supra note __, at 913-14 (Noting that just one year after A.B. Dick, the Court distinguished it and reaffirmed Adams and its progeny as the proper line of reasoning for exhaustion cases and later confirmed the rule in Straus and Motion Picture Patents Co.) (citing Motion Picture Patents Co. v. Universal Film Manufacturing Co., 243 U.S. 490, 501 (1917) (concluding that the case fell “within the principles of” Adams and Bauer).
Patent exhaustion’s common law approach also cabined the doctrine, preventing it from undermining incentives for innovation and protecting patent holder profits from initial sales. For example the Supreme Court used exhaustion to strike down post-sale price restrictions in *Dr. Miles* and *Motion Picture Patents*, as those cases involved anticompetitive efforts to “double dip” into downstream profits while at the same time upholding similar restrictions in *General Electric*, a case involving a directly competing manufacturer.228

The flexibility of the common law approach has also helped courts deal with new technologies and changing markets. In its most recent patent exhaustion case, *Quanta v. LG Electronics*, the Supreme Court addressed complications in the semiconductor chip market, where numerous patents exist on both the products and the methods of using them. The question in *Quanta* was whether or not method patents were exhausted by the sale of a product that “substantially embodied” the method. The Court held they were, based on the “longstanding principle that, when a patented item is ‘once lawfully made and sold, there is no restriction on [its] use to be implied for the benefit of the patentee.’ ”229

The patent holder argued that exhaustion could not apply to method claims because they were processes and therefore not linked to a tangible article and incapable of being sold. However, the Court rejected this argument, recognizing that allowing patent owners to control through method patents what they could not control through product patents would thwart the purposes of exhaustion and allow an end run around the doctrine.230 Had the Court been bound by an outdated and shortsighted statute, it would have lacked the power to adjust exhaustion rules to keep pace in this new technological context.231

228 Van Houweiling, *supra* note __, at 919-920.
229 *Id.* at 2118 (quoting Adams, 17 Wall at 457).
230 *Id.*
231 *Quanta* also addressed concerns over artful drafting. The Court made it clear that skillful lawyering would be unsuccessful in thwarting exhaustion. *Id.* (“By characterizing their claims as method instead of apparatus claims, or including a method claim for the machine’s patented method of performing its task, a patent drafter could shield practically any patented item from exhaustion.”). Some courts have applied a similar approach in copyright cases, introducing judicial flexibility by looking to the economic realities of the transaction. *See* Vernor; Augusto; *see also* Carver, *supra* note __ (arguing to look be-
Patent law’s experience with flexible judicially administered exhaustion rules highlights the virtues of an approach not ossified by statutory fealty. As the next section demonstrates, copyright law would benefit from more fully embracing common law exhaustion.

C. Applying the Exhaustion Principle to Digital Copies

The evolution of patent exhaustion reflects an overarching concern with the ability of owners of goods embodying patented inventions to use and redistribute them without patent holder permission. That same fundamental concern with the rights to use and redistribute has driven the common law and statutory development of copyright’s exhaustion rules as well.

The pre-\textit{Bobbs-Merrill} cases vindicated both of these interests. They permitted copy owners to renew, repair, preserve, and adapt their copies, sometimes in the name of enabling continued use and enjoyment, and other times to facilitate resale.\textsuperscript{232} Likewise, the Copyright Act’s statutory recognitions of the exhaustion principle promote the freedom to use and redistribute lawfully acquired copies. The first sale rule acknowledged in § 109(a) focuses on clearing the way for redistribution,\textsuperscript{233} and § 109(c) clarifies limits on the public display right that allow copy owners to make expected uses of works of visual expression.\textsuperscript{234}

Most recently, Congress enacted § 117 to ensure that the right of copy owners to use and redistribute copies continued to apply to computer programs, a new class of works that introduced considerable complications.\textsuperscript{235} Since the use of computer programs typically entails some degree of reproduction, copy owners needed an unambiguous right to make copies essential to a program’s operation.\textsuperscript{236} And since computer programs must interact with other hardware and software components in order to run, copy owners needed the ability to adapt programs for use in new computing environments.\textsuperscript{237} See supra Part II.B.

\textsuperscript{232} See supra Part II.B.

\textsuperscript{233} See 17 U.S.C. § 109(a).

\textsuperscript{234} See id. § 109(c).

\textsuperscript{235} See id. § 117.

\textsuperscript{236} Section 117 also provides copy owners with the right to create archival copies since programs are susceptible to loss. CONTU at 13.

\textsuperscript{237} Id.
tion § 117 also clarified that copy owners remained free to alienate their copies, so long as they did not exploit the archival and essential step privileges by retaining some copies while alienating others. In short, § 117 applied the same goals and principles that motivated nineteenth century to the emerging market for computer programs.

But the same rationales that motivated Congress to clarify the application of the exhaustion principle to computer programs apply to all digitally encoded works. Digital media files are no less susceptible to accidental deletion or medium deterioration than computer programs. And to the extent courts continue to treat RAM instantiations as copies, reading an e-book or listening to an mp3 necessarily entails reproduction, just like running a program. Similarly, digital works require some measure of interoperability with playback devices and software, sometimes forcing copy owners to alter their copies for use on new or competing platforms. And perhaps most importantly, the alienability of digitally distributed works is deeply intertwined with their reproduction.

These similarities suggest that there is no good reason to apply the exhaustion principle to computer programs but to refuse to apply it to other digitally distributed works that make up an increasingly dominant portion of the copyright economy. The Copyright Act hints at the shaky foundation of this inconsistency when it defines a computer program as “a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result.” But the result experienced by a user of digital content is attributable to instructions contained in the data file just as much as the instructions supplied by the program. Indeed, any rigid distinction between computer programs and digitally encoded data is something of an oversimplification.

---

239 See Cate, supra note __ at 1449-50.
240 The unthinking classification of RAM instantiations as copies, however, remains a flawed analytical step. See Perzanowski, Fixing RAM Copies, supra note __ at __.
243 See Martin Davis, The Universal Computer: The Road from Leibniz to Turing 164-65 (2000) (describing distinction between
tions and outdated understandings of technology offers another reason to prefer the flexibility of the common law to statutory rigidity.\textsuperscript{244}

Rather than allowing congressional shortsightedness to continue to distort the application of the exhaustion principle to digital works, we argue that courts are empowered and should be encouraged to apply the full measure of exhaustion limitations to non-programmatic works.\textsuperscript{245} Informed by exhaustion’s traditional focus on use and redistribution, the basic rule courts should adopt is one that entitles the owner of a copy to reproduce or prepare derivative works based on that copy to the extent necessary to enable the use, preservation, or alienation of that copy or any lawful reproduction of it. This rule, in conjunction with the existing first sale doctrine, would give copy owners a set of privileges for digital works functionally equivalent to the privileges they have traditionally enjoyed in the analog context. Moreover, it would preserve the traditional benefits of first sale in the digital context, allowing for increased access, preservation, privacy, transactional clarity, user innovation, and platform competition.

But courts, consistent with the common law of exhaustion, should not permit these privileges of copy ownership to be transformed into an unbridled license to make and distribute reproductions of a work. So while exhaustion would permit a copy owner to

---

\textsuperscript{244} The best explanation for copyright law’s continued disparate treatment of digital media and computer programs is one rooted in historical accident and the institutional limitations of the legislative process. When CONTU drafted § 117 and Congress enacted it, both bodies were focused on the newly clarified status of computer programs as protectable subject matter. In the late 1970s, few anticipated the pervasiveness of digital media that defines today’s copyright marketplace. Neither CONTU nor Congress rejected the notion of robust exhaustion rules for digital media; they simply did not consider it.

\textsuperscript{245} Courts have less room to develop common law exhaustion rules for computer programs since they are addressed explicitly and in great detail in § 117. While common law exhaustion rules can supplement statutory rules, they cannot be inconsistent with the terms of the Copyright Act.
create reproductions under limited circumstances, it should not allow that copy owner to alienate some of her copies of a given work while keeping others.\textsuperscript{246} Nor should it allow a copy owner to redistribute reproductions made from a single lawful copy to more than one party. By treating the original copy acquired from the copyright holder and all second generation copies made from it as a single unit for the purposes of alienation, courts would retain the balance between copyright holder and copy owner interests that has served copyright well for over a century.

Because exhaustion functions as a common law doctrine, its application is necessarily fact dependent, rendering abstract pronouncements about the scope of its protections difficult. To offer some measure of clarity, we will test the exhaustion rule outlined above against some plausible hypotheticals.

First, consider a consumer who acquires a digital media file, an mp3 from Amazon’s online music store for example. This transaction is styled as a sale and is marked by all of the traditional indicia of a purchase.\textsuperscript{247} Can the consumer transfer ownership to another through resale or gift?\textsuperscript{248} If she acquired a traditional tangible copy, she certainly could. But the first sale doctrine alone offers our consumer little help when it comes to digitally distributed goods. While it may permit her to transfer ownership of the particular copy she downloaded by selling her laptop or its hard drive,\textsuperscript{249} first sale’s limited focus on distribution prevents her from alienating that mp3 file while retaining the rest of her media library or the storage device containing it. Transferring the file separately – on a thumb drive or CD-R – would require one or more acts of reproduction that go beyond

\textsuperscript{246} Of course, a consumer who purchases two lawful copies would be entitled to alienate one while keeping the other.

\textsuperscript{247} See Carver, supra note ___ at ___.

\textsuperscript{248} At least one consumer was thwarted in his attempt to resell a purchased download through a secondary market. See Evan Hansen, eBay Mutes iTunes Song Auction, CNet News, http://news.cnet.com/2100-1027_3-5071566.html (Sept. 5, 2003).

\textsuperscript{249} To say that the copy residing on the consumer’s hard drive is the particular copy she downloaded is an oversimplification. That copy is not the same copy that sits on Amazon’s server. Nor is it one of the dozen or more instantiations of the file created as it traversed the network on its way to the consumer’s computer. This process of transmitting information suggests that the focus on particular copies is not a good fit in the world of digital distribution.
The common law exhaustion rule outlined above would allow courts greater flexibility to balance the competing interests in cases like this one. Once the court addresses the threshold issue of ownership, it should ask two questions. First, do the acts of reproduction—here, copying the file to some transferable medium or attaching it to an email—facilitate transfer of the consumer’s limited ownership interest? And if so, did the consumer retain any copies of the file after that transfer? If not, this exchange should be sanctioned by the exhaustion principle. Ignoring the mechanics of the transfer, this transaction is indistinguishable from the sale of a 45 or compact disc at a used record store. Both begin with a single copy owned by one party and end with a single copy owned by another. The only difference is that additional temporary copies were created to facilitate the transaction. The ability of consumers to alienate should not be restrained by copyright holders’ collective decision to distribute goods through low cost digital networks.

Copyright holders worry that if empowered to alienate digitally distributed copies, consumers will game the system by keeping a copy after purporting to alienate their interest in it. But this worry is nothing new. Consumers could just as easily copy their LPs, cassettes, or CDs before reselling them on the secondary market. Some have proposed technological solutions to reduce the temptation to retain digital copies. So-called “forward and delete” technologies may develop in the protective shadow of an exhaustion rule premised on a one-to-one ratio between copies owned and copies transferred. Even without technological solutions, courts will continue to treat exhaustion as an affirmative defense to infringement, placing the burden on resellers to prove that they deleted their local copies after transferring a copy to another. Moreover, as in the post-sale restriction patent cases, courts could look to the characteristics of the copier to determine their likely impact on the first sale market.

Second, consider a consumer who purchases an ebook that is incompatible with her device or platform of choice. In the analog world, book owners enjoy considerable freedom to read their books in the manner they see fit. They can bind paperbacks in hard covers or remove excerpts from lengthy tomes for the sake of conven-

\[250\] See 104 Report, supra note ___ at ___. See also http://www.ischool.berkeley.edu/programs/masters/projects/2004/trifecta.
The exhaustion principle extends similar freedoms to digital books, privileging acts of reproduction or modification necessary, for example, to read a book purchased on your Sony Reader on your new Nook.\textsuperscript{252} Aside from encouraging competition and innovation among platform developers, such a rule would ensure that the uses consumers can make of lawfully purchased copies are not constrained by hardware or software compatibility.\textsuperscript{253}

A somewhat closer question arises when a copy owner who has lawfully modified a copy to ensure interoperability with another device or platform wants to sell that modified copy on the secondary market. When Congress enacted § 117, it decided to require copy owners to obtain copyright holder permission before selling adaptation copies.\textsuperscript{254} Since § 117 permits the creation of adaptations not only for compatibility purposes but also to add new features or functions to an existing program, this restriction on alienation makes some sense.\textsuperscript{255} Adaptations that incorporate new features or functions compete directly with the copyright holder’s own updates and improvements in ways that could undermine incentives for follow on creativity. However, because the adaptation privilege for non-programmatic works is limited to enabling use of the existing work, this threat is less pressing.\textsuperscript{256} As a result, copy owners should be permitted to transfer adaptations as a component of their transfer of all rights to copies of a work.\textsuperscript{257}

Third, consider the purchaser of a copy of a motion picture who enables remote viewing over the internet. A number of hardware and software solutions allow consumers to access media stored

\footnotesize
\textsuperscript{251} See infra Part II.B.

\textsuperscript{252} In the e-book market, private efforts have attempted to ensure some measure of interoperability. See Dave Caolo, Barnes & Noble Releases eReader App for iPad, http://www.tuaw.com/2010/05/27/barnes-and-noble-releases-ereader-app-for-ipad/ (May 27, 2010).

\textsuperscript{253} Exhaustion would not, however, privilege all copy owner adaptations or modifications. Derivative works that are intended not to enable use but to add new expression to an existing work are not the focus of copyright exhaustion. Courts should continue to analyze those sorts of user modifications through the lens of fair use.

\textsuperscript{254} 17 U.S.C. § 117(b).

\textsuperscript{255} See 17 U.S.C. § 117(a); CONTU at 13.

\textsuperscript{256} See supra, note ___.

\textsuperscript{257} See 17 U.S.C. § 117(b).
at home from remote computers and mobile devices.\footnote{The Slingbox, Vulkano, and Orb are three examples.} Does ownership of a copy entitle consumers to create the temporary and occasionally permanent reproductions necessary to facilitate such space-shifting?

The degree to which exhaustion sanctions streaming turns in part on whether the transmission is public. A copy owner who streams a motion picture to a group of viewers beyond “a normal circle of a family and its social acquaintances” would likely violate the exclusive right of public performance, a right beyond the scope of exhaustion’s traditional protections.\footnote{\textit{But see} Cartoon Network LP v. CSC Holdings, Inc., 536 F.3d 121 (2nd Cir. 2008) (holding that the playback of recorded television programs at the request of cable subscribers was not a performance “to the public”).} Downloading a copy of a film from an authorized online retailer would not give the copy owner the right to offer a Netflix-style streaming service any more than a DVD or VHS copy would entitle its owner to exhibit a film to the public. But if the remote display is a private rather than public use of the copy, exhaustion should insulate the copy owner from liability for incidental reproductions.

Incidental reproduction to enable device, time, and format shifting is pervasive. We commonly transfer albums to our iPods, sync data between work and home computers, and backup files to local hard drives or remote servers. Despite the prevalence and widespread acceptance of these activities, copyright law lacks a clear explanation for their lawfulness. Some point to fair use, while others turn to implied or express license.\footnote{See Jessica Litman, \textit{Lawful Personal Use}, 85 \textit{Tex. L. Rev.} 1871 (2007).} We suggest that exhaustion provides a firmer doctrinal footing for a broad personal copying and use exception.

Copy ownership offers a much more intuitive basis for embracing incidental copying by consumers than either the fickle permission of copyright holders or the four fair use factors. The exhaustion principle teaches that the ability to make personal use of a copy is implicit in its purchase. For digital works, use and copying are deeply intertwined. Owners of lawful copies are best positioned to assert a privilege to reproduce copies in the course of personal use. But copy ownership is not part of the traditional fair use analysis. Nor does it guarantee copyright holder permission. That is not to say
that only copy owners can lawfully make personal use copies. As Sony demonstrates, even consumers who are not copy owners may be entitled to make reproductions for personal use. 261 But when copy ownership is established, exhaustion provides a clearer, simpler, and cheaper safe harbor.

D. Exhaustion & Circumvention

Finally, even if copying and adaptation to enable private use of copyrighted material are privileged by copyright exhaustion, consumers must still contend with technological protection measures and potential liability for their circumvention. As described above, § 1201 of the Digital Millennium Copyright Act prohibits the circumvention of technological measures that restrict access to copyrighted works. It also prohibits the creation or distribution of tools that facilitate circumvention.

Technological protection measures, often referred to as digital rights management (DRM) technologies, are widely used by digital retailers. Although Apple famously stripped DRM from music sold over its iTunes store, it continues to wrap movies, ebooks, and applications in DRM, as do most other online retailers. 262 While ostensibly intended to limit infringement, DRM technology suppresses competition between technology platforms by facilitating the sort of consumer lock-in that the first sale doctrine has traditionally helped us avoid. 263

If DRM ties a copy of a work to particular device or user account, copy owners who wish to exercise their privileges to use or alienate their copies will often be forced to circumvent technological protection measures. Such an obvious tension between privileges copyright law extends to users and the apparent thrust of § 1201 might seem difficult to reconcile, but this sort of tension is nothing new in the debate over the proper interpretation of the DMCA. From the provision’s enactment, scholars, litigants, and policymakers have argued over the extent to which traditional copyright defenses shield consumers from liability for violating the anticircumvention

262 See Perzanowski, Rethinking Anticircumvention’s Interoperability Policy, supra note ___ at ___.
263 Id.
provisions.

Congressional intent on this point is less than clear. Congress created statutory exemptions to § 1201, some of which track existing copyright limitations and exceptions. Moreover, Congress created a triennial rulemaking proceeding to act as a safeguard against unanticipated restrictions on non-infringing uses of copyrighted works. Most directly, and perhaps most cryptically, Congress insisted that “nothing in [section 1201] section shall affect rights, remedies, limitations, or defenses to copyright infringement, including fair use, under this title.”

While some argued that this provision anticipated the application of existing copyright defenses to the new anticircumvention rules, early courts interpreted § 1201 as creating an entirely new statutory cause of action, the only defenses to which are found in § 1201 itself. Fair use and other copyright exceptions and limitations simply did not apply.

But once faced with anticompetitive attempts to abuse the anticircumvention rules, courts cabined the sweeping interpretation of § 1201 developed in early cases. In Chamberlain v. Skylink, the Federal Circuit confronted an effort by the plaintiff, a garage door opener manufacturer, to limit competition for replacement remote controls by restricting access to the computer code that operated the openers. The court held that § 1201 requires a plaintiff to establish

264 In some sense, this rulemaking proceeding functions as a quasi-common law adjudication. Given limited statutory guidance, the Copyright Office is left to devise its own standards for defining and evaluating classes of works and whether the uses of those works are non-infringing. Those standards have evolved considerably over time. See Aaron Perzanowski, Evolving Standards & the Future of the DMCA Anticircumvention Rulemaking, 10 J. Internet L. 1 (2007). The most recent of these rulemakings was particularly focused on issues of exhaustion and platform competition, adopting exemptions that allow owners of mobile phones to unlock and jailbreak their devices. Recommendation of the Register of Copyrights, http://www.copyright.gov/1201/2010/initialed-registers-recommendation-june-11-2010.pdf.


266 Universal City Studios, Inc. v. Reimerdes, 82 F. Supp. 2d 211, 219 (S.D.N.Y. 2000) (stating that “if Congress had meant the fair use defense to apply to § 1201 actions, it would have said so”).

267 Chamberlain Group, Inc. v. Skylink Techs., 381 F.3d 1178 (Fed.
not only that an effective technological protection measure restricts access to a copyrighted work, but that the circumvention of that measure bears some “reasonable relationship to the protections that the Copyright Act otherwise affords.” Because the court found that consumers were entitled to access the software in their garage door openers, Chamberlain was unable to prove “the critical nexus between” the access facilitated by Skylink’s remote and the protection of a legitimate copyright interest.

The Federal Circuit subsequently held that a successful defense under § 117 is sufficient to undermine the nexus between circumvention and infringement. More recently, the Fifth Circuit — relying on the Chamberlain rationale — rejected an “interpretation [that] would permit liability under § 1201(a) for accessing a work simply to view it or to use it within the purview of ‘fair use’ permitted under the Copyright Act.” To the extent other circuits adopt a similarly restrained reading of § 1201, defenses rooted in the common law of exhaustion could also serve to further define the boundaries of the required nexus with infringement just as easily as § 117 or fair use. Therefore, if transferring a copy of a work on the secondary market or using a copy on an unsupported device require bypassing or removing technological protection measures, those acts of circumvention would not give rise to § 1201 liability so long as they did not otherwise establish a nexus with infringement. Admittedly, such a limitation on the scope of § 1201 would work a substantial change on the reading of the statute favored by copyright holders and platform developers. But that more limited reading is in keeping with Congress’s intent.

Cir. 2004).

268 Id. at 1202.
269 Id. at 1204.
270 Storage Tech. v. Custom Hardware Eng’g, 421 F.3d 1307, 1319 (Fed. Cir. 2005). There the court applied the exception permitting the creation of copies of computer programs for the purposes of maintenance and repair of computer equipment. See 17 U.S.C. § 117(c).
272 The Sixth Circuit has also interpreted § 1201 narrowly. See Lexmark International v. Static Control Components, 387 F.3d 522 (6th Cir. 2004) (refusing to apply § 1201 where a protection measure restricted one means of accessing a work but left others available).
273 Congress did not intend § 1201 to enable copyright holders to
CONCLUSION

The traditional first sale narrative is almost too simple to resist. Through over-reliance on this story, we risk forgetting the richer but more complicated history of copyright exhaustion and, as a result, imperil the longstanding benefits of the first sale doctrine as we transition to a digital copyright economy. The common law approach to exhaustion that culminated in *Bobbs-Merrill* offers courts an opportunity to preserve the traditional balance between the rights of copyright holders and those of copy owners despite technological change. As evidenced by the Supreme Court’s decision in *Quanta*, common law approaches to exhaustion not only give courts flexibility to adapt to new technologies, but also to balance the rewards rightfully guaranteed to intellectual property holders with the rights of consumers and the public more broadly. Rather than freezing exhaustion within the statutory constraints of §§ 109 and 117, we maintain that courts are empowered and should be encouraged to apply the full measure of exhaustion limitations to digital works.

________________________

limit post sale access to or use of lawfully acquired copies of works. H.R. Rep. No. 105-551, pt. 1, at 17-18 (1998) (“Paragraph (a)(1) does not apply to the subsequent actions of a person once he or she has obtained authorized access to a copy of a work . . . even if such actions involve circumvention . . ..”).