ON FEDERAL PREEMPTION OF CONTRACTUAL FIRST SALE WAIVERS

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INTRODUCTION

History has venerated the free transfer of tangible property, and this is partly why students of copyright law can purchase their textbooks "used" at discount prices. [1] If 2L Dave buys Professor William Patry's copyright treatise at the bookstore, Dave acquires title to the book and can freely transfer it to thrifty 1L Sara the following year. [2] Of course, this is not great news for Professor Patry. Deep down, the renowned scholar would surely prefer to corral for himself all the eventual benefits that will be reaped from that single copy of his work. Perhaps Patry even dreams of showing up at Dave's door just as Sara is exiting with the book in hand so that he can assert himself as the rightful beneficiary of the resale proceeds. Or, even better, why not snatch the book from Sara directly, return it to Dave, and then invite Sara to purchase a shiny new copy from the bookstore instead?

To some people, it may surely seem counterintuitive that Sara can "free-ride" at Professor Patry's "expense" while Dave is allowed to play middleman and intercept what would otherwise be Patry's income were Sara forced to buy the book "new." But, at the same time, if Patry were to take action to prevent Dave from reselling his copy, Patry would be frustrating Dave's personal property interest in a tangible possession--a bound book. [3] Meanwhile, ownership of material objects (such as books) has long been divorced from "ownership" of whatever intellectual fruits may be contained within them, [4] and an author has long been said to have "realized the full value" of a single copy of his work once it has been sold for the first time. [5] This rule, known as the "first sale doctrine," is found today at section 109 of the Federal Copyright Act and can be traced back to 1908 when the Supreme Court first refused to allow an author to dictate the "future sale price" of a book he had already sold wholesale. [6] According to the Court, allowing authors such control would improperly constrain future contracts to which the author will not be a party (much like the hypothetical contract between Dave and Sara). [7] In sum, the first sale doctrine provides that the owner of a physical copy of a work may lawfully resell or otherwise dispose of that copy without permission from the copyright owner because the latter will be said to have "exhausted" his distribution right the first time he relinquished title. [8] Commonly (and perhaps more aptly) referred to as the "exhaustion doctrine," first sale is a nearly universal principle of copyright law within modern democracies. [9]

So, if Patry will have already "exhausted" his distribution right with respect to Dave's copy of his book, is there any other way he can rein in the secondary market for his own work? Well, if he could go back in time, one thing Patry might have tried to do is negotiate the terms of the first sale of his book a little more carefully. If Patry had conditioned his original sale offer on an agreement from Dave that he would not resell the copy, Sara would probably be stuck paying full price. [10] According to the legislative reports that accompany the 1976 Copyright Act, the resale entitlement "does not mean that conditions on future disposition of copies or phonorecords, imposed by contract between their buyer and seller, would be unenforceable between the parties as a breach of contract," [11] and courts have indeed upheld such contracts in certain instances, especially in recent years. [12] History has of course venerated not only the freedom to transfer tangible property but also the freedom to enter voluntary agreements that will be enforced by the state. Essentially, the notion is that if Dave does not want to be bound by this term, he is free to find someone else who will sell him a copyright treatise, and if Patry cannot find enough consumers willing to be bound, he will in turn be forced to rethink the nature of his offer or else lose out to a competing scholar. Of course, this simplified explanation ignores consumer transaction costs and bargaining power asymmetries that favor the author, and it also assumes that the stuff of "intellectual property"-- information, ideas, art--all conforms to the same notions of ownership, value, substitutability, and competition as tangible property. [13] In other words, it assumes a book of ideas is the same type of property as a book of matches. But intellectual property is a nonrivalrous intangible good that is only sometimes disseminated via rivalrous tangible media vehicles like the "book." [14] And several prominent copyright scholars (including Patry) believe that "intellectual" property rights are actually much different from real property rights in tangible goods. [15]

According to Professor Mark Lemley, the ultimate goal of intellectual property law--promotion of the "Progress of Science and useful Arts" [16]--is best achieved by giving "as little protection as possible" to creators while maintaining the necessary incentives not only for creation but also for innovation. [17] This means maintaining the proper degree of public access to copyrighted works. In other words, intellectual property law is regulatory-- it is not about fully shielding creators from free-riders and moochers; it is about shielding creators just enough that they earn a decent return on investment. [18] This sustainable return is necessary as a signal to other

"would-be" creators that their efforts will pay off in the end. [19] But the "free-riders and moochers" from whom the creators would prefer to be shielded also happen to be "innovators." [20] They are the consumers who piggy-back. They turn thoughts into theories. They turn suggestions into governments. They turn airplanes into jets. They turn jets into rocket ships. They do this by building on the ideas of others. [21] If intellectual property law allowed creators to reap the full value of their works, those works might either never make it to the hands of the many would-be innovators, [22] or the innovators would be forbidden from making improvements without proper permissions, regardless of potential benefits to the public. [23] Of course, giving ideas the same protection as land would, in theory, increase the rewards to be had by individual creators, but such a system would be worse for everyone. [24] The definitive purpose of federal copyright law per Article 1, Section 8 of the Constitution, is, after all, "progress," [25] and full value protection would strike a great blow to progress by reducing the total number of existing creators and innovators (and thus reducing "creations" and "innovations"). [26]

This emphasis on "progress," however, should not be seen as casting the interests of "creators" in direct opposition to the interests of the public. While it is true that intellectual property law is intended to benefit the public, it is wrong to think this implies a "Robin Hood" function. Copyright law does not serve to deprive creators of their duly earned "Lockean labors" in order to perform some sort of intellectual property redistribution role. In reality, copyright law is about giving creators a benefit, not taking something away from them--it is meant to protect creators from competition in a free market, not to limit the earnings a market would otherwise afford them. [27] In a competitive free market, ideas could be copied and re-sold at much lower prices than creators would demand in light of the need to recoup time and labor inputs as well as production costs. [28] Books could be distributed almost free of charge so that authors would recoup next to nothing. [29] Authors do not want this, but neither does Congress so long as the existence of authors and books continues to benefit the public as a whole. [30] This is the exact nature of the balance Congress is charged with striking. As such, content owners essentially depend on the federal statute for their livelihoods. Still, they remain determined to bite the hand that feeds them by endeavoring to enhance their rights beyond what the statute provides.

For the better part of history, copyright holders have properly deferred to Congress and the federal courts to protect their interests. [31] The shift to self-help measures--most pertinently, the vast increase in reliance on state contract law--stems almost entirely from concerns that the federal statute no longer provides sufficient protections in the wake of the technological revolution. [32] These concerns may be quite justified. But if so, then they are Congress's concerns too. Public "progress" interests in access and innovation did not suddenly diverge from the interests of content owners the moment compact discs arrived on the scene--the future for both interests continues to depend, as it always has, on mutually beneficial balance. And Congress is the party properly charged with the balancing act because--like mortgage debt traders riding a housing bubble--creators and consumers alike will favor short-term utility maximization over broader long-term mutual needs. [33]

To be sure, contractual self-help may indeed succeed at placing an unbalanced scale back on kilter at times when creators accurately perceive a detrimental imbalance on their end. [34] But the rub is that they are not inclined to ease up once they have evened the score--rather, they keep pushing in attempt to tip the scale in their favor [35] or, unconcerned with collateral damage from blanket overprotection, they simply carpet their products with landmines in order to kill ants. As copyright holders have moved toward full-scale licensing of their products (that is, toward demanding consumers' full assent upon purchase to the terms of an agreement), these consumers who believed they were ostensibly the "owners" of the things for which they had exchanged their money have seen their familiar assumptions about material property ownership shaved down to whatever is explicitly articulated in fine print. These days, whether content is acquired in intangible form (via "download" or "live-viewing" for instance) or in a fixed tangible medium (via disc or hardware rung up at a retailer's cash register), licensing agreements attempt to confer little more than "life-time renter" status upon purchasers. In other words, content owners have been trying to prevent consumers from ever truly "owning" the copies of content they purchase, and since section 109(d) of the Copyright Act explains that "ownership" of a copy is a prerequisite of the ability to resell that copy under the first sale doctrine, [36] licensing agreements have been successfully obliterating the first sale rule for some time now. [37]

Today, section 109 remains unchanged, but licensing agreements are everywhere. They forbid purchasers from reselling software, [38] music CDs, [39] databases, [40] e-books [41] and sometimes even public domain works. [42] They prevent copying even for personal use only. [43] They prevent seventeen-year-olds from purchasing word processing software because minors cannot legally enter such agreements. Taken literally, they prevent Sara from trying out Dave's copy of Rosetta Stone on his computer to see if she likes it. [44]

Since the inception of copyright licensing, many of these agreements have been upheld against challenge, and few have been deemed preempted by federal Copyright law. [45] There has been an ever-growing consensus among scholars, however, that while it is hard enough for Congress to calibrate the proper balance between creation and

access, copyright holders are only making the task more difficult. [46] In other words, Congress is working with a very sensitive scale and it would be tough enough to keep things steady without copyright holders sneaking over and sticking a big toe on the edge every time they feel threatened. It is true that Congress (or at least some member or members of Congress) might have expected parties to contract around the first sale requirement, [47] and of course, the copyright holders assert that, with the world changing too fast for the statute to keep up, therefore the big toe has been absolutely necessary for protection from looting, piracy and/or insolvency--in other words, for protection from significant scale tips in the opposite direction. [48] But if licensing schemes merely serve a loophole function for skirting adherence to federal law, one would assume that the skirted law in question is trivial--a detail or a technicality--and generally unnecessary as a means to the overall statute's charged interest of progress in the name of the public interest. This is not the case. [49]

This Note argues that the first sale doctrine is a necessary limit on the scope of protection granted to copyright holders under the federal statute, and when the public interest so dictates, the enforceability of contractual restrictions on the resale or disposition of lawfully purchased copies of copyrighted works should be held preempted by federal law. Part I will examine the ways in which an obliterated first sale doctrine disrupts the balance between creation, access and innovation that Congress is charged, in the name of public interest, with carefully maintaining. Part II will put forth a policy-based framework under which licensing agreements could potentially be held preempted by federal copyright law on the grounds of public interest.

I. Why Preempt Contractual Waivers of First Sale?

In an article titled The Incredible Shrinking First Sale Rule: Are Software Resale Limits Lawful?, Professor John Rothchild explains that there are three main interests furthered by the first sale doctrine. [50] First, as mentioned above, the concept of “exhaustion” limits the scope of the copyright holder's ability to command redundant revenue. [51] Second, it increases public access to copies of copyrighted works by allowing retailers to set their own prices in competition for customers and by allowing those customers to establish additional secondary markets post-purchase. [52] And third, it promotes allocative efficiency by driving goods to those who value them the most. [53]

All of these interests are related to the promotion of broader “access” for the public, and access is a means to future innovation. Future innovation is a positive externality for which original copyright holders are not compensated, and if they were compensated (by greater revenues or control of copies beyond their first sale), the benefits of innovation would in turn be constricted as a result of diminished access. [54] Echoing a point Professor Lemley has often made, Rothchild urges that “copyright law is indeed all about promoting uncompensated positive externalities, by ensuring that ideas and works that might otherwise be kept secret are widely disseminated.” [55] The external benefits are easy to illustrate. For example, in mimicking Lemley, Rothchild expands and elaborates on an essential point and leaves behind a valuable public benefit: an addition to the body of work on this subject. Professor Benjamin Kaplan has said that “education, after all, proceeds from a kind of mimicry, and ‘progress,’ if it is not entirely an illusion, depends on generous indulgence of copying.” [56]

It is obvious that secondary markets benefit those who may be “unwilling to pay the price that retailers charge for new copies but willing to pay a lower amount to buy a used copy on the secondary market,” but the less obvious corollary, as Rothchild goes on to explain, is that secondary markets also advance access incentives for those who acquire items “new.” This is because, if you know you can resell an item when you are finished with it, your “effective cost” of acquisition will be significantly lower. [57] Secondary markets also limit the copyright holder's initial pricing power, Rothchild notes, by limiting the pricing power of retailers who are forced to compete with used copies of their own products.” [58] All of these factors increase the likelihood that copyrighted products will be allocated to consumers in more precise accordance with the value consumers ascribe to those products; and this is often touted as the ultimate purpose of property law. [59]

Between 1908 and 1976, first sale was not a particularly controversial doctrine, but in 1979, a groundbreaking invention known as the Videocassette recording (VCR) was to make it possible for consumers to watch motion pictures on tapes. This was immediately horrifying to members of the film industry, and mighty efforts were made to enjoin sale of the VCR entirely. The Supreme Court, however, refused. [60]

Of course, the VCR never did end up killing cinema. But virtually ever since that “chilling” moment in time, copyright holders have been suffering intense paranoia with each new advance in technology, should it in any way appear to threaten their grip on wholesale revenue. Since the 1990s, content creators have begun fighting technology with more technology--that is, manufacturers (at the behest of creators) have been encrypting content prior to first sale using Digital Rights Management (DRM) technology. [61] DRM allows content owners to control factors such as: whether or not the data on a CD-ROM can be copied; the number of times the content can be viewed

or accessed; by whom the content can be viewed or accessed; and even which device(s) can be used to access it. [62] To be sure, DRM plays an important role in preventing mass piracy [63] and, with the Digital Millennium Copyright Act in 1998, Congress criminalized DRM circumvention; [64] however, DRM has still been criticized extensively when used in ways that arguably overstep the entitlements afforded to consumers by federal law. For instance, Apple's use of DRM to restrict iTunes music downloads to exclusive compatibility with Apple-made portable devices has been called anti-competitive by the Electronic Frontier Foundation. [65]

Lawmakers have been properly sympathetic to the necessity of piracy prevention methods like DRM despite certain instances of overprotection, [66] but no self-help method of copyright protection has contravened public interests through overreaching to the same extent as licensing. [67] Still, if you can imagine the throes of uncertainty that sent shivers up industry spines in the wake of the birth of the VCR, the rampant spread of licensing agreements is somewhat understandable in light of the internet explosion that virtually changed the world overnight. Licensing really took off just when the internet had inched past its tipping point and was swiftly riding the “network effect” into the heart of mainstream life. Napster was gaining household-name traction--“piracy paranoia” was justifiably widespread. Licensing seemed like a sensibly-rash response; it was the corporate equivalent of a mad dash to the deadbolt upon word of a crazed burglar on the loose. With Y2K, the dotcom boom, the rapid and uncertain shift to e-commerce, then the dotcom bust--these were unnerving times. Technology had come a long way in a brief span, and the present was almost as uncertain as the future. [68]

Today, however, Americans have unlatched their deadbolts--they have, at this point, and to a significant extent--adapted. They have settled in to “Web 2.0,” which since 2005 has become more and more comfortable and dependable by the minute. [69] And this is why, when Congress tried to pass H.R. 1066 in 2003, a bill that would have reinvigorated the first sale doctrine once and for all, it was clearly too early. [70] At that moment in time, the mushroom cloud of uncertainty was dissipating, but lingering fumes surely left open the question: what if things change again by this time next year?

H.R. 1066--the BALANCE Act--would have provided express federal first sale privileges for users of electronic media while simultaneously supporting the intentions of copyright holders. [71] It would have done this by calling for another technological solution to one of the main causes of the licensing-proliferation--the problem of tethering. [72] Because software discs, for instance, could otherwise easily be copied and pirated by any initial purchaser, DRM was used to “tether” single copies of software to single computers. [73] This made it impossible to ever install software on more than one computer without proper permission from the creator, which thus made it impossible to ever resell the software per the first sale rule. [74] The BALANCE Act would have required that manufacturers either allow purchasers to circumvent the DRM in order to resell the copy or create a built-in mechanism that could automatically “de-tether” the software copy from the single machine if the purchaser should wish to do so. [75]

According to one commentator, “[T]hese measures would have facilitated legal protection for the development of secondary markets of digital media” without hamstringing content owners. [76] In other words, it would have accomplished what licensing sought mainly to accomplish--assured return on investment--but it would have only done so when and where necessary, and by less restrictive means. (It was, after all, called the “BALANCE” Act.)

Since the bill failed narrowly, it cannot technically be said to evince “congressional intent,” but it certainly should demonstrate that “congressional intent” is not always a rigid or readily ascertainable set of facts. This bill reflected an effort to rebalance the Copyright Act partly in light of the practical circumstances of technological change, but without losing sight of copyright law's penultimate purpose. [77] So when lawmakers in 1976 passively presumed that first sale could be freely contracted around, it is unclear that this presumption would have held true--even among those who spoke at the time--in light of an unprecedented increase in reliance on contractual protection to the point of smothering core privileges of the federal statute.

In the same vein, it might be reasonable to assume that the margin of support for the BALANCE Act would increase in today's much more settled technological climate. The last five years have seen article upon article of scholarly analysis critical of licensing schemes on numerous grounds, [78] and that Congress quite nearly enacted the bill before the dust cleared in the years prior to Web 2.0 should imply that the federal government has not at all foreclosed the possibility of rescuing the dying first sale doctrine from the contractual clutches. It is notable that one of the main reasons the bill failed was its more “radical” attempt to invalidate “nonnegotiable” licensing agreements in their entirety, as this would have meant invalidation of all such agreements, not merely those that blatantly contravened the federal statute. [79] This gives all the more reason(s) to think a more nuanced and less extensive effort to resuscitate first sale doctrine could be feasible in the years to come.

Still, Congress has not yet acted, so courts have been cherry-picking their battles per differing judicial temperaments. Those who recognize the importance of secondary markets and the problems of overreaching

generally tackle the disputes from the standpoint of tangible "ownership" rights. [80] Those who stress the importance of the freedom to contract focus on just that. [81]

The most well-known dispute over the enforceability of a licensing agreement to date is *ProCD v. Zeidenberg* in which Judge Frank Easterbrook of the Seventh Circuit Court of Appeals explained that such agreements are to be treated like ordinary contracts and ought to be upheld so long as the purchaser has a chance to review the product and the terms before being bound. [82] In ProCD, the plaintiff sold a complex (and properly copyrighted) software database of contact information compiled from more than 3,000 separate telephone directories. [83] ProCD made this product available for both business and personal use but wished to charge a higher price for customers who would opt for "business use" (even though the customer received the same product either way). [84] To prevent the arbitrage scenario of a single actor purchasing the database for personal use and then reselling it at a slightly higher price for business use (which is what the defendant did), the software included a contract that completely prohibited resale. [85] Judge Easterbrook proved quite sympathetic to ProCD's need to properly affect its price discrimination scheme, and he analogized that a law student who gains access to LexisNexis surely could not just sell his access to a firm. [86]

Easterbrook had little to say about the broader philosophical nature of "ownership" acquired (or not acquired) by the defendant in ProCD, but courts less concerned with the freedom to contract have proved quite attuned to the freedom to transfer personal property. [87] Some courts first pose the question: was a given transaction indeed a legitimate instance of licensing?-- or, given the "economic realities" of the situation, was this transaction actually nothing more than a regular old "sale" in which a transfer of title occurred? [88] According to the federal District Court for the Northern District of California in *UMG v. Augusto*, "One hallmark of a license is the owner's intent to regain possession," and a purchaser's right to "perpetual possession," on the other hand, is largely indicative of ownership. [89] Citing a 2005 Second Circuit opinion, the court opined that a person's "degree of ownership" is "complete" with respect to a purchased item when "he may lawfully use it and keep it forever, or if so disposed, throw it in the trash." [90] Furthermore, lack of intent on the part of the distributor to eventually regain possession strongly evinced the presumption of a title-transferring "sale." [91]

Professor Kathleen Olson finds the existing approaches to the licensing puzzle frustrating and often contradictory, and she assumes a clear resolution will not come easy. [92] Still, she urges that the focus should remain fixed on the public policy roots of the federal copyright statute, and she even finds encouragement from dicta within Judge Easterbrook's infamous ProCD opinion, from which she infers that the judge retains reverence for the importance of the public domain. [93] "One plausible reading is that Easterbrook was leaving space to allow preemption in extraordinary cases," Olson claims. [94] "Even a 'law and economics' analysis would allow some government intervention in the field of intellectual property in order to encourage its production as a public good. If a contract term were so restrictive that it posed a significant threat to this goal, public policy might dictate that it be preempted." [95]

Maybe the courts which favor the waivable right scheme have the idea of letting the free market take its regulatory effect in setting price for different degree of ownership. Licensing versus transfer of title may result in difference in the price of the transactions.

II. How to Preempt Contractual Waivers of First Sale

There are two ways a federal law can be held to preempt a state law claim. The longstanding approach, known as "implied preemption," invokes the Supremacy Clause of the Constitution in instances where state and federal law reach an unworkable conflict [96] or where "state law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress." [97] "Express preemption," on the other hand, is a matter of interpretation, but only if and when a federal statute contains an explicit preemption provision. The Copyright Act of 1976 included such a provision at section 301 in order to prevent the use of state law for granting copyright-like rights, [98] and since its enactment, courts have usually addressed copyright preemption solely per this provision. [99] Some commentators, however, have been calling for a larger role for implied preemption. [100] "Preemption of state law that interferes with federal law is required by Constitutional mandate," argues Iowa Professor Christina Bohannam. "Thus, if a state law interferes with a federal statute's purpose, it should be preempted even if it does not fall within the parameters of an express preemption clause." [101]

Under either approach, analysis will ultimately turn on congressional intent. [102] With respect to the provision at section 301 of the Copyright Act, courts have devised a two-pronged express preemption inquiry. First, courts determine whether the subject matter of a claim falls within the subject matter of copyright. [103] For instance, if Bob were sued for misappropriating a Bette Midler vocal performance, the first prong would be satisfied if Bob had publicly played the song from a copyrighted medium such as a record for commercial gain. [104] The

subject matter would be a "sound recording," which is copyrightable. [105] But if Bob were merely performing his uncanny impersonation of Bette Midler's voice, the outcome would be different. There the subject matter is a voice, and voices are not copyrightable. [106] For the second prong of the preemption test, the court considers whether the rights protected by a state law claim are equivalent to any of the exclusive rights granted by the Copyright Act." [107] If Bob misappropriates the Bette Midler recording, state law and copyright law offer equivalent protection--the purchaser of a sound recording does not have the right to "display" it to the public. [108] In the latter example, copyright does not protect voice, but state law protects a performer's right of publicity, so the protections do not overlap. [109]

In several copyright contexts, including uses of state privacy and unfair competition laws as well as other various tort claims, express preemption is well-settled; [110] but today there remains significant disagreement as to whether section 301 can properly preempt state contract law claims. [111] Many commentators urge that it can (and should), but plenty of courts have disagreed. [112] The most well-known contract preemption case is, again, ProCD in which Judge Easterbrook determined that the licensing agreement--which placed several conditions on the use of the software CD-ROM, including a prohibition on the right to resell--did not attempt to protect rights equivalent to those protected by federal copyright law for the purposes of the second prong of the preemption test. [113] Easterbrook reasoned that contractual rights are only binding on the actual parties to the agreement; in other words, the enforceability of the contract was not equivalent to copyright protection because it applied only to one person whereas copyright protection applies against the world. [114]

With respect to Judge Easterbrook's rationale for rejecting preemption, Professor Rothchild has called ProCD "palpably incorrect." [115] Rothchild argues that when contractual rights are applicable against anyone who possesses the product, they are functionally applicable against the world, [116] and if no contracts could be expressly preempted under section 301, Congress's intent to establish a "unitary" federal scheme for copyright would be frustrated. [117]

Rothchild's latter point has been echoed by several other commentators who find fault with the prevailing Easterbrook approach to licensing. [118] Some scholars have used the point as a springboard to call for new analytical frameworks premised on "implied preemption" analysis. [119] One of the most promising ideas, however, veers away from per se preemption, and seeks instead to draw on the "statutory waiver of rights" doctrine to invalidate contractual overreaching. [120] "Waiver" doctrine has been applied with respect to the rights conferred by a number of federal statutes. For instance, in *EEOC v. Frank's Nursery & Crafts*, the Sixth Circuit held that even though an individual may have agreed to waive her right to sue under Title VII, the EEOC could still sue the defendant for "public enforcement" of Title VII violations because there were broader interests at stake beyond a single individual's rights. [121] This example is telling; but it is an open question whether courts would allow such action on behalf of the public for the slightly different type of harm to "progress" that arises from copyright overreaching.

A contractual waiver of statutory rights will be enforceable if it is "clear and unmistakable" and "waives a statutory right designed to protect the interest of individual parties and not the public." [122] Professor Christina Bohannan thinks this simple rule is "readily applicable to cases involving copyright preemption of contracts," [123] however she falls short of presuming that it will function as the savior of the first sale rule. [124] Because of its role in allowing consumers to profit from the resale of products they no longer want or need, "the first sale doctrine ordinarily benefits the purchaser," Bohannan argues. [125] Thus, "the purchaser ordinarily should be permitted to waive its protection." [126] As mentioned above, even Professor Lemley points out that Congress may have presumed for similar reasons that the first sale rule could and would be contracted away, [127] and many scholars seem generally more riled up over contractual restrictions on the benefits of fair use--but this prevailing laxity toward first sale overlooks the greater importance of its collective exercise, especially in an era in which the sheer volume of ideas and the speed at which they can be shared really magnifies the disadvantages of lack of access. [128] And even though Bohannan may not have anticipated it, the waiver of statutory rights framework she sets forth could easily spell a happy future for secondary markets in copyrighted works.

To make "waiver" doctrine work for first sale, the public interest prong of the test will have to be amenable to a sufficiently broad interpretation. Further, it must be demonstrated that the doctrine of exhaustion is designed to protect the interests of the public at least as much if not more so than the interests of individuals and that the former interest is more than sufficiently compelling. If the arguments detailed above in Part I hold water, there is a strong case to be made.

CONCLUSION

Authors who tackle the topic of "licensing as inherent overreach" seem consistently in favor of a Congressional response to the ongoing debate. Much of the argument, after all, focuses on Congress as the body charged with (and most capable of) balancing the competing interests at stake. And judicial opinions in intellectual property cases frequently stress the need for deference to Congressional Authority when it comes to the policies that underlie the law. Indeed, the importance of secondary markets and the inherent allocative imbalances that result from overreaching should together amplify the call for a new framework under which courts can confidently name first sale an "immutable" statutory "right" that cannot be waived by contract. [129] Still, the nature of intellectual property dictates that most disputes will be resolved ad hoc. Thus, perhaps the best thing the legislature can do is enhance the clarity (with respect to policy and process) of the general guidelines and leave the specifics to the judiciary.

In the time being, courts will inevitably remain divided, so litigants should not refrain from pursuing unique and inventive avenues of argument, such as the preemption rationale based in the "waiver of statutory rights" doctrine advocated above. Like many frameworks by which federal courts approach and resolve statutory and constitutional questions, waiver doctrine requires a judicial determination of whether or not a given public interest is sufficient enough to demand a suggested response. Will the public interest in the promotion of "science and useful arts" be sufficiently compelling in this context? This question should be less a matter of precedential application of a given framework and more a matter of continuing to gather findings and beginning to address the existing findings as to the actual gravity of this public interest. This seems prudent, at least until Congress steadies its scale and proceeds to act.

[1]. William F. Patry, Patry on Copyright § 13:14 (West, 2009).

[2]. John A. Rothchild, *The Incredible Shrinking First-Sale Rule: Are Software Resale Limits Lawful?*, 57 RUTGERS L. REV. 1, 4 (2004).

[3]. *Id.* The interest includes the right to sell.

[4]. *See Patry, supra* note 1, at § 13:15.

[5]. *See id.* Professor Patry then certainly cannot stop Sara from burning the treatise after she fails her final exam.

[6]. Bobbs-Merrill Co. v. Straus, 210 U.S. 339, 350 (1908). The author had printed a notice on the copyright page that said, "The price of this book at retail 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." *Id.* at 341.

[7]. *Id.*

[8]. 17 U.S.C. § 109 (2006)

[9]. *See, e.g.*, David T. Keeling, *Intellectual Property Rights in EU Law: Free Movement and Competition Law* 75 (2003).

[10]. H.R. 1476, 94th Cong., 2d Sess. 79 (1976).

[11]. *Id.*

[12]. *See* ProCD, Inc. v. Zeidenberg, 86 F. 3d 1447 (7th Cir. 1996).

[13]. *See* Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 TEX. L. REV. 1031, 1031 (2005).

[14]. *See id.* at 1031-33.

[15]. *See id.*

[16]. U.S. CONST. art. I, sec. 8.

[17]. *See* Patry, supra note 1.

[18]. *Id.*

[19]. *Id.*

[20]. Professor Lemley believes it is extremely hard if not impossible to "calibrate intellectual property law perfectly." But free riding, he says, is not the proper focus of intellectual property law:
The proper focus ... is on the intellectual property owner, not the accused infringer. The question is whether an extension of intellectual property rights is necessary to permit intellectual property owners to cover their average fixed costs. If so, it is probably a good idea. If not, it is not necessary, and the likelihood that it will impose costs on competition or future innovation should incline us to oppose it. Whether an accused infringer obtained a benefit without paying for it bears only indirectly on that question. Free riding encompasses both conduct that simply captures consumer surplus or other uncompensated positive externalities and conduct that reduces the return to the intellectual property owner to such an extent that it cannot cover its costs. Only the latter is of concern, and free riding as a concept will not help us to distinguish the two.
See Lemley, *supra* note 13, at 1068-69.

[21]. *Id.*

[22]. *See* Lemley, *supra* note 13. *See also* Eric Matthew Hinkes, *Access Controls in the Digital Era and the Fair Use/First Sale Doctrines*, 23 SANTA CLARA COMPUTER & HIGH TECH L.J. 685 (2007).

[23]. *See generally* Jesse Dukeminier & James E. Krier, Property (5th ed. 2002) (explaining the "tragedy of the anti-commons").

[24]. *See* Lemley, *supra* note 13.

[25]. U.S. CONST. art. I, sec. 8. ("To Promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.").

[26]. *See* Lemley, *supra* note 13, at 1031. Indeed, while "expressions" are protected, "ideas" embedded within expressions are explicitly denied protection. This principle was first set forth in Baker v. Seldon, 101 U.S. 99, 107 (1879), in which the Supreme Court explained that a copyright does not give its bearer the right to exclude others from engaging in whatever actions are described or explained in the copyrighted expression. *Baker*, 101 U.S. at 107. This principle was later codified at §102(b) of the Copyright Act.

[27]. *See* Lemley, *supra* note 13, at 1031.

[28]. *Id.*

[29]. *Id.*

[30]. *See generally* H. Rep. No. 94-1476 (1978) ("Although limitations on the term of copyright are obviously necessary, too short a term harms the author without giving any substantial benefit to the public.").

[31]. *See* Rothchild, *supra* note 2, at 89-91.

[32]. *See id.*

[33]. *See generally* William M. Landes & Richard A. Posner, *An Economic Analysis of Copyright Law*, 18 J. LEGAL STUD. 325 (1989).

[34]. *See* Lemley, *supra* note 13.

[35]. *See, e.g.*, Jason Mazzone, *Copyfraud*, 81 N.Y.U. L. REV. 1026 (discussing inestimable efforts by copyright holders and former copyright holders to overextend their protections in a way that defrauds the public domain).

[36]. Kathleen K. Olson, *Preserving the Copyright Balance: Statutory and Constitutional Preemption of Contract-Based Claims*, 11 COMM. L. & POL'Y 83, 87 (2006). ("Rather than buying a copy of a copyrighted work online, therefore, consumers are buying the right, under a license or user agreement, to access and use the copyrighted work, subject to the terms of the agreement.").

[37]. *See* Rothchild, *supra* note 2.

[38]. *ProCD*, 86 F. 3d 1447.

[39]. *See infra* note 80.

[40]. *ProCD*, 86 F. 3d 1447.

[41]. *See Amazon Kindle: License Agreement and Terms of Use*, *available at* http://www.amazon.com/gp/help/customer/display.html?ie=UTF8&nodeId=200144530 ("Restrictions. You may not sell, rent, lease, distribute, broadcast, sublicense or otherwise assign any rights to the Digital Content or any portion of it to any third party.").

[42]. *See* Mazzone, *supra* note 35, at 1038.

[43]. *See id.*

[44]. *See, e.g.*, *Rosetta Stone Global End User License Agreement*, *available at* http://www.rosettastone.com/us_assets/eulas/eula-global-eng.pdf

[45]. *See* Rothchild, *supra* note 2.

[46]. *See* Christina Bohannan, *Copyright Preemption of Contracts*, 67 MD. L. REV. 611 (2008).

[47]. *See* Mark A. Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 S. CAL L. REV. 1239, 1283 (1995).

[48]. *See* Rothchild, *supra* note 2.

[49]. *Id.*

[50]. *Id.* at 1-4.

[51]. *Id.* at 79.

[52]. *Id.*

[53]. *Id.* at 80.

[54]. Rothchild, *supra* note 2 at 80.

[55]. *See* Lemley, *supra* note 13, at 1052.

[56]. BENJAMIN KAPLAN, AN UNHURRIED VIEW OF COPYRIGHT 2 (1967).

[57]. *See* Rothchild, *supra* note 2, at 79.

[58]. *Id.*

[59]. *Id.* at 80. *See also* Dukeminier & Krier, *supra* note 23.

[60]. Sony Corp. of America v. Universal City Studios, 46 U.S. 417 (1984).

[61]. *See* Henry Sprott Long, *Reconsidering The "Balance" of the "Digital First Sale" Debate: Re-Examining the Case for a Statutory Digital First Sale Doctrine to Facilitate Second-Hand Digital Media Markets*, 59 ALA. L. REV. 1183, 1183 (2008).

[62]. *Id.*

[63]. Despite their melodrama, the MPAA has a point. *See generally*, *MPAA Anti-Piracy*, *available at* http://www.mpaa.org/piracy.asp. *See also, Illegal Downloading: Inappropriate For All Ages*, *available at* http://www.youtube.com/watch?v=0Pnjyrzkepo.

[64]. *See* Digital Millennium Copyright Act, Pub. L. 105-304 (1998) (hereinafter DMCA).

[65]. *See Electronic Frontier Foundation*, *FairPlay: Another Anticompetitive Use of DRM*, May 25, 2004, *available at* http:// www.eff.org/deeplinks/2004/05/fairplay-another-anticompetitive-use-drm.

[66]. *See* DMCA, *supra* note 64.

[67]. *See* Rothchild, *supra* note 2.

[68]. *See* Marci A. Hamilton, *Napster Should Now Go to Congress, Not Back to Court*, CNN, Feb. 13, 2001, *available at* http:// archives.cnn.com/2001/LAW/02/columns/fl.hamilton.napster.02.13/index.html.

[69]. *See* Ryan Siegel, *Are You Ready for Web 2.0?*, WIRED, Oct. 6, 2005, *available at* http://www.wired.com/science/discoveries/news/2005/10/69114.

[70]. *See* H.R. 1066.

[71]. *Id.*

[72]. *Id. See also* Long, *supra* note 61, at 1195-97.

[73]. Long, *supra* note 61, at 1195-97.

[74]. *Id.*

[75]. *Id.*

[76]. *Id.* at 1197.

[77]. *Id.*

[78]. *See id. See also* Lemley, *supra* note 47; Bohannan, *supra* note 46.

[79]. *See* Long, *supra* note 61, at 1197-98.

[80]. *See* UMG Recordings, Inc. v. Augusto, 558 F.Supp. 2d 1055 (C.D. Cal. 2008).

[81]. 86 F. 3d at 1447-50.

[82]. *Id.*

[83]. *Id.* at 1449.

[84]. *Id.*

[85]. *Id.*

[86]. 86 F. 3d at 1454.

[87]. 558 F.Supp.2d 1055.

[88]. Microsoft Corp. v. DAK Indus., 66 F.3d 1091, 1095 (9th Cir. 1995) (noting that whether or not the plaintiff defines the transaction as a “license” does not control the court's determination of it as such).

[89]. 558 F.Supp.2d at 1062.

[90]. Krause v. Titleserv Inc., 402 F.3d 119, 123 (2d Cir. 2005).

[91]. 558 F.Supp.2d at 1061.

[92]. *See* Olson, *supra* note 36, at 108.

[93]. *Id.*

[94]. *Id.*

[95]. *Id.*

[96]. *See* Fla. Lime & Avocado Growers, Inc. v. Paul, 373 U.S. 132, 142-43 (1963).

[97]. *See* Hines v. Davidowitz, 312 U.S. 52, 67 (1941).

[98]. *See* Olson, *supra* note 36, at 93.

[99]. *Id.*

[100]. *See* Bohannan, *supra* note 46, at 618.

[101]. *Id.*

[102]. *Id.* at 618.

[103]. *See* 17 U.S.C. § 301 (2006).

[104]. E.g., Midler v. Ford Motor Co., 849 F.2d 460, 462 (9th Cir. 1988)

[105]. *See* 17 U.S.C. § 301.

[106]. *See* 17 U.S.C. § 103 (2006).

[107]. *See* 17 U.S.C. § 301.

[108]. *Id.*

[109]. *See* Bohannan, *supra* note 46, at 621.

[110]. *Id.*

[111]. *See* 86 F. 3d 1447.

[112]. *See*, e.g,, Bohannan, *supra* note 46, at 629. *See* also Rothchild, *supra* note 2; Lemley, *supra* note 47.

[113]. 86 F. 3d at 1453.

[114]. *Id.* at 1454.

[115]. *See* Rothchild, *supra* note 2, at 98.

[116]. *Id.*

[117]. *Id.*

[118]. *See* Bohannan, *supra* note 46, at 628. *See* also Rothchild, *supra* note 2; Lemley, *supra* note 47.

[119]. *See* Bohannan, *supra* note 46, at 629.

[120]. *Id.* at 641-42.

[121]. EEOC v. Frank's Nursery & Crafts, 177 F.3d 448, 468 (6th Cir. 1999).

[122]. *See* Bohannan, *supra* note 46, at 643.

[123]. *Id.*

[124]. *Id.*

[125]. *Id.* at 656.

[126]. *Id.*

[127]. *See* Lemley, *supra* note 47.

[128]. *See infra* Part I.

[129]. *See* Niva Elkin-Koren, *Copyright Policy and the Limits of Freedom of Contract*, 12 BERKELEY TECH. L.J. 93, 109-10 (1997).