

**E-BOOK TRANSACTIONS:
AMAZON “KINDLES” THE COPY OWNERSHIP DEBATE**

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ABSTRACT

The Amazon Kindle is revolutionizing the way we buy and read books. But according to Amazon, Kindle books are not sold at all. Rather, they are licensed under surprisingly aggressive terms.

This may surprise Kindle users. Amazon’s promotional materials paint a very different picture of Kindle e-book transactions than its Terms of Service, which are buried online and purport to bind users automatically by a “browsewrap” agreement—meaning users are bound by its terms simply by visiting Amazon’s Web site.

It is not clear whether courts will uphold Amazon’s characterization of Kindle e-book transactions as mere licenses, or instead reclassify them as sales. If the transaction is deemed a sale, Kindle e-books would trigger the protection of the copyright “first sale” doctrine, allowing e-book owners to lend, trade, and resell them.

This Article surveys the legal landscape surrounding digital content transactions, including copyright law, case law, and the Uniform Commercial Code, and argues that Kindle e-book transactions should be characterized as sales. This Article also presents possible ways to make sales of e-books viable, using Digital Rights Management to enforce single-copy ownership.

Books are important and lasting cultural contributions, a fundamental vehicle of free thought. While licensing may make sense for software or other short-lived digital content, courts should protect our ownership interest in books—which brings with it the right to share, sell, and pass on—whether digitally displayed or otherwise.

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INTRODUCTION

[W]hen someone buys a book, they are also buying the right to resell that book, to loan it out, or to even give it away if they want. Everyone understands this.

—Jeff Bezos, CEO of Amazon, Open Letter on Used Book Sales, 2002¹

[Y]ou 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, and you may not remove any proprietary notices or labels on the Digital Content.

—Amazon Kindle Terms of Service, 2009²

[W]hy is it that Amazon, the most customer-focused, user-friendly company in the world of physical goods, always makes a complete balls-up hash out of digital delivery of goods? You'd think that they'd be the smartest people around when it comes to using the Internet to sell you stuff you want, but as soon as that stuff is digital, they go from customer-driven angels to grabby, EULA-toting horrors. Why does the Web make Amazon go crazy?

—Cory Doctorow, BoingBoing.net³

The Amazon Kindle is revolutionizing the way we buy and read books. This wireless-enabled reading device has sold well and has caused its share of controversy—at first over its text-to-speech feature.⁴ But the Kindle is also controversial for another reason: its license terms prevent buyers from actually owning books.

¹ E-mail from Jeff Bezos, Chief Executive Officer, Amazon.com, to Amazon Used Book Resellers (Apr. 14, 2002, 10:21:23 PST), available at <http://www.oreillynet.com/pub/wlg/1291>.

² Amazon Kindle License Agreement and Terms of Use, <http://www.amazon.com/gp/help/customer/display.html?nodeId=200144530> (last visited Dec. 6, 2009) [hereinafter Kindle Terms]. The Kindle Terms were last updated on February 9, 2009.

³ Cory Doctorow, *Amazon Kindle: The Web Makes Amazon Go Bad Crazy*, BOING BOING (Nov. 20, 2007, 2:45 PM), <http://www.boingboing.net/2007/11/20/amazon-kindle-the-we.html>.

⁴ See, e.g., Ray Blount Jr., *The Kindle Swindle?*, N.Y. TIMES, Feb. 24, 2009, at A27, available at <http://www.nytimes.com/2009/02/25/opinion/25blount.html>; John Timmer, *Amazon Decides Kindle Speech Isn't Worth Copyright Fight*, ARS TECHNICA, Mar. 2, 2009, <http://arstechnica.com/gadgets/news/2009/03/amazon-backs-off-on-kindles-text-to-speech.ars>; Brad Stone, *Amazon Backs Off Text-to-Speech Feature in Kindle*, N.Y. TIMES BITS BLOG (Feb. 27, 2009, 6:51 PM), <http://bits.blogs.nytimes.com/2009/02/27/amazon-backs-off-text-to-speech-feature-in-kindle>.

The Kindle is designed and marketed as an electronic book reader. E-books, as they are commonly called, are digitized books that are read on computer screens, and, more recently, on dedicated reading devices like the Kindle. Hundreds of thousands of e-books are already available, representing a fast-growing segment of the publishing market.

But while e-books and their print counterparts embody essentially identical content, from a transactional standpoint they differ considerably. Books are tangible goods that can be owned, sold, and passed on without express limitation—the Uniform Commercial Code (U.C.C.) governs their sale, while copyright law protects their content. But despite appearances, Kindle e-books are not, according to Amazon, sold at all: they are distributed under restrictive license terms, similar to downloaded software.

Most Kindle owners may never realize this. In its promotional materials and on the Kindle itself, Amazon reinforces the notion of traditional sale and ownership: the Kindle Store invites customers to “buy” books for wireless download to their reader, presenting Kindle books as merely another “edition” of their print counterparts.

Amazon has buried its true contractual terms in a so-called “browsewrap” agreement—meaning users are bound by its terms simply by visiting the Amazon Web site. It remains to be seen whether courts will uphold Amazon’s characterization of Kindle book transactions.

This Article argues that they should not.

Though courts have yet to deal with e-book licenses in detail, a good deal of jurisprudence exists in the similar area of software licenses. Whether a given transaction is a mere license or in fact constitutes a sale is a question courts can determine, but courts have thus far ruled inconsistently on software licenses. Thus, the transactional status of digital content exists in a “legislative void.”⁵ Attempts to promulgate model laws governing digital transactions have failed, and it is not clear whether and to what extent the U.C.C. applies.

This Article examines Kindle e-books from a transactional standpoint, arguing that contrary to Amazon’s current Terms of Service, digital copies of books should be owned, not merely licensed to the buyer.

Part I introduces the Kindle and e-book technology, and addresses an early treatment of e-books by the courts. Part II sets forth the legal menu of options for governing information-rich transactions, focusing on Article 2 of the U.C.C. and copyright

⁵ *i.LAN Sys., Inc. v. Netscout Serv. Level Corp.*, 183 F. Supp. 2d 328, 332 (D. Mass. 2002) (“Software licenses exist in a legislative void.”).

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law. Part III examines Kindle promotional materials, the Kindle User Guide, and the general user experience, and contrasts these with the restrictive Kindle Terms of Service to demonstrate that Amazon is not forthright in its characterization of Kindle e-book transactions.

Part IV reviews case law concerning copy ownership in computer software and elsewhere. This Part first examines the historical treatment of the issue by the Supreme Court, including the birth of the “first sale” doctrine of copyright law. Next, this Part examines recent treatment of software licensing by courts. Under a variety of circumstances, courts—often sitting in the same judicial circuit—have issued conflicting opinions on the matter of whether software is sold or merely licensed; this subsection presents the factors courts have considered in arriving at these decisions. Part IV concludes by reviewing the application of copyright law to address easy duplication.

Part V presents a pre-emptive case study, applying this law to Kindle e-books to gauge how courts might view and characterize these transactions. Finally, Part VI presents the case for copy ownership in e-books, and explores what e-book transactions might look like under such a scheme.

I. E-BOOKS, READERS, AND THE KINDLE

Thanks to dedicated reading devices such as Amazon’s fast-selling⁶ Kindle,⁷ e-books have lately experienced a sharp upswing

⁶ Amazon has not released official Kindle sales figures. However, the first generation Kindle sold out in a matter of hours after its launch, and Amazon had difficulty keeping it in stock thereafter. Analysts estimate that Amazon sold over 500,000 Kindles in 2008 and 550,000 during 2009. See Dan Frommer, *Amazon Sold 500,000 Kindles in 2008—Citi (AMZN)*, BUS. INSIDER: SILICON VALLEY INSIDER, Feb. 3, 2009, <http://www.businessinsider.com/2009/2/amazon-sold-500000-kindles-in-2008>; Nicholas Kolakowski, *Amazon Will Sell 550,000 Kindle E-Readers in 2009, Says Analyst*, EWEEK.COM, Dec. 1, 2009, <http://www.eweek.com/c/a/Mobile-and-Wireless/Amazon-Will-Sell-550000-Kindle-EReaders-in-2009-Says-Analyst-623633>; Nilay Patel, *Kindle Sells Out in 5.5 Hours*, ENGADGET (Nov. 21, 2007, 1:01 PM), <http://www.engadget.com/2007/11/21/kindle-sells-out-in-two-days>. Amazon remains tight-lipped about Kindle sales. See Joseph Tartakoff, *How Long Will Amazon’s Silence on Kindle Sales Last?*, PAIDCONTENT.ORG, Oct. 22, 2009, <http://paidcontent.org/article/419-how-long-will-amazons-silence-on-kindle-sales-last>.

⁷ In this Article, I use the term “Kindle” to refer to all currently available Kindle devices. This now includes four distinct but fundamentally similar digital readers: the original Kindle, the updated Kindle 2, the larger format Kindle DX, and the latest Kindle 2 International Edition (which, while outwardly identical to the Kindle 2 it replaces, adds international wireless connectivity). Amazon launched the first-generation Kindle reader on November 19, 2007. See Caroline McCarthy, *Amazon Debuts Kindle E-Book Reader*, CNET NEWS BLOG (Nov.

in popularity.⁸ By making the printed page electronically available, e-books channel low-tech manuscripts into the modern, connected world. Given our increasing reliance on computers and other digital devices in daily life, this is an essential and perhaps overdue step for publishers.

E-books can be read with either dedicated reading devices or multifunction devices, like personal computers, PDAs, and SmartPhones, which are equipped with reader software such as Microsoft Reader.⁹ However, e-books already come in several proprietary digital formats, and an e-book that works with one device or software platform might not operate with another.¹⁰ This encourages users to commit to one particular reading device or service.

The most successful of these to date is the Amazon Kindle.¹¹ In 2007, Amazon—a major online retailer with its origins and core

17, 2007, 7:04 AM PST), http://news.cnet.com/8301-10784_3-9819942-7.html. The revised Kindle 2 debuted on February 9, 2009 with an improved display, streamlined styling, and text-to-speech technology to read books aloud. See Brad Stone, Amazon's Kindle 2 Will Debut Feb. 9, N.Y. TIMES BITS BLOG (Jan. 27, 2009, 1:00 PM), <http://bits.blogs.nytimes.com/2009/01/27/amazons-kindle-2-will-debut-feb-9>. The Kindle DX launched in May 2009. See Elizabeth Montalbano, *Amazon Launches Larger-Screen Kindle DX E-Reader*, PC WORLD, May 6, 2009, http://www.pcworld.com/article/164439/amazon_launches_largerscreen_kindle_dx_ereader.html. The Kindle 2 International Edition followed on October 7, 2009. See Olga Kharif, *Amazon Kindle Goes International*, BUSINESSWEEK TECH BEAT (Oct. 7, 2009), http://www.businessweek.com/the_thread/techbeat/archives/2009/10/amazon_kindle_g.html. The International edition replaced the Kindle 2.

⁸ See, e.g., David Pogue, *Novel Now, but Not for Long*, N.Y. TIMES, Nov. 26, 2009, at B1, available at <http://www.nytimes.com/2009/11/26/technology/personaltech/26pogue.html> (“[T]wo things are for sure: e-books are evolving at a screaming pace, and their appeal goes well beyond gadget freaks.”); *Penguin Sees Major E-Book Sales Spike*, PUBLISHERS WKLY, May 28 2008, <http://www.publishersweekly.com/article/CA6564510.html>; Joseph Weisenthal, *Amazon E-Book Sales To Hit \$2.5 Billion in 2012; Will Add \$330 Million to Op Income: Analyst*, PAIDCONTENT.ORG, June 23, 2008, <http://www.paidcontent.org/entry/419-amazon-e-book-sales-to-hit-25-billion-in-2012-will-add-330-million-to-o>.

⁹ Microsoft Reader, <http://www.microsoft.com/Reader> (last visited Apr. 27, 2009).

¹⁰ See, e.g., Nicholson Baker, *A New Page: Can the Kindle Really Improve on the Book?*, NEW YORKER, Aug. 3, 2009, at 24, available at http://www.newyorker.com/reporting/2009/08/03/090803fa_fact_baker (“You can’t read a Kindle book on a Sony [Reader], or on the Ectaco jetBook, the BeBook, the iRex iLiad, the Cybook, the Hanlin V2, or the Foxit eSlick.”). In addition to the aforementioned readers, Barnes and Noble recently announced the Nook, a direct competitor to Kindle. See Nook, eBook Reader, <http://www.barnesandnoble.com/nook> (last visited Dec. 5, 2009).

¹¹ See Priya Ganapati, *E-Book Reader Roundup: Samsung Papyrus Joins the Crowd*, WIRED GADGET LAB (Mar. 25, 2009, 2:57 PM), <http://www.wired.com/gadgetlab/2009/03/samsungs-new-e>; see also Kolakowski, *supra* note 6.

business as a bookseller¹²—launched its Kindle wireless reading device, now estimated to have sold over one million units.¹³ The e-book format itself is also popular: analysts estimate that Kindle owners buy 2.7 times as many books as they did prior to owning the reader.¹⁴ At the time of this writing, Amazon is offering over 360,000 e-books for use with the Kindle.¹⁵

A. *E-Books and Kindle: Pros and Cons*

Compared with traditional books, reading e-books on a Kindle offers several advantages. The Kindle is about the size of a slim paperback, yet it can store over one thousand e-books in memory. New e-books are generally offered at a discount to their print equivalents on Amazon, and Amazon maintains a copy of each user's digital content on its servers.¹⁶ The Kindle itself offers novel features such as the ability to download new content via wireless connection, store reader comments and notes alongside book text, bookmark certain passages, define any word on the fly using dictionary software, and even to have portions of the book read aloud by a computerized speech synthesizer.¹⁷

However, this setup has disadvantages as well. Traditional books are cheap, sturdy, and durable, and can be bought, owned, sold, and passed on as personal property. By comparison, the up-front cost of the Kindle is high (\$259), which for some users will more than offset the savings on individual titles. It is costly to replace if lost, and, like many other electronic devices, its battery life will diminish over time, and it contains components that may break. The Kindle's small screen can wreak havoc with text and table formatting and makes it virtually impossible to reference a

¹² Gary Rivlin, *A Retail Revolution Turns 10*, N.Y. TIMES, July 10, 2005, § 3 (Sunday Bus.), at 1, available at <http://www.nytimes.com/2005/07/10/business/yourmoney/10amazon.html>.

¹³ See Frommer, *supra* note 6; Kolakowski, *supra* note 6. In summer 2009, a new, larger-format Kindle DX was launched as well. See Amazon.com, Kindle DX Wireless Reading Device, <http://www.amazon.com/Kindle-DX-Amazons-Wireless-Generation/dp/B0015TCML0> (last visited Dec. 5, 2009).

¹⁴ Kolakowski, *supra* note 6.

¹⁵ Amazon.com: Kindle Wireless Reading Device, <http://www.amazon.com/Kindle-Wireless-Reading-Display-Generation/dp/B0015T963C> (last visited Dec. 5, 2009) [hereinafter Kindle Product Page].

¹⁶ "Books you purchase from the Kindle Store are backed up online in your Kindle book library at Amazon.com." *Id.*

¹⁷ Amazon backtracked and made this feature optional (enabled for a particular book only at the publisher's discretion) in response to outcry from the Author's Guild and others that the computerized Text-to-Speech feature would undermine audiobook sales. See, e.g., Greg Sandoval, *Amazon Retreats on Kindle's Text-to-Speech Issue*, CNET NEWS, Feb. 27, 2009, <http://news.cnet.com/amazon-retreats-on-kindles-text-to-speech-issue>.

particular passage of text (Kindle text is tied to cryptic “locations,” not page numbers).¹⁸ E-books themselves raise platform-compatibility issues, offer a limited subset of available titles, and are typically tied to proprietary reader technology with an uncertain future.¹⁹ Moreover, Amazon exercises tremendous control over digital content and can unilaterally ban users or withdraw titles, potentially severing their access to purchased e-books.²⁰ Finally, it is unclear where e-books fit in the transactional landscape. While a buyer of a traditional book has legal ownership of that copy, it is not at all clear whether “buying” an e-book confers any ownership interest at all. This fundamental question forms the basis for this Article.

B. E-Books: What Are They (Legally)?

1. To Consumers, E-Books Are Equivalent to Books

E-books themselves are conceptually simple. An e-book is merely a book in digital form, capable of being displayed on a computer screen or other digital device.²¹ Ask a typical consumer to explain the difference between an e-book and its traditional counterpart, and you will likely hear that they are identical except for the means by which they are displayed.

Indeed, this is the view put forth publicly by Amazon and other e-book peddlers, who assert that digital readers are in essence simply a more convenient alternative to traditional print reading.²²

¹⁸ See Baker, *supra* note 10.

¹⁹ *Id.*

²⁰ Both of these have now occurred. In July 2009, Amazon remotely deleted certain digital copies of George Orwell’s *1984* and *Animal Farm* from users’ Kindles when it discovered that it did not have appropriate rights to distribute them. See Brad Stone, *Amazon Erases Two Classics from Kindle. (One Is ‘1984.’)*, N.Y. TIMES, July 18, 2009, § B (Business/Financial Desk), at 1, available at <http://www.nytimes.com/2009/07/18/technology/companies/18amazon.html> (last visited Dec. 5, 2009). Amazon also has banned users for various reasons, which leaves Kindles useless or severely limited. See Chris Walters, *Amazon Can Ban You from Your Kindle Account Whenever It Likes*, CONSUMERIST (Apr. 15, 2009, 10:41 PM), <http://consumerist.com/5213774/amazon-can-ban-you-from-your-kindle-account-when-ever-it-likes> (explaining how Amazon banned a user for returning retail purchases for refund, severely limiting Kindle functionality); Brian Sheinberg, *Returning Product to Amazon Could Brick Your Kindle*, CHANNEL WIRE (Apr. 14, 2009, 4:01 PM), <http://www.crn.com/retail/216500680> (explaining how Amazon banned a user for returning retail purchases for refund, severely limiting Kindle functionality).

²¹ *Random House, Inc. v. Rosetta Books LLC*, 150 F. Supp. 2d 613, 614-15 (S.D.N.Y. 2001).

²² “[Y]ou don’t notice a book’s glue, the stitching, or ink. Our top design objective was to make Kindle disappear—*just like a physical book*—so you can

Originally, retailers emphasized the similarity of e-books to traditional books. On the original Kindle 2 product page, Amazon stated that “[a] *copy of every book you purchased* is backed up [remotely] . . . [t]hink of [remote backup] as a *bookshelf in your attic*—even though you don't see it, *you know your books are there*”²³

Tellingly, Amazon has since backtracked on some of the claims made on its products page to limit direct comparison between its e-books and physical books: for example, Amazon has since purged the above language analogizing remote backup to copies of books in an attic.²⁴

Notwithstanding such revisions, as Section III will demonstrate, e-books are still typically presented to consumers as substitute goods equivalent to books—with no obvious mention of their vastly different transactional status.

2. Deconstructing E-Books

In essence, an e-book can be thought of as a de-convolution of the tangible and intangible components of a traditional book. Stripping the physical paper, ink, and binding—all tangible goods whose transactions are covered under Article 2 of the Uniform Commercial Code (U.C.C)—we are left with text created by an author (and usually licensed to a publisher), which is protected under copyright law.²⁵ Purchasing an e-book, then, might be

get lost in your reading, *not the technology*.” Amazon.com, Kindle 2: Amazon’s New Wireless Reading Device, <http://www.amazon.com/Kindle-Amazon-Wireless-Reading-Generation/dp/B00154JDAI> (last visited Apr. 17, 2009) (emphasis added).

²³ *Id.* (emphasis added).

²⁴ See Amazon.com: Kindle Wireless Reading Device, <http://www.amazon.com/Kindle-Amazon-Wireless-Reading-Generation/dp/B00154JDAI> (last visited Dec. 17, 2009). Sony has purged similar claims. See The eBook Store from Sony, <http://ebookstore.sony.com/reader> (last visited Apr. 17, 2009) (claiming that Sony eBook Reader’s Ink technology “[m]imics the printed page”). Sony has since removed this claim from its Web site. See The Digital Reader from Sony, <http://ebookstore.sony.com/reader> (last visited Dec. 17, 2009).

²⁵ The District Court for the Southern District of New York has held that e-books are a new medium distinct from traditional books, and that e-book publication rights are distinct from the right to publish “in book form.” See *Random House, Inc. v. Rosetta Books LLC*, 150 F. Supp. 2d 613, 614 (S.D.N.Y. 2001) (“[T]his Court finds that the right to ‘print, publish and sell the works *in book form*’ in the contracts at issue *does not include the right to publish the works in the format that has come to be known as the ‘ebook.’*” (emphasis added)), *aff’d*, 283 F.3d 490 (2d Cir. 2002). This does not mean that e-books are not protected by copyright law. See *Faulkner v. Nat’l Geographic Soc’y*, 294 F. Supp. 2d 523, 542 n.90 (S.D.N.Y. 2003). However, e-book publication rights must be separately reserved. See 2 ALEXANDER LINDEY & MICHAEL LANDAU,

envisioned as the right to access and display a particular text on a computing device, free of any tangible component: a transaction in pure information.

But this view is overly simplistic. Like software purchased on CD-ROM, there is always a tangible component to copyrighted works—indeed, copyright law demands that works be fixed in tangible medium to be copyrightable (or infringing) at all.²⁶ And although the binary states of memory banks are no longer visible to the naked eye (as they were with very early computers), they are nonetheless tangible physical states.²⁷

In reality, e-books trade one form of tangible embodiment (ink, paper, and binding) for another (magnetic charges in memory media, for example, or pixels on a screen). That e-book data is easily transferred, or that we cannot outwardly perceive the changes in memory media when it is stored, does not change the fact that it is physically embodied. And though electronic information may appear intangible, it should not be confused with intellectual property itself, for electronic information is merely a digital embodiment of intellectual property, itself a man-made right that cannot exist outside a legal regime.²⁸

But while digital embodiments of information can be exchanged through tangible goods like CD-ROMs and memory sticks, they can also be transmitted through data cables or wireless signals. This latter type of transfer differs from traditional transactions in property, and new standards must be brought to bear on it. The following sections will explore the various legal options for governing information-centric transactions and apply them to Kindle e-book transactions.

II. GOVERNING MIXED TRANSACTIONS: A LEGAL MENU

Different bodies of law exist to govern transactions in goods and transactions in information. Yet a great many business transactions involve both information and tangible goods in some form. Such “mixed” transactions can be partitioned into a physical transactional component and an informational transactional

LINDEY ON ENTERTAINMENT, PUBLISHING AND THE ARTS § 5:7 (3d ed. 2009) (advising how best to secure e-book rights by contract in wake of *Rosetta*).

²⁶ 17 U.S.C. § 102(a) (2006).

²⁷ Warren E. Agin & Scott N. Kumis, *A Framework for Understanding Electronic Information Transactions*, 15 ALBANY L.J. SCI. & TECH. 277, 321-22 (2005) (discussing the fact that e-books and other data, though ethereal, nonetheless exist in physical form, because “in reality, there is no information in electronic form that is truly intangible”).

²⁸ See, e.g., *id.* at 312.

component.²⁹ For instance, even buying a banana—clearly classified as a good and governed by U.C.C. Article 2³⁰—involves not only the transfer of fruit and payment, but of information: the terms of the bargain, as well as information printed on the banana in the form of an identifying sticker, the content of which is likely protected by trademark and copyright law.³¹

Presumably, the banana buyer is less interested in the contents of the sticker than in the fruit itself. In such an instance, the information is incidental to the transaction. But different transactions will contain different rationing schemes for information and tangible goods. This section will outline the laws that govern transactions in goods and transactions in information, and explore how the ratio of goods to information in a given transaction can impact which laws should apply.

A. Sales of Goods: U.C.C. Article 2

Article 2 of the U.C.C. governs U.S. commercial transactions in goods.³² Generally, Article 2 governs the formation of contracts for the sale of goods,³³ governs the rights of third parties in those goods,³⁴ and sets forth performance obligations and remedies available in the case of noncompliance.³⁵ While allowing parties freedom to contract around many of its provisions,³⁶ Article 2 sets forth default rules to be applied as gap-fillers in incomplete contracts or to supplant contested terms in the case of disagreement between the parties.³⁷ Such default terms include implied warranties of merchantability³⁸ and fitness for a particular

²⁹ For a thorough discussion of this issue, see Agin & Kumis, *supra* note 27, at 314-20. Also, the mixture of goods and information in a transaction is conceptually similar to the line of cases dealing with the mixture of goods and services. See, e.g., *Coakley & Williams, Inc. v. Shatterproof Glass Corp.*, 706 F.2d 456 (4th Cir. 1983).

³⁰ See U.C.C. § 2-105 (2004).

³¹ See Agin & Kumis, *supra* note 27, at 288.

³² U.C.C. § 2-102. U.C.C. articles are enacted at the state level and accordingly may vary to some degree from state to state.

³³ *Id.* §§ 2-201 to -328.

³⁴ *Id.* §§ 2-401 to -403.

³⁵ *Id.* §§ 2-501 to -725.

³⁶ Richard E. Spiedel & Linda J. Rusch, *COMMERCIAL TRANSACTIONS: SALES, LEASES AND LICENSES* 20 (2d ed. 2004) (“First and at the fore, parties can generally make their own ‘law.’ They do so expressly through contract, implicitly through a course of dealing, and collectively through custom and resultant business understanding. By their own agreement, then, the parties to a commercial deal can vary the effect of many of the provisions of the UCC.”); see also U.C.C. § 1-302.

³⁷ U.C.C. § 2-207.

³⁸ *Id.* § 2-314.

purpose.³⁹ Thus, in cases where parties cannot agree on warranty terms but proceed with a transaction anyway, the U.C.C. default warranties will apply.

Applying the U.C.C. to transactions with an information component is tricky because information is excluded from the U.C.C. definition of goods.⁴⁰ Article 2 has been widely held to apply to computer software and other information-centric transactions,⁴¹ sometimes on a “mixed-transactions” theory,⁴² but a purely electronic transfer of software would seemingly not qualify as “goods” under Article 2.⁴³

Because Article 2 is geared toward tangible goods, certain problems arise in applying its provisions to digital transfers. For instance, the provision allowing reclamation of goods shipped to an insolvent purchaser takes on a different meaning if the seller is still in possession of his master copy of the digital file.⁴⁴

Nonetheless, Article 2 is the accepted standard for governing simple commercial transactions in goods—many retailers already embody U.C.C.-type provisions in their store policies (for instance, return and refund policies cover defective or non-conforming goods), and buyers have come to rely upon these provisions in their daily transactions.

³⁹ *Id.* § 2-315.

⁴⁰ In 2002, the American Law Institute (ALI) approved revisions to U.C.C. Article 2. These proposed revisions sought to exclude explicitly from the scope of Article 2 many computer information transactions. The revised version of U.C.C. § 2-102(4) would have read: “A transaction in a product consisting of computer information and goods that are solely the medium containing the computer information is *not a transaction in goods*” Am. Law Inst. & Nat’l Conference of Comm’rs on Unif. State Laws, Proposed Amendments to Uniform Commercial Code Article 2—Sales, at 2 (Aug. 2, 2002), <http://www.law.upenn.edu/bll/archives/ulc/ucc2/annual2002.pdf> (emphasis added). However, the National Conference of Commissioners on Uniform State Laws rejected these revisions. The U.C.C. was substantially revised in 2004, and the final version dispensed with this proposed explicit exclusion and merely excluded “information” (which remained undefined) from the definition of goods. *See* U.C.C. § 2-103(1)(k) (“[Goods] does not include information . . .”).

⁴¹ *See infra* Part V.

⁴² For instance, the information may be stored on a CD-ROM or other tangible item that qualifies as a “good.”

⁴³ U.C.C. § 2-105(1).

⁴⁴ *See id.* § 2-702(2). In this case, it becomes more about preventing unjust enrichment on the part of the buyer than about making the seller whole. *See also* Agin & Kumis, *supra* note 27, at 324 n.164 (stating that in case of Internet transfers, “there is in fact a physical ‘component’ to the transaction, just not one that can be reclaimed since the physical component is not transferred”).

B. Information: Intellectual Property Law

Transactions involving information or information-rich commodities fall under the purview of intellectual property law, which governs rights in information and transfers of such rights, including assignments of registered copyrights, patents, and trademarks.⁴⁵ However, e-book purchases and similar transactions in information-centric goods rarely involve outright transfers of intellectual property rights, such as publication rights; instead, they generally involve grants of limited new rights in the form of licenses.⁴⁶

1. Copyright Law

The chief intellectual property regime at play in e-book transactions is copyright law.⁴⁷ The Copyright Act is federal law, codified in Title 17 of the United States Code, that provides protection to creators of “original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.”⁴⁸ Works of authorship include literary, musical, dramatic, and choreographic works; “pictorial, graphic, and sculptural works”; “motion pictures and other audiovisual works”; sound recordings; and architectural works.⁴⁹ Copyright protects the expression of ideas as fixed embodiments, not the ideas themselves.

The current term of copyright protection for newly created works is seventy years plus the life of the creator, or in the case of entity creators, ninety-five years from the date of publication or one hundred twenty years from creation, whichever comes first.⁵⁰ The bundle of rights conferred with copyright includes the right to

⁴⁵ For copyright assignment, see 17 U.S.C. §§ 204-05 (2006); for patent assignment, see 35 U.S.C. § 261; for trademark assignment, see 15 U.S.C. § 1050. In the case of trademark assignment, certain assets must be transferred along with the mark, or it may be deemed a “transfer in gross.” *See, e.g.,* Visa U.S.A. v. Birmingham Trust Nat’l Bank, 696 F.2d 1371, 1375 (Fed. Cir. 1982) (stating that transfer of trademark alone, absent sufficient assets to also transfer goodwill of business to which mark refers, is invalid).

⁴⁶ *See* Christian H. Nadan, *Software Licensing in the 21st Century: Are Software “Licenses” Really Sales, and How Will the Software Industry Respond?*, 32 AIPLA Q.J. 555 (2008).

⁴⁷ Although trademarks may be present in the work and patents may cover aspects of e-book technology, the license agreement rarely involves any grant of rights with respect to these.

⁴⁸ 17 U.S.C. § 102(a).

⁴⁹ *Id.* § 102(b).

⁵⁰ *Id.* §§ 302 (a), (c).

reproduce, to prepare derivative works, to make and distribute copies, and to perform and publicly display the work.⁵¹ These rights may be separately transferred, licensed, or reserved. Copyright doctrine also provides an exception for fair use, which exempts from liability certain uses of copyrighted material.⁵² A copyright owner can seek damages for, or an injunction against, unauthorized reproduction, public display, performance, or preparation of derivative works via an infringement action.⁵³

2. *Copyright Exhaustion and the First Sale Doctrine*

Copyright law allows for the resale of individual copies of copyrighted works under the first sale doctrine, which states that purchasers of copyrighted works are free to sell, lend, or give them away.⁵⁴ The first sale doctrine was first established in 1908 by the Supreme Court's ruling in *Bobbs-Merrill v. Straus*⁵⁵ and is now codified in § 109 of the Copyright Act. The first sale doctrine is a form of copyright exhaustion and has been described as an effort to fit copyright law into and around long-established notions of personal property ownership.⁵⁶ Fittingly, first sale rights extend only to the “owner of a particular copy.”⁵⁷

⁵¹ *Id.* § 106.

⁵² Fair use includes “purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research.” *Id.* § 107.

⁵³ To establish a prima facie case of infringement, two elements must be shown: “(1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original.” *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 361 (1991).

⁵⁴ The “owner of a particular copy” of a protected work “is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy” 17 U.S.C. § 109(a). For software and sound recordings, however, leasing or renting the copy is prohibited. *Id.* § 109(b). The term “first sale doctrine” refers to the fact that after its initial sale, the copyright owner's rights with respect to the disposition of a particular copy of the work disappear.

⁵⁵ 210 U.S. 339 (1908); *see also infra* Part IV.

⁵⁶ *See* Joseph P. Liu, *Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership*, 42 WM. & MARY L. REV. 1245, 1300-01 (2001) (“[A]s a purely descriptive matter, the incidents of copy ownership [such as the first sale doctrine] can be explained as having arisen from conventional and deeply embedded understandings about what it means to own or to possess physical personal property. . . . Copyright law, then, does not so much expressly build in such incidents of copy ownership, as it accepts and assumes such incidents as given.”).

⁵⁷ 17 U.S.C. § 109(a) (emphasis added); *see* Nadan, *supra* note 46, at 564 (“One becomes an ‘owner’ by buying the copy of the copyrighted work in a sale—a lease or other lesser conveyance of title is not enough.”); *see also* *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 146-47 (1998) (“[T]he first sale doctrine would not provide a defense to . . . any nonowner such as a bailee, a licensee, a consignee, or one whose possession of

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Sale of a copyrighted work, like a book, music CD, or painting, does not transfer, dilute, or otherwise diminish the bundle of rights provided to its creator by the Copyright Act.⁵⁸ Thus, buying a paperback copy of the latest bestseller does not confer upon the buyer any rights to the book’s content or the right to produce additional copies—both of which remain with the copyright owner or applicable licensee.⁵⁹ Of course, no such rights are needed to read a book, look at a painting, or listen to a CD in private.⁶⁰

3. *Digital Content and the Need To Make Copies*

But critically, the right to make copies *is* required to access protected content on electronic devices, such as displaying text on screen or executing computer code. This is because normal computer operation involves, at a minimum, copying data from a permanent storage location (such as a hard disk) to a new embodiment in random access memory (RAM) in video memory.⁶¹ Thus, even the simple use of a computer to display copyrighted text on screen demands the creation of (albeit fleeting) copies of the protected work in computer memory.

Despite the fact that the average user would not consider this to be a “reproduction” because the copies last only as long as the computer is switched on or the content is displayed on screen, copies are nonetheless produced.⁶² Here, digital content differs dramatically from the printed page: even an owned copy of digital content is essentially useless without the concurrent grant of certain rights to the buyer. This creates a problem. On the one hand, granting purchasers the right to duplicate protected works would drastically weaken copyright protection, but without rights to certain types of duplication, most digitally accessed works are useless.

the copy was unlawful.”); *L.A. News Serv. v. Tullo*, 973 F.2d 791, 799 n.8 (9th Cir. 1992) (citing 17 U.S.C. § 109(d)) (noting that licensees cannot authorize sales); *United States v. Wise*, 550 F.2d 1180, 1187 (9th Cir. 1977) (noting that licensee in possession of copy of protected work cannot rely on first sale doctrine).

⁵⁸ “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.” 17 U.S.C. § 202.

⁵⁹ In the example given, the publisher would normally retain those rights.

⁶⁰ See *Nadan*, *supra* note 46, at 561 (“[T]o read a book, there is no need to modify, copy, or publicly display it.”). For the bundle of rights belonging to the copyright holder, see *supra* note 51 and accompanying text.

⁶¹ See *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 517-19 (9th Cir. 1993) (citing 17 U.S.C. § 101) (“[T]he loading of software into the RAM creates a copy under the Copyright Act.”).

⁶² *Id.* at 519.

Congress addressed this crucial technicality in § 117 of the Copyright Act, which provides a specific exemption for owners of copyrighted computer programs allowing them to make copies that are “created as an *essential step* in the utilization of the computer program,”⁶³ or are created for archival purposes.⁶⁴ Thus, Congress distinguished transient “essential step” copies made during the use of a work from other forms of duplication, and codified its protection of them in the Copyright Act. Like the first sale doctrine, the § 117 “essential step” exemption protects only *owners* of copyrighted works.

4. *Licensing Copyrighted Works*

As an alternative to § 117 “essential step” protection, another way to address the needs of digital content users is to grant the necessary usage rights in license form. An intellectual property license in essence lets the grantee do something he otherwise could not do without violating intellectual property laws.⁶⁵ Unlike sales of goods, licenses may involve no actual “transfer” at all.⁶⁶

Copyright licenses are generally expressed in contract form. Typical terms of a copyright license address (1) limitations on the licensee’s use of the content, (2) licensee’s ability to sublicense, (3) limitation of licensee’s rights by geography or jurisdiction, (4) whether the grant of rights is exclusive or non-exclusive, (5) the term of the license (which can be perpetual), and (5) the fee or royalty for the license.⁶⁷

In addition, licenses frequently contain other terms besides those directly related to accessing protected content. For instance, a typical End-User License Agreement (EULA) for commercially available software includes a host of terms governing conduct that either falls outside the protection of copyright law or extends well beyond what copyright law provides.⁶⁸ Although federal copyright

⁶³ 17 U.S.C. § 117(a)(1) (emphasis added).

⁶⁴ *Id.* § 117(a)(2).

⁶⁵ See Nadan, *supra* note 46.

⁶⁶ Whereas an intellectual property assignment involves the transfer of rights, a license typically does not—though it may involve the grant of new rights to the recipient. See Agin & Kumis, *supra* note 27, at 291.

⁶⁷ See *id.* at 293.

⁶⁸ See, for example, the iTunes EULA, which states not only content restrictions (e.g., users agree to “use only ring tone Products as a musical ‘ringer’ in connection with phone calls”), but also pricing information (“[p]rices and availability of any Products are subject to change at any time”), standard contract terms (“[y]our use of the Service includes the ability to enter into agreements and/or to make transactions electronically”), disclaimers of warranties and liability, and forum choice (“[t]he laws of the State of California . . . govern these Terms of Service and your use of the Service”). iTunes Store—Terms and Conditions, <http://www.apple.com/legal/itunes/us/terms.html>

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law should preempt state contract law under the Supremacy Clause in cases of overlap,⁶⁹ some courts have nonetheless held that IP licenses that extend copyright-style coverage beyond what is offered by federal copyright law may avoid preemption.⁷⁰ Thus, licensors are free to create their own civil copyright-style protection through licensing contracts while falling back upon the Copyright Act for protection if these terms are not upheld. This has led to a proliferation of content usage restrictions in EULAs, many of which extend beyond those permissible under the Copyright Act.⁷¹

For producers of digital content such as software, it is generally desirable to style transactions as licenses rather than as sales,⁷² and it has become industry practice to do so.⁷³ Not only does this allow usage terms to be custom-tailored, but content distributed via license is typically not owned by the consumer, and therefore does not qualify for the § 109 “first sale”⁷⁴ and § 117 “essential step”⁷⁵ exemptions detailed above.⁷⁶

#SERVICE (last visited Dec. 5, 2009) (stating the license terms that accompany Apple’s popular iTunes music player software).

⁶⁹ U.S. CONST. art. VI, cl. 2.

⁷⁰ See, e.g., Nat’l Car Rental Sys., Inc. v. Computer Assocs. Int’l, Inc., 991 F.2d 426, 435 (8th Cir. 1993) (stating that federal copyright law did not preempt similar terms in car rental agreement handled under state contract law); see also Bowers v. Baystate Techs., Inc., 320 F.3d 1317, 1323 (Fed. Cir. 2003) (holding that federal copyright law does not preempt license provisions prohibiting reverse engineering).

⁷¹ For an example of downstream restrictions that far outpace anything copyright law delimits, see the brief discussion of iTunes usage restrictions, *supra* note 68.

⁷² Nadan, *supra* note 46.

⁷³ For a discussion of licensing in computer software, see Adobe Systems Inc. v. One Stop Micro, Inc., 84 F. Supp. 2d 1086, 1092 (N.D. Cal. 2000).

⁷⁴ *Id.* at 1089 (“The first sale doctrine is only triggered by an actual sale. Accordingly, a copyright owner does not forfeit his right of distribution by entering into a licensing agreement.”).

⁷⁵ Section 117 applies only to the *owner* of a copy of software, that is, to copies that have been sold. This is clearly illustrated in a 1999 analysis by the Federal Circuit observing that the proposed text of § 117 “[wa]s identical to the one that was ultimately enacted, except for a single change. . . . Congress . . . substituted the words *owner of a copy* in place of the words *rightful possessor of a copy*. The legislative history does not explain the reason for the change, but it is clear from the fact of the substitution of the term *owner* for *rightful possessor* that Congress must have meant to require more than rightful possession to trigger the section 117 defense.” DSC Commc’ns Corp. v. Pulse Commc’ns, Inc., 170 F.3d 1354, 1360 (Fed. Cir. 1999) (emphasis added) (citations omitted) (internal quotation marks omitted).

⁷⁶ “To apply the first sale doctrine and the exceptions of § 117, there must be an authorized transfer of ownership. . . . When license terms provide that ownership of the copy remains in the copyright owner, they preclude the transfer of title to the copy of the license.” RAYMOND T. NIMMER, LAW OF COMPUTER TECHNOLOGY: RIGHTS, LICENSES, LIABILITIES § 7:69 (3d ed. 2003).

In fact, computer software licenses were devised specifically as a means to circumvent the first sale doctrine and prevent rental companies from distributing software.⁷⁷ But by the time the rental threat was neutralized by other means,⁷⁸ the practice of software licensing was already well established. Software licenses remain commonplace today, and continue to allow software producers to circumvent the first sale doctrine.⁷⁹

This important point means that many of the rights that purchasers of goods have come to expect—for instance, the right to use the goods for their intended purpose, or to resell them—do not automatically apply to purchases of most software or digital content. Instead, the copyright holder must specifically grant such rights. If such rights are withheld or withdrawn, the buyer may find that he has in fact bought nothing at all.

C. Uniform Computer Information Transactions Act (UCITA)

Occasionally, a third body of law will apply to information-centric transactions. The Uniform Computer Information Transactions Act (UCITA) is a model law, originally proposed as Article 2B of the U.C.C.,⁸⁰ and intended to supplant Article 2 for transactions in computerized and digital information. It was

⁷⁷ An early concern of software developers was that rental companies would purchase a few copies of any program, and then rent these out to consumers, who could then install them and use them long after returning the rented copy. Such use would be protected under the first sale doctrine. Provided that the rental company purchased the software, it could dispose of its copies as it wished. As such, software producers were wary of relying on the protection afforded by copyright law. Licensing was devised as a way to avoid this issue. *See Step-Saver Data Sys., Inc. v. Wyse Tech.*, 939 F.2d 91, 96 n.7 (3d Cir. 1991) (“By characterizing the original transaction between the software producer and the software rental company as a license, rather than a sale, and by making the license personal and non-transferable, software producers hoped to avoid the reach of the first sale doctrine . . .”).

⁷⁸ Congress in 1990 amended the first sale doctrine as it applies to computer programs and phonorecords so as to prohibit the rental of software for commercial purposes. *See Computer Software Rental Amendments Act of 1990*, Pub. L. No. 101-650, 104 Stat. 5134 (codified at 17 U.S.C. §§ 109(b), (e), 205 note).

⁷⁹ The licenses typically do replicate § 117 “necessary copy” rights, otherwise users would be unable to use the software. *See, e.g.*, Apple, Inc., Software License Agreement for iTunes, <http://images.apple.com/legal/sla/docs/itunes.pdf> (last visited Dec. 5, 2009) (“Th[e] License allows you to install and use the Apple Software. . . . You may make one copy of the Apple Software in machine-readable form for backup purposes only . . .”).

⁸⁰ Agin & Kumis, *supra* note 27, at 301.

intended to control in cases where computer information is the “primary subject matter” of a transaction.⁸¹

Among other things, UCITA codifies the view that traditional software distributions are licenses, not sales,⁸² and “seeks to provide uniform rules and default provisions for computer information licenses”⁸³ just as U.C.C. Article 2 does for sales of goods.

Unlike Article 2, however, UCITA has not been widely adopted. The ABA declined to endorse it,⁸⁴ and so far, Maryland and Virginia remain the only states to have enacted it.⁸⁵ Moreover, four states (Iowa, North Carolina, West Virginia, and Vermont) have enacted anti-UCITA “bomb shelter” legislation, shielding their citizens from UCITA laws enacted elsewhere.⁸⁶ In any event, UCITA likely does not govern Amazon e-book transactions, because Amazon Terms of Service include a choice-of-law provision specifying that the law of Washington State governs any disputes.

D. Digital Millennium Copyright Act (DMCA)

In 1998, Congress enacted the Digital Millennium Copyright Act⁸⁷ (DMCA), which, among other things, sought to modernize the Copyright Act and plug various gaps in digital protection that had appeared alongside the widespread increase in

⁸¹ See UNIFORM COMPUTER INFORMATION TRANSACTIONS ACT (UCITA) § 103(b)(2) (1999), <http://www.law.upenn.edu/bll/archives/ulc/ucita/ucita200.pdf> (“[UCITA] applies to the entire transaction if the computer information and informational rights, or access to them, is the *primary subject matter*, but otherwise applies only to the part of the transaction involving computer information, informational rights in it, and creation or modification of it.” (emphasis added)).

⁸² *Id.* §§ 102(43), (44) (classifying mass-market software transactions as licenses).

⁸³ Agin & Kumis, *supra* note 27, at 302.

⁸⁴ *Id.* at 301.

⁸⁵ Davidson & Assocs. Inc. v. Internet Gateway, Inc., 334 F. Supp. 2d 1164, 1177 n.11 (E.D. Mo. 2004). However, UCITA contains choice of law provisions that extend its potential application to any parties with a choice of law including Maryland or Virginia. UCITA §§ 109-110.

⁸⁶ See, e.g., IOWA CODE § 554D.104 (2003); see also Ams. for Fair Elec. Commerce Transactions, UCITA “Bomb-Shelter” Legislation, <http://affect.ucita.com/pdf/UCITABombShelter.pdf> (last visited Dec. 17, 2009); Ams. for Fair Elec. Commerce Transactions, Who We Are, <http://www.ucita.com/who.html> (last visited Dec. 17, 2009) (“Americans for Fair Electronic Commerce Transactions, is a broad-based national coalition . . . opposed to . . . UCITA.”); Patrick Thibodeau, *Mass. Could Be Fifth State To Adopt Anti-UCITA Law*, COMPUTERWORLD, June 4, 2003, <http://www.computerworld.com/s/article/81812>.

⁸⁷ Digital Millennium Copyright Act, Pub. L. No. 105-304, 112 Stat. 2860 (1998) (codified at scattered sections of 17 U.S.C. (2006)).

Internet use. While the DMCA does not explicitly govern transactions, it sets the backdrop against which modern information-rich transactions take place. One of its provisions in particular is relevant to the discussion of transactions in e-books.

The DMCA criminalizes the circumvention of technical copy-restriction methods, commonly referred to as Digital Rights Management (DRM) technology. The Act renders it illegal to bypass any technological measure that controls access to a protected work, or to distribute technology designed for this purpose.⁸⁸ Thus, the DMCA prohibits cracking the copy protection on a software program, bypassing DRM on a digital music file, or reformatting Kindle e-book files to function in a platform-independent manner. Perpetrators face a variety of civil⁸⁹ and criminal remedies.⁹⁰

E. Information to Goods Ratio: The Spectrum of Transactions

How do these various bodies of law fit together, and to what extent will each govern a given transaction? The answer depends upon the characteristics of the transaction in question.

Agin and Kumis have suggested a five part classification for transactions according to the amount and importance of information contained therein.⁹¹ The first class describes those relatively rare transactions that involve goods which have no information content whatsoever; for example, a transfer of an unmarked piece of wood.⁹² The second class includes transactions where information is present but unimportant, or plays little role in the deal; for instance, the banana with its label, or a toaster with embedded software controlling its functions.⁹³ The third class covers transactions where information and tangible goods are present, symbiotic, and equally important; the examples given are a necktie (tangible, but clearly valued for aesthetic reasons, such as its printed, copyright-protected design) and a cellular telephone (which contains software essential to the phone's function, yet is of little use when separated from the handset).⁹⁴ The fourth category involves transactions where information is the predominant commodity, though tangible goods are transferred as well; this

⁸⁸ See 17 U.S.C. § 1201(a)(1)(A) (“No person shall circumvent a technological measure that effectively controls access to a work protected under this title.”); *id.* § 1201(a)(2) (describing trafficking in circumvention technology).

⁸⁹ See *id.* § 1203.

⁹⁰ See *id.* § 1204.

⁹¹ Agin & Kumis, *supra* note 27, at 316.

⁹² *Id.*

⁹³ *Id.*

⁹⁴ *Id.* at 317.

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category includes music CDs as well as computer software and downloaded MP3 files.⁹⁵ Like transactions in pure goods, the fifth category—pure information transactions with no physical component—is also rare; lectures and live performances are given as examples.⁹⁶ Classes one and five are “pure” transactions, involving goods or information only, whereas classes two, three and four are “mixed” transactions.

Agin and Kumis argue that determining which rules should govern each category should hinge upon the importance of information to the transaction. It follows, for instance, that U.C.C. Article 2 should govern classes one and two, where information is absent or, if present, is not the focus of the transaction.⁹⁷ Classes four and five should be governed by rules applicable to the transfer of information.⁹⁸ Class three, where information and tangible goods depend upon one another and are equally important, invites conflict between these bodies of law.⁹⁹

Agin and Kumis categorize book purchases as class three transactions by suggesting that “[w]hile primarily informational, the non-information components of paper, cardboard, glue and fabric have their own attraction for the reader. Why else would so many pay a substantial premium to purchase books in hardcover?”¹⁰⁰ However, a reasonable application of Agin & Kumis’s underlying principles suggests that books are in fact a class four transaction. Agin and Kumis fail to note that publishers typically release hardcover books before their paperback counterparts, mainly to maximize profits in a tiered distribution scheme.¹⁰¹ Thus, purchases of hardcover books could simply reflect consumers’ preference for having the book sooner rather than later—not a preference for hardback over paperback, as the authors suggest.¹⁰² And while the buyer may indeed place some importance on aesthetics or other physical characteristics of the book, for most literary work the text is the most important

⁹⁵ *Id.* at 318. The authors argue that the physical manifestation of a data file on the recipient’s computer, achieved through signal transmission and processing, involves a tangible representation.

⁹⁶ *Id.* at 319.

⁹⁷ *Id.* at 316.

⁹⁸ *Id.* at 319.

⁹⁹ *Id.* at 317.

¹⁰⁰ *Id.*

¹⁰¹ *See, e.g., Capital Cities/ABC, Inc. v. FCC*, 29 F.3d 309, 315 (7th Cir. 1994) (explaining that a ban on network television’s practice of “warehousing” reruns would prevent networks from maximizing profits off first-runs of programs “just as if publishers were forced to publish the paperback version of any best seller within a fixed time after the publication of the hardcover edition”).

¹⁰² *See Nadan, supra* note 46, at 345-46.

component.¹⁰³ In this, books are similar to other class four transactions, like music CDs, where album art, colors and other features of the tangible product can sway the buyer. Thus, the purchase should properly be categorized as a class four, information-centered transaction.¹⁰⁴

Similarly, e-book transactions may at first blush look like a class five, information-only exchange. But in fact they too are properly classed along with traditional books, music CDs, and downloadable software as class four transactions: the information is the focus of the transaction, but a tangible embodiment nonetheless exists.¹⁰⁵

U.C.C. Article 2 governs sales of music CDs and books, both solid class four information-centric transactions with a tangible component.¹⁰⁶ It is not yet clear whether the U.C.C. also governs digital transfers of content or even sales of software on CD-ROM.

In summary, so-called “mixed transactions”—those that include both tangible and information components—can be governed both by U.C.C. Article 2 and by copyright law, simultaneously and to a different extent. But where does this leave Kindle e-book purchases? The next Section begins to answer this question by exploring the license terms Amazon seeks to attach to Kindle transactions.

III. E-BOOKS ON THE KINDLE’S TERMS

With the preceding legal framework set forth, this Part will examine in detail the transactional terms supplied by Amazon for its Kindle e-books. The first subsection walks through the process

¹⁰³ This author chooses to believe that most consumers know better than to judge a book by its cover.

¹⁰⁴ Interestingly, the same aesthetic concerns that sway buyers of music CDs can also apply to consumers of online MP3 versions of music, since the Apple’s iTunes store commonly includes album art as metadata with each downloaded song.

¹⁰⁵ See *supra* note 95 and accompanying text.

¹⁰⁶ The Third Circuit in 1991 distinguished between information and tangible goods with respect to the U.C.C. “[Music] produced by the artistry of musicians . . . in itself is not a ‘good,’ but when transferred to a laser-readable disc becomes a readily merchantable commodity. Similarly, when a professor delivers a lecture, it is not a good, but, when transcribed as a book, it becomes a good. That a computer program may be copyrightable as intellectual property does not alter the fact that once in the form of a floppy disc or other medium, the program is tangible, movable and available in the marketplace [and is therefore a good governed by the U.C.C.]” *Advent Sys. Ltd. v. Unisys Corp.*, 925 F.2d 670, 675 (3d Cir. 1991); see also *Lobianco v. Prop. Prot., Inc.*, 437 A.2d 417, 419 (Pa. Super. Ct. 1981) (“[D]efinition [of goods under U.C.C.] embraces every species of property other than real estate, choses in action, or investment securities.”).

of buying and activating a Kindle and explores Kindle e-book transactions as experienced by the user. The second subsection examines the actual Amazon Kindle License Agreement and Terms of Use (hereinafter “Terms of Service” or “Terms”).¹⁰⁷ The third subsection discusses the enforceability of online “browsewrap” agreements.

A. The Kindle, Through a User’s Eyes

To the casual user, the Amazon Kindle seems a technological marvel: a digital reader with an e-Ink screen that arrives pre-configured and connects wirelessly to Amazon straight from the box. New users can buy and read books in under sixty seconds—just like regular books, only more convenient—and their libraries are digitally “backed up” on Amazon servers.

The truth is not so simple. Amazon does not *sell* any e-books to Kindle users—choosing instead to license the e-books—though the casual user would be hard pressed to discern this.

1. Getting the Kindle

The Kindle reader is available for purchase through Amazon’s online retail site.¹⁰⁸ New users to Amazon need only an (unverified) e-mail address and a password to register; no other information is required.¹⁰⁹ In fact, a new user can create an account, search for the Kindle, add it to his shopping cart, and proceed to the checkout in under a minute, without clicking “I agree” or otherwise explicitly assenting to the Kindle’s terms of use.¹¹⁰

2. When Kindle Arrives: The Kindle User Guide

The Amazon Kindle arrives already configured, pre-linked to the purchaser’s Amazon account.¹¹¹ After executing its power-up routine, the new device displays the Kindle User’s Guide¹¹² on

¹⁰⁷ See KindleTerms, *supra* note 2.

¹⁰⁸ See Kindle Product Page, *supra* note 7.

¹⁰⁹ Amazon.com, Sign In, <https://www.amazon.com/gp/flex/sign-in/select.html> (last visited Dec. 7, 2009).

¹¹⁰ The author created a new account and completed this process as described on Apr. 26, 2009. Credit card information is required at the checkout stage to actually effect the purchase, but at no point are users asked to explicitly assent to either Amazon’s general Terms of Use or those specific to the Kindle.

¹¹¹ Any individual Kindle device can also be easily de-registered, and re-registered to a different Amazon user account.

¹¹² The Kindle User’s Guide is available in PDF format, and it is this PDF to which page citations hereafter will refer. See Kindle User’s Guide 3rd Edition,

its e-Ink screen, beginning with “Welcome to Amazon Kindle.”¹¹³ This document walks the new user through various features of the device, including the process for acquiring content.

Notably, the terms “agreement” and “terms of use” do not appear anywhere in the 124-page document; in fact “terms” occurs only three times, and never in connection with usage terms; and the word “license” (and its derivatives) appears only once, in an appendix stating that MP3 audio technology is “licensed from Fraunhofer IIS and Thomson.”¹¹⁴ However, the word “buy” occurs nineteen times in the document in various forms, often in such a way as to characterize e-book transactions as sales.¹¹⁵ Further cementing the similarity to traditional book purchases, the words “e-book” and “ebook” are absent, whereas “book” appears 255 times.

Section 5.4, titled “Making Purchases,” helpfully explains “various aspects of purchasing items from the Kindle Store,” a process which seems to mirror the traditional retail buying experience, including “Buying your Selections” and even “Returning an Item.”¹¹⁶

Users interested to learn what sort of content they are buying can skip to Section 3.1, which states that “[t]housands of *books*—both popular and hard-to-find—are available in the Kindle Store. Once you *buy a book*, it usually *arrives wirelessly* in under a minute.”¹¹⁷

The message of the Kindle User’s Guide is clear: the Kindle enables users to *buy books* and read them on the device.

3. *Acquiring Content*

The user must review and get her credit card information approved before proceeding to purchase content from the Kindle Store. The Kindle Store can be accessed either via the Amazon Web site, or directly on the Kindle device via its wireless connection.

Suppose the user purchases Alice Schroeder’s *Snowball: Warren Buffett and the Business of Life* (2008) on her Kindle. After clicking “Buy” on the appropriate product page, the book

http://s3.amazonaws.com/kindle/Kindle2_Users_Guide.pdf (last visited Nov. 29, 2009).

¹¹³ *Id.* at 8.

¹¹⁴ *Id.* at 123.

¹¹⁵ *See, e.g., id.* at 41 (“Once you *buy a book*, it usually *arrives wirelessly* in under a minute.” (emphasis added)); *id.* at 82 (defining function of “Buy” button as “*purchases the item* using your default Amazon 1-Click payment method and sends it wirelessly to your Kindle for free” (emphasis added)).

¹¹⁶ *Id.* at 86.

¹¹⁷ *Id.* at 41 (emphasis added).

streams wirelessly to the device and appears in the content list. Clicking the book’s title opens the digital book to page 1 of chapter 1—the text and layout echo that of the traditional print version. Again, no explicit notice is given of license or usage terms; the user need not click “I agree” or otherwise explicitly give consent, and there is still no indication that the transaction is anything but a sale.

4. *The Search for Terms*

Our user has come to expect (and detest) lengthy license agreements. Interested to learn if any special terms attach to this high-tech marvel, she may search the e-book itself for a special copyright notice. Using the Kindle’s table of contents feature, she is able to jump to the page bearing the copyright notice—but what she will find there is merely a digitized version of its print-edition equivalent, including author information, publisher, Library of Congress Cataloging in Publication Data, ISBN and library call numbers.¹¹⁸ There is no mention of licensing terms, or any special terms to differentiate this “Kindle edition” from the hard copy book.¹¹⁹

Our keenly interested user might at this point navigate through the Kindle’s menu system looking for (and reading) stashed legal notices. But she would find only an eighty-eight page document reproducing in long-form the various software and technology licenses used to produce the Kindle reader itself.¹²⁰

To locate the highly restrictive terms by which she is—according to Amazon—already bound, she will have to look harder than that. Indeed, she must return to her computer to access the Amazon homepage and click a small link at its base titled “Conditions of Use.”¹²¹ The Conditions of Use state in part

Amazon Services LLC and/or its affiliates (“Amazon”) provide website features to you subject to the following conditions. *If you visit or shop at Amazon.com, you accept these conditions.* Please read them carefully. *In addition, when you use any current or future Amazon service or business (e.g., Your Profile, Gift Cards, Unbox, or Your Media*

¹¹⁸ ALICE SCHROEDER, *THE SNOWBALL: WARREN BUFFETT AND THE BUSINESS OF LIFE* (Amazon Kindle ed. 2008).

¹¹⁹ *Id.*

¹²⁰ This document is accessible on the Kindle by clicking Menu > Settings, and then Menu > Legal. Licenses listed include GNU Public License, Freetype, E-Ink, BSD and MIT licenses, among others.

¹²¹ Amazon.com, <http://www.amazon.com> (last visited Dec. 7, 2009) (follow the “Conditions of Use” hyperlink at the base of the page).

*Library) you also will be subject to the guidelines, terms and agreements (“Terms”) applicable to such service or business.*¹²²

Thus, simply by using an Amazon service (such as the Kindle Store or the Kindle itself), the user implicitly accepts that service’s particular terms. This is referred to as a “browsewrap” agreement.¹²³ The specific Kindle Terms are also hosted on the Amazon Web site, accessible by Google search, or by browsing the “support” section.¹²⁴

B. The Kindle Terms of Service: Non-Transferable License

1. The Terms

The Kindle Terms of Service¹²⁵ present a wholly different picture of the Kindle user experience than the device itself, the Kindle Store, or the Kindle User’s Guide.

The word “buy” does not appear even once in this document. Instead, the Terms state that “[t]he Kindle Store enables you to *download, display and use on your Device* a variety of digitized electronic content,” including “books.”¹²⁶ The term “use” is further clarified as follows:

*Use of Digital Content. Upon your payment of the applicable fees set by Amazon, Amazon grants you the non-exclusive right to keep a permanent copy of the applicable Digital Content and to view, use, and display such Digital Content an unlimited number of times, solely on the Device or as authorized by Amazon Digital Content will be deemed licensed to you by Amazon under this Agreement unless otherwise expressly provided by Amazon.*¹²⁷

According to these terms, digital content is not sold at all. Amazon further clarifies that under these terms, the first sale doctrine does not apply to digital content:

¹²² Amazon Conditions of Use, <http://www.amazon.com/gp/help/customer/display.html?ie=UTF8&nodeId=508088> (last visited Dec. 7, 2009) (emphasis added).

¹²³ Browsewrap agreements are discussed more thoroughly toward the end of Part III.

¹²⁴ Kindle Terms, *supra* note 3.

¹²⁵ *Id.*

¹²⁶ *Id.* § 3 (emphasis added).

¹²⁷ *Id.* (emphasis added).

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Unless specifically indicated otherwise, 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 party¹²⁸

Users are thereby expressly prohibited from selling, giving away, or lending their digital books to others—rights that owners of traditional books enjoy under copyright law.¹²⁹

Even the expressly granted right to keep a “permanent copy” of any purchased digital content is dramatically weakened since “Amazon reserves the right to modify, suspend, or discontinue the Service at any time, and Amazon will not be liable to you should it exercise such right.”¹³⁰ Moreover, a user’s rights automatically terminate without notice if he “fail[s] to comply with any term of this Agreement.”¹³¹ In this event, “Amazon *may immediately revoke* [user] *access* to the Service or *to Digital Content* without notice to [users] and without refund of any fees.”¹³²

Furthermore, Amazon “reserves the right to amend any of the terms of this Agreement at its sole discretion” merely by “posting the revised terms on the Kindle Store or the Amazon.com website.”¹³³ A user’s continued use of the Kindle after any such amendment has taken effect “shall be deemed . . . [an] agreement to be bound by such amendment.”¹³⁴

Amazon seemingly relies entirely on this “browsewrap” license and does not require that users specifically click “I agree” or otherwise consent to demonstrate acceptance of current or revised terms. In addition, when downloading new content to the device, users similarly need not expressly assent to any license terms.

¹²⁸ *Id.* (emphasis added).

¹²⁹ The Kindle Terms do not explicitly address reselling or transferring actual Kindles loaded with books; however, each active Kindle is tied to the user’s Amazon account complete with credit card information. Thus, anyone selling his Kindle would presumably seek to de-register the device before passing it on, lest he also pass on access to his credit card. By de-registering the device, all content stored therein is deleted. Thus, effectively, while the device itself may be resold, Amazon ensures that access to digital content stored thereon does not survive the transaction.

¹³⁰ Kindle Terms, *supra* note 3, § 5. Presumably it was this provision that made Amazon’s July 2009 remote deletion of Orwell titles from user’s Kindles acceptable under its Terms. *See supra* note 20 and related discussion.

¹³¹ *Id.*

¹³² *Id.* (emphasis added).

¹³³ *Id.*

¹³⁴ *Id.*

2. *The Questionable Efficacy of “Browsewrap” Agreements*

These “browsewrap” terms may not be enforceable at all. Although businesses may seek to bind unwitting Web users in creative ways, courts apply traditional contract principles to the interpretation of online agreements.¹³⁵ For instance, online agreements mirror traditional contracts in that a party’s failure to read contract terms before assenting generally does not excuse noncompliance.¹³⁶ That said, to be bound by online terms, consumers must have sufficient notice that such terms exist. Choosing to ignore terms that bind you is quite different from never knowing you were bound at all.

Unlike “clickwrap” agreements, which require users specifically to assent to terms by checking a box or clicking “I agree,”¹³⁷ “browsewrap” agreements exist in the background, and purport to bind users simply by virtue of their visiting a Web site.¹³⁸

Whereas the enforceability of “clickwrap” often rests on a single mouse-click—the Internet community’s answer to traditional mutual assent in contract—the enforceability of “browsewrap” “turns on whether a website user has actual or constructive knowledge of a site’s terms and conditions prior to using the site.”¹³⁹

¹³⁵ “While new commerce on the Internet has exposed courts to many new situations, it has not fundamentally changed the principles of contract.” *Register.com, Inc. v. Verio, Inc.*, 356 F.3d 393, 403 (2d Cir. 2004).

¹³⁶ “Failure to read an enforceable online agreement, ‘as with any binding contract, will not excuse compliance with its terms.’” *Burcham v. Expedia, Inc.*, No. 4:07CV1963, 2009 WL 586513, at *2 (E.D. Mo. Mar. 6, 2009) (citing *Feldman v. Google, Inc.*, 513 F. Supp. 2d 229, 236 (E.D. Pa. 2007)); *see also Schwartz v. Comcast Corp.*, 256 F. App’x 515 (3d Cir. 2007); *Pentecostal Temple Church v. Streaming Faith, LLC*, No. 08-554, 2008 WL 4279842 (W.D. Pa. Sept. 16, 2008).

¹³⁷ Clickwrap agreements are generally enforced. *See, e.g., Specht v. Netscape Comm. Corp.*, 306 F.3d 17, 22 n.4 (2d Cir. 2002); *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996); *United States v. Drew*, No. CR 08-0582-GW, 2009 WL 2872855 (C.D. Cal. Aug. 28, 2009); *A.V. v. iParadigms, LLC*, 544 F. Supp. 2d 473, 480 (E.D. Va. 2008); *DeJohn v. TV Corp. Int’l*, 245 F. Supp. 2d 913, 921 (N.D. Ill. 2003). For a thorough discussion of the enforceability of software clickwrap licenses, see Kevin W. Grierson, *Enforceability of “Clickwrap” or “Shrinkwrap” Agreements Common in Computer Software, Hardware, and Internet Transactions*, 106 A.L.R.5th 309 (2003).

¹³⁸ *See, e.g., Ian Rambarran & Robert Hunt, Are Browse-Wrap Agreements All They Are Wrapped Up To Be?*, 9 TUL. J. TECH. & INTELL. PROP. 173, 174 (2007) (“[A] browse-wrap agreement is typically presented at the bottom of the Web site where acceptance is based on the ‘use’ of the site.”).

¹³⁹ *Burcham*, 2009 WL 586513, at *3 n.5 (citations omitted) (internal quotation marks omitted); *see also Ticketmaster L.L.C. v. RMB Techs., Inc.*, 507 F. Supp.

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A full discussion of the likely enforceability of Amazon’s “browsewrap” Terms of Use is beyond the scope of this Article,¹⁴⁰ but it suffices to say that the ultimate enforceability of “browsewrap” agreements for major copyright distribution issues—such as might arise through widespread reproduction, circulation, and attempted resale of Kindle e-books—remains unclear

3. *Summary: Confused from the Start, and the Orwell Deletions*

It seems Amazon would like to have it both ways. In its advertising materials, Kindle User Guide and Kindle Store,¹⁴¹ the company refers to e-books as simply “books” and invites users to “buy” them. Even a dedicated user searching for the so-called fine print in these materials will uncover nothing to suggest that their acquisition of digital content is anything but a traditional sale of a book, albeit embedded in new electronic media. The official Terms of Service for the Kindle, however, paint a very different story.¹⁴²

2d 1096, 1107 (C.D. Cal. 2007) (“Having determined that Plaintiff is highly likely to succeed in showing that Defendants viewed and navigated through ticketmaster.com, the Court further concludes that Plaintiff is highly likely to succeed in showing that Defendant received notice of the Terms of Use and assented to them by actually using the website.”); *Sw. Airlines Co. v. Boardfirst, L.L.C.*, No. 3: 06-CV-0891-B, 2007 WL 4823761, at *16 n.5 (N.D. Tex. Sept. 12, 2007) (noting that, as a general principle, browsewrap enforceability turns on whether the user had actual or constructive notice of the terms); Mark A. Lemley, *Terms of Use*, 91 MINN. L. REV. 459, 477 (2006) (“Courts may be willing to overlook the utter absence of assent only when there are reasons to believe that the defendant is aware of the plaintiff’s terms.”). *But see* *Pollstar v. Gigmania, Ltd.*, 170 F. Supp. 2d 974 (E.D. Cal. 2000) (declining to dismiss claim for breach of contract, despite fact that Web site visitors presumably were “not aware that the license agreement is linked to the homepage” and “user is not immediately confronted with the notice of the license agreement”).

¹⁴⁰ It is worth noting, however, that a recent decision held notice insufficient to bind users when such notice was buried, as in Amazon’s case, within the “browsewrap” terms themselves. *See Hines v. Overstock.com, Inc.*, 2009 WL 2876667 (E.D.N.Y. Sept. 08, 2009).

¹⁴¹ Kindle User’s Guide 3rd Edition, *supra* note 112; for advertising, see Kindle Product Page, *supra* note 15; for Kindle Store, see Amazon.com: Kindle Store, http://www.amazon.com/kindle-store-ebooks-newspapers-blogs/b/ref=topnav_storetab_kinh?node=133141011 (last visited Dec. 7, 2009).

¹⁴² Such behavior is, unfortunately, almost an industry standard: it is quite common for EULAs to effectively cancel any warranties conferred on vendor Web sites. *See* Robert A. Hillman & Ibrahim Barakat, *Warranties and Disclaimers in the Electronic Age*, 11 YALE J.L. & TECH. 1, 5-6 (2009) (reporting that fifty-three of fifty-four software EULAs surveyed appeared to negate or void express warranties provided on manufacturer Web sites).

Are Amazon's Kindle Terms, which cast all digital content transfers as mere licenses, likely to be held enforceable against buyers who believe they have purchased a book?

The answer is unclear. The Amazon Kindle has been explicitly mentioned in only one state or federal court opinion in the United States as of this writing, and this decision does not discuss copy ownership.¹⁴³

Amazon's remote deletion of two George Orwell e-books from certain users' Kindles in July 2009 would have placed the issue of Kindle e-book ownership squarely before the U.S. federal courts: this deletion sparked a lawsuit led by two high school students whose homework annotations had been lost along with their e-books.¹⁴⁴ However, that suit settled for \$150,000 in October 2009.¹⁴⁵ Amazon has since altered its policies¹⁴⁶ and publicly admitted that the remote deletion was a mistake.¹⁴⁷ As a result, such litigation is unlikely to arise again.

¹⁴³ As of December 2009, the sole case is *National Federation of the Blind v. Arizona Board of Regents*, No. CV-09-1359, 2009 WL 3352332 (D. Ariz. Oct. 16, 2009), which granted a motion to dismiss against a single blind plaintiff for lack of standing in suit concerning pilot program at Arizona State University, wherein students' textbooks were distributed on Kindle DX devices. Although it offers text-to-speech functionality, the Kindle DX menus can be navigated only by sighted people.

¹⁴⁴ Plaintiff's Complaint, *Gawronski v. Amazon.com, Inc.*, No. 2:2009cv01084 (W.D. Wash. July 30, 2009), available at http://www.pnewschannel.com/pdf/Amazon_Complaint.pdf.

¹⁴⁵ See Carolyn Kellogg, *Amazon to Pay \$150,000 over Kindle Eating Orwell—and Teen's Books*, L.A. TIMES BOOKS "JACKET COPY" BLOG (OCT. 1, 2009, 3:02 PM), <http://latimesblogs.latimes.com/jacketcopy/2009/10/amazon150000-kindleorwell.html>.

¹⁴⁶ The updated policy states: "There are rare circumstances in which content may not remain available for re-download. For instance, if the publisher who originally made the content available to us for sale on the Kindle Store did not have the right to do so or is sued for defamation in connection with the content, we may be obligated to stop making it available for re-downloading from your library. Any copies you already have on your Kindle devices will not be affected." Amazon.com Help: Your Kindle Library Content, <http://www.amazon.com/gp/help/customer/display.html?nodeId=200386160> (last visited Dec. 16, 2009). Notice that this effectively precludes further remote deletion.

¹⁴⁷ See Stone, *supra* note 20 ("Amazon effectively acknowledged that the deletions were a bad idea."); Ina Fried, *Amazon Says It Won't Repeat Kindle Book Recall*, CNET NEWS, July 17, 2009, http://news.cnet.com/8301-13860_3-10290047-56.html. Jeff Bezos, CEO of Amazon, posted to Kindle forum: "This is an apology for the way we previously handled illegally sold copies of 1984 and other novels on Kindle. Our 'solution' to the problem was stupid, thoughtless, and painfully out of line with our principles. It is wholly self-inflicted, and we deserve the criticism we've received. We will use the scar tissue from this painful mistake to help make better decisions going forward, ones that match our mission." Posting of Jeff Bezos to Kindle Community Forum, http://www.amazon.com/tag/kindle/forum/ref=cm_cd_ef_tft_tp?cdThread

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As it stands, courts are hesitant to enforce “browsewrap” agreements absent clear user assent. Holding Amazon’s Terms non-binding would leave Kindle e-book transactions governed either by U.C.C. default rules or by common law.¹⁴⁸ Even if the Amazon Terms are held to bind users, courts may still step in to re-characterize purported license transactions as sales. The following Section will outline several cases in which courts have faced this license/sale distinction in the software context.

IV. IV. COPY OWNERSHIP CASES: MIXED MESSAGES

It is clearly in the interest of digital content providers to distribute their work under license, as Amazon has done.¹⁴⁹ Doing so allows them to avoid copyright exhaustion doctrines (such as first sale) and to exercise control over the use of content beyond the moment of purchase. This section examines the effectiveness of this approach through its reception at the courts.

A. If It Quacks Like a Duck: Courts Reject “Sales in Disguise”

A sale by another name is still a sale.¹⁵⁰ Over the years, courts have routinely rejected sellers’ attempts to recast sales as licenses or to impose additional terms inconsistent with a sale.¹⁵¹

*1. Books, Restrictions and the Birth of “First Sale”:
Bobbs-Merrill v. Straus (1908)*

In 1908, the Supreme Court ruled in *Bobbs-Merrill Co. v. Straus*¹⁵² that the appellant copyright owner could not enforce price limits on downstream sales of its book.

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¹⁴⁸ Which of these is likely to govern is discussed *infra* Part V.

¹⁴⁹ Nadan, *supra* note 46, at 567-76.

¹⁵⁰ See, e.g., *SoftMan Prods. Co. v. Adobe Sys., Inc.*, 171 F. Supp. 2d 1075, 1086 (C.D. Cal. 2001) (“Ownership of a copy should be determined based on the actual character, rather than the label, of the transaction by which the user obtained possession. Merely labeling a transaction as a lease or license does not control.”). The title of this subsection is in reference to Corynne McSherry, *If It Looks Like a Duck . . . Seattle Judge Finds Software Was Sold, Not Licensed*, EFF DEEPLINKS (May 22, 2008), <http://www.eff.org/deeplinks/2008/05/if-it-looks-duck-seattle-judge-finds-software-was->

¹⁵¹ See David R. Collins, Note, *Shrinkwrap, Clickwrap and Other Software License Agreements: Litigating a Digital Pig in a Poke in West Virginia*, 111 W. VA. L. REV. 531, 545-47 (2009).

¹⁵² 210 U.S. 339 (1908).

The book in question, *The Castaway*, bore a notice on the copyright page that read: “The price of this book at retail is \$1 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.”¹⁵³ This scheme clearly sought to destroy the resale market for the book—after all, why buy a used copy for \$1 when one could buy a new one for the same?

Appellee Straus ran Macy’s stores, and despite full knowledge of this notice, sold the books at 89 cents per copy.¹⁵⁴ The appellant sought injunctive relief under copyright law, effectively arguing that its ownership of the copyright for the work permitted it to control the terms of future retail sales.

The Supreme Court disagreed, holding that “[t]o add to the right of exclusive sale the authority to control all future retail sales, by a notice that such sales must be made at a fixed sum, would give a right not included in the terms of the [copyright] statute, and, in our view, extend its operation, by construction, beyond its meaning.”¹⁵⁵ The fact that Macy’s, the wholesale buyer, had paid in full and taken possession of the copies extinguished the publishers’ right to exert downstream control under copyright law.¹⁵⁶

Thus, a copyright owner exhausts its control over a particular copy at the time of its first sale. *Bobbs-Merrill* marks the first appearance of the “first sale” doctrine, which was later codified in the Copyright Act.¹⁵⁷

In *Bobbs-Merrill*, the pricing restriction was not characterized as a license.¹⁵⁸ Instead, the appellant contended that copyright law itself granted the right to control downstream sales, and the Supreme Court held simply that it did not.

¹⁵³ *Id.* at 342.

¹⁵⁴ *Id.*

¹⁵⁵ *Id.* at 351.

¹⁵⁶ *Id.* at 349-50 (“[The statute was not] intended to create a right which would permit the holder of the copyright to fasten, by notice in a book or upon one of the articles mentioned within the statute, a restriction upon the subsequent alienation of the subject-matter of copyright *after the owner had parted with the title to one who had acquired full dominion over it and had given a satisfactory price for it?*” (emphasis added)).

¹⁵⁷ 17 U.S.C. § 109 (2006); *see supra* note 55.

¹⁵⁸ 210 U.S. at 350 (“There is no claim in this case of contract limitation, nor license agreement controlling the subsequent sales of the book.”).

2. *License and Sale in the Patent Context: Straus v. Victor Talking Machine (1917)*

In 1917 the Supreme Court again confronted the issue of downstream restrictions on sales, this time for phonographs made by appellee Victor Talking Machine Company.¹⁵⁹ These devices, protected under patent, were sold with a disclaimer (styled as a “License Notice”)¹⁶⁰ stating that the machines were to be used “only with sound records, sound boxes, and needles manufactured by [Victor].”¹⁶¹ Moreover, the license stated,

“[D]ealers” may convey the “*license to use the machine*” only when a “*royalty*” of not less than \$200 shall have been paid, and upon the “*consideration*” that all of the conditions of the license [sic] shall have been observed; that the *title to the machine shall remain in the plaintiff*, which shall have the right to repossess it upon breach of any of the conditions of the notice¹⁶²

Thus, the machines were to be licensed to end users, not sold. The license terms were plainly visible to consumers, attached to each machine.¹⁶³

The district court had previously found that the transaction described in the “License Notice” was in substance a sale that exhausted the plaintiff’s interest in the machine.¹⁶⁴ The Supreme Court upheld this judgment and opined on the objectionable license terms in a passage eerily suited to the modern-day software EULA¹⁶⁵:

It thus becomes clear that this ‘License Notice’ is not intended as a security for any further payment upon the machine, [because] the full price, called a “royalty,” was paid before the plaintiff parted with the possession of it; . . . [and] that, notwithstanding

¹⁵⁹ *Straus v. Victor Talking Mach. Co.*, 243 U.S. 490 (1917).

¹⁶⁰ *Id.* at 494-95.

¹⁶¹ *Id.* at 495.

¹⁶² *Id.* (emphasis added).

¹⁶³ *Id.* at 494.

¹⁶⁴ *Id.* at 496-97. This is in effect the doctrine of patent exhaustion, the patent-law equivalent of the first sale doctrine in copyright law. *See, e.g.*, *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109, 2122 (2008) (restating doctrine of patent exhaustion and holding that “authorized sale of an article that substantially embodies a patent exhausts the patent holder’s rights and prevents the patent holder from invoking patent law to control postsale use of the article.”).

¹⁶⁵ *See Collins, supra* note 151, at 546.

its apparently studied avoidance of the use of the word “sale,” and its frequent reference to the word “use,” . . . [c]ourts would be perversely blind if they failed to look through such an attempt as this ‘License Notice’ [whose purpose] plainly is to sell property for a full price, and yet to place restraints upon its further alienation, such as have been hateful to the law from Lord Coke’s day to ours, because obnoxious to the public interest.¹⁶⁶

As in *Bobbs-Merrill*, the Supreme Court again noted that the buyer paid for the product upfront and in full, and took permanent possession of it.¹⁶⁷

3. *A Common Theme: Limiting Downstream Control*

These early cases demonstrate the Supreme Court’s unwillingness to allow holders of intellectual property rights to exercise downstream control of their content once it has been distributed in the marketplace.

A common element in both these cases that distinguishes them from certain modern digital content transactions is the transfer of tangible goods from seller to buyer. Both the Victor Talking Machine and physical copies of *The Castaway* would be included under today’s U.C.C. definition of “goods.”¹⁶⁸ When a bona fide purchaser pays for an item in full and takes permanent possession of it, courts seem bound by historical decency¹⁶⁹ to characterize the transaction as a sale—and along with it, to prevent the seller exercising undue downstream control over the property.

Of course, as previously stated, even full transfer of title in the tangible medium in which a protected work is embodied grants no concomitant rights in any information contained therein: whether that information is the patents covering the Victor Talking Machine, the text of *The Castaway*, or the digital information stored on a CD-ROM. As such, copies of computer software sold on tangible media have occupied a curious no-man’s land in the transactional landscape.

¹⁶⁶ *Victor Talking Mach.*, 243 U.S. at 500-01.

¹⁶⁷ *Id.* at 500 (“[T]he full price, called a ‘royalty,’ was paid before the plaintiff parted with the possession of it; the title to the machines ultimately vests in the ‘ultimate users,’ without further payment or action on their part.”).

¹⁶⁸ See U.C.C. § 2-103(1)(k) (2004) (“‘Goods’ means all things that are movable at the time of identification to a contract for sale. . . . The term does not include information . . .”).

¹⁶⁹ Or, a need to fit copyright protection into an existing property law scheme. See Liu, *supra* note 56.

B. The Courts’ (Mixed) View of Contemporary Software Licensing

Courts have struggled with how best to characterize contemporary software transactions. On one hand, by accepting the vendors’ characterization that the transactions are mere licenses, copies of software cannot be resold and their use is governed by the often-restrictive terms of the EULA (over which an individual user often has no meaningful control). On the other hand, rejecting the vendors’ characterization and classifying software purchases as sales restores certain rights to the buyer, but also impinges upon basic freedom of contract principles and threatens to eviscerate company profits if users do in fact readily duplicate and distribute the content without authorization.¹⁷⁰

1. Calling a Sale a License Does Not Make It So: United States v. Wise (1977)

In 1977, the U.S. Court of Appeals for the Ninth Circuit first addressed the issue of whether restrictive license terms constitute a sale in *United States v. Wise*¹⁷¹—while this case deals with 35mm film prints as opposed to computer software, its principles are directly applicable to modern software licensing. Appellant Wise appealed his conviction of criminal copyright infringement for reselling copyrighted 35mm films on the secondary market.¹⁷² Several films were at issue, and all had been distributed to theaters with varying forms of license language. At issue was the specific wording used in the licenses—if the licenses conferred a first sale, Wise was free to resell the films, but if no sale was found, Wise’s conviction would stand.

The Ninth Circuit found that most of the licenses at issue (e.g., those that reserved title in the film prints, required transferees to return the prints, and granted rights for a limited period of time) did not constitute sales.¹⁷³ In particular, such agreements resembled loans or licenses, as opposed to sales.¹⁷⁴

¹⁷⁰ It bears mention here that contract law combined with a full sale could replicate any of the protections inherent to digital content licenses, but those restrictions would only be enforceable upon those with whom the seller had contractual privity, i.e., the first buyer. Second-hand buyers would not contract with the original seller, so usage controls would extend only to the first round of purchasers.

¹⁷¹ *United States v. Wise*, 550 F.2d 1180 (9th Cir. 1977).

¹⁷² *Id.* at 1183.

¹⁷³ Typical of the evidence presented was [*The Sting* and *American Graffiti*, two movies] licensed by Universal for theatrical distribution, nontheatrical distribution, distribution to the U.S. Navy, Army and Air Force, and distribution to steamships and hotels. All but the Armed Services contracts were designated as ‘licenses,’ and all purported to

But the license whose wording most resembled a modern digital content agreement was that providing a print of the film *Camelot* to actress Vanessa Redgrave. That license provided that Redgrave would pay the studio its cost for the print, and also imposed now-familiar restrictions:

Said print is furnished you for your personal use and enjoyment and shall be retained in your possession at all times; said print shall not be sold, leased, licensed or loaned by you to any other person and shall not be reproduced in any size or type prints, or otherwise; and said print shall not be exhibited by you publicly for profit, paid admissions or otherwise, but the use of said print by you shall be confined to private home showings and library purposes.¹⁷⁵

The court found that “[w]hile the provision for payment for the cost of the film, standing alone, does not establish a sale, when taken with the rest of the language of the agreement, it reveals a transaction strongly resembling a sale with restrictions on the use of the print,” and found that a first sale had occurred.¹⁷⁶

Thus, *Wise* stands for the notion that license agreements must be read closely and also holistically to determine whether they merely impose usage restrictions on a sale, or whether those restrictions are so inconsistent with ownership that no sale took place. Thus, if the underlying transaction resembles a loan or a lease—with the transferor retaining title and seeking to regain physical possession—courts are unlikely to find that a sale occurred.

transfer only limited rights for the exhibition or distribution of the films for a limited purpose and for a limited period of time. The agreements reserved title to the film prints in Universal, and required their return to Universal following the expiration of the contract term. All but the hotel distribution agreement also prohibited the licensee or any other party from copying or duplicating any film prints [W]e find that none of these agreements constituted first sales, since both on their face and by their terms they were restricted licenses and not sales.

Id. at 1190.

¹⁷⁴ “We find the terms of these agreements to be consistent with their designation as *loans or licenses*, and that they do not effect sales of the motion pictures.” *Id.* at 1192 (emphasis added).

¹⁷⁵ *Id.* (emphasis added).

¹⁷⁶ *Id.*

2. *Early Software Cases: Mixed Results*

In early cases dealing with copy ownership of computer software, courts dealt inconsistently with software licenses: sometimes accepting the vendor’s characterization of the transaction as a license outright,¹⁷⁷ and sometimes rejecting it and considering the transfer a sale.¹⁷⁸ Regardless of the outcome, however, courts in these early decisions provided little or no supporting reasoning.

3. *Software Is Licensed, Because It Says So: MAI v. Peak (1993)*

In *MAI Systems Corp. v. Peak Computer, Inc.*,¹⁷⁹ the Ninth Circuit considered whether computer repair technicians’ use of computers—use that involved running software, and hence making temporary unauthorized copies in computer memory—constituted copyright infringement.¹⁸⁰

The court held that licensed users of software were not owners, and thus do not qualify for “essential step” protection under § 117 of the Copyright Act.¹⁸¹ The court failed to supply any reason for this decision aside from citing the text of the license agreement itself; the court also did not cite its earlier (and seemingly applicable) decision in *Wise*.¹⁸²

¹⁷⁷ See *CMAX/Cleveland, Inc. v. UCR, Inc.*, 804 F. Supp. 337, 356 (M.D. Ga. 1992) (stating that possession of copy of software under license agreement was not ownership but instead similar to lease); *ISC-Bunker Ramo Corp. v. Altech, Inc.*, 765 F. Supp. 1310, 1331 (N.D. Ill. 1990) (stating that first sale doctrine does not apply because ISC distributes its software “pursuant to written licensing agreements, which expressly provide that ISC retains ownership of its software”).

¹⁷⁸ See *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 257, 261 (5th Cir. 1988) (stating that although software was delivered under license, § 117 of Copyright Act applied); *Foresight Res. Corp. v. Pfortmiller*, 719 F. Supp. 1006, 1009, 1010 (D. Kan. 1989) (stating that although distributed under license, “[t]here is no question that [the customer] is the lawful owner of a copy of the [software] program”).

¹⁷⁹ 991 F.2d 511 (9th Cir. 1993).

¹⁸⁰ *Id.* at 517-19.

¹⁸¹ *Id.* at 518 n.5; see also 17 U.S.C. § 117 (2006); *supra* note 63 and accompanying text.

¹⁸² *MAI*, 991 F.2d at 517-20.

4. *The Federal Circuit Weighs In: DSC v. Pulse (1999) and “Restrictions Inconsistent with a Sale”*

The first in-depth examination of licensing in the software context came with *DSC Communications Corp. v. Pulse Communications, Inc.* in 1999.¹⁸³ Deciding whether a software distribution was a sale or a license, the U.S. Court of Appeals for the Federal Circuit first criticized the Ninth Circuit’s decision in *MAI* (which accepted a software transaction as a license based solely on the vendor’s characterization),¹⁸⁴ and also rejected the idea that software purchasers were owners simply because they obtained the software copy for a single payment and with a perpetual right of possession, as had proven important in *Bobbs-Merrill*, *Victor Talking Machine*, and *Wise*.¹⁸⁵

Examining the license agreement in question, the court held that because it substantially limited the rights of purchasers, customers did not own the software copy they had purchased. Thus, the *DSC* decision has been described as standing for the proposition that “a copyright owner can cause any distribution to be a license, as long he distributes the software copy under restrictions that are inconsistent with a ‘sale’ of that copy.”¹⁸⁶

5. *Same EULA, Different Outcomes: The Adobe Cases (2000, 2001, 2002)*

In 2000, 2001 and 2002, in a trio of cases all involving computer software developer Adobe Systems, Inc., federal district courts in California tackled the software licensing issue once more—and yielded inconsistent holdings.¹⁸⁷

In *Adobe v. One Stop Micro* (2000),¹⁸⁸ Adobe brought a copyright and trademark infringement action against One Stop, which had been reselling “academic” copies of Adobe software—

¹⁸³ 170 F.3d 1354 (Fed. Cir. 1999).

¹⁸⁴ *Id.* at 1370 (discussing *MAI*, 991 F.2d 511).

¹⁸⁵ The concept of ownership of a copy entails a variety of rights and interests. The fact that the right of possession is perpetual, or that the possessor’s rights were obtained through a single payment, is certainly relevant to whether the possessor is an owner, but those factors are not necessarily dispositive if the possessor’s right to use the software is heavily encumbered by other restrictions that are inconsistent with the status of owner.

Id. at 1362.

¹⁸⁶ Nadan, *supra* note 46, at 603.

¹⁸⁷ *Adobe Sys. Inc. v. Stargate Software Inc.*, 216 F. Supp. 2d 1051 (N.D. Cal. 2002); *SoftMan Prods. Co., LLC v. Adobe Sys., Inc.*, 171 F. Supp. 2d 1075 (C.D. Cal. 2001); *Adobe Sys. Inc. v. One Stop Micro, Inc.*, 84 F. Supp. 2d 1086 (N.D. Cal. 2000). For a full discussion of these cases, see Nadan, *supra* note 46.

¹⁸⁸ 84 F. Supp. 2d 1086.

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originally sold at an educational discount—at a profit to corporate customers. One Stop contended that since the copies had first been sold to valid educational users, the first sale doctrine protected its right to resell the software as it chose.¹⁸⁹ Adobe argued that no sale had occurred since its software was distributed under license.¹⁹⁰ The U.S. District Court for the Northern District of California held that “based upon . . . the intent of the parties in entering into the agreement, trade usage, the unique nature of distributing software, as well as the express restrictive language of the contract, the [contract] is a licensing agreement.”¹⁹¹ The court embraced *DSC*-type reasoning in finding that the “numerous restrictions imposed by Adobe indicate a license rather than a sale because they undeniably interfere with the reseller's ability to further distribute the software.”¹⁹² By imposing restrictions on its downstream use and redistribution, then, Adobe conveyed something less than full title to the software.

In *SoftMan v. Adobe* in 2001, the U.S. District Court for the Central District of California cut the opposite way on similar facts. In this case, retailer SoftMan purchased bundled software from Adobe, unbundled it, and resold component programs individually in violation of Adobe's EULA.¹⁹³ The court looked to “the circumstances surrounding the transaction” for the bundled programs, and held that the transaction was a sale rather than a license.¹⁹⁴ In reaching its decision, the court weighed the “reality of the business environment”¹⁹⁵ alongside the indefinite time period of the license, up-front payment in full for a single copy,

¹⁸⁹ *Id.* at 1088.

¹⁹⁰ *Id.* at 1091.

¹⁹¹ *Id.* at 1092.

¹⁹² *Id.* at 1091.

¹⁹³ 171 F. Supp. 2d 1075, 1075 (C.D. Cal. 2001). Bundled software is a package containing several distinct software programs, often sold at a relative discount. The EULA in this case stated in relevant part that the “[d]istributor shall distribute the Software Products solely in the form and packaging in which they were obtained from Adobe.” *Id.* at 1082 n.5.

¹⁹⁴ *Id.* at 1085.

¹⁹⁵ Adobe transfers large amounts of merchandise to distributors. The distributors pay full value for the merchandise and accept the risk that the software may be damaged or lost. The distributors also accept the risk that they will be unable to resell the product. The distributors then resell the product to other distributors in the secondary market. The secondary market and the ultimate consumer also pay full value for the product, and accept the risk that the product may be lost or damaged. This evidence suggests a transfer of title in the good. The transfer of a product for consideration with a transfer of title and risk of loss generally constitutes a sale. *Id.*

and the opinion of other courts and commentators.¹⁹⁶ The court further stated that

[o]wnership of a copy should be determined based on the actual character, rather than the label, of the transaction by which the user obtained possession. Merely labeling a transaction as a lease or license does not control. If a transaction involves a single payment giving the buyer an unlimited period in which it has a right to possession, *the transaction is a sale*.¹⁹⁷

In 2002, with *Adobe v. Stargate*, the U.S. District Court for the Northern District of California flatly “decline[d] to adopt this *SoftMan* analysis.”¹⁹⁸ Like *One Stop*, *Stargate* involved the resale of educational-discount Adobe software to corporate buyers in violation of Adobe’s EULA. In this case, the court examined the license agreement and found that, similar to the Federal Circuit’s reasoning in *DSC* and its own earlier reasoning in *One Stop Micro*, the transaction was a license because it placed substantial limitations on the buyer’s ability to redistribute software.¹⁹⁹ The *Stargate* court also put forth a freedom-of-contract interpretation, stating that

as a matter of general principle, this Court finds that no colorable reason exists in this case as to why Adobe and its distributors should be barred from characterizing the transaction that has been forged between them as a license [T]he Parties should be free to negotiate and/or set a price for the product being exchanged, as well as set the terms by which the product is exchanged.²⁰⁰

In *One Stop Micro*, *SoftMan*, and *Stargate*, federal district courts—considering similar facts, sitting in the same judicial circuit, and operating within a narrow three-year period—produced wholly divergent decisions. That a single company’s EULA could be interpreted so differently speaks to the challenges of fitting modern software transactions into the transactional landscape.

¹⁹⁶ *Id.*

¹⁹⁷ *Id.* at 1086 (emphasis added).

¹⁹⁸ *Adobe Sys. Inc. v. Stargate Software Inc.*, 216 F. Supp. 2d 1051, 1058 (N.D. Cal. 2002) (citing *SoftMan*, 171 F. Supp. 2d at 1087).

¹⁹⁹ *Id.* at 1057.

²⁰⁰ *Id.* at 1059.

6. *Agreeing to License Terms Makes It a License:
Davidson v. Gateway (2004)*

Adding another dimension to the software license/sale question, the U.S. District Court for the Eastern District of Missouri held in 2004 that explicit user assent to license terms is sufficient to characterize the underlying transaction as a license, not a sale.

In *Davidson & Associates v. Internet Gateway*,²⁰¹ plaintiff video game producer (doing business as Blizzard Entertainment) accused defendants of circumventing anti-piracy provisions in its EULA; defendants argued that the EULA was not enforceable, and that the software was sold, not licensed.²⁰² The court found that software “license agreements are enforceable contracts,”²⁰³ and distinguished the case from *SoftMan* by focusing on the fact that the defendants here “expressly consented to the terms of the EULA . . . by clicking ‘I Agree.’”²⁰⁴

The *Davidson* decision favors enforcing “clickwrap” agreements as written, but it is not clear whether more modest manifestations of user assent—such as those allegedly found in “browsewrap” agreements—would suffice.

7. *MAI Lives On: Wall Data v. L.A. County (2006)*

The Ninth Circuit relied upon its threadbare 1993 holding in *MAI* when faced with a Sheriff’s department that had violated software license terms by copying a computer program onto multiple hard drives.²⁰⁵ In finding that the license governed the transaction, the court acknowledged that its *MAI* decision had become controversial²⁰⁶ but expressly declined to revisit its

²⁰¹ 334 F. Supp. 2d 1164 (E.D. Mo. 2004).

²⁰² *Id.* at 1177-78.

²⁰³ *Id.* at 1177. Interestingly, the court also held that “the license agreement would [also] be enforceable [under] the Uniform Commercial Code [which] provides that ‘a contract for sale of goods may be made in any manner sufficient to show agreement, including conduct by both parties which recognizes the existence of such a contract.’” *Id.* at 1177 (citing U.C.C. § 2-204 (2004)).

²⁰⁴ *Id.* at 1178; *cf.* *SoftMan Prods. Co. v. Adobe Sys., Inc.*, 171 F. Supp. 2d 1075, 1087 (C.D. Cal. 2001) (“Reading a notice on a box is not equivalent to the degree of assent that occurs when the software is loaded onto the computer and the consumer is asked to agree to the terms of the license.”).

²⁰⁵ *Wall Data Inc. v. L.A. County Sheriff’s Dep’t*, 447 F.3d 769, 785 (9th Cir. 2006).

²⁰⁶ *See id.* at 786 n.9 (“We recognize that our decision in *MAI* has been criticized.” (citing *DSC Comm. Corp. v. Pulse Comm., Inc.*, 170 F.3d 1354, 1360 (Fed. Cir. 1999); and *Adobe Sys. Inc. v. One Stop Micro, Inc.*, 84 F. Supp. 2d 1086 (N.D. Cal. 2000)).

precedent because, even if the transfer were a sale, the Sheriff's department would lose on other grounds.²⁰⁷

8. *Software Licenses as Sales (Again): Vernor v. Autodesk (2009)*

In 2009, the U.S. District Court for the Western District of Washington ruled in *Vernor v. AutoDesk* that, even given binding Ninth Circuit precedent in *MAI* and *Wall Data*, software transactions styled as licenses could in fact constitute sales, and therefore qualify for the protection of the first sale doctrine.²⁰⁸ Plaintiff Vernor bought authentic used copies of Autodesk AutoCAD software, and attempted to resell them on eBay. Autodesk complained and attempted to block the auctions by filing DMCA takedown notices with eBay.²⁰⁹ After several cycles of this, eBay shut down Vernor's seller account.²¹⁰ In 2008, the court granted a declaratory judgment that the first sale doctrine protected Vernor's resale of Autodesk software (*Vernor I*).²¹¹ In 2009, the court granted summary judgment for Vernor (*Vernor II*).²¹²

The *Vernor II* court first noted (contra *MAI*, and in accordance with *Wise*) that license and sale are not mutually exclusive—licenses can impose restrictions on content that is nonetheless sold.²¹³

Next, the court stated that it was unable to reconcile the Ninth Circuit decision in *Wise* with those in *MAI* and *Wall Data*,

²⁰⁷ *Id.* The sheriff's department had argued that its copying of the software was an "essential step" of its use and thus protected under 17 U.S.C. § 117 (2006). *Wall Data Inc.*, 447 F.3d at 776; *see supra* note 63.

²⁰⁸ *Vernor v. Autodesk, Inc. (Vernor II)*, No. C07-1189RAJ, 2009 WL 3187613, at *1-2 (W.D. Wash. Sept. 30, 2009). The court first heard this case in May 2008, when defendant Autodesk sought a motion for summary judgment to dismiss plaintiff Vernor's complaint. *See Vernor v. Autodesk, Inc. (Vernor I)*, 555 F. Supp. 2d 1164 (W.D. Wash. 2008).

²⁰⁹ *Vernor I*, 555 F. Supp. 2d at 1165.

²¹⁰ *Id.* at 1165-66.

²¹¹ *Id.* at 1165.

²¹² *Vernor II*, 2009 WL 3187613.

²¹³ There is no dispute that Autodesk licensed its software to [the original buyer, from whom Vernor purchased it]. The court makes this observation because the parties and their witnesses too often suggest that their dispute is about whether Autodesk 'sold' rather than 'licensed' its software. That dispute is not determinative, *because the use of software copies can be licensed while the copies themselves are sold*. Autodesk unquestionably licensed the software in that it limits the right to use it. . . . The question before the court is whether the Autodesk License is a license that transfers ownership of the software copies included in AutoCAD packages.

Id. at *5.

and as such was bound to follow the earliest panel decision, namely *Wise*.²¹⁴

In holding that the AutoDesk license nevertheless constituted a sale, the *Vernor II* court pointed out the similarity of Autodesk’s agreement to the Redgrave contract in *Wise*.²¹⁵ This mirrored the 2008 *Vernor I* decision, in which the court stated that even in the face of onerous restrictions on downstream use, the true test of whether a transaction is a license or a sale is whether the buyer must return the goods.²¹⁶ Even though Autodesk specifically styled the transaction as a license—which would have been sufficient for the *MAI* and *Wall Data* courts—and even though those license terms included restrictions on use—the same sort that led courts in *DSC*, *One Stop Micro*, and *Stargate* to determine that the transactions were not sales—the *Vernor* court nonetheless held that under *Wise*, Autodesk’s software transfer was a “sale with restrictions on use,” and [thus] a sufficient basis to invoke the first sale doctrine.”²¹⁷

9. *Conflicting Ninth Circuit Precedent*

It was of course likely that AutoDesk would appeal the *Vernor II* ruling to the Ninth Circuit, particularly because of the *Vernor II* court’s inability to reconcile Ninth Circuit precedent in *Wise*, *MAI*, and *Wall Data*. Notice of appeal was filed on Oct. 27, 2009,²¹⁸ *Vernor* joins two other copy-ownership cases currently on appeal at the Ninth Circuit²¹⁹—any and all of which invite the

²¹⁴ *Id.* at *11.

²¹⁵ Like Ms. Redgrave, Autodesk licensees pay a single price to the copyright holder at the outset of the transaction. Like the [Autodesk] License, the Redgrave Contract severely restricts the use and transfer of the copy. But, like the panel in *Wise*, this court concludes that the License transferred ownership of the software copy despite those restrictions.

Id. at *8.

²¹⁶ In comparing the transactions found to be sales in *Wise* with those that were not, the critical factor is whether the transferee kept the copy acquired from the copyright holder. When the [transferor] film studios required that prints be returned, the court found no sale. When the studios did not require the transferee to return the prints, the court found a sale. Even a complete prohibition on further transfer of the print . . . or a requirement that the print be salvaged or destroyed, was insufficient to negate a sale where the transferee was not required to return the print.

Vernor I, 555 F. Supp. 2d 1164 (W.D. Wash. 2008) (discussing *United States v. Wise*, 550 F.2d 1180 (9th Cir. 1977)).

²¹⁷ *Id.* at 1171.

²¹⁸ *Vernor v. Autodesk Inc.*, No. 09-35969 (9th Cir. Oct. 28, 2009).

²¹⁹ *MDY Indus., LLC v. Blizzard Entm’t, Inc.*, No. CV-06-2555, 2008 WL 2757357 (D. Ariz. July 14, 2008) (holding, inter alia, that video game developer Blizzard retains ownership of distributed copies of its software), *appeal*

Court of Appeals to revisit its conflicting precedent regarding transfer of ownership via license.

C. Protection Without Licenses: Copyright Remains Strong

Distributors of copyrighted works may argue that ease of duplication demands that protected content be merely licensed, not sold. But cheap copying techniques have not changed the fact that traditional books are still bought, sold, and owned as property. Even photocopiers and digital scanners, which have greatly facilitated unauthorized reproduction, have not succeeded in changing this long-running status quo. Mere ease of reproduction is not in itself a death knell for copyright holders: the law provides robust protection against unauthorized duplication, however easy it may be.

1. American Geophysical Union v. Texaco (1994)

In *American Geophysical Union v. Texaco*, the Court of Appeals for the Second Circuit declined to allow the fair use defense to excuse defendant Texaco's unauthorized reproduction of plaintiff's scientific journals.²²⁰

Plaintiff, a group of eighty-three publishers of scientific and technical journals, brought a class action suit alleging that Texaco's unauthorized photocopying of journal articles constituted copyright infringement. Texaco's library had a policy of circulating new copies of journals to its research scientists, some of whom would then request copies of articles.²²¹ Texaco claimed that this duplication was fair use under § 107 of the Copyright Act.²²²

The court examined the four factors listed in § 107 that govern findings of fair use: the purpose and character of the use, the nature of the copyrighted work, the amount and substantiality of the portion used, and the effect upon potential market value.²²³ The court found that these four factors favored the publishers, primarily because Texaco copied articles in their entirety and with the apparent purpose of creating archives without paying for additional copies. Thus, the economic impact of lost subscriptions was real.

docketed, No. 09-16044 (9th Cir. May 21, 2009); *UMG v. Augusto*, 558 F. Supp. 2d 1055 (C.D. Cal. 2008) (holding that promotional CDs given away by record labels were sold, despite labels claiming to reserve title), *appeal docketed*, No. 08-55998 (9th Cir. Dec. 18, 2008).

²²⁰ 60 F.3d 913 (2d Cir. 1994).

²²¹ *Id.* at 918-19.

²²² 17 U.S.C. § 107 (2006)

²²³ 60 F.3d at 918-31.

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Importantly, the court also pointed out that the advent of easy reproduction of copyrighted works altered the fair use analysis. Whereas fair use had evolved to protect authors of secondary works, rote mechanical reproduction is “entirely different from creating a work of authorship,”²²⁴ and therefore subject to stricter scrutiny.

2. *Basic Books v. Kinko’s (1991)*

A similar outcome awaited *Basic Books v. Kinko’s*. Here, a New York federal court held that for-profit photocopying of copyrighted material for academic course packets was not fair use under § 107.²²⁵ Moreover, Kinko’s was held liable for attorneys’ fees in addition to damages because the copying was found to be willful infringement.²²⁶

3. *UMG v. MP3.com (2000)*

In 2000, the same New York federal court addressed a complaint by major record labels that a Web site, MP3.com, was infringing copyright by hosting tens of thousands of copyrighted songs and allowing users to access them through its My.MP3.com service.²²⁷

Unlike standard underground “pirate” sites, however, MP3.com was a publicly traded company²²⁸ that required users to demonstrate ownership of the music, for instance by inserting the relevant CD into their computer before being allowed to access protected content.²²⁹ Thus, at issue was not the users’ right to access the songs in question—since theoretically any MP3.com user could bypass the service entirely and simply listen to the song on CD—but rather the right of MP3.com to duplicate the music. Like Texaco and Kinko’s above, MP3.com claimed a defense of fair use. The company claimed, among other things, that its use was transformative, not rote copying.²³⁰ The court rejected this characterization, stating that MP3.com “simply repackage[d] those recordings to facilitate their transmission through another medium.

²²⁴ *Id.* at 917.

²²⁵ *Basic Books, Inc. v. Kinko’s Graphics Corp.*, 758 F. Supp. 1522 (S.D.N.Y. 1991).

²²⁶ *Id.* at 1547.

²²⁷ *UMG Recordings, Inc. v. MP3.com, Inc.*, 92 F. Supp. 2d 349 (S.D.N.Y. 2000).

²²⁸ Its stock ticker was NASDAQ: MPPP.

²²⁹ *MP3.com*, 92 F. Supp. 2d at 350.

²³⁰ MP3.com claimed its service “provide[d] a transformative ‘space shift’ by which subscribers [could] enjoy the sound recordings contained on their CDs without lugging around the physical discs themselves.” *Id.* at 351.

While such services may be innovative, they are not transformative.”²³¹

MP3.com was held liable for copyright infringement. Shortly thereafter the My.MP3.com service was discontinued and sold.²³²

D. Summary of Copy Ownership: The (Murky) Legal Landscape

Since the birth of the first sale doctrine with *Bobbs-Merrill* in 1908, courts have examined various types of licenses and usage restrictions—striving in each case to determine whether the underlying transfer represented a triggering sale, or something else. That “something else” has not been well enumerated. In *Wise*, the Ninth Circuit made clear that protected content could be licensed and sold at the same time.²³³ However, with *MAI* in 1993, the Ninth Circuit took essentially the opposite position, stating that the mere existence of a license precluded characterization of a software transaction as a sale.²³⁴

In *Victor Talking Machine*, the Supreme Court determined that a sale occurred in part because the buyer paid in full and took permanent possession of the item; however, in *DSC* the Federal Circuit found that additional restrictions imposed on such an arrangement could nonetheless result in the transaction being characterized as a mere license.

In early 2009, the *Vernor II* court followed *Wise*, and noted that licenses can impose restrictions on transactions without changing their fundamental nature as sales.²³⁵ In both *Vernor II* and *Wise*, a crucial feature distinguishing a sale from “something else” seems to be whether the transferor intends to retrieve the protected content,²³⁶ which makes this other form of possession similar to loan or a lease.

American Geophysical Union, *Kinko’s*, and *MP3.com* all demonstrate that courts are sympathetic to the needs of copyright owners to protect their intellectual property when faced with new

²³¹ *Id.*

²³² See John Borland & Jim Hu, *MP3.com Buy: The Taming of a Generation*, CNET NEWS, May 21, 2001, <http://news.cnet.com/2100-1023-257993.html>.

²³³ See the discussion of *Wise*, *supra* note 171.

²³⁴ See the discussion of *MAI*, *supra* note 179.

²³⁵ See the discussion of *Vernor II*, *supra* note 208.

²³⁶ “In this court’s view, retaining title in a copy is meaningless unless the copyright holder has some means to regain possession of the copy.” *Vernor II*, No. C07-1189RAJ, 2009 WL 3187613, at *8 (W.D. Wash. Sept. 30, 2009); see also *supra* note 171.

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and increasingly efficient means of reproduction.²³⁷ This, in turn, suggests that perhaps online retailers’ relatively recent aversion to actually selling copyrighted content is unnecessary and unfounded. In sum, the case law concerning whether software-type license agreements such as the Amazon Kindle’s in fact constitute a sale is unclear, and if applying the *Wise/Vernor* line of cases, depends on the particular wording of the agreement in question.

V. KINDLE E-BOOKS: APPLYING THE LAW

Where does this leave Amazon²³⁸ and hundreds of thousands of Kindle users who may earnestly believe they own the e-books they bought?²³⁹ Several key questions remain unanswered, most notably which body of law should govern.²⁴⁰

²³⁷ Other recent cases support this view as well. For instance, the Google Book Search lawsuit and settlement provide a current example of the successful application of copyright law to handle widespread duplication. For a discussion of the issue and the settlement, see James Grimmelman, *How To Fix the Google Book Search Settlement*, 12 J. INTERNET L. 1 (2009). For the Napster litigation, see *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001), which held, on appeal of a preliminary injunction, that Napster’s duplication and distribution of copyrighted music in digital form was not fair use and was infringing.

²³⁸ The situation applies to other e-book distributors as well. In licensing digital books, Amazon is no exception: e-books are generally distributed under a license agreement restricting certain uses and subsequent transfers. See, e.g., Barnes & Noble.com Terms and Conditions of Use, http://www.barnesandnoble.com/include/terms_of_use.asp (last visited Dec. 7, 2009) (“Barnes & Noble.com grants you a *limited, nonexclusive, revocable license* to access and make personal, non-commercial use of the Digital Content in accordance with these Terms of Use.” (emphasis added)); The eBook Store from Sony, Terms of Service, <http://ebookstore.sony.com/termservice.html> (last visited Dec. 7, 2009) (“By accepting these Terms of Service, you are granted a *non-exclusive, non-transferable, non-sublicensable, limited right* to use the Service solely for the purposes of downloading, listening, and viewing Content in connection with the Service.” (emphasis added)). See generally *United States v. Elcom Ltd.*, 203 F. Supp. 2d 1111, 1117-18 & n.1 (N.D. Cal. 2002) (“[E-book] purchases are frequently accompanied by an End User License Agreement which may contain contractual language limiting the user’s rights to use the ebook, including the rights to sell or transfer the ebook or to copy or distribute the content of the ebook without the publisher’s permission.”).

²³⁹ In the wake of the Orwell deletions, the New York Times quoted a Kindle user’s response: “*I never imagined that Amazon actually had the right, the authority or even the ability to delete something that I had already purchased.*” Stone, *supra* note 20 (emphasis added). Justin Gawronski, who would become lead plaintiff in the “homework suit” in the wake of the Orwell deletions, was quoted as saying “Amazon has *just proven* that when I buy a book on the Kindle, I don’t really own it. I just feel that is wrong.” Mark Milian, *Kindle Teen Tattles on Amazon for Losing His Homework*, BRAND X, July 31, 2009, <http://www.thisisbrandx.com/2009/07/kindle-teen-tattles-on-amazon-.html> (emphasis added); see Michael Seringhaus, *Kindle: How To Buy a Book but Not Own It*, HARTFORD COURANT, Aug. 5, 2009, at A13, available at

A. *Applying the U.C.C.*

As previously stated, the U.C.C. generally governs sales of goods.

E-books may well fall within the Article 2 definition of goods: computer software has previously been held to qualify.²⁴¹ If so, then the U.C.C. governs. If, on the other hand, e-books are not found to qualify as goods, the U.C.C. will not apply and the common law will govern (except in Virginia and Maryland, where UCITA has been passed).²⁴²

Let us assume that e-books are goods. According to the U.C.C. definition, “a ‘sale’ consists in the passing of title from the seller to the buyer for a price.”²⁴³ At first glance, this suggests that the U.C.C. would not govern e-book transactions unless courts recast them as sales. But, in fact, whether or not Kindle e-book transactions are considered sales,²⁴⁴ Article 2 may still apply. This is because Article 2 has been held to apply to *transactions* in

<http://www.law.yale.edu/news/10288.htm>; *supra* note 144 and accompanying text.

²⁴⁰ See, e.g., *i.LAN Sys., Inc. v. Netscout Serv. Level Corp.*, 183 F. Supp. 2d 328, 331-32 (D. Mass. 2002) (stating that “software licenses exist in a legislative void” and ultimately applying U.C.C. to clickwrap license); see also *Arbitron, Inc. v. Tralyn Broad., Inc.*, 400 F.3d 130, 138 (2d Cir. 2005) (questioning what law should govern software licenses).

²⁴¹ See *Advent Sys. Ltd. v. Unisys Corp.*, 925 F.2d 670, 675-76 (3d Cir. 1991) (stating that computer programs, like audio CDs, contain “an intellectual process . . . implanted in a medium widely distributed” to consumers, and although “music is produced by the artistry of musicians and in itself is not a ‘good,’ . . . when transferred to a laser-readable disc [it] becomes a readily merchantable commodity” and thus properly classified as a good); *SoftMan Prods. Co. v. Adobe Sys., Inc.*, 171 F. Supp. 2d 1075, 1084 (C.D. Cal. 2001) (“A number of courts have held that the sale of software is the sale of a good within the meaning of Uniform Commercial Code.”); see also *RRX Indus., Inc. v. Lab-Con, Inc.*, 772 F.2d 543, 546-47 (9th Cir. 1985) (stating that in sale of software system, the “goods” aspect predominated); *Wachter Mgmt. Co. v. Dexter & Chaney, Inc.*, 144 P.3d 747, 750 (Kan. 2006) (holding that “[c]omputer software is considered to be goods subject to the UCC”). *But see Mortgage Plus, Inc. v. DocMagic, Inc.*, No. 03-2582, 2004 WL 2331918, at *3-4 (D. Kan. Aug. 23, 2004) (stating that software in question was not a good and applying common law).

²⁴² See, e.g., *Mortgage Plus*, 2004 WL 2331918. UCITA is discussed *supra* note 81 and accompanying text.

²⁴³ See U.C.C. § 2-106 (2004).

²⁴⁴ [A] “license” could be understood, on the one hand, as an agreement for the sale of the physical embodiment of the data (i.e., the sale of the book in which the data is printed), or on the other hand, as a contract for data reporting services (i.e., the temporary grant of a right to read, but not own, the book containing copyrighted material).

Arbitron, 400 F.3d at 138 n.2.

E-BOOK TRANSACTIONS: AMAZON “KINDLES” THE COPY
OWNERSHIP DEBATE

goods, not just sales.²⁴⁵ This includes computer software licenses.²⁴⁶ It remains unclear whether the U.C.C. applies to transactions in downloadable software, absent tangible media.²⁴⁷

If the U.C.C. is held to govern Kindle e-book transactions, its provisions might have little effect in certain areas (like unconscionability, where the common law doctrine tracks the U.C.C. quite closely),²⁴⁸ but its impact in others (like the enforceability of “browsewrap” or “clickwrap” agreements) might be substantial indeed.²⁴⁹ The U.C.C. might even serve as a surrogate first sale doctrine by allowing purchasers of used e-books to obtain good title via merchants, even if the original possessor did not have it.²⁵⁰

²⁴⁵ In its scope provision, Article 2 declines to limit itself to sales, stating instead that it “applies to *transactions* in goods.” U.C.C. § 2-102 (emphasis added); *see also* Step-Saver Data Sys., Inc. v. Wyse Tech., 939 F.2d 91, 95 n.6 (3d. Cir. 1991) (stating that the parties agreed that the U.C.C. applies to software, but expressly declining to rule on whether transaction was a license or sale); Colonial Life Ins. Co. of Am. v. Elec. Data Sys. Corp., 817 F. Supp. 235, 239 (D.N.H. 1993) (holding that the U.C.C. applies to a contract whose principal object “was to provide for a license to use computer software”); *In re* Tenn. Forging Steel Corp., 1978 WL 23481 (E.D. Tenn. 1978) (applying Tennessee law and noting that “a ‘transaction’ [in U.C.C. § 2-102] encompasses a far wider area of activity than a ‘sale’ and it cannot be assumed that the word was carelessly chosen”); Xerox Corp. v. Hawkes, 475 A.2d 7, 8 (N.H. 1984) (“The use of the term ‘transaction’ rather than ‘sale’ in UCC § 2-102 [the precursor to the revised U.C.C. § 2-202] makes it clear that Article 2 is not to be confined to those transactions in which there is a ‘sale,’ that is, a transfer of title.”); Mieske v. Bartell Drug Co., 593 P.2d. 1308, 1312 (Wash. 1979) (stating that the drafters of Article 2 could easily have limited its scope to sales, had they wished). *But see* Berthold Types Ltd. v. Adobe Sys., Inc., 101 F. Supp. 2d 697, 698 (N.D. Ill. 2000) (stating that software license does not cause transfer of title, so U.C.C. does not apply to software transaction).

²⁴⁶ Most cases upholding the validity of computer software licenses stem from *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996), which based its decision in part on U.C.C. § 2-204(1). *See also* Davidson & Assocs., Inc. v. Internet Gateway, Inc., 334 F. Supp. 2d 1164, 1177 n.11 (E.D. Mo. 2004) (“The Court assumes, as have several other courts, that the [computer] games in question constitute goods under the U.C.C.”); First Nationwide Bank v. Fla. Software Svcs., Inc., 770 F. Supp. 1537, 1543 (M.D. Fla. 1991) (applying U.C.C. to software license); M.A. Mortensen v. Timberline, 998 P.2d 305 (Wash. 2000) (applying U.C.C. Article 2 to license of software).

²⁴⁷ *See* Specht v. Netscape Commc’ns Corp., 306 F.3d 17, 30 n.13 (2d Cir. 2002) (declining to decide whether U.C.C. Article 2 applies to Internet transactions in downloadable products).

²⁴⁸ *See* Rebecca K. Lively, Recent Development, *Microsoft Windows Vista: The Beginning or the End of End-User License Agreements as We Know Them?*, 39 ST. MARY’S L.J. 339, 358 (2007).

²⁴⁹ *See* Klocek v. Gateway, Inc., 104 F. Supp. 2d 1332, 1339-41 (D. Kan. 2000) (declining to enforce clickwrap agreement on U.C.C. § 2-207 grounds).

²⁵⁰ A consumer may obtain good title from a distributor who has been entrusted with goods, though has not perfected title. *See* U.C.C. § 2-403(2).

Even still, applying the U.C.C. to the Kindle Terms would not cure many of that agreement's apparent defects for consumers. For instance, Amazon explicitly disclaims and waives U.C.C.-style warranties (merchantability, fitness for a particular purpose) in its agreement.²⁵¹ The largest impact of applying the U.C.C. might be to invalidate the "browsewrap" Terms of Service based entirely on an argument of the "battle of the forms" under U.C.C. § 2-207, and supplant it with default rules.

Of course, the fact that Article 2 has previously been applied to software licenses²⁵²—without altering their fundamental character as licenses—suggests that merely holding mixed transactions to U.C.C. standards will not by itself force a sale, or otherwise cure ownership ambiguity.

B. Applying the Common Law

Even if the U.C.C. does not govern Kindle e-book transactions, it is not clear that Amazon's "browsewrap" license terms will override the essentially contrary view put forth in its advertising materials: namely, that users *buy books* for the Kindle.²⁵³ And even if the Terms of Service do indeed bind Kindle users, according to *Bobbs-Merrill*, *Wise*, *Softman*, and *Vernor*, courts may still ultimately recast e-book transactions as sales, if they find that the terms of the agreement or the underlying transaction sufficiently resemble a transfer of ownership.

Courts have invoked two main factors in support of such judgments: permanent possession of the copy and up-front payment in full.²⁵⁴ Amazon's Kindle Terms meet both criteria.²⁵⁵

The Kindle Terms also impose restrictions on use.²⁵⁶ A court applying *DSC* might find these conditions inconsistent with a

²⁵¹ In practice, most U.C.C. warranties are disclaimed by licensing agreements. See Hillman, *supra* note 142, at 6.

²⁵² See *supra* notes 245-246.

²⁵³ See *supra* Part III.

²⁵⁴ See *Straus v. Victor Talking Mach. Co.*, 243 U.S. 490, 500 (1917); *United States v. Wise*, 550 F.2d 1180, 1185-87 (9th Cir. 1977); *Vernor II*, 2009 WL 3187613, at *1-2 (W.D. Wash. 2009); *Vernor I*, 555 F. Supp. 2d 1164 (W.D. Wash. 2008); *SoftMan Prods. Co. v. Adobe Sys., Inc.*, 171 F. Supp. 2d 1075, 1086 (C.D. Cal. 2001); see also *supra* Part IV.

²⁵⁵ Payment in full: "Upon your payment of the applicable fees set by Amazon . . ." Kindle Terms, *supra* note 2. Possession in perpetuity: "Amazon grants you the non-exclusive right to keep a permanent copy of the applicable Digital Content and to view, use, and display such Digital Content an unlimited number of times." *Id.* There is no mention of returning content to Amazon.

²⁵⁶ "Unless specifically indicated otherwise, 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 . . ." *Id.* "[Content can be

sale; however, these closely resemble the restrictions placed on the Redgrave film transfer agreement in *Wise* and the software license agreement in *Vernor*, which courts nonetheless held to be sales.

Of course, courts have also held that similar licenses *do not* constitute transfer of copy ownership, citing freedom of contract principles (*Softman*),²⁵⁷ the fact that users are deemed to have assented explicitly to whatever terms exist (*Davidson*),²⁵⁸ and again, the imposition of downstream controls that amount to a conferral of something less than full title (*DSC*).²⁵⁹

None of this may matter, however, if courts decide that the combination of aggressive and hard-to-find “browsewrap” terms along with Amazon’s contradictory promotional materials means customers should get the benefit of the advertised bargain—namely, as stated liberally throughout Kindle’s advertising material, store, and user guide, the ability to *buy books*.

C. Kindle: Legal Summary

It remains unclear which body of law governs Kindle e-book transactions, and whether Amazon’s Kindle Terms will be upheld if they are challenged.²⁶⁰

If the Terms are upheld, e-book buyers will have virtually no meaningful rights in the content they have purchased. In addition to being unable to sell or transfer e-books, users could lose access to purchased content at any time.²⁶¹

If, on the other hand, Kindle e-book transactions are held to be sales, then the first sale doctrine²⁶² and the “essential step” exemption for necessary copies²⁶³ would apply.²⁶⁴ Kindle books

viewed] solely on the Device or as authorized by Amazon” *Id.* “Digital Content will be deemed licensed to you by Amazon” *Id.*

²⁵⁷ *SoftMan*, 171 F. Supp. 2d at 1088.

²⁵⁸ *Davidson & Assocs. Inc. v. Internet Gateway, Inc.*, 334 F. Supp. 2d 1164, 1176 (E.D. Mo. 2004).

²⁵⁹ *DSC Commc’ns Corp. v. Pulse Commc’ns, Inc.*, 170 F.3d 1354, 1359-62 (Fed. Cir. 1999).

²⁶⁰ Presumably, they are more likely to bind more sophisticated users who have continued to use their Kindles even after reading the Terms of Service in full. A court’s decision whether to enforce “browsewrap” terms against a user generally turns on whether that user had actual or constructive notice of the existence of the terms. See *supra* Part III and related discussion of “browsewrap” agreements.

²⁶¹ See *supra* notes 20, 144-147 and accompanying text regarding Amazon’s remote deletion of Orwell titles; *supra* note 20 regarding the banning of users and severing access to purchased Kindle content; and Kindle Terms, *supra* note 2.

²⁶² See 17 U.S.C. § 109 (2006); see also *supra* note 54 and accompanying text.

²⁶³ See 17 U.S.C. § 117; see also *supra* notes 63-64 and accompanying text.

²⁶⁴ Even if held to apply, it is not clear how the first sale doctrine would function in these circumstances. For instance, does the right to resell a Kindle e-

could be re-sold or lent out, and Kindle readers filled with book content could be sold on the secondary market.²⁶⁵

Ultimately, the legal effect of Amazon's Kindle Terms depends upon which line of cases courts choose to follow.

The next and final section argues that Kindle e-book transactions should be characterized as sales, triggering copyright exhaustion through the first sale doctrine and replicating the standard bundle of rights individuals have come to expect for books.

VI. HOW E-BOOK TRANSACTIONS SHOULD BE HANDLED

Even as digital content transactions constitute an ever-greater share of our commercial diet, how to handle e-book transactions under current law remains an open question. Digital content licensing still exists in a "legislative void."²⁶⁶

This final section discusses how best to characterize e-book transactions and argues that Amazon Kindle e-books should be sold.

A. The Case for Copy Ownership: Why E-Book Transactions Should Be Sales

Like traditional books, e-books should be sold. This subsection explains why.

1. E-Books Are Books, and Books Are Important

Technological novelties aside, e-books are books: the work of authors, embodied in printed type. Amazon gets it right when it refers to a "Kindle Edition"²⁶⁷—to the user, the decision to buy a title for the Kindle is merely a choice of which edition to buy.²⁶⁸

book mean that a user is able to email a copy to a buyer, so long as she deletes her own copies? What about the copy in the user's "sent mail" folder? And how would any restrictions be enforced?

²⁶⁵ From a technical standpoint, the Amazon's Kindle service and reader devices could still prohibit such behavior, but such interference would then be prohibited by copyright exhaustion doctrine.

²⁶⁶ *i.LAN Sys., Inc. v. Netscout Serv. Level Corp.*, 183 F. Supp. 2d 328, 332 (D. Mass. 2002); *see also* Maureen O'Rourke, *Software Contracting*, SM088 ALI-ABA 27, 30 (2007) (summarizing law of software contracting and beginning by stating that "[i]n light of the many percolating legal issues that pertain to the formation and enforcement of software agreements," attempt at a restatement of the law in this area "would be premature").

²⁶⁷ *See, e.g.*, *The Great Gatsby eBook: F. Scott Fitzgerald: Kindle Store*, <http://www.amazon.com/The-Great-Gatsby-ebook/dp/B000FC0PDA> (last visited Dec. 10, 2009).

²⁶⁸ Indeed, Amazon presents the "Kindle Edition" as merely one of the available "formats." *Id.* (listing formats on product purchase page, including "Kindle

Reading copyrighted text on a screen and reading the same text on a printed page are not just fundamentally similar: they are functionally equivalent.

Books are a fundamental vehicle of thought, communicating facts and ideas to both present-day and future readers. Unlike most software, books are particularly long-lived;²⁶⁹ *en masse*, books record and pass on the intellectual and artistic contributions of human culture. That these contributions are beginning to be expressed in computer-readable form does not diminish the importance of preserving both this record itself, and public access to it.

If enforced, Amazon’s Kindle Terms will prevent Kindle users from ever owning e-books, and also make those e-books subject to confiscation and the entire user account subject to termination²⁷⁰—acts that have already occurred, and that effectively destroy previously purchased copies of books.²⁷¹

A free society depends upon open access to books and freedom from censorship. Revoking citizens’ access to books—whether through purposeful state action or as an incidental product of corporate profit-seeking—should not be tolerated.

2. *Copyright Exhaustion Is Necessary*

Simply put, the doctrine of copyright exhaustion—including first sale and necessary copy exemptions—is necessary. Buyers of copyrighted works understand that copyright protections survive the sale (i.e., one cannot photocopy a purchased novel for distribution), but the physical copy becomes their personal

Edition,” “Hardcover,” “Paperback,” “Mass Market Paperback,” “Audio, Cassette, Unabridged,” “Board Book” (format with “thick cardboard pages for infants”), and others).

²⁶⁹ Software is particularly short-lived because it is typically tied to a particular computer platform, operating system, or set of system requirements, all of which have evolved rapidly since personal computing became commonplace. By contrast, provided the user can read the language in which the text is written, an e-book—even if encoded in a proprietary file format such as Amazon’s—requires nothing more than a decoding module to function on any system, current or future.

²⁷⁰ In its Kindle Terms, Amazon expressly “reserves the right to modify, suspend, or discontinue” Kindle service without liability, and if a user fails to comply with *any* Amazon Terms of Service, “Amazon may immediately revoke [the user’s] access to the Service or to Digital Content” without notice. *See* Kindle Terms, *supra* note 2.

²⁷¹ Amazon can ban users for various reasons, thus disabling their Kindles. *See supra* note 20. In July 2009, Amazon remotely deleted copies of two works by George Orwell from Kindle devices. *See* text accompanying notes 20, 144-147 *supra*. Although Amazon has pledged not to delete content in this way again, this pledge is only as good as its Kindle Terms, which can be altered at any time. *See* Kindle Terms, *supra* note 2.

property. In the case of sold copies, property law trumps intellectual property law—the exhaustion doctrine is necessary for meaningful copyright protection to coexist in a legal regime grounded in unfettered ownership of personal property.²⁷²

This freedom to use, sell, lend, and dispose of items we have purchased, while also respecting their associated copyright protections, is well established and fundamental, and has marked a firm boundary for downstream copyright control for over a hundred years.²⁷³ There may one day come a reason to retire it, but this should not occur simply because courts or Congress are star-struck by gadgetry. Wireless e-book delivery is a technological leap and a paradigm shift of sorts, but it does not change what a book is, or what personal property is. Like other new technologies, it was born into a world governed by laws, and it must adapt to and obey them—not the other way around.

3. *The Information Costs of Licensing Are Untenable*

Digital content licensing imposes terms and restrictions on use, but such terms are not necessarily inconsistent with the transfer of ownership.²⁷⁴ Copy ownership preserves certain baseline truths: you own what you have purchased; you can sell it, lend it, or dispose of it; you need not surrender or return it. There is much to be said for simplicity in this regard. By removing copy ownership, this baseline falls away: buyers no longer know what they can and cannot do with their purchased content (for instance, one might ask “is this the type of CD I can sell on eBay? Is it the type I can give as a birthday present?”).²⁷⁵ Such uncertainty may hinder trade and force substantial time loss as users sift through extensive license agreements²⁷⁶ to determine their rights in specific copies.

²⁷² See Liu, *supra* note 56.

²⁷³ See *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908); *supra* note 55.

²⁷⁴ See *supra* Part IV and the related discussion of *Wise* and *Vernor*.

²⁷⁵ This idea is borrowed with gratitude from Fred von Lohmann. Fred von Lohmann, Senior Staff Attorney, Elec. Frontier Found., Presentation at Yale Law School: Owners of Copies v. Copyright Owners: Understanding Copyright’s Exhaustion Doctrine (Nov. 17, 2009).

²⁷⁶ Some of what users routinely click past is truly comical. For example, the Apple iTunes EULA states that users must agree that they “will not use [iTunes] for any purposes prohibited by United States law, including, without limitation, the *development, design, manufacture or production of nuclear, missiles [sic], or chemical or biological weapons.*” Apple, Licensed Application End User License Agreement, <http://www.apple.com/legal/itunes/appstore/dev/stdeula> (last visited Apr. 27, 2009) (emphasis added).

4. *Software Licenses Are a Special Case and Should Not Be Emulated*

Computer software is a special case of digital content, and its idiosyncratic distribution model should not be extended to other digital content.

The original justification for software licensing was the threat of software rental, a risk that was addressed by Congress.²⁷⁷ So what justifies licensing today? In his careful analysis of software transactions, Christian Nandan²⁷⁸—who advocates licensing software and applauds circumvention of the first sale doctrine²⁷⁹—offers the following explanation:

[S]oftware is different, but not for the traditional (and flawed) rationale that software is easy to copy. Rather, software is different [for two reasons]— [first,] the same copy can be significantly more valuable to a commercial user (the personal and commercial versions are often identical—only the license that comes with the software would be different), [and second, software can come with] potentially enormous liability for its malfunction. These considerations are fairly unique to software. *Thus, disparate treatment based on these two considerations should not undermine the established copyright scheme for traditional works,* and explains why courts have typically allowed software licensing when it might appear to conflict with established copyright doctrines.²⁸⁰

Software is a recent addition to the intellectual property landscape, one that comes with special liability concerns and a particular need for price discrimination. Although these special concerns may in certain cases justify software licensing, they are simply not applicable to books—Kindle Editions or otherwise. Similarly, consumers’ grudging acceptance of software licensing should not be viewed as *carte blanche* to dismantle copy ownership in books or elsewhere.

²⁷⁷ See *supra* note 77 and accompanying text.

²⁷⁸ As “Director and Associate General Counsel of Sun Microsystems, Inc., and an Adjunct Professor at the University of California, Berkeley Boalt Hall School of Law,” Mr. Nandan is both a scholar and an industry professional. See Nandan, *supra* note 46, at 555 n.

²⁷⁹ Nandan, *supra* note 46, at 651-55.

²⁸⁰ Nandan, *supra* note 46, at 558 (emphasis added).

5. *Licensing Destroys Secondary Markets*

For retailers, perhaps the most obvious and immediate effect of retaining ownership of digital content is the immediate destruction of secondary markets for copies. Used bookstores, used music stores and so on could not exist if sellers retained title to individual copies. Indeed, they would likely not exist today but for the Supreme Court's 1908 *Bobbs-Merrill* ruling, which held downstream price restrictions unenforceable under copyright law.

Removing secondary markets is obviously extremely attractive to Amazon and other retailers. Even though Amazon earns commission on customer-listed used items through its fixed-price Amazon Marketplace,²⁸¹ it would no doubt prefer to be the sole seller of only new items to every interested purchaser. By limiting the Kindle to work only with proprietary Kindle-format files,²⁸² and by necessitating that each interested user buy each title new from Amazon, the company has for the time being achieved precisely what publishers sought in 1908: downstream price control to destroy secondary markets, which the Supreme Court described as "hateful to the law from Lord Coke's day to ours, because obnoxious to the public interest."²⁸³

6. *For Amazon, Licensing Is Bad Business: It's Not What's Advertised*

Side-by-side comparison of Kindle promotional materials (and its User's Guide) with the surprisingly aggressive "browsewrap" Kindle Terms²⁸⁴ reveals that Amazon is at the very least unclear about the true nature of Kindle transactions.

When shopping for a particular book, it is unlikely that most users appreciate the vastly different terms that attach to the "Kindle Edition," which for any given title is presented for purchase as merely one entry in a list of available "Formats."²⁸⁵ Indeed, users have been surprised to learn that according to Amazon, they do not own Kindle e-books.²⁸⁶

²⁸¹ For information about Amazon Marketplace, see Amazon.com Help: Quick Start, <http://www.amazon.com/gp/help/customer/display.html?nodeId=1161234> (last visited Dec. 19, 2009).

²⁸² See Baker, *supra* note 10 ("Nobody else's hardware can handle [Amazon's proprietary e-book format] without Amazon's permission. That means you can't read your Kindle books on your computer, or on an e-book reader that competes with the Kindle.").

²⁸³ *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 501 (1908).

²⁸⁴ Such a comparison is presented *supra* Part III.

²⁸⁵ See *supra* notes 267, 268.

²⁸⁶ See *supra* note 239.

Although a full discussion of offer and acceptance as influenced by advertising terms is beyond the scope of this Article, it is worth noting that, in general, unambiguous expression in an advertisement suffices to constitute an offer.²⁸⁷ As a general business practice, moreover, Amazon should at the very least be clear and upfront about the true nature of Kindle transactions.

***B. Self-Help for Retailers: Toward Copy Ownership,
Without Litigation***

The controversy over Amazon’s remote deletion of certain Orwell books from user’s Kindle devices in July 2009 ended, at least from a legal standpoint, with the settlement of the “homework deletion” lawsuit three months later. As noted earlier Amazon has revised its policies so as to avoid remote deletion in the future, thereby closing off this avenue of litigation. As such, the specific question of Kindle e-book ownership at present seems unlikely to come before courts anytime soon.

So what else can be done? Retailers have two options to provide first-sale type rights to consumers. First, as this Article argues, they can simply transfer ownership of digital copies, triggering the first sale doctrine and the protections of copyright exhaustion. A second and somewhat less utopian possibility is for retailers to modify existing licensing schemes to replicate first-sale-type rights—for instance, to permit second-hand transfers of e-books. Alternately, if retailers persist in licensing e-books, they should at least institute a tiered pricing scheme.

***1. Sell Digital Content, Rely on Copyright and DRM for
Protection***

As a best case scenario, e-book peddlers could voluntarily discard licensing models and sell digital content, relying on the robust copyright regime and DRM technology where needed to limit unauthorized copying. This is not so outlandish as it may seem. First, courts have shown that ease of duplication does not undermine copyright protection—if anything, it strengthens it.²⁸⁸ E-book distributors can rely for protection, as their print counterparts do, on copyright law—and in addition, on DRM

²⁸⁷ See generally *R.E. Crummer & Co. v. Nuveen*, 147 F.2d 3 (7th Cir. 1945); *Lefkowitz v. Great Minneapolis Surplus Store, Inc.*, 251 Minn. 188 (1957) (holding that an advertisement to sell item at particular price left nothing open for negotiation and thus constituted offer).

²⁸⁸ See, for example, the Second Circuit’s reinterpretation and updating of fair use doctrine in response to photocopying in *American Geophysical Union v. Texaco Inc.*, 60 F.3d 913, 917 (2d Cir. 2994). See also *supra* note 220 and accompanying text.

technology backed by the DMCA anti-circumvention provisions.²⁸⁹

What would DRM-protected sales look like? Under a DRM scheme, resale rights could function much the same as a transferability clause in a license: that is, enabling a new owner's rights would terminate those of the seller. In effect, this would make digital content resemble traditional tangible goods, namely, by restricting a given copy to exist only in one place at a time.

This is not a legal solution but a technical one. DRM technology can readily be used to ensure only that one functioning copy exists. For instance, certain software programs already achieve this through activation codes. A central administration database maintains a registry of copy ownership, and precludes the same copy from being registered more than once at a time.

Amazon is, in fact, ideally placed to administer such a system with its Kindle e-books, since all books and user accounts are already centrally archived. Single-copy ownership could be monitored with a digital flag in an Amazon central content database. Amazon could even charge a small fee for the transfer of ownership registration.

Interestingly, an electronic registry of e-books would not be the first time the law has dealt with digital copies of formerly paper documents. Commercial law "tokens," such as negotiable instruments²⁹⁰ and bills of lading,²⁹¹ are rapidly becoming digital, and states have responded by enacting the Uniform Electronic Transactions Act²⁹² (UETA). Under UETA, the holder of a digital "token" has the same rights as the holder of a paper token, and the requirements of delivery, possession, and endorsement are removed. A person can demonstrate "control" over the record by reference to a "system employed for evidencing the transfer of interests in the transferable record," namely, a centralized database.²⁹³

If a single, reliable digital copy can be maintained for documents of great legal significance such as negotiable

²⁸⁹ See *United States v. Elcom Ltd.*, 203 F. Supp. 2d 1111 (N.D. Cal. 2002) (holding that DMCA anti-circumvention provisions protect e-book content). In fact, Nadan concedes that a DRM-only approach might even suffice for software. See Nadan, *supra* note 46, at 646-51.

²⁹⁰ Representing the right to receive a payment obligation. See U.C.C. § 3-104(a).

²⁹¹ Representing the title to goods in transit. See U.C.C. § 1-201(6) (2004) (definition of bill of lading). See generally U.C.C. §§ 7-101 to -603 (Warehouse Receipts, Bills of Lading and Other Documents of Title).

²⁹² UNIF. ELEC. TRANSACTIONS ACT (UETA), 7A U.L.A. 21 (2001). By 2004, UETA had been enacted in forty-seven states and the District of Columbia. See Agin & Kumis, *supra* note 27, at 306.

²⁹³ See Agin & Kumis, *supra* note 27, at 307.

instruments, it should be straightforward to apply a rudimentary version of this system to other forms of electronic property such as e-books. By keeping track of copies, digital content can be brought back within the traditional realm of sales and standard copyright protection—where a robust and well-established legal scheme awaits.

2. *Create An “Ownership-Style Experience” via License Terms and DRM*

Alternately, creating an ownership-style experience through DRM is a reasonable interim solution for Amazon. This would involve allowing the transfer of licensed content, perhaps by instituting the same type of single-copy tracking approaches discussed above—with the crucial distinction that distributed digital copies are not owned by the consumer.²⁹⁴

This approach could allow consumers to possess and trade e-books in a familiar way. (And perhaps more crucially, in a way that accords with Amazon’s existing advertising materials. As previously noted, a good number of Kindle users probably still do not know that they do not own the books they purchased.)

Amazon has changed its Kindle Terms before. An example occurred following the Orwell deletions in July 2009. Almost immediately, Amazon revised its Kindle Terms to state, in effect, that content would not be remotely deleted,²⁹⁵ bringing the Kindle e-book experience one step closer to actual ownership. By allowing second-hand transfer of e-books, Amazon could take it closer still.

Downsides to this interim solution, however, are myriad: it is retailer-specific, and hence unlikely to solve the information cost problems associated with various retailers each licensing digital content transactions differently. Crucially, it would also keep digital content out of reach of the first sale doctrine, so buyers’ perceived “ownership-style” rights would persist only so long as the retailer wished them to. However, this approach could be adapted to return important rights to consumers—such as the ability to resell e-books—and as such bears mention here.

²⁹⁴ Whereas above, DRM is used to enforce single-copy ownership while true first sale rights are conferred by copyright law, here, content is not sold at all, but DRM itself both creates and enforces first-sale-type rights.

²⁹⁵ See *supra* note 146 and accompanying text.

3. If Licenses Persist, Retailers Should at Least Permit Differential Pricing

Finally, if licensing of e-books persists, consumers should at least enjoy some of its benefits. For instance, Amazon's current Kindle licensing scheme would easily permit Amazon to offer discounts for educational users, hierarchical pricing for institutions, and so forth. This practice is widespread and uncontroversial for software.²⁹⁶ With no risk of individual copies being transferred among users, Amazon is free (like software retailers) to offer identical content to different groups at different prices. By foregoing price discrimination, Amazon fails to exploit one of the only potential benefits of licensing to consumers.

CONCLUSION

E-books are here to stay. What is not, however, is the hazy legal landscape in which e-book transactions currently take place.

To clarify this situation, courts should recognize that e-books are merely books embodied in digital form, and reject any transactional "agreement" that purports to use the latest technological leap as an excuse to strip buyers of traditional rights. The U.S. Supreme Court recognized and rejected such an attempt in 1908. When called upon, it should do so again.

Amazon is the leading e-book distributor, "selling" titles for its Kindle reader. According to Amazon, however, Kindle books are not actually sold, but rather licensed under surprisingly aggressive terms that far outpace anything copyright law itself provides. The enforceability of these terms remains unclear.

This is a shame, because the Kindle itself is attractive, simple to use, and convenient. Reading books on the device is intuitive and pleasant. But by advertising the user's ability to "buy" "books" while sequestering its true terms in a "browsewrap" agreement, Amazon has not been forthright about the true nature of Kindle e-book transactions. It is not clear whether users—or courts—will tolerate such duplicity. They should not.

E-books should be sold, for six reasons. First, books have special importance to society, and access to books—whether hardcopy or digital—deserves special protection. Second, copyright exhaustion doctrine benefits consumers and preserves the integrity of personal property. Third, the information cost of differential licensing schemes and encumbrances on ownership is prohibitive. Fourth, licensing that may be appropriate for software is not appropriate for other digital content. Fifth, licensing is

²⁹⁶ *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1450 (7th Cir. 1996) ("To make price discrimination work . . . the seller must be able to control arbitrage.").

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anticompetitive and destroys secondary markets. And finally, in the case of Amazon Kindle, advertisements, promotional materials, and the User Guide all strongly suggest a sale.

From a practical perspective, e-book transactions can be recast as sales in three main ways. First, courts can find that Kindle e-book transactions are in fact sales, either by favoring *Wise/Vernor* over *MAI* and its progeny, or by holding that Amazon’s public representations in its advertisements trump its “browsewrap” Kindle Terms. Second, retailers can choose to sell digital copies and rely on copyright law and DRM for protection. E-books are ideal candidates for DRM technology and have been held to benefit from DMCA anti-circumvention protection. There are technological approaches to the multi-copy problem—such as registries to track single-copy ownership—that could ensure that owned e-books are not wantonly duplicated. Third, retailers could create an ownership-type experience via license and DRM that at least includes the ability to transfer and sell content.

As lawmakers struggle to keep pace with rapidly evolving technologies, it is instructive to remember that a great deal of copyrighted content is still sold, despite being readily reproducible. As more content migrates to the digital world, the appropriate reaction is to extend and tweak copyright protection to keep pace—not to permit merchants to drastically redefine basic transactions.

In any event, e-book transactions must be clarified. E-books, like their printed counterparts, are still books—authors’ works tangibly embodied and protected by copyright. They are too important and too timeless to be subject to the whims of a single Internet retailer. They should be sold, owned, and passed on—whether in digital form or otherwise.

