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2012]

THE SAME SONG AND DANCE: *F.B.T. PRODUCTIONS, LLC v. AFTERMATH RECORDS* AND THE ROLE OF LICENSES IN THE DIGITAL AGE OF COPYRIGHT LAW

JOHN P. UETZ*

I. “HI, MY NAME IS . . .”¹: INTRODUCTION

In 1995, Marshall B. Mathers III signed an Exclusive Artist Recording Agreement with F.B.T. Productions, LLC (F.B.T.).² Mathers, who performs and records under the pseudonym “Eminem,” would go on to sell almost 40 million albums over the next decade and a half.³ With his 2010 release, *Recovery*, Eminem became the first artist to sell over 1 million digital copies of an album.⁴ Pursuant to an agreement that transferred the exclusive recording services of Eminem to Aftermath Records (Aftermath), F.B.T. was receiving royalties of between twelve and twenty percent of the sales of digital copies of Eminem’s music.⁵ However, in *F.B.T. Productions, LLC v. Aftermath Records*,⁶ the U.S. Court of Appeals for the Ninth Circuit held that F.B.T. was entitled to fifty percent royalties from the sales of digital downloads as a matter of law.⁷

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1. EMINEM, *My Name Is*, on THE SLIM SHADY LP (Aftermath Entertainment/Interscope Records 1999).

2. See Edwin F. McPherson, *F.B.T. v. Aftermath: Eminem Raps the Record Industry*, 29 ENT. & SPORTS LAW. 10, 10 (2011) (describing history of Eminem’s contracts).

3. See *id.* at 10 (stating that Marshall Mathers is professionally known as Eminem); see also Gil Kaufman, *Eminem and Jay-Z: By the Numbers*, MTV NEWS (Sept. 2, 2010), <http://www.mtv.com/news/articles/1647055/eminem-jayz-by-numbers.jhtml> (comparing sales figures of Eminem and Jay-Z). Eminem has sold 38.3 million albums in the United States and 30.5 million songs as digital downloads. See Kaufman, *supra* (reporting Eminem’s sales figures).

4. See Steve Jones, *Digital Album Sales Soar, Thanks to Adele, Eminem*, USA TODAY, July 14, 2011, http://www.usatoday.com/life/music/news/2011-07-13-eminem-adele-digital-sales_n.htm (reporting that “[o]verall, almost a third (32%) of the 155.5 million albums sold in the first half of 2011 were digital . . . up 19% from the same period in 2010”).

5. See McPherson, *supra* note 2, at 11 (discussing F.B.T.’s agreement with Aftermath). Aftermath is a subsidiary of Universal Music Group (UMG). See *id.* (explaining contractual arrangements of parties).

6. 621 F.3d 958 (9th Cir. 2010), *cert. denied*, 131 S. Ct. 1677 (2011).

7. See McPherson, *supra* note 2, at 13 (explaining Ninth Circuit’s ruling in *F.B.T. Productions*).

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Aftermath had been paying F.B.T. the royalty rate prescribed by the “Records Sold” provision of their agreement.⁸ However, the court ruled that revenue from digital downloads unambiguously fell under the “Masters Licensed” provision.⁹ Although both parties had been treating the relevant transactions as sales, the court found that the contracts between Aftermath and digital distributors unambiguously showed that Aftermath was not selling Eminem’s recordings to digital distributors; it was licensing them.¹⁰ Aftermath was giving digital distributors permission to copy and sell digital copies without actually selling copies of the works to the digital distributors.¹¹

F.B.T. Productions and other recent cases show that the distinction between a license and a sale is becoming increasingly unclear in the digital age.¹² This lack of clarity is particularly troublesome because the determination of whether a transaction is a license or a sale can have important consequences for consumers.¹³ The practice of licensing digital versions of copyrighted works continues to grow, causing concern that copyright owners are maintaining too much control over their works and thereby upsetting the balance of rights that copyright law strives to achieve.¹⁴ As a

8. *See id.* at 11 (stating that after audit in 2006, F.B.T. discovered that it had been receiving royalties according to “Records Sold” provision for digital downloads).

9. For a discussion of the court’s analysis in *F.B.T. Productions*, see *infra* notes 147-64 and accompanying text.

10. *See* McPherson, *supra* note 2, at 11 (stating that F.B.T. had been receiving royalties according to Records Sold provision without challenge until audit was conducted in 2006); *id.* at 12-13 (discussing holding in *F.B.T. Productions*). The parties agreed that prior to the current claim, “the only transactions that had triggered the *Masters Licensed* provision were with third parties that were using Eminem master recordings in those third parties’ products; in other words, Eminem masters that were used in a third party’s soundtrack or on a compilation album that included other artists’ master recordings.” *Id.* at 11. Another part of the contract provided that the sales of permanent downloads were to be included in total album sales numbers for purposes of escalation of royalties. *See id.* at 12 (detailing contractual provisions). The Ninth Circuit found that the transactions were licenses because UMG did not sell the digital copies to the digital distributors; it only gave permission to copy the master recording and to sell the copies. *See id.* (discussing Ninth Circuit’s holding and reasoning).

11. *See id.* at 13 (describing how agreements with digital distributors are like licenses).

12. *See* 1 RAYMOND T. NIMMER, LAW OF COMPUTER TECHNOLOGY § 1:110 (4th ed. 2009) (explaining different approaches courts have taken in determining whether consumer is owner or licensee); *see also* 2 NIMMER, *supra*, § 7:63, at 7-120 (stating that “whether a licensee owns the licensed copy has generated litigation and academic literature”).

13. *See id.* § 1:110, at 1-274 to -276 (discussing benefit of first sale doctrine to consumers and noting licenses do not confer this benefit). For a discussion of the benefits of the first sale doctrine, see *infra* notes 55-60 and accompanying text.

14. *See* Elizabeth I. Winston, *Why Sell What You Can License? Contracting Around Statutory Protection of Intellectual Property*, 14 GEO. MASON L. REV. 93, 95 (2006) (stating that licensing upsets balance between consumer and copyright owner rights because it circumvents public legislation); Joshua W. Newman, Note, *Selling the Right to License: Examination of the First Sale Doctrine Through the Lens of UMG Record-*

result, many legal scholars have proposed ways to restore the balance.¹⁵ This Note argues that, despite the differences between the rights associated with licenses and sales, license agreements are a legitimate way for copyright owners to protect their rights.¹⁶ It further argues that license agreements preserve the balance of the interests of copyright owners and the public in the digital context.¹⁷

Part II of this Note discusses the purpose of copyright law and how some of the basic tenets of copyright law help to achieve a balance of the interests of copyright owners and the public.¹⁸ Part III details how the digital revolution has threatened to upset the balance between the competing interests of copyright owners and the public, focusing on the ease of infringement and the marginalization of the first sale doctrine.¹⁹ Part IV introduces the license-versus-sale debate by discussing the difference between a license and a sale and examining the effects of classifying a transaction as a license.²⁰ Part V addresses the Ninth Circuit's decision in *F.B.T. Productions* and discusses the impact of the case.²¹ In conclusion, Part VI argues that licensing is an appropriate way for copyright owners to

ings & Quanta Computer, 35 J. CORP. L. 849, 864-65 (2010) (arguing that use of license agreements will upset balance of rights by allowing copyright holders to exploit consumer rights and limit consumer privileges).

15. See Steven Masur, *Collective Rights Licensing for Internet Downloads and Streams: Would It Properly Compensate Rights Holders?*, 18 VILL. SPORTS & ENT. L.J. 39, 40 (2011) (stating that one solution to rampant infringement that has received attention is collective-rights licensing, which would pay artists royalties from fees paid by users at Internet service provider level); Aaron Perzanowski & Jason Schultz, *Digital Exhaustion*, 58 UCLA L. REV. 889, 891-92 (2011) (arguing that courts should apply doctrine of copyright exhaustion to restore balance); Newman, *supra* note 14, at 866 (arguing that Congress must pass legislation to ensure that first sale doctrine is applied in digital age); cf. Kurt E. Kruckeberg, Note, *Copyright "Band-Aids" and the Future of Reform*, 34 SEATTLE U. L. REV. 1545, 1574 (2011) (suggesting that Congress must strengthen rights of artists in next Copyright Act to restore bargaining power for artists).

16. For a discussion of why license agreements are a legitimate way for copyright owners to protect their rights, see *infra* notes 176-89 and accompanying text.

17. For a discussion of how license agreements preserve the balance of interests between copyright owners and the public, see *infra* 176-210 and accompanying text.

18. For a discussion of how basic tenets of copyright law help to achieve a balance of the interests of copyright owners and the public, see *infra* notes 24-60 and accompanying text.

19. For a discussion of how the digital age has threatened to upset the balance between the competing interests of copyright owners and the public, see *infra* notes 62-94 and accompanying text.

20. For an introduction to the license-versus-sale debate, including a discussion of the differences between licenses and sales and the effect of classifying a transaction as a license, see *infra* notes 96-123 and accompanying text.

21. For a discussion of the Ninth Circuit's decision in *F.B.T. Productions*, see *infra* notes 125-74 and accompanying text.

protect their rights and that licensing preserves the traditional balance of copyright law.²²

II. “GUILTY CONSCIENCE”²³: HOW COPYRIGHT LAW BALANCES THE INTERESTS OF COPYRIGHT OWNERS AND THE INTERESTS OF THE PUBLIC

The purpose of copyright law is explicitly stated in Article I of the Constitution, which gives Congress the power “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”²⁴ The First Congress exercised this power when it enacted the Copyright Act of 1790, which gave authors who registered their work the exclusive right to reproduce and distribute copies of the work for a limited time.²⁵ The immediate purpose of granting these rights to authors was to provide incentive for authors to create.²⁶ However, the incentive was given with the larger goal of making works of art available for the benefit of the public.²⁷ In order to accomplish its purpose, copyright law must

22. For an argument that licensing is the appropriate way for copyright owners to protect their rights while preserving the traditional balance of copyright law, see *infra* notes 176-210 and accompanying text.

23. EMINEM, *Guilty Conscience*, on THE SLIM SHADY LP (Aftermath Entertainment/Interscope Records 1999).

24. U.S. CONST. art. I, § 8, cl. 8.

25. See 1 WILLIAM F. PATRY, PATRY ON COPYRIGHT § 1:19 (2011) (discussing enactment and content of Copyright Act of 1790). The Copyright Act of 1790 granted the author of “any ‘map, chart, or book’” who registered the work with the district court “the exclusive right to ‘print, reprint, publish, or vend’” their work for fourteen years with a renewal option for another fourteen years. *Id.* (footnote omitted) (quoting Act of May 31, 1790, ch. 15, 1 Stat. 124); see also *Wheaton v. Peters*, 33 U.S. (8 Pet.) 591, 661 (1834) (stating that Congress created rights in Copyright Act that did not exist at common law). The Court wrote: “Congress, then, by this act, instead of sanctioning an existing right, as contended for, created it. This seems to be the clear import of the law, connected with the circumstances under which it was enacted.” *Id.*

26. See *Stewart v. Abend*, 495 U.S. 207, 229 (1990) (“The limited monopoly granted to the artist is intended to provide the necessary bargaining capital to garner a fair price for the value of the works passing into public use.”); *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 546 (1985) (“The rights conferred by copyright are designed to assure contributors to the store of knowledge a fair return for their labors.”); see also Joseph P. Liu, *Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership*, 42 WM. & MARY L. REV. 1245, 1247-48 (2001) (discussing balance copyright law seeks to achieve between consumer rights and copyright owner rights).

27. See *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984) (stating that exclusive rights granted in Copyright Act are “intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired”); *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932) (stating that “[t]he sole interest of the United States and the primary object in conferring the monopoly lie in the general benefits derived by the public from the labors of authors”). In *Sony*, the Court also wrote: “As the text of

adequately protect the competing interests of copyright owners and the public.²⁸

A. *The Interests of Copyright Owners*

The Copyright Act gives artists the incentive to create and protects their interests by granting copyright owners broad exclusive rights and providing remedies for violations of those rights.²⁹ In 1790, the act specified only maps, charts, and books as copyrightable works of authorship, but the current Copyright Act includes many different forms of art as works of authorship.³⁰ The current version also gives a more complete set of exclusive rights to copyright owners.³¹ In addition, the act continues to

the Constitution makes plain, it is Congress that has been assigned the task of defining the scope of the limited monopoly that should be granted to authors or to inventors in order to give the public appropriate access to their work product.” *Sony*, 464 U.S. at 429. The purpose of copyright law was recognized as early as 1832, when the Supreme Court stated that the exclusive rights granted to owners of intellectual property are “the reward stipulated for the advantages derived by the public for the exertions of the individual, and is intended as a stimulus to those exertions.” *Grant v. Raymond*, 31 U.S. (6 Pet.) 218, 242 (1832). In 1858, the Supreme Court explicitly recognized the advancement of the public interest as well: “It is undeniably true, that the limited and temporary monopoly granted to inventors was never designed for their exclusive profit or advantage; the benefit to the public or community at large was another and doubtless the primary object in granting and securing that monopoly.” *Kendall v. Winsor*, 62 U.S. (21 How.) 322, 327-28 (1858).

28. *See Sony*, 464 U.S. at 429 (stating that Congress’s task in copyright law “involves a difficult balance between the interests of authors and inventors in the control and exploitation of their writings and discoveries on the one hand, and society’s competing interest in the free flow of ideas, information, and commerce on the other hand”); *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975) (“The limited copyright duration required by the Constitution, reflects a balance of competing claims upon the public interest: Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts.” (footnote omitted)).

29. For a discussion of the interest in providing copyright owners an incentive to create, see *supra* note 26 and accompanying text.

30. *See* 17 U.S.C. § 102 (2006) (stating that “[w]orks of authorship include the following categories: (1) literary works; (2) musical works, including any accompanying words; (3) dramatic works, including any accompanying music; (4) pantomimes and choreographic works; (5) pictorial, graphic, and sculptural works; (6) motion pictures and other audiovisual works; (7) sound recordings; and (8) architectural works”); PATRY, *supra* note 25, § 1:19 (stating that Copyright Act of 1790 only allowed for copyright for books, maps, and charts).

31. Section 106 includes the exclusive right to: (1) reproduce the copyrighted work; (2) prepare derivative works based on the copyrighted work; (3) distribute copies of the copyrighted work by sale, rental, lease, or lending; (4) perform the copyrighted work publicly; (5) display the work publicly; and (6) perform the copyrighted work by means of digital audio transmission. *See* 17 U.S.C. § 106 (enumerating rights of copyright owners).

specify remedies for violations of these rights—reflecting a necessary combination for the scheme to ensure a sufficient incentive to create.³²

Subject to some exceptions, a person or entity commits copyright infringement by violating any of the exclusive rights listed in section 106 of the Copyright Act.³³ Infringement can arise in three ways: direct infringement, contributory infringement, and vicarious infringement.³⁴ A person or entity that actually takes any of the actions listed in section 106 without authorization from the copyright owner commits direct infringement.³⁵ A person or entity that substantially contributes to the commission of infringing activity, but does not directly engage in the infringing activity, can be held liable for contributory infringement.³⁶ In order to incur liability for contributory infringement, the person or entity must know about the infringing activity and either cause, materially contribute to, or substantially assist in the infringing activity.³⁷ A person or entity that has the ability to control infringing activity but fails to do so and receives a financial

32. See 17 U.S.C. § 501 (defining copyright infringement); 17 U.S.C. §§ 502-05 (enumerating possible remedies for infringement, including injunctions, impounding and disposition of infringing articles, damages, infringer's profits, costs, and attorney's fees).

33. See 17 U.S.C. § 501 (defining copyright infringement). It is important to note that the Copyright Act provides many exceptions and limitations on the rights of copyright owners and that a person or entity that uses the copyrighted work in a way that falls under one of those exceptions does not commit infringement. See, e.g., 17 U.S.C. § 107 (specifying uses of work that would otherwise be infringement but are protected because they are considered "fair use"); 17 U.S.C. § 109 (stating that lawful owner of copy may sell, otherwise transfer, or dispose of copy without authorization of copyright owner).

34. For a discussion of copyright infringement in its three forms, see *infra* notes 35-38 and accompanying text.

35. See 17 U.S.C. § 501 (defining copyright infringement); cf. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 434-35 (1984) (distinguishing indirect and direct infringement, recognizing that indirect infringement is not explicitly mentioned in Copyright Act); Douglas Lichtman & William Landes, *Indirect Liability for Copyright Infringement: An Economic Perspective*, 16 HARV. J.L. & TECH. 395, 395-96 (2003) (comparing direct infringement to indirect infringement in flea market example and stating that "individual sellers of pirated music were obviously guilty of copyright infringement").

36. See *Sony*, 464 U.S. at 437 (recognizing indirect liability for copyright infringement). In its opinion, the Court stated that contributory copyright infringement was applied as early as 1911 in *Kalem Co. v. Harper Bros.* See *id.* at 435 (referring to *Kalem Co. v. Harper Bros.*, 222 U.S. 55 (1911)). The Court noted Justice Holmes's statement in *Kalem* "that the producer had 'contributed' to the infringement," and that "the label 'contributory infringement' has been applied in a number of lower court copyright cases involving an ongoing relationship between the direct infringer and the contributory infringer at the time the infringing conduct occurred." *Id.* at 437.

37. See *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1019 (9th Cir. 2001) (explaining elements of contributory infringement); *Gershwin Publ'g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971) (same); Lichtman & Landes, *supra* note 35, at 396 (same).

benefit from the infringing activity can be held liable for vicarious infringement.³⁸

The infringement and remedy provisions of the Copyright Act give copyright owners a way to enforce their exclusive rights.³⁹ If they were unenforceable, the exclusive rights granted to copyright owners would be meaningless and they would not serve their purpose of giving authors incentive to create.⁴⁰ Accordingly, the Copyright Act's provisions granting exclusive rights and remedies for infringement of those rights work together to give authors the incentive to create.⁴¹

B. *The Interests of the Public*

Although the Copyright Act grants expansive rights to copyright owners, it also enumerates limitations and exceptions to those rights in order to achieve the overarching purpose of copyright law: public access to the creative works of authors.⁴² Two of the most important doctrines that limit copyright owners' exclusive rights are the fair use doctrine and the first sale doctrine.⁴³ Although these doctrines are limitations on the copyright owner's rights, they can also be viewed as grants of rights to consumers.⁴⁴

38. See *Napster*, 239 F.3d at 1022 (defining vicarious infringement); *Dreamland Ball Room, Inc. v. Shapiro, Bernstein & Co.*, 36 F.2d 354, 355 (7th Cir. 1929) (holding that dance hall was vicariously liable for orchestra's direct infringement); *Religious Tech. Ctr. v. Netcom On-Line Commc'n Servs., Inc.*, 907 F. Supp. 1361, 1375 (N.D. Cal. 1995) (stating elements of vicarious infringement); Lichtman & Landes, *supra* note 35, at 398 (same).

39. See *Sony*, 464 U.S. at 477 (referring to remedies for infringement as enforcement of copyright owner rights).

40. See Pamela S. Karlan, *Disarming the Private Attorney General*, 2003 U. ILL. L. REV. 183, 195 ("[T]o the extent that the ability to enforce a right is debased, it is that much less a right."); see also Liu, *supra* note 26, at 1279-80 (explaining that inability to enforce exclusive rights leads to loss of incentive that they are supposed to create).

41. See *Sony*, 464 U.S. at 450-51 (explaining that exclusive rights were intended to provide incentive to create and any use that does not do so need not be prohibited).

42. For a discussion of the public interest in giving public access to creative works, see *supra* note 27 and accompanying text.

43. See *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 575 (1994) ("From the infancy of copyright protection, some opportunity for fair use of copyrighted materials has been thought necessary to fulfill copyright's very purpose . . ."); Liu, *supra* note 26, at 1289-96 (describing limitations on exclusive rights of copyright owners); Perzanowski & Schultz, *supra* note 15, at 929 (same).

44. See Liu, *supra* note 26, at 1289-94 (characterizing first sale and fair use doctrines as copy owner's rights, as opposed to limitations on copyright owner's rights); see also Darren Hudson Hick, *Mystery and Misdirection: Some Problems of Fair Use and Users' Rights*, 56 J. COPYRIGHT SOC'Y U.S.A. 485, 490 (2009) ("Among some thinkers, a notion has developed that the fair use doctrine creates a class of users' rights."). Although Hick disagrees with the notion of users' rights, he discusses the concept in some depth, referencing a book entitled *The Nature of Copyright: A Law of Users' Rights*, which argues that "[U]sers have rights that are just as important as those of authors and publishers—and these rights are grounded in the law of copy-

The fair use doctrine provides that certain uses of copyrighted works are fair uses and do not constitute infringement.⁴⁵ The Copyright Act gives a list of uses that would be considered fair uses, including “criticism, comment, news reporting, teaching . . . , scholarship, or research”; however, the list is not comprehensive.⁴⁶ Each use must be evaluated individually according to the four factors listed in the statute to determine whether or not it is a fair use.⁴⁷ The fair use doctrine is an affirmative defense; therefore, the burden of proof is on the defendant to establish that a given use was a fair use.⁴⁸

The first sale doctrine is another limitation on the exclusive rights of copyright owners.⁴⁹ The doctrine allows the lawful owner of a copy of a copyrighted work to transfer or dispose of the copy without authorization from the copyright owner.⁵⁰ The Supreme Court first articulated the doctrine in *Bobbs-Merrill Co. v. Straus*.⁵¹ In *Bobbs-Merrill*, the Court held that the defendant’s resale of books did not violate the plaintiff’s rights as the copyright owner.⁵² It explained that the copyright owner exercised its

right.” *Id.* (alteration in original) (quoting L. RAY PATTERSON & STANLEY W. LINDBERG, *THE NATURE OF COPYRIGHT: A LAW OF USERS’ RIGHTS* 11 (1991)).

45. See 17 U.S.C. § 107 (2006) (defining fair use doctrine). The fair use doctrine was a judicial creation until it was codified in the Copyright Act of 1976. See 2 HOWARD B. ABRAMS, *THE LAW OF COPYRIGHT* § 15:1 (2010) (discussing history of fair use doctrine).

46. 17 U.S.C. § 107; see ABRAMS, *supra* note 45, § 15:4 (discussing congressional intent and explaining Congress intended that fair use determinations be made on case-by-case basis balancing factors set forth in statute).

47. See 17 U.S.C. § 107 (listing factors for determining whether use is fair use). The factors to consider are:

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.

Id.

48. See ABRAMS, *supra* note 45, § 15:28 (stating that fair use is affirmative defense and discussing resultant consequences).

49. See Victor F. Calaba, *Quibbles ‘n Bits: Making a Digital First Sale Doctrine Feasible*, 9 MICH. TELECOMM. & TECH. L. REV. 1, 4 (2002) (discussing first sale doctrine and how it limits copyright owners’ exclusive rights); Newman, *supra* note 14, at 849 (stating that first sale doctrine is “important tool[] that help[s] maximize public access to intellectual property and preserve[s] consumer rights”).

50. See 17 U.S.C. § 109 (defining first sale doctrine).

51. 210 U.S. 339 (1908). The first sale doctrine was first codified in the Copyright Act of 1909, the year following *Bobbs-Merrill*. See PATRY, *supra* note 25, § 1:45 (discussing Copyright Act of 1909).

52. See *Bobbs-Merrill*, 210 U.S. at 351 (affirming court of appeals’ dismissal of claim). The defendants bought copies of a book to sell at retail. See *id.* at 341 (discussing facts of case). The plaintiff, the copyright owner, printed the following below the copyright notice in the book: “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.” *Id.* The plaintiff filed suit for copyright in-

right to distribute the books when it sold them to the defendant, after which, the copyright owner no longer controlled the fate of the books.⁵³ As currently codified in the U.S. Code, the first sale doctrine states, in part: “the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.”⁵⁴

Many scholars believe that the first sale doctrine is an important limitation on the exclusive rights of copyright owners.⁵⁵ Proponents argue that it provides at least three main benefits to the public.⁵⁶ First, it makes copyrighted works more affordable by allowing secondary markets to exist outside of the control of copyright owners.⁵⁷ Second, it increases the

fringement because the defendant was selling the book for eighty-nine cents. *See id.* at 342 (indicating that defendant was aware that books were copyrighted and was “familiar with the terms of the notice printed in each copy”). Prior to the Supreme Court decision, the district court dismissed the plaintiff’s complaint and the court of appeals affirmed the district court’s decision. *See id.* at 341 (discussing procedure of case).

53. *See id.* at 350-51 (explaining reasoning for holding).

54. 17 U.S.C. § 109(a).

55. *See* Bruce P. Keller & Jeffrey P. Cunard, *Copyright in the Digital Age*, in SEVENTH ANNUAL INTERNET LAW INSTITUTE, at 293, 309-11 (PLI Patents, Copyrights, Trademarks, and Literary Prop., Course Handbook Ser. No. 754, 2003) (discussing conflicting views of proponents and opponents of first sale doctrine); *see also* Liu, *supra* note 26, at 1266-67 (discussing shift in balance of rights in favor of copyright owners when first sale doctrine does not apply); Perzanowski & Schultz, *supra* note 15, at 892-907 (discussing benefits of first sale doctrine and problems with its marginalization); Winston, *supra* note 14, at 106 (arguing that circumvention of first sale doctrine shifts balance of power to copyright owners, which is contrary to public policy).

56. *See* R. Anthony Reese, *The First Sale Doctrine in the Era of Digital Networks*, 44 B.C. L. REV. 577, 584 (2003) (listing three primary benefits of first sale doctrine as affordability, availability, and increased privacy); *see also* Perzanowski & Schultz, *supra* note 15, at 894-901 (discussing benefits of first sale doctrine in addition to affordability, access, and privacy, including transactional clarity, innovation, and platform competition).

57. *See* Perzanowski & Schultz, *supra* note 15, at 894 (discussing how first sale doctrine improves affordability for consumers); Reese, *supra* note 56, at 585-88 (describing ways that first sale doctrine allows greater affordability of copyrighted works); *see also* Henry Sprott Long III, Note, *Reconsidering the “Balance” of the “Digital First Sale” Debate: Re-examining the Case for a Statutory Digital First Sale Doctrine to Facilitate Second-Hand Digital Media Markets*, 59 ALA. L. REV. 1183, 1192 (2008) (discussing benefits of secondary markets, including “used” sales, rental, and public lending). The first sale doctrine allows retailers to determine the price of a copy of the work, fostering competition and leading to lower prices for consumers. *See* Reese, *supra* note 56, at 585 (explaining how first sale doctrine increases affordability). It also allows secondary markets to exist where consumers can purchase used copies of works at a price lower than the price that the original retailer charged. *See id.* at 586-87 (discussing role of secondary markets in increasing affordability). The first sale doctrine also allows rental markets to exist that allow consumers to access a copy of a work for a limited time and for a lower price. *See id.* at 587-88 (discussing ways that first sale doctrine increases affordability). Finally, the first sale doctrine facilitates public lending. *See id.* at 588-90 (indicating

availability of works by giving consumers access to works that the copyright owner has stopped distributing.⁵⁸ Third, it preserves the privacy of consumers.⁵⁹ These benefits help to achieve the best balance of interests between copyright owners and the public by protecting the public's interest in accessing copyrighted works without jeopardizing adequate protection for the copyright owners.⁶⁰

III. "TILL I COLLAPSE"⁶¹: HOW THE DIGITAL AGE THREATENS THE BALANCE OF COPYRIGHT LAW

It is well recognized that the balance between the interests of copyright owners and the public is threatened by digital technology.⁶² Although there are many reasons for this concern, this Note focuses on two of them: increased infringement and marginalization of the first sale doctrine.⁶³ From the perspective of copyright owners, technology has allowed mass infringement that significantly violates their exclusive rights to copy and distribute.⁶⁴ From the perspective of the public, technology has diminished the first sale doctrine, limiting the traditional rights that consumers acquire when they purchase a copy of a copyrighted work.⁶⁵

that public libraries can purchase copies of work and then lend copy to public at no direct charge).

58. See Perzanowski & Schultz, *supra* note 15, at 895 (explaining how first sale doctrine increases availability of works); Reese, *supra* note 56, at 593 (discussing how first sale doctrine increases public availability of works by giving consumers access to works that are out of print).

59. See Perzanowski & Schultz, *supra* note 15, at 896 (explaining that first sale doctrine protects consumer privacy by allowing consumers to transfer works without permission from copyright owner); Reese, *supra* note 56, at 584 (listing maintenance of privacy as one primary benefit of first sale doctrine).

60. See Perzanowski & Schultz, *supra* note 15, at 892 (characterizing first sale doctrine as limitation used to achieve balance between copyright owners' rights and consumers' need for access).

61. EMINEM, *Till I Collapse*, on THE EMINEM SHOW (Aftermath Records 2002).

62. See Liu, *supra* note 26, at 1254 ("The advent of digital technology and the distribution of content over digital networks is disrupting the existing balance of rights between copyright owners and users."); Perzanowski & Schultz, *supra* note 15, at 891-92 (recognizing that digital works upset balance between interests of copyright owners and consumers, making current first sale doctrine insufficient).

63. For a discussion of how the digital age has strained the balance of interests between copyright owners and the public, see *infra* notes 64-94 and accompanying text.

64. See Calaba, *supra* note 49, at 7-9 (discussing how technology has led to proliferation of infringement); Keller & Cunard, *supra* note 55, at 296 ("Online technologies create new opportunities to copy and disseminate copyrighted materials.").

65. See Calaba, *supra* note 49, at 9-15 (discussing how first sale doctrine is diminished in digital world); Liu, *supra* note 26, at 1290-91 (discussing limitation of first sale doctrine in context of software licensing); Perzanowski & Schultz, *supra* note 15, at 901-07 (discussing how digital technology and distribution models are marginalizing first sale doctrine); Long III, *supra* note 57, at 1184 ("[D]igital distribution still remains an imperfect substitution, legally speaking, for tangible media in terms of the consumer's expectations because many of the rights afforded to

A. *Increased Infringement*

Digital technology has made copyright infringement much simpler than it was with older technologies.⁶⁶ As a result, the rights of copyright owners are significantly threatened.⁶⁷ While it was possible for people or entities to duplicate and distribute copyrighted works before the digital age, such activities required “considerable skill, money and time.”⁶⁸ Today, however, digital copies of works can be duplicated and shared with anyone in the world through the Internet—all with a few clicks of a mouse.⁶⁹ Furthermore, digital files require almost no physical storage space, and duplication does not degrade their quality.⁷⁰

One of the primary ways that consumers infringe copyrights is through the use of peer-to-peer file-sharing networks.⁷¹ The most famous example of a peer-to-peer file-sharing website is the old version of Napster.⁷² Napster made files stored on users’ hard drives available for downloading by other users through the Internet.⁷³ In *A&M Records, Inc.*

consumers by copyright law, in relation to tangible media, are absent when purchasing seemingly identical digital media.”).

66. *See* Calaba, *supra* note 49, at 7-9 (discussing how technology has made copying and distribution of copyrighted works easier).

67. *See* Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd., 545 U.S. 913, 923 (2005) (discussing effect of peer-to-peer file sharing on potential infringement, stating “the probable scope of copyright infringement is staggering”); Calaba, *supra* note 49, at 7 (recognizing that ease of copying and distributing copyrighted material with digital technology “potentially exposes copyright owners to tremendous losses”).

68. *See* Calaba, *supra* note 49, at 7-8 (discussing how digital technology has made copyrighted works easier to copy). A century ago, copying a book necessarily involved using a printing press or copying the book by hand. *See id.* at 7 (comparing difficulty of duplicating and distributing copyrighted works before and after digital technology). Copying became less difficult in the 1980s with the introduction of technology like the photocopier and the VCR, but distribution of the copies was still costly because it “involved . . . physical delivery of each copy.” *See id.* at 8 (discussing how technology in 1980s made copying easier, but did not impact distribution costs).

69. *See id.* (discussing ease of copying and distributing digital works).

70. *See id.* (discussing reasons for ease of piracy).

71. *See* Annemarie Bridy, *Why Pirates (Still) Won't Behave: Regulating P2P in the Decade After Napster*, 40 RUTGERS L.J. 565, 565-66 (2009) (stating that despite enforcement efforts, peer-to-peer file-sharing infringement continues on massive scale).

72. *See id.* at 584 (referring to Napster as “famous test case” for litigation trying to stop infringing uses of copyrighted works through peer-to-peer networks). After the lawsuit, Napster became a legal subscription service, and, in 2011, was acquired by Rhapsody. *See id.* at 565 (stating “Napster went legit years ago”); *see also* *Napster Services, Sites and Applications Terms and Conditions*, NAPSTER, <http://home.napster.com/info/terms.html> (last modified Sept. 7, 2010) (describing terms of use for Napster’s subscription service and stating that copyright holders license use of content to Napster).

73. *See* Calaba, *supra* note 49, at 28 (“Such software provides a centralized exchange for file swapping and enables users from all over the world to meet online, search each other’s hard drives for a desired file, and then upon locating it, download the file.”).

v. Napster, Inc.,⁷⁴ the Ninth Circuit affirmed a preliminary injunction that prohibited Napster from continuing its service.⁷⁵ The trial court had found a preliminary injunction warranted because, among other things, the plaintiffs had established a reasonable likelihood of success on the merits for Napster's liability for contributory infringement and vicarious infringement.⁷⁶

Although Napster and other file-sharing sites have been enjoined from continuing their activities, peer-to-peer file sharing remains prevalent.⁷⁷ *The Economist* reported that in 2008—seven years after the conclusion of the Napster litigation—twenty songs were illegally downloaded for every one song purchased legally.⁷⁸ Therefore, the rights of copyright owners continue to be threatened by peer-to-peer file sharing and other methods of infringement.⁷⁹

74. 239 F.3d 1004 (9th Cir. 2001).

75. *See id.* at 1029 (holding that preliminary injunction required modification).

76. *See A & M Records, Inc. v. Napster, Inc.*, 114 F. Supp. 2d 896, 920, 922 (N.D. Cal. 2000) (stating that plaintiffs established reasonable likelihood of success on contributory infringement and vicarious infringement claims), *aff'd in part, rev'd in part*, 239 F.3d 1004.

77. *See Arista Records LLC v. Lime Group LLC*, 784 F. Supp. 2d 398, 409-10 (S.D.N.Y. 2011) (granting summary judgment to plaintiffs on claims for inducement of copyright infringement, common law infringement, and unfair competition claims). The defendant, Lime Group, owned the peer-to-peer file-sharing program "LimeWire." *See id.* at 410-11 (describing factual background of case).

Grokster was another company that provided peer-to-peer file-sharing services. *See Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 919-20 (2005) (describing Grokster's peer-to-peer networks). The Supreme Court vacated the court of appeals' affirmation of the district court's grant of summary judgment for Grokster. *See id.* at 941 (summarizing holdings of case). On remand, summary judgment was granted for plaintiffs, finding the defendant liable for inducement of copyright infringement. *See Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 454 F. Supp. 2d 966, 999 (C.D. Cal. 2006) (summarizing defendant's liability for inducement of copyright infringement). Since 2007, the prevalence of peer-to-peer file sharing has decreased, but the practice is still widespread, with estimates of 16 million users downloading music through peer-to-peer networks in the fourth quarter of 2010. *See* Press Release, NPD Group Inc., With Limewire Shuttered, Peer-to-Peer Music File Sharing Declines Precipitously (Mar. 23, 2011), *available at* http://www.npd.com/press/releases/press_110323.html (discussing prevalence of peer-to-peer file sharing in fourth quarter of 2010). While people tend to focus on the sharing of music files, peer-to-peer networks are used to share many different kinds of files, including files containing textbooks in PDF format and movies. *See* Bridy, *supra* note 71, at 566-67 (describing continued prevalence of file sharing).

78. *See* Bridy, *supra* note 71, at 566 (describing continued prevalence of file sharing (citing *Thanks, Me Hearties: Media Firms Find That Statistics On Internet Piracy Can Be Rather Useful*, *ECONOMIST*, July 17, 2008, http://www.economist.com/business/displaystory.cfm?story_id=11751035)).

79. For a discussion of the threat of peer-to-peer file sharing to copyright owners' rights, see *supra* notes 66-78 and accompanying text.

B. *Marginalization of the First Sale Doctrine*

Many scholars believe that technology has also negatively impacted the public's interest by limiting the application of the first sale doctrine.⁸⁰ Unlike physical copies, transferring digital copies requires them to be loaded into a computer's random-access memory, which violates the copyright owner's exclusive right to reproduction.⁸¹ Because transferring digital copies implicates the copyright owner's reproduction right, an owner of a digital copy cannot transfer the digital copy without committing copyright infringement.⁸²

The protective measures taken by copyright owners and the Digital Millennium Copyright Act (DMCA) further frustrate the operation of the first sale doctrine for digital works.⁸³ Because infringement became so easy in the digital world, copyright owners employed digital rights management (DRM) technology to protect themselves from infringement.⁸⁴ DRM technology is a general term that includes a variety of methods that copyright owners use to restrict access to and use of digital copies of copyrighted works.⁸⁵ The DMCA makes the circumvention of DRM technol-

80. For a discussion of the ways the first sale doctrine is marginalized in the digital age, see *supra* notes 81-92 and accompanying text.

81. See Liu, *supra* note 26, at 1266 (discussing how transfer of digital file results in multiple copies of work and stating "digital copy owners appear to have hardly any rights at all, because nearly every use involves copying"); Perzanowski & Schultz, *supra* note 15, at 902 (recognizing fact that using digital work requires loading work into computer's random-access memory (RAM) and that courts have held this to be act of reproduction).

82. See Liu, *supra* note 26, at 1266 (explaining how transfer of digital works violates copyright owners' exclusive right to reproduction); Perzanowski & Schultz, *supra* note 15, at 902 (explaining that transferring copy of digital work violates exclusive right to reproduction because copy is created in RAM and other transferee's computer).

83. See Perzanowski & Schultz, *supra* note 15, at 902-03 (stating that DMCA threatens first sale doctrine); Peter Moore, Comment, *Steal This Disk: Copy Protection, Consumers' Rights, and the Digital Millennium Copyright Act*, 97 NW. U. L. REV. 1437, 1441-42 (2003) (explaining how DRM technology and DMCA combine to restrict consumers' rights); Newman, *supra* note 14, at 862 (stating that most commentators contend that DMCA restricts operation of first sale doctrine).

84. See Moore, *supra* note 83, at 1438 (discussing reasons for more protective measures).

85. See Declan McCullagh & Milana Homs, *Leave DRM Alone: A Survey of Legislative Proposals Relating to Digital Rights Management Technology and Their Problems*, 2005 MICH. ST. L. REV. 317, 318 (defining DRM as "a general term that refers to technology-based protections that permit a rights holder to restrict a user's access to and control of digital content"). For example, one common way that copyright owners restrict access and use of a digital work is by "tethering" the use of a work to a particular user or device. See Reese, *supra* note 56, at 613 (describing tethering practices used in DRM technology); Long III, *supra* note 57, at 1184 (discussing DRM technology and DMCA); Moore, *supra* note 83, at 1444-45 (describing tethering practices). DRM technology can also prevent the copying of physical copies of copyrighted works. See Moore, *supra* note 83, at 1443-44 (describing encryption technology on DVDs that prevent copying).

ogy illegal.⁸⁶ The DMCA was enacted to address the problems that digital technology was causing for copyright owners.⁸⁷ Nevertheless, many scholars believe that the DMCA goes too far.⁸⁸ They argue that it significantly diminishes consumers' rights under the first sale doctrine because it makes circumvention illegal—even for non-infringing uses.⁸⁹

Scholars have also suggested that marginalization of the first sale doctrine occurs through the practice of licensing the use of copyrighted works to consumers.⁹⁰ The first sale doctrine only applies to owners of copyrighted works, not licensees.⁹¹ Therefore, as the practice of licensing digital works continues to grow, the first sale doctrine becomes more and more irrelevant.⁹² *F.B.T. Productions* addresses the license-versus-sale debate in the context of digital music.⁹³ The remainder of this Note focuses on the difference between licenses and sales and the effect of increased

86. See Digital Millennium Copyright Act, Pub. L. No. 105-304, § 103(a), 112 Stat. 2860, 2863 (1998) (codified as amended at 17 U.S.C. § 1201 (2006)) (prohibiting circumvention of DRM technology); see also Reese, *supra* note 56, at 581-82 (describing provisions of DMCA).

87. See Calaba, *supra* note 49, at 18 (stating that Congress enacted DMCA “[i]n response to modern technology and the corresponding concerns about piracy in the digital era”); Liu, *supra* note 26, at 1261 (same).

88. See Calaba, *supra* note 49, at 19 (arguing that DMCA makes fair use doctrine “functionally infeasible”); Perzanowski & Schultz, *supra* note 15, at 902-03 (explaining how DMCA restricts first sale doctrine); Moore, *supra* note 83, at 1441-42 (explaining how DRM technology and DMCA combine to restrict consumers' rights); Newman, *supra* note 14, at 862 (stating that most commentators contend that DMCA restricts operation of first sale doctrine).

89. For a further discussion of scholars' arguments that the DMCA goes too far, see *supra* note 88 and accompanying text.

90. See NIMMER, *supra* note 12, § 1:110, at 1-274 to -276 (stating that first sale doctrine does not apply to licenses and that licensing is increasing in digital age, especially with computer software); Perzanowski & Schultz, *supra* note 15, at 901-02 (explaining how licensing use of digital works, specifically software, has led to decreased application of first sale doctrine); Michael Seringhaus, *E-Book Transactions: Amazon “Kindles” the Copy Ownership Debate*, 12 YALE J.L. & TECH. 147, 163-64 (2009) (discussing how licensing digital content marginalizes first sale doctrine).

91. See *United States v. Wise*, 550 F.2d 1180, 1187 (9th Cir. 1977) (stating that first sale doctrine does not apply to licensees); Perzanowski & Schultz, *supra* note 15, at 901-02 (same); Seringhaus, *supra* note 90, at 160 (same). The foundational case for the first sale doctrine implicitly recognized that the rule that it was articulating would not apply in the context of a license agreement. See *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908) (noting “[t]here is no claim . . . of contract limitation, nor license agreement controlling the subsequent sales of the book”).

92. See Calaba, *supra* note 49, at 2 (describing how licensing frustrates first sale doctrine); Long III, *supra* note 57, at 1191-92 (discussing use of licensing in digital works and expressing concerns about its effects on first sale doctrine); Newman, *supra* note 14, at 852 (stating that “copyright owners have used license agreements as a weapon to eradicate the first sale doctrine”).

93. See *F.B.T. Prods., LLC v. Aftermath Records*, 621 F.3d 958, 965 (9th Cir. 2010) (discussing difference between license and sale in context of Aftermath's contracts with third-party digital-music distributors), *cert. denied*, 131 S. Ct. 1677 (2011).

licensing on the balance that copyright law seeks to establish between the interests of copyright owners and the public.⁹⁴

IV. “NO LOVE”⁹⁵ FOR LICENSES: THE DIFFERENCE BETWEEN LICENSES AND SALES AND CONCERNS ABOUT LICENSING

A. *The Difference Between Licenses and Sales*

Although categorizing a transaction as a license or a sale may seem like a simple task, courts have taken many different approaches, leading to a lack of settled case law on the issue.⁹⁶ Furthermore, the different meanings of the word “license”—depending on context—has led courts and lawyers to conflate the different meanings, further muddying the license-versus-sale debate.⁹⁷ In *F.B.T. Productions*, the Ninth Circuit stated that “license,” when used in the “ordinary sense of the word,” means “simply ‘permission to act.’”⁹⁸ Yet in *Vernor v. Autodesk, Inc.*,⁹⁹ decided just seven days later, the Ninth Circuit did not provide any definition of “license”; instead, it immediately began reviewing case law to determine whether Autodesk sold or licensed its software to consumers.¹⁰⁰ In *Vernor*, the

94. For a discussion of the license-versus-sale debate and the effect of the increase in licensing on the balance that copyright law seeks to establish between the interests of copyright owners and the public, see *infra* notes 95-210 and accompanying text.

95. EMINEM, *No Love*, on RECOVERY (Aftermath Records 2010).

96. See NIMMER, *supra* note 12, § 1:110, at 1-276 (“Cases that hold a licensee is not an owner have approached the issue in three distinct ways.”).

97. See Brian W. Carver, *Why License Agreements Do Not Control Copy Ownership: First Sales and Essential Copies*, 25 BERKELEY TECH. L.J. 1887, 1931-33 (2010) (discussing equivocation of two different meanings of “license”). When it is used as a noun, the word “license” means a grant of rights that an owner has given to another. See *id.* at 1931 (discussing meaning of “license” when used as noun in context of copyright). When it is used as a verb, however, “license” simply means “to give permission or consent.” *Id.* “License” is also sometimes used as a synonym of “agreement” or “contract.” *Id.* Perhaps the most confusing use of “license” is when it is used to describe a transfer of property without transferring title. See *id.* (discussing use of “license” in context of transferring software). The many ways that “license” is used causes “rampant confusion.” *Id.*

98. *F.B.T. Prods.*, 621 F.3d at 964 (defining meaning of “license” in agreement between Aftermath and F.B.T. (quoting WEBSTER’S THIRD NEW INTERNATIONAL DICTIONARY OF THE ENGLISH LANGUAGE UNABRIDGED 1304 (Philip Babcock Gove ed., 2002 ed.))).

99. 621 F.3d 1102 (9th Cir. 2010).

100. See *id.* at 1108-11 (discussing Ninth Circuit’s case law regarding difference between license and sale). The court focused on *United States v. Wise*, 550 F.2d 1180 (9th Cir. 1977), and the “MAI trio” of cases. See *id.* at 1108-09 (summarizing case law relating to license-versus-sale debate, including *Wise* and the MAI trio: MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511 (9th Cir. 1993), Triad Sys. Corp. v. Se. Express Co., 64 F.3d 1330 (9th Cir. 1995), *superseded by statute*, 17 U.S.C. § 117(c) (2006), *as recognized in* Apple Inc. v. Psystar Corp., 658 F.3d 1150 (9th Cir. 2011), and Wall Data Inc. v. L.A. Cnty. Sheriff’s Dep’t, 447 F.3d 769 (9th Cir. 2006)).

In *Wise*, the defendant was found guilty of criminal copyright infringement because he sold film prints that he received from the copyright owners through

plaintiff bought used copies of Autodesk's AutoCAD Release 14 software from a garage sale and tried to resell them on eBay.¹⁰¹ The court found that Vernor was not entitled to resell the software because he was a licensee and reselling the software violated the terms of the license agreement.¹⁰²

The *Vernor* court held that a transaction is a license "where the copyright owner: (1) specifies that the user is granted a license; (2) significantly restricts the user's ability to transfer the software; and (3) imposes notable use restrictions."¹⁰³ Despite this formulaic language, the court

distribution agreements. See *Wise*, 550 F.2d at 1183 (discussing holding of district court). However, the Ninth Circuit reversed two of the convictions because it determined that the Government failed to prove an absence of a first sale for those two counts. See *id.* at 1194 (reviewing which counts Government proved absence of first sale and which it did not). The court weighed five factors to determine if a first sale had occurred in each agreement, none of which were dispositive. See *Vernor*, 621 F.3d at 1103-04 (discussing standard that court in *Wise* used to determine whether first sale occurred). These factors were "whether the agreement (a) was labeled a license, (b) provided that the copyright owner retained title to the prints, (c) required the return or destruction of the prints, (d) forbade duplication of prints, or (e) required the transferee to maintain possession of the prints for the agreement's duration." *Id.* at 1108.

In the *MAI* trio of cases, the Ninth Circuit dealt with the license-versus-sale issue in the context of the essential step defense to infringement. See *id.* at 1109 (discussing issue in *MAI* trio of cases). The essential step defense allows a software user to make a copy of a computer program without infringing on the copyright "if the new copy is 'created as an essential step in the utilization of the computer program in conjunction with a machine and . . . is used in no other manner.'" *Id.* at 1109 (alteration in original) (quoting 17 U.S.C. § 117(a)(1)). However, the essential step defense only applies to owners of copies of the software, so the ability to use the defense depends on whether the transaction is classified as a license or a sale. See *id.* (discussing essential step defense under § 117(a)(1)). To determine whether the transaction was a sale and whether the defendants could therefore use the essential step defense, the court in the *MAI* trio of cases considered whether the transaction was called a license and if the terms significantly restricted the ability to transfer. See *id.* at 1110 (discussing factors considered in *MAI* trio of cases to determine whether transaction was license or sale). In *Vernor*, the Ninth Circuit tried to reconcile the holdings and reasoning of *Wise* and the *MAI* trio of cases. See *id.* at 1111 ("Our holding reconciles the *MAI* trio and *Wise*, even though the *MAI* trio did not cite *Wise*.").

101. See *id.* at 1105 (discussing facts of case). Autodesk claimed that the resale of the software violated the software's license agreement. See *id.* (discussing Autodesk's argument). Although he was aware of the license agreement, Vernor believed that he was not bound by its terms because he never agreed to those terms, opened the sealed software packet, or installed the software. See *id.* (discussing Vernor's argument). Vernor brought an action for declaratory judgment against Autodesk in order to establish that the resale of the software was not a violation of Autodesk's copyright because it was protected by the first sale doctrine. See *id.* at 1106 (discussing procedural posture of case). The district court granted summary judgment to Vernor because it "interpreted *Wise* to hold that a first sale occurs whenever the transferee is entitled to keep the copy of the work." *Id.* at 1111. The Ninth Circuit vacated and remanded. See *id.* at 1116 (stating Ninth Circuit's holding).

102. See *id.* at 1111 (stating holding and reasoning).

103. *Id.*

“did not conclude that these three elements were the only elements that make a license transaction not a sale of a copy.”¹⁰⁴ However, the court did state clearly that if those three elements are present in a transaction, then the transaction is a license.¹⁰⁵

The Federal Circuit took an even less formulaic approach in *DSC Communications Corp. v. Pulse Communications, Inc.*¹⁰⁶ In *DSC Communications*, the court looked at all of the circumstances surrounding software transactions to determine if they were licenses or sales.¹⁰⁷ Even though each copy of the software was transferred through a single payment that gave the right to perpetual use and possession, the Federal Circuit held that the

104. NIMMER, *supra* note 12, § 1:110, at 1-278.2.

105. *See id.* (discussing court’s decision in *Vernor*). *Vernor* was applied in *MDY Industries, LLC v. Blizzard Entertainment, Inc.*, another recent Ninth Circuit decision addressing the difference between a license and a sale. *See* MDY Indus., LLC v. Blizzard Entm’t, Inc., 629 F.3d 928, 938 (9th Cir. 2010) (analyzing and applying *Vernor*). The issue in *MDY Industries* was whether consumers who played *World of Warcraft*, a popular video game, were owners or licensees for the purpose of the essential step doctrine. *See id.* (discussing issue of case). Applying *Vernor*, the court found that the players were licensees because the license agreement provided that Blizzard retained title to the copy of the software and imposed significant transfer restrictions. *See id.* at 938-39 (explaining reasoning of decision). Because they were licensees, they were not entitled to the essential step defense, and any time the software was copied into the RAM of their computers in a way that violated the terms of the license agreement, they were infringing on Blizzard’s copyright. *See id.* at 939 (explaining holding).

106. 170 F.3d 1354 (Fed. Cir. 1999). DSC and Pulse were competitors that both manufactured digital-loop carrier systems for Regional Bell Operating Companies (RBOCs) that allowed commercial telephone systems to run more efficiently. *See id.* at 1357 (discussing facts of case). DSC claimed, among other things, that Pulse infringed its copyright in software that was used in one of its products transferred to RBOCs. *See id.* (discussing DSC’s claims). Pulse counterclaimed that DSC infringed one of its patents. *See id.* (discussing Pulse’s claim). The District Court for the Eastern District of Virginia granted Pulse’s motion for judgment as a matter of law and dismissed all of DSC’s claims. *See id.* (discussing district court’s holding for Pulse’s claims). The district court based its decision on the fact that the RBOCs were owners because they made a single payment for the software that allowed the right of possession for an unlimited period. *See id.* at 1360. The court then held a hearing for Pulse’s counterclaims, at which time both parties moved for summary judgment. *See id.* at 1357 (discussing procedure of case). The court granted DSC’s motion, finding that it did not infringe Pulse’s patent as a matter of law. *See id.* (discussing holding on summary judgment motions). DSC appealed, challenging the district court’s grant of judgment as a matter of law against its original claims, and specifically, its holding that DSC’s transfer of the software made the RBOCs owners of the software for purposes of the essential step doctrine. *See id.* at 1360 (discussing procedural posture of case); *see also Vernor*, 621 F.3d at 1109 (defining essential step doctrine).

107. *See DSC Commc’ns*, 170 F.3d at 1361 (discussing reasons why transfer was license rather than sale). The court in *DSC Communications* criticized the Ninth Circuit’s decision in *MAI Systems Corp. v. Peak Computer, Inc.* for failing to adequately distinguish between the ownership of a copyright and the ownership of copies of the copyrighted material. *See id.* at 1360 (criticizing Ninth Circuit’s *MAI Systems Corp.* decision). As a result, the Federal Circuit declined to “adopt the Ninth Circuit’s characterization of all licensees as non-owners.” *Id.*

transactions were licenses and not sales.¹⁰⁸ In reaching this conclusion, the court examined the agreements transferring the software copies and emphasized the notable restrictions on use and transfer of the software.¹⁰⁹ *DSC* stands for the proposition that a transaction may not be a sale if the terms of the transaction restrict the rights that owners would typically enjoy—even if it looks like a sale because it involves a single payment for perpetual use and possession.¹¹⁰

Other courts have taken a more categorical approach, holding that a transferee is not an owner if the terms of the transfer provide that the seller of the copy retains ownership.¹¹¹ An even more direct approach that courts have taken is simply holding that if the transaction is labeled a license, the transferee is a licensee and not an owner of the copy.¹¹² However, the most predominant approach is to examine the terms of the transaction to determine if the transferee has been granted the rights of a licensee or an owner, regardless of whether the transaction is labeled as a license or a sale.¹¹³

B. *The Effect of Characterizing a Transaction as a License*

Regardless of the approach that courts use to determine if a transaction is a license or a sale, the characterization of a transaction as a license has important implications for consumers and copyright owners.¹¹⁴ When transactions are characterized as licenses, transferees become licensees

108. *See id.* at 1362 (stating holding for contributory infringement claim).

109. *See id.* at 1361-62 (examining limitations on RBOCs' rights in agreements with *DSC*). The court noted that the agreements provided that *DSC* retained all rights to the software, explicitly making the RBOCs licensees. *See id.* at 1361 (explaining reasoning of decision). It also noted that the agreements limited the RBOCs' right to transfer the copies of the software and limited the use of the software to *DSC*'s hardware. *See id.* (discussing reasons for holding).

110. *See NIMMER, supra* note 12, § 1:110, at 1-277 to -278 (discussing Federal Circuit's decision in *DSC Communications*).

111. *See id.* at 1-274, 1-274 n.7 (discussing more categorical approach that some courts have taken in license-versus-sale debate, citing *S.O.S., Inc., v. Payday, Inc.*, 886 F.2d 1081 (9th Cir. 1989), as example).

112. *See id.* at 1-277, 1-277 n.9 (discussing labeling approach to license-versus-sale issue, citing *MAI Systems Corp.* as example).

113. *See id.* at 1-277 (discussing most predominant approach that courts have taken). Although the labeling of a transaction as a license or a sale is not dispositive, it is informative under this approach. *See id.* (examining user-rights approach to license-versus-sale debate). This was the approach taken in *Vernor* and *DSC Communications*. *See id.* at 1-277 to -278.1 (discussing *DSC Communications* and *Vernor* decisions). For a discussion of *Vernor* and *DSC Communications*, see *supra* notes 99-110 and accompanying text.

114. *See NIMMER, supra* note, § 1:110, at 1-274 ("Both aspects of first-sale doctrine (sections 109 and 117) apply only where the defendant is the owner of a copy of the work . . ."); see also Liu, *supra* note 26, at 1263 (stating that *MAI* decision, characterizing transferees of software as licensees and therefore holding that essential step defense did not apply, has potential to give "copyright owners broad control, at least in theory, over nearly all computer-aided uses of copyrighted works encoded in digital form").

and lose the ability to take advantage of the first sale doctrine.¹¹⁵ However, transferees do not lose the protection of the fair use doctrine, which applies equally to licenses and sales.¹¹⁶ For copyright owners, the characterization of a transaction as a license allows more control over consumers' use of the product, which in turn gives copyright owners greater ability to protect and enforce their rights.¹¹⁷

Although most cases dealing with this issue have been decided in the context of computer software, there is no reason that the same distinctions between a license and a sale—and the implications of those distinctions—would not apply to the transfer of other copyrighted works.¹¹⁸ Indeed, in *F.B.T. Productions*, the court applied the concepts that were developed in the computer software cases to address the license-versus-sale debate in the context of digital music.¹¹⁹ Digital versions of copyrighted works other than software are increasingly being licensed to consumers, making the implications of the license-sale distinction increasingly more relevant to consumers and generating more scholarly debate.¹²⁰

115. See 17 U.S.C. § 109(a) (2006) (“[T]he *owner* of a particular copy . . . is entitled . . . to sell or otherwise dispose of the possession of that copy” (emphasis added)); § 117 (“[I]t is not an infringement for the *owner* of a copy of a computer program to make or authorize the making of another copy . . . of that computer program” (emphasis added)); NIMMER, *supra* note 12, § 1:110, at 1-275 to -276 (stating that first sale doctrine and its related defenses only apply to owners of copies); Liu, *supra* note 26, at 1249 (explaining that first sale doctrine applies once copyright owner has conveyed title to copy of copyrighted work); see also Perzanowski & Schultz, *supra* note 15, at 901-02 (discussing how licensing undermines first sale doctrine because first sale only applies to owners of copies).

116. See Carver, *supra* note 97, at 1891 (“[N]o one needs a license to make a fair use; everyone already has a right of fair use.”); Liu, *supra* note 26, at 1269 (“[Fair use] does not depend on any relationship (express or implied) between the author and user.”). For a discussion of the fair use doctrine, see *supra* notes 45-48 and accompanying text.

117. See Calaba, *supra* note 49, at 10 (explaining that licenses provide copyright owners with contract remedies for breach of license agreements in addition to copyright remedies for infringement).

118. See Liu, *supra* note 26, at 1346 (“[T]here is no reason to distinguish between digital copies of software programs and digital copies of other works. In both cases, the same issues of access are presented.”); Perzanowski & Schultz, *supra* note 15, at 936 (arguing that Congress’s rationale for enacting § 117 applies equally to all digitally encoded works, stating “any rigid distinction between computer programs and digitally encoded data is something of an oversimplification”).

119. See *F.B.T. Prods., LLC v. Aftermath Records*, 621 F.3d 958, 964-65 (9th Cir. 2010) (discussing license-versus-sale issue with regard to digital copies of sound recordings and citing, *inter alia*, *Wall Data Inc.* and *MAI Systems Corp.*), *cert. denied*, 131 S. Ct. 1677 (2011). Another recent Ninth Circuit case applied the reasoning and rules of the computer software cases to the license-versus-sale debate in regard to the transfer of physical CDs. See *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175, 1180 (9th Cir. 2011) (applying rules and reasoning from computer-software cases to transfer of physical CDs).

120. See, e.g., *Amazon.com Kindle License Agreement and Terms of Use*, AMAZON, http://www.amazon.com/gp/help/customer/display.html/ref=hp_left_sib?ie=UTF8&nodeId=200506200 (last modified Sept. 28, 2011) (“Unless specifically indicated otherwise, you may not sell, rent, lease, distribute, broadcast, sublicense, or

The enormous popularity of services and products like Netflix, Amazon's e-books for the Kindle, and Spotify show that consumers are embracing the licensing model and may in fact prefer it to the sales model for digital versions of copyrighted works.¹²¹ Despite the popularity of the licensing model, many scholars are concerned that it has severely upset the

otherwise assign any rights to the Digital Content or any portion of it to any third party, and you may not remove or modify any proprietary notices or labels on the Digital Content.”); *see also* Seringhaus, *supra* note 90, at 150 (stating that Amazon's e-books are not sold, but licensed, to consumers). Further, the Kindle License Agreement specifically states that “Digital Content is licensed, not sold, to you by the Content Provider.” *Id.* The increased licensing of digital works to consumers can also be seen in the music and movie industries with the popularity of subscription services. *See Napster Services, Sites and Applications Terms and Conditions, supra* note 72 (“The Tracks and Materials are owned by Napster . . . [Y]our use of the Tracks and Materials is subject to the Usage Rules discussed below.”); *Terms of Use, NETFLIX*, <https://signup.netflix.com/TermsOfUse?country=1&rdirdc=true> (last modified Mar. 7, 2012) (“[W]e grant you a limited, non exclusive, non transferable, license to access the Netflix service [N]o right, title or interest shall be transferred to you.”); *Spotify® Terms and Conditions of Use, SPOTIFY*, <http://www.spotify.com/us/legal/end-user-agreement/> (last modified Nov. 30, 2011) (“You are granted a limited, non-exclusive, revocable license to make personal non-commercial use of the Spotify Software Application . . . and to receive by stream . . . the media content You do not have a right to transfer or sublicense your rights under this Agreement.”). Even the video game industry is beginning to license the use of video games for a monthly subscription fee through cloud computing. *See* Doug Gross, *Is ‘Cloud Computing’ the Future of Video Games?*, CNN, June 16, 2010, http://articles.cnn.com/2010-06-16/tech/e3.cloud.gaming_1_video-games-play-station-network-electronic-entertainment-expo?s=PM:TECH (describing OnLive video game streaming service).

121. *See* Brandon Griggs, *Spotify Founder: Future of Music Is Access, Not Ownership*, CNN, July 21, 2011, <http://www.cnn.com/2011/TECH/web/07/21/spotify.fortune.brainstorm/index.html?iref=allsearch> (discussing popularity of Spotify); Verne G. Kopytoff, *Shifting Online, Netflix Faces New Competition*, N.Y. TIMES, Sept. 27, 2010, at B1 (reporting on increased competition for Netflix's streaming service because of its popularity); Brian Stelter, *For Netflix, Higher Earnings and a Milestone*, N.Y. TIMES MEDIA DECODER BLOG (Apr. 25, 2011, 4:25 PM), <http://mediadecoder.blogs.nytimes.com/2011/04/25/for-netflix-higher-earnings-and-a-milestone/?scp=7&sq=netflix%20sales&st=cse:%20ABC%20Article%20at%20> (stating that Netflix has 23.6 million subscribers globally, gaining average of 1.1 million subscribers in United States each month in first quarter of 2011). Spotify is a music-streaming service that offers a free ad-supported service and an ad-free service for a monthly subscription fee. *See* Griggs, *supra*, (describing Spotify). It was launched in Sweden in 2006 and currently has more than 10 million users in Europe. *See id.* (discussing Spotify's beginnings). Spotify has only recently reached the United States, launching on July 14, 2011; however, its founder hopes to attract 50 million users in the United States within a year. *See id.* (discussing Spotify's launch in United States). Spotify differs from Pandora and other internet radio services because users can listen to the specific songs they choose. *See id.* (describing Spotify's service). Amazon also offers a music streaming service and Apple will launch one in the fall of 2011. *See id.* (discussing Spotify's competition). Amazon's Kindle and the e-books that are read on it also continue to grow in popularity; indeed, Amazon's e-book sales have surpassed its sales of physical books. *See* Claire Cain Miller & Julie Bosman, *E-Books Outsell Print Books at Amazon*, N.Y. TIMES, May 20, 2011, at B2 (reporting that Amazon sold 105 e-books for every 100 hardcover and paperback books).

balance between the public's interest and the copyright owners' interest by allowing copyright owners to exercise potentially limitless control over copies of their works.¹²² These concerns have led to many suggestions of ways to revive the first sale doctrine in the digital world.¹²³

V. "GOING THROUGH CHANGES"¹²⁴: THE SUBSTANCE AND IMPACT OF
F.B.T. PRODUCTIONS, LLC v. AFTERMATH RECORDS

In *F.B.T. Productions*, the Ninth Circuit continued the trend toward widespread acceptance of licensing by finding that the agreements between Universal Music Group and its digital distributors were licenses, despite the fact that the transactions were never explicitly labeled as licenses and that both parties treated them as sales.¹²⁵ Section A of this Part will

122. See Calaba, *supra* note 49, at 10 ("The use of license agreements to abrogate consumers' rights raised concerns that the software industry was obtaining too much power and becoming unduly repressive."); Carver, *supra* note 97, at 1895 ("[I]f copyright owners can, through carefully worded EULAs, both retain title to copies of their copyrighted works and forbid the use of those copies in conjunction with third-party software on pain of license termination, then copyright owners can control those external markets with the stroke of a pen."); Liu, *supra* note 26, at 1290-91 ("If mass-market shrink-wrap licenses become the norm and are found enforceable, then the scope and application of the first sale doctrine may be greatly limited with respect to digital copies."); Winston, *supra* note 14, at 93 ("[I]ntellectual property owners increasingly choose to license products that embody their intellectual property and use privately-legislated licenses to augment their intellectual property rights and circumvent publicly-legislated restrictions.").

123. See, e.g., Perzanowski & Schultz, *supra* note 15 (arguing that first sale doctrine is part of larger concept of copyright exhaustion and that exhaustion helps solve problems that digital works cause for copyright). While the first sale doctrine only restricts the copyright owner's distribution right, the principle of copyright exhaustion would apply to the reproduction right and the right to prepare derivative works as well. See *id.* at 892 (discussing copyright exhaustion). This would allow consumers to reproduce or prepare a derivative of the copy of the digital work to the extent that it is "necessary to enable the use, preservation, or alienation of that particular copy or any lawful reproduction of it." *Id.* Therefore, consumers could transfer their copy of a digital work to another person by copying it and sending the copy to another person, as long as the first person deletes the original copy after sending the transferred copy. See *id.* at 938 (explaining how exhaustion allows transfer of digital copies through "forward and delete" method). While the first sale doctrine on its face does not allow this practice because it violates the reproduction right of the copyright owner, the exhaustion principle allows this activity and preserves the benefits of the first sale doctrine. See *id.* at 937-38 (explaining how exhaustion allows transfer and how it would "facilitate the benefits of first sale"). Another approach that scholars have taken is to call for Congress to take legislative action. See, e.g., Newman, *supra* note 14, at 866 (arguing that Congress must pass legislation to ensure that first sale doctrine is applied in digital age). Another approach that scholars have taken is to suggest compulsory licensing schemes. See Masur, *supra* note 15, at 40 (stating that one solution to rampant infringement that has received attention is collective-rights licensing, which would pay artists royalties from fees paid by users at Internet service provider level).

124. EMINEM, *Going Through Changes, on RECOVERY* (Aftermath Records 2010).

125. For a full discussion of *F.B.T. Productions*, see *infra* notes 129-74 and accompanying text.

summarize the facts of the case.¹²⁶ Section B will explain the court's reasoning for its holding.¹²⁷ Finally, section C will discuss the likely impact of the court's decision and the trend toward acceptance of license agreements in copyright law.¹²⁸

A. *The Facts*

In 2007, F.B.T. filed suit in the Central District of California against Aftermath, a subsidiary of UMG Recordings.¹²⁹ F.B.T.'s first contract with Aftermath transferred the exclusive recording services of Eminem to Aftermath.¹³⁰ Under the Records Sold provision of that agreement, F.B.T. was to receive between twelve and twenty percent of the adjusted retail price of all "full price records sold in the United States . . . through normal retail channels."¹³¹ The agreement further stated, under the Masters Licensed provision, that F.B.T. would receive fifty percent of Aftermath's total receipts from "masters licensed by [UMG] to others for their manufacture and sale of records or for any other uses."¹³² Beginning in 2001, UMG executed many agreements with digital-download distributors that allowed Eminem's recordings to be sold in digital format and permanently downloaded to users' computers.¹³³

In the contract, "master" is defined as a "recording of sound, without or with visual images, which is used or useful in the recording, production or manufacture of records."¹³⁴ The terms "licensed" and "normal retail channels" were not defined.¹³⁵ Despite multiple amendments to the contract, digital downloads were not explicitly addressed in the contract until

126. For a discussion of the facts of *F.B.T. Productions*, see *infra* notes 129-46 and accompanying text.

127. For a discussion of the court's reasoning in *F.B.T. Productions*, see *infra* notes 147-64 and accompanying text.

128. For a discussion of the impact of the court's decision in *F.B.T. Productions*, see *infra* notes 165-74 and accompanying text.

129. See *F.B.T. Prods., LLC v. Aftermath Records*, No. CV 07-3314 PSG (MANx), 2009 WL 137021, at *2 (C.D. Cal. Jan. 20, 2009) (stating that complaint was filed on May 21, 2007), *rev'd*, 621 F.3d 958 (9th Cir. 2010), *cert. denied*, 131 S. Ct. 1677 (2011); see also *F.B.T. Prods.*, 621 F.3d at 958 (stating that UMG Recordings, Inc. is Aftermath's parent company); McPherson, *supra* note 2, at 10 (stating that Aftermath Records is co-owned by Interscope Records, UMG Recordings, Inc., and Andre Young, who performs as "Dr. Dre").

130. See *F.B.T. Prods.*, 621 F.3d at 965 (discussing F.B.T.'s first contract with Aftermath Records).

131. *Id.* at 961 (alteration in original) (internal quotation marks omitted).

132. *Id.* (internal quotation marks omitted).

133. See *id.* at 962 (describing UMG's agreements with digital distributors). These contracts included agreements that allowed Eminem's sound recordings to be sold as permanent downloads and agreements with cell phone companies that allowed Eminem's sound recordings to be sold as mastertones, which are used as ring tones for cell phones. See *id.* (detailing agreements between UMG and digital distributors).

134. *Id.* at 961-62 (internal quotation marks omitted).

135. *Id.* at 962.

2004.¹³⁶ At that time, an amendment was added specifying that permanent-download sales would be considered part of net sales for the purpose of determining escalations.¹³⁷ Escalations are increases in the royalty rate based on the number of sales.¹³⁸

F.B.T. conducted a royalty audit in 2006 and discovered that it was being paid the royalty rate for permanent downloads under the Records Sold provision of the contract.¹³⁹ However, F.B.T. believed that it should have been receiving the Masters Licensed provision rate for digital downloads.¹⁴⁰ If that were true, it would mean that F.B.T. was being severely underpaid.¹⁴¹ F.B.T. filed suit shortly after conducting the audit.¹⁴²

Aftermath and F.B.T. both filed motions for summary judgment and the District Court for the Central District of California denied both motions, finding that the agreements were “reasonably susceptible to more than one interpretation.”¹⁴³ At trial, a jury ruled in favor of Aftermath and F.B.T. appealed.¹⁴⁴ The Court of Appeals for the Ninth Circuit reversed, finding that the district court erred in denying F.B.T.’s motion for summary judgment because the agreements between UMG and the digital distributors unambiguously fell under the Masters Licensed provision of the contract between F.B.T. and Aftermath.¹⁴⁵ The Supreme Court denied certiorari on March 21, 2011, and denied rehearing on May 16, 2011.¹⁴⁶

136. *See id.* at 962 (detailing various amendments to contract and describing how digital downloads were addressed in 2004).

137. *See* McPherson, *supra* note 2, at 11 (discussing 2004 amendments to contract). In 2000, F.B.T. and Aftermath agreed to amend the 1998 contract to create a direct relationship between Eminem and Aftermath and make F.B.T. a passive-income participant. *See id.* (discussing contractual history of parties). In 2003, F.B.T. and Aftermath terminated the 1998 contract and entered into a new agreement; however, the Records Sold and Masters Licensed provisions remained the same. *See id.* (discussing 2003 agreement between parties).

138. *See id.* (explaining meaning of escalation clause).

139. *See id.* (discussing events leading up to litigation).

140. *See id.* (describing disagreement between F.B.T. and Aftermath).

141. *See id.* (discussing effects of characterizing agreements with digital distributors as licenses). Getting paid according to the Masters Licensed provision would have increased F.B.T.’s royalty rate from between twelve and twenty percent to fifty percent. *See id.* (discussing characterization’s effect on royalty rates). This increase in royalty percentage could mean that F.B.T. would receive in excess of two dollars more for every album sold. *See id.* at 10 (discussing effect of increased royalty rate). For an artist like Eminem, who sells millions of albums, F.B.T. would stand to gain millions of dollars from the increased rate. *See id.* (noting how F.B.T. would stand to gain from increased rate).

142. *See id.* at 11 (discussing events leading up to litigation).

143. F.B.T. Prods., LLC v. Aftermath Records, No. CV 07-3314 PSG (MANx), 2009 WL 137021, at *7 (C.D. Cal. Jan. 20, 2009), *rev’d*, 621 F.3d 958, *cert. denied*, 131 S. Ct. 1677 (2011).

144. *See F.B.T. Prods.*, 621 F.3d at 962 (discussing procedure of case).

145. *See id.* at 967 (stating holding).

146. *See Aftermath Records*, 131 S. Ct. 1677 (denying certiorari), *reh’g denied*, 131 S. Ct. 2482 (2011).

B. *The Analysis*

The Ninth Circuit was asked to answer the question of whether the Masters Licensed provision of the contract unambiguously applied to UMG's contracts with digital distributors.¹⁴⁷ The district court denied F.B.T.'s motion for summary judgment.¹⁴⁸ Its determination was based on extrinsic evidence that, in the court's opinion, made the contract reasonably susceptible to either interpretation.¹⁴⁹

However, the Ninth Circuit reversed the district court's denial of summary judgment, finding that the Masters Licensed provision unambigu-

147. See *F.B.T. Prods.*, 621 F.3d at 964 (discussing F.B.T.'s motion for summary judgment that court is reviewing). If the contract was ambiguous, granting summary judgment would be inappropriate because there would have been a genuine issue of material fact for a fact finder to determine. See *F.B.T. Prods.*, 2009 WL 137021 at *4 (discussing standard of review for summary judgment). However, if the contract was unambiguous, the Masters Licensed provision would have applied to permanent downloads and mastertones as a matter of law. See *F.B.T. Prods.*, 621 F.3d at 964 (discussing consequences of determining that contract was unambiguous).

148. See *F.B.T. Prods.*, 621 F.3d at 964 (discussing district court's decision).

149. See *F.B.T. Prods.*, 2009 WL 137021 at *4 (discussing standard for determining whether contract is ambiguous). There was no evidence of negotiations between the parties as to how they intended to treat permanent downloads and mastertones. See *id.* (discussing reasons for deciding that agreement was susceptible to multiple interpretations). However, F.B.T. submitted evidence that the agreements with digital distributors were licenses because UMG retained ownership and received recurring benefits. See *id.* at *5 (discussing UMG's agreement with Apple Computer, Inc. to sell music on iTunes music store, but reserving right to "withdraw any of its sound recordings" and receive payment according to volume of songs or albums sold). Aftermath argued that the Masters Licensed provision traditionally only applied to "ancillary uses" of the master recordings, such as the use of a song in a movie or a compilation album. *Id.* Therefore, the parties intended the Masters Licensed provision to be limited to such traditional applications. See *id.* (explaining Aftermath's argument). Both parties also argued that industry custom supported their respective interpretations of the contract. See *id.* at *6 (discussing parties' arguments). The court found "that neither party [] conclusively established that 'custom and practice' mandates a particular interpretation of the Masters Licensed provision." *Id.* Aftermath also argued that the escalation provision of the 2004 amendment to the contract explicitly mentions permanent downloads as "Sales of Albums" and treats them as such for purposes of net sales numbers, which are used to determine escalation in royalty percentage. See *id.* (explaining Aftermath's arguments). However, F.B.T. claimed that Aftermath's interpretation of the escalation provision did not resolve the ambiguity because the Masters Licensed provision "explicitly references 'the manufacture and sale of records' by third parties." *Id.* Aftermath also argued that the Records Sold provision unambiguously applied to permanent downloads because a "record" is defined "as 'all forms of reproductions . . . manufactured and distributed primarily for home use.'" *Id.* at *7 (citation omitted). Furthermore, in arguing that the contracts granted it expansive rights, Aftermath pointed to the fact that the agreements gave them "the right to sell 'records' 'in any [or] all forms of media now known and hereinafter developed.'" *Id.* (citation omitted). The district court denied summary judgment, finding that the extrinsic evidence was conflicting and that the contract was reasonably susceptible to either party's interpretation. See *id.* (stating holding).

ously applied to UMG's contracts for permanent downloads and mastertones with digital distributors.¹⁵⁰ The Ninth Circuit conceded that the provision was broad, but maintained that it was not unclear or ambiguous.¹⁵¹ The court stated that the ordinary meaning of "license" is "simply 'permission to act'" and that Aftermath gave third parties permission to use its master recordings to produce and sell permanent downloads and mastertones.¹⁵² Therefore, the contracts with the digital distributors were licenses under the ordinary definition of the word.¹⁵³

The court went on to explain why the contracts between UMG and the digital distributors were licenses under copyright law.¹⁵⁴ It emphasized that Aftermath never conveyed title to the recording because it "reserved the right to regain possession of the files at any time."¹⁵⁵ The court stated that "it is well settled that where a copyright owner transfers a copy of copyrighted material, retains title, limits the uses to which the material may be put, and is compensated periodically based on the transferee's exploitation of the material, the transaction is a license."¹⁵⁶ The Ninth Circuit was convinced that UMG's transactions with digital distributors fit that description.¹⁵⁷

Next, the court explained why it considered the contract unambiguous.¹⁵⁸ Aftermath argued that the escalation clause from the 2004 amendment showed that the parties intended the royalty rate for permanent downloads to be calculated according to the Records Sold provision.¹⁵⁹ The court rejected the argument because the escalation clause, by its plain language, only counted permanent downloads as sales for purposes of escalations and said nothing about royalty rates.¹⁶⁰

Aftermath also argued that industry custom and the course of performance of these specific contracts favored its interpretation of the contract.¹⁶¹ The court rejected these arguments because permanent

150. See *F.B.T. Prods.*, 621 F.3d at 967 (summarizing holding).

151. See *id.* at 964 (discussing whether contract is ambiguous).

152. See *id.* (quoting WEBSTER'S THIRD NEW INTERNATIONAL DICTIONARY OF THE ENGLISH LANGUAGE UNABRIDGED, *supra* note 98, at 1304).

153. See *id.* (applying ordinary definition of "license" to contracts).

154. See *id.* at 964-66 (discussing how agreements with third parties are unambiguously licenses under copyright law).

155. *Id.* at 965.

156. *Id.*

157. See *id.* at 965-66 (characterizing UMG's contracts as licenses).

158. See *id.* at 966 (rejecting Aftermath's arguments that contract was ambiguous).

159. See *id.* (discussing Aftermath's escalation-clause argument).

160. See *id.* (discussing Aftermath's argument that escalation clause of 2004 amendment showed that royalties for permanent downloads should be calculated according to Records Sold provision).

161. See *id.* (discussing Aftermath's argument that Masters Licensed provision had been applied "only to compilation records and incorporation into movies, TV shows, and commercials").

downloads and mastertones had only recently come into existence.¹⁶² Therefore, the application of the contract terms to permanent downloads and mastertones could not have been contemplated when the contract was signed.¹⁶³ By rejecting Aftermath's arguments, the court supported its finding that the contract was unambiguous and that F.B.T. was due the royalty rate according to the Masters Licensed provision of the contract.¹⁶⁴

C. *The Impact*

The immediate impact of the Ninth Circuit's decision is clear: Eminem and artists with similar provisions in their contracts will receive greater royalties for sales of permanent downloads and mastertones.¹⁶⁵ Despite UMG's contention that the holding is limited to this one contract with unique language, the decision will almost certainly affect many more artists with "very similar if not identical language" in their contracts.¹⁶⁶ In fact, the Ninth Circuit's decision may already be affecting lawsuits by artists with similar claims.¹⁶⁷ In March 2011, the Allman Brothers reached a

162. *See id.* (rejecting industry-custom argument because there was no indication that parties intended to confine contract to state of industry in 1998).

163. *See id.* (rejecting industry-custom and course-of-performance arguments). Because the technologies were so new, the court reasoned that past application of the Masters Licensed provision was irrelevant to determining how it would apply to permanent downloads and mastertones. *See id.* (discussing reasons for rejecting Aftermath's arguments). The court also rejected Aftermath's argument that F.B.T. interpreted the contract in the same way by never objecting to the royalties it was receiving before 2006. *See id.* (rejecting argument because F.B.T. did not audit royalty statements until 2006, when it discovered that royalties were being paid under Records Sold provision, and concluding that F.B.T.'s actions prior to that discovery were irrelevant). F.B.T. did not have a duty to perform an audit before then, so Aftermath could not use its lack of objection to the royalty rates to prove how F.B.T. interpreted the contract. *See id.* at 966-67 (explaining why F.B.T.'s prior actions could not be construed as endorsement of Aftermath's interpretation).

164. *See id.* at 967 (discussing holding).

165. *See* McPherson, *supra* note 2, at 10 (stating that difference in royalties "could be in excess of \$2.00 per album" and "the difference could be worth millions of dollars"); *id.* at 13 (discussing potential impact of *F.B.T. Productions* decision on recording artists). However, it is worth noting that most new artists have provisions in their contracts that specifically address how permanent downloads will be treated for royalty purposes. *See* Ben Sisario, *Eminem Lawsuit May Raise Pay for Older Artists*, N.Y. TIMES, Mar. 27, 2011, <http://www.nytimes.com/2011/03/28/business/media/28eminem.html?pagewanted=1&r=2&ref=eminem> (noting limited impact of F.B.T. lawsuit on more recent contracts because "record companies have revised most of their contracts to include digital sales among an artist's record royalties" since the early 2000s). Nevertheless, it will almost certainly affect older artists whose contracts were written before the advent of digital downloads. *See id.* ("Many older artists, however, whose contracts predate digital music and have not been renegotiated, stand to profit significantly from the decision.").

166. *See* McPherson, *supra* note 2, at 13 (discussing impact of *F.B.T. Productions*).

167. For a further discussion of similar suits affected by the outcome in *F.B.T. Productions*, see *infra* notes 168-69 and accompanying text.

settlement agreement with Sony BMG Music Entertainment after five years of litigation involving almost identical issues.¹⁶⁸ Likewise, the estate of recording artist Rick James had similar claims against UMG and filed suit only days after the Supreme Court denied certiorari for *F.B.T. Productions*.¹⁶⁹

While these lawsuits show the immediate impact of *F.B.T. Productions* on recording artists and the music industry, its long-term impact may be even more significant.¹⁷⁰ Despite scholarly concern about licensing in the digital age, *F.B.T. Productions* fuels the approval of licenses and the willingness to enforce license agreements in modern copyright law by declaring that the agreements at issue were unambiguously licenses—even though F.B.T. and Aftermath were treating the transactions as sales for most other purposes.¹⁷¹ Although the contracts at issue in *F.B.T. Productions* were agreements between the record label and digital distributors, the court's reasoning can be applied in the consumer context as well.¹⁷² As both

168. See Sisario, *supra* note 165 (discussing Allman Brothers lawsuit that raised similar issues). The Allman Brothers case was a class action suit that included the bands Cheap Trick and Elmo & Patsy as plaintiffs. See Amended Class Action Complaint at 4-5, *Allman v. Sony BMG Music Entm't*, No. 1:06-cv-03252-GBD (S.D.N.Y. June 10, 2006), 2006 WL 2307598 (identifying plaintiffs). The plaintiffs in that case similarly claimed that their music was licensed to digital distributors and they were therefore owed a greater percentage of royalties than they had been receiving. See *id.* at 2 (discussing claims). Despite five years of litigation prior to the Ninth Circuit's decision, the parties reached a settlement in March 2011, a relatively short time after the Ninth Circuit handed down its decision in *F.B.T. Productions*. See Sisario, *supra* note 165 (discussing Allman Brothers lawsuit). The Youngbloods also sued Sony BMG for similar reasons and that suit was settled on the same day as the Allman Brothers action. See Class Action Complaint Demand for Jury Trial at 2, *Youngbloods v. Sony BMG Music Entm't*, No. 07 CV 2394 (S.D.N.Y. Mar. 23, 2007), 2007 WL 1368571 (discussing claims); Letter from Jonathan M. Sperling, Covington & Burling LLP, to Magistrate Judge Kevin Nathaniel Fox (Mar. 11, 2011) (informing court of settlement agreement on both matters). Recording artist George Clinton attempted to rely on *F.B.T. Productions*, but the court distinguished that case because it did not address Clinton's main problem—that he did not object to the payment of the royalties in a timely manner. See *Clinton v. Universal Music Grp.*, No. CV 07-672 PSG (JWJx), 2011 WL 3501818, at *5 n.3 (C.D. Cal. Aug. 9, 2011) (explaining why *F.B.T. Productions* did not control).

169. See Tamera H. Bennett, *Rick James Estate's Class-Action Suit Against Universal: An Entertainment Attorney Weighs In*, BILLBOARD (Apr. 8, 2011), <http://www.billboard.biz/bbbiz/industry/record-labels/rick-james-estate-s-class-action-suit-against-1005122802.story> (discussing lawsuit filed by Rick James's estate).

170. For a discussion of *F.B.T. Productions*' effect on the acceptance of licenses, see *infra* notes 171-72 and accompanying text.

171. For a discussion of the scholarly disapproval of licenses, see *supra* notes 122-23 and accompanying text. For a discussion of the facts and reasoning of the Ninth's Circuit's decision in *F.B.T. Productions*, see *supra* notes 129-64 and accompanying text.

172. See *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1103-04 (9th Cir. 2010) (distinguishing licenses and sales in context of consumer's purchase of software); Perzanowski & Schultz, *supra* note 15, at 906-07 (discussing effects of licensing on consumers); Seringhaus, *supra* note 90, at 155 (discussing license-versus-sale dis-

courts and consumers increasingly accept licensing arrangements, consumers must continue to adjust to the different set of rights that they enjoy under them.¹⁷³ Nevertheless, the traditional balance between the public interest and the copyright owner's interest must be preserved.¹⁷⁴

VI. "SAME SONG AND DANCE"¹⁷⁵: CONCLUSION

Most legal scholars fear that, as licensing increases, consumer rights will be severely limited and copyright owners will have essentially unlimited control over their works, thus upsetting the balance of interests that copyright law strives to achieve.¹⁷⁶ Despite these concerns, there are reasons to believe that licensing effectively preserves the traditional balance.¹⁷⁷ The digital world still allows infringement on a massive scale and that infringement remains a significant threat to the rights of copyright owners.¹⁷⁸ Licensing can provide further protection of those rights.¹⁷⁹ Furthermore, licensing preserves the primary benefits of the first sale doctrine because it increases the affordability and availability of digital works.¹⁸⁰ Therefore, increased licensing does not upset the balance of the interests of copyright owners and the public.¹⁸¹

Despite the ruling in *A&M Records, Inc. v. Napster, Inc.*, peer-to-peer file sharing and Internet piracy remain prevalent.¹⁸² The Recording Industry Association of America (RIAA) reports that since peer-to-peer file sharing emerged, music sales have dropped forty-seven percent in the United States.¹⁸³ The RIAA also reports that about 30 billion songs were downloaded illegally from 2004 through 2009, and, consequently, consumers in the United States only paid for a reported thirty-seven percent of the

tinctions in context of consumers' purchase of e-books, stating that consumers are not usually aware of "vastly different transactional status" of licenses and sales).

173. For a discussion of the differences between rights associated with licenses and sales, see *supra* notes 96-123 and accompanying text.

174. For a discussion of how the balance will be preserved, see *infra* notes 182-210 and accompanying text.

175. EMINEM, *Same Song and Dance*, on RELAPSE (Aftermath Records 2009).

176. For a further discussion of the scholarly concern about the increase of licensing, see *supra* notes 122-23 and accompanying text.

177. For a discussion of the ways in which licensing preserves the balance of copyright law, see *infra* notes 182-210 and accompanying text.

178. For a discussion of the effect of mass copyright infringement on the industry, see *infra* notes 182-88 and accompanying text.

179. For a discussion of how licensing allows more control for copyright owners, see *infra* note 189 and accompanying text.

180. For a discussion of how licensing can preserve the benefits of the first sale doctrine, see *infra* notes 190-201 and accompanying text.

181. For an explanation of how licensing preserves the balance of copyright law, see *infra* notes 182-210 and accompanying text.

182. For a discussion of the continued prevalence of peer-to-peer file sharing, see *supra* note 77-78 and accompanying text.

183. See *Scope of the Problem*, RIAA, http://www.riaa.com/physicalpiracy.php?content_selector=piracy-online-scope-of-the-problem (last visited Mar. 30, 2012) (reporting internet piracy statistics).

music they acquired in 2009.¹⁸⁴ Frontier Economics estimated that, in 2008, Internet users in the United States consumed between \$7 and \$20 billion dollars worth of digitally pirated recorded music.¹⁸⁵

As a result, music companies have had to cut thousands of jobs and are unable to sign, develop, and promote as many new artists.¹⁸⁶ These statistics, and similar statistics from other industries, show that copyright owners still need more protection in order to adequately safeguard their interests and to preserve the incentive to create.¹⁸⁷ In fact, the RIAA specifically recognized the diminished “incentive for the aspiring artist to make music a full time professional career.”¹⁸⁸ Licensing digital copies of music is a way for copyright owners to maintain more control over their works and to protect their interests because it gives them contract remedies in addition to copyright remedies.¹⁸⁹

Licensing can also increase the affordability and availability of digital works.¹⁹⁰ Two of the primary benefits of the first sale doctrine are increased affordability and availability of copyrighted works.¹⁹¹ Therefore, as licensing increases, scholars fear that these benefits will be lost because the first sale doctrine does not apply to licenses.¹⁹² However, licensing copyrighted works to consumers has actually resulted in the same benefits as the first sale doctrine.¹⁹³ For example, Spotify and Netflix make huge libraries of content available to consumers through licenses.¹⁹⁴ The vast

184. *See id.* (reporting number of songs illegally downloaded on file-sharing networks).

185. *See* FRONTIER ECON., ESTIMATING THE GLOBAL ECONOMIC AND SOCIAL IMPACTS OF COUNTERFEITING AND PIRACY 57 (2011), available at <http://www.iccwbo.org/uploadedFiles/BASCAP/Pages/Global%20Impacts%20-%20Final.pdf> (reporting results of study analyzing economic impact of illegally downloaded music in United States).

186. *See Scope of the Problem, supra* note 183 (discussing impact of internet piracy on music industry).

187. *See id.* (discussing how losses to music companies due to piracy result in diminished opportunities to develop and promote artists). The movie industry has felt the effects of piracy as well. *See* Frank Ahrens, *Hollywood Says Piracy Has Ripple Effect*, WASH. POST, Sept. 29, 2006, at D5 (discussing impact of piracy on movie industry).

188. *Scope of the Problem, supra* note 183.

189. *See* Calaba, *supra* note 49, at 10 (discussing how licensing gives copyright owners more control over their works).

190. For a further discussion of how licensing can increase affordability and availability of copyrighted works, see *infra* notes 193-201 and accompanying text.

191. For a further discussion of affordability and access as benefits of the first sale doctrine, see *supra* notes 57-58 and accompanying text.

192. For a further discussion of scholars' concerns over the marginalization of first sale doctrine, see *supra* notes 80-94 and accompanying text.

193. For a discussion of how licensing practices have increased affordability and availability of music, see *infra* notes 194-200 and accompanying text.

194. *See* Griggs, *supra* note 121 (discussing Spotify's service). Spotify gives subscribers unlimited access to about 15 million songs. *See id.* (discussing Spotify's service). Netflix gives users access to more than 20,000 movies and television shows that can be streamed online and about 100,000 DVDs that can be received

majority of people could not afford to purchase every song on Spotify or every movie on Netflix, but individuals can access all of that content for a relatively low monthly fee.¹⁹⁵

The iTunes model also increases the affordability and availability of copyrighted works.¹⁹⁶ iTunes allows consumers to download one song at a time for about one dollar.¹⁹⁷ Before iTunes, consumers were generally forced to buy full-length albums in order to access the one song they really wanted.¹⁹⁸ Now, consumers can save money by purchasing a license to the individual songs they want, rather than being forced to buy full-length albums.¹⁹⁹ This allows consumers to spend the saved money on more music, thereby increasing the availability of music to consumers.²⁰⁰ Therefore, the iTunes's licensing model also achieves the same benefits that have historically been attributed to the first sale doctrine.²⁰¹

through the mail. See Verne G. Kopytoff, *A Cheaper Plan at Netflix Offers Films for Online Only*, N.Y. TIMES, Nov. 23, 2010, at B2 (discussing Netflix's service).

195. See *Overview*, SPOTIFY, <http://www.spotify.com/us/get-spotify/overview/> (last visited Mar. 30, 2012) (providing plans that Spotify offers). Spotify offers unlimited access to its content on an Internet-connected computer for \$4.99 per month. See *id.* (describing various plans). For \$9.99 per month, users gain access to Spotify's service through a cellular phone with Internet access and the ability to download a limited number of songs that can be accessed without an Internet connection. See *id.* (describing various plans).

Netflix offers a variety of monthly subscription plans. See Michael Liedtke, *Preparing for the Netflix Price Increase*, USA TODAY, Aug. 31, 2011, <http://www.usatoday.com/tech/news/story/2011-08-31/Preparing-for-the-Netflix-price-increase/50205346/1> (discussing recent price increase for Netflix subscriptions). The least expensive plans are about \$8 per month for unlimited streaming, \$8 per month for one DVD at a time through the mail, and \$16 per month for unlimited streaming and one DVD at a time through the mail. See *id.* (discussing pricing of Netflix's plans).

196. Although iTunes insists that its content is sold, it has been argued that iTunes's content is actually licensed to consumers because of the restrictions on uses and transfers that are imposed. See, e.g. Winston, *supra* note 14, at 97 (explaining how iTunes products are more like licenses than sales); see also *Terms and Conditions*, APPLE, <http://www.apple.com/legal/itunes/us/terms.html> (last updated Oct. 12, 2011) (setting forth terms and conditions for iTunes Store, stating "Usage Rules" for purchased content, including limitations on use and transfer of products purchased on iTunes).

197. See Randy Lewis, *Steve Jobs Revolutionized the Music Industry*, L.A. TIMES, Oct. 6, 2011, <http://www.latimes.com/entertainment/news/music/la-et-jobs-music-20111007,0,653159.story> (discussing impact of iTunes giving consumers ability to purchase individual tracks).

198. See Mark Guarino, *Three Ways iTunes, and Its 10 Billion in Sales, Changed Music Industry*, CHRISTIAN SCI. MONITOR, Feb. 26, 2010, <http://www.csmonitor.com/USA/Society/2010/0226/Three-ways-iTunes-and-its-10-billion-in-sales-changed-music-industry> (discussing effect iTunes had on music industry).

199. See *id.* (discussing decline of full-length albums and rise of portable music).

200. See *id.* (discussing affordability of purchasing single songs on iTunes).

201. For a further discussion of availability and affordability as benefits of first sale doctrine, see *supra* notes 57-58 and accompanying text.

Furthermore, increased licensing will not upset the balance of copyright law because the first sale doctrine still applies to sales of physical copies of copyrighted works.²⁰² Physical copies of movies, music, and books are still available for consumers to purchase; in fact, physical copies still make up the majority of purchases of movies, music, and books.²⁰³ In this way, consumers that value the ability to transfer copies of copyrighted works can buy physical copies and the first sale doctrine will live on.²⁰⁴

Copyright law seeks to balance the interests of copyright owners and the public by preserving the incentive for copyright owners to create works of art and maximizing public access to those works.²⁰⁵ In the digital context, the ease of infringement and its effects on industries that rely on copyrighted works cannot be underestimated.²⁰⁶ As a result of infringement, copyright owners need extra protection to preserve the incentive to create.²⁰⁷ Licensing can offer that protection by giving copyright owners

202. For a further discussion of the first sale doctrine, see *supra* notes 49-54 and accompanying text.

203. See Guarino, *supra* note 198 (discussing percentage of music sales that were physical CDs). Although digital sales continue to increase as physical sales continue to decline, the latter still accounted for sixty-four percent of total music sales in 2010. See *id.* (discussing percentage of 2010 music sales that were physical copies). Also, physical copies of movies still represent a greater percentage of total movie sales than digital copies, with seventy-five percent of consumers still preferring the former in 2011. See Ian Paul, *DVD Death Watch: Sales Drop 20 Percent*, TODAY @ PCWORLD BLOG (May 4, 2011, 7:49 AM), http://www.pcworld.com/article/227062/dvd_death_watch_sales_drop_20_percent.html (reporting that seventy-five percent of Americans still prefer physical copies of movies, according to study by NPD Group). Although e-book sales are increasing, physical books are still out-selling e-books, as only seven percent of adults with Internet access read e-books. See Ned Potter, *Amazon as a 'Netflix for Books'? How Reading Changes*, ABC NEWS, Sept. 13, 2011, <http://abcnews.go.com/Technology/amazon-kindle-future-books-publishing-authors-jk-rowling/story?id=14502605> (reporting that although e-books are growing in number, only seven percent of adults with Internet access read them).

204. For a discussion of the availability of physical copies of copyrighted works, see *supra* note 203 and accompanying text. It is important to note that this part of the analysis does not apply to software because there is no physical alternative to software; software must be copied onto a computer in order to function. See Winston, *supra* note 14, at 100-01 (discussing how differences between software and other copyrighted works contributed to acceptance of licensing model for software). Software is also different because consumers do not have a preconceived notion of the rights that they receive when they purchase software; therefore, licensing quickly became the norm. See *id.* at 100 (discussing reasons why software licensing is accepted).

205. For a further discussion of the goals of copyright law and the competing interests of copyright owners and the public, see *supra* notes 24-60 and accompanying text.

206. For a further discussion of the continued prevalence of copyright infringement in the digital context and the resultant effect on industry, see *supra* notes 182-88 and accompanying text.

207. For a discussion of why copyright owners need additional protections in copyright law in the digital age, see *supra* notes 182-88 and accompanying text.

both contract and copyright remedies.²⁰⁸ Furthermore, although the first sale doctrine does not apply to licenses, licensing achieves two of the main benefits of the first sale doctrine: increased affordability and availability.²⁰⁹ Therefore, in the digital context, license agreements maintain the traditional balance of copyright law and copyright owners and the public can continue the “Same Song and Dance.”²¹⁰

208. See Calaba, *supra* note 49, at 10 (explaining how licenses give copyright owners additional protection against infringement by permitting contract remedies in addition to copyright remedies).

209. For a further discussion of how licenses can increase the affordability and availability of copyrighted works, see *supra* notes 190-201 and accompanying text.

210. EMINEM, *supra* note 175. For a discussion of how licenses maintain the intended balance of copyright law, see *supra* notes 205-09 and accompanying text.