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Copyright Exhaustion and the Personal Use Dilemma

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Article

Copyright Exhaustion and the Personal Use Dilemma

Aaron Perzanowski[†] & Jason Schultz^{††}

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INTRODUCTION

Today's digital consumer makes a lot of copies.¹ Consider the purchase of the latest Lil' B or Wye Oak CD. Transferring that CD onto a laptop creates at least one copy. Back up your hard drive, and a second copy now exists. Put the music files on your iPod, and you now have a third copy on your hands. Upload it to a music locker service, like those offered by Amazon and Google, and you have initiated the creation of not only one but likely dozens or even hundreds of copies.² Listen to that music on your phone, your work computer, or a friend's laptop and potentially even more copies are spawned into existence.³

Yet despite the ubiquity of such personal copying, its legal status is unclear. Copyright owners—while admitting that at least some personal use is lawful⁴—also suggest that it sometimes implicates their exclusive rights to reproduce, distribute,

1. See John Tehranian, *Infringement Nation: Copyright Reform and the Law/Norm Gap*, 2007 UTAH L. REV. 537, 543–48 (describing the many ways in which the daily activity of an average person implicates copyright law); Tim Wu, *Tolerated Use*, 31 COLUM. J.L. & ARTS 617, 618 (2008) (“[T]oday every man, woman, corporation and child has the technological ability to copy and distribute, and therefore to potentially infringe copyright in ways both harmful and harmless”).

2. Presumably these services create backups across multiple server farms for reliability purposes.

3. *But see* Aaron Perzanowski, *Fixing RAM Copies*, 104 NW. U. L. REV. 1067, 1068 (2010) (arguing against a reading of the Copyright Act that treats temporary instantiations in computing devices' RAM as “copies”).

4. The ability to make use of the copies we purchase, after all, is central to the value proposition that motivates consumers to acquire copies in the first place. See Interview by Charlie Rose with Bob Iger, President and CEO, Walt Disney Co., on *Charlie Rose: The Magical World of Disney; The Rise and Fall of the Shah of Iran—Part I* (PBS television broadcast Mar. 3, 2011), available at <http://www.charlierose.com/view/interview/11514> (“[Consumers] don't want to be slave to the old format or the old schedule that was forced upon them by a television network or traditional media company So what we must do is make the product available to them under flexible or expanded circumstances.”). This more accepting position toward personal use has evolved over time. See U.S. CONGRESS OFFICE OF TECH. ASSESSMENT, OTA-CIT-422, COPYRIGHT & HOME COPYING: TECHNOLOGY CHALLENGES THE LAW 7 (1989) [hereinafter OTA STUDY] (noting copyright proprietors' argument that “the aggregate economic effect of individuals' private use is equivalent to commercial piracy”); see also Jessica Litman, *Lawful Personal Use*, 85 TEX. L. REV. 1871, 1878–79 (2007) (suggesting that custom might also have been a historical reason for allowing personal uses).

and create derivative works.⁵ Consumers, their advocates, and third-party facilitators of personal use⁶ maintain that these uses and the technologies that enable them are perfectly lawful.⁷ Public opinion has generally embraced the notion that consumers are entitled to make personal use of their copies, particularly when that use is noncommercial.⁸

The widely shared intuition that personal use is a healthy component of the copyright ecosystem should not be surprising. Personal use yields a variety of benefits for consumers, innovators, and the copyright system as a whole.⁹ It promotes copyright's goals of increased public access, preservation, and enjoyment of works. It increases economic efficiency through

5. See OTA STUDY, *supra* note 4, at 65 (“The copyright owner is given the exclusive right to use and to authorize various uses of the copyrighted work: reproduction, derivative use, distribution, performance, and display.”); Tom W. Bell, *Fair Use vs. Fared Use: The Impact of Automated Rights Management on Copyright’s Fair Use Doctrine*, 76 N.C. L. REV. 557, 557 (1998). They may also implicate the exclusive rights of public display and performance, depending on the development of the law in these areas. See, e.g., *United States v. Am. Soc’y of Composers, Authors & Publishers*, 627 F.3d 64, 73 (2d Cir. 2010) (holding that the mere downloading of music over the Internet does not constitute a “public performance” of that work with regard to the Copyright Act), *cert. denied*, 132 S. Ct. 366 (2011); *Cartoon Network LP v. CSC Holdings, Inc.*, 536 F.3d 121, 134–40 (2d Cir. 2008) (concluding that playback transmissions of copies are not “performances” to the public); Ryan Singel, *Movie Studios Sue DVD Streaming Site Zediva*, ARS TECHNICA (Apr. 4, 2011), <http://arstechnica.com/tech-policy/news/2011/04/movie-studios-sue-dvd-streaming-site-zediva.ars> (raising this argument with an online movie rental service).

6. See, e.g., MOONDOG DIGITAL, <http://www.moondogdigital.com> (last visited Aug. 12, 2011) (describing third-party CD ripping service).

7. See, e.g., Litman, *supra* note 4, at 1908–18; see also *infra* Part II.A.

8. See OTA STUDY, *supra* note 4, at 38 (“Although the status of some specific private uses has been determined judicially, current legislation does not provide explicit guidance as to whether copyright proprietors’ rights extend to noncommercial private uses. Many believe that they do not.”); *id.* at 164 (finding strong public belief that noncommercial home taping is acceptable); Nicole Kobie, *Format Shifting May Finally Be Legalised*, PC PRO (Aug. 2, 2011), <http://www.pcpro.co.uk/news/369064/format-shifting-may-finally-be-legalised/> (“Private copying is carried out by millions of people and many are astonished that it is illegal in [the United Kingdom].”); see also Martin Kretschmer, *Private Copying and Fair Compensation: An Empirical Study of Copyright Levies in Europe*, U.K. INTELL. PROP. OFFICE 4 (2011), <http://www.cippm.org.uk/pdfs/copyright-levy-kretschmer.pdf> (“The scope of consumer permissions under the statutory exceptions for private copying within the EU vary, and generally do not match with what consumers ordinarily understand as private activities.”); Christopher Williams, *Poll: 55% Break Copyright Law*, REGISTER (May 12, 2006, 06:02 GMT), http://www.theregister.co.uk/2006/05/12/ncc_copyright_poll/ (reporting that in the U.K., 55% of survey respondents have copied their own CDs, believing it legal to do so).

9. See *infra* Part I.A.

reduction of transaction costs. It encourages innovation. And it protects consumer expectations of autonomy and privacy. But largely overlooked are the ways in which personal use also helps copyright holders, by encouraging consumers to purchase legitimate copies by increasing their value, thus compensating rights holders and—under copyright's bedrock assumption—incensivizing artistic creation. Personal use also helps address copyright law's credibility crisis, closing the gap between rights-holders' interpretations of the law and the public's understanding of it.

More fundamentally, personal use comports with our normative and historical understanding of personal property. The ability to utilize and alienate a purchase helps mark the dividing line that property rules necessitate. While copyright owners control the rights to their intangible intellectual property, purchasers control the exclusive rights to the particular copy they buy. Personal use arbitrates that boundary by giving the purchaser dominion over the copy and the rights holder control over the copyright.

Despite these justifications and the largely shared intuitions about personal use's legitimacy, the doctrinal rationale for concluding that such acts are noninfringing remains elusive. Courts and commentators have generally taken one of three approaches to justify personal uses: narrow interpretations of exclusive rights, fair use, and implied license.¹⁰ While each approach can resolve some aspects of the personal use dilemma, none are able to provide fully satisfying rationales or coherent doctrinal rules, and all three are limited in important respects and potentially vulnerable to erosion in the long term. This has been particularly true in cases where personal use is litigated in the context of secondary liability claims rather than direct infringement against individual users,¹¹ as courts in those cas-

10. See *infra* Parts I.B–D.

11. See, e.g., *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 419–20 (1984) (suit against VCR manufacturer); *Cartoon Network LP v. CSC Holdings, Inc.*, 536 F.3d 121, 134–40 (2d Cir. 2008) (operator of a remote storage digital video record (DVR) system); *Storage Tech. Corp. v. Custom Hardware Eng'g & Consulting, Inc.*, 421 F.3d 1307, 1309–10 (Fed. Cir. 2005) (firm that repaired and maintained plaintiff's data storage machines); *Universal City Studios, Inc. v. Corley*, 273 F.3d 429, 435–36 (2d Cir. 2001) (coder of decryption computer program designed to circumvent DVD copyright protection software); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1011 (9th Cir. 2001) (peer-to-peer MP3 file sharing service); *Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys. Inc.*, 180 F.3d 1072, 1073 (9th Cir. 1999) (manufacturer of a device allowing the user to listen to MP3 files downloaded

es often make generalized conclusions about personal use instead of individual assessments of particular uses. For fair use and implied license, which depend heavily on the facts of particular cases, such determinations are ultimately less reliable, robust, and predictable than we would prefer.

The battle over personal use and its legality has intensified recently for several reasons. First, copyright owners are able to detect personal uses more easily. As more devices and services rely on network communications, their capacity to track consumer behavior grows and the cost of identifying specific digital files diminishes.¹² This gives rise not only to increased copyright enforcement against individuals but also increased pressure to engage in consumer surveillance.¹³ Second, this increase in the ease of detection has been coupled with an increasing perception of market harm arising from personal

from a computer); *Columbia Pictures Indus., Inc. v. Redd Horne, Inc.*, 749 F.2d 154, 156–57 (3d Cir. 1984) (video store that showed movies to patrons in on-site, closed booths); *Chamberlain Grp., Inc. v. Skylink Techs., Inc.*, 292 F. Supp. 2d 1023, 1024–26 (N.D. Ill. 2003) (distributor of remote controls capable of activating garage door openers manufactured by the plaintiff), *aff'd*, 381 F.3d 1178 (Fed. Cir. 2004); *On Command Video Corp. v. Columbia Pictures Indus.*, 777 F. Supp. 787, 788–89 (N.D. Cal. 1991) (designer of a system that electronically transmitted movies to hotel rooms). *But see, e.g.*, Eva Galperin, *EFF Seeks to Help Righthaven Defendants*, ELEC. FRONTIER FOUND. DEEPLINKS BLOG (Aug. 25, 2010), <https://www.eff.org/deeplinks/2010/08/eff-seeks-righthaven-defendants/> (discussing a company that directly sued bloggers for using copyrighted news content without permission).

12. *See MDY Indus., LLC v. Blizzard Entm't, Inc.*, 629 F.3d 928, 936 (9th Cir. 2010) (noting that the root of the defendant's counterclaim was activity discovered after it implemented game-detection software); Sonia K. Katyal, *Privacy vs. Piracy*, 9 INT'L J. COMM. L. & POL'Y 1, 41–95 (2004) (describing private piracy surveillance regimes); *see also* David Kravets, *Newspaper Chain's New Business Plan: Copyright Lawsuits*, WIRED THREAT LEVEL BLOG (July 22, 2010) <http://www.wired.com/threatlevel/2010/07/copyright-trolling-for-dollars/> (reporting a company's efforts to find copyright infringers by “scouring the internet for infringing copies of [its] client's articles”); Fred von Lohmann, *YouTube's Content ID (Censorship Problem Illustrated)*, ELEC. FRONTIER FOUND. DEEPLINKS BLOG (Mar. 2, 2010), <https://www.eff.org/deeplinks/2010/03/youtubes-content-id-censorship-problem/> (discussing issues that have arisen with YouTube's automated content blocking system, Content ID); *Media Sentry*, WIKIPEDIA, <http://en.wikipedia.org/wiki/MediaSentry> (last visited Apr. 28, 2012) (describing a company that located and identified IP addresses associated with activities infringing certain copyrights).

13. *See* Greg Sandoval, *Exclusive: Top ISPs Poised to Adopt Graduated Response to Piracy*, CNET NEWS (June 22, 2011), http://news.cnet.com/8301-31001_3-20073522-261/exclusive-top-isps-poised-to-adopt-graduated-response-to-piracy/ (stating that the Recording Industry Association of America and Motion Picture Association of America “have labored for years to persuade ISPs to take a tougher antipiracy position” and detailing a proposal whereby the ISPs would enforce copyright law against their customers).

use. Copyright owners now license uses that arguably serve as substitutes for unlicensed personal uses. For example, while most people agree that ripping a purchased CD to iTunes is not an act of infringement, the availability of that personal use could potentially dissuade a consumer from paying \$9.99 for licensed digital copies of the same songs from iTunes or Amazon.¹⁴ Third, new means of enjoying works have blurred the distinction between private and public uses. Historically, personal uses were reliably and accurately characterized as “private” or “home” copying,¹⁵ a label that faces genuine definitional shortcomings in an era of mobile networked information.¹⁶ Fourth, technologies that facilitate personal use are becoming more prevalent. This is due to both increased deployment of cloud computing platforms that move data from the immediate possession of the consumer to a variety of geographical and contextual locations¹⁷ and an increased effort to design services that rely heavily on the actions of users.¹⁸

14. See OTA STUDY, *supra* note 4, at 9–10, 14 (assessing studies of home recording by both the recording industry and the home electronics industry and concluding that neither establish sufficient evidence of economic harm to rights holders); Nate Anderson, *U.S. in 2005: Legalizing TiVo, CD Ripping “Sends the Wrong Message,”* ARS TECHNICA (May 2, 2011), <http://arstechnica.com/tech-policy/news/2011/05/us-in-2005-legalizing-tivo-cd-ripping-sends-the-wrong-message.ars/> (citing a trade group report arguing that legalizing format-shifting “threatens the roll-out of new formats and the development of innovative consumer delivery mechanisms”).

15. See, e.g., OTA STUDY, *supra* note 4, at 5 (“Private use is sometimes referred to colloquially as ‘personal use,’ ‘private copying,’ or ‘home use.’”).

16. See Complaint at 1, 2, *Warner Bros. Entm’t Inc. v. WTV Sys., Inc.*, 2011 WL 4001121 (C.D. Cal. Aug. 1, 2011) (No. CV 11-2817-JFW (Ex)), 2011 WL 1235191, at *1, *2 (alleging that the defendants’ Internet video-on-demand service violated the plaintiffs’ copyrights, defendants’ comparison of their service to a traditional rental store notwithstanding); Ryan Singel, *Federal Judge Orders Shutdown of Innovative DVD-Streaming Service Zediva*, WIRED EPICENTER BLOG (Aug. 2, 2011), <http://www.wired.com/epicenter/2011/08/zediva> -preliminary-injunction/ (observing that a preliminary injunction was issued against the Zediva service at issue in *Warner Bros. Entertainment Inc. v. WTV Systems, Inc.*, even though Zediva users did not necessarily watch its movies in a public place).

17. See Michael Robertson, *Behind the Scenes—EMI Sues MP3tunes*, http://michaelrobertson.com/archive.php?minute_id=247 (last visited May 4, 2012) (describing the “Music Locker” service that allows for the online storage of music collections); Janko Roettgers, *Will the MPAA Target RapidShare, Megaupload or Dropbox?*, GIGAOM (Feb. 9, 2011), <http://gigaom.com/video/mpaa-lawsuit-hotfile-rapidshare-megaupload-dropbox/> (describing litigation against other cloud storage providers).

18. This development can be seen as a direct result of the safe harbors provided by current models of secondary liability, § 512 of the Digital Millen-

These facilitators, unlike everyday consumers, are attractive targets for litigation.

Consider the looming dispute over Amazon's Cloud Drive.¹⁹ Amazon's offering allows consumers to upload gigabytes of media files for storage, retrieval, and playback on Amazon's servers, all without licenses from the relevant copyright holders.²⁰ Despite drawing threats from content companies that argued Amazon needed one or more licenses to launch, several theories support Amazon's assertion that this service is permitted under existing law. The most prominent is the lawfulness of consumers' personal uses.²¹ As Amazon explained, "[t]he functionality of saving MP3s to Cloud Drive is the same as if a customer were to save their music to an external hard drive or even iTunes."²² This assumption—that it is legal for consumers to save copyrighted music to their personal hard drives—seems so intuitive and self-evident that companies such as Amazon are relying on it as their primary justification for millions of dollars of technological infrastructure development and their primary

nium Copyright Act, § 230 of the Communications Decency Act, and the volitional doctrine. *See* 17 U.S.C. § 512(c) (2006) (affording a safe harbor to ISPs that store violative copies at the direction of a user); *CoStar Grp., Inc. v. LoopNet, Inc.*, 373 F.3d 544, 549 (4th Cir. 2004) (invoking the volitional doctrine to state that the Copyright Act "requires *conduct* by a person who causes in some meaningful way an infringement"); *Realnetworks, Inc. v. DVD Copy Control Ass'n*, 641 F. Supp. 2d 913, 926 (N.D. Cal. 2009) (noting the plaintiff's End User License Agreement instructed purchasers to use the plaintiff's software only for legally permissible purposes); Doug Lichtman & Eric P. Posner, *Holding Internet Service Providers Accountable*, in *THE LAW AND ECONOMICS OF CYBERSECURITY* 223, 223 (Mark F. Grady & Francesco Parisi eds., 2006) ("Section 230 of the Communications Decency Act of 1996 . . . in many ways immuniz[ed] Internet service providers from liability for defamatory content that is provided by business partners or customers but disseminated by the ISP itself."); *id.* at 227–39 (discussing more generally secondary liability in the context of ISPs).

19. *See infra* Part IV.A.

20. Google and Apple have also launched cloud-based music servers, with Apple striking the most comprehensive licensing deals so far. *See* Casey Johnston, *Apple Details iCloud's Digital Storage and Syncing, Free 5GB of Storage*, ARS TECHNICA (June 6, 2011), <http://arstechnica.com/apple/news/2011/06/apple-details-iclouds-digital-storage-and-syncing-free-5gb-of-storage.ars>. The question remains, however, whether and to what extent such licenses are required by law.

21. *See* Jacqui Cheng, *Amazon on Cloud Player: We Don't Need No Stinkin' Licenses*, ARS TECHNICA (Mar. 29, 2011), <http://arstechnica.com/media/news/2011/03/amazon-on-cloud-player-we-dont-need-no-stinkin-licenses.ars>.

22. *See id.*

defense to potentially trillions of dollars in copyright statutory damages.²³

Similar arguments arose in *Capitol Records v. ReDigi*, a case concerning a service that facilitates an online marketplace for “pre-owned digital music.”²⁴ As pressure builds to determine the legality of various personal uses and the technologies they depend upon, courts will have to sort out the proper doctrinal framework if they are to preserve the benefits of personal use without undermining copyright’s core incentive structures.

This Article addresses this growing dilemma, providing both a defense of the normative justifications favoring personal use and a stronger doctrinal justification for its preservation in a networked copyright economy. Our approach focuses on the unique entitlement to make use of a protected work that flows from ownership of a lawful copy of that work. In short, consumers who buy copies should be able to fully utilize them for personal activities and then lawfully alienate them, just as they would with any other piece of personal property. When it comes to consumer purchases, we argue that courts should be mindful of these interests and use the doctrine of copyright exhaustion as an additional, and preferred, approach to resolving personal use cases.

Owning a copy of a work entitles a consumer to make certain uses of it, even uses that appear inconsistent with the

23. This presumption also comes across candidly in the approach of other user-driven content sites. See, e.g., *Additional Terms of Service for Google Music*, GOOGLE MUSIC, <http://music.google.com/about/terms.html> (last visited Apr. 28, 2012) (“You retain any rights you already hold in Your Music....You confirm and warrant to Google that you have all the rights, power and authority to grant any permissions and give any instructions to Google that may be required to perform the actions necessary to provide you with the Service. You agree that you will not upload, submit, access, manage, play back, display or use any Content (including any portion of Your Music), or direct Google to do anything with Your Music on your behalf, unless you have all of the necessary rights to do so without infringing the rights of any third party or violating any laws or agreements that apply to you, the Content, or Your Music.”); *Changes to Our Policies (Updated)*, DROPBOX BLOG (July 1, 2011), <http://blog.dropbox.com/?p=846> (seeking user licenses on the presumption that they have rights to the content). While many of these terms may be part of various belt-and-suspenders efforts to ensure protection under 17 U.S.C. § 512’s safe harbors and the *Cartoon Network/Costar* doctrine of nonvolitional conduct, 536 F.3d at 130–33; 373 F.3d at 550, taken at face value, they infer heavy dependence on user authority to justify the reproductions, distributions, adaptations, displays, and performances necessary to implement these services.

24. *Capitol Records Sues ReDigi*, CHI. TRIB., Jan. 9, 2012, available at http://www.chicagotribune.com/entertainment/sns-201201091701reedbusivariety_nvr1118048313jan09,0,221702.story.

rights of copyright holders. Narrow statutory interpretation, fair use, and implied license, when they take copy ownership into account at all, do so inconsistently and awkwardly, lacking any obvious doctrinal footing for a careful examination of the question of ownership.²⁵ Exhaustion—the notion that once the copyright holder parts with a particular copy of a work, her power to control the use and disposition of that copy is constrained²⁶—places copy ownership at the center of the digital personal use debate. Under exhaustion, any copy owner has the right to reproduce, modify, and distribute her copy in order to fully realize its value qua copy, regardless of location or media format. That is, so long as her use preserves the rivalrous enjoyment of personal—as opposed to intellectual—property. Exhaustion, therefore, reconciles our intuitions about the proper scope of consumer control over copies owned with our formal legal articulations of the scope of infringement liability.

Part I sets out the case for personal use and our concerns with its current overdependency on imperfectly suited doctrines. Narrow constructions of exclusive rights may establish important limits on the scope of copyright, but increasingly courts are resistant to such interpretations when they are hard to square with the plain language of the Copyright Act.²⁷ Moreover, given the desire for consistent interpretations of statutory text, it may be challenging to customize our reading of the Copyright Act to fully capture personal use. The fair use factors and case law, while more flexible, have developed with an eye to a very different set of problems, often focusing on transformation of the work as the lynchpin to a particular use's legality. As a result, the fair use factors are not a natural or comfortable fit for many personal use scenarios involving copy ownership. Fair

25. See *infra* Parts I.B–D.

26. See generally Aaron Perzanowski & Jason Schultz, *Digital Exhaustion*, 58 UCLA L. REV. 889 (2011) (discussing digital exhaustion in the context of “a common law of copyright exhaustion that embraces a set of user privileges that include not only alienation but renewal, repair, adaptation, and preservation”).

27. For example, some courts have found that the exclusive right of reproduction covers the automatic creation of copies of web pages made in a computer user's local browser cache file as well as when a computer program is loaded into a user's Random Access Memory on her computer—both quintessential personal uses. See *MDY Indus., LLC v. Blizzard Entm't Inc.*, 629 F.3d 928, 938 (9th Cir. 2010); *Perfect 10, Inc. v. Google*, 416 F. Supp. 2d 828, 852 n.17 (C.D. Cal. 2006), *aff'd in part, rev'd in part, remanded on other grounds*, *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146 (9th Cir. 2007). But see Perzanowski, *supra* note 3, at 1068–70.

use faces even greater challenges as the markets for personal uses become more concrete and measurable. Implied license also faces challenges, especially in an age of digital content accompanied by explicit terms of use and digital rights management technology.

These three imperfect alternatives comprise the “personal use dilemma.” If the benefits of personal use are to persist, some legal justification is needed. But each of the existing alternatives leaves personal use susceptible to unduly expansive interpretations of the power of copyright holders to control consumer behavior and undermine the personal property rights that come with owning a digital copy.

In light of this dilemma, Part II lays the groundwork for a new approach to personal use by isolating a central factor common to the reasoning of a number of courts that have considered personal use disputes—the largely overlooked influence of copy ownership. Regardless of the doctrine at hand, courts have been swayed by arguments that highlight the defendant’s purchase or rightful ownership of the copy at issue.²⁸ Although these courts recognize the importance of copy ownership to our intuitive understanding of personal use, absent a doctrine that unambiguously takes ownership into account, they have been forced to shoehorn their intuitions into existing frameworks, lessening the transparency, persuasiveness, and ultimately, the predictability of future decisions. After detailing its influence in the case law, this Part identifies several reasons why copy ownership is such a powerful consideration in personal use cases, among them its resonance with romanticism about private property and its consistency with the incentive structure of copyright.

Part III ties these insights about copy ownership to a promising new approach to personal use—the principle of copyright exhaustion. The exhaustion doctrine has rested, partially latent, in copyright law for over a century.²⁹ It teaches that once the copyright holder parts with title to a particular copy of a work, its ability to control the use and disposition of that copy is greatly diminished. Exhaustion extends beyond the first sale doctrine’s familiar limitation on downstream control over resale or lending of copies. It applies with equal force to the reproduction and derivative work rights. To the extent a copy owner re-

28. See *infra* Part II.

29. See *infra* Part II.

produces or adapts her copy in order to enable a personal use, exhaustion insulates her from liability. This Part will introduce the exhaustion doctrine, address its application to personal use, and highlight some important hurdles facing it, most prominently the ongoing struggle to define and identify copy owners in a copyright economy characterized by digital distribution and widespread efforts to license rather than sell copies.

In Part IV, we apply our theory of exhaustion to both pre-digital and digital personal uses—including space-shifting tangible media, storing personal media via cloud computing, and jailbreaking personal electronics—to show how courts can resolve such disputes both elegantly and equitably in the digital era.

I. THE PERSONAL USE DILEMMA

A surprising cross-section of parties share the intuition that many personal uses of copyrighted works are noninfringing. Consumers, courts, device manufacturers, service providers, and even the most aggressive of copyright holders now agree that at least some personal uses, including those not explicitly sanctioned by the Copyright Act, create no liability.³⁰ This shared intuition derives, in part, from the widespread benefits personal use offers consumers, rights holders, and society generally. As this Part demonstrates, those benefits underscore the need for a solid doctrinal basis for the legality of personal use.

Despite the general consensus that some personal uses are not infringing, the relevant stakeholders and decision makers would offer no uniform response if asked to identify the rule, doctrine, or principle that renders these acts lawful.³¹ Instead, three competing rationales have emerged—narrow interpretations of copyright's exclusive rights, fair use, and implied li-

30. See Litman, *supra* note 4, at 1871 n.1 (citing Mitch Bainwol, Chairman and CEO, Recording Indus. Ass'n of Am., State of the Union Panel Discussion at the Future of Music Coalition Fifth Annual Policy Summit (Sept. 12, 2005), available at <http://www.futureofmusic.org/audio/summit05/panel04.stateofunion.mp3>); *id.* at 1874 n.19 (citing Transcript of Oral Argument at 11–12, *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005) (No. 04-480), available at http://www.supremecourtus.gov/oral_arguments/argument_transcripts/04-480.pdf); Charlie Rose, *supra* note 4 (statement of Bob Iger) (“I ripped legally my Beatles CDs to my Apple devices. But then when it became available not legitimately but through the store I bought that, too, even though it was redundant.”).

31. See Litman, *supra* note 4, at 1872 n.7 (noting studies that have described the legal status of personal use as “ambiguous” and unresolved).

cense. Below, we demonstrate that, despite their initial appeal, each of these three approaches face significant practical and theoretical challenges to protecting personal use.³²

A. JUSTIFYING PERSONAL USE

Personal use does important work in the copyright system. Some of its benefits have been long recognized by scholars. As discussed below, personal use can increase public access to, and enjoyment and preservation of, works. Likewise, it safeguards consumer privacy and autonomy. Beyond these established benefits, we identify three new justifications for personal use: increased innovation, transactional clarity, and respect for the copyright system.

Ensuring public access, enjoyment, and preservation of works is among copyright law's core purposes.³³ In *Sony v. Universal*, the Court recognized the link between this goal and personal use by consumers.³⁴ After noting that public access is among the constitutional and Congressional goals of copyright,³⁵ the Court held that Sony could not be held liable for the sale of Betamax VCRs, in part, because the devices enabled personal uses that benefitted society by facilitating greater ac-

32. It is also worth noting that there has been no single consistent understanding of what we mean when we talk about personal use. Some characterize it as a use limited to certain populations, such as oneself, one's friends and one's family. *See id.* at 1894. Others have viewed it through the lens of copyright's statutory definitions of public versus private. *See Sony Corp. of Am. v. Universal Studios, Inc.*, 464 U.S. 417, 468–70 (1984). Others have tried to define it based on commerciality or the location of the use. *See OTA STUDY, supra* note 4, at 4 n.3; Litman, *supra* note 4, at 1873 n.17. However, new digital and network technologies continue to dissolve these barriers faster than the law can construct them. With a single click of a key, a private personal use can quickly become publicly available worldwide, and one's friends and family can include thousands. *See Universal City Studios, Inc. v. Corley*, 273 F.3d 429, 437–40 (2d Cir. 2001); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1011–13 (9th Cir. 2001); *DVD Copy Control Ass'n v. Bunner*, 75 P.3d 1, 7 (Cal. 2003).

33. *See Sony*, 464 U.S. at 429 (finding copyright's constitutional purpose “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.”); *id.* (noting Congress's task of balancing incentives to authors with society's interest in access to ideas, information, and commerce); Litman, *supra* note 4, at 1879–82.

34. *See Sony*, 464 U.S. at 429.

35. *Id.*

cess to the cultural works copyright law was designed to spur.³⁶ In addition to the Court, many scholars have recognized the positive effect of personal use on access,³⁷ as well as the closely related benefit of preservation.³⁸

Consumer privacy and autonomy also serve as independent benefits of the ongoing vitality of personal use. Noninfringing personal uses increase privacy by reducing the incentives and power of copyright owners to track consumer behavior.³⁹ Consumers' autonomy is also bolstered by the reasonable expectation that when they buy something, they own it—and as a result they are able to use, alienate, or dispose of their property as they see fit.⁴⁰ Inhibiting personal use goes against these ex-

36. See *id.* at 454 (“The District Court’s conclusions are buttressed by the fact that to the extent time-shifting expands public access to freely broadcast television programs, it yields societal benefits.”).

37. See Litman, *supra* note 4, at 1875 (citing Yochai Benkler, *Free as the Air to Common Use: First Amendment Constraints on Enclosure of the Public Domain*, 74 N.Y.U. L. REV. 354, 393 (1999); Yochai Benkler, *From Consumers to Users: Shifting the Deeper Structures of Regulation Towards Sustainable Commons and User Access*, 52 FED. COMM. L.J. 561, 565–68 (2000); Yochai Benkler, *Through the Looking Glass: Alice and the Constitutional Foundations of the Public Domain*, 66 LAW & CONTEMP. PROBS., Winter-Spring 2003 at 173, 176; Neil Weinstock Netanel, *Copyright and a Democratic Civil Society*, 106 YALE L.J. 283, 371–76 (1996); Rebecca Tushnet, *Copy This Essay: How Fair Use Doctrine Harms Free Speech and How Copying Serves It*, 114 YALE L.J. 535, 587 (2004).

38. See R. Anthony Reese, *The First Sale Doctrine in the Era of Digital Networks*, 44 B.C. L. REV. 577, 594, 599 (2003) (noting greater need for both access and preservation when works or permissions are no longer available from the copyright owner).

39. Julie E. Cohen, *A Right to Read Anonymously: A Closer Look at “Copyright Management” in Cyberspace*, 28 CONN. L. REV. 981, 1026–27 (1996); Julie E. Cohen, *Copyright and the Jurisprudence of Self-Help*, 13 BERKELEY TECH. L.J. 1089, 1142 (1998); Katyal, *supra* note 12, at 124; Joseph Liu, *Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership*, 42 WM. & MARY L. REV. 1245, 1333–36 (2001); Reese, *supra* note 38, at 584.

40. See OTA STUDY, *supra* note 4, at 11–12; Litman, *supra* note 4, at 1875 n.28 (“The copyright owner, by reason of the Copyright Act and the copyright clause, has not only no right to interfere, but a duty not to interfere with the consumer’s use of a publicly disseminated work.” (citing L. Ray Patterson, *Free Speech, Copyright, and Fair Use*, 40 VAND. L. REV. 1, 61 (1987) (internal citations omitted))). This rationale has also been endorsed by the Supreme Court in both its copyright and patent exhaustion cases. See *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 626 (2008) (“[T]he right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it.” (quoting *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 509, 516 (1917))); *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908) (“In our view the copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his pro-

pectations and undermines this sense of autonomy and the basic notions of personal property that form its basis.⁴¹

Copyright law's legitimacy also benefits from ensuring that significant personal uses remain lawful. Consumers have deeply held beliefs about the consequences of owning copies, and to the extent that the law recognizes these norms as lawful acts, it increases the perceived legitimacy of copyright law as a whole. This is particularly important today. In recent decades, copyright law has faced a crisis driven by the widening gap between the norms and practices of the public and a legal code intended to govern that conduct. In part, this gap reflects the abrupt and sweeping changes in consumer behavior ushered in by early peer-to-peer networks. But it is also a reflection of the occasional absurdity that occurs when a copyright act drafted with an eye fixed on commercial infringement committed by competitors is applied against the average consumer.⁴² Although additional protections for personal use alone cannot reverse this trend, a rule that validates the deep conviction held by many consumers that they are entitled to use and enjoy the copies they purchase might partially restore their confidence in the copyright system as a body of law that reflects some degree of fairness and deserves our collective respect.⁴³ The opposite outcome, one that threatens to impose liability on consumers for engaging in incidental copying for their personal use only reinforces the notion that copyright infringement can be justified as a protest against a manifestly unjust body of law.⁴⁴

The positive impact of personal use on innovation is yet another strong justification for its legality. Developers of devices and services that enable consumers to interact with copy-

duction, do not create the right to impose, by notice, such as is disclosed in this case, a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract.”)

41. See *Quanta Computer*, 553 U.S. at 626; *Bobbs-Merrill*, 210 U.S. at 350.

42. See Galperin, *supra* note 11; David Kravets, *Jury in RIAA Trial Slaps \$2 Million Fine on Jammie Thomas*, WIRED (June 18, 2009, 6:57 PM), <http://www.wired.com/threatlevel/2009/06/riaa-jury-slaps-2-million-fine-on-jammie-thomas>; *Lenz v. Universal*, ELEC. FRONTIER FOUND., <https://www.eff.org/cases/lenz-v-universal> (last visited Feb. 21, 2012); Phillip Torrone, *Sony's War on Makers, Hackers, and Innovators*, MAKE (Feb. 24, 2011), <http://blog.makezine.com/2011/02/24/sonys-war-on-makers-hackers-and-innovators.html>.

43. As we will discuss below, exhaustion provides a particularly apt doctrine for achieving this goal of legitimacy, as it shares many of the same normative justifications as personal use. See *infra* Part III.

44. See Kobie, *supra* note 8.

righted works in new ways frequently face threats from copyright holders.⁴⁵ Sony became one of the first high-profile facilitators of personal use to be sued when it released the Betamax video tape recorder.⁴⁶ The Supreme Court held Sony was not liable for contributory infringement since the Betamax was capable of substantial noninfringing uses, namely it enabled personal noncommercial time-shifting of television shows. Yet it took over seven years of litigation to reach finality in the conflict. Thus, the amount of experimentation and risk-taking developers can exercise in offering new devices and services depends, in part, on the lawfulness of the personal uses they enable, inoculating them from infringement liability and allowing breathing room for innovation.⁴⁷

Today, almost every cloud service provider or consumer electronics manufacturer must consider the legality of personal uses when it designs a new product or service.⁴⁸ Obtaining ex ante permission for those uses through licenses poses substantial costs that could hinder the development of new technologies that, like the VCR, benefit consumers and copyright holders alike. Licenses can be cost prohibitive,⁴⁹ and often take months if not years to negotiate.⁵⁰ And the sheer multitude of rights holders involved could prevent comprehensive licensed offerings.

45. See, e.g., *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005); *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984); *In re Aimster Copyright Litig.*, 334 F.3d 643 (7th Cir. 2003); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001); *Princeton Univ. Press v. Mich. Document Servs., Inc.*, 99 F.3d 1381 (6th Cir. 1996); *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255 (5th Cir. 1988); *Disney Enters., Inc. v. Hotfile Corp.*, 798 F. Supp. 2d 1303 (S.D. Fla. 2011); *Capitol Records, Inc. v. MP3tunes, LLC*, 2009 WL 3364036 (S.D.N.Y. Oct. 16, 2009); *Paramount Pictures Corp. v. Replay TV*, 298 F. Supp. 2d 921 (C.D. Cal. 2004); *Lewis Galoob Toys, Inc. v. Nintendo of Am., Inc.*, 780 F. Supp. 1283 (N.D. Cal. 1991), *aff'd*, 964 F.2d 965 (9th Cir. 1992).

46. For a history of the development and launch of the Betamax and the ensuing legal dispute, see JAMES LARDNER, *FAST FORWARD: HOLLYWOOD, THE JAPANESE, AND THE ONSLAUGHT OF THE VCR* (1987).

47. See Fred von Lohmann, *Fair Use as Innovation Policy*, 23 *BERKELEY TECH. L.J.* 829, 836–40 (2008).

48. See *supra* note 23 and accompanying text.

49. See, e.g., Jay Yarow, *Apple Paying \$100–\$150 Million to Labels for iCloud*, *BUSINESS INSIDER* (June 3, 2011, 8:52 AM), <http://www.businessinsider.com/apple-paying-100-150-million-to-labels-for-icloud-2011-6>.

50. See Greg Sandoval, *Spotify-Google iTunes Killer Lacks Licenses*, *CNET MEDIA MAVERICK* (Jan. 4, 2010, 4:27 PM), http://news.cnet.com/8301-31001_3-10424684-261.html (detailing negotiations over music licenses for free music service Spotify).

Moreover, when consumers have the freedom to innovate with the items they own, innovation is prolific.⁵¹ Such innovations are often difficult to predict⁵² and usually occur initially in private and on a small scale, making the prospect of seeking copyright holder permission for innovation impracticable. Thus, it is even more important to allow consumers the freedom to tinker with the copies they own.⁵³

Finally, lawful personal use supports economic efficiency and prevents unfair surprise by simplifying the contours of consumer transactions involving the transfer of copies, especially by downstream purchasers. Reliable personal use helps minimize the problem of high information costs associated with detailed articulation of permissions and restrictions imposed by the rights holder.⁵⁴ For example, a recent Terms of Service for the iPhone's iTunes app contained over sixty-one screens of information that users are assumed to have read and accepted.⁵⁵ The mere cost of reading the terms is likely to far exceed the value of any additional rights granted through the alleged negotiation between the seller and buyer.⁵⁶ The simplicity of lawful personal use is particularly appropriate where consumers are enticed to "buy," "purchase," and "own" digital goods like

51. Perzanowski & Schultz, *supra* note 26, at 897–98.

52. *See id.* at 898 & n.38.

53. In this sense, personal user innovation is a version of what Molly Van Houweling and Julie D. Mahoney call "the problem of the future"—unanticipated future benefits or desires that cannot easily be realized in a cost-effective manner if current owners of an item must find and renegotiate with the former owners for new permissions. Julia D. Mahoney, *Perpetual Restrictions on Land and the Problem of the Future*, 88 VA. L. REV. 739 (2002); Molly Shaffer Van Houweling, *The New Servitudes*, 96 GEO. L.J. 885, 900–04 (2008). Courts have historically solved this problem via their distaste for ongoing servitudes on personal property. Van Houweling, *supra*, at 904.

54. *See* Van Houweling, *supra* note 53, at 897–98 ("The existence of unusual property rights increases the cost of processing information about all property rights. Those creating or transferring idiosyncratic property rights cannot always be expected to take these increases in measurement costs fully into account, making them a true externality." (quoting Thomas W. Merrill & Henry E. Smith, *Optimal Standardization in the Law of Property: The Numerus Clausus Principle*, 110 YALE L.J. 1, 8 (2000))).

55. *Terms and Conditions*, APPLE, <http://www.apple.com/legal/itunes/us/terms.html> (last visited Apr. 28, 2012).

56. Perzanowski & Schultz, *supra* note 26, at 906 & nn.79–80; *see* Florencia Marotta-Wurgler, *Does Increased Disclosure Help? Evaluating the Recommendations of the ALI's "Principles of the Law of Software Contracts,"* 78 U. CHI. L. REV. 165, 168 (2011) (finding that the low expected benefit of reading a software contract leads to readership rates "on the order of 0.1 percent to 1 percent").

songs, movies, and apps.⁵⁷ Such characterizations, coupled with the other economic realities of such transactions—one-time payment and perpetual possession among them—signal to consumers that they have the same rights in those goods as they would in any personal property they might acquire.⁵⁸

Taken together, these benefits of personal use offer a strong case in favor of treating many, if not most, personal uses as lawful as a matter of copyright policy. The question that remains is how courts should implement that policy as a matter of copyright doctrine. Below, we turn to the leading approaches for analyzing personal use. While we recognize that these approaches can, have, and will continue to enable courts to excuse personal uses as noninfringing, each of these approaches must contend with important shortcomings.

B. PERSONAL USE AS UNREGULATED USE

The rights of copyright holders are limited, not plenary. And many personal uses are simply beyond the scope of those defined statutory rights.⁵⁹ Singing in the shower or silently reading a paperback are lawful because they are simply not covered by any of the § 106 rights. In particular, the Copyright Act draws distinctions between public uses and private ones, most explicitly in the context of display, performance, and dis-

57. See, e.g., *All Hail West Texas*, APPLE iTUNES, <http://itunes.apple.com/us/album/all-hail-west-texas/id266718685> (last visited Apr. 28, 2012) (an Apple iTunes page for a digital album allowing consumers to “buy”); *Bad Lieutenant: Port of Call New Orleans*, VUDU, <http://www.vudu.com/movies/#!content/172453/Bad-Lieutenant-Port-of-Call-New-Orleans> (last visited Apr. 28, 2012) (a Vudu page that allows consumers the option to “own” a film); *Father, Son, Holy Ghost (Amazon MP3 Exclusive)*, AMAZON, <http://www.amazon.com/Father-Holy-Ghost-Amazon-Exclusive/dp/B005KCZRI8> (last visited Apr. 28, 2012) (an Amazon page for a digital album that allows consumers to “Buy MP3”); *iTunes*, APPLE, <http://www.apple.com/itunes/> (last visited Apr. 28, 2012) (Apple’s main iTunes page, which describes the consumer’s action as a “purchase”).

58. See Brian W. Carver, *Why License Agreements Do Not Control Copy Ownership: First Sales and Essential Copies*, 25 BERKELEY TECH. L.J. 1887, 1915–25 (2010) (describing two judicial approaches that track with the idea that consumer expectations about transactions help to determine consumer rights to electronic property); Pamela Samuelson & Jason Schultz, *Should Copyright Owners Have to Give Notice of Their Use of Technical Protection Measures?*, 6 J. ON TELECOMM. & HIGH TECH. L. 41, 58–59 (2007) (describing the problematic nature of perpetual possession of electronic goods when the underlying businesses or services may be shut down).

59. The Copyright Act defines these rights in § 106. 17 U.S.C. § 106 (2006).

tribution.⁶⁰ In addition, Congress has expressly exempted certain personal uses as exceptions or limitations to otherwise applicable exclusive rights. These include the transfer or display of a particular copy of a work⁶¹ and the adaptation or backup of a computer program.⁶²

As Jessica Litman and others have argued, one can infer that Congress never intended the exclusive rights of the copyright holder to intrude upon the personal uses of individuals but meant them to be enforced against commercial competitors or other wholesale appropriators.⁶³ Litman's argument is strengthened by the historical sensitivity that copyright law has shown to the interests of readers and users.⁶⁴ Applying this approach, one could interpret § 106 to exclude personal copying from the reproduction right and personal adaptation from the derivative right when these restrictions would interfere with the rights of readers, listeners, or viewers of copyrighted material.⁶⁵

This approach, however, face challenges in the era of digital distribution of copyrighted works. First, while many analog personal uses were clearly outside of the scope of any § 106 rights, a significant portion of digital personal uses are arguably within their ambit. As noted above, some courts have treated loading software into the memory of a computer as an act of reproduction under § 106.⁶⁶ Thus, a consumer who wants to read a legitimately purchased e-book on an unauthorized device, store it on a back-up server, or adapt it into another format may face copyright liability.⁶⁷ The same may be true if one wants to privately view a purchased movie on an unlicensed home computer. Because these activities seem to fall within the plain meaning of § 106, we worry that courts may be reluctant

60. Litman, *supra* note 4, at 1882; *see also* OTA STUDY, *supra* note 4, at 5–14 (defining personal use in terms of “home” copying).

61. 17 U.S.C. § 109(a), (c).

62. 17 U.S.C. § 117.

63. Litman, *supra* note 4, at 1883 (internal citations omitted).

64. *Id.* at 1883–94.

65. *Id.*

66. *See supra* note 60 and accompanying text.

67. For examples of applications that allow such use or adaptation, see *Dropbox*, APPLE iTUNES, <http://itunes.apple.com/us/app/dropbox/id327630330?mt=8> (last visited Apr. 28, 2012) (“Dropbox is a free service that lets you bring all your photos, docs, and videos anywhere. any file you save to your Dropbox will automatically save to all your computers, your iPhone and iPad and even the Dropbox website!”); *PDF Expert*, APPLE iTUNES, <http://itunes.apple.com/us/app/pdf-expert-fill-forms-annotate/id393316844?mt=8> (last visited May 4, 2012) (an application that allows PDF files to be read on mobile devices).

to read the text of the Copyright Act as excluding personal reproductions or derivative works. Unlike displays, performances, and distributions, there is no textual suggestion that Congress intended to distinguish between private reproductions and public ones.⁶⁸ While we do not embrace this sort of unreflective textualism when it comes to interpreting the scope of copyright exclusivity, we recognize it as a practical threat to personal use.

Second, we question whether separating lawful personal use from infringement through the initial filter of the scope of statutory rights is preferable to identifying them through more granular defenses and exceptions to infringement. To reflect both text and legislative intent, courts must have some leeway to provide common law—and common sense—interpretations that fill the gaps in the statutory text. However, we worry that narrowing the scope of exclusive rights in order to exclude personal uses could unintentionally tie courts' hands in future cases, preventing them from addressing subtle differences between uses deemed lawful today and those that may arise in the future. The statute, after all, should not be read to have multiple meanings. If courts separate lawful personal uses from infringing reproductions through narrow readings of § 106 rights, they may be paving the way for unforeseen consequences to the copyright system more broadly. Moreover, they may be setting the stage for a cascading series of inconsistent and opaque inter-

68. Further complicating the question of statutory interpretation, the nature of what is “public” versus “private” when it comes to digital personal uses has changed dramatically. Take, for example, the recent preliminary injunction motion brought against the startup DVD service Zediva. Complaint, Warner Bros. Entm't Inc. v. WTV Systems, Inc., No. CV11-02817 JFW (EX), 2011 WL 1235191 (C.D. Cal. Apr. 4, 2011). Zediva offers a service whereby it purchases DVDs and inserts them into players in its warehouse. *Id.* at 6. Members then log into the Zediva website and select a particular movie in a particular player to watch. *Id.* The player then streams the movie over the Internet to the private device of the member's choosing. *Id.* In granting the Motion Picture Association of America's preliminary injunction motion against Zediva, the Court found that even though Zediva had purchased legitimate copies of movies and many consumers were likely watching those movies in the privacy of their own homes, the streaming of the movie still constituted a public performance. Warner Bros. Entm't Inc. v. WTV Sys., Inc., No. CV 11-2817-JFW (Ex), 2011 WL 4001121, at *6–7 (C.D. Cal. Aug. 1, 2011). For other cases highlighting the problematic “private” versus “public” debate, see *Columbia Pictures Industries, Inc. v. Redd Horne, Inc.*, 749 F.2d 154, 160 (3d Cir. 1984), and *On Command Video Corporation v. Columbia Pictures Industries*, 777 F. Supp. 787, 789–90 (N.D. Cal. 1991). For a conflicting ruling, see *Columbia Pictures v. Professional Real Estate Investors, Inc.*, 866 F.2d 278, 281–82 (9th Cir. 1989).

pretations of the rights that form the core of the copyright grant. By moving the personal use inquiry to the secondary screening mechanism of defenses and exceptions, courts might be able to offer greater transparency and predictability in their reasoning.

C. PERSONAL USE AS FAIR USE

The second and most common approach to justifying personal uses lies in the fair use doctrine. Fair use developed at common law as an equitable defense to copyright infringement, allowing for uses that—withstanding the copyright owner's right to exclude—would serve some socially beneficial purpose.⁶⁹ In 1976, Congress recognized this common law approach in § 107 of the Copyright Act, emphasizing four nonexclusive factors that courts should consider when evaluating whether or not a particular use should be considered fair:

- (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.⁷⁰

Because of its flexibility, fair use has some appeal for protecting personal uses. Fair use began as an equitable defense, implying that considerations such as good faith or fairness should help consumers defend their personal use against accusations of infringement.⁷¹ And it reflects a longstanding prefer-

69. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 575–76 (1994).

70. 17 U.S.C. § 107 (2006). In addition, Congress identified several illustrative fair uses, including teaching, news reporting, criticism, commentary, scholarship, and research. *Id.* However, courts have not confined fair uses to this list; various decisions have recognized search engines copying web pages in order to provide better results, software companies reverse engineering products in order to create compatible offerings, and education services copying student essays in order to detect plagiarism as fair uses. *See A.V. v. iParadigms, LLC*, 562 F.3d 630 (4th Cir. 2009) (detecting plagiarism); *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146 (9th Cir. 2007) (information location tools); *Kelly v. Arriba Soft Corp.*, 336 F.3d 811 (9th Cir. 2003) (same); *Sony Computer Entm't, Inc. v. Connectix Corp.*, 203 F.3d 596 (9th Cir. 2000) (reverse engineering); *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510 (9th Cir. 1992) (same).

71. *See Wall Data Inc. v. L.A. Cnty. Sheriff's Dep't*, 447 F.3d 769, 778 (9th Cir. 2006) (noting that fair use may be appropriate where the “custom or public policy” at the time would have defined the use as reasonable (citing STAFF

ence for noncommercial⁷² and socially beneficial uses.⁷³ However, as fair use case law has evolved, these two indicia of fair use have become more myth than reality in terms of their impact on courts' ultimate conclusion.⁷⁴ Instead, courts have increasingly looked to factors emphasized by the Supreme Court and the leading fair use circuits: the Second and Ninth.⁷⁵ Today, fair use is dominated by the question of transformation under the first factor and the question of market harm under the fourth factor.⁷⁶

The transformation test, championed by Judge Pierre Leval in the Second Circuit and eventually adopted by the Supreme Court,⁷⁷ asks "whether the new work merely 'supersede[s] the objects' of the original creation . . . or instead adds something new, with a further purpose or different character,

OF S. SUBCOMM. ON PATENTS, TRADEMARKS, AND COPYRIGHTS, STUDY NO. 14: FAIR USE OF COPYRIGHTED WORKS 15 (Comm. Print 1960)).

72. Litman, *supra* note 4, at 1898–99; see Barton Beebe, *An Empirical Study of U.S. Copyright Fair Use Opinions, 1978–2005*, 156 U. PA. L. REV. 549, 583 (2008).

73. See, e.g., H.R. REP. NO. 94-1476, at 73 (1976) ("Another special instance illustrating the application of the fair use doctrine pertains to the making of copies or phonorecords of works in the special forms needed for the use of blind persons. These special forms, such as copies in Braille and phonorecords of oral reading (talking books), are not usually made by the publishers for commercial distribution. . . . While the making of multiple copies or phonorecords of a work for general circulation requires the permission of the copyright owner, a problem addressed in section 70 of the bill, the making of a single copy or phonorecord by an individual as a free service for a blind persons [sic] would properly be considered a fair use under section 107."); Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 455 n.40 (1984) (stating that copying "of a copyrighted work for the convenience of a blind person is expressly identified by the House Committee Report as an example of fair use, with no suggestion that anything more than a purpose to entertain or to inform need motivate the copying").

74. Neil Weinstock Netanel, *Making Sense of Fair Use*, 15 LEWIS & CLARK L. REV. 715, 736 (2011); see also Litman, *supra* note 4, at 1902 (noting that most fair use cases involve public commercial uses). There is likely also some path dependency in the lure to invoke fair use, both because of our familiarity with it and because there are so few other plausible defenses when once scans the contents of Title 17.

75. Netanel, *supra* note 74, at 769.

76. *Id.* at 734 ("[T]he transformative use paradigm . . . overwhelmingly drives fair use analysis in the courts today."); see also Litman, *supra* note 4, at 1899.

77. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994) (quoting Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1111 (1990)); see also Pamela Samuelson, *Unbundling Fair Uses*, 77 FORDHAM L. REV. 2537, 2548–55 (2009).

altering the first with new expression, meaning, or message.”⁷⁸ Transformation tends to focus on the creation of new content out of old, favoring uses like parody, commentary, and criticism.⁷⁹

Personal use, however, is rarely transformative in this sense. Consumers engaged in personal use are not seeking to critique or adapt the copies they own; they simply want to enjoy them. Even when we transfer a work from one medium to another, the goal is rarely transformation of its content. For example, when we rip a CD and copy the music onto our personal hard drives, we hardly transform the music; instead, we seek to replicate it as faithfully as possible.⁸⁰ Thus, in many ways, the transformation test that dominates the fair use inquiry is at odds with the very nature of personal use.⁸¹

Moreover, the concept of transformative use has proven cognitively challenging for many courts when the use at issue does not involve some kind of expressive or innovation-driven change.⁸² Given that many personal uses lack these indicia of expression or innovation, judges may have difficulty reconciling ordinary consumer uses with those of creators and innovators whose purpose and character of use is often quite different.

In addition, accommodating personal use further strains the notion of transformation, risking doctrinal incoherence and unpredictability.⁸³ Fair use is the Swiss Army knife of copyright exceptions and limitations. From parodies,⁸⁴ appropriation art,⁸⁵ scholarly research,⁸⁶ and news reporting⁸⁷ to web

78. *Campbell*, 510 U.S. at 579.

79. Netanel, *supra* note 74, at 737.

80. In fact, Apple and other vendors have specifically invested in technology to accomplish this. See, e.g., *Apple Lossless*, WIKIPEDIA, http://en.wikipedia.org/wiki/Apple_Lossless (last visited Apr. 28, 2012) (describing Apple’s proprietary lossless compression codec).

81. See Litman, *supra* note 4, at 1898–1901; Tushnet, *supra* note 37, at 554 (noting that fair use evolved to deal with unusual or exceptional cases, not common activities like widespread everyday copying).

82. See *supra* note 70 and accompanying text.

83. Cass R. Sunstein, *On the Expressive Function of Law*, 144 U. PA. L. REV. 2021–53 (1996) (arguing that law should signal to citizens information about social norms and appropriate conduct); see also Litman, *supra* note 4, at 1902–03 (noting that a “hideously expensive trial on the merits” is required to determine whether use is fair under current rules).

84. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994).

85. *Blanch v. Koons*, 467 F.3d 244 (2d Cir. 2006).

86. *Shloss v. Sweeney*, 515 F. Supp. 2d 1068 (N.D. Cal. 2007).

87. *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539 (1985).

caching,⁸⁸ thumbnails,⁸⁹ and reverse engineering,⁹⁰ fair use is enlisted to deal with seemingly any close case. But the doctrine is straining under this unreasonable workload. The notion of transformation in particular, as the contemporary touchstone of fairness, has been stretched, contorted, and manipulated to apply to a range of uses far beyond the concept's original application.⁹¹

Expecting fair use to effectively deal with all personal uses compounds the burden imposed by this already heavy workload. One method of relieving some of fair use's burden is by channeling away some of these cases that can be decided using other tools. Rather than forcing fair use to contort itself in order to accommodate every personal use case, we might do better to remove those cases from its docket and allow fair use to focus on the sorts of questions it was primarily designed to answer. By lightening fair use's load, we can achieve more coherent and predictable results in both personal use and fair use cases.

Courts may also struggle with justifying personal use under the fourth fair use factor. That factor considers the effect of the use on both the current and potential market for the copyrighted work. In the past, copyright owners had difficulty showing that personal uses presented a risk of market harm because copyright holders had little ability to identify, much less monetize, those uses.⁹² For example, in *Sony*, the Court examined the practice of time-shifting.⁹³ The Court held that such prac-

88. *Perfect 10 v. Google, Inc.*, 416 F. Supp. 2d 828 (C.D. Cal. 2006).

89. *Kelly v. Arriba Soft Corp.*, 280 F.3d 934 (9th Cir. 2002).

90. *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510 (9th Cir. 1992).

91. For example, in one case finding personal browser caching to be fair use, the court claimed that "[l]ocal caching by the browsers of individual users is noncommercial, transformative, and no more than necessary to achieve the objectives of decreasing network latency and minimizing unnecessary bandwidth usage (essential to the internet)." *Google*, 416 F. Supp. 2d at 852 n.17. However, the court relegated this analysis to a footnote and never explained how this "automatic process of which most users are unaware" qualifies as transformative. *Id.* While it may well be, the *Google* court offers us little information on the basis for its conclusion. *See also* *Realnetworks, Inc. v. DVD Copy Control Ass'n*, 641 F. Supp. 2d 913, 942 (N.D. Cal. 2009) (noting that "it may well be fair use for an individual consumer to store a backup copy of a personally-owned DVD on that individual's computer" without articulating a doctrinal rationale for this conclusion).

92. OTA STUDY, *supra* note 4, at 113–14.

93. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 421 (1984) (describing timeshifting as a television viewer recording broadcast programs for later viewing).

tices were fair use in large part because the copyright owners failed to demonstrate that time-shifting would cause any meaningful harm to their works.⁹⁴

The emergence of granular markets for particular uses of digital copies significantly challenges this rationale.⁹⁵ This is especially true if one looks at the fourth fair use factor—the effect on the potential market for or value of the copyrighted work—as a proxy for licensing market failures. Looked at this way, uses that are unprofitable or impractical for the copyright owner to license are more likely fair.⁹⁶ As markets for licensed services that serve as substitutes for unlicensed personal uses continue to develop, uses once understood as falling within the fair use exception because of market failures may lose their lawful status. As a result, fair use determinations may become less reliable over time. Such rulings would also likely contribute to the already controversial sense that copyright holders are entitled to control any use for which consumers are willing to pay.⁹⁷ With markets for new uses of digital copies developing quickly and with considerable success, a fair use analysis driven by the fourth factor may lead to fewer personal uses, not more.⁹⁸

Over-reliance on fair use may also upset consumer expectations. A consumer who purchased a CD a year ago may well have done so on the understanding that her purchase included the right to make personal uses, among them uploading the contents of that disc to a digital locker. But should a court later rule that such uses are infringing because later-developed licensed services now offer close substitutes for unlicensed lockers, this once lawful personal use could become less lawful by the minute. To the extent we want to avoid placing consumers

94. *Id.* at 456.

95. Bell, *supra* note 5, at 567 (“Current case law makes it harder for defendants to benefit from the fair use defense to the extent that plaintiffs make it easy to pay licensing fees.”); *see also* Litman, *supra* note 4, at 1899–1901.

96. *See* Wendy J. Gordon, *Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors*, 82 COLUM. L. REV. 1600, 1618 (1982).

97. *See* Rochelle Dreyfuss, *Expressive Genericity: Trademarks as Language in the Pepsi Generation*, 65 NOTRE DAME L. REV. 397, 403 (1990); Mark A. Lemley, *Place and Cyberspace*, 91 CALIF. L. REV. 521, 533 n.49 (2003) [hereinafter Lemley, *Place and Cyberspace*].

98. *But see* Mark A. Lemley, *Should a Licensing Market Require Licensing?*, LAW & CONTEMP. PROBS., Spring 2007, at 185, 189–91 [hereinafter Lemley, *Licensing Market*].

on ever-shifting legal footing, fair use is not an ideal tool for defining the bounds of lawful personal uses.

Similarly, the third fair use factor, the amount of the protected work copied, almost invariably aligns against personal use since users want to read, watch, or listen to the work in its entirety. When a consumer makes a backup of her digital goods, it is unlikely that she would ever want less than 100% of the content copied. The same is true for ripping CDs, transferring books to a new e-book reader, or watching a movie on a remote device. Copying anything less than the entire work in such circumstances would be akin to ripping out the last page of a novel. While there have certainly been numerous cases where courts have found it reasonable to copy the entirety of a work,⁹⁹ it makes little sense to have personal use constantly at odds with a key factor in the legal test meant to ensure its safety and longevity.¹⁰⁰ Although we agree with the ultimate holdings of those courts that characterized personal uses as fair, the fact that so many of the fair use factors consistently align against personal uses suggests that some other approach might be preferable.

Finally, fair use has earned a reputation for leading to unpredictable and inconsistent outcomes that offer potential de-

99. See *Sony*, 464 U.S. at 454–55 (concluding that personal copying of 100% of work is fair when used for noncommercial time shifting); *A.V. ex rel. Vanderhye v. iParadigms, LLC*, 562 F.3d 630, 642 (4th Cir. 2009) (concluding that the use of student papers is protected by fair use); *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1176 (9th Cir. 2007); *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 815 (9th Cir. 2003); *Bond v. Blum*, 317 F.3d 385, 393, 397 (4th Cir. 2003) (holding that the use of an entire book is protected by fair use); *Núñez v. Caribbean Int’l News Corp.*, 235 F.3d 18, 24 (1st Cir. 2000) (finding that the use of an entire photograph is “of little consequence to our [fair use] analysis”); *accord In re Aimster Copyright Litig.*, 334 F.3d 643, 648 (7th Cir. 2003); *Recording Indus. Ass’n of Am. v. Diamond Multimedia Sys. Inc.*, 180 F.3d 1072, 1081 (9th Cir. 1999).

100. The remaining second factor—the nature of the work—is less relevant to most fair use analyses and will most often be either neutral or against personal use, as it is intended to weaken fair use defenses when they involve non-factual creative works. See *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 586 (1994) (noting that the second factor is “not much help” when considering transformative uses); *Blanch v. Koons*, 467 F.3d 244, 257 (2d Cir. 2006) (finding that the second factor has limited weight when the use is transformative); *Mattel, Inc. v. Walking Mountain Prods.*, 353 F.3d 792, 803 (9th Cir. 2003) (stating that the second fair use factor “typically has not been terribly significant in the overall fair use balancing” (quoting *Dr. Seuss Enters. v. Penguin Books USA, Inc.*, 109 F.3d 1394, 1402 (9th Cir. 1997))).

fendants little guidance.¹⁰¹ Lawrence Lessig has famously called fair use “the right to hire a lawyer,” suggesting that absent litigation no use can be safely deemed fair.¹⁰² However, recent scholarship suggests that this dire characterization of fair use is an overstatement; if we cluster fair use cases together on the basis of common factual predicates, we can start to make sense of the tangle of case law.¹⁰³ For some constituencies, such as manufacturers of consumer electronics¹⁰⁴ or some artists and follow-on creators,¹⁰⁵ fair use can even translate into meaningful guidelines. But in the personal use context, fair use’s reputation as something of a crapshoot remains apt. Fair use cases are often decided by analogy as much as first principles. When it comes to personal uses, there is precious little case law from which courts can draw.¹⁰⁶ In the absence of any real guidance, consumers have little certainty about the lawfulness of their uses.¹⁰⁷

101. Concern over this uncertainty has led Gideon Parchomovsky and Philip J. Weiser to suggest an approach that would supplement fair use doctrine with legislatively nudged and privately developed user privileges to make use of digital media. See Gideon Parchomovsky & Philip J. Weiser, *Beyond Fair Use*, 96 CORNELL L. REV. 91, 95–97 (2010). We agree that a set of defined user privileges would lend consumers much needed clarity. But as outlined below, we believe those privileges already exist in the common law of copyright exhaustion.

102. LAWRENCE LESSIG, *FREE CULTURE: HOW BIG MEDIA USES TECHNOLOGY AND THE LAW TO LOCK DOWN CULTURE AND CONTROL CREATIVITY* 187 (2004).

103. See Michael J. Madison, *A Pattern-Oriented Approach to Fair Use*, 45 WM. & MARY L. REV. 1525, 1687 (2004); Netanel, *supra* note 74, at 719; Samuelson, *supra* note 77, at 2541–43.

104. See *Sony*, 464 U.S. at 443–55 (establishing rules for manufacturing time shifting technologies); *Kelly*, 336 F.3d at 818–22 (establishing rules for fair use information location tools); *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1521–28 (9th Cir. 1992) (establishing rules for fair use competitive reverse engineering).

105. See *Code of Best Practices in Fair Use for Academic and Research Libraries*, ASS’N OF RESEARCH LIBRARIES ET AL. (Jan. 2012), <http://www.centerforsocialmedia.org/fair-use/best-practices>.

106. See Samuelson, *supra* note 77, at 2545; Wu, *supra* note 1, at 620.

107. See OTA STUDY, *supra* note 4, at 147, 164 (finding that consumers have very little understanding of how copyright law applies to personal uses but a strong normative sense of appropriate personal use based on ownership of a copy); Michael Grynberg, *Property Is a Two-Way Street: Personal Copyright Use and Implied Authorization*, 79 FORDHAM L. REV. 435, 451 (2010); Litman, *supra* note 4, at 1902–03.

D. PERSONAL USE AS IMPLIEDLY LICENSED USE

The third popular line of defense for personal use has been the doctrine of implied license. Under this doctrine, courts have implied permission to make certain uses of copyrighted works based on the intent of the parties as judged by their conduct. In this regard, courts have taken two approaches. First, when there is evidence that both the copyright owner and the consumer intended that a work be used for a specific purpose, such as when an architect draws up plans and delivers them to a home owner, courts have found an implied license for the home owner to build the structure depicted.¹⁰⁸ Second, a copyright owner may grant a nonexclusive license through conduct¹⁰⁹ “from which [the] other [party] may properly infer that the owner consents to his use.”¹¹⁰ Applied to personal use, the theory is that when a consumer buys a digital good, the copyright owner has given implied permission for the consumer to make certain limited uses consistent with the bargain struck, such as an implied license for the owner of a CD to transfer it to her iPod.

However, there are both structural and doctrinal concerns that arise from this approach to personal use. First, while such an approach may seem appropriate for commissioned copyrighted works or direct one-on-one conduct between a seller and a buyer, it does not map well to consumer purchases of mass marketed copies. Consumer mass-market transactions occur at more than arms-length without a single word exchanged between the consumer and the copyright owner. With the burden of proving the implied license on the accused infringer,¹¹¹ this defense is challenging at best in mass-market contexts where there is little evidence of individualized conduct.¹¹²

Perhaps even more concerning, however, is the increasing use of explicit text and technological measures to indicate the

108. See 2 WILLIAM F. PATRY, PATRY ON COPYRIGHT § 5:131 (2011).

109. See *Effects Assocs., Inc. v. Cohen*, 908 F.2d 555, 558–59 (9th Cir. 1990) (citing 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 10.03(A)(7), at 10-53 (rev. ed. 2011)).

110. See *De Forest Radio Tel. Co. v. United States*, 273 U.S. 236, 241 (1927).

111. See *Bourne v. Walt Disney Co.*, 68 F.3d 621, 631 (2d Cir. 1995).

112. See *SmithKline Beecham Consumer Healthcare, L.P. v. Watson Pharm., Inc.*, 211 F.3d 21, 25 (2d Cir. 2000) (noting that implied licenses are found only in narrow circumstances); see also *Capitol Records, Inc. v. MP3tunes, LLC*, No. 07 Civ. 9931(WHP), 2011 WL 5104616, at *16 (S.D.N.Y. Oct. 25, 2011) (rejecting implied license theory as a basis for finding personal copies of music on cloud computing server to be noninfringing).

intent of the copyright owner with regard to permitted uses of the work. While most analog copies are sold without explicit use restrictions,¹¹³ most digital goods distributed today comes with some form of End User License Agreement (EULA) or Terms of Use (TOU) attached. These documents almost inevitably specify the set of permissions and uses that the copyright owner wishes to allow, leaving very little room, if any, for consumers to argue that they have implied permission to put their copies to some other use.¹¹⁴ For example, Apple's iTunes Store Terms and Conditions expressly state that consumers are allowed to download their content to "10 Associated Devices, provided no more than 5 are iTunes-authorized computers."¹¹⁵ Arguing an implied license allows further copies would be quite difficult.

Many copyright owners also employ Digital Rights Management (DRM) technologies on digital goods, which could also serve to indicate the copyright holder's intent as to what consumers are allowed to do with the goods they purchase. Thus, through both legal and technological instruments, copyright owners are leaving less and less of their intentions unspoken when it comes to personal use.

Even assuming that consumers could argue— notwithstanding any EULA, TOU or DRM—that every purchase of a copyrighted work came with an implied license for personal use, there are additional limits and vulnerabilities inherent in this approach. First and foremost is the threat of revocation.¹¹⁶ Implied licenses are just that—implied. Almost all jurisdictions allow copyright owners to explicitly revoke any implied license for use of a copyrighted work.¹¹⁷ An email, pub-

113. There are a few exceptions. *See, e.g.*, *Straus v. Victor Talking Mach. Co.*, 243 U.S. 490, 501 (1917) (rejecting attempted use of a license notice attached to patented machines as a means of restricting alienation). *But see* *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908) (rejecting labels as restrictions in general); *accord* *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175, 1182 (9th Cir. 2011).

114. *See, e.g.*, *Wall Data Inc. v. L.A. Cnty. Sheriff's Dep't*, 447 F.3d 769, 779 (9th Cir. 2006).

115. *iTunes Terms and Conditions*, APPLE (Oct. 12, 2011), <http://www.apple.com/legal/itunes/us/terms.html>.

116. *See* Grynberg, *supra* note 107, at 454–55.

117. *See* 2 PATRY ON COPYRIGHT, *supra* note 108, § 5:132 (citing *Berg v. Symons*, 393 F. Supp. 2d 525, 543 (S.D. Tex. 2005) ("Absent any consideration, an implied license is revoked when the plaintiff files an infringement suit."); *see also* Grynberg, *supra* note 107, at 454. *But see* *Carson v. Dynegy, Inc.*, 344 F.3d 446, 451–52 (5th Cir. 2003); *Lulirama Ltd., Inc. v. Axxcess Broad. Servs.*,

lic notice, or even a change to the terms of use of an associated service could be sufficient to remove permission for personal uses. This would place the legality of personal use at the pleasure of the rights holder, undermining consumer confidence in their ability to make such uses and potentially spelling their end.¹¹⁸

To address some of these concerns, Michael Grynberg has proposed incorporating an element of reasonableness into the implied license doctrine. By shifting from subjective permission based on intent to a more objective notion of authorization, Grynberg hopes to bring some stability to the rights of consumers. Under this new approach, courts would preserve personal uses as part of the balance between the intellectual property rights of the copyright holder and the personal property rights of the consumer who bought the copy of the work. Grynberg proposes that courts should then consider lawful any conduct that consumers made of their copies as long as it was objectively reasonable to do so.¹¹⁹

However, even his innovative approach remains bound by the inherent structure of the implied license. As noted above, in the age of EULAs, TOUs, and DRM systems, the argument that copyright owners have implied anything—be it permission or authorization—becomes weaker every day.¹²⁰ Second, while

Inc., 128 F.3d 872, 882 (5th Cir. 1997) (citing 3 NIMMER ON COPYRIGHT, *supra* note 103, § 10.02(b)(5)).

118. For example, in *Sony*, the Supreme Court held that using a VCR to personally time-shift television programs was a fair use, in part because a substantial number of copyright owners did not object to the practice. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 456 (1984). However, immediately after the decision, several copyright owners who were part of the nonobjector group came forward and reversed their position. Petition for Rehearing at 2, *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) (No. 81-1687), available at https://w2.eff.org/legal/cases/betamax/betamax_petition_rehearing.pdf. Had the court premised its holding on an implied license theory, this could have shifted the result significantly. See also *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 637 (2007) (“LGE points out that the License Agreement specifically disclaimed any license to third parties to practice the patents by combining licensed products with other components. . . . But the question whether third parties received implied licenses is irrelevant because Quanta asserts its right to practice the patents based not on implied license but on exhaustion. And exhaustion turns only on Intel’s own license to sell products practicing the LGE Patents.”).

119. See *Sony*, 464 U.S. at 476; see also Orit Fischman Afori, *Implied License: An Emerging New Standard in Copyright Law*, 25 SANTA CLARA COMPUTER & HIGH TECH. L.J. 275, 324–25 (2009).

120. Grynberg’s new theory of implied authorization attempts to establish some independence, or at least distance, from copyright owner intent in order

making revocation only available under “reasonable” circumstance has its appeal, it finds little grounding in the history or common law of implied license and would require courts to completely restructure the doctrine to counter the long-standing preference for allowing copyright holders to remove specific licensed permissions at a later time.

Ultimately, we are skeptical that implied license, absent a near total reinvention of existing doctrine, can offer the secure doctrinal foothold that personal use currently lacks. Nonetheless, Grynberg’s approach recognizes the powerful role that personal property can play in limiting the scope of intellectual property exclusivity. Grynberg identifies the property rights of consumers in their lawfully acquired copies of protected works as a promising basis for establishing the legality of personal use.¹²¹

The next Part explores in greater detail the persistent influence of copy ownership as personal property on courts’ thinking about personal uses. But while we agree that the property interests of consumers are central to the personal use dilemma, we argue that copyright exhaustion offers a preferable doctrinal vehicle for sorting out legal concerns involving copy ownership.

II. THE CENTRALITY OF COPY OWNERSHIP

Imagine a consumer who returns from her local record store with a new CD in hand. Perhaps it was Record Store Day,¹²² and her favorite artist released a limited edition disc that could only be purchased in one of a dwindling number of brick and mortar music retailers. She paid the \$12.99 asking price for the disc, struggled to remove the cellophane packaging, and now stands poised to insert the CD into her laptop and copy its contents to her hard drive. Our intuition tells us that creating this copy is perfectly lawful and not an act of infringement.¹²³

to provide sufficient breathing room for permanent personal use. However, this is quite difficult to reconcile with the history and application of the doctrine. In essence, he wishes for a new rule with an old name.

121. See Grynberg, *supra* note 107, at 467–68.

122. See *About Us*, RECORD STORE DAY (last visited Mar. 1, 2012), <http://www.recordstoreday.com/CustomPage/614>.

123. See Samuelson, *supra* note 77, at 2591 (concluding that “personal uses are often within the sphere of reasonable and customary activities that copyright owners should expect from consumers, especially those who have purchased copies”).

Now imagine a second consumer. Much like the first, this consumer heads to her local record store, comes home with a shiny new CD, and copies it to her computer's hard drive. Unlike the first consumer, however, she didn't pay for her CD; she shoplifted it. Putting aside any potential liability for petty larceny, her act of reproduction, while identical to that of the first consumer, likely points to a different conclusion about her status as a copyright infringer.

These two hypotheticals suggest that the difference between lawful copy ownership and mere possession of a copy plays an important, if largely overlooked, role in shaping our perceptions about the reasonableness and the legality of some personal uses.¹²⁴ Our intuitions tell us that personal uses made by the owner of a lawfully purchased copy are perfectly legitimate while the same uses made by a nonowner are less clearly so. This Part explores why. In it, we identify instances where copy ownership has influenced courts in copyright cases and explore the characteristics of copy ownership that explain its influence.

A. COPY OWNERSHIP'S ROLE IN JUDICIAL REASONING

When faced with infringement claims arising out of personal uses of protected works, a number of courts have turned almost reflexively to the fact of copy ownership in their attempt to separate infringement from lawful use. This observation is surprising for at least two reasons. First, because personal uses until recently have largely escaped the seemingly lidless eye of copyright litigants, there are very few cases from which to draw.¹²⁵ Second, the dominant doctrines for analyzing personal uses fail to provide courts with an appropriate framework to emphasize copy ownership.

In fair use cases, courts have little reason to concentrate on copy ownership. None of the four factors that have come to dominate modern fair use analysis takes copy ownership into account directly.¹²⁶ Driven by the four statutory factors and the

124. See OTA STUDY, *supra* note 4, at 164.

125. See Samuelson, *supra* note 77, at 2588 (noting the paucity of case law addressing personal uses).

126. Although not identified among the four statutory factors, courts have found at least four ways to shoehorn copy ownership into the fair use analysis. Most commonly, courts consider the means by which a copy was acquired under the first fair use factor on the theory that "the propriety of the defendant's conduct" is relevant to the character of her use. See *Haberman v. Hustler Magazine, Inc.*, 626 F. Supp. 201, 211 (D. Mass. 1986) (noting that "[c]opies of

Supreme Court's emphasis on them, few courts have looked beyond the § 107 framework in their analysis.¹²⁷ In the implied license context, courts sometimes look to whether the plaintiff "handed over" a copy to the defendant as one of the relevant factors.¹²⁸ But as discussed above, implied license cases tend to hinge on questions of intent, and personal use cases typically involve mass-market copies, not the commissioned copies that implied licenses most often cover.¹²⁹

Despite the small universe of available cases and the poor fit between existing doctrine and consideration of copy owner-

the postcards were placed on sale by Haberman and fairly acquired by Hustler"); *see also* *Nuñez v. Caribbean Int'l News Corp.*, 235 F.3d 18, 23 (1st Cir. 2000) (noting under the first factor that "El Vocero obtained each of the photographs lawfully. An unlawful acquisition of the copyrighted work generally weighs against a finding of fair use; no such theft occurred here"); *Lish v. Harper's Magazine Found.*, 807 F. Supp. 1090, 1097 (S.D.N.Y. 1992) (noting under the first factor that "it does not appear that the Letter was obtained in bad faith since . . . the Letter was sent by Lish to the source, who was free to deliver it to Harper's").

Copy ownership can also come into play under the second fair use factor in cases alleging infringement of unpublished works. *See Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 542–43 (1985) (holding that the publication of excerpts from a "purloined manuscript . . . secretly brought" by "an unidentified person" to the *Nation's* editor, who "knew that his possession of the manuscript was not authorized and that the manuscript must be returned quickly to his 'source' to avoid discovery" was not fair).

Courts sometimes consider copy ownership as an additional factor outside of the statutory framework. *See Maxtone-Graham v. Burtchaell*, 803 F.2d 1253, 1264 (2d Cir. 1986) (noting, in its consideration of bad faith as a nonstatutory factor, the fact that defendant "obtained *Pregnant by Mistake* through legitimate channels"); *see also Haberman*, 626 F. Supp. at 214 (noting that "[t]he four statutory factors are not the only issues to be considered" and reiterating "that the pieces reproduced were fairly acquired by Hustler").

In still other cases, courts make a point of highlighting the lawful acquisition of the copies in question, but decline to connect those facts to any particular element of the fair use defense. *See, e.g., Video-Cinema Films, Inc. v. Cable News Network, Inc.*, Nos. 98 Civ. 7128(BSJ), 98 Civ. 7129(BSJ), 98 Civ. 7130(BSJ), 2001 WL 1518264, at *2–4 (S.D.N.Y. Nov. 28, 2001). There the court held that broadcasters who aired footage from Robert Mitchum's 1945 film *G.I. Joe* in televised obituaries were likely protected under fair use. *Id.* at *9. In three separate footnotes, the court described the lawful means by which each defendant obtained footage from the film. *Id.* at *10 n.9 ("[T]he CNN journalist who prepared the obituary received [a copy] from another reporter, who had purchased it from a video store."); *id.* at *10 n.10 ("ABC's clip from *G.I. Joe* [] rented from a local video store."); *id.* at *10 n.13 ("[CBS] news producers obtained footage from Mitchum's films from the CBS News archives.").

127. *See Beebe, supra* note 72, at 554.

128. *See, e.g., Effects Assocs., Inc. v. Cohen*, 908 F.2d 555, 558 (9th Cir. 1990); *Berg v. Symons*, 393 F. Supp. 2d 525, 544 (S.D. Tex. 2005).

129. *See supra* Part I.

ship, several cases suggest that, in a variety of doctrinal contexts, lawful title to a copy of a work bolsters the likelihood of a finding of noninfringement. When a defendant can demonstrate that she lawfully acquired ownership of a copy of a work, the court is more likely to view her use as noninfringing.

Consider the contrast between the Ninth and Federal Circuits' respective holdings in *Sega Enterprises Ltd. v. Accolade, Inc.*¹³⁰ and *Atari Games Corp. v. Nintendo of America Inc.*¹³¹ Under remarkably similar facts, these two courts reached opposing conclusions as to the fairness of intermediate copying necessary to create video games compatible with the plaintiffs' consoles.¹³² The most salient distinction between these two cases turns on the facts and circumstances surrounding copy ownership.

In *Sega*, the Ninth Circuit held that creating intermediate copies of a computer program for purposes of reverse engineering to identify unprotected program elements was a fair use.¹³³ Sega developed the Genesis, a home video game console, and licensed third-party developers to create compatible games.¹³⁴ Accolade, unwilling to agree to Sega's licensing terms, decided to create games interoperable with the Genesis system without Sega's approval.¹³⁵ Accolade purchased a Genesis console and three Sega game cartridges.¹³⁶ It then attached a decompiler to the console to create printouts of the source code of the three games.¹³⁷ By comparing the code, Accolade identified the components common to the three games, enabling them to discover

130. *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1514–15 (9th Cir. 1992).

131. *Atari Games Corp. v. Nintendo of Am. Inc.*, 975 F.2d 832, 847 (Fed. Cir. 1992).

132. While both of these cases address reverse engineering by commercial actors, rather than personal uses in any strict understanding of the term, the underlying acts of reproduction could be readily extended to a number of personal use scenarios. See Corynne McSherry & Marcia Hofmann, *Sony v. Hotz: Sony Sends a Dangerous Message to Researchers—and Its Customers*, ELEC. FRONTIER FOUND. (Jan. 19, 2011), <https://www.eff.org/deeplinks/2011/01/sony-v-hotz-sony-sends-dangerous-message> (describing a case in which individual owners of PlayStation 3 consoles managed to reverse engineer the keys to unlock their machines so they could develop and play their own homebrew games on them).

133. *Sega*, 977 F.2d at 1527.

134. *Id.* at 1515.

135. *Id.*

136. *Id.* at 1514–15.

137. *Id.* at 1515.

the interface specifications of the Genesis, and ultimately create their own compatible games.¹³⁸

In deeming Accolade's use fair, the Ninth Circuit focused its analysis on the four standard factors. It noted that, while commercial, Accolade's purpose was proper—to gain access to program elements unprotected by copyright.¹³⁹ The court understood this goal as particularly compelling in the context of computer software, since unlike other forms of expression, the ideas and processes embodied in machine code are not perceptible to the human eye.¹⁴⁰ Finally, the court recognized that any market harm suffered by Sega was the result of legitimate competition, not borrowed expression.

Sega is rightly interpreted as a vindication of reverse engineering and interoperability.¹⁴¹ Those concerns clearly steered the court toward its finding of fair use. Beyond noting that Accolade lawfully acquired Sega's console and games, the court said very little about copy ownership. But when *Sega* is contrasted with the Federal Circuit's decision in *Atari*, copy ownership emerges as a central distinction.

Much like Accolade, Atari hoped to create video games compatible with a popular console, in this case the Nintendo Entertainment System (NES). Just as the Sega Genesis implemented software code to prevent the use of unlicensed games,¹⁴² Nintendo relied on its own program, called 10NES, for the same function.¹⁴³ And just as Accolade reverse engineered Sega's code, Atari attempted to do the same with 10NES. The crucial difference is that while Accolade obtained Sega's code from games purchased on the open market—in other words, acquiring legal title to those copies—Atari did not.¹⁴⁴

As part of the copyright registration process, the Copyright Office accepts deposits of copies of registered works.¹⁴⁵ Those copies are made available to the public, in accordance with Copyright Office regulations,¹⁴⁶ under three circumstances: (1)

138. *Id.*

139. *Id.* at 1522.

140. *Id.* at 1525.

141. Pamela Samuelson & Suzanne Scotchmer, *The Law and Economics of Reverse Engineering*, 111 YALE L.J. 1575, 1610–13 (2002).

142. *Sega*, 977 F.2d at 1524 n.7.

143. *Atari Games Corp. v. Nintendo of Am. Inc.*, 975 F.2d 832, 8470 (Fed. Cir. 1992).

144. *Id.*

145. 17 U.S.C. § 407 (2006).

146. *Id.* § 706(b).

when the copyright owner gives permission; (2) when a court orders the production of copies; or (3) when a party to ongoing or prospective litigation requests a copy and assures the Copyright Office that the copy will be used solely for the purposes of the identified litigation.¹⁴⁷

Atari's attorney applied to the Copyright Office seeking a copy of the 10NES program, falsely claimed that Atari was a defendant in an infringement action in the Northern District of California, and assured the "Library of Congress that the requested copy [would] be used only in connection with the specified litigation."¹⁴⁸ But Atari was not a party to any such litigation. Further, Atari used the copy it obtained from the Copyright Office to make additional intermediate copies to aid in its reverse engineering of 10NES.¹⁴⁹ In short, Atari acquired its copy of 10NES from the Copyright Office through an act of fraud, not a lawful purchase.

Like *Accolade*, Atari maintained that intermediate copying for reverse engineering purposes should be excused as a fair use. Although the Federal Circuit embraced the fair use reasoning in *Sega*,¹⁵⁰ the court saw a key distinction between the two cases. Atari did not work from a lawfully owned copy of 10NES.¹⁵¹ As a result, its acts of reproduction could not qualify as fair.¹⁵² According to the court, "to invoke the fair use exception, an individual must possess an authorized copy of a literary work."¹⁵³

To support that categorical claim, the Federal Circuit relied on the Supreme Court's decision in *Harper & Row v. Nation*.¹⁵⁴ There the Court declined to treat the excerpting of

147. 37 C.F.R. § 201.2(d)(2) (2011).

148. *Atari*, 975 F.2d at 836.

149. *Id.*

150. *Id.* at 843 ("Reverse engineering, untainted by the purloined copy of the 10NES program and necessary to understand 10NES, is a fair use.").

151. *Id.* at 846. Perhaps the most natural characterization of the *Atari* and *Sega* decisions contrasts a defendant who committed fraud and one who did not. But *Atari's* reasoning equally supports a characterization that contrasts a defendant who owned a lawful copy and one who acquired its copy through other means. Both implicate equitable principles in the law, with the latter more soundly focused on the tension between intellectual and personal property.

152. *See also* *DSMC, Inc. v. Convera Corp.*, 479 F. Supp. 2d 68, 83 (D.D.C. 2007) (holding that defendant's use was unfair where it gained unlawful access to plaintiff's program).

153. *Atari*, 975 F.2d at 843.

154. *See* *Harper & Row Publishers, Inc. v. Nation Enter.*, 471 U.S. 539, 562-63 (1985).

roughly three hundred words of Gerald Ford's biography in a magazine article as fair where the defendant acquired a "purloined" copy of the unpublished manuscript.¹⁵⁵ *Harper & Row* is typically cited for the proposition that the unpublished status of a work weighs against a finding of fair use.¹⁵⁶ But in *Atari*, the Federal Circuit recast that rule in terms that sound in individual copy ownership rather than publication.

Nintendo's dispute with electronics maker Galoob provides perhaps an even clearer example of the ways in which copy ownership influences courts faced with questions of personal use.¹⁵⁷ Galoob distributed a product called the Game Genie, a programmable device that, when inserted into a game console like the NES, allowed players to alter their gameplay experience in ways unintended by the game's creators. They could speed up or slow down the game, enjoy extra powers, or gain infinite lives. Nintendo argued that the Game Genie resulted in unauthorized derivative works based on its games.

The district court rejected Nintendo's contention. First, it recognized that Nintendo's argument was premised on treating consumers who used the Game Genie as direct infringers. The court was unwilling to interfere with consumers' "noncommercial, private" use of Nintendo games "legally obtained at market price,"¹⁵⁸ analogizing such use "to skipping portions of a book, learning to speed read, fast-forwarding a video tape one has purchased in order to skip portions one chooses not to see, or using slow motion for the opposite reasons."¹⁵⁹ By purchasing a copy of a work, the court reasoned, a consumer is entitled to make personal use of that copy, free from copyright holder control.¹⁶⁰ As the court explained,

Once having purchased, for example, a copyrighted board game, a consumer is free to take the board home and modify the game in any way the consumer chooses, whether or not the method used comports

155. *Id.* at 542–43 (describing "an unidentified person" who "secretly brought" the "purloined manuscript" to the *Nation's* editor, who "knew that his possession of the manuscript was not authorized and that the manuscript must be returned quickly to his 'source' to avoid discovery").

156. *See* *Salinger v. Random House*, 811 F.2d 90, 97 (2d Cir. 1987).

157. *Lewis Galoob Toys, Inc. v. Nintendo of Am., Inc.*, 780 F. Supp. 1283, 1288 (N.D. Cal. 1991), *aff'd*, 964 F.2d 965 (9th Cir. 1992).

158. *Id.* at 1291.

159. *Id.*

160. *Id.*; *see also* *Recording Indus. v. Diamond Multimedia Sys.*, 180 F.3d at 1079 (describing the operation of an early mp3 player that "merely makes copies in order to render portable, or 'space-shift,' those files that already reside on a user's hard drive" as "paradigmatic noncommercial personal use").

with the copyright holder's intent. The copyright holder, having received expected value, has no further control over the consumer's private enjoyment of that game.

Because of the technology involved, owners of video games are less able to experiment with or change the method of play, absent an electronic accessory such as the Game Genie. This should not mean that holders of copyrighted video games are entitled to broader protections or monopoly rights than holders of other types of copyrighted games, simply because a more sophisticated technology is involved. Having paid Nintendo a fair return, the consumer may experiment with the product and create new variations of play, for personal enjoyment, without creating a derivative work.¹⁶¹

In affirming the district court's opinion, the Ninth Circuit reemphasized copy ownership within the fair use framework. The court explained that

once [consumers] have paid [for Nintendo's games], the fact that the derivative works created by the Game Genie are comprised almost entirely of Nintendo's copyrighted displays does not militate against a finding of fair use . . . [A] party who distributes a copyrighted work cannot dictate how that work is to be enjoyed.¹⁶²

Whether the screen displays created by the Game Genie were derivative works at all or whether their creation was excused as a fair use, the *Galoob* court agreed that consumers who owned copies of Nintendo games did not infringe when they played modified versions of those games.

Courts have also found copy ownership to be a decisive factor in cases alleging violations of the anti-circumvention provisions of the Digital Millennium Copyright Act.¹⁶³ Chamberlain, makers of a garage door opener (GDO) that utilized "rolling code" technology,¹⁶⁴ alleged that a compatible universal garage door remote sold by Skylink circumvented the technological protection measure that restricted access to the software code that operated Chamberlain's device. In essence, Chamberlain

161. *Lewis Galoob Toys*, 780 F. Supp. at 1291.

162. 964 F.2d 965, 971 (9th Cir. 1992); *accord* *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 638 (2008) (holding that the doctrine of patent exhaustion prevents patent holders from attempting to "control post-sale use of the [patented] article").

163. *See, e.g.,* *Chamberlain Grp., Inc. v. Skylink Tech., Inc.*, 292 F. Supp. 2d 1023 (N.D. Ill. 2003) (finding that authorized use of technology does not violate Digital Millennium Copyright Act), *aff'd*, 381 F.3d 1178 (Fed. Cir. 2004). For a more thorough discussion of the interaction between 17 U.S.C. § 1201 and copyright exhaustion, see Perzanowski & Schultz, *supra* note 26, at 902–07.

164. Rolling Code technology is often used in garage-door openers and car entry systems. It is designed to prevent a person from recording a transmission and replaying it to break in to the garage or car. *See Rolling Code*, WIKIPEDIA, http://en.wikipedia.org/wiki/Rolling_code (last visited Mar. 3, 2012).

claimed that when purchasers of its GDO used the Skylink remote to open their garage, they were violating Chamberlain's rights under copyright law.

The district court rejected Chamberlain's claim, agreeing with Skylink that "a homeowner who purchases a Chamberlain GDO owns it and has a right to use it."¹⁶⁵ Because the consumer owns the device and the copy of the software code embedded in it, she is entitled to make use of that code even in ways that conflict with the prerogative of the copyright holder.¹⁶⁶ On review, the Federal Circuit held that claims under § 1201, while distinct from traditional copyright infringement, are closely tied to it. According to the court, in order to establish a violation of § 1201, the plaintiff must demonstrate some causal nexus between the act of circumvention and some plausible act of infringement.¹⁶⁷ But according to the court, no such nexus existed because "consumers who purchase a product containing a copy of embedded software have the inherent legal right to use that copy of the software."¹⁶⁸ Again, the court found the fact of copy ownership to control and undermine any claim against the owner for personal uses, regardless of copyright holder objections.

Of course, not every personal use case turns on copy ownership. *Sony*, arguably the most important personal use decision in modern copyright law, addressed reproductions made by nonowners of copies. Although entitled to time-shift and view programs broadcast for free over the air, the consumers in the case were not copy owners at the time they made their recordings. They had access to an ephemeral performance of work, but did not possess, much less own, a tangible copy. So while the fact of copy ownership encourages courts to hold personal uses noninfringing, the absence of copy ownership does not preclude such a holding.

Even acknowledging that not all personal use cases target copy owners, taken together, these cases suggest that courts are moved by the fact of copy ownership. They may articulate

165. *Chamberlain*, 292 F. Supp. 2d at 1039.

166. *Id.* at 1040.

167. *Id.* at 1202.

168. *Id.*; see also *Storage Tech. Corp. v. Custom Hardware Eng'g & Consulting, Inc.*, 421 F.3d 1307 (Fed. Cir. 2005) (finding that purchase of magnetic library-tape system implicates copy ownership under 17 U.S.C. § 117); *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 387 F.3d 522, 546 (6th Cir. 2004) (finding that purchase and ownership of printer was key to lawful access to printer-engine program contained inside).

that concern in terms of fair use, through narrow readings of the exclusive rights of copyright holders, or by recognizing the inherent rights of consumers to use and manipulate the copies they own. But regardless of the doctrine applied in any particular case, copy ownership matters. The next section explores why.

B. COPY OWNERSHIP'S RESONANCE

Despite the lack of any obvious doctrinal outlet, courts have repeatedly turned to the fact of copy ownership in deciding cases that explore the bounds of personal uses of copyrighted works. These courts are drawn to copy ownership for at least three reasons. First, copy ownership offers the appearance of a simple and familiar inquiry. Second, arguments rooted in copy ownership derive rhetorical force from the traditional respect our legal system shows for private property. And third, the rights of copy owners are consistent with the incentive theory underlying copyright protection.

1. The Familiarity and Seeming Simplicity of Ownership

Courts, like most of us, prefer simple choices to complex ones.¹⁶⁹ As a result, they sometimes reduce complicated inquiries to more manageable questions and seek out familiar concepts and modes of analysis. Courts follow this impulse even when statutory or judicial authority calls for more nuanced analysis.¹⁷⁰ This tendency helps explain why courts are moved by the fact of copy ownership, even when constrained by doctrines that offer no obvious place for its consideration.

When courts decide personal use cases, they must do so without the benefit of their most familiar and reliable tools. Given the paucity of personal use case law, precedent is in short supply. And the Copyright Act's combination of silence and ambiguity on the question of personal use means that mechanical statutory interpretation alone cannot resolve these questions. Instead, courts traditionally look to apply one of the

169. See Dan Simon, *A Third View of the Black Box: Cognitive Coherence in Legal Decision Making*, 71 U. CHI. L. REV. 511, 513 (2004) ("Coherence-based reasoning posits that the mind shuns cognitively complex and difficult decision tasks by reconstructing them into easy ones, yielding strong, confident conclusions.").

170. See Beebe, *supra* note 72, at 621 (noting the tendency of courts "to apply § 107 in the form of a cognitively more familiar two-sided balancing test in which they weigh the strength of the defendant's justification for its use . . . against the impact of that use on the incentives of the plaintiff").

three copyright doctrines outlined above, each of which introduces additional complications and uncertainties. Copy ownership, in contrast, holds out the promise of a comfortably simple and familiar inquiry, a question courts are confident they can answer.

Compared to the fair use multifactor balancing test, or even the intent-focused implied license inquiry, we should expect courts to welcome a consideration as seemingly elementary as whether a defendant owns a copy of a work. That question lends itself to binary distinctions; either the consumer owns a copy or she doesn't. When determining ownership of a tangible object, courts can usually avoid the sliding scales, shades of meaning, and indeterminate results that define and complicate other legal inquiries.

Not only does copy ownership promise simplicity, but perhaps more importantly it also carries an air of familiarity. Collectively, courts have hundreds of years of experience deciding who owns personal property.¹⁷¹ Given their training and experience, we expect most judges will feel more confident analyzing the issue of ownership rather than, for example, the more exotic question of transformation under factor one of the fair use analysis.¹⁷² Because the question of ownership allows courts the solace of familiarity, they are more likely to embrace it in their reasoning.

Of course, the appeal of this well-worn territory, even coupled with its comparative simplicity, does not guarantee that courts will focus on copy ownership. But it should come as no surprise when we see courts turn to ownership to bolster their confidence in the fuzzy conclusions they draw from the available doctrines.

Although the question of ownership may seem like a simple one, as discussed in greater detail below, the widespread use of license agreements attached to copies of works purchased by consumers introduces some unfortunate and, in our view, unnecessary complications into the ownership inquiry that have muddied the waters for courts. In short, copyright holders now routinely insist that consumers who acquire copies of their works do not own them, but merely license them. We believe that in most instances such claims flatly mischaracter-

171. See, e.g., *Pierson v. Post*, 3 Cai. 175 (N.Y. 1805).

172. By comparison, fair use cases are relatively rare. See Beebe, *supra* note 72, at 565 (noting that from 1978 to 2005, there were only 306 reported federal opinions that contained any substantive fair use analysis).

ize the nature of the transaction between the copyright holder and consumer. These efforts capitalize on courts' longstanding confusion about the distinction between intangible works of authorship and the tangible copies embodying them, a confusion that has grown as copyright has become increasingly divorced from traditional distribution media. Copyright owners have seized on this confusion as a means of getting out from under the thumb of the first sale doctrine and other exhaustion-based doctrines that limit their control over consumer behavior and secondary markets.¹⁷³ The implications of the license-versus-sale debate for personal use offer more reason to hope that courts will resolve the lingering uncertainty about the legal force of efforts to unilaterally strip consumers of the mantle of ownership.

2. The Power of Private Property Rhetoric

The pull of copy ownership also derives, in part, from our traditional commitment to private property interests. When consumers argue that they are entitled to make use of a copy of a work because they own it, they appeal to a notion of property with deep resonance for courts.¹⁷⁴ Talk of private property elicits powerful stirrings deep within the reptilian brain of our judicial tradition. Within that tradition, ownership of a bound volume, a reel of film, or a digitally encoded plastic disc creates a strong presumption favoring a consumer's right to make whatever use of that object she chooses. Copyright law alters that presumption by defining a set of uses of the intangible works embodied on those physical artifacts more or less within the exclusive purview of the rights holder. But when the statutory privileges of copyright holders run headlong into the personal property rights of consumers, courts are implicitly asked to resolve conflicts between those two competing interests.¹⁷⁵

Sometimes the winner is clear. Sections 109 and 117 unambiguously favor owners of copies to holders of copyrights in narrow sets of circumstances.¹⁷⁶ But more often than not,

173. See, e.g., *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1112–13 (9th Cir. 2010) (finding a software's use subject to its copyright holder's numerous limitations).

174. See OTA STUDY, *supra* note 4, at 66–75.

175. As one commentator puts it, “the powers wielded by copyright holders come only at the expense of the property rights the rest of us hold in our persons, estates, and chattels.” Tom W. Bell, *Copyright as Intellectual Property Privilege*, 58 SYRACUSE L. REV. 523, 541 (2008).

176. 17 U.S.C. § 109(c) (2006) (permitting the owner of a particular copy of

courts are forced to turn to doctrines that consider copy ownership only peripherally in order to mediate conflicts between copy owners and copyright holders.

As the cases described above suggest, consumers stand a puncher's chance against copyright holders in the battle of competing property interests. This result is somewhat surprising. In recent decades, Blackstonian notions of property have been a key rhetorical tool for rights holders attempting to broaden, extend, and strengthen their statutory privileges.¹⁷⁷ Rights holders have enjoyed remarkable success in characterizing statutory privileges as property rights and infringement as theft, with both legislators and courts adopting the rhetoric of intellectual property absolutism.¹⁷⁸

Those skeptical of intellectual property expansionism have attempted to undermine the notion that the statutory privileges we have come to call "intellectual property" are property rights in a meaningful sense.¹⁷⁹ But more recently, David Fagundes has argued that advocates of more restrained intellectual property policy would do well to embrace the property paradigm.¹⁸⁰ Recognizing the force of property rhetoric, he suggests that, rather than distance copyright and patent law from

a work to publicly display that work "to viewers present at the place where the copy is located"); *id.* § 117(a) (permitting owners of copies of computer programs to create copies and adaptations necessary for the operation of the program and for archival purposes).

177. See David Fagundes, *Property Rhetoric and the Public Domain*, 94 MINN. L. REV. 652, 675–76 (2010). For example, Jack Valenti, former president of the Motion Picture Association of America, railed against "private property[s] . . . being pillaged." Edmund Sanders & Jube Shiver, Jr., *Digital TV Copyright Concerns Tentatively Resolved by Group*, L.A. TIMES, Apr. 26, 2002, at C5.

178. Members of Congress often defend new expansions of rights-holder exclusivity as necessary to protect property interests. See, e.g., 144 CONG. REC. H10620 (daily ed. Oct. 12, 1998) (statement of Rep. Jackson Lee) ("[The Digital Millennium Copyright Act] demonstrates our commitment to protecting the personal rights and property of American citizens."); 144 CONG. REC. S12378 (daily ed. Oct. 12, 1998) (statement of Sen. Hatch) ("In my view, property is property whether it's dirt or intangible . . ."). Courts lapse into these characterizations as well. See *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 961 (2005) (Breyer, J., concurring) ("[D]eliberate unlawful copying is no less an unlawful taking of property than garden-variety theft."); see also Fagundes, *supra* note 177 at 661–62 (noting Justice Scalia's invocation of property romanticism during oral argument in *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006)).

179. See Bell, *supra* note 175; Lemley, *Licensing Market*, *supra* note 98; Lemley, *Place and Cyberspace*, *supra* note 97.

180. Fagundes, *supra* note 177, at 701.

property, proponents of limitations on intellectual property exclusivity should appropriate property talk.¹⁸¹ By shifting focus from the private property interests of rights holders to our collective property interest in the public domain, the argument goes, property rhetoric can be enlisted on the side of consumers and users.

But our shared interest in the public domain differs from rights holder interests in their works in fundamental respects that undermine the effort to capture the rhetorical advantages of property talk.¹⁸² The interests of rights holders are concentrated and concrete. By contrast, the collective interest in the public domain is both diffuse and abstract. “When a copyright or patent expires, the rights holder can point to a concentrated economic loss[.]” Damage to the public domain, on the other hand, is distributed broadly and gives rise to counterfactual harms unlikely resonate in the way more immediate and palpable harms do.

Copy ownership, in contrast, offers a unique opportunity for consumers to leverage effectively the power of arguments rooted in the sanctity of private property. Typically, the invocation of property interests tilts the playing field in favor of rights holders. But when a consumer defends her actions on the grounds that she was merely making reasonable use of her own personal property, the intuitive moral force of private ownership can give the consumer the upper hand.¹⁸³ Unlike diffuse and abstract collective interests in the public domain, her interest is both concentrated and concrete. And unlike the statutory privileges of copyright or patent law, her interest in her bound stack of paper or her plastic disc is unassailably a property interest.

In short, the same reflexive response to property talk that rights holders have so skillfully exploited in recent decades also partially explains the influence of copy ownership on judicial thinking even where no established copyright doctrine requires the court to consider the ownership issue.

181. *Id.*

182. See Aaron K. Perzanowski, *In Defense of Intellectual Property Anxiety: A Response to Professor Fagundes*, 94 MINN. L. REV. HEADNOTES 85, 87–89 (2010).

183. See Grynberg, *supra* note 107, at 467.

3. Alignment with Copyright Incentives

Arguments rooted in copy ownership are also unlikely to undermine the incentive structure created by copyright law. The immediate aim of the copyright system is the creation of legal obstacles to free trade in protected works.¹⁸⁴ By establishing exclusive rights for authors and their assignees, copyright law allows rights holders to charge supra-competitive prices for copies of their works. Absent some market intervention, an author's work would be copied by competitors and sold at marginal cost, preventing many authors from recouping their costs and profiting from the sale of copies of their works. As a result, some authors would lack sufficient incentives to create new works.¹⁸⁵ To overcome this public goods problem, copyright law offers rights holders qualified control over the reproduction, distribution, and public exploitation of their works.¹⁸⁶

Given the centrality of the incentive story to copyright law, we should expect courts to consider the impact of challenged uses on authorial incentives. Fair use purports to do this through the fourth factor;¹⁸⁷ and implied licensing relies on the rights holder handing over a copy as an indication that her incentives have been satisfied.¹⁸⁸ Regardless of the legal rule, incentives should inform our evaluation of personal uses.¹⁸⁹

184. This goal is an instrumental one. See *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975) (“The immediate effect of our copyright law is to secure a fair return for an ‘author’s’ creative labor. But the ultimate aim is, by this incentive, to stimulate [the creation of useful works] for the general public good.”); *Mazer v. Stein*, 347 U.S. 201, 219 (1954) (“The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in ‘Science and useful Arts.’”). Not only does the copyright system aspire to the creation of new works, but also their use and enjoyment by the public. See Litman, *supra* note 4, at 1915.

185. But not all authors. See Eric E. Johnson, *Intellectual Property and the Incentive Fallacy*, FLA. ST. U. L. REV. (forthcoming 2012).

186. See *Harper & Row Publishers, Inc. v. Nation Enter.*, 471 U.S. 539, 558 (1985), (“The Framers intended copyright itself to be the engine of free expression. By establishing a marketable right to the use of one’s expression, copyright supplies the economic incentive to create and disseminate ideas.”).

187. Although in practice, rigorous fact-based investigation of the economic impact of the defendant’s use on the market for the work is uncommon. See Beebe, *supra* note 72, at 618.

188. See *supra* notes 74–75 and accompanying text.

189. Others have noted the importance of incentives of legality of personal use. See, e.g., Litman, *supra* note 4, at 1911–12 (personal uses that do not harm incentives should be lawful); Glynn S. Lunney, Jr., *Fair Use and Market Failure: Sony Revisited*, 82 B.U. L. REV. 975, 1026 (2002) (“To the extent that

A copy owner is in a far better position than a nonowner to convince a court that her use is consistent with copyright's incentive structure. She can quickly distinguish herself from the undifferentiated masses of infringers, scouring the internet in search of something for nothing. The copy owner is no free-rider; the copy owner is a contributing member of the copyright economy, one who has paid the price set by the rights holder in exchange for a copy. That sale itself guarantees the author some return on her investment, and at a price the author is positioned to set.

Undoubtedly, the consumer could do more. She could pay the author for permission to loan the book to a friend; she could pay a convenience fee for the privilege of reading the book on the beach; or she could acquire a more expensive copy of the book with extra wide margins to facilitate note taking. But the purpose of copyright law is not to maximize the rights holder's boon, it is to create an incentive structure sufficient to spur creativity without unduly sacrificing the public's ability to access and enjoy the resulting works.¹⁹⁰

Copy ownership serves as a readily identifiable marker of a consumer who has not disregarded the basic premise of copyright law. Ownership offers a reliable suggestion that the use made by that consumer is unlikely to disrupt copyright incentives. Precisely which uses create intolerable harm to incentives in light of the increased value they offer consumers remains a difficult question.¹⁹¹ But wherever that line is drawn, copy owners are more likely than the public at large to stand on the lawful side of it.

Taken together, copy ownership's appeal derives from its apparent simplicity and familiarity, its adherence to our traditional respect for private property interests, and its comfortable fit with copyright's incentive story. Those attributes help explain why courts are persuaded by the fact of copy ownership,

private copying expands access to existing works without decreasing the copyright owner's revenues and the resulting incentive to create additional works, private copying is Pareto optimal and should constitute a fair use.”).

190. See William W. Fisher III, *Property and Contract on the Internet*, 73 CHI.-KENT L. REV. 1203, 1249 (1998) (arguing that copyright should “give creators enough entitlements to induce them to produce the works from which we all benefit but no more”).

191. See Litman, *supra* note 4, at 1914 (“We need to give the analysis of competitive uses more serious attention than simply accepting assertions that any time a person gets for free something that she might otherwise buy, she has damaged the copyright owner's market by displacing a sale.”).

even in the absence of any rule or doctrine that calls for its consideration. Given the role copy ownership has already played in the background of the personal-use case law, both courts and litigants would likely embrace copy ownership more consistently and explicitly if presented with a clear avenue for its consideration. The next Part attempts to shine some light on the first few steps along that path.

III. PERSONAL USE AS EXHAUSTED USE

Now more than ever, copyright law needs a clear, predictable approach to separating lawful personal uses from acts of infringement. Copyright's leading candidates for such an approach, fair use and implied license, are doctrines developed to deal with scenarios very different from the consumptive use of mass-produced works sold to the general public. Not surprisingly, they have proven imperfect fits for the mine run of personal use cases.

Below, we introduce a new approach that leverages a common thread running throughout much of the personal use case law—the influence of copy ownership. As our prior work has highlighted, the history of copy ownership's role in mediating between the exclusive rights of copyright holders and the rights of consumers to use their copies is much richer than the accepted wisdom would suggest.¹⁹² In this Part, we briefly recap our work on copyright's exhaustion principle, outline its application to the personal use dilemma, and assess the advantages of an exhaustion-based approach over the existing alternatives. Finally, we offer a frank discussion of the limits of exhaustion in the personal use context.

A. THE PRINCIPLE OF COPYRIGHT EXHAUSTION

For over one hundred years, the prevailing wisdom has endorsed an appealingly simple story about the role copy ownership plays in the copyright system. Under the first sale doctrine, ownership of a copy entitles one to sell, lend, lease, or otherwise dispose of that particular copy.¹⁹³ A few additional

192. See, e.g., Perzanowski & Schultz, *supra* note 26.

193. See 17 U.S.C. § 109(a) (2006) (“[N]otwithstanding the provisions of § 106(3), 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.”).

statutory wrinkles aside,¹⁹⁴ the first sale doctrine and its limitations on the exclusive right of distribution have been understood to reflect the full embodiment of copyright law's exhaustion rules and the full extent of its concern with copy ownership. According to this narrative, the Supreme Court created the first sale doctrine in 1908 with its decision in *Bobbs-Merrill, Co. v. Straus*,¹⁹⁵ Congress nearly immediately codified that doctrine in the Copyright Act of 1909,¹⁹⁶ and decades later, Congress signaled its continued endorsement of the doctrine in the current Copyright Act of 1976.¹⁹⁷

The fuller account of the common law development of copyright's treatment of exhaustion paints a richer and more complicated picture.¹⁹⁸ Contrary to its creation myth, the first sale doctrine did not spring forth, fully formed, from *Bobbs-Merrill* like Athena from Zeus's head. Instead, first sale's gestation traces its earliest roots to the tradition disfavoring servitudes on personal property. Because restraints on movables provided insufficient notice, imposed high information costs, and generally interfered with commerce, courts consistently rejected efforts to encumber personal property with constraints on its

194. See *id.* § 109(c) (permitting the owner of a particular copy of a work to publicly display that work "to viewers present at the place where the copy is located"); *id.* § 117(a) (permitting owners of copies of computer programs to create copies and adaptations necessary for the operation of the program and for archival purposes); *id.* § 109(b) (precluding the rental of sound recordings and certain computer programs).

195. 210 U.S. 339 (1908). *Bobbs-Merrill* considered an effort to inflate retail prices for copies of *The Castaway*, a novel by Hallie Herminie Rives, by inclusion of a notice stating that "[t]he price of this book at retail is one dollar net. No dealer is licensed to sell it at a less price, and a sale at a less price will be treated as an infringement of the copyright." *Id.* at 341. When R.H. Macy & Company sold the book for mere 89 cents, the publisher sued. Rejecting the attempt to attach burdens on subsequent purchasers of copies, the Court held that once *Bobbs-Merrill* sold copies "in quantities and at a price satisfactory to it[, it] has exercised the right to vend," exhausting that right with respect to the particular copies sold. *Id.* at 351.

196. Copyright Act of 1909, ch. 320, § 26, 35 Stat. 1075, 1084 (repealed 1976) (stating that "nothing in this Act shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained"). When it embraced *Bobbs-Merrill*, Congress did "not intend[] to change in any way existing law." H.R. REP. NO. 60-2222, at 19 (1909), reprinted in E. FULTON BRYLAWSKI & ABE GOLDMAN, 6 LEGISLATIVE HISTORY OF THE 1909 COPYRIGHT ACT (1976).

197. See 17 U.S.C. § 109(a). Again, Congress affirmed its intent to "re-state[] and confirm[]" the first sale rule "established by [] court decisions." H.R. REP. NO. 94-1476, at 79 (1976).

198. See Perzanowski & Schultz, *supra* note 26, at 912–19.

subsequent use and alienation.¹⁹⁹ Drawing on this tradition, a number of earlier district and appellate court decisions had already recognized the wisdom of limiting the scope of copyright exclusivity as against the owners of lawfully acquired copies. And unlike *Bobbs-Merrill*, which confronted only an alleged violation of the exclusive right to vend,²⁰⁰ or in contemporary terms, distribute copies of a work,²⁰¹ these previously overlooked cases considered allegedly infringing reproductions and adaptations of protected works.

From the common law development of this broader principle of copyright exhaustion, which continued long after the Court's decision in *Bobbs-Merrill* and its statutory acknowledgement in the 1909 Act,²⁰² emerges a rule that enables copy owners to not only alienate their copies over the objections of copyright holders, but to renew, repair, or reproduce them as well.²⁰³ In *Doan v. American Book*, the Seventh Circuit held that a restorer and reseller of children's books did not infringe when he reproduced "exact imitation[s] of the original" cover designs in the course of repairing used books.²⁰⁴ The court held that such copying fell within the "right of repair" that passed to the owner of the copy.²⁰⁵ According to the court, the "right of ownership in the book carries with it and includes the right to maintain the book as nearly as possible in its original condition."²⁰⁶

Moreover, exhaustion entitles copy owners to modify or adapt their copies, or, in today's terminology, produce derivative works.²⁰⁷ In *Kipling v. G.P. Putnam's Sons*, the Second Cir-

199. See Zechariah Chafee, Jr., *The Music Goes Round and Round: Equitable Servitudes and Chattels*, 69 HARV. L. REV. 1250, 1261 (1956); Van Houweling, *supra* note 53, at 897-98.

200. 210 U.S. at 343.

201. 17 U.S.C. § 106(3).

202. See, e.g., *Fawcett Publ'ns, Inc. v. Elliot Publ'g Co.*, 46 F. Supp. 717, 718 (S.D.N.Y. 1942).

203. See *Doan v. Am. Book Co.*, 105 F. 772, 777 (7th Cir. 1901) (holding that overhauling and reconstructing copies of a protected work was not infringement); *Bureau of Nat'l Literature v. Sells*, 211 F. 379, 382 (W.D. Wash. 1914) (same).

204. *Doan*, 105 F. at 777.

205. *Id.*

206. *Id.*

207. See *Kipling v. G.P. Putnam's Sons*, 120 F. 631, 633-34 (2d Cir. 1903); *Fawcett Publ'ns*, 46 F. Supp. at 718 (holding that no infringement occurred when one publisher purchased copies of another publisher's comic books and bound them together with comics published by a competitor under the name "Double Comics").

cuit rejected a claim that a publisher infringed when it created and distributed an unauthorized collection of the works of Rudyard Kipling.²⁰⁸ That compilation consisted of unbound pages of Kipling's copyrighted works purchased from his licensee, other lawfully acquired copies of protected Kipling works, uncopyrighted works by Kipling, and a biography of the author.²⁰⁹ These various lawful copies were bound together in a new multivolume set.²¹⁰ The court held that because the publisher was a lawful owner of the copies, it was free to combine and market them over the author's objections.²¹¹

In short, the common law of copyright exhaustion allows the owner of a copy to reproduce or prepare derivative works based on that copy to the extent necessary to enable the use, preservation, or alienation of that particular copy or any lawful reproduction of it.²¹²

Of course, courts should not equate exhaustion with unrestrained immunity for acts of copying or distribution beyond those that flow naturally from title to a discrete copy. The owner of a copy could not, for example, make three copies of an e-book, then sell each to a different party while retaining the original for herself. In order to remain consistent with its common law origins, exhaustion should insist on a one-to-one ratio between those copies acquired or lawfully created and those transferred.²¹³ Applied in such a fashion, the exhaustion principle preserves the interests of copyright owners despite recent changes in the mechanics of distribution of copyrighted works.²¹⁴

208. 120 F. at 632–33.

209. *Id.*

210. *Id.*

211. *Id.* at 636–37.

212. Patent law's exhaustion doctrine developed a similarly flexible approach through the common law process. See Perzanowski & Schultz, *supra* note 26, at 932–34; see also *Quanta Computer v. LG Elecs.*, 553 U.S. 617, 630 (2008) (noting the “longstanding principle that, when a patented item is ‘once lawfully made and sold, there is no restriction on [its] use to be implied for the benefit of the patentee’” (quoting *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 456–57 (1873))).

213. Congress adopted similar reasoning with respect to backup and necessary step copies of computer programs. See 17 U.S.C. § 117(b) (2006).

214. This issue has recently arisen in the patent-exhaustion context. In the aftermath of the Supreme Court's doctrinal affirmation of exhaustion, see *Quanta*, 553 U.S. at 637, the Federal Circuit confronted the question of how to apply the principle to patented seeds in *Monsanto Co. v. Bowman*, 657 F.3d 1341 (Fed. Cir. 2011). There, the Court denied the defendant's claim that purchase of a patented seed exhausted all claims to future seeds grown from re-

The copyright economy is increasingly abandoning the sale of analog copies that can be plucked from the shelves of our home libraries and sold at the local used book store in favor of digital downloads stored on local electronic devices or distant cloud storage facilities, copies that can be transferred, if at all, by creating additional reproductions.²¹⁵ In such an environment, copyright law needs an exhaustion doctrine that extends beyond simple redistribution if it is to have one at all. A common law driven exhaustion principle provides the flexibility necessary to adapt longstanding copyright policy to emerging technologies. As discussed below, this exhaustion principle has important implications for the effort to ground lawful personal use in a secure doctrinal foothold.

B. COPYRIGHT EXHAUSTION AND PERSONAL USE

If widely embraced, copyright exhaustion—the notion that a copy owner is entitled to reproduce, modify, and distribute her copy in order to fully realize its value qua copy—offers courts a simple, predictable, and stable approach to resolving the wide swath of personal use scenarios that involve consumers who own lawful copies of the works they use. Exhaustion highlights two indicia that can help us quickly separate uses we should encourage from those we might treat as infringing: the status of the user as a copy owner and the fundamentally rivalrous nature of their uses. In doing so, exhaustion gives courts an explicit, transparent, and principled avenue for considering the property interests of copy owners and the statutory privileges of rights holders.

A framework for analyzing personal uses rooted in exhaustion has a number of attractive characteristics. The first is its simplicity. A court presented with an alleged infringement defended on the grounds of personal use permitted by exhaustion

planting the original. *Id.* at 1347–48. While the Court primarily based its holding on evidence of what the “reasonable and intended use” of such seeds were, the tone of the opinion indicates clear discomfort with the near limitless potential for one purchased seed to spawn others, especially over time and after the original seed ceases to exist. *Id.* at 1348 (“Applying the first sale doctrine to subsequent generations of self-replicating technology would eviscerate the rights of the patent holder.” (quoting *Monsanto Co. v. Scruggs*, 459 F.3d 1328, 1336 (Fed. Cir. 2011))). Without any clear limitation to enforce some balance of rivalry, exhaustion can potentially undermine rights holders’ entire claim to exclusivity, the proverbial exception swallowing the rule. Tethering exhaustion to ongoing copy ownership and to rules that replicate and balance the rivalrous nature of personal property ensure the stability of the rule.

215. See Perzanowski & Schultz, *supra* note 26, at 935–38.

would need to answer three questions. First, does the defendant own a copy of the work? Second, is that copy a lawful one?²¹⁶ And third, was the defendant's use consistent with the common law rights to use her copy in a way that preserves its rivalrous nature? In other words, did the use enable the copy owner or her transferee to enjoy the benefits of that copy without resulting in the sort of proliferation of copies that would interfere with the copyright holder's ability to effectively exploit its own copies? As the common law of exhaustion suggests, reproductions and derivatives that facilitate the preservation, repair, renewal, modification, adaptation, transfer, and private use of a copy generally pass this test.

Although the law surrounding ownership of copies, particularly in the context of computer programs, has yet to develop consensus,²¹⁷ these three discrete questions present courts with a manageable inquiry, and one that we should expect in time to yield predictable and consistent results. The exhaustion approach relies on three largely binary distinctions and turns on facts that are readily ascertainable before any use is made. Consumers, their advocates, and the firms who offer products and services to enable their use should be well positioned to predict with relative confidence whether a given consumer is entitled to make a particular use of a copy.

For some of the same reasons, exhaustion can lend a measure of stability to the status of personal uses. The results reached under the exhaustion approach are largely independent of the factors most likely to shift over time. They do not depend on the future intent of the parties, the particular means of distribution, the technologies used for playback, efforts to develop new markets that displace personal uses, or perhaps even the licensing strategies of rights holders.²¹⁸ If consumers can rely on their right to backup copies of their digital media collection in the same way they have been able to rely on their ability to lend a book to a friend, exhaustion promises not only predictability, but something approaching assurance.

216. As the 1976 Act clarified, only lawfully made copies trigger copyright exhaustion. 17 U.S.C. § 109(a) (2006).

217. *Id.*

218. This depends largely on how courts ultimately resolve the question of whether copyright holders in computer software can license not just the underlying copyright but the particular tangible copies seemingly owned by consumers.

At a deeper level, exhaustion finally gives courts a way to talk about the issues that lie at the heart of the status of many personal uses. First, the exhaustion framework allows courts to talk explicitly about copy ownership and its implications. Rather than continue to shoehorn ownership within orthogonal factors dictated by other doctrines or to consider ownership unmoored from any articulable legal standard, courts applying the exhaustion principle can address copy ownership head on. If, as we argue, the reason some personal uses are lawful is that they are being made by owners of copies, we should expect courts to rely on a doctrine that takes account of that fact. Exhaustion affords courts the ability to be transparent in their reasoning instead of burying their logic within the strictures of the other rules widely applied in personal use cases.

Second, exhaustion focuses our attention on another key characteristic of those personal uses widely accepted as a healthy, even necessary,²¹⁹ part of the copyright system. Unlike the intangible works of authorship they embody, particular copies of works are inherently rivalrous. Absent a potentially infringing public display or performance, two individuals at distant locations cannot simultaneously read the same copy of a book or listen to the same copy of a song. This basic rivalry is preserved when the law protects personal uses through exhaustion.

The rivalrous nature of particular copies makes them an attractive candidate for an exception to copyright exclusivity. Copyright protection is intended to combat the public goods problem encountered by the authors of creative works. But the public goods problem is, in part, a reflection of the nonrivalrous nature of those works. An intangible work—a story, a song, an image—can be shared widely without diminishing the ability of others to use, enjoy, and exploit it. But a particular copy of a work is as rivalrous as any other scarce resource. The underlying justification for intellectual property intervention, therefore, does not reach particular copies of works, when used as such. Lawfully acquired copies maintain, rather than undermine, creative incentives, conferring upon copy owners some stronger claim to lawful use than those who have not contributed their fair share to the copyright economy.

Copying a movie you downloaded from iTunes from your laptop to your phone, or burning an extra copy of a favorite CD

219. See Litman, *supra* note 4, at 1872–73.

to keep in your car, or even uploading your entire music collection to a secure cloud-based storage locker are activities that do not disturb the rivalrous nature of the consumer's copy. They are activities intended to facilitate rivalrous enjoyment of the work by the owner and perhaps her immediate circle of family and social acquaintances. As a result, those uses maintain creative incentives and provide copy owners a strong claim to lawful use.

Similarly, when a consumer sells her e-book on a secondary market like eBay, her use remains rivalrous to the extent ownership over the original copy or any reproductions are collectively transferred to another party. The relevant circle of users simply shifts from the original owner to the lucky eBay bidder. The exhaustion doctrine tracks this distinction between lawful rivalrous use and transfer of personal property, on the one hand, and the exploitation of nonrivalrous works of authorship, on the other.²²⁰

Contrast these rivalrous uses with a clear case of infringement. A consumer who reproduces her newly purchased book and sells those copies on a nearby street corner is not exploiting her copy in a manner tied to its nature as a rivalrous piece of personal property. She is exploiting the work as a nonrivalrous public good. Likewise, a consumer exploits the work, not her particular copy of it, when she publicly shares tracks ripped from her latest CD purchase over the Internet. Attempts to exploit or distribute the work broadly cross the line separating personal use from infringement.²²¹ Any rule that equated copy ownership with such broad consumer rights would do obvious damage to copyright's incentive structure.

Beyond its implications for individual consumers facing potential infringement liability based on their everyday use of copies they own, exhaustion could also help clarify the intersection of personal use and two additional questions in copyright law. The scope of indirect copyright liability remains an issue of considerable economic importance and nontrivial legal uncer-

220. See, e.g., Jon Healey, Editorial, *Ultraviolet on eBay? No Big Deal*, L.A. TIMES (Oct. 25, 2011), <http://latimesblogs.latimes.com/technology/2011/10/ultraviolet-on-ebay-no-big-deal.html>; see also Greg Sandoval, *EMI Sues MP3 Reseller ReDigi*, CNET NEWS (Jan. 6, 2012), news.cnet.com/8301-31001_3-57354089-261/emi-sues-mp3-reseller-redigi/.

221. See *Capitol Records, Inc. v. MP3tunes, LLC*, No. 07 Civ. 9931 (WHP), 2011 WL 5104616, at *6-7 (S.D.N.Y. Oct. 25, 2011) (drawing distinctions between "blatant infringers" that upload content to the internet for the world to experience and those who store content in online lockers for personal use).

tainty. When technology companies roll out new services and devices intended to enable consumers to do more with protected content, claims of contributory, vicarious, and inducement-based liability are typically quick to follow. To the extent these offerings do no more than facilitate uses within the scope of consumers' exhaustion rights, the underlying act of direct infringement required for any indirect theory would be lacking.²²² Of course, most technologies that interact with copyrighted material can be used for both infringing and noninfringing purposes. But a device or service that could enable uses protected by exhaustion would be insulated from contributory liability under the substantial noninfringing use doctrine.²²³

Perhaps more importantly, exhaustion could play a role in mediating the relationship between traditional copyright infringement and the anticircumvention prohibitions of the Digital Millennium Copyright Act (DMCA).²²⁴ When copyright holders apply technological protection measures or digital rights management (DRM) technologies to restrict access to and use of their works, they create substantial barriers to otherwise lawful personal uses of those works. Those barriers are legally reinforced by § 1201 of the DMCA, which prohibits both the circumvention of technologies that restrict access to works and the creation and dissemination of tools that enable circumvention.²²⁵ So even if it is perfectly lawful as a matter of the reproduction right for a consumer to create a copy of her child's favorite lawfully purchased Disney Blu-Ray disc to keep in the family car, the DRM systems that lock down the content on that disc mean that as a practical and legal matter, consumers are unable to do with their Blu-Ray collection what many have already done with their CD collection. As more content and devices incorporate DRM, these technologies pose a distinct threat to well-founded consumer expectations and the broad ranging social benefits of copyright's exhaustion principle.

Exhaustion can help avoid this restraint on lawful personal use in two related ways. First, some courts have interpreted

222. This assumes the end user is the party engaged in any act of direct infringement. See *Cartoon Network LP v. CSC Holdings, Inc.*, 536 F.3d 121, 130–33 (2d Cir. 2008); *Costar Grp. v. LoopNet, Inc.*, 373 F.3d 544, 552–55 (4th Cir. 2004).

223. *Sony v. Universal City Studios*, 464 U.S. 417, 456 (1984); *Paramount Pictures v. ReplayTV*, 298 F. Supp. 2d 921, 928–29 (C.D. Cal. 2004); *UMG Recordings, Inc. v. MP3.com, Inc.*, 92 F. Supp. 2d 349, 352–53 (S.D.N.Y. 2000).

224. 17 U.S.C. § 1201 (2006).

225. *Id.* at (a)–(b).

the DMCA's anticircumvention provisions to require some plausible connection between the act of circumvention at issue and a violation of the exclusive rights of copyright holders defined in § 106 of the Copyright Act.²²⁶ Absent a causal nexus between circumvention and infringement, these courts have held, no claim under § 1201 can stand.²²⁷ To the extent a defendant can identify some copyright limitation or exception that forecloses upon any reasonable likelihood of infringement liability, circumvention is permissible. Just as § 117, fair use, or other recognized copyright defenses can undermine the required nexus,²²⁸ so could copyright exhaustion. So if a consumer circumvents the protection measures on her own Blu-Ray disc in order to make a backup copy, for example, exhaustion tells us there is no infringement, and the nexus requirement implies that there is no actionable circumvention either.

But not all courts have adopted the Federal Circuit's nexus requirement. In fact, one has squarely rejected it. In *MDY Industries v. Blizzard Entertainment*, the Ninth Circuit "decline[d] to adopt an infringement nexus requirement" because it understood that element to be "contrary to the plain language of the statute."²²⁹ According to the Ninth Circuit, the DMCA creates a new cause of action for unauthorized circumvention that is independent from copyright infringement liability.

Despite their divergent views on the nexus requirement, we believe that the approaches of the Ninth and Federal Circuits are ultimately reconcilable once the role of exhaustion is taken into account. Consistent common law practice, legislative history and even the text of § 1201 all point to an important limitation on the scope of the anticircumvention provisions. But rather than a nexus requirement that renders the anti-circumvention provisions a mere supplement to copyright infringement, that limitation is better understood as a freestanding exhaustion limitation on the anticircumvention right.

Exhaustion based limitations are among the common threads that run through virtually every intellectual property

226. See *Storage Tech. v. Custom Hardware Eng'g & Consulting, Inc.*, 421 F.3d 1307, 1319 (Fed. Cir. 2005); *Chamberlain Grp., Inc. v. Skylink Tech., Inc.*, 292 F. Supp. 2d 1040, 1044 (N.D. Ill. 2003), *aff'd*, 381 F.3d 1178 (Fed. Cir. 2004).

227. *Id.*

228. *Id.*

229. See *MDY Indus. v. Blizzard Entm't, Inc.*, 629 F.3d 928, 950 (9th Cir. 2010).

regime.²³⁰ Exhaustion rules are applied not only in copyright law, but in the patent,²³¹ trademark,²³² trade secret,²³³ right of publicity,²³⁴ and misappropriation²³⁵ contexts as well. Across this broad swath of legal regimes, courts recognize that the sale of a product to a consumer extinguishes or diminishes the exclusive rights of rights holders to control the uses that, that a consumer can make of her lawfully owned copy. And in each instance, courts applied and developed exhaustion based limitations without any clear statutory directive. Just as courts have implied exhaustion limitations in virtually every other area of intellectual property protection, they should do so in the context of § 1201's anti-circumvention prohibitions as well.

Indeed, in light of the text and legislative history of § 1201, they have even greater reason to do so. The DMCA prohibits acts of circumvention.²³⁶ Circumvention, in turn, is defined as the act of bypassing, deactivating, or otherwise disabling a technological protection measure.²³⁷ Crucially, not all acts of disabling a protection measure count as acts of circumvention. In order to come within the statute's reach, those acts must be unauthorized.²³⁸

230. See generally Symposium, *Exhaustion and First Sale in Intellectual Property*, 51 SANTA CLARA L. REV. 1055 (2011).

231. *Bloomer v. McQuewan*, 55 U.S. (1 How.) 539 (1852); see *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008).

232. See *Sebastian Int'l, Inc. v. Longs Drug 5 Stores Corp.*, 53 F.3d 1073, 1076 (9th Cir. 1995) ("When a purchaser resells a trademarked article under the producer's trademark, and nothing more, there is no actionable misrepresentation under the statute.").

233. Improper means excludes those who acquire a copy of a work, examine it, and discover its secrets.

234. See *Allison v. Vintage Sports Plaques*, 136 F.3d 1143, 1149 (11th Cir. 1998) (concluding that the "first-sale doctrine applies to limit the right of publicity under Alabama law . . .").

235. *Dow Jones & Co. v. Int'l Secs. Exch., Inc.*, 451 F.3d 295, 297, 302–03 (2d Cir. 2006) (holding that an options exchange that tracks a proprietary market index does not misappropriate the rights of the index's creator).

236. 17 U.S.C. § 1201(a)(1)(A) (2006) ("No person shall circumvent a technological measure that effectively controls access to a work protected under this title.").

237. *Id.* § 1201(a)(3)(A) ("[To] circumvent a technological measure' means to descramble a scrambled work, to decrypt an encrypted work, or otherwise to avoid, bypass, remove, deactivate, or impair a technological measure, without the authority of the copyright owner . . .").

238. See *id.*; see also *MDY Indus., LLC v. Blizzard Entm't.*, 629 F.3d at 928, 953 n.16 (9th Cir. 2010) (noting that § 1201(a) prohibits only unauthorized circumvention, and § 1201 claimants bear the burden of proving that the alleged circumvention occurred without authority).

The scope of § 1201 liability, therefore, turns in part on what we mean by authorization. Authorization might refer simply to express grants of permission from copyright holders. It might embrace grants of permission implied from rights holder conduct. But both of those forms of authorization can be revoked and thus depend on the ongoing benevolence of rights holders. Alternatively, authorization might also be understood to flow from the objective fact of selling an object encumbered by technological protection measures to a consumer. As the owner of that object, the consumer is entitled to bypass its protection measures in order to make use of it. This third understanding of authorization, reflecting the basic insights of the exhaustion principle, finds support in the DMCA's legislative history.

In creating § 1201, Congress understood itself as preventing the “electronic equivalent of breaking into a locked room in order to obtain a copy of a book.”²³⁹ The DMCA was intended to discourage those who have not paid for access to a work from breaking digital locks to gain such access. But it was not intended to prevent those who bought a copy from using it. Congress intended the DMCA to apply only at the point of initial access, not as an ongoing constraint on consumers who had already purchased a copy or otherwise gained lawful access. As the House Report makes clear, § 1201(a) only “applies when a person has not obtained unauthorized access,” and “does not apply . . . once he or she has obtained authorized access to a copy of a work . . . even if such actions involve circumvention”²⁴⁰

By incorporating exhaustion into the statutory scheme of the DMCA—just as it has been incorporated into every other intellectual property regime—courts can avoid both the absurd results that render consumers unable to use their garage doors or video game accessories, as well as the perceived risk of substituting their own policy judgments for those of Congress.²⁴¹

Recognition of copyright exhaustion legitimizes personal uses in three ways. First, it provides a stable doctrinal basis for the conclusion that personal uses made by copy owners are

239. H.R. REP. NO. 105-551, pt. 1, at 17 (1998); *see also* S. REP. NO. 105-190, at 11 (1998) (likening § 1201(a) to “making it illegal to break into a house”).

240. H.R. REP. NO. 105-551, pt. 1, at 17–18 (1998).

241. *See, e.g.*, *Chamberlain Grp. v. Skylink Techs., Inc.*, 381 F.2d 1178, 1203 (Fed. Cir. 2004) (worrying that reading the DMCA as recognizing new property rights would require resolution of public policy issues more appropriately left to Congress).

noninfringing. Second, it helps insulate providers of services and devices that enable such uses from potential claims of indirect liability. And third, it effectuates Congressional intent by allowing consumers to bypass technological locks that impede their otherwise lawful use of the copies they own. In isolation, copyright exhaustion offers significant benefits for consumers and the copyright ecology as a whole. Those benefits are even more compelling when gauged against the existing alternatives.

C. THE LIMITS OF COPYRIGHT EXHAUSTION

Although the exhaustion doctrine outlined above provides courts with a much-needed doctrinal mechanism for privileging personal uses made by copy owners, it is not without its own limitations. Below, we identify and discuss three of them. First, and most importantly, in recent years courts have struggled to distinguish sales of copies that trigger copyright exhaustion and from licenses to use works that do not confer ownership. Second, exhaustion has to contend with the text of the Copyright Act itself, in particular the statutory distinction between works and copies. Third, the scope of the exhaustion rule means that it cannot resolve every personal use dispute. Nor can it justify every use consumers might like to make. Despite these limitations, exhaustion remains the most promising tool for ensuring that lawful personal use remains a component of the copyright system.

1. The Courts' Struggle to Identify Sales

In order for exhaustion to help solve the personal use dilemma, courts must have a clear understanding of when a consumer owns a copy. In the analog context, this understanding had challenges but was generally resolvable through straightforward application of common law property and commercial transaction rules.²⁴² In the digital market, many courts are struggling much more, especially with the distinction between sales and licenses, leaving the law of copy ownership muddled and uncertain.²⁴³

242. See, e.g., *Walt Disney Prods. v. Basmajian*, 600 F. Supp. 439, 442 (S.D.N.Y. 1984) (holding that a lawful possessor of animation cell gifted by a Disney employee was entitled to assert the first sale defense).

243. See, e.g., generally Brian W. Carver, *Why License Agreements Do Not Control Copy Ownership: First Sales and Essential Copies*, 25 BERKELEY TECH. L.J. 1887, 1925–30 (2010) (noting uncertainty in the question of copyright licenses versus sales, even within circuits comparing the divergent approaches to the question of licenses versus sales within the Ninth Circuit).

This uncertainty results, in part, from copyright holders' insistence that, despite their apparent transfer of perpetual possession of a tangible object in exchange for a one-time payment, they have merely licensed consumers to use a copy rather than selling it to them. These efforts to characterize as licenses transactions we would generally call sales have engendered considerable confusion among courts.

This confusion is surmountable, but it is perhaps best demonstrated by two cases argued on the same day before the same Ninth Circuit panel.²⁴⁴ In one, *UMG v. Augusto*, the Ninth Circuit considered a claim of copyright infringement against Troy Augusto, an individual who bought and sold promotional CDs given away to music reviewers and other industry insiders. Augusto argued that as the lawful owner of used CDs purchased from local record stores, his distributions through the online auction site eBay were protected under the first sale rule. The record label insisted that Augusto was not the owner of the copies he sold because it had retained title to the CDs by stamping a notice on all promotional discs. The notices included variations on this general text:

This CD is the property of the record company and is licensed to the intended recipient for personal use only. Acceptance of this CD shall constitute an agreement to comply with the terms of the license. Resale or transfer of possession is not allowed and may be punishable under federal and state laws.²⁴⁵

Despite the label's declaration to the contrary, the Ninth Circuit held that title to the discs transferred to their recipients upon delivery and, eventually, to Augusto, entitling him to invoke the first sale doctrine.²⁴⁶

Augusto stands in stark contrast to the other case the Ninth Circuit heard that same day. In *Vernor v. Autodesk*, the court considered an alleged violation of the distribution right premised on Vernor's resale of lawful copies of Autodesk's software on eBay. Much like UMG, Autodesk insisted that when its

244. Both cases were argued before Judges Callahan, Canby, and Ikuta on June 7, 2010. See *UMG Recordings Inc. v. Augusto*, 628 F.3d 1175 (9th Cir. 2011); *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010).

245. *Augusto*, 628 F.3d at 1177–78.

246. *Id.* at 1183 (finding that perpetual possession [lack of control], lack of means to reclaim, and lack of ongoing payment obligations [licensing assent] lead to conclusion that first sale applied). This is consistent with the Second Circuit's conclusion in *Krause v. Titleserv, Inc.*, 402 F.3d 119, 124 (2d Cir. 2005) (holding that in order to determine ownership of a computer program, "formal title" is not required and that "courts should inquire into whether the party exercises sufficient incidents of ownership.").

customers paid thousands of dollars for a copy of its software, they did not, despite all indications to the contrary, own the plastic disc on which that software was encoded; instead, they merely licensed the disc.²⁴⁷ Because exhaustion rests on the premise of copy ownership, the question of whether the disc was owned by Vernor or Autodesk ultimately decided the case. Yet, rather than examine the economic realities of the transaction to determine under personal property rules who owned the disc in question as a matter of personal property, the court attempted to distill a three-part test from its prior case law that looked instead to doctrines of intellectual property licensing, not the law of physical object ownership.²⁴⁸ The test the court formulated asks: first, “whether the copyright owner specifies that a user is granted a license,” second, “whether the copyright owner significantly restricts the user’s ability to transfer the software,” and third, “whether the copyright owner imposes notable use restrictions [on the intangible copyrighted work].”²⁴⁹ Since the copyright license agreement accompanying Autodesk’s products contained the necessary language, the court concluded that it retained title to the discs in Vernor’s possession.²⁵⁰

This test is problematic in a number of respects. Aside from being inconsistent with controlling Ninth Circuit law,²⁵¹ the *Vernor* test hinges largely on self-serving proclamations from the copyright holder. A copyright holder who insists that a transaction is a license and articulates restrictions on the consumer’s ability to use and transfer their copy can avoid engaging in a sale regardless of the structure of the transaction. By reciting the necessary incantation, rights holders can transmogrify sales—transactions characterized by one-time payments exchanged for perpetual possession of a tangible object—into licenses.²⁵² But this approach to distinguishing licenses

247. See *Vernor*, 621 F.3d at 1104 (describing Autodesk’s software license agreement as attempting to limit the customer’s rights to that of a “nonexclusive and nontransferable license”).

248. *Id.*

249. *Id.* at 1110–11.

250. *Id.*

251. See *United States v. Wise*, 550 F.2d 1180, 1187 (9th Cir. 1977) (“[T]he exclusive right to vend the transferred copy rests with the vendee, who is not restricted by statute from further transfers of that copy, even though in breach of an agreement restricting its sale.”).

252. More recently, the Ninth Circuit followed *Vernor* in rejecting the copyright misuse argument raised by Psystar, a company that produced computers interoperable with Apple’s copyrighted operating system. See *Apple v. Psystar Corp.*, 658 F.3d 1150, 1155–56, 1159 (9th Cir. 2011) (citing *Vernor* and holding

from sales begs the central question. The point of distinguishing licenses and sales is to determine the extent to which exhaustion doctrines apply to limit copyright holder control over postacquisition consumer behavior. By relying on copyright holders' efforts to restrict consumer use and resale as the primary factors in classifying a transaction as a license, the Ninth Circuit has baked a pro-copyright holder and anti-consumer bias into the proverbial cake.

The tension between these two cases is evident if we imagine the application of the *Vernor* test to the facts of *Augusto*. If faithfully applied, *Augusto* loses. UMG characterized the transaction as a license; it prohibited recipients from transferring the discs to others; and it confined them to "personal" use of the discs.²⁵³ The Ninth Circuit attempted to distinguish *Augusto* and *Vernor* on the grounds that UMG, unlike Autodesk, had no mechanism in place to enforce its restrictions.²⁵⁴ But Autodesk likewise lacked any means of terminating consumers' perpetual possession of the discs, one of the hallmarks of ownership.²⁵⁵

In practice, the Ninth Circuit has created two parallel regimes for distinguishing licenses from sales. In cases involving computer software, the deferential *Vernor* test is applied.²⁵⁶ But for cases—like *Augusto*—involving copies of traditional works like music or text, a more probing analysis of the economic realities of the transaction is required. These disparate approaches are inconsistent with copyright law's generally uniform treatment of the various classes of works protected by the statute and set up a potential collision course in the courts for cases involving digital goods that contain both software and more traditional media objects.

Although the Supreme Court declined an invitation to review *Vernor*, there is reason to hope that other circuits will re-

that Apple did not misuse its copyright because the software buyers merely "purchased the disc," and thus "were licensees, not owners, of the software").

253. See *UMG Recordings, Inc. v. Augusto*, 628 F.3d at 1175, 1177–78 (9th Cir. 2010) (quoting UMG's licensing statement).

254. See *id.* at 1183 (stating that software users who "order and pay" for their copies are differently situated than the recipients of promotional CDs because the promoter has no control over the CD once it is distributed).

255. See *Vernor*, 621 F.3d at 1104 (observing that return of Autodesk's software is the customer's choice).

256. See *Augusto*, 628 F.3d at 1183 (noting that the *Vernor* "formulation . . . applies in terms to software users").

sist its flawed approach to the question of copy ownership.²⁵⁷ As more copyrighted consumer goods are distributed subject to the terms of purported licenses, the likelihood of conflicts between the efforts of rights holders to restrain personal use and or resale on secondary markets and consumers' settled expectations about their rights to use and dispose of their copies increases. As a result, we expect the license-sale distinction to remain a point of dispute in future cases.

Any workable solution to the license-versus-sale question needs to reconcile two overriding concerns. First, it must curb efforts to label as licenses transactions that any reasonable consumer would understand as a sale of goods. Second, and simultaneously, it must preserve the viability of the rental and subscription based business models increasingly embraced by both consumers and rights holders. Just as copyright holders should be prevented from opting out of exhaustion by insisting that their sales or nothing more than licenses, consumers should be prevented from converting temporary access to content into permanent ownership by exploiting the exhaustion doctrine.

We suggest a simple approach to copy ownership that achieves both of these goals. If a transaction is characterized by a one-time payment and perpetual possession, courts should presume that it is a sale.²⁵⁸ Rights holders can overcome that presumption only by showing that the transaction falls into one of the other enumerated forms of distribution recognized by the Copyright Act: rental, lease, or lending.²⁵⁹ Such a showing would require clear notice to consumers of the time-limited terms of the transaction and some mechanism for their practi-

257. See, e.g., *Krause v. Titleserv, Inc.*, 402 F.3d 119, 124 (2d Cir. 2005) (finding that the § 117 ownership requirement was satisfied despite the efforts of the copyright holder's efforts to impose limitations on the use and modification of its software).

258. See John Rothchild, *The Incredible Shrinking First Sale Rule: Are Software Resale Limits Lawful?*, 57 RUTGERS L. REV. 1, 19 (2004) (describing "the ordinary understanding of ownership"). We embrace an understanding of possession that would include digital information stored remotely at the direction of a consumer. For example, a consumer who purchases an MP3 from Amazon and stores that file exclusively on her Cloud Drive would be considered in possession of that file.

259. 17 U.S.C. § 106(3) (2006) (stating that "the owner of copyright . . . has the exclusive rights . . . to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending . . ."); see also Carver, *supra* note 243 (discussing the differences between the types of distribution listed in § 106(3)).

cal enforcement. Any other purported restrictions on the use of a copy would be actionable, if at all, as a matter of contract.²⁶⁰

2. Exhaustion and Section 202

Exhaustion, as one of the many copyright doctrines rooted in common law reasoning,²⁶¹ operates within the gaps of the text of the Copyright Act. If the exhaustion principle is inconsistent with the statutory language, courts have no room to apply it regardless of its policy justifications.

Section 202 of the Copyright Act squarely addresses the relationship between ownership of a copy and ownership of a copyright. It provides in relevant part:

Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied. Transfer of ownership of any material object, including the copy or phonorecord in which the work is first fixed, does not of itself convey any rights in the copyrighted work embodied in the object; nor, in the absence of an agreement, does transfer of ownership of a copyright or of any exclusive rights under a copyright convey property rights in any material object.²⁶²

That provision tells us that the ownership interests in the exclusive rights in intangible works of authorship are distinct from ownership interests in particular copies of those works, even the original fixation of that work. So, for example, when Cy Twombly sold his Untitled chalkboard painting at auction for \$13.5 million dollars, he retained the copyright in the work despite selling the only copy of it.²⁶³ But, read more broadly, § 202 could be interpreted to as a rejection of the core principle of copyright exhaustion—that by transferring ownership of a copy, the rights holder also transfers to the copy owner the right to engage in otherwise infringing uses. As the provision

260. See, e.g., *MDY Indus. v. Blizzard Entm't, Inc.*, 629 F.3d 928 (9th Cir. 2010) (holding that software users who violated the terms of a copyrighted software's terms of use are not infringers because those terms are contractual covenants not "copyright-enforceable conditions"). We take no position here on the viability of such claims as a matter of contract law, nor do we consider the question of preemption of such claims.

261. See Perzanowski & Schultz, *supra* note 26 (arguing that "the first sale doctrine and the exhaustion principle it embodies are rooted in judicial, rather than legislative, decisionmaking.").

262. 17 U.S.C. § 202 (2006).

263. See Carol Vogel, *Bidding War for a Warhol Breaks Out at Christie's*, N.Y. TIMES, May 12, 2011, at A22 (reporting the results of a recent art auction at Christie's).

states, “transfer of . . . [a] copy . . . does not . . . convey any rights in the copyrighted work embodied in the object.”²⁶⁴

But such a latter reading misunderstands both the history and plain meaning of § 202. That provision was included in the 1976 Act to address decades of uncertainty about the consequences of transferring a physical object embodying a copyrighted work. As early as 1741, copyright law recognized that ownership of a physical artifact did not in itself make one the owner of the copyright in the work represented.²⁶⁵ The Supreme Court adopted similar reasoning in 1852.²⁶⁶ Despite these early decisions, some courts lapsed into treating the distinct ownership interests in the copy and the work as one and the same.²⁶⁷ Section 202 represents Congress’s effort to clarify that the purchaser of a copy of a work of art did not, by virtue of that purchase, become the owner of the copyright in the underlying work.²⁶⁸

Unlike the rule Congress explicitly rejected when it enacted § 202, exhaustion does not transfer the copyright interest to the copy owner. When § 202 speaks of conveyances of rights in the copyrighted work, it refers to assignments of copyrights or exclusive licenses to engage in one of the enumerated rights of the copyright holder.²⁶⁹ But the rights acquired by copy owners are far more limited in scope than the transfers contemplated

264. 17 U.S.C. § 202 (2006).

265. See *Pope v. Curl*, (1741) 26 Eng. Rep. 608; 2 Atk. 342 (holding that ownership of physical received letters did not confer the right to re-print and publish them); see also 2 PATRY ON COPYRIGHT, *supra* note 108, § 5:99 (concluding that “all reports agree that the Lord Chancellor ruled *Curl*’s [sic] ownership of the physical object did not give him the right to print them [sic]”).

266. See *Stephens v. Cady*, 55 U.S. (1 How.) 528, 531 (1852) (noting that copyright is “detached from the manuscript, or any other physical existence, and will not pass with the manuscript unless included by express words in the transfer.”).

267. See, e.g., *Pushman v. N.Y. Graphic Soc’y, Inc.*, 39 N.E.2d 249 (1942) (holding that the copyright of an original work of art accompanied physical transfer of the work); see also H.R. Rep. No. 94-1476, at 124 (1976), *reprinted in* 1976 U.S.C.C.A.N. at 5659, 5664–5740 (noting Congress’s intent to alter the common law rule applied in *Pushman*).

268. See H.R. Rep. No. 94-1476, 94th Cong., 2d Sess. at 124 (1976), *reprinted in* U.S.C.C.A.N. 5659, 5739–5740 (rejecting the rule applied in *Pushman* and emphasizing that 202 serves to sever copyright ownership from ownership of the object in which the work is embodied).

269. See 17 U.S.C. § 101 (defining “transfer of copyright ownership” as “an assignment, mortgage, exclusive license, or any other conveyance . . . of a copyright or of any of the exclusive rights comprised in a copyright . . .”); *id.* § 201(d)(2) (2006) (providing that “any of the exclusive rights comprised in a copyright . . . may be transferred.”).

by § 202. Exhaustion does not entail loss of the copyright as against the rest of the world. Nor does it entail loss of the copyright, or even any particular exclusive right, as against the copy owner. Instead, exhaustion limits the scope of the exclusive rights retained by the copyright holder. More importantly, the copy owner acquires no exclusive rights of her own in the work as a result of exhaustion. Unlike the copyright holder, she has no authority to prevent others from making use of the protected work. At most, she has the ability to make limited uses of her own personal copy.

Finally, if § 202 were read as a rejection of exhaustion, it would render the Copyright Act internally inconsistent. The Act expressly gives copy owners limited rights to make otherwise infringing uses of their personal copies.²⁷⁰ Since § 202 makes no concession for either of those provisions, Congress apparently saw no tension between § 202 and the application of exhaustion rules.

3. Exhaustion as a Partial Solution to the Personal Use Dilemma

Exhaustion's final limitation is its inability to capture the full range of lawful personal uses. Although we maintain that exhaustion is a preferable approach in many personal use disputes, important categories of lawful personal uses remain outside of its scope. However, this supported shortcoming can actually be viewed as one of its exhaustion's strengths. In part because of its limited scope, exhaustion is characterized by comparatively clear offers reasonable boundaries for copyright owners, consumers, and courts to employ.

As discussed in some detail below,²⁷¹ exhaustion can be applied to a wide range of personal uses that arise from lawful copy ownership. Personal uses made by copy owners represent a significant percentage of personal uses, and an even greater portion of those uses courts should consider lawful—a likely majority, in our estimation. But not every lawful personal use is tied to copy ownership. As discussed above, *Sony v. Universal* endorsed personal use timeshifting in the absence of copy ownership. Under those or similar circumstances, if personal use copying is to be permitted, it must be under a theory other than

270. *Id.* § 109(a), (e) (granting the copy owner certain rights of sale and public display); *id.* § 117 (limiting the exclusive rights retained by a software copyright owner against the rights acquired by owners of software copies).

271. *See infra* Part IV.

exhaustion, such as the fair use approach the Supreme Court took in that it will not be under an exhaustion theory.

But the fact that exhaustion does not reach these scenarios may be as much a blessing as a curse. While we strongly support the court's holding in *Sony*, the more fact-dependent fair use inquiry is a better fit for determining the lawful status of timeshifting of broadcasts and other transmissions. In today's copyright economy, courts need to distinguish between free broadcast programming, cable subscription packages, streaming services like Netflix's "Watch Instantly," and a variety of video on demand and pay-per-view offerings. While time shifting may well be lawful in some of these circumstances, the comparatively bright line exhaustion rule is likely to overlook nuances that may be better captured in the fair use analysis.

To the extent that courts continue to emphasize transformation as the dominant metric for finding fair use, the doctrine will likely remain a better tool for addressing personal uses that involve some degree of expressive, informational, or innovative transformation. Even if a consumer owns a copy of a work, to the extent she uses that copy as a building block or starting point for the creation of a new work that transforms the underlying work, exhaustion does not apply.²⁷² The rights of preservation, repair, renewal, and even modification that emerge from the common law of exhaustion do not extend to the transformation of the underlying expressive content.²⁷³ So a consumer who slices up her 8-track copies of Steely Dan's *Pretzel Logic* and Gram Parsons's *Grievous Angel* to create a sound collage should turn to fair use rather than exhaustion as a potential defense for the creation of a derivative work.

Exhaustion is also limited in the extent degree to which it enables copying for the benefit of nonowners, even when done by the owner or with the owner's authority. Exhaustion would not permit, for example, a library patron who borrows a lawfully owned audiobook to reproduce a copy for her personal collection. Nor would it entitle an institution to create multiple copies for the benefit of its employees.²⁷⁴ The simultaneous

272. See, e.g., *Mattel, Inc. v. Pitt*, 229 F. Supp. 2d 315, 321–25 (S.D.N.Y. 2002) (analyzing the creation of an "S&M Barbie" from a lawfully purchased Mattel doll under fair use).

273. See Perzanowski & Schultz, *supra* note 26, at 917 (observing that fair use may protect acts that transform an original work, but exhaustion would not).

274. See *Am. Geophysical Union v. Texaco, Inc.*, 60 F.3d 913 (2d Cir. 1994) (holding that archival photocopies of multiple journal articles available for use

exploitation of multiple copies by multiple parties is not the sort of use that exhaustion has traditionally embraced. If it did, exhaustion would confer copy owners' rights in the work itself rather than rights to enjoy their own copy. By ensuring that copies behave like rivalrous personal property rather than nonrivalrous intellectual property, exhaustion enables greater access, safeguards consumer autonomy, and reduces information costs while preserving the incentives necessary to spur creative activity.

IV. APPLYING EXHAUSTION TO PERSONAL USES

For those personal uses that flow from a lawfully owned copy, exhaustion offers a robust, balanced, and largely predictable legal framework for assessing potential infringement liability. This Part applies exhaustion, first to some traditional analog personal uses, and then to several more contemporary digital uses. Comparing both the results and analysis against the existing alternatives, we conclude that our case for exhaustion bears out in practice. Again, to summarize, our approach: A court presented with an alleged infringement defended on the grounds of personal use permitted by exhaustion would need to answer three questions. First, does the defendant own a copy of the work? Second, is that copy a lawful one? And third, was the defendant's use consistent with the common law rights of utility and alienation conferred by virtue of copy ownership in a way that preserves the rivalrous nature of a single copy?

A. ANNOTATING AND PHOTOCOPYING TEXTBOOKS

As most law students know, a common approach to studying from a textbook is to highlight or annotate the text of the book directly on the page. A little underlining here, a marginal note there, or perhaps even an elaborate if cryptic system of multicolored highlighting are all common techniques. One might even photocopy key pages from the book, or retype key passages into an attack outline or study guide. These acts, however commonplace or seemingly innocuous, raise the specter of copyright infringement. Annotating a textbook or creating an outline could arguably fall within the ambit of preparing a derivative work.²⁷⁵ Photocopied pages are pure reproduc-

by employee researchers was not fair use).

²⁷⁵. *Compare* Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 561 (1985) (copying the "heart" of a work in order to write a review can infringe), and *Castle Rock Entm't, Inc. v. Carol Publ'g Grp.*, 150 F.3d 132, 143

tions.²⁷⁶ Should they be legal under the doctrine of copyright exhaustion?

Under our approach, we would begin by asking whether or not the accused infringer was a copy owner. For students who buy their textbooks, the answer is yes, and thus exhaustion would allow them to reproduce, modify, and distribute aspects of their copies necessary to fully realize their value as long as they remain rivalrous. This could easily include annotations, outlines, and photocopies for personal use. However, it would not allow students to reproduce and distribute copies of their outlines or annotated books to the public. Those activities would cross the boundary of rivalry and could still constitute infringement (assuming there is no other defense), thus retaining respect for the exclusive rights of the copyright holder while simultaneously honoring the personal property rights of the individual copy owner. Students who use textbook rental services would also not qualify for the same rights under an exhaustion defense because they are not copy owners. This distinction ensures at least some level of reward to the copyright owner.²⁷⁷

Of course, one could also argue that these uses are also defensible as unregulated uses, fair uses, or impliedly licensed uses. However, as noted above, these theories encounter potential pitfalls. While analog annotations might escape the statutory definition of a derivative work,²⁷⁸ copying text into outlines

(2d Cir. 1998) (concluding that a *Seinfeld*-themed SAT prep book may have qualified as a derivative work because it was insufficiently transformative), *and* *Mirage Editions, Inc. v. Albuquerque A.R.T. Co.*, 856 F.2d 1341, 1343 (9th Cir. 1988) (holding that the preparation and sale of ceramic tiles bearing copies of the copyrighted image of the *Lone Ranger* constituted derivative works), *with* *Warner Bros. Entm't, Inc. v. RDR Books*, 575 F. Supp. 2d 513, 539 (S.D.N.Y. 2008) (holding that a *Harry Potter* reference guide, which significantly condensed, synthesized, and re-organized the original material, was not a derivative work).

276. *See* *Princeton Univ. Press v. Mich. Document Servs.*, 99 F.3d 1381, 1383 (6th Cir. 1996) (holding that photocopying and selling to students “substantial segments of copyrighted scholarship” was not fair use); *Basic Books, Inc. v. Kinko’s Graphics Corp.*, 758 F. Supp. 1522, 1526 (S.D.N.Y. 1991) (same).

277. *See* *United States v. Univis Lens Co., Inc.*, 316 U.S. 241, 250–51 (1942) (applying the doctrine of exhaustion to patent law and holding that “the purpose of the patent law is fulfilled . . . when the patentee has received his reward for the use of his invention. . . and . . . [o]nce that purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold.”).

278. *Compare* *Mirage Editions, Inc. v. Albuquerque A.R.T. Co.*, 856 F.2d 1341, 1343 (9th Cir. 1988) (holding that the preparation and sale of ceramic tiles bearing copies of the copyrighted image of the *Lone Ranger* constituted

and photocopying key passages could arguably run afoul of the reproduction right.²⁷⁹ Unless courts show some willingness to reason beyond the plain text of the statute, narrow interpretation may not suffice to truly insulate these personal uses from liability.

Fair use may fare better, especially given the personal educational purpose of the use.²⁸⁰ However, it may be hard to argue that highlighting and annotating textbooks meets the transformative test for fair use's first factor in the same sense that a parody or criticism would. Moreover, textbook publishers have begun to offer supplemental services and materials to increase revenues that might compete with these actions under the fourth fair use factor.²⁸¹ And while photocopying only a chapter of a larger book might seem fairer than copying the entire book, especially under the third factor, courts have been especially skeptical of such uses even in the context of education or research, two of the enumerated activities explicitly mentioned in the preamble to § 107.²⁸² Thus, while fair use may still reach these activities, the pathway through its balancing test may not be simple or particularly intuitive.

derivative works), *Mirage Editions, Inc. v. Albuquerque ART Co.*, 856 F. 2d 1341 (9th Cir. 1988), with *Lee v. A.R.T. Co.*, 125 F.3d 580, 582–583 (7th Cir. 1997) (declining to follow *Mirage Editions* because placing an image upon a tile does not fall within the scope of the statutory language of “reproduction” or “recast, transformed, or adapted”) (quoting 17 U.S.C. § 101 (2006)).

279. See *supra* note 256.

280. See 17 U.S.C. § 107(1) (2006) (directing that courts should consider “the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes.”). *But see* *Marcus v. Rowley*, 695 F.2d 1171, 1178–79 (9th Cir. 1983) (holding that a teacher's copying of booklet for classroom educational purposes was not a fair use); *Encyclopaedia Britannica Educ. Corp. v. C.N. Crooks*, 58 F. Supp. 1247, 1251 (W.D.N.Y. 1983) (making and distributing off-air videotapes of educational programs and distributing them to schools is not a fair use).

281. See Nanette Asimov, *Students Argue Some Online Fees Aren't Allowed*, S.F. CHRON., June 3, 2011, at A1 (“Why can't I download the site [content] onto my computer and keep it there forever for my personal use?” asked student Fred Rassaii, who filed a grievance.”); Brian Burnsed, *Customize and Digitize Your College Education: New Digital Textbook Services Could Transform How Course Materials are Delivered to Students*, U.S. NEWS & WORLD REP., (Apr. 25, 2011), <http://www.usnews.com/education/best-colleges/articles/2011/04/25/customize-and-digitize-your-college-education> (describing a service that allows university professors to create their own compilation of original source materials that have “automatic copyright clearance”).

282. See *Princeton Univ. Press v. Mich. Document Servs.*, 99 F.3d 1381 (6th Cir. 1996); *Am. Geophysical Union v. Texaco*, 60 F.3d 913 (2d Cir. 1994); *Basic Books, Inc. v. Kinko's Graphics Corp.*, 758 F. Supp. 1522 (S.D.N.Y. 1991).

Implied license also shows some promise, given that the intended use of textbooks is to aid in study. However, again, all it would take to obstruct such uses is a clear message from the publisher that such actions are not allowed. In our view, exhaustion provides a much simpler beginning and end to this inquiry.

B. SPACE-SHIFTING TANGIBLE MEDIA

Space shifting—moving a copyrighted work from one physical medium to another—is commonplace. We often copy music files from a CD to a laptop hard drive and then to an iPod, a phone, or other device. Such uses are part of what we have come to see as an intuitively noninfringing component of the copyright landscape.²⁸³ Yet the Copyright Act appears to render these copies potential infringements under the exclusive right of reproduction, absent some applicable exception or limitation.

Even though space shifting has received occasional praise in the dicta of several fair use cases,²⁸⁴ the comfort given to us by the Supreme Court in *Sony v. Universal* may not stretch as far as needed in the digital age. Modern copyright owners have invested heavily in toward limiting personal uses and creating granular markets for use of their works. Moreover, the argument that space shifting “adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message” under the *Campbell v. Acuff-Rose Music, Inc.* test for transformation may not prove as robust as one might hope.²⁸⁵ Under the third factor, space-shifting involves 100% of the work, and under the fourth, the

283. In fact, even as far back as the 1980s, consumers considered space shifting to be a major component of personal use. See OTA STUDY, *supra* note 4, at 11 (noting that “many people seem to copy for the purpose of ‘place-shifting’” so they could listen to music in their automobile or on portable cassette decks).

284. *In re Aimster Copyright Litig.*, 334 F.3d 643, 652 (7th Cir. 2003) (observing the possibility of noninfringing uses of a program that provides for the transfer of digital music files between service subscribers); *Sony Computer Entm't, Inc. v. Connectix Corp.*, 203 F.3d 596, 607 (9th Cir. 2000) (stating that creating a product that allows software to be played on a platform that the software was not intended to be compatible with is a legitimate purpose under fair use); *Recording Indus. Assoc. of Am. v. Diamond Multimedia Sys.*, 180 F.3d 1072, 1079 (9th Cir. 1999) (stating that personal use space shifting of digital music files is entirely consistent with the Audio Home Recording Act, 17 U.S.C. § 1001 (2006)).

285. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994) (asking whether a new work is sufficiently transformative).

efforts that copyright owners have made to create new markets for every new “space” in which a consumer could potentially store music could potentially also weigh against fair use as well. As for implied license, again, all that the record companies would have to do is state on the CD or even on their website that they do not allow ripping of music to other devices, and that argument would suffer as well.²⁸⁶

Exhaustion, on the other hand, provides a cleaner case for personal use and a clear road for judicial decision makers. Under our approach, the court would ask, (1) Do you own a copy of the content you want to shift?; (2) Is it a lawful copy?; and (3) Is the use you want to make of the sort embraced by the common law of exhaustion? For space shifting of purchased music, the answer to the first two questions is almost certainly yes. For the third, courts should look the early common law of exhaustion cases which establishing the rights of adaptation and modification. Those courts held that no infringement occurred at common law when the owner of a copy of a work modified the work to be enjoyed in a different format.²⁸⁷ Those courts held that no infringement occurred at common law when the owner of a copy of a work modified the work to be enjoyed in a different format. All that was required for a finding of noninfringement was a finding of copy ownership.²⁸⁸ Courts would not need to analyze transformation, market harm, or intent.

This rule provides an intuitive, fair, and predictable set of outcomes in personal use cases involving space shifting. Consumers who have lawfully purchased copies of music, for example, would be allowed to copy or upload those songs into formats or locations for the personal enjoyment of the purchaser.²⁸⁹ The fact that the purchaser could not reasonably

286. See, e.g., *A Spotter's Guide to XCP and SunnComm's MediaMax*, ELEC. FRONTIER FOUND., <https://w2.eff.org/IP/DRM/Sony-BMG/guide.php> (last visited Apr. 28, 2012) (noting restrictive labels on CDs).

287. See, e.g., *Kipling v. G.P. Putnam's Sons*, 120 F. 631 (2d Cir. 1903) (holding that the owners of various copyrighted writings were permitted to bind the writings along with other unprotected pieces into a single volume and sell the final product).

288. See also, e.g., *Fawcett Publ'ns, Inc. v. Elliot Publ'g Co.*, 46 F. Supp. 717, 718 (S.D.N.Y. 1942) (allowing the rebinding and reventing of publications because the copyrighted material was not duplicated but only resold).

289. Of course, to the extent consumers use digital lockers or other storage locations to facilitate access to their files by the public at large, such use may well fall outside the scope of the exhaustion doctrine. See *Capitol Records, Inc. v. MP3Tunes, LLC*, 2011 WL 5104616, at *17 (S.D.N.Y. 2011) (finding a digi-

listen to more than one song at a time or from more than one location at a time further reinforces the same rivalrous restrictions that traditional exhaustion brought from the common law into the first sale doctrine.²⁹⁰

C. CLOUD STORAGE

Cloud storage is another area where exhaustion principles can stabilize and promote lawful uses both for individual consumers as well as the service providers they depend on while at the same time continuing to provide providing appropriate incentives for creators. To operate cloud services efficiently and across large geographic areas, most providers must make multiple copies of each resource. While several courts have held that automated conduct of this type does not rise to the level of volition to be directly infringing,²⁹¹ it may still leave providers susceptible to secondary copyright liability based on the reproductions that are made at the request of the user.²⁹² In this context, courts have taken a particular interest in examining the conduct of users to determine both user and service provider liability.²⁹³

tal storage service provider liable as a contributing infringer for using illegally stored files to facilitate broader access to those illegal copies).

290. See also *1DollarScan Will Scan Your Paper Books, Cheap*, L.A. TIMES BLOG, <http://latimesblogs.latimes.com/technology/2011/08/digital-book-scanning.html>.

291. *Cartoon Network LP v. CSC Holdings, Inc.*, 536 F.3d 121, 131–32 (2d Cir. 2008) (emphasizing that service providers who merely make available to customers a system that allows the customers to make copies lacks the volitional element of direct liability), *CoStar Grp, Inc. v. Loopnet, Inc.*, 373 F.3d 544, 550 (4th Cir. 2004) (requiring “actual infringing conduct” on behalf of the service provider, which indicates “that the machine owner himself [and not the consumer] trespassed on the exclusive domain of the copyright owner.”); *Religious Tech. Ctr. v. Netcom On-Line Commc’n Servs., Inc.*, 923 F. Supp. 1231 (N.D. Cal. 1995); *A&M Records, Inc. v. Napster, Inc.* 239 F. Supp. 3d 1004, 1021 (9th Cir. 2001) (concluding that maintaining a system that allows users to infringe does not—in itself—expose the service provider to copyright liability).

292. See *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster*, 545 U.S. 913, 941 (2004) (finding that the service provider intended to profit from its users’ infringements); *A&M v. Napster*, 239 F. 3d at 1022 (concluding that Napster had knowledge of infringing uses and failed to take remedial or preventative measures)1004; *In re Aimster Copyright Litig.*, 334 F.3d 643, 653 (7th Cir. 2003); *Viacom Int’l Inc. v. YouTube, Inc.*, 718 F. Supp. 2d 514 (S.D.N.Y. 2010); see also 17 U.S.C. § 512(c) (2006) (providing safe harbors for any infringing uses made by reason of storage at the direction of a user of an online service provider).

293. See e.g., *In re Aimster*, 334 F.3d at 653 (concluding that Aimster was

Exhaustion provides a clear rationale to find both cloud storage service providers and users of those systems noninfringing when the files are uploaded for personal use and originate from lawfully purchased copies. Again, our rule allows copy owners to facilitate any acts of reproduction, distribution, or adaptation necessary to enable the full enjoyment of their copies. This would include cloud storage for personal use and retrieval or playback on personal devices. On the other hand, use of cloud storage to enable access outside of personal use may exceed the protections of the exhaustion doctrine. For example, even if one owned copies of all of one's music, selling access to cloud-based storage of that music would not likely be recognized as sustainable under an exhaustion defense. Personal access, on the other hand, likely would.

Exhaustion also preserves the proper incentives for copyright authors and distributors by limiting its protection to uses of a particular copy that benefits only that particular copy owner. For example, when MP3.com sought to purchase copies of CDs and then copy them into their own cloud service so that users could avoid the inconvenience of uploading each song individually, they ran afoul of copyright law under Judge Rakoff's rejection of fair use.²⁹⁴

However, let us reconsider the fact that MP3.com had purchased "tens of thousands of popular CDs in which plaintiffs held the copyrights, and, without authorization, copied their recordings onto its computer servers so as to be able to replay the recordings for its subscribers."²⁹⁵ If we compare this to the Amazon Cloud Drive model, we notice an important difference—the common identity of the copy owner and the copy user. While MP3.com may not have been able to purchase copies for the benefit of its subscribers (even though there was some evidence to suggest that many of them owned copies as well), the case for Amazon is much stronger when its subscribers are uploading their own copies—evidence that they have already rewarded rights holders through the initial purchase of the content.²⁹⁶ Under the MP3.com Court's analysis, this might still

likely to fail at trial because it could not produce evidence that its services were ever used for noninfringing purposes).

294. See *UMG Recordings, Inc. v. MP3.com, Inc.*, 92 F. Supp. 2d at 349, 350 (S.D.N.Y. 2000) (emphasizing that copyright must operate to protect the "copyright holder's property interests").

295. *Id.* at 350.

296. One new company, ReDigi, appears to have fully embraced this approach, arguing that it can rely on copyright exhaustion to buy and resell digi-

fail under fair use because it would still be no more transformative or cause less market harm than MP3.com's original behavior. However, under our exhaustion principle, Amazon could present a strong justification for offering its service by pointing out that allowing users to upload their own files is simply a form of enabling them to utilize their personal property. As long as these files are not shared so broadly as to undermine the rivalrous nature of copy ownership, exhaustion provides a solid justification not only for the personal uses of the users but also of Amazon's service itself.²⁹⁷

By contrast, while no court has yet ruled on whether or not uploading purchased content to personal cloud storage is fair use, we are again concerned that it suffers from the same vulnerabilities as space shifting does. This is especially true for the fourth fair use factor in light of the fact that because music companies regularly license music streaming providers such as Rhapsody, Napster, and Spotify to provide online access to music. And there is even less probability that a court will find copyright owners implying a license to use cloud storage, given EULAs and their stated objections in the press.²⁹⁸ Thus, we believe exhaustion is the most appropriate approach to preserving personal use in this context.

tal music on behalf of users via a cloud-computing infrastructure. See *ReDigi Frequently Asked Questions*, REDIGI, <https://www.redig.com/education.html> ("Is ReDigi Legal?") (last visited Mar. 5, 2012). However, this has not deterred Capitol Records from suing ReDigi, and arguing that exhaustion does not apply where the actual object re-sold—in this case a music file—is a copy of the original and asking a court to preliminarily enjoin its operations pending final disposition of the case. See Greg Sandoval, *EMI Sues MP3 Reseller ReDigi*, CNET NEWS (Jan. 6, 2012, 12:38 PM), http://news.cnet.com/8301-31001_3-57354089-261/emi-sues-mp3-reseller-redigi/.

297. It is worth noting that the scope of "sharing" under exhaustion may turn out to be an area that requires ongoing definition. Many believe that sharing copies among friends and family is a lawful personal use that should also be allowed. See OTA STUDY, *supra* note 4, at 20 (suggesting to Congress a range of legislative options to address home copying); Litman, *supra* note 4, at 1894 ("I propose to define 'personal use' as a use that an individual makes for herself, her family, or her close friends."). This approach could also be a potential defense for educational institutions that choose to digitize their physical book collections and offer them to their students and faculty. If the institution is the owner of the copy, allowing nonsimultaneous consumer of a particular digital copy—no matter on whose device—is a close approximation of the historical lending role that libraries have played for decades in our culture. However, courts and commentators have also recognized that unlimited sharing could undermine important incentives in copyright industries, so appropriate limits would need to be crafted.

298. See *supra* note 297 and accompanying text.

D. JAILBREAKING PERSONAL ELECTRONICS

Our final example stems from a recent surge in the desire of certain computer, phone, and videogame console owners to “jailbreak” their purchased devices in order to customize or modify them.²⁹⁹ For example, from the minute Apple launched its iPhone, owners of the device have sought to modify them in numerous ways, including in order to switch from the Apple-mandated AT&T carrier to another service or to add their own “apps” to the phone’s operating system.³⁰⁰ Again, these are the type of personal uses that most of us intuitively conclude should be noninfringing of any Apple copyright.³⁰¹ Yet when the Electronic Frontier Foundation (EFF) petitioned the United States Copyright Office on behalf of phone owners to have the right to circumvent any DRM that prevented jailbreaking, Apple fought back.³⁰² The Copyright Office eventually ruled in EFF’s favor, primarily citing fair use as the rationale for why jailbreaking was noninfringing.³⁰³

However, while we don’t disagree with the Copyright Office’s fair use rationale, we believe that exhaustion may provide

299. See LIBRARY OF CONGRESS, EXEMPTION TO PROHIBITION ON CIRCUMVENTION OF COPYRIGHT PROTECTION SYSTEMS FOR ACCESS CONTROL TECHNOLOGIES, at 43828, <http://www.copyright.gov/fedreg/2010/75fr43825.pdf>. Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies, 75 Fed. Reg. 43,825, 43,828 (Jul. 27, 2010) (to be codified at 37 C.F.R. pt. 201) (“The Electronic Frontier Foundation (EFF) proposed a class that would allow circumvention of the technological measures contained on certain wireless phone handsets (known as ‘smartphones’) that prevent third-party software applications from being installed and run on such phones. This circumvention activity is colloquially referred to as ‘jailbreaking’ a phone.”).

300. See Erica Sadun, *The Story Behind Cydia on the iPhone*, ARS TECHNICA (Oct. 8, 2008, 1:59 PM), <http://www.arstechnica.com/apple/news/2008/10/the-story-behind-cydia-on-the-iphone.ars>; *id.* at 85 (noting that approximately 350,000 iPhone owners have jailbroken their iPhones to load applications from one independent app store alone and that the record tends to indicate that the total number of jailbroken iPhones is significantly higher, constituting up to ten percent of all iPhones sold).

301. Whether there might be some form of liability other than copyright (e.g. contract) is a separate question and beyond the scope of our analysis.

302. David Kravets, *U.S. Declares iPhone Jailbreaking Legal, Over Apple’s Objections*, WIREDTHREAT LEVEL (Jul. 26, 2010, 11:47 PM), <http://www.wired.com/threatlevel/2010/07/feds-ok-iphone-jailbreaking/> (reporting EFF’s petition and Apple’s response).

303. See *id.* (reporting that the “Copyright Office concluded that, ‘while a copyright owner might try to restrict the programs that can be run on a particular operating system, copyright law is not the vehicle for imposition of such restrictions,’” and that jailbreaking “fits within the four corners of fair use.”).

an even better justification for jailbreaking, not only as a noninfringing activity under § 106 but also as an argument for why it is not a violation of § 1201, the prohibition on circumvention of technological protection measures.

Despite Apple's insistence that it continues to own the copy of the iPhone OS that sits on every user's phone, there is no dispute that iPhone owners own their phones—that is, the physical device and its accompanying programmed hardware. Similarly, Apple admitted before the Copyright Office that iPhone owners own all media that resides on their phone, including any purchases from the Apple iTunes store. Therefore, iPhone owners have a private property interest in the copies of not only the programmed hardware of the iPhone but also any and all media on their phones.

Section 1201 states that it is a violation of law “to circumvent a technological measure that effectively controls access to a [protected] work [without the authority of the copyright owner].”³⁰⁴ The principle of exhaustion both respects this authority and the private property interests at stake in jailbreaking scenarios. As the *Quanta* Court held, once title has transferred in the copy, “the article sold [is] carried outside the monopoly of the [intellectual property laws] and rendered free of every restriction which the vendor may attempt to put upon it.”³⁰⁵ Thus, under this rule, iPhone owners would have the right to copy, distribute, and create derivative works necessary to fully enjoy personal use or alienation of those copyrighted works they own, including those residing on the phone. When reconciled with § 1201, this makes a strong case that common law exhaustion acts as a form of implied authority to circumvent any technological measure in order to effectuate such uses.³⁰⁶ This would cover jailbreaking for the proconsumer purposes of utilizing the phone on a different carrier or enjoying their media (especially those purchased from Apple's store) on a modi-

304. 17 U.S.C. § 1201(a)(1), (a)(3)(A) (2006).

305. *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 626 (2008); *see also infra* Part III.B.

306. *See Universal City Studios, Inc. v. Corley*, 273 F.3d 429, 444 (2d Cir. 2001) (acknowledging the defense of implied authority but finding no evidence to support it in the instant case). While some courts have considered authorization in the context of fair use and § 109, none have considered the effect of sales of protected works under a common law exhaustion analysis. *See, e.g.*, *321 Studios v. Metro Goldwyn Mayer Studios, Inc.*, 307 F. Supp. 2d 1085, 1099 (N.D. Cal. 2004) (holding that 321's DVD copying software violated the DMCA and was not a fair use).

fied or alternative operating system. On the other hand, the rule would exclude other activities such as copying, distributing, or modifying the operating system for purposes unrelated to personal use of the phone or purchased media. For either the Copyright Office or the courts, the analysis would be driven by establishing copy ownership and the relationship of the activity to the personal property of the owner. Once those were established, the finding of both noninfringement and noncircumvention would be relatively straightforward.

CONCLUSION

Personal use cases have perplexed courts and copyright scholars for quite some time. Even today, our strong intuitions are that many personal uses should be lawful, but we lack a cogent and predictable method of solidifying this rule in law. Without such a rule, personal uses will either become unlawful over time or upheld on suboptimal grounds, leading to further difficulties for copyright owners, consumers, and courts down the road. In this article, we tackle this dilemma and attempt to refocus the personal use inquiry for a seminal set of cases more properly on the centrality of copy ownership. This inquiry can then help all beneficiaries of the copyright system approach the vast majority of personal uses in a more sensible way and balance the rights of consumers in their personal property with the necessary incentives that creators need to continue contributing to our cultural economy.