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LICENSE YOUR CAKE AND EAT IT TOO:

CREATING A UNIFORM LICENSING TEST FOR COPYRIGHTED ELECTRONIC WORK

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License Your Cake and Eat it Too: Creating a Uniform Licensing Test for Copyrighted Electronic Works

Elliot J. Horlick

I. Introduction

In both America and Europe, a copyright holder's exclusive distribution and reproduction rights are subject to certain limitations, including the American first-sale doctrine, the corresponding European exhaustion doctrine, and the American essential step defense. When a copy of a copyrighted work is sold to a user, thereby conveying ownership of the copy to the user, the first-sale doctrine and exhaustion doctrine allow the user to transfer the copy without the copyright holder's authorization. When a copy of copyrighted software is sold to a user, the essential step defense allows the user to reproduce an additional copy that is essential to the use of the original copy, also without the copyright holder's authorization. Ownership of a licensed copy is not transferred to the licensee; it is retained by the copyright owner. Thus, the first-sale doctrine, exhaustion doctrine, and essential step defense do not apply to copies of copyrighted works that are licensed. American and European courts have also held that the first-sale and exhaustion doctrines are generally inapplicable to digital copies of copyrighted works, regardless of whether these copies are licensed or sold. The one exception to this rule is software in Europe—the exhaustion doctrine applies to both physical and digital software copies. The essential step defense also applies to physical and digital software copies, but this defense is not applicable to any other type of copyrighted work.

In an effort to circumvent the first-sale doctrine (with respect to physical software copies), exhaustion doctrine (with respect to physical and digital software copies), and essential step defense (with respect to physical and digital software copies), software owners often distribute software copies with terms and conditions that claim the software is being licensed, not sold. In order to determine whether these copies will actually be considered licensed rather than sold, the Court of Justice of the European Union and several American courts of appeals have developed different licensing tests for analyzing software terms and conditions. A uniform software licensing test does not currently exist.

There has been a recent push in the legal community to extend the first-sale and exhaustion doctrines to cover digital copies of all copyrighted electronic works. However, less attention has been given to the fact that these doctrines would only apply to digital copies that are sold, not

licensed. As with software, digital copies of electronic works such as iTunes songs and e-books are almost always accompanied by terms and conditions purporting to effect a license rather than a sale. A licensing test for these digital terms and conditions is therefore needed. This article will analyze the current licensing tests for software terms and conditions employed by the United States Court of Appeals for the Ninth Circuit, United States Court of Appeals for the Federal Circuit, and Court of Justice of the European Union. This article will then critique these tests' current formations and propose a new licensing test that can be uniformly applied to the terms and conditions accompanying physical software copies, digital software copies, and digital copies of other copyrighted electronic works.

II. Origins of the First-Sale Doctrine, Essential Step Defense, and Software Licensing

17 U.S.C. § 106 grants a copyright holder six exclusive rights, including the rights “to distribute copies or phonorecords¹ of the copyrighted work” and “to reproduce the copyrighted work in copies or phonorecords.”² The exclusive distribution right and reproduction right are limited by the first-sale doctrine³ and the essential step defense,⁴ respectively. The first-sale doctrine, as codified in 17 U.S.C. § 109(a), states that the “owner of a particular copy or phonorecord” of a copyrighted work “is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.”⁵ The essential step defense, as codified in 17 U.S.C. § 117(a)(1), states that the “owner of a copy of a computer program” may reproduce an additional copy without the copyright holder’s authorization, provided that the additional copy “is created as an essential step in the utilization of the [original copy of the] computer program in conjunction with a machine and is used in no other manner.”⁶

¹ Phonorecords are “material objects in which sounds . . . are fixed.” 17 U.S.C. § 101 (2012).

² *Id.* § 106 (2012).

³ *Id.* § 109(a) (2012).

⁴ *Id.* § 117(a)(1) (2012).

⁵ *Id.* § 109(a) (2012). An important distinction exists between a copyright and a copy of a copyrighted work. David A. Rice, *Licensing the Use of Computer Program Copies and the Copyright Act First-sale Doctrine*, 30 JURIMETRICS J. 157, 166 (1990). When a copy of a copyrighted work is transferred, the copy is either being licensed or sold; it is understood that the copyright itself is not being sold. *DSC Commc’ns Corp. v. Pulse Commc’ns, Inc.*, 170 F.3d 1354, 1361 (Fed. Cir. 1999). However, certain exclusive statutory rights of the copyright owner under 17 U.S.C. § 106, such as the right to download (reproduce) a software copy onto a computer, may be licensed to the copy transferee. The copy transferee then becomes both a copyright licensee and, depending on whether the copy has been licensed or sold, a copy licensee or a copy owner. For purposes of brevity, this article will refer to a copy of a copyrighted work as a “copy,” a copy of an electronic copyrighted work as an “electronic copy,” and a copy of copyrighted software as a “software copy.”

⁶ 17 U.S.C. § 117(a)(1) (2012).

The first-sale doctrine was first introduced into the American legal system by the judiciary, prior to its legislative enactment and the legislative enactment of the essential step defense.⁷ In *Bobbs-Merrill Co. v. Straus*, decided by the Supreme Court in 1908, the defendant purchased copies of plaintiff's copyrighted book and resold the copies for 89 cents each, violating a notice contained within the books that required any resales to be at a price of at least \$1.00.⁸ The Court held that the plaintiff had no cause of action against the defendant for copyright infringement, as allowing a copyright holder to limit or control future sales of a copy that was already sold lay outside the scope of the copyright statute.⁹ The first-sale doctrine from *Straus* was legislatively enacted in 1909.¹⁰ The Copyright Act of 1976 further clarified the doctrine's scope with the addition of 17 U.S.C. § 109(d) to the copyright statute.¹¹ 17 U.S.C. § 109(d) states that the first-sale doctrine does not "extend to any person who has acquired possession of [a] copy or phonorecord from the copyright owner, by rental, lease, loan, or otherwise, without acquiring ownership of it."¹² Thus, the first-sale doctrine does not apply to possessors of copies who do not own those copies. The applicability of the essential step defense in 17 U.S.C. 117(a)(1) is similarly limited to copy owners.¹³ Furthermore, unlike the first-sale doctrine, the essential step defense applies only to software.¹⁴

⁷ Donald Frank Jankowski II, *The End of Ownership?*, 17 MARQ. INTELL. PROP. L. REV. 103, 108 (2013).

⁸ *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 341–342 (1908).

⁹ *Id.* at 351. The Court also noted that no claim had been raised by the plaintiff regarding a contractual limitation or licensing agreement controlling resales of the book. *Id.* at 350. Thus, the Court considered enforcement of the resale limitation solely under intellectual property law. *See id.* However, the Court reasoned that no privity of contract would exist between the copyright owner and purchasers of the book who acquired their copies from intermediate wholesalers. *Id.* *Straus*' discussion of privity of contract will be relevant to this article's analysis of the effects of the *UsedSoft* case. *See infra* Part VI.

¹⁰ Jankowski, *supra* note 7, at 108–09.

¹¹ *Id.*

¹² 17 U.S.C. § 109(d) (2012).

¹³ *Id.* § 117(a)(1).

¹⁴ *Id.* The essential step defense addresses the fact that, when a computer runs an original software copy, a second software copy is created in the computer's random-access memory (RAM). Jankowski, *supra* note 7, at 110. In the absence of a license agreement authorizing reproduction of the second software copy, the creation of this second copy would infringe upon the software copyright owner's exclusive reproduction right. *Id.* Simply using other types of copies of copyrighted works, such as reading a book, does not result in copyright infringement because 17 U.S.C. § 106 does not grant a statutory right to "use." 17 U.S.C. § 106 (2012); Christian H. Nadan, *Software Licensing in the 21st Century: Are Software "Licenses" Really Sales, and How Will the Software Industry Respond?*, 32 AIPLA Q.J. 555, 559, 566 (2004). Without the essential step defense, the owner of an original software copy would commit copyright infringement by simply using the original copy on a computer. Jankowski, *supra* note 7, at 110. However, the additional RAM copy is considered to be "created as an essential step in the utilization of a computer program in conjunction with a machine" under 17 U.S.C. § 117(a)(1); this prevents the

While physical books today typically do not contain restrictive notices of the sort found in *Straus*, copies of copyrighted electronic works such as software are almost always accompanied by terms and conditions with a licensing provision that purports to license rather than sell the copies.¹⁵ Ownership of a licensed copy is not transferred to the licensee; it is retained by the copyright owner.¹⁶ Since the first-sale doctrine and essential step defense apply only to copy owners, the licensee of a software copy would violate the copyright owner's exclusive distribution right by transferring the copy without the copyright owner's permission.¹⁷ Furthermore, any downstream user to which the licensee transfers the software would violate the copyright owner's exclusive reproduction right by using the copy.¹⁸ Thus, copyright owners can use licensing provisions in an effort to circumvent the first-sale doctrine and essential step defense. Copyright owners have taken advantage of electronic terms' relative ubiquity by including within the terms not only licensing provisions, but also use restrictions such as those addressed in Part III below. Use limitations are also found in the terms and conditions accompanying copies of other electronic works, such as iTunes songs and e-books.¹⁹

As the distribution of software copies subject to terms and conditions became more commonplace, Courts began to consider whether the contractual statement that software was "licensed, not sold" was sufficient for a software copyright owner to maintain ownership of a software copy.²⁰ Early cases often deferred to the copyright owner's classification of the

copyright holder from being able to sue the copy owner for infringement on the basis of the RAM copy's creation. *MDY Indus., LLC v. Blizzard Entm't, Inc.*, 629 F.3d 928, 938 (9th Cir. 2010).

¹⁵ Maureen A. O'Rourke, *Drawing the Boundary Between Copyright and Contract: Copyright Preemption of Software License Terms*, 45 DUKE L.J. 479, 487–89 (1995). Despite the use of the word "license" in software contracts, some courts have held that the software copy in question is in fact sold. See *infra* Part III. There are several reasons why it has become industry standard for copyright owners to distribute copyrighted electronic works with contractual terms. Firstly, with respect to software, software owners utilized terms and conditions to contractually effect copyright protections before software was definitively recognized as falling under the ambit of copyright law. *Nadan*, *supra* note 14, at 559. Additionally, contracts often include provisions limiting software owners' liability for software malfunction, which, unlike many other types of copyrightable material, can malfunction and cause companies that have integrated the software into their internal operations to suffer large financial losses. *Id.* at 572, 586. With respect to copyrighted electronic material more generally, contracts inform customers of relevant copyright law, which is more recent and therefore less developed for electronic works than for physical works. O'Rourke, *supra*, at 489. Contracts can also notify customers of which actions constitute copyright infringement, instances of which are more difficult to enforce for electronic copies of copyrighted works than for physical copies. *Nadan*, *supra* note 14, at 590–93.

¹⁶ Jankowski, *supra* note 7, at 109–10.

¹⁷ *Nadan*, *supra* note 14, at 564–66.

¹⁸ *Id.*; see *supra* note 14.

¹⁹ See *infra* Part VII.

²⁰ *Nadan*, *supra* note 14, at 590–93.

transaction as a license.²¹ Increasingly, though, Courts require contractual use restrictions for the transfer of a software copy to qualify as a license.²² As discussed in Part III below, the Ninth Circuit and the Federal Circuit have developed different licensing tests for analyzing software terms and conditions.²³

III. Vernor and DSC

In *Vernor v. Autodesk*, the Ninth Circuit synthesized different tests applied in its prior case law into a new test for determining when a software copy is considered licensed as opposed to sold.²⁴ Vernor “purchased” CD-ROM copies of copyrighted Autodesk software from an Autodesk customer, who had received the software copies directly from Autodesk along with accompanying terms and conditions.²⁵ Vernor claimed that Autodesk had sold the software copies to its customer, which permitted the customer to resell the copies to Vernor under the first-sale doctrine and permitted Vernor and subsequent transferees to use the copies under the essential step defense.²⁶ Vernor’s argument hinged on whether Autodesk’s terms and conditions effected a sale or a license of the software copies in question. The *Vernor* court pronounced a three-factor licensing test, holding that “a software user is a licensee rather than an owner of a copy where the copyright owner: (1) specifies that the user is granted a license; (2) significantly restricts the user’s ability to transfer the software; and (3) imposes notable use restrictions.”²⁷ The Court applied the test as follows:

(1) Specification that User is Granted a License: Autodesk’s terms and conditions stated that users were granted a license.²⁸

²¹ *Id.*; see, e.g., *S&H Comput. Sys., Inc. v. SAS Inst., Inc.*, 568 F. Supp. 416, 420 (M.D. Tenn. 1983) (assuming that the software copy at issue was a “licensed program”); *MAI Sys. Corp. v. Peak Comput., Inc.*, 991 F.2d 511, 517 (9th Cir. 1993) (assuming that plaintiff’s software was “licensed”).

²² See, e.g., *DSC Commc’ns Corp. v. Pulse Commc’ns, Inc.*, 170 F.3d 1354, 1360–62 (Fed. Cir. 1999); *Adobe Sys. Inc. v. One Stop Micro, Inc.*, 84 F. Supp. 2d 1086, 1091 (N.D. Cal. 2000) (concluding that the “numerous restrictions imposed” on the software “indicate a license rather than a sale”).

²³ *Krause v. Titleserv, Inc.*, decided by the Second Circuit in 2005, also addresses when software copies should be considered sold rather than licensed, but the software copy at issue in this case was not accompanied by a terms and conditions. *Krause v. Titleserv*, 402 F.3d 119, 121, 124 (2d Cir. 2005).

²⁴ *Vernor v. Autodesk*, 621 F.3d 1102, 1110–11 (9th Cir. 2010).

²⁵ *Id.* As discussed below, the alleged purchase was ultimately held to constitute copyright infringement. *Id.* at 1115–16.

²⁶ *Id.* at 1110–11; see *supra* note 14.

²⁷ *Id.* at 1111.

²⁸ *Id.* at 1104, 1111–12.

(2) Significant Restriction of User’s Ability to Transfer Software: In analyzing this factor, the court focused on terms stating that the software was “nontransferable . . . without Autodesk’s written consent” and “could not be transferred outside the Western Hemisphere.”²⁹ The court also noted that Autodesk’s terms and conditions included a provision that title to the software was retained by Autodesk.³⁰

(3) Imposition of Notable Use Restrictions: The court noted restrictions in the terms and conditions accompanying Autodesk’s software such as prohibitions on “modifying, translating, or reverse engineering the software,” “removing proprietary marks,” and “us[ing] . . . the software outside of the Western Hemisphere.”³¹ Also noted was the inclusion of a provision requiring “termination of the license upon the licensee’s unauthorized copying or failure to comply with other license restrictions.”³²

Under the three-factor *Vernor* test, the initial transaction between Autodesk and its customer was held to be a license.³³ Thus, the first-sale doctrine and essential step defense were not applicable, and the customer’s transfer of the software copies to Vernor, along with all subsequent transfers and uses of those copies, infringed Autodesk’s software copyright.³⁴

DSC Communications. Corp. v. Pulse Communications., Inc. was a United States Court of Appeals for the Federal Circuit case heard on appeal from the United States District Court for the Eastern District of Virginia.³⁵ The Federal Circuit criticized both the Eastern District of Virginia’s approach and the Ninth Circuit’s approach to distinguishing between software copy licensees and owners.³⁶ Although *DSC* preceded *Vernor* by eleven years, the Ninth Circuit case law that the Federal Circuit addressed is ultimately reflected in the three-factor *Vernor* test.³⁷ In *DSC*, plaintiff DSC Communications (DSC) developed and distributed hardware along with software that would run on the hardware.³⁸ Defendant Pulse Communications (Pulse) developed competing hardware but did not develop its own software; instead, Pulse designed its hardware to be capable of downloading and running DSC’s software.³⁹ DSC alleged that Pulse was liable

²⁹ *Id.* at 1111.

³⁰ *Id.*

³¹ *Id.*

³² *Id.* at 1112.

³³ *Id.*

³⁴ *Id.*

³⁵ The Federal Circuit had jurisdiction over this case pursuant to 28 U.S.C. § 1295 because the defendant “filed a counterclaim that raised a nonfrivolous claim of patent infringement”. *DSC Commc’ns Corp. v. Pulse Commc’ns, Inc.*, 170 F.3d 1354, 1358–59 (Fed. Cir. 1999).

³⁶ *Id.* at 1360–62.

³⁷ *Vernor*, 621 F.3d at 1110.

³⁸ *DSC Commc’ns Corp.*, 170 F.3d at 1358.

³⁹ *Id.*

for contributory copyright infringement, on the grounds that any user of a DSC software copy who reproduced the copy on Pulse's hardware violated DSC's software terms and conditions and directly infringed DSC's copyright.⁴⁰ Pulse claimed that the reproductions were protected under the essential step defense, which required the court to decide whether DSC software copies were sold (in which case ownership would be transferred, and the defense would apply) or licensed (in which case ownership would not be transferred, and the defense would not apply).⁴¹

Before turning to the terms and conditions in *DSC*, the Federal Circuit noted that the Eastern District of Virginia characterized the software transaction as a sale largely due to the fact that DSC software copy users received the copies "for an unlimited period of time" by making "a single payment."⁴² Ultimately reversing the lower court on the matter and dismissing its reasoning as "overly simplistic," the Federal Circuit explained that duration of use and payment may be considered, but are not always determinative, in answering the question of whether a software copy has been sold.⁴³ Looking next to the Ninth Circuit's approach on the matter, the court analyzed *MAI Systems Corp. v. Peak Computer, Inc.*, which deferred to the software copyright owner's classification of the transaction in question as a "license."⁴⁴ When electronic copyrighted material is transferred, the copyright may be licensed even though the copy of the copyrighted work is sold.⁴⁵ When the word "license" is included in terms and conditions such as those in *MAI*, it may be referring to the software copyright rather than the software copy.⁴⁶ Since the word "license" is not instructive as to whether the copy is being licensed or sold, the Federal Circuit found that the Ninth Circuit's reliance on the word in *MAI* was misplaced.⁴⁷ As noted above, however, the Ninth Circuit afforded weight to the word "license" in the first factor of the *Vernor* test eleven years later.

Continuing with its analysis in *DSC*, the Federal Circuit stated that, if it had been deciding whether the software copy in *MAI* was licensed or sold, it would have considered the contractual restrictions in the *MAI* terms and conditions.⁴⁸ According to the Federal Circuit, the relevant question is whether the terms and conditions "imposed more severe restrictions ... with respect to the software than would be imposed on a party who owned copies of the software subject only

⁴⁰ *Id.* at 1359, 1361. Reproduction of DSC software on third-party hardware was prohibited by DSC's software terms and conditions. *Id.* at 1361.

⁴¹ *Id.* at 1359.

⁴² *Id.* at 1360. The test applied by the Eastern District of Virginia is similar to the test applied by the Court of Justice of the European Union in *Usedsoft*. See *infra* Part V.

⁴³ *DSC Commc'ns Corp.*, 170 F.3d at 1362.

⁴⁴ *Id.* at 1360 (citing *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 517 (1993)).

⁴⁵ *DSC Commc'ns Corp.*, 170 F.3d at 1360; see *supra* note 5.

⁴⁶ *Id.* at 1362; see *infra* Part VI.

⁴⁷ *Id.* at 1360.

⁴⁸ *Id.*

to the rights of the copyright holder under the Copyright Act.”⁴⁹ The Federal Circuit found that the terms and conditions in both *MAI* and *DSC* contained more restrictions than would typically be placed on a copy owner.⁵⁰ Clauses that the court noted in *DSC*’s terms and conditions included retention of title by *DSC*, transfer restrictions, and restrictions regarding the types of hardware on which the software could be used.⁵¹ Ultimately, the court concurred with the Ninth Circuit’s opinion in *MAI* and found that *DSC*’s software copies were licensed, meaning that the essential step defense would not apply and that Pulse could be liable for contributory copyright infringement.⁵²

IV. The European Exhaustion Doctrine and Essential Step Defense Equivalent

There are two primary directives that address the extent of the reproduction and distribution protections afforded to copyright owners in Europe: Directive 2001/29/EC and Directive 2009/24/EC⁵³. The former Directive applies to copyrighted works in general, and the latter is an additional Directive pertaining specifically to pure computer programs.⁵⁴ Each directive grants copyright owners exclusive reproduction rights⁵⁵ and distribution rights⁵⁶ that are comparable to those granted under 17 U.S.C. § 106. Each directive also contains an exhaustion doctrine,⁵⁷

⁴⁹ *Id.*

⁵⁰ *Id.* at 1360–61.

⁵¹ *Id.* at 1361.

⁵² *Id.* at 1360, 1362. The three-factor licensing test in *Vernor* was applied to physical software copies (software on a CD) in the context of the first-sale doctrine and essential step defense. *Vernor v. Autodesk*, 621 F.3d 1102, 1104, 1111–12 (9th Cir. 2010). The licensing test in *DSC*, which focuses on contractual restrictions and does not consider the word “license,” was applied to digital software copies in the context of the essential-step defense. *DSC Commc’ns Corp.*, 170 F.3d at 1358–59. As is discussed in Part V below, the *UsedSoft* court notes that its licensing test is applicable to both physical and digital software copies. *See infra* Part V; Case C-128/11, *UsedSoft GmbH v. Oracle Int’l Corp.*, ECLI:EU:C:2012:407. Part VII will discuss the need for a licensing test that is applicable to copies of electronic works other than software.

⁵³ Council Directive 2001/29, 2001 O.J. (L 206) 1 (EC); Council Directive 2009/24, 2009 O.J. (L 111) 16 (EC).

⁵⁴ Case C-355/12, *Nintendo Co. Ltd. v. PC Box SRL*, ECLI:EU:C:2014:25, para. 23 (holding that Directive 2009/24/EC does not apply to video games because they are comprised of not only software, but also other copyrighted works such as visual elements and music).

⁵⁵ Council Directive 2001/29, art. 2, 2001 O.J. (L 206) 1 (EC); Council Directive 2009/24, art. 4(1)(a), 2009 O.J. (L 111) 16 (EC).

⁵⁶ Council Directive 2001/29, art. 4(1), 2001 O.J. (L 206) 1 (EC); Council Directive 2009/24, art. 4(1)(c), 2009 O.J. (L 111) 16 (EC).

⁵⁷ Council Directive 2001/29, art. 4(2), 2001 O.J. (L 206) 1 (EC); Council Directive 2009/24, art. 4(2), 2009 O.J. (L 111) 16 (EC).

which is similar to the American first-sale doctrine.⁵⁸ Additionally, each directive contains a provision that is similar to the American essential step defense: Article 5(1) of Directive 2001/29/EC (which, unlike the essential step defense in 17 U.S.C. § 117(a)(1), applies to copyrighted works other than software) and Article 5(1) of Directive 2009/24/EC.⁵⁹ 17 U.S.C. § 117(a)(1) is limited in scope to the reproduction of an additional software copy, such as a RAM copy, that is created as an essential step in the use of an original software copy owned by the copy transferee.⁶⁰ The reproduction that creates the original software copy, however, may not infringe the copyright holder's reproduction right.⁶¹ Article 5(1) of Directive 2009/24/EC is broader than 17 U.S.C. § 117(a)(1), covering unauthorized reproductions of the original software copy itself. The Article specifies under what circumstances such original copy may be reproduced without infringing the copyright holder's reproduction right.⁶² The broader scope of Article 5(1) of Directive 2009/24/EC is relevant to the third point addressed by the Court of Justice of the European Union in the *UsedSoft* decision, as discussed below.

V. UsedSoft

UsedSoft GmbH v. Oracle International Corp, decided by the Court of Justice of the European Union (CJEU) in 2011, ruled on whether exhaustion could apply and, if it *could* apply, in which cases it *did* apply, to digital software copies.⁶³ The court's holding, however, extended to both digital and physical software copies.⁶⁴ Usedsoft purchased Oracle software "licenses"⁶⁵ (pursuant to which Oracle transferred copies of its software) from current Oracle customers.⁶⁶ UsedSoft then resold the software licenses to downstream users, who would use the licenses to

⁵⁸ Tjeerd Overdijk et al. Exhaustion and Software Resale Rights: A comparison between the European exhaustion doctrine and the U.S. first sale doctrine in light of recent case law, 12 COMPUTER L. REV. INT'L. 33, 35 (2011). Unlike the American first-sale doctrine, which is triggered by any transfer of ownership, the European exhaustion doctrine requires a sale. Council Directive 2001/29, art. 4(2), 2001 O.J. (L 206) 1 (EC); Council Directive 2009/24, art. 4(2), 2009 O.J. (L 111) 16 (EC).

⁵⁹ Council Directive 2001/29, art. 5(1), 2001 O.J. (L 206) 1 (EC); Council Directive 2009/24, art. 5(1), 2009 O.J. (L 111) 16 (EC); Overdijk et al., *supra* note 58, at 35.

⁶⁰ 17 U.S.C. § 117(a)(1) (2012); *see supra* note 14.

⁶¹ 17 U.S.C. §§ 106, 117(a)(1) (2012).

⁶² Council Directive 2009/24, art. 5(1), 2009 O.J. (L 111) 16 (EC).

⁶³ Case C-128/11, *UsedSoft GmbH v. Oracle Int'l Corp.*, 2012 EUR-Lex CELEX 62011CJ0128 (July 3 2012). The first-sale doctrine in America applies only to physical copies of copyrighted works. *See infra* Part VII.

⁶⁴ *Usedsoft*, 2012 EUR-Lex CELEX 62011CJ0128 at para. 47.

⁶⁵ As discussed in the following paragraphs, the CJEU ultimately held that the software "license" constituted a sale.

⁶⁶ *Usedsoft*, 2012 EUR-Lex CELEX 62011CJ0128 at paras. 21-26.

download copies of Oracle software from Oracle’s website directly onto their computers.⁶⁷ Oracle successfully sued Usedsoft for copyright infringement in a regional court in Munich, and the Federal Court of Justice of Germany affirmed on the grounds that the unauthorized download of Oracle’s software by downstream users infringed Oracle’s exclusive reproduction right under Article 4(1)(a) of Directive 2009/24/EC.⁶⁸ The case was referred to the CJEU to determine if: (i) Oracle exhausted its distribution right under Article 4(1)(c) of Directive 2009/24/EC⁶⁹ by “licensing” software copies to its customers; (ii) if the distribution right was exhausted, whether a downstream user who acquired a software copy from Usedsoft was a “lawful acquirer” of that copy under Article 5(1) of Directive 2009/24/EC; and (iii) if the downstream user is a “lawful acquirer” of the copy, whether the downstream user may download the copy onto his or her computer in accordance with Article 5(1) of Directive 2009/24/EC, provided that the copy on the original user’s computer is deleted.⁷⁰ The CJEU ruled that:

(i) Oracle exhausted its distribution rights under Article 4(1)(c) of Directive 2009/24/EC *if* its software “license” constituted a sale.⁷¹ For its licensing test, the CJEU characterized a sale as any transaction in which the copyright owner has authorized the transfer of a copy, either by download or physical delivery, and has “conferred, in return for the payment of a fee intended to enable him to obtain a remuneration corresponding to the economic value of the copy ... a right to use that copy for an unlimited period.”⁷² Since Oracle offered its customer a perpetual software license in exchange for a one-time payment, the CJEU held that Oracle’s software “license” was in fact a sale that triggered the exhaustion doctrine.⁷³

(ii) Given that Oracle exhausted its distribution right, a downstream user who acquired a software copy from Usedsoft was a “lawful acquirer” of that copy under Article 5(1) of Directive 2009/24/EC.⁷⁴

(iii) Given that the downstream user is a “lawful acquirer” of the copy, the downstream user may download the copy onto his or her computer in accordance with Article 5(1) of Directive 2009/24/EC, provided that the copy on the original user’s computer is deleted.⁷⁵

⁶⁷ *Id.*

⁶⁸ Usedsoft, 2012 EUR-Lex CELEX 62011CJ0128 at paras. 27-28.

⁶⁹ German law incorporated the applicable sections of Directive 2009/24/EC analyzed by the CJEU. Usedsoft, 2012 EUR-Lex CELEX 62011CJ0128 at para. 31.

⁷⁰ Usedsoft, 2012 EUR-Lex CELEX 62011CJ0128 at para. 34.

⁷¹ Usedsoft, 2012 EUR-Lex CELEX 62011CJ0128 at para. 38.

⁷² Usedsoft, 2012 EUR-Lex CELEX 62011CJ0128 at para. 72.

⁷³ *Id.*

⁷⁴ Usedsoft, 2012 EUR-Lex CELEX 62011CJ0128 at paras. 74-75, 80.

⁷⁵ Usedsoft, 2012 EUR-Lex CELEX 62011CJ0128 at paras. 75, 78, 81.

VI. Modifying the Vernor Test

The licensing tests articulated in *UsedSoft*, *Vernor*, and *DSC* all have significant shortcomings. A new test is required so that courts can properly analyze the terms and conditions accompanying software copies to determine if those copies are being licensed or sold. This part addresses the deficiencies in the *UsedSoft*, *Vernor*, and *DSC* licensing tests and proposes a modified *Vernor* test that overcomes these deficiencies.

UsedSoft's licensing test, under which any perpetual license received in exchange for a one-time payment of full "remuneration" is considered to be a sale, is similar to the licensing test employed by the Eastern District of Virginia in *DSC* (prior to the case's appeal to the Federal Circuit).⁷⁶ As the Federal Circuit notes, this licensing test is "overly simplistic"—license duration and payment are just two of the many contractual provisions that should be considered in deciding whether a copy has been licensed or sold.⁷⁷ Furthermore, as illustrated by *UsedSoft* on remand, implementing the *UsedSoft* test will lead to unworkable and undesirable results. After *UsedSoft* was remanded back to the German judiciary, the Federal Court of Justice in Germany instructed the Munich regional court on how to apply the CJEU's ruling with "guidelines for practical implementation."⁷⁸ One such guideline is as follows: when a software copy is considered sold to an initial customer and is then legally transferred to a downstream user in accordance with *UsedSoft*, the downstream user must comply with the terms and conditions that the initial customer accepted—regardless of whether the downstream user agreed to such terms.⁷⁹ This guideline violates a basic principle of contract law—namely, that one cannot be bound by an agreement to which one has not agreed.⁸⁰ Furthermore, under the Federal Court of Justice's guidelines, a downstream user's violation of the terms—also regardless of whether the user agreed to the terms—allows the copyright holder to bring an action against the downstream user for copyright infringement.⁸¹ In an effort to mitigate the negative consequences of the *UsedSoft* judgement, the Federal Court of Justice of Germany logically attempted to prevent a downstream user of a software copy from being subject to fewer contractual restrictions than the initial customer. However, the guidelines that the Court issued exceed the boundaries of contract law and allow a lawsuit for copyright infringement to be based on the purported "breach" of a non-binding contractual term.

⁷⁶ See *supra* note 40.

⁷⁷ See *supra* Part IV.

⁷⁸ Masa Savic, The Legality of Resale of Digital Content after *Usedsoft* in Subsequent German and CJEU Case Law, 37 EUR. INTEL. PROP. L. REV. 414, 416 (2015).

⁷⁹ *Id.*

⁸⁰ See *supra* note 9.

⁸¹ Savic, *supra* note 78, at 416.

The first factor of the *Vernor* test, which affords weight to a contractual provision specifying that a user is granted a “license,” is problematic. As the *DSC* court noted,⁸² the word “license” may refer to the copyright rather than the copy of the copyrighted work. Automatically associating “license” with the copy presupposes a contractual interpretation that benefits the copyright holder. Thus, the first factor of the *Vernor* test should be discarded, and the presence of the word “license” and the phrase that a copyrighted work is “licensed, not sold” should not be considered in a licensing test.

The analysis of contractual use restrictions under the *Vernor* test and *DSC* test is also flawed. In the *Vernor* test, limitations are grouped into two separate categories—transfer limitations, analyzed in factor two, and use restrictions, analyzed in factor three.⁸³ In the *DSC* test, limitations are analyzed together and are afforded the same consideration.⁸⁴ However, different types of limitations bear differently on the question of whether an electronic copy has been licensed or sold; these different limitations should therefore be analyzed separately. Firstly, statutory limitations, which reiterate the scope of a copyright license by reflecting copyright rights that have *not* been licensed, should not be considered at all when determining if a copy has been licensed or sold. The copyright rights under 17 U.S.C. § 106 are exclusive to the copyright holder,⁸⁵ meaning that a copyright right is not granted to a copy transferee unless: (a) the copyright holder licenses the right, or (b) the right is rendered unenforceable by virtue of the first-sale doctrine or essential step defense. A contractual provision is redundant if it prohibits a copy licensee from taking an action that would infringe an unlicensed copyright right—in the absence of the provision, the copy licensee would still be unable to take the action that the provision prohibits. For example, a contractual provision is redundant if it prohibits a copy licensee from transferring the copy where the statutory distribution right was not licensed. Without the explicit prohibition of transfer, the copy licensee would still be liable for copyright infringement if the licensee transferred the copy. If the copy is sold rather than licensed, the first-sale doctrine becomes applicable. In this case, the transfer prohibition would no longer be redundant, as the copy transferee would be able to legally transfer the copy without the contractual limitation. The transfer prohibition, if redundant, is not adding any restrictions to the licensee’s use of the copy. Furthermore, in order to conclude that the limitation *is* redundant, it first needs to be determined that the copy was licensed. Similarly, in order to conclude that the limitation is not redundant (meaning that it would add a restriction to the use of the copy), it first

⁸² *See supra* Part III.

⁸³ *See supra* Part III.

⁸⁴ *See supra* Part III.

⁸⁵ 17 U.S.C. § 106 (2012).

needs to be determined that the copy was *not* licensed. Therefore, statutory limitations cannot be used to determine whether a copy has been licensed or sold.⁸⁶

In deciding whether a copy has been licensed or sold, non-statutory limitations should be considered, but they should be weighed differently depending on whether they preserve property interests in the copy or merely impose use restrictions. David A. Rice describes limitations that preserve property interests as provisions that allow copyright holders to maintain control or title of a copy.⁸⁷ Rice distinguishes limitations that preserve property interests from limitations with a “principal purpose” of “protect[ing] intangible copyrightable subject matter.” Provisions of this latter sort, such as prohibitions on reverse engineering, serve to protect the copyright holder’s intellectual property interest in the software code rather than property interests in the software copy.⁸⁸ Rice argues that limitations preserving property interests suggest that a copy has been licensed, whereas limitations protecting intangible copyrightable subject matter suggest that a copy has been sold.⁸⁹ Rice does not distinguish between statutory and non-statutory limitations in his analysis.⁹⁰ Nonetheless, Rice’s categorization of contractual limitations, after

⁸⁶ Aaron Perzanowski & Jason Schultz note that “[t]he 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.” Aaron Perzanowski & Jason Schultz, *Copyright Exhaustion and the Personal Use Dilemma*, 96 Minn. L. Rev. 2067, 2127 (2012). Therefore, they claim, “[b]y 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.” *Id.* (emphasis added). While the right to distribute (“resale”) is a statutory restriction that is subject to the first-sale doctrine, the right to “use” is not a statutory restriction because this right is not granted to copyright holders under 17 U.S.C. § 106. 17 U.S.C. § 106 (2012). As discussed below, use restrictions can be considered in a licensing test without creating a “pro-copyright holder and anti-consumer bias.”

⁸⁷ See Rice, *supra* note 5, at 172–74.

⁸⁸ *Id.* at 158.

⁸⁹ *Id.* at 172.

⁹⁰ A prohibition on reverse engineering, which Rice includes as an example of a provision protecting intangible copyrightable subject matter, is a statutory restriction. Reverse engineering a software copy creates a derivative work. *Id.* at 158. Under the analysis of the preceding paragraph, a reverse engineering prohibition reflects an unlicensed statutory right (assuming that the right to create derivative works under 17 U.S.C. § 106 has not been licensed). Unless the fair use defense in 17 U.S.C. § 107 (17 U.S.C. § 107 (2012)) renders unenforceable the ability of the copyright holder to control this statutory right (*see Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510 (9th Cir. 1992) (holding that defendant’s reverse engineering of plaintiff’s software to create a non-infringing software program qualified as fair use), a reverse engineering prohibition is redundant. In this case, the prohibition is redundant regardless of whether the copy in question has been licensed or sold, as the copyright holder’s exclusive right to control the creation of derivative works under 17 U.S.C. § 106 is not extinguished by a sale. 17 U.S.C.

disregarding statutory limitations, can be generalized to draw a distinction between (i) non-statutory limitations that preserve title and control of a copy; and (ii) non-statutory limitations imposing additional use restrictions that are unrelated to the preservation of title and control. It is true, as Rice suggests, that limitations preserving title and control of a copy with the copyright holder connote a lack of ownership by the copy transferee and therefore weigh more towards finding that the copy has been licensed than do other use limitations. Contrary to Rice's assertion, however, contractual limitations unrelated to title or control, such as a prohibition on using a copy for commercial purposes, may also suggest that a copy has been licensed.⁹¹ As the limitations increase in number and restrict use of a copy beyond the typical use of such copy by an owner,⁹² the copy transferee has less freedom with respect to the transferred copy, and the transfer of the copy becomes more akin to a license. Thus, when analyzing the various types of non-statutory use restrictions under the *Vernor* test, use restrictions should still be considered, but they should not be afforded as much weight as limitations that preserve the copyright owner's title and control of the copy. Additionally, when analyzing limitations that preserve title and control, limitations that preserve title should be afforded more weight than limitations that preserve control—preservation of title in a copy by the copyright owner is antithetical to a copy transferee's alleged ownership interest, while the preservation of control relates more indirectly to this ownership interest.⁹³

§§ 109(a), 117(a)(1) (2012). The redundant reverse engineering prohibition should therefore not be considered in deciding whether an electronic copy has been licensed or sold.

⁹¹ See *supra* Part VII. The restrictions noted in factor 3 of the *Vernor* test would not be considered under this analysis. The limitations on modifying, translating, and reverse engineering are redundant statutory limitations. See *infra* note 90. The limitation on removing proprietary notices is also a redundant statutory limitation, as such removal is already prohibited by the Digital Millennium Copyright Act. 17 U.S.C. § 1202(b)(1) (2012). Lastly, the geographic limitation is an attempt by the copyright holder to preserve control of a copy. This restriction will therefore be considered separately from use restrictions that are unrelated to title or control.

⁹² The DSC court focuses on limitations that are “more severe ... than [restrictions that] would be imposed on a party who owned” a copy. *DSC Commc'ns Corp. v. Pulse Commc'ns, Inc.*, 170 F.3d 1354, 1360 (Fed. Cir. 1999); see *supra* Part III. However, a severe limitation on a copy that does not restrict the manner in which the copy would ordinarily be used (for example, a prohibition on using a copy of a copyrighted book for commercial purposes, where such copy would ordinarily be used for personal reading) is not actually restricting a user's use of the copy. A licensing test should therefore only consider contractual limitations that restrict use of a copy beyond the typical use of such copy by an owner.

⁹³ An example of a non-statutory limitation that preserves title is an explicit retention of title or ownership to the software copies, analyzed in the second *Vernor* factor. An example of a non-statutory limitation that preserves control over software copies is a prohibition on using copies outside of the Western Hemisphere, analyzed in the third *Vernor* factor. A provision requiring “termination of the license upon the licensee's unauthorized copying or failure to comply with other license restrictions,” analyzed in the

A modified three-factor *Vernor* test is proposed. Factor (1) should be afforded more weight than factor (2), factor (2) should be afforded more weight than factor (3), and a court should not conclude from any one factor alone that a copy has been licensed. By disregarding statutory limitations and affording more weight to non-statutory limitations that speak directly to title and control, this modified test reflects more accurately than the *Vernor* and *DSC* tests when a software copy is licensed rather than sold. The modified *Vernor* licensing test considers: (1) non-statutory limitations in which the copyright holder preserves title to the copy; (2) non-statutory limitations in which the copyright holder preserves control over the copy; and (3) non-statutory limitations that do not directly relate to title or control of the copy and that restrict use of the copy beyond the typical use of such copy by an owner.

VII. Applying the Modified *Vernor* Test to Digital Works in America and Europe

In America, the software licensing tests of different jurisdictions have been applied to both physical software copies (for example, *Vernor* in the context of the first-sale doctrine and essential step defense) and digital software copies (for example, *DSC* in the context of the essential step defense). Similarly, the licensing test in *UsedSoft* is applicable to both physical and digital software copies.⁹⁴ However, the first-sale doctrine is not applicable to digital copies of electronic works,⁹⁵ and European law regarding the exhaustion doctrine's applicability to digital copies of electronic works other than software remains unsettled. The 2015 CJEU case *Art & AllPosters International BV v. Stichting Pictoright* suggests that the exhaustion doctrine does not extend to digital copies of electronic works other than software.⁹⁶ The question of whether digital exhaustion extends beyond software has recently been referred to the CJEU.⁹⁷

While numerous works of scholarship support the extension of the first-sale doctrine and exhaustion doctrine to digital copies of all electronic works,⁹⁸ fewer address the fact that, even if

second *Vernor* factor, does preserve control because it does not require that the copies be returned in the event of a termination.

⁹⁴See *supra* Part VI.

⁹⁵ *Capitol Records, LLC v. ReDigi Inc.*, 910 F.3d 649, 656-57 (2d Cir. 2018).

⁹⁶ Case C-419/13, *Art & AllPosters International BV v. Stichting Pictoright*, 2012 EUR-Lex CELEX 62013CJ0419 (January 22 2015).

⁹⁷ Case C-263/18, *Uitgevers v. Tom Kabinet Internet BV*, 2018 EUR-Lex CELEX 62018CN0263 (April 16 2018); Ari Laakkonen, Alex Drive, and Stuart Knight, *Copyright exhaustion - what's happened since UsedSoft?*, INTELL. PROP. MAG., <https://www.powellgilbert.com/PowellGilbert/media/PG/2015-IPM-copyright-exhaustion.pdf>.

⁹⁸ See Aaron Perzanowski & Jason Schultz, *Digital Exhaustion*, 58 UCLA L. REV. 889 (2011); see also B. Makoa Kawabata, *Unresolved Textual Tension: Capitol Records v. ReDigi and a Digital First Sale Doctrine*, 21 UCLA L. ENT. REV. 33 (2014); see also Caterina Sganga, *A Plea for Digital Exhaustion in EU Copyright Law*, 9 J. INTELL. PROP. INFO. TECH. & ELEC. COM. L. 211 (2018).

the doctrines *can* apply, they will *not* apply unless the transfer of the digital copy is considered to be a sale.⁹⁹ The modified *Vernor* test can be applied not only to terms and conditions accompanying physical and digital software copies, but also to terms and conditions accompanying digital copies of other electronic works. To illustrate an application of the modified *Vernor* test, the test will be applied to the Amazon Kindle Store Terms of Use to determine whether copies of “Kindle” Content” distributed pursuant to these terms should be considered licensed or sold.¹⁰⁰

⁹⁹ Kristin Cobb proposes a licensing test for digital works that bears similarity to the *UsedSoft* decision as well as a licensing test that looks to see whether the copyright holder maintains adequate ownership over the transferred copy. Kristin Cobb, *The Implications of Licensing Agreements and the First-sale Doctrine on U.S. and E.U. Secondary Markets for Digital Goods*, 24 DUKE J. COMP. AND INT’L L. 529, 549 (2014). This article has discussed the problems associated with the *UsedSoft* test. Additionally, a test looking solely at the copyright holder’s retention of ownership does not distinguish between statutory and non-statutory limitations or between limitations related and unrelated to preserving title and control.

¹⁰⁰ *Kindle Store Terms of Use*, AMAZON.COM (October 5, 2016),

<https://www.amazon.com/gp/help/customer/display.html?nodeId=201014950>. The Kindle Store Terms of Use reference the Amazon Conditions of Use, which state that “digital downloads” made available through any Amazon service are “the property of Amazon.” *Conditions of Use*, AMAZON.COM (May 21, 2018), <https://www.amazon.com/gp/help/customer/display.html?nodeId=508088>. Additional relevant terms from the Kindle Store Terms of Use are:

Definitions

- "Kindle Applications" means software we make available that permits users to shop for, download, browse, or use the Kindle Store or Kindle Content on a Supported Device...
- "Kindle Content" means digitized content obtained through the Kindle Store, such as books, newspapers, magazines, and other content.
- "Service" means the provision of the Kindle Store, Kindle Content, Kindle Application, and support and other services that we provide Kindle Store, Kindle Content, and Kindle Application users...
- "Supported Device" means a mobile, computer or other supported electronic device on which you are authorized to operate a Kindle Application.

1. Kindle Content

- Use of Kindle Content. Upon your download or access of Kindle Content and payment of any applicable fees (including applicable taxes), the Content Provider grants you a non-exclusive right to view, use, and display such Kindle Content an unlimited number of times (for Subscription Content, only as long as you remain an active member of the underlying membership or subscription program), solely through a Kindle Application or as otherwise permitted as part of the Service, solely on the number of Supported Devices specified in the Kindle Store, and solely for your personal, non-commercial use. Kindle Content is licensed, not sold, to you by the Content Provider.

In accordance with the modified *Vernor* test, the provision stating that Kindle Content is “licensed, not sold” will not be taken into account. Additionally, statutory limitations (for example, (i) the prohibition on selling, renting, leasing, and distributing, where the statutory distribution right has not been granted; (ii) the requirement that Kindle Content be used only on Supported Devices, where the user was not granted the statutory right to reproduce (download) Kindle Content on other devices; and (iii) the prohibition on removing proprietary notices, where such removal is prohibited by the Digital Millennium Copyright Act¹⁰¹ will not be considered. A distinction must also be drawn between Kindle Content that is downloaded and Kindle Content that is accessed remotely in the cloud. Downloaded copies of Kindle Content may be considered licensed or sold, depending on the outcome of the modified *Vernor* test. When Kindle Content is accessed remotely, however, the content is not downloaded and is neither licensed nor sold; rather, the user is accessing the remote content as a service.¹⁰² Since the remote content is not considered to be sold (meaning that the first-sale and exhaustion doctrines will not apply), a licensing test for this content is not necessary. The modified *Vernor* test will therefore consider terms relating only to downloaded copies of Kindle Content. The test would be applied as follows:

(1) Non-statutory limitations in which the copyright holder preserves title in the copy: The Amazon Conditions of Use referenced in the Kindle Store Terms of Use preserve Amazon’s title

- Limitations. Unless specifically indicated otherwise, you may not sell, rent, lease, distribute, broadcast, sublicense, or otherwise assign any rights to the Kindle Content or any portion of it to any third party, and you may not remove or modify any proprietary notices or labels on the Kindle Content.

- Subscription Cancellations and Terminations. A newspaper or magazine subscription may be terminated at any time, for example, if a magazine is no longer available. If a magazine or newspaper subscription is terminated before the end of its term, you will receive a prorated refund.

2. Use of Kindle Applications. You may use the Kindle Applications only on Supported Devices.

3. General.

- Termination. Your rights under this Agreement will automatically terminate if you fail to comply with any term of this Agreement. In case of such termination, you must cease all use of the Service, and Amazon may immediately revoke your access to the Service without refund of any fees.

Kindle Store Terms of Use, AMAZON.COM (October 5, 2016),

<https://www.amazon.com/gp/help/customer/display.html?nodeId=201014950> (alteration in original).

¹⁰¹ See *supra* note 91.

¹⁰² David Tollen, *Don’t Use License Agreements for Software-As-A-Service*, TECH CONT. ACAD., <https://techcontracts.com/2018/06/01/dont-use-licenses-saas-contracts/> (June 1, 2018).

in downloaded copies of Kindle Content by stating that “digital downloads” made available through any Amazon service are Amazon’s property. This factor weighs in Amazon’s favor.

(2) Non-statutory limitations in which the copyright holder preserves control over the copy: While the “Termination” provision of the Kindle Store Terms of Use states that users must cease *use* of the Service and that Amazon may revoke a user’s *access* to the service, this provision, similarly to the return provision in *Vernor*,¹⁰³ does not preserve Amazon’s control of downloaded copies (for example, by requiring that Amazon customers delete the downloaded copies). Similarly, the “Subscription Cancellations and Terminations” provision discusses subscription cancellations but does not preserve control over downloaded copies of Kindle Content in those subscriptions. Thus, this factor does not weigh in Amazon’s favor.

(3) Non-statutory limitations that do not directly relate to title or control of the copy and that restrict use of the copy beyond the typical use of such copy by an owner: The Kindle Store Terms of Use prohibit using the copies for non-personal and commercial purposes. As discussed in the following paragraph, this factor weighs in Amazon’s favor, but not considerably so.

Under the modified *Vernor* test, factor 2 is not met, and factor 3 weighs only slightly in Amazon’s favor—the personal and non-commercial use restrictions do not significantly restrict use of downloaded copies of Kindle Content (such as books, newspapers, and magazines) beyond the typical use of these copies by an owner. Thus, the modified *Vernor* test would conclude that downloaded copies of Kindle Content are sold, not licensed. However, the current *Vernor* test would likely find that the Kindle Store Terms of Use effect a license of downloaded copies of Kindle Content. Under the current *Vernor* test, the terms retain Amazon’s title in the copies, include statutory limitations, and state that Kindle Content is “licensed, not sold.” By failing to consider the proper characteristics of a licensed copy as does the modified *Vernor* test, the current *Vernor* test improperly characterizes downloaded copies of Kindle Content.

VIII. Conclusion

Perzanowski and Schultz discuss a dichotomy in the Ninth Circuit’s analysis of certain transferred copies of copyrighted electronic works—software copies, which are most often accompanied by terms and conditions, are analyzed under the *Vernor* test, whereas physical electronic copies other than software are subjected to “a more probing analysis of the economic realities of the [transfer] transaction.”¹⁰⁴ In *UMG v. Augusto*, for instance, plaintiff’s shipment of promotional CD-ROMS (phonorecords containing copies of copyrighted sound recordings) was held to constitute a sale rather than a license because of UMG’s lack of control over the CD-

¹⁰³ There is also no attempt at control over the copies with a geographic limitation. *See supra* note 93.

¹⁰⁴ Perzanowski & Schultz, *supra* note 86, at 2127 (citing *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175 (9th Cir. 2011)).

ROMS.¹⁰⁵ Perzanowski and Schultz criticize the fact that a copyright owner's lack of control weighed towards finding a sale in *UMG* but did not weigh against finding a license in *Vernor*.¹⁰⁶ *UMG*'s licensing test, which focuses on retention of control by the copyright owner, is similar to factor 2 of the modified *Vernor* test. To resolve the tension between the *UMG* test and the current *Vernor* test, the modified *Vernor* test could be merged with the *UMG* test. Then, these two tests could be incorporated into a new licensing test to determine when electronic copies should be considered licensed rather than sold. This test could apply regardless of whether the electronic copies are accompanied by terms and conditions. The test would ask:

(1) If there are terms and conditions accompanying the copy, do the terms and conditions create a license under the modified *Vernor* test?

(2) Apart from any terms and conditions, does the copyright owner take actions in an effort to maintain title or control of the electronic copies in question?

This licensing test creates a uniform approach under which to properly analyze the purported licensing of electronic copies by copyright owners.

¹⁰⁵ “UMG has virtually no control over the unordered CDs it issues because of its means of distribution, and it has as no assurance that any recipient has assented or will assent to the creation of any license or accept its limitations. UMG also does not require the ultimate return of the promotional CDs to its possession.” *UMG*, 628 F.3d at 1183. Although there were terms and conditions on the CDs, the court did not consider whether the terms created a license or sale because it could not be determined if the recipients had agreed to the terms. *Id.*

¹⁰⁶ Perzanowski & Schultz, *supra* note 86, at 2127.