

Comments on the Effect of §§1202 and 1203
On the Operation of §§106 and 109 of Title 17.

The following comments are offered by Charles Lee Thomason, and are not to be taken as the views of the law firm of Thomason, Moser & Patterson, LLP or any of its clients.

Hereinafter are summary responses to some of the Specific Questions set out in the Notice at 65 F.R. 35673 (June 5, 2000), which are followed by general comments.

1. *Section 109*

(b) What effect, if any, has the enactment of prohibitions on falsification, alteration or removal of copyright management information had on the operation of the first sale doctrine?

As set out in the general comments below, the effect of §§1202 and 1203 in Title 17 is to create liability for unoriginal, uncopyrightable information. A midstream reseller who trades in authentic, lawfully-obtained copies of a work, may remove labels or packaging before resale upon the belief that he is an “owner”, not of the copyrighted work, but an “owner of a particular copy” under §109(a). Without adequate notice, or on a mistaken that he is an “owner”, or that he obtained from an “owner”, the reseller may face liability if uncopyrightable “information” on the packaging has been removed or altered.

(c) What effect, if any, has the development of electronic commerce and associated technology had on the operation of the first sale doctrine?

If electronic commerce includes purchasing products using electronic ordering and payment means, then the first sale doctrine should be unaffected. As set out in the general comments below, it is widely suggested that electronic commerce is

cause to entitle copyright owners more protection, but not to subject those protected rights to the first sale doctrine.

(d) What is the relationship between existing and emergent technology, on the one hand, and the first sale doctrine, on the other?

New technology that serves as media in which a copyrighted work may be fixed obtains the same copyright as is granted to art or to books. Perhaps because what is new is mysterious to some, they believe that “digital” technology is free of the limitation are not “Subject to sections 107 through 120”¹ of the Copyright Act.² This view of “digital” works forgets the statement in *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975) that “When technological change has rendered its literal terms ambiguous, the Copyright Act must be construed in light of this basic purpose.”

(f) To what extent, if any, does the emergence of new technologies alter the technological premises (if any) upon which the first sale doctrine is established?

The premise of the first sale doctrine is not “technological”. After a lawful first distribution by sale “or other transfer of ownership”, the limited monopoly of copyright ownership gives way to policies against restraints on alienation of property, and leave the distributor of copies to contract and U.C.C. remedies. As long as the U.S. has free trade between merchants and consumers for consideration, the premise of the first sale doctrine should be unaltered.

¹ As provided in §106.

² “Section 106 of the Copyright Act confers a bundle of exclusive rights ...subject to certain statutory exceptions.” *Harper & Row v. Nations Enterprises*, 471 U.S. 539, 546-47 (1984).

(g) Should the first sale doctrine be expanded in some way to apply to digital transmissions? Why or why not?

The doctrine should not be expanded to digital transmissions, where no “particular copy” is transferred by sale of other transfer of ownership. Rather the first sale doctrine should be clarified to deal directly with the transactions described in §§106(3) and 109(a), so that its current vague and uncertain application is eliminated.

General Comments.

Prior to the Digital Millenium Copyright Act, only the “work” of original authorship and lawfully-made copies were accorded the exclusive distribution right that §106(3) protects. Copyright protection was not accorded to the separate, uncopyrightable labeling and packaging that accompanied the media in which the particular copy of the work was “fixed.”³ That was an adjunct of the tangible/intangible separation between the intangible “exclusive rights under a copyright” that are “distinct from ownership of the material object in which the work is embodied.”⁴

The Digital Millenium Copyright Act, P.L. 105-304, 112 Stat. 2860, H.R. 2281, *codified in*, Title 17 U.S.C. §1201 *et seq.*, (hereinafter the DMCA) extended federal protection to labels, stickers, notices, and identifying information that are not copyrightable. Submit a a bar code or a ‘not for resale’ sticker to the Copyright Office for registration, and the application will not be

³ The Copyright Act expressly distinguished the work from the media in §202.

⁴ 17 U.S.C. §202.

“entertained.”⁵ This addition was intended to “not require any change in the substance of copyright rights or exceptions”⁶ that U.S. copyright laws provided.

The first-sale ‘exception’ to §106(3) is most significant with respect to the distribution of copyrighted works. In §1202 of the DMCA, Congress added to the exclusive rights that protect the copyrighted work, further rights that protect “information conveyed” with a copy of the work, and the first sale doctrine may not negate those protections. The DMCA made “it unlawful ... to deliberately alter or delete” what collectively is defined as “copyright management information” (hereinafter CMI). Liability is imposed should one distribute copies on which “identifying information” about the author, or the work, or even information about conditions on “use” of the work, have been “removed or altered”, and the statutory definition in §1202 of such “management information”⁷ is broad.

c) DEFINITION- As used in this section, the term ‘copyright management information’ means any of the following information conveyed in connection with copies or phonorecords of a work or performances or displays of a work, including in digital form, except that such term does not include any personally identifying information about a user of a work or of a copy, phonorecord, performance, or display of a work:

- (1) The title and other information identifying the work, including the information set forth on a notice of copyright.
- (2) The name of, and other identifying information about, the author of a work.
- (3) The name of, and other identifying information about, the copyright owner of the work, including the information set forth in a notice of copyright.
- (4) With the exception of public performances of works by radio and television broadcast stations, the name of, and other identifying

⁵ A “following are examples of works not subject or copyright and applications for registration of such works cannot be entertained: (a) Words and short phrases such as names, titles, and slogans; familiar symbols or designs...”

⁶ Report to H.R. 2281. *Need cite*

⁷ *See*, 17 U.S.C. §1202(c).

information about, a performer whose performance is fixed in a work other than an audiovisual work.

(5) With the exception of public performances of works by radio and television broadcast stations, in the case of an audiovisual work, the name of, and other identifying information about, a writer, performer, or director who is credited in the audiovisual work.

(6) Terms and conditions for use of the work.

(7) Identifying numbers or symbols referring to such information or links to such information.

(8) Such other information as the Register of Copyrights may prescribe by regulation, except that the Register of Copyrights may not require the provision of any information concerning the user of a copyrighted work.

The “copyright management information” prohibitions apply to all copies of copyrighted works that come in packaging, “including” those distributed “in digital form.” Further, subsection (7) to §1202(c) encompasses the broader category of “number or symbols referring to such [copyright management] information”, which includes UPC bar code sticker and many varieties of labels. The breadth of the defined “information” would make the CMI provisions applicable to:

- ◆ the identifying information on that “portion of the box sliced off” in *Disenos Artisticos v. Costco*, 97 F.3d 377, 379, 40 USPQ2d 1295, 1996 Copy. L. Dec. ¶ 27, 568 (9th Cir. 1996);
- ◆ to numbers or symbols printed on the packaging removed when “repackag[ing] the trading cards” in *Allison v. Vintage Sports Plaques*, 136 F.3d 1443, 1449, 46 USPQ2d 1138 (11th Cir. 1998);
- ◆ to the “UPC bar code and serial number labels” identifying the ‘academic’ software in *Adobe Sys. v. One Stop Micro, Inc.* 84 F. Supp. 1086, 1088, 53 USPQ2d 2003 (N.D.Cal. 2000);

- ◆ to information identifying the “upgrade” software⁸ products in *Novell v. Network Trade Center*, 25 F. Supp. 2d 1218, 1222 (D. Utah 1990)⁹, *vacatur due to settlement*, 1187 F.R.D. 657, 658 (D. Utah 1990)¹⁰;
- ◆ to any labels indicating “for export only” in *L’Anza Research Int’l v. Quality King Distrib., Inc.*, 98 F.3d 1109, 1118, 1997 Copy. L. Dec. ¶27,666 (9th Cir. 1996), *revs’d*, *Quality King v. L’Anza*, 523 U.S. 1250, 118 S.Ct. 1125, 140 L.Ed.2d 254, 45 USPQ2d 1961 (1998);
- ◆ to the identifying information on the “original Enesco outer carton” in *Enesco Corp. v. Price/Costco Inc.*, 146 F.3d 1083, 1084 (9th Cir. 1998);
- ◆ to printed terms in copyrighted manuals stating “the express condition that there be no disclosure to third parties.” *Alcatel USA, Inc. v. DGI Technol., Inc.*, 166 F.3d 772, 778 (5th Cir. 1999);
- ◆ to digital information like the “codes identifying whether the compressed audio material is copyright protected” in *RIAA v. Diamond Multimedia Sys., Inc.*, 180 F. 3d 1072, 1074 (9th Cir. 1999);
- ◆ to the “information about ...the DSC lock-out software” in *DSC Commmunications Corp. v. Pulse Communications Inc.*, 170 F.3d 1354, 1364, 50 USPQ2d 1001, 1999 Copy. L. Dec. ¶ 27,886 (Fed. Cir. 1998) *rev’sg* 976 F. Supp. 359 (E.D. Va. 1997), *cert. den’d*, 120 S.Ct. 286, 145 L.Ed.2d 240 (1999); and

⁸ The “upgrade” products were “identical in every respect except packaging and price” to the full-retail version. At 1222.

⁹ Held that “transactions ...from Novell through NTC to the end-user are `sales’ governed by the U.C.C. [and] the purchaser is an `owner’, [and such] transactions do not merely constitute the sale of a license.” At 1230.

¹⁰ Upon *vacatur*, the court “express[ed] no opinion as to whether the prior judgment of this court on the copyright issue should be vacated.” At fn. 3.

- ◆ even to the “notice” of the ‘licensed-price’ printed inside the book cover in *Bobbs-Merrill v. Isidor Straus*, 210 U.S. 339 (1908).¹¹

These first-sale cases scrutinize the distribution right and the first-sale right. Because of the vague standards used to assess a first sale, these cases probably would have involved additional liability arising from §§1202 and 1203 of the DMCA had those provisions then been in force.

How the first-sale doctrine is applied determines whether the CMI protections and the DMCA liabilities will attach. The analysis of whether there was a “sale of other transfer of ownership” of a “particular copy” of a work proceeds upon a confusing set of legal and contractual standards that overlay uncertain factual inquiries. Several diverging forks in the path of analysis are encountered: is this a legal or a factual issue; did the work come via a §106(3) licensed distribution or a §109(a) sale; is the legal standard dependent upon federal law, or the varied common law of the states; are provisions in a distribution agreement contractual covenants, which involve contract remedies, or limitations on the scope of a copyright license; if a factual analysis is necessary, then what proofs determine what is the sale of the tangible copy as distinct from the license of the intangible work? Each such distinction likely will result in the difference between first-sale protections being enforced, or liability being imposed for handling products from which “copyright management information” has been “altered”. Whether anyone favors or disfavors the first-sale doctrine or the DMCA, everyone should favor certainty in the application of the law. The CMI provisions and prohibitions threaten liability to merchants who distribute authentic, original, lawfully-made copyrighted works which they believe to have been

¹¹ In *Bobbs-Merrill*, the information conveyed (as defined in §1202(c)(6)) with copies of the copyrighted book specified as terms and conditions for use of the work that transfers at “less than \$1” were infringing.

obtained after a first sale. That liability “for each” product, which is additional to copyright infringement remedies, is severe considering the quantities that resellers handle.

(3) STATUTORY DAMAGES-

(B) At any time before final judgment is entered, a complaining party may elect to recover an award of statutory damages for each violation of section 1202 in the sum of not less than \$2,500 or more than \$25,000.

In the Digital Millenium, all copyrighted works fixed in digital medium will be distributed commercially under written agreements. The Act needs to be provide exactly what needs to be considered to make license agreements identifiably distinct from sale agreements. The Copyright Act and DMCA will apply to protect and govern distribution that falls within the realm of license. Sales or transfers based on purely contractual covenants should trigger the first-sale protection, and so distribution subsequent to the first sale can be on market terms that may be unauthorized by the copyright owner, and free of the CMI provisions.

In gauging whether an agreement involves a sale or a license, recent Court cases draw a loose dichotomy between a sale that is unlimited, and every condition or limitation on sale as being thereby a license. Various factors prove the difference, but not in any uniform way. In *Adobe Sys. v. One Stop Micro, supra*, the Judge ruled on summary judgment as to the “intent” behind the copyright owner’s “Reseller Agreement”, then rectified a latent “ambiguity” in its express terms based on “parol evidence” including “evidence of trade usage.” *Id.*, 84 F. Supp. 2d at 1090-91. He reached the copyright issue using extrinsic evidence, and in the face of an express merger clause, without having to consider Federal law. This was because California’s “exception to the parol evidence rule is broad.” *Id.*, at 1090.¹² Some question whether varying

¹² Compare, *Step-Saver, supra*, at 95, where applying the U.C.C. parol evidence rule, the court “granted a motion in limine to exclude all evidence of earlier oral and written” representations.

state law concepts provide a sound legal ground for determining federal rights in a uniform way. The factors considered in *DSC Communications Corp. v. Pulse Communications Inc.*, 170 F.3d 1354, 1364 were the general indicia that were believed to distinguish a sale from a license¹³, specifically that the “transaction involves a single payment, giving the buyer an unlimited period in which it has a right to possession”, 976 F. Supp. At 362-363, and that the copy was obtained “for a single payment and an unlimited term” 170 F.3d at 1360.¹⁴ The District Court agreed with a leading treatise, and the Circuit disagreed with both of them. It can be asked, how would a citizen know whether they own the “particular copy” that they purchased from a reseller. Next, another test used to separate a licensed transfer from a first sale considered “the parties’ course of performance and usage of trade” in *Green Book Int’l Corp. v. Inunity Corp.*, 2 F. Supp. 2d 112, 116 & 120, 2000 Copy. L. Dec. ¶28,005 (D. Mass. 1998). This was essentially a U.C.C. analysis. Also, in *Novell v. NTC, supra*, the U.C.C. was applied to decide that the transfer of “upgrade” software was a sale. None of these cases applied the same factors. Yet all manner of products are distributed in the same manner. Bookstores, both at the mall and online, sell books, art, videos, and software which are protected by copyright. Yet when the courts see a case involving computerized technology, the “particular copy” that went through the same channels of commerce as the books and videos is viewed as entitled to special rights, and only subject to some new version of the first sale doctrine.

¹³ In *Monotype Corp. PLC v. Int’l Typeface Corp.*, 43 F.3d 443, 447 (9th Cir. 1994), a “license to distribute ITC’s typefaces” that required that “each company paid ITC a royalty fee for each ITC typeface it distributed.”

¹⁴ The District Court and Federal Circuit quote Nimmer, *Law of Computer Technology*, but the Circuit Court finds the single-payment unlimited-term” test for a sale to be “overly simplistic.” Professor Nimmer, who is listed as counsel of record in *DSC v. Pulse*, expanded his view when quoted in the *Adobe v. One Stop* decision at 84 F. Supp.2d at 1091-92.

Consider further that by definition, CMI could state “term and conditions for use” that may be claimed to constitute a license, which would take the product outside of the first-sale provisions. If a particular copy of the work is lawfully distributed with a sticker on it that states “Terms and conditions for use of the work”¹⁵, then those terms may transform a sale of that copy into a license limited by those “conditions.” It would be fair argument that such terms and conditions are “a restriction [that] is plainly at odds with the section 109 right to transfer” *DSC, supra*. In the *Adobe, supra* case the Court enforced the “terms” on a label on the package that identified it for ‘academic’ sale only. 84 F. Supp. 2d at 1093. The copyright owner may have no agreement for distribution, but can create a license by “identifying information” that is “conveyed with” copies of his work. While that is the extreme case, it recalls the “notice” inside the book cover in *Bobbs-Merrill* – what if that page was ripped out, so that the book could be sold for an unauthorized price – would the Supreme Court’s first sale ruling in that case then change? Perhaps not, but this illustrate the conflict between the first sale doctrine and protection for “copyright management information” that, even after the first sale, would have to remain upon each particular copy of the work. The user should be free to remove “copyright management information” such as when opening and discarding packaging material, or when utilizing the program by deleting unwanted utilities in the software.

Copyright License or Contractual Covenant.

In assessing the applicability of the copyright law and its remedies, a threshold question is whether the challenged act was a violation of rights protected by copyright or a breach of a contractual limitation. Before a copyright holder “can gain the benefits of copyright

¹⁵ 17 U.S.C. §1202(6).

enforcement, it must definitively establish that the rights it claims were violated are copyright, not contractual, rights.”¹⁶

Presume that I wanted to distribute freeware, for example, the LINUX OS. I author an original package that I copyright, in which the diskettes and my copyrighted instruction sheet are placed for distribution. On the outside of the box I affix a sticker, stating the terms and conditions for use: ‘\$10 retail, but free to users of WIN 98’. The stickers get peeled off, and my product becomes widely available for no less than \$10. Compare that to where there is copyrighted software packaged in a plain white box with a label stating ‘UPGRADE - For registered users of Version 3.0.’ The CMI liability is the same, but in the first case, only the box is copyrighted, where the second case involves the copyrighted goods inside the box. My LINUX product may be distributed without any written agreement, while the upgrade case probably would be governed by written terms. No sound reason exists to consider either case or both differently under the first sale doctrine. The present lack of clarity in the Act leaves open how each case would be decided. In application, whether someone can distribute a particular copy of a work upon which “identifying numbers or symbols” have been altered or removed is a preliminary question that may beg for a first-sale answer that is unclear as the present statute is applied.

A worthwhile revision would be an amendment that requires license grants or sale terms to be stated in certain terms, and that the first sale issue to be decided according to a uniform federal standard. Now, by denying a copyright owner the authority to control the terms of a

¹⁶ *Sun Microsystems, Inc. v. Microsoft Corp.*, 188 F.3d 1115, 1121-22 (9th Cir. 1999), *on remand*, 2000 WL132711(N.D. Cal. 1/25/2000).

purchaser's subsequent effort "to sell or otherwise dispose of" his particular copy¹⁷, the first-sale statute creates incentives to craft around its applicability.¹⁸

If federal rights based on copyright were governed by federal law, then much of the vagaries of the first sale doctrine would be eliminated. The federal rights would be made clear, and the rest would be identifiable as state contract law issues.¹⁹ In a given situation, removal of labels may be prohibited in a distribution agreement, and enforced by contract law, rather than under the Copyright Act.

Does the Copyright Clause enable Congress to extend copyright protection and remedies to "copyright management information"?

We "must remember" that the "principal function" of copyright laws passed under the authority of Article I, Section 8, clause 8²⁰ "is the protection of original works, rather than ordinary commercial products". *Quality King v. L'Anza* (1998). The bar codes and UPC stickers bearing identifying "numbers or symbols" on copyrighted product material are not copyrightable, nor registerable, nor "original". *Feist Publ., Inc. v. Rural Telep. Svc. Co., Inc.*, 499 U.S. 340, 111 S. Ct. 1282, 113 L.Ed.2d 358 (1991)(affirming that Copyright Act understood to protect original works of authorship and "to prohibit any copyright in information"). In general, a large

¹⁷ 17 U.S.C. § 109(a).

¹⁸ *Step-Saver Data Sys., Inc. v. Wyse Technol.*, 939 F.2d 91, 95 (3d Cir. 1991)("form licenses were first developed for software ...to avoid the federal copyright law first sale doctrine.")

¹⁹ J.H. Reichman, Jonathan A. Franklin, *PRIVATELY LEGISLATED INTELLECTUAL PROPERTY RIGHTS: RECONCILING FREEDOM OF CONTRACT WITH PUBLIC GOOD USES OF INFORMATION*, 147 UPALR 875, 884 (1999)(noting that adhesion contracts to create use and distribution rights for copies of works amounts to private legislation), "routine validation of mass-market access contracts and of non-negotiable constraints on users would tend to convert standard form licenses of digitized information goods into functional equivalents of privately legislated intellectual property rights. [fn. om.] Firms possessing any degree of market power could thereby control access to, and use of, digitized information by means of adhesion contracts"...

²⁰ Congress may legislate to "promote the Progress of Science and the useful arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."

measure of what the DMCA defines as “copyright management information” cannot be considered “Writings” under the Copyright Clause. *Goldstein v. California*, 412 U.S. 546, 561, 93 S.Ct. 2303, 37 L.Ed.2d 163 (1973)(“[W]ritings ...include any physical rendering of the fruits of creative intellectual or aesthetic labor.”). The argument can be made that the Copyright Clause does not enable Congress to grant exclusive rights to authors for unoriginal, ordinary commercial labels or text that the DMCA defines as “copyright management information.” Some further consideration may be given to whether this unregistrable, uncopyrightable “identifying information” is due protection even for “Limited Times”. *Pennock v. Dialogue*, 27 U.S. (Pet.) 1, 16-17, 7. L.Ed. 327, 333 (1829).²¹

CONCLUSION

I have taken time away from my practice to prepare these comments because, without the first sale doctrine, the risk of unreasonable expansion of the limited copyright monopoly is presented. While merchants will find new products and new ways to distribute them, the best interests of the market and those who buy copyrighted products should be served by a uniform, federal standards that define and preserve the first sale doctrine.

In closing, I respond to the final question in the Notice.

(b) Do you believe that hearings would be useful in preparing the required report to Congress? If so, do you wish to participate in any hearings?

Hearings should be conducted to establish a complete record. I would be willing to participate.

Respectfully submitted,

²¹ The “limited scope of the copyright holder’s statutory monopoly, like the limited duration required by our Constitution, reflects a balance of competing claims upon the public interest.” *Princeton Univ. Press*

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v. Michigan Doc. Svc., Inc., 99 F.3d 1381, 1395 (6th Cir. 1996), *en banc*, quoted by, J. Merritt, dissenting, from *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975).