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MORE INHERITABLE RIGHTS FOR DIGITAL ASSETS

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INTRODUCTION

Death, as uncomfortable of a subject as it is for some, is a guaranteed component of human existence. Orson Welles coined the phrase “We’re born alone, we live alone, we die alone. Only through our love and friendship can we create the illusion for the moment that we’re not alone.”¹ Creating this illusion of not being alone is manifested when heirlooms and property are passed onto loved ones and close friends when we die. The varieties of possessions that get passed on are as diverse as the reasons they are given. For some, an artifact may be left behind as a way to remember one’s heritage or possibly a possession is given to symbolize the love that existed between two people. There is no denying the psychological and emotional attachment that is affixed with objects that hold memories of loved ones who have passed on before us.

Within this frame work, lawyers use legal tools of wills, trusts and estate laws to carry out grantors or inheritors desire on how to bestow certain possessions. However, within all the

1 Orson Welles, mysterious quote available at <http://quotationsbook.com/quote/21537>.

complexities of bestowing property, lawyers are now increasingly being confronted with how to pass on digital assets.

A recent article published by the Daily Mail in the United Kingdom made quite the stir in international headlines when it claimed Die Hard Legacy actor Bruce Willis was considering legal action against Apple Inc., for ownership rights of his downloaded iTunes music he wished to bestow to his three daughters in a will.² Although his wife came forward and stated Bruce Willis had no intention of bringing legal action against Apple Inc., this story went viral, sparking coverage by major news headlines, bloggers, and twitter users to investigate, question and educate the online population about the legal complications and limitations consumers are confronted with when leaving behind digital assets, such as music downloaded from iTunes or electronic books (“eBooks”) downloaded from Amazon to their estate.³

This article will not address all the legal complexities related to wills, trusts and estate laws and digital inheritance. Further, this article will not be able to cover the expansive legal theory behind digital copyright and licensing laws. Instead, this article will address and argue that current copyright and licensing laws take away individual rights intended to consumers through the first sale doctrine, the needed right to bestow digital assets to their heirs.

Consumers are increasingly purchasing digital property, but the ownership rights are fabricated, and only last a user’s lifetime. This article calls upon legislators and corporate bodies to take the next logical step in inheritance laws, to respond to the digital consumer wave that is

2 Niel Sears, *Bruce Willis fights to leave his iPod tunes to his family: Actor considering legal action against Apple in battle over who owns songs downloaded from iTunes*, DAILY MAIL (Sep. 2, 2012), <http://www.dailymail.co.uk/news/article-2197248/Bruce-Willis-fights-leave-iPod-tunes-family-Actor-considering-legal-action-Apple-battle-owns-songs-downloaded-iTunes.html>.

3 Frederic Lardinois, *Bruce Willis Isn't Suing Apple Over iTunes Music Ownership Rights*, TECH CRUNCH (Sept., 3 2012), <http://techcrunch.com/2012/09/03/bruce-willis-itunes-music-library>; see also, Tom Cheredar, *Bruce Willis Could Sue Apple Over iTunes Music Ownership Rights* (Sep., 3 2012), <http://www.guardian.co.uk/technology/blog/2012/sep/03/no-apple-bruce-willis>.

engulfing the global economy and establish modern laws to allow consumers the right to have greater ownership rights and pass on legally acquired digital property as part of their legacy.

In this article, Part 1) will address what constitutes a digital asset. Part 2) will introduce the issues related with digital assets, while the rest of the article will address key portions of those issues. Part 3) of this article will address the origin of the first sale doctrine and why it is important to digital inheritance. Part 4) will address how traditional understandings of the First Sale Doctrine is out of touch with current and future digital property trends and will argue that the first sale doctrine needs to be modified to include a First-Download Doctrine, allowing inheritance laws to adapt digital assets into wills by giving buyers the right to sell their digital media. Part 5) will address current legislation and the need for uniform laws for digital inheritance.

Part 1:

Different Types of Digital Assets

1. Digital Music

Downloading music online has recently surpassed the sales of physical CD's in the United States. "In 2011, digital music accounted for 50.3 percent of purchases, beating physical music sales for the first time."⁴ As CD sales continue to drop, digital music will still continue to grow.⁵ It is suggested by some studies that the average iTunes library could amass to over three thousand tracks of music.⁶ There is a recent trend of streaming music through services such as Pandora and Rhapsody. Because these services do not allow a user to purchase and download property, the license agreements that are in place exist between the online service streaming music and the record labels collecting royalties, equivalent to a personally tailored radio station. This business structure of

4 Jared Newman, *See Ya, CDs: Digital Music Sales Overtake Physical Media*, PC WORLD (Jan. 6, 2012), http://www.pcworld.com/article/247436/see_ya_cds_digital_music_sales_overtake_physical_media.html.

5 *Id.*

6 Leander Kahney, *Average iTunes Library = 3k Songs And is Heavily Mislabeled [And Other Interesting States]*, CULT OF MAC (Jul. 7, 2011), <http://www.cultofmac.com/103614/103614/>

streaming music escapes the digital inheritance issue and legal ownership issue by not allowing the music to be stored directly on a user owned device or in a personal cloud. However, companies such as Apple, Google and Amazon allow whole music libraries to be uploaded into the cloud and streamed through various devices. Cloud services such as these; create a substantial need for digital inheritance since passwords are required to access what could amass to thousands of dollars of property.

2. Digital Books

Electronic books (“eBooks”) are taking over physical books in sales. In the “first quarter of 2012, adult eBook sales were up to \$282.3 million while adult hardcover sales came to only \$229.6 million. In last year's first quarter, hardcover sales accounted for \$223 million in sales while eBooks logged \$220.4 million.”⁷ This is the first time eBooks have outsold hardbound books. Like digital music, consumers only have a nontransferable license for the eBooks they purchase. eBooks, like hardcover books can be covered with annotations, highlights and references, creating important, insightful memories that should be able to be legally passed on to one’s posterity.

3. Social Networking

Recently, a study showed that if Facebook were a country the population size of its users would be the third largest country in the world, hosting over 1 billion users.⁸ Additionally, 219

7 Steven J. Vaughen-Nichols, *It's The End Of Books As You Knew Them: E-Books Out-Sell Hardbound For The 1st Time ZD NET* (Jun 18, 2012), <http://www.zdnet.com/blog/networking/its-the-end-of-books-as-you-knew-them-e-books-out-sell-hardbound-for-the-1st-time/2505>.

8 Rob Williams, *Revealed: The Third Largest 'Country' in the World – Facebook Hits One Billion Users*, INDEPENDENT (Oct. 4, 2012), <http://www.independent.co.uk/life-style/gadgets-and-tech/news/revealed-the-third-largest-country-in-the-world--facebook-hits-one-billion-users-8197597.html>.

billion photos have been shared through Facebook.⁹ But who owns the digital photos once it is uploaded online? Or what about all the memorable quotes that highlighted one's life?

If one begins typing in a Google search engine "When I Die What Happens to my" an automatic fill in is generated of the top four searches to finish this question. It lists in order the terms most searched on Google. First is "Debts" the second most searched question with this phrase, is "Facebook."¹⁰ Additionally, social networking sites such as Twitter, MySpace, and LinkedIn also offer insight that if passed on to heirs could serve as much value as a physical journal or a list of business connections and associates. As technology continues to move forward it will not be surprising if all the pictures we have are kept in password-protected accounts, nullifying the family albums that were traditionally passed down from generation to generation. However, how should preserving and passing on digital assets not conflict with the duty online providers have to honor the privacy of their users? Online Providers have a duty to not disclose the contents of their user's personal information to third parties. But, should this include passing on information of minors who have committed suicide or passed on to their parents? Should parents have the right to access their child's account for sentimental reasons or to understand why their child took their life?¹¹ Drawing the line of privacy is a complicated process, especially when it one is a minor or in a marital relationship with someone who deceases or, is a family member.

Currently, it is estimated that over thirty million accounts on Facebook belong to the dead.¹² Although sites such as Facebook will delete or memorialize a user's profile if they receive notice from a relative or estate executor that an individual has deceased with proof of a death certificate or

9 *Id.*

10 Search conducted on March 15, 2013 on www.google.com.

11 Huffington Post media Interview on June 15, 2013 which features a touching story of a father whose child committed suicide and yet he couldn't access the child's social media account to understand the reason why, available online at <http://live.huffingtonpost.com/r/segment/digital-legacy/50b7de4b2b8c2a5d9b000360>.

12 Craig Blaha, *Over 30 Million Accounts on Facebooks Belong to Dead People* TECHNORATI (Mar. 07, 2012), <http://technorati.com/technology/article/over-30-million-accounts-on-facebook>.

obituary,¹³ the process still leaves many questions unanswered for parents and an emptiness if a spouse or parent passed on without leaving access to their account.

4. E-mails

Written correspondence has always held a significant value within society. There are writings that are of historical importance because they offer an inside perspective when examining the life of a famous figure or historical event. For many individuals, written communication carries sentimental value because it allows one to step back in time and read the thoughts of the written communication between two individuals. Because of the importance of this communication, many users wonder if they have a property interest in their email and can pass it on to their posterity. For instance, twenty-year-old marine, Justin, was killed in Fallujah on November 13, 2004, by a roadside bomb.³ Mr. Ellsworth, Justin's father wanted to collect e-mails that his son wrote and received while in Iraq to create a memorial in his son's honor.⁴ However, Justin's e-mail service provider would not release the personal information to Justin's father to protect Justin's privacy. But, after a lengthy process through the court, Justin's email provider complied with Mr. Ellsworth's request, only after receiving an order from a Michigan probate court. The email provider stated that, in the absence of a court order, such disclosure to a third party would violate its privacy policy.¹⁴ In addition, email does not necessarily mean email correspondence between two users, but could also include the name created for the email address. For instance, early users of an email service provider may want to pass on a family email account name that their children could use in the future. Or, possibly, if a child is named after a parent or grandparent, it may be significant to have them use a previous account address.

13 *Deactivating, Deleting & Memorializing Accounts*, [FACEBOOK.COM HELP CENTER](http://www.facebook.com/help/359046244166395), available at <http://www.facebook.com/help/359046244166395>.

14 Jonathan J. Darrow & Gerald R. Ferrera, *Who Owns A Decedent's E-Mails: Inheritable Probate Assets or Property of the Network?*, 10 N.Y.U. J. Legis. & Pub. Pol'y 281 (2007).

5. Other Media

This is not an exhaustive list of digital assets that exist. For instance video gaming and property accumulated on massively multiple player online role-playing games can be worth several thousand dollars. However, gaming companies usually restrict users from collecting monetarily on their hard earned gaming hours of leveling characters up and amassing epic collections of gear by including a nontransferable End User License Agreements (“EULA”) that restricts users from selling their accounts or merchandise. However this has not stopped individuals from recognizing the value of their fabricated property. For instance, in World of Warcraft (“WoW”), a player by the name of “Shaks” spent ten thousand dollars to purchase a level 70 character, the highest known amount spent on a character for WoW.¹⁵

Additionally, bloggers can run into issues once they have passed on. If a certain blogger has thousands of visitors come to their page, it can be a source of revenue from vendor contracts that advertise on the bloggers page. Or, the content uploaded could have a devout group of followers. If a deceased blogger wanted a family member to monitor and possibly add to the blog, this may be impossible. The list goes on of potential digital assets, but the above strikes at some of the core issues of what is predominately in the market today by the average user.

Part 2:

Issues Related With Digital Assets

There are three problems that convolute the process of making digital inheritance simple; 1) licensing agreements that take away personal ownership rights 2) the Digital Millennium Copyright Act and 3) the first sale doctrine’s failure to include digital property.

15 Nike Farrell, *WoW player loses \$10,000 on rogue elf* [THEINQUIRER.COM](http://www.theinquirer.net/inquirer/news/1045601/wow-player-loses-10000-on-rogue-elf) (Sep. 20, 2007), <http://www.theinquirer.net/inquirer/news/1045601/wow-player-loses-10000-on-rogue-elf>.

The first issue is one of ownership rights which are a byproduct of the second issue, the Digital Millennium Copyright Act, creating the third issue, the right for individuals to resale their digital property.¹⁶ Coupled together these are the major issues facing digital inheritance. When an electronic book is downloaded or music purchased online, who actually owns it? Thousands of dollars could be spent throughout a lifetime on amassing collections of music or electronic libraries. However, most downloaded digital media, media purchased legally through authorized vendors such as iTunes and Amazon, is purchased under a license agreement that creates a nontransferable contract between the vendor and purchaser.¹⁷ This license agreement withholds actual ownership rights, making it illegal to copy with the intent to distribute or resale, but as a consequence, makes it illegal to eventually pass on the digital property upon ones death.¹⁸

However, this is not just limited to digital property that is downloaded to a device. Online services, such as Flickr, Facebook and Dropbox also include EULA that restrict transferrable rights for digital property uploaded to their servers.¹⁹ Although the law recognizes tangible property of personal items, such as personal journals and photos to be passed on effortlessly through wills, boiler plate EULAs restrict ownership rights to pass on digital assets.²⁰ In effect, photos or important files could be lost to cloud computing, even if a grantor bequests such digital property in a will.

16 Michael D. Roy, *Beyond the Digital Asset Dilemma: Will Online Services Revolutionize Estate Planning?*, 24 Quinnipiac Prob. L.J. 376, 384 (2011).

17 *Music Industry*, http://en.wikipedia.org/wiki/Music_industry (explaining the operation of the Music Industry and payments).

18 Quentin Fottrell, *Who inherits your iTunes library? Why your digital books and music may go to the grave*, MARKETWATCH (Aug. 23, 2012), http://articles.marketwatch.com/2012-08-23/finance/33336852_1_digital-content-digital-files-apple-and-amazon.

19 An award winning online website linking and disclosing EULA's *Terms of Service Didn't Read* <http://tosdr.org>.

20 *Id.*

Living through the debacle of Napster,²¹ the Digital Millennium Copyright Act (“DMCA”) is understandably, an important law that offers protection to music artists and record labels.²² In addition to music, the DMCA offers protection to authors, photographers and general creators of digital property. This article will not be able to address all the legal implications of the DMCA, but the author recognizes the need for copyright protection of digital creations. This article is not to dispute the need to reduce the DMCA, but in some ways, this article wishes to strengthen the DMCA by implementing current technology to create personal digital ownership signatures for all digital property purchased by a user. Currently, digital signatures exist to establish if music is purchased through a vendor, such as iTunes, Amazon or Google Music. iTunes, Amazon and Google Music can then regulate how many copies are moved from one device to another and determine who can listen to each music file by making the music file password protected. However, by creating personal digital signatures for individual buyers, it reinstates personal ownership rights, allowing the market to shift in favor of the first sale doctrines purpose, to allow individuals who legally purchased digital property the right to sale or bequeath such items.

Is creating digital ownership for individual buyers possible? Yes, however, it would require corporations to pass some of their control and ownership rights to individual consumers, something corporations will not want to do willingly.²³ Currently, access controls are monopolized by copyright holders and publishers. These access controls are called Digital Rights Management technologies (“DRM”). DRM creates digital locks, code encrypted programing that restricts users from being

21 Napster’s history is available at “Napster, Inc. History”, FUNDING UNIVERSE <http://www.fundinguniverse.com/company-histories/napster-inc-history>. It was one of the first online service providers for peer to peer sharing, which allowed users to easily trade and download digital music for free initially sued into bankruptcy for violating.

22 Title II of the Digital Millennium Copyright Act (DMCA) of 1998, Pub. L. 104-304, 112 Stat. 2860 (1998).

23 Doug Belshaw, *On Digital Ownership. This is Huge*, DOUGBELSHAW.COM (Jul. 5, 2012) <http://dougbelshaw.com/blog/2012/07/05/on-digital-ownership-this-is-huge>. See also Mikey Campbell, *Apple’s Digital Content Resale And Loan System Could Allow DRM Transfers Between End Users*, APPLE INSIDER (Mar, 7 2013), <http://appleinsider.com/articles/13/03/07/apples-digital-content-resale-and-loan-system-could-allow-drm-transfers-between-end-users>.

able to share or use digital content without authorization from the DRM controller.²⁴ DRM controllers are corporations such as Apple, Amazon, Google and Microsoft, who have contracts with individual record labels and publishers to distribute their digital property.²⁵ The use of DRM by these corporations is controversial because it can restrict users from engaging in legal behavior, such as making backup copies to CDs and DVDs.²⁶ But, currently, it is the acceptable market standard for protecting and restricting Digital property from being distributed illegally.²⁷

The DMCA and DRM is a way to acknowledge the issue that digital property is capable of being “born-digital.” Meaning, digital property can be cloned in a digital space without having to be created from a physical source.²⁸ Because copyright law does not allow reproducing copies of a born-digital file, passing legally purchased property onto ones heirs becomes a problem.

This creates the third problem linked to digital inheritance, the first sale doctrine. Unlike physical property, where one can distribute a piece of property legally through the first sale doctrine, the legal abstract of the first sale doctrine lacks the ability to adapt towards born-digital media.²⁹ The status quo of digital property is unjustly monopolized by distributors. Historically, distributors attempted to monopolize the market by restricting copyright property such as books, CD’s and DVD’s to be resold or redistributed by consumers.³⁰ Had the first sale doctrine not been adopted, used records and book stores, libraries, and second hand online websites such as Ebay and Craigslist

24 Julia Layton, *How Digital Rights Management Works*, HOWSTUFFWORKS, available at <http://computer.howstuffworks.com/drm.htm>.

25 *Supra* note 5.

26 Fred Von Lohmann, *Fair Use and Digital Rights Management: Preliminary Thoughts on the (irreconcilable?) Tension between Them*, ELECTRONIC FRONTIER FOUNDATION (Apr 16, 2002), http://w2.eff.org/IP/DRM/cfp_fair_use_and_drm.pdf.

27 *Id.*

28 Ricky Erway, *Defining “Born Digital”*, OCLC.ORG (Nov. 2010) available at <https://www.oclc.org/resources/research/activities/hiddencollections/borndigital.pdf>.

29 Sherwin Siy, *Why First Sale Matters: The Afterlife of your iTunes Library*, PUBLICKNOWLEDGE.ORG (Aug 28, 2012), <http://publicknowledge.org/blog/why-first-sale-matters-afterlife-your-itunes>.

30 *See* First-sale doctrine on Wikipedia at http://en.wikipedia.org/wiki/First-sale_doctrine.

may never have existed. The ability to grant property rights to consumers creates innovation, strengthens the economy and cultivates a freer market.

Part 3

The Creation of the First Sale Doctrine

The origins of the first sale doctrine began in 1908 with *Bobbs-Merril Co. V. Straus*.³¹ The Supreme Court was faced with interpreting the copyright law as applied to the copyright owner of *The Castaway* (“the book”).³² The copyright owner believed he could restrict the resale of his book by a purchaser who was reselling the book for a lower amount. Bobbs-Merril (“the company”) owned the copyright for the book and sold the book as a retailer for one dollar. Inside each book the company stated that “[t]he price of this book at retail is \$1 net. No dealer is licensed to sell it at a less price, and a sale at a less price will be treated as an infringement of the copyright.”³³ Straus, (“the purchaser”) was aware of the notice when he purchased copies from the company. However, he began selling the books for eighty-nine cents.

The court ruled that “the copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, 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.”³⁴ With this ruling, the first sale doctrine was born. Effectively, the first sale doctrine provided safeguards for consumers to have the right of ownership over copyrighted, tangible products they purchased with the right to resale such property.

31 Bobbs-Merrill Co. v. Straus, 210 U.S. 339, 341 (1908).

32 *Id.*

33 *Id.*

34 *Id.*

Statutes Governing the First Sale Doctrine

The current version of the first sale doctrine is a federal statute, which states “[n]otwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.”³⁵ In addition to phonorecords, the statute includes “literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work” as well.³⁶

The first sale doctrine is important because it is able to be used as a defense when the court determines who the “owner of a particular copy” is and whether or not an infringement occurred.³⁷ If the court finds in favor of either the purchaser or copyright holder, the determination could have detrimental effects. Since “A person or entity deemed the owner of a particular copy obtains the benefit of the first sale doctrine, allowing them to resell that copy or rent it to other users.”³⁸ The Supreme Court, in addition to some circuits, “has yet to address the distinction between licensee and

35 17 U.S.C.A. § 109 (West). The cross reference to § 106 concerns the six rights that are associated with the copyright laws. These include:

- “(1) to reproduce the copyrighted work in copies or phonorecords;
- (2) to prepare derivative works based upon the copyrighted work;
- (3) 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;
- (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
- (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and
- (6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.”

36 *Id.*

37 17 U.S.C.A. § 109 (West).

38 R. Anthony Reese, *The First Sale Doctrine in the Era of Digital Networks*, 44 B.C.L. REV. 577, 682(2003).

owner in the first sale doctrine.”³⁹ However, the Ninth Circuit has had the opportunity to hear several landmark cases regarding the first sale doctrine and license agreements.

Part 4

The First Sale Doctrine is out of Touch with Current and Future Property Trends

The Ninth Circuit has already considered issues regarding the first sale doctrine and copyright infringement. In the controversial, landmark case of *Vernor v. Autodesk, Inc.*⁴⁰ the Ninth circuit was confronted with a case regarding a software license case that began in 2005 when “Mr. Vernor purchased an authentic, used AutoCAD package at a garage sale and put it up for auction on eBay. Autodesk responded by sending a DMCA infringement notice to eBay claiming that the sale would infringe on its copyright. EBay suspended the auction. Mr. Vernor responded with a DMCA counter-notice claiming that his sale was lawful, to which Autodesk never responded.”⁴¹ As time progressed, in 2007, Vernor bought four more authentic, used AutoCAD packages. Vernor sold “three packages on eBay, but each time he put a package up for auction, an exchange of DMCA notices from Autodesk, suspension of the auction by eBay, counter-notices from Mr. Vernor, and reinstatement of the auction followed.”⁴² However, Autodesk filled another complaint, causing Ebay to close down Vernor’s account .⁴³ Mr. Vernor then brought suit against Autodesk, claiming the computer programs were purchased legally and under the first sale doctrine.⁴⁴ Autodesk argued that the shrinkwrap license agreement granted a “nonexclusive, nontransferable license to use the

39 Justin Zaarobabeli, *Music Downloads and the First Sale Doctrine*, 1:89 (*what's this?*) St. John. Law. Rev. 89.

40 *Vernor v. Autodesk, Inc.*, 555 F. Supp. 2d 1164 (W.D. Wash. 2008).

41 *Id.* at 1165.

42 *Id.* at 1165-66.

43 *Id.* at 1165.

44 *Id.*

enclosed program.⁴⁵ Further, Autodesk argued that the “[l]icense imposes various restrictions on users of the software.”⁴⁶

The relevant law that governed this case was section 17 U.S.C. § 117(a) of the Copyright Act, it “grants owners of computer software copies a limited right to copy their copies. As with § 109(a), only an “owner of a copy” of software can invoke § 117(a).”⁴⁷ The Court went through a lengthy process of how section 117(a) has been applied in various instances. For example, section 117(a) was created due to the fact that it is critical for software users to make additional copies of licensed software to be placed on multiple computers, especially when a large corporation exists with many employees within a single company.⁴⁸

The District court had to balance two conflicting approaches in how to rule on *Vernor v. Autodesk*. The separate approaches⁴⁹ were between two cases decided in the Ninth Circuit, *MAI Systems Cor. v. Peak Computer, Inc.*⁵⁰ and *U.S. v. Wise*.⁵¹

In 1993 *MAI Systems Cor. v. Peak Computer, Inc*, the “court considered a software license that controlled the use of the software, and declared that “any possession” of the software “not

45 *Id.*

46 *Id.* at 1166.

47 *Id.* at 1171.

48 *See* Madison River Mgmt. Co. v. Business Mgmt. Software Corp., 387 F.Supp.2d 521, 537-38 (M.D.N.C.2005) (explaining statutory history of § 117). Section 117 ensures that those who buy software cannot be held liable for copying that is essential to their use of the software. *Madison River*, 387 F.Supp.2d at 538; 17 U.S.C. § 117(a)(1) (requiring that copying be “essential step in the utilization of the computer program”).” Quoting *id.* at 1171.

49 For an extensive background on the two conflicts, see, Jim Graves, *Who Owns A Copy?: The Ninth Circuit Misses an Opportunity to Reaffirm the Right to Use and Resell Digital Works*, 2 *Cybaris An Intell. Prop. L. Rev.* 45, 49 (2011), where the author argues that the court missed a critical opportunity to provide more law on the first sale doctrine regarding ownership rights for purchasers of digital assets.

50 *Id.*

51 *United States v. Wise*, 550 F.2d 1180, 1190 (9th Cir. 1977).

expressly authorized under this License” is prohibited.”⁵² This included when copyrighted software was converted into RAM as an infringing copy.⁵³

However, *U.S. v. Wise* was a criminal case on reselling movie prints. Wise’s argument was that “although the movie studios generally only licensed their films for a limited amount of time, in some cases the studios had actually transferred title in films.”⁵⁴ In a criminal case of copyright infringement the Government’s burden of proof is threefold: “(1) infringement of a copyright (2) done willfully and (3) for profit. Implicit in its burden of proof on infringement by vending is the duty to prove the absence of a first sale as to those copyrighted articles which the defendant is charged with infringing.”⁵⁵ The court in *U.S. v. Wise* then went onto state, “[w]hat constitutes a “first sale” presents a more difficult question.”⁵⁶ Instead of examining “whether that license puts significant restrictions on the customer’s use . . . [the court examined] whether the transaction as a whole more closely resembles a sale or some kind of non-sale transaction.”⁵⁷ By taking this approach, to focus whether or not the transaction as a whole more closely resembles a sale or some kind of non-sale transaction, the court found that several of the charges against Wise, were actually a sale and not a license.

After balancing the two approaches, the district court was split in *Vernor v. Autodesk Inc.*, creating a case of “actual controversy.”⁵⁸ However, because the district court was in a case of actual

52 Vernor v. Autodesk, Inc., 555 F. Supp. 2d at 1164, 1171.

53 Adrienne Clare Barbour, *Used iTunes: The Legality of Redigi’s Model for A Second-Hand Digital Music Store*, 15 Tul. J. Tech. & Intell. Prop. 165, 198 (2012).

54 *Supra*, note 55 at 53.

55 MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511, 513 (9th Cir. 1993).

56 *Id.*

57 *Supra*, note 55 at 53.

58 “The term “case of actual controversy” in the Act is coextensive with the grant of jurisdiction to consider “Cases” and “Controversies” in Article III, Section Two of the Constitution. *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118(2007). In determining if it has subject matter jurisdiction over a claim for declaratory judgment, a court must decide as follows: [W]hether the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment.” Quoting *Vernor*, 555 F. Supp. 2d at 1167.

controversy, the district court was burdened to follow the earlier precedent rather than later. Meaning, the court followed *Wise*.⁵⁹ In doing so, the court found in favor of Vernor, concluding that “the transfer of AutoCAD packages from Autodesk to CTA was a sale with contractual restrictions on use and transfer of the software. Mr. Vernor may thus invoke the first sale doctrine, and his resale of the AutoCAD packages is not a copyright violation.”⁶⁰

The district court reasoned that “[t]he first sale doctrine is a narrow limitation on a copyright holder's rights. The Copyright Act gives a copyright holder the exclusive right to reproduce his copyrighted work (17 U.S.C. § 106(1)), the exclusive right to prepare derivative works based on his copyrighted work (17 U.S.C. § 106(2)), and the exclusive right to distribute copies of his work (17 U.S.C. § 106(3)). When a copyright holder chooses to sell a copy of his work, however, he “exhaust[s] his exclusive statutory right to control its distribution.”⁶¹ The district court then held that Vernor had standing to seek declaratory judgment, and that Autodesk, Inc.’s “transfer of copies of packages to first transferee was a “sale,” rather than a “license”, for purposes of the Copyright Act's first sale doctrine.”⁶²

However, the Ninth Circuit Court of Appeals disagreed and overturned the district court’s ruling. By doing so, the Appellate Court failed to follow *Wise*’s approach, that economic realities can constitute protection under the first sale doctrine, creating ownership. The Appellate Court ignored these realities and held 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.”⁶³ The Ninth Circuit persuasively reasoned that because Vernor purchased the software at a garage sale and also from a

59 *Supra* 56.

60 *Id.*

61 *Id.* at 1168.

62 *Id.* at 1164.

63 Vernor v. Autodesk, Inc., 621 F.3d 1102 (9th Cir. 2010).

company called CTA, he did not receive title of the copies and could therefore not resale the software.⁶⁴ The Court found that both Vernor and CTA, who legally purchased the software “violated Autodesk’s exclusive right to distribute copies of its work.”⁶⁵ The Court concluded consumers can rightfully possess, but do not own, a copy of copyrighted software and therefore, are not entitled to claim the essential step defense, that Vernor possessed legal title to the copies of Autodesk’s software. The Court then turned to support its holding by turning to the legislative history of the first sale doctrine and creating its own interpretation.

Although unnecessary to our resolution of the case, we address the legislative history in order to address the arguments raised by the parties and amici. That legislative history supports our conclusion that licensees such as CTA are not entitled to claim the first sale doctrine. The House Report for § 109 underscores Congress’ view that the first sale doctrine is available only to a person who has acquired a copy via an “outright sale”. The report also asserts that the first sale doctrine does not “apply to someone who merely possesses a copy or phonorecord without having acquired ownership of it.”⁶⁶

The definition of an “outright sale” is never included in § 109 or, in the House Report that the Ninth Circuit refers too. Instead, in the House Report, it states that:

For example, the outright sale of an authorized copy of a book frees it from any copyright control over its resale price or other conditions of its future disposition. A library that has acquired ownership of a copy is entitled to lend it under any conditions it chooses to impose. This does not mean that conditions on future disposition of copies or phonorecords, imposed by a contract between their buyer and seller, would be unenforceable between the parties as a breach of contract, but it does mean that they could not be enforced by an action for infringement of copyright.⁶⁷

64 *Id.* at 1111.

65 *Id.* at 1111.

66 *Id.* at 1111, citations omitted. See also H.R. Rep. No. 1476, H.R. REP. 94-1476, 79, 1976 U.S.C.C.A.N. 5659 for referenced statement on “outright sale”.

67 H.R. Rep. No. 1476, H.R. REP. 94-1476, 79, 1976 U.S.C.C.A.N. 5659, 5693.

By scuffling around the economic realities of the current and future market place of digital rights, the Ninth Circuit stripped away personal ownership rights in a transaction that would be deemed perfectly legal if it involved a tangible piece of property. The Ninth Circuit missed a crucial opportunity to recognize a shift in property rights, the right to legally resale digital property.

The Ninth Circuit Court of Appeals lacked foresight in *Vernor v. Autodesk*.

Due to the ruling in *Vernor*, bestowing software as part of one's estate is technically, an illegal transaction because the bequeathed software missed the essential step of having an "outright sale" ownership. This further convolutes the ability to pass on digital assets. Subsequently, this ruling effects legitimate companies in the pre-owned sales market. For instance, companies such as Gamestop, which resells used video games, are now at risk of copyright infringement if game developers seek to strengthen their copyrighted software products.⁶⁸ In addition, software is beginning to have an ambiguous meaning. The software in question in *Vernor* was physical CD's that could be sold physically. Physical CD's can be easily copied from disk to disk with the right tools that are easily accessed online. However, software is increasingly becoming an online purchase, where digital programs are kept online with the ability to be downloaded again and again as long as the user has the password to use access it. Because of this, software developers are able to better control and monitor individual access and use of such software since CD keys are bound to individual user accounts online. EULA contracts are going to be at the heart of the issue coupled with the first sale doctrine for digital inheritance as more digital content is removed from a tangible digital form, such as software on a CD to the shift of intangible service providers, such as iTunes and Amazon.

⁶⁸ Tor Thorsen, *Court Ruling could affect pre-owned game sales*, GAMESPOT (Sep. 13, 2010), <http://www.gamespot.com/news/court-ruling-could-affect-pre-owned-game-sales-6275683?>

EU Court of Justice Foresight Applies the First Sale Doctrine to Software Downloads

On July 3, 2012 a landmark case was reached in the Court of Justice of the European Union in the case *UsedSoft GmbH v. Oracle International Corp.* The background of the case reflects the modern movement of how the consumer market is shifting to a digital reality and the ruling shows how the Court of Justice of the European Union had the foresight and recognized the need for the implications of the first sale doctrine to govern digital property. The case involved Oracle, a website that distributes the majority of its database software by download, and “customers purchase the right to use this software pursuant to license agreements that grant them a non-transferable right for an unlimited period. . . . UsedSoft, a German company that markets used software licenses, sells “used” user licenses to Oracle computer programs. Following purchase of a “used” license, UsedSoft customers download software directly from the Oracle website and use the software under the purchased licenses. Oracle filed a lawsuit in Germany against UsedSoft seeking an order prohibiting these activities.”⁶⁹ The court held that “a licensor of software made available for download over the internet may not prevent the resale of perpetual licenses by its licensees.”⁷⁰ Although this rule only applied to downloaded software online, its implications shift in the direction that is favorable to the consumer who legally acquires a piece of property and passes it onward, as if it were physical property.

⁶⁹ *Id.*

⁷⁰ Stephen G. Charkoudian, Joel E. Lehrer, Achal Oza *EU Court of Justice Rules First Sale Doctrine Applies to Software Downloads* GOODWIN PROCTER LLP (Jul 11, 2012), http://www.goodwinprocter.com/Publications/Newsletters/IP-Alert/2012/0711_EU-Court-of-Justice-Rules-First-Sale-Docctrine-Applies-to-Software-Downloads.aspx?article=1.

The Southern District of New York Recently Ruled on a Pivotal case.

The start-up company ReDigi is currently in the process of appealing a district court ruling in a law suit with Capital Records (EMI) over the legality of a second-hand digital music store.⁷¹ When a user signs up on the ReDigi service, the user downloads ReDigi software which then verifies that the music was bought legally through iTunes.⁷² If the song is verified, it is then erased from the hard drive digitally uploaded to ReDigi's server, without creating any RAM.⁷³ ReDigi then holds the music in users account in the cloud until another user wishes to purchase the file at which point, the only copy is transferred from one account to the next.⁷⁴ EMI sought summary judgment; however, Judge Richard J. Sullivan denied the motion by stating "I think obviously the public has an interest in seeing copyright law enforced. On the other hand, that copyright law includes recognitions of things like legitimate secondary markets and the ability of owners to resell their items."⁷⁵

ReDigi was a case of first precedent on whether a lawfully made and purchased digital music file may be resold through a second hand source. Although ReDigi's business model looked promising for complying with current legal laws regarding digital property, the district court ruled that it violated EMI's copyright. The court relied on *London-Sire Records, Inc. v. Doe* where several unnamed defendants used "peer-to-peer" file sharing software to download and disseminate music without paying for it.⁷⁶ In this case, the court held that defendants were entitled to "minimal First Amendment protection and that transfer of files by users on peer-to-peer networks was 'distribution' within meaning of Copyright Act".

71 Capital Records, LLC v. ReDigi Inc., No. 12 CV 95 (RJS) (S.D.N.Y. 2002), available at http://scholar.google.com/scholar_case?case=14370355711054867961&q=Capitol+Records,+LLC+v.+ReDigi+Inc.&hl=en&as_sdt=2,31&as_vis=1.

72 ReDigi.com, *Learn More About ReDigi*, available at <https://www.reddigi.com/learn>.

73 *Supra*, note 59 at 198.

74 David Ben Salem, *Capital Records LLC v. ReDigi Inc., the applicability of the first sale doctrine to digital music*, INNOVATION LAW BLOG (Oct., 24 2012), <http://innovationlawblog.org/2012/10/capitol-records-llc-v-reddigi-inc-the-applicability-of-the-first-sale-doctrine-to-digital-music>.

75 *Supra*, note 55 at 517.

76 *London-Sire Records, Inc. v. Doe 1*, 542 F. Supp. 2d 153 (D. Mass. 2008). Here, the court held that defendants were entitled to "minimal First Amendment protection; transfer of files by users on peer-to-peer networks was 'distribution' within meaning of Copyright Act".

The district court reasoned that the first sale doctrine does not protect ReDigi's distribution because it is an unlawful reproduction of a digital music file. The court stated:

[T]he first sale defense is limited to material items, like records, that the copyright owner put into the stream of commerce. Here, ReDigi is not distributing such material items; rather, it is distributing *reproductions* of the copyrighted code embedded in new material objects, namely, the ReDigi server in Arizona and its users' hard drives. The first sale defense does not cover this any more than it covered the sale of cassette recordings of vinyl records in a bygone era.⁷⁷

However, ReDigi argued that, because “technological change has rendered its literal terms ambiguous, the Copyright Act must be construed in light of its basic purpose, namely, to incentivize creative work for the ultimate cause of promoting broad public availability of literature, music, and the other arts.” The Judge reasoned that this ruling is “confirmed by the laws of physics. It is simply impossible that the same ‘material object’ can be transferred over the Internet.”⁷⁸ And although his reasoning maybe true according to the status quo, ReDigi 1.0 has advanced its software to Redigi 2.0 and plans to appeal, reasoning that technologies continual advancement creates a casual nexus, requiring the understanding of the first sale doctrine to advance.

If the court of appeals rules in favor for ReDigi's business model, it may begin precedent that shifts the courts to allow the first sale doctrine to digital media. In fact, companies such as Apple and Amazon have already filed for patents to set up for a second hand exchange market place for digital media.⁷⁹ But have yet implemented such patents. This possibly demonstrates that corporations are aware of the need of consumers to have to distribute their legally acquired digital property but appear to be waiting for the law to address that consumers have the right to do so.

77 Capitol Records, LLC v. ReDigi Inc., 12 CIV. 95 RJS, 2013 WL 1286134 (S.D.N.Y. Mar. 30, 2013).

78 *Id.*

79 David Streitfeld Imagining a Swap Meet for E-Books and Music, THE NEW YORK TIMES (Mar 7, 2013), <http://www.nytimes.com/2013/03/08/technology/revolution-in-the-resale-of-digital-books-and-music.html?pagewanted=all>.

Like all things, when the court grants this right, large corporations such as Apple and Amazon will capitalize as much as possible.

As a byproduct of whether the court grants the right of consumers to a second hand digital marketplace or if the court grants that consumers should have the right to relinquish such digital property to their estate, one ruling will most likely effect the other.

Part 5

Current Digital Laws and the Need for Uniform Laws on Digital Inheritance

“As of right now, digital inheritance laws remain murky.”⁸⁰

There are ground breaking laws being created that recognize the need for digital inheritance protection. Currently, there are five states that have “enacted specific laws to help fiduciaries deal with e-mail fiduciary access to online accounts . . .”⁸¹ and nine other states that are pending. Of the five that are approved, only two, Oklahoma and Idaho refer to social media and blogging rights an executor have right to access, while Connecticut, Rhode Island and Indiana only refer to email in their statutes.⁸² However, Idaho and Oklahoma still only grant very narrow rights for the executor to recover the grantors digital estate. For instance, Oklahoma, which has the most comprehensive statute of the enacted legislation states, “[t]he executor or administrator of an estate shall have the power, where otherwise authorized, to take control of, conduct, continue, or terminate any accounts of a deceased person on any social networking website, any microblogging or short message service website or any e-mail service websites.”⁸³ Although this begins to cover the fundamental everyday

80 Roger Yu, *Digital Inheritance laws remain murky*, [USATODAY.COM](http://usatoday30.usatoday.com/tech/story/2012/09/19/digital-inheritance/57804428/1) (Sep. 19 2012), <http://usatoday30.usatoday.com/tech/story/2012/09/19/digital-inheritance/57804428/1>.

81 Jim Lamm, *February 2013 List of State Laws and Proposals Regarding Fiduciary Access to Digital Property During Incapacity or After Death*, DIGITAL PASSING (Feb. 13, 2013, REV. Feb. 25, 2013), available at <http://www.digitalpassing.com/2013/02/13/list-state-laws-proposals-fiduciary-access-digital-property-incapacity-death>.

82 *Id.*

83 58 O.S. § 269 (OSCN 2013), available at <http://www.oscn.net/applications/oscn/DeliverDocument.asp?CiteID=460302>.

applications such as emailing, Facebook, Twitter and blogs, it doesn't begin to address additional property rights in cloud services such as Amazon music, Google Play, and Dropbox.

Although nine other states, Maryland, Michigan, Nebraska, New Hampshire, New Jersey, New York, North Dakota, Pennsylvania and Virginia all have pending legislation, they share the same thing in common, a narrow scope of fiduciary power to access digital property.

Further, there needs to be a uniform law set in place to clarify the convoluted and limited powers executors have when access digital property for the estate.

Conclusion

Currently, a committee has been formed on creating uniform laws regarding digital inheritance. This committee is entitled "Fiduciary Access to Digital Assets."⁸⁴ While this committee may respond to the clarion horn that has been sounding from various beneficiaries and legal guardians to have access to digital accounts such as emails, Facebook and twitter, the committee will still lack the power necessary to legally pass on digital media such as iTunes accounts and Amazon eBooks, unless the first sale doctrine is extended to include ownership rights of digital assets.

84 Further information is available at <http://uniformlaws.org/Committee.aspx?title=Fiduciary%20Access%20to%20Digital%20Assets>