THE FIRST SALE DOCTRINE AND DIGITAL PHONORECORDS

This iBrief follows various phonorecord formats to illustrate the specifics of the First Sale doctrine as it applies to digital phonorecords. The author argues that the disposal of a digital phonorecord by means of distribution infringes an author's exclusive right to reproduce the underlying musical work and this distribution is not subject to First Sale protection.

Introduction

¶ 1 Digital phonorecords are a relatively new technology that allows musical works to be played, recorded and stored in digital format for use on computers or other devices. This technology has amazing potential for consumers and musicians alike, but this potential is limited by its legal consequences.

¶ 2 The owner of a particular copy of a traditional format phonorecord, such as a vinyl record or cassette tape, may dispose of her phonorecords through distribution to another person without interference from the Copyright owner of the musical work after the Copyright owner first makes the phonorecord available to the public. This protection, called "First Sale," does not shield similar disposals of digital phonorecords, however, because of the necessary reproductions needed to perform the task in the digital realm. These reproductions, when combined with the ease of distribution of illegally reproduced digital phonorecords, infringe rights not shielded by First Sale.

What is a Phonorecord?

¶ 3 Section 101 of the 1976 Copyright Act defines a phonorecord as a

> "[M]aterial object[ ] in which sounds * * * are fixed * * * and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device."[1]

¶ 4 This definition, like any other statutory language, is terribly clunky. In plain English, a phonorecord is what most people would refer to as a "record." This can be a vinyl record, a Compact Disk (CD), a tape, or any other fixed medium containing a song - the exact medium is not important for status as a phonorecord.

¶ 5 Although the medium is not important for status as a phonorecord, fixation in a material object is important. The Section 101 definition indicates that a song embodied in a non-material form is not a phonorecord. Thus, a tune sung in the shower is not fixed in any material object and cannot therefore fit the definition of a phonorecord.

The First Sale Doctrine

¶ 6 Section 106 of the 1976 Copyright Act grants the owner of a Copyright six exclusive rights: reproduction, preparation of derivative works, distribution, public performance, public display, and digital transmission performance.[2] However, a Copyright owner's right of distribution is limited by the First Sale Doctrine, as codified in Section 109 of the Act. Section 109(a) provides in relevant part:

> "Notwithstanding the provisions of 106(3), the owner of a particular * * * phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without

> the authority of the Copyright owner, to sell or otherwise dispose of the possession of that * * * phonorecord."[3]

¶ 7 The disposal §109(a) speaks of allows two options: distribution of a particular phonorecord to another or to destruction of a particular phonorecord. Thus, this section allows me to sell a vinyl copy of a phonorecord to a friend or destroy my phonorecord without requiring permission from the author. First Sale is not an absolute right, however. It is important to note that First Sale covers transfers of ownership[4] not merely transfers of possession, such as rental, lease or lending[5] of phonorecords.[6]

¶ 8 First Sale is further limited in that it applies only to "a particular * * * phonorecord lawfully made under this title." There are actually two important limitations in this phrase: "particular" and "lawfully made." First Sale allows you to dispose of only the particular copy you own. Thus, First Sale does not allow me to sell a friend's phonorecord simply because I also own a copy.[7] Additionally, any copy that is sold must be "lawfully made." This means that First Sale will not exonerate me if I sold a pirated phonorecord, even though I own a lawfully obtained phonorecord as well. First Sale will also not immunize me if I sold pirate phonorecords I had reproduced from a lawfully obtained copy because each and every reproduction is not the "particular" and "lawfully obtained" copy I was sold.

¶ 9 The final limitation to the First Sale Doctrine that concerns our discussion relates to the exclusive rights of a Copyright owner other than those shielded by First Sale. First Sale allows you "to sell or otherwise dispose of" a particular phonorecord without the authorization of the Copyright owner, but it does not impact any of the other exclusive rights the Copyright owner holds, such as reproducing the work in phonorecords[8] adapting the work into other formats[9] or publicly performing the work[10].

Digital Phonorecords

¶ 10 Digital phonorecords are a new concept both to Copyright law and overall society, but there really is no exact definition of what they are. Fortunately, the 1976 Copyright Act was written broadly to encompass not only 1976 technology, but also all technology "later developed." A working definition of "digital phonorecord" for this iBrief will be "a non-analog phonorecord fixed in a binary or digital medium." The most obvious example of a digital phonorecord is the now ubiquitous Mp3 file format, made famous by the MyMp3[11] and Napster cases[12] but digital phonorecords can be any number of file formats.[13]

¶ 11 Because these digital files are phonorecords, they must be "fixed" in "material objects," like other phonorecords. Section 101 defines "fixed" as:

> "[S]ufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of time of more than transitory duration."[14]

¶ 12 Fixation may seem like a hurdle considering an Mp3 file is composed of ones and zeros, but this hurdle is quickly crossed. Unlike a shower rendition of a song that is captured only by my ears, a digital file is actually a series of positively- and negatively-charged ions trapped in a magnetic source, be it a floppy diskette or a hard disk drive. The file is thus fixed in a material object, as it will exist for as long as the storage medium exists (absent accidental erasure by another magnetic source).

¶ 13 But the analysis of fixation does not end there. Much like other phonorecords, a digital phonorecord requires a device to allow a user to hear the sounds embodied therein. This device is usually a computer, but can be a digital player, such as the Rio Mp3 Player.[15] The question of how the device, namely a computer[16] plays the phonorecord is important to analyze.

¶ 14 If the digital phonorecord is stored in magnetic media, such as a diskette, outside of the computer, the user must insert this media into the computer. At this point, the user has two options: copy the digital phonorecord onto the computer's hard drive or play the digital phonorecord from the diskette. If

the digital phonorecord is placed onto the user's hard drive (i.e. digitally copied), a reproduction has been made.[17]

¶ 15 Once the decision concerning location is made, the user must then utilize a program to listen to the digital phonorecord. To do this, the device must load the phonorecord into Random Access Memory (RAM)[18] regardless of whether the phonorecord is on the diskette or on the hard drive. RAM is a volatile memory type, not a permanent memory type, and thus the copy of the phonorecord that was loaded into RAM will be destroyed when the device is turned off. Courts have recently been forced to determine if loading a digital file into RAM creates a "copy" under the 1976 Act that is sufficiently fixed for infringement purposes.

¶ 16 Some addressing this topic claim that RAM copies are not sufficiently fixed for infringement purposes, but the prevailing view is that RAM copies are sufficiently fixed. The sticking point for this debate is the phrase "for more than a transitory duration" in the definition of fixation.[19] Those who argue that the copies are merely ephemeral and not fixed point to the legislative history of the 1976 Act. The House Report accompanying the Act states that:

> "[T]he definition of 'fixation' would exclude from the concept purely evanescent or transient reproductions such as those * * * captured momentarily in the 'memory' of a computer."[20]

¶ 17 The prevailing view looks to the 1993 MAI Systems v. Peak Computer case[21] for support. In MAI, the Ninth Circuit held that loading a computer operating system into RAM from permanent storage created a fixed copy of the operating system, sufficient for infringement purposes. The MAI reasoning was adopted in several other courts[22] and in the political realm by the so-called "White Paper." [23] Additionally, Congress implicitly supported the legal findings of MAI when it altered Section 117 to specifically overrule the facts of MAI, while not overruling the legal propositions of the case.[24] In fact, Congress specifically rejected a proposal to state that no RAM copying is infringement (and thus directly overturn MAI) in 1998.[25]

¶ 18 The reasoning of MAI can be extended beyond computer programs because all digital files are loaded into RAM to be manipulated - just as programs are. If loading into RAM creates fixed copies for these computer programs it follows that other digital files loaded into RAM are also sufficiently fixed. Regardless of which side of the debate is correct policy, RAM copies are deemed fixed for purposes of finding infringement under Copyright law.

The Legal Significance of Digital Phonorecords

¶ 19 The technology used for digital phonorecords creates a large legal rift between digital phonorecords and other phonorecords. While non-digital phonorecords do not implicate the reproduction right during use, digital phonorecords do. For example, when I listen to a vinyl record, I simply put the turntable needle on the groove and it plays. However, when I want to listen to my Mp3 version of the song, a RAM copy is made and thus the author's exclusive reproduction right is implicated. Under MAI, this copy is sufficient for infringement purposes if I was the unlawful possessor of this Mp3.[26]

¶ 20 Digital phonorecords also differ from other phonorecords because there exists unlimited and unchecked reproduction ability in the digital realm. This ability is distinct from the reproductions made during the utilization of the digital phonorecord (RAM copy made for listening) and is arguably the more problematic issue for Copyright owners. While it is possible to make reproductions of more traditional phonorecord formats, the process is expensive and labor-intensive. The most difficult common-format phonorecord to reproduce is likely the vinyl record, because reproduction requires a machine that measures and records the physical grooves of the master record and then cuts individual vinyl copies after this. Analog tape is easier, but the more generational copies you make, the lower the sound quality becomes. CD's are much easier because massive machines exist to "burn" hundreds of copies

simultaneously, but the media used can be expensive. In contrast, I can make hundreds of digital copies of any digital phonorecord in seconds by simply utilizing my computer's copy and paste functions. Each and every one of these copies will be a costless, sonically exact copy of the original. For Copyright owners, there is no way of knowing how many digital reproductions are made or which files are in fact reproductions and which are originals.

¶ 21 A final distinction between digital phonorecords and traditional phonorecord formats is the ease of instant and widespread distribution of copies. While it may be easy to hand off a copy of a pirated CD to a friend, it is even easier to distribute hundreds of infringing copies of a digital phonorecord via email. Additionally, the Internet allows for instant unlimited distribution to people all over the world, almost a mind-boggling concept.

The First Sale Doctrine Does Not Fit Digital Phonorecords

¶ 22 As currently written and interpreted, the First Sale doctrine does not allow the disposal of digital phonorecords through distribution. First Sale does not allow distribution because there is no transfer of ownership when there is a transfer of possession. Even if there is a transfer of ownership, though, First Sale does not allow for the distribution of the phonorecord because of the reproductions necessary for this distribution and the ease of distribution of infringing copies.

¶ 23 In the absence of a clear indication of transfer, it is unclear if there is a transfer of ownership under Section 109(d) when you receive a digital phonorecord.[27] I argue this change in possession does not transfer ownership in the digital phonorecord. Instead, there is something similar to an implied license in which you can use and delete the phonorecord, but not further distribute it in any manner. Allowing a user to distribute a digital phonorecord implicates the Copyright owner's exclusive reproduction right is and counter to the policy underlying United States Copyright law.

¶ 24 The First Sale doctrine is a statutory doctrine that allows you to do two things: destroy or distribute. For digital phonorecords, reproduction is required for use, but you surely have an implied license to make these reproductions when listening to a lawfully obtained copy.[28] You also likely have an implied license to dispose of a lawfully obtained digital phonorecord by deleting the file.[29]

¶ 25 Although an implied license to make RAM copies likely exists, an implied license to reproduce a digital phonorecord while distributing it likely does not. This is because of the ease in which infringing reproductions and distributions of these reproductions occur in the digital realm. Reproductions in RAM and email buffers for alienation are not as bad as the ability to make hundreds of perfect digital copies and send them to numerous friends. If the digital phonorecord was sold to you on a magnetic media, such as a floppy disk, a reproduction must be made to move the file to your computer - both for use and storage. Thus, even if the digital phonorecord were on a disk, infringing reproductions are easily made and distributed.

¶ 26 The necessary reproductions made to distribute the digital phonorecords, and the ease of creating and distributing infringing phonorecords, are contrary to the public policy underlying Copyright law. While Copyright law does not usually employ the balancing tests ubiquitous in other areas of the law, this requires a balance. Copyright balances the incentive given to authors with those rights given to the public. The incentive is a limited monopoly that the author may exploit, balanced against certain limitations on what may be protected under Copyright and for how long. For example, the protection of life plus seventy years is undercut by the fact that only the original expression, and not the facts or ideas therein, may be protected for this length. And while the author has the exclusive right to prepare derivative works from her original work, she must also share with the public the ability to parody her work.

¶ 27 This balancing test is important to digital phonorecords because the interests of the composers and producers of these phonorecords have to be balanced against the interests of those that purchase and use these phonorecords. While it is true that a person should be able to sell her legally obtained copy

of a phonorecord, the composers and producers of the song must be able to recoup their investment in their work.[30] In the digital realm, reproduction and distribution of the reproduced copies is so easy that it seems almost counterintuitive to pay for a legally obtained copy if your friend can email a copy to you for free. This process can easy snowball to the point that a single phonorecord sold is reproduced into hundreds of perfect digital phonorecords. Although hundreds of people enjoy the phonorecord, the composers and producers are paid for just one phonorecord. In order to ensure incentive to create new works, composers must be able to limit this. Thus when the artist sells the digital phonorecords to the customer, regarding that sale as a transfer of possession of a digital phonorecord, rather than a transfer of title, is more conducive to underlying Copyright policy. [31]

¶ 28 Even if the receipt of a digital phonorecord transfers ownership, First Sale does not allow a person to dispose of a digital phonorecord through distribution. First Sale is of no help because the reproduction right is always implicated in the digital realm.

¶ 29 For example, First Sale would not shield the transmission of a digital phonorecord over the Internet. In both the digital realm and the physical world it is easy to alienate a phonorecord. In the non-digital world, I put my copy into an envelope and mail it to a friend. In the digital realm, the process is even easier - I simply attach an Mp3 to an email and send this to a friend. In the non-digital world, my friend has my copy of the record (and the same number of copies exist), but in the digital realm there are more copies than we started with.[32] This is because an email program reproduces the original file you wish to attach and sends the reproduction, not the file resident on your hard drive. This is what allows you to address a single email to hundreds of people, attach a file, and all the people receive the email and the file while you still retain your copy of the file. But First Sale only allows you to dispose of a particular phonorecord, not reproduce a phonorecord. So even if you distributed the phonorecord to one person over the Internet, First Sale will not shield this transfer.

¶ 30 Another reason First Sale will not allow the distribution of a digital phonorecord is because any digital phonorecord distributed will be a reproduction, [and] not the "particular copy" owned. Section 109 allows the owner of a digital phonorecord to dispose of her "particular copy," not any reproductions thereof. The digital realm is one defined by an ease of copying and also necessary copying - reproductions are made when a digital file is used as well as when it is transmitted. A reproduction is made when a person wishes to transmit the phonorecord, and it is the reproduction that is transmitted, not the "particular copy" the person owns. Additionally, a reproduction of the phonorecord is made when a person transfers the phonorecord from one medium to another, i.e. from a hard drive to a diskette. If the person sells the diskette to a friend, the phonorecord contained therein is the reproduction, not the "particular copy" the person owns. Because First Sale cannot shield any reproductions, it is inapplicable in this situation.

¶ 31 A final reason why First Sale does not allow distribution of digital phonorecords rests in the public policy supporting the Copyright monopoly. As stated above, Copyright balances the incentives given to authors with those rights given to the public. Thus, the author is given a limited monopoly as an incentive to create, but certain limitations are placed on what may be protected and for how long. In order for the author to continue creating, her monopoly must be protected - i.e., protection from infringing reproduction and distribution of her work. Because of the ease of infringing reproductions and distributions in the digital realm, this balance falls in favor of the Copyright owner.

¶ 32 It may be said that the answer is to allow these reproductions but raise the price of digital phonorecords. This idea would only serve to motivate people to find an infringing copy instead of pay an increasing amount for the legitimate phonorecord. Similarly, the answer cannot be to reduce the cost. The cost of a single digital phonorecords is very small[33] but even a nominal fee costs more than the free alternative. Moreover, the lower the cost, the lower the royalties paid to the composer and producer. This just serves to decrease the incentive to create further works. For digital phonorecords, the answer must be to restrict the ability of individuals to make reproductions and distribute these reproductions.

Conclusion

¶ 33 This iBrief has followed various phonorecord formats to illustrate the specifics of the First Sale doctrine as it applies to digital phonorecords. While First Sale clearly allows an owner of a non-digital phonorecord format of this song, such as vinyl record and CD, to dispose of her copy through further distribution, First Sale is inapplicable to similar distributions of digital phonorecords because of the reproductions made during distribution and the ease in which infringing reproductions can be further distributed.

By: Bob Hyde

Notes

1. 17 U.S.C. §101 (1999).

2. The full text of Section 106 is as follows:

"Subject to sections 107 through 121, the owner of a Copyright under this title has the exclusive rights to do and to authorize any of the following:

> to reproduce the Copyrighted work in copies or phonorecords;
>
> to prepare derivative works based upon the Copyrighted work;
>
> to distribute copies or phonorecords of the Copyrighted work to the public for sale or other transfer of ownership, or by rental, lease, or lending;
>
> in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the Copyrighted work publicly;
>
> 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 audiovisual work, to display the Copyrighted work publicly; and
>
> in the case of sound recordings, to perform the Copyrighted work publicly by means of digital audio transmission."

17 U.S.C. §106 (1999).

3. 17 U.S.C. §109(a) (1994).

4. 17 U.S.C. §109(d) (1994).

5. 17 U.S.C. §109(b)(1)(A) (1994). The Record Rental Amendment (Pub.L. 98-450, 98 Stat. 1727 (1984)) added this particular language to Section 109 in an attempt to combat widespread illicit copying of phonorecords caused by record rental houses. For further discussion see H.R. Rep. No. 98-927, at 2 (1984), reprinted in 1984 U.S.S.C.A.N. 2898, 2899.

6. It is important to note Section 202 of the 1976 Act. This Section provides in relevant part that:

"Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied. Transfer of ownership of any material object * * * does not itself convey any rights in the copyrighted work embodied in the object[.]"

17 U.S.C. §202 (1976). Thus, when I buy a phonorecord, the Copyright owner does not lose his rights in the underlying work. The converse of this is that the owner of the Copyright may still exercise his/her exclusive rights provided under section 106, regardless of who owns the material support. The limit to this is the right of distribution in First Sale. However, all other rights in the work, such as reproduction are retained by the Copyright owner and thus cannot be exercised by the owner of the physical support.

7. This may seem like an example of common sense, but the "particular copy" will be important to the discussion of digital phonorecords below.

8. See Design Options, Inc. v. BellePointe, Inc., 940 F.Supp. 86, 91 (S.D.N.Y. 1996).

9. See Midway Mfg. Co. v. Strohon, 564 F.Supp. 741, 745 (N.D. Ill. 1983).

10. See Columbia Pictures v. Redd Horne, Inc. 749 F.2d 154, 160 (3rd Cir. 1984).

11. UMG Recordings, Inc. v. MP3.com, Inc., 92 F. Supp. 2d 349 (S.D.N.Y. 2000).

12. A&M Records v. Napster, Inc., 2001 U.S. App. LEXIS 5446 (9th Cir. 2001).

13. Some other examples of digital phonorecord formats are: WAV, Windows Media, MIDI, Real Audio, Liquid Audio, M3U, CDA, RMI, and AIFF. This is by no means an exclusive list of possible digital phonorecord file formats.

14. 17 U.S.C. §101 (1999).

15. http://www.riohome.com/ (visited April 18, 2001).

16. I will focus on computers because they are by far the most widely used medium for digital phonorecords.

17. See Stenograph L.L.C. v. Bossard Assoc., Inc., 144 F.3d 96, 100 (D.C. Cir. 1998). See also Nimmer §8.08. See generally CONTU Final Report. Section 117 specifically allows the installation (i.e. making a reproduction of the work from the disk and placing the reproduction of the work onto the user's hard drive) of computer software into a computer for purposes of use. However, section 117 does not speak to other digital works, such as digital phonorecords.

18. The computer must load the phonorecord into RAM in order to manipulate, i.e. play, stop, or pause, the file.

19. See eg. Jessica Litman, *Copyright in the Twenty-First Century: The Exclusive Right to Read*, 13 Cardozo Arts & Ent. L.J. 29, 41-44 (1994).

20. H.R. Rep. No. 1476, 94th Cong., 2d Sess. 53 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5666.

21. MAI Sys. Corp. v. Peak Computer, 991 F.2d 511 (9th Cir. 1993), *cert denied* 510 U.S. 1033; 114 S. Ct. 671 (1994).

22. See eg. Stenograph L.L.C. v. Bossard Assocs., 144 F.3d 96 (D.C. App. 1998); Marobie-Fl., Inc. v. National Ass'n of Fire Equip. Distribs., 983 F. Supp. 1167, (N.D. Ill. 1997); CSU Holdings v. Xerox (In re Independent Serv. Orgs. Antitrust Litig.), 910 F. Supp. 1537, (D. Kan. 1995); Advanced Computer Servs. v. MAI Sys. Corp., 845 F. Supp. 356 (E.D. Va. 1994).

23. *Intellectual Property and the National Information Infrastructure: The Report of the Working Group on Intellectual Property Rights.* Bruce A. Lehman and Ronald H. Brown. Information Infrastructure Task Force, pages 64-66 (1995).

24. Section 117(c) allows an exception for reproductions made for "machine maintenance or repair." 17 U.S.C. §117(c) (1998).

25. *Report to Congress: Study Examining 17 U.S.C. Sections 109 and 117 Pursuant to Section 104 of the Digital Millennium Copyright Act.* U.S. Department of Commerce, National Telecommunications and Information Administration, page 9 (March 2001).

26. It is true that new technological advances that prevent skipping in CD players may create RAM buffer copies inside the CD player. While this buffering has not been examined by courts to determine if a legal parallel exists with computer RAM copies, it seems unlikely that the CD player copies would be infringing. First, the CD player RAM buffers only a few seconds of the song. Second, and more importantly, a CD player requiring buffering techniques would not likely be able to reproduce the digitally buffered sounds. Unlike a computer that is able to make duplications of RAM copies, a CD player's RAM buffer has no other value outside of the utilization and function of listening to the phonorecord.

27. Most sites offering lawfully obtainable digital phonorecords do not discuss the Copyright in the phonorecord or the transfer of ownership of the phonorecord. The exception is EMusic (http://www.emusic.com), which discusses Copyright in terms of "Personal Rights & Responsibilities as an MP3 User." This section of the website is more a discussion of personal/fair use of digital phonorecords and does not specifically address ownership.

28. Under MAI, it seems clear that the reproductions made from a pirated copy could be a violation of the exclusive reproduction right and an infringement. However, there is no exclusive right to *use* in the Copyright Act, unlike the protection given to patent. Ralph Brown, Jr.,

discussed this topic in his article, *Eligibility for Copyright Protection: A Search for Principled Standards*, 70 Minn. L. Rev. 579, 588-89 (1985). Professor Brown notes that the Copyright Act does not confer any exclusive right to use a work, which helps explain why the standards for obtaining a patent monopoly are so much more stringent.

29. The reproduction right is not implicated in deletion of the phonorecord. Thus, First Sale allows you to dispose of your particular copy through deletion.

30. If authors are unable to recoup investment, there will be no incentive to create new works.

31. The argument that the transfer of possession of a digital phonorecord does not transfer title is slightly undercut by previous holdings concerning motion picture prints. Until the advent of home video devices, it was standard practice in the movie industry for movie companies to rent motion picture prints to movie theaters rather than actually transferring title. See Nimmer §8.12, section B.1. Courts began, however, to qualify a transfer in possession without a time limit and without an express reservation of title as a sale. See United States v. Atherton, 561 F.2d 747 (9 Cir. 1977); United States v. Wise, 550 F.2d 1180 (9 Cir. 1977), *cert. denied*, 434 U.S. 929 (1977), *reh'g denied,* 434 U.S. 977 (1977). These movie print cases can be easily distinguished from digital phonorecords, though, because of the medium involved. Unlike film prints, digital phonorecords are easily reproducible and these copies are easily distributed after reproduction. Motion picture prints are simply not as easily reproduced and distributed as digital files.

32. At very least, there are two copies of the phonorecord at this point - the phonorecord I retained and the phonorecord that my friend receives. Depending on the email system used, though, there may be many more phonorecord copies made.

33. As of April 21, 2001, EMusic sells digital phonorecords for $.99 per song.