The Computer Software Rental Amendments Act of 1990: Another Bend in the First Sale Doctrine

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NOTES

THE COMPUTER SOFTWARE RENTAL AMENDMENTS ACT OF 1990: ANOTHER BEND IN THE FIRST SALE DOCTRINE*

The first sale doctrine is a basic principle of copyright law.1 The doctrine extinguishes a copyright owner's exclusive right to distribute2 an individual copy of a copyrighted work once the work is lawfully acquired by another.3 It thus allows the purchaser of a work to sell, rent or otherwise dispose of the work without the copyright owner's permission.4 The doctrine "has a

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1. In his opening remarks at the House subcommittee hearing on the Computer Software Rental Amendments Act of 1990 (Software Act), Chairman Kastenmeier explained that "'[a] bill to change the first sale doctrine, then, is not a modest proposal. It is . . . a major substantive proposal involving a fundamental change in one of the main tenets of copyright law.'" Software Rental Amendments of 1990: Hearing Before the Subcomm. on Courts, Intellectual Property and the Admin. of Justice of the House Comm. on the Judiciary, 101st Cong., 2d Sess. 2 (1990) [hereinafter House Software Hearing] (statement of Rep. Robert Kastenmeier) (quoting Prof. David Lange).


4. E.g., Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd., 847 F.2d 1093, 1099 (3d Cir. 1988) (vacating district court's grant of injunction to prevent sale of copyrighted materials because of the first sale doctrine); Independent News Co. v. Williams, 293 F.2d 510, 515-17 (3d Cir. 1961) (upholding denial of claim for violation of distribution right because copyrighted comic books which defendant resold had already been sold by the plaintiff); Burke & Van Heusen, Inc v. Arrow Drug, Inc., 233 F. Supp. 881, 884 (E.D. Pa. 1964) (rejecting copyright owner's claim for violation of distribution right because the first sale doctrine had extinguished the exclusive distribution right, even though a contract with the pharmacist required that the works only be given away with shampoo purchases); see also Columbia Pictures Indus., Inc. v. Redd Horne, Inc., 749 F.2d 154, 159-60 (3d Cir. 1984) ("The first sale doctrine
venerable lineage" — courts recognized it at least as early as 1886 and it has been part of the federal copyright law since 1909. For nearly a century, it has prevented copyright owners from asserting their copyright interests to prevent or condition the future disposition of copyrighted works that they have sold or given away.

The ease with which modern technology allows works to be illegally duplicated and the corresponding difficulty in detecting such duplication has prevented the copyright owner from controlling the future transfer of a particular copy once its material ownership has been transferred.); American Int'l Pictures, Inc. v. Foreman, 576 F.2d 661, 663-64 (5th Cir. 1978) ("The first sale thus extinguishes the copyright holder's ability to control the course of copies placed in the stream of commerce.").

5. Sebastian Int'l, 847 F.2d at 1096.

6. Henry Bill Publishing Co. v. Smythe, 27 F. 914, 923 (C.C.S.D. Ohio 1886). The Henry Bill court held that an infringement had occurred, despite the first sale doctrine, because the works in question had not been lawfully sold. Although the doctrine soon would become part of the federal copyright law, Judge Freedman's 1964 opinion in Burke & Van Heusen, Inc. v. Arrow Drug, Inc., 233 F. Supp. 881 (E.D. Pa. 1964), was the first time that it was described as the "first sale doctrine" by a federal court. Search of LEXIS Genfed Library, Courts file (Jan. 24, 1992).

7. Act of Mar. 4, 1909, ch. 320, § 41, 35 Stat. 1075, 1084 (stating that "nothing in [the copyright law] shall be deemed to forbid, prevent or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained") (current version at 17 U.S.C.A. § 109).

The federal copyright law is currently codified in title 17 of the United States Code. All references to "copyright law" or "the copyright law" refer to federal copyright law.


Notwithstanding the first sale doctrine, copyright owners are still able to exert legal control over future disposition of their works through contracts with the purchasers. See infra notes 93-97 and accompanying text.

9. Unless authorized by the copyright owner, the duplication of a copyrighted computer program or any other copyrighted work is generally a violation of the copyright. 17 U.S.C.A. § 106(1). One exemption to this prohibition is 17 U.S.C. § 117 (1988), which allows duplication of copyrighted computer software for certain specific purposes. For a discussion of this section, see infra notes 40-42 and accompanying text.

10. Copyright infringement has become more difficult to detect because it is no longer necessary to use or duplicate works in highly visible and easily policeable establishments such as movie theaters or print shops, but instead they can be used and duplicated in such hard-to-police places as the home or office. See H.R. REP. No. 735, 101st Cong., 2d Sess. 7, reprinted in 1990 U.S.C.C.A.N. 6935, 6938 (stating that "technology has been both a boon and a bane to authors: a boon because it has fostered new methods of creation and distribution; a bane because it has also resulted in inexpensive, easy and quick ways to reproduce copyrighted works,
led to a number of movements to create exceptions to the first sale doctrine. Using equipment available to most consumers, it is now easy to make accurate duplicates of works recorded in many different media at a fraction of the work's retail cost. The only barriers to duplication are the public's knowledge of and respect for copyright law and a lack of physical access to a copy of the desired work. Rental removes this latter barrier by affording cheap, easy and well-publicized access to copyrighted works.

The Record Rental Amendment of 1984 was the only successful attempt at making an exemption to the first sale doctrine. Record Rental Amendment of 1984, Pub. L. No. 98-450, 98 Stat. 1727 (codified at 17 U.S.C.A. § 109(b)(1)(a) (West Supp. 1991)). Under this amendment, the owner of a copy of a phonorecord containing copyrighted material may not rent the record for purposes of direct or indirect commercial advantage without the permission of the copyright owner. Id. Companion legislation that would have exempted video tape rentals from the first sale doctrine was never approved by Congress.

Audio works, for example, can be copied using a standard audio cassette player. Almost every computer is capable of duplicating computer programs. Computer Software Rental Amendments Act of 1988: Hearings on S. 2727 Before the Subcomm. on Patents, Copyrights and Trademarks of the Senate Comm. on the Judiciary, 100th Cong., 2d Sess. 15 (1988) [hereinafter 1988 Senate Software Hearings] (testimony of Dr. Alan C. Ashton, President, WordPerfect Corp.); id. at 17 (testimony of Heidi Roizen, President, T/Maker Co.).

In 1988, the popular word processing program WordPerfect sold at retail for up to $495 and could be copied in seconds onto $11 worth of computer diskettes, and the typical compact disc (CD) audio recording sold for about $16.95 and could be copied onto a tape in about one hour. 1988 Senate Software Hearings, supra note 12, at 10 (statement of Dr. Alan C. Ashton, President, WordPerfect Corp.); id. at 15 (testimony of Heidi Roizen, President, T/Maker Co.).

Heidi Roizen, testifying as President of the Software Publishers Association, argued that the Software Act was needed because "the software industry has had to rely on moral suasion to prevent people from stealing our products through software rentals." 1989 Senate Software Hearings, supra note 12, at 38.

WordPerfect could be rented through the mail at a price of around $35 in 1988. 1989 Senate Software Hearings, supra note 12, at 17 (statement of Ralph Oman, Register of Copyrights).
The Computer Software Rental Amendments Act of 1990 (Software Act) created an exemption from the first sale doctrine for the rental of computer software. This exemption gives the owners of software copyrights control over the rental of their programs by making it a copyright violation to rent computer software without the permission of the copyright owner. The goal of the Software Act is to protect the software industry from sales.

Software can be defined as "[t]he instructions, programs, or suite of programs which are used to direct the operations of a computer, or other hardware." A.J. MEADOWS ET AL., DICTIONARY OF COMPUTING & INFORMATION TECHNOLOGY 226 (3d ed. 1987). The copyright law defines a computer program as a "set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result," 17 U.S.C. § 101 (1988), and allows certain aspects of computer programs to be protected as "literary works." 17 U.S.C. § 102(a)(1) (1988); see Johnson Controls, Inc. v. Phoenix Control Sys., Inc., 886 F.2d 1173, 1175-76 (9th Cir. 1989) (finding that the "structur[al], sequenti[al] and/or organiza-tion[al]" components of a computer program may be protected by copyright); Whelan Assocs., Inc. v. Jaslows Dental Lab., Inc., 797 F.2d 1222, 1248 (3d Cir. 1986) (finding programs copyrightable when as source code (a written form understandable to humans) and as object code (the translation of source code into a series of digits for use by the computer)), cert. denied, 479 U.S. 1031 (1987); Apple Computer, Inc. v. Franklin Computer Corp., 714 F.2d 1240, 1249 (3d Cir. 1983) (same), cert. dismissed, 464 U.S. 1033 (1984); H.R. REP. No. 1476, 94th Cong., 2d Sess. 54 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5667 (stating that the category "literary works" includes "computer programs to the extent that they incorporate authorship in the programmer's expression of original ideas"). Exactly which aspects of a computer program are copyrightable is still subject to debate. See, e.g., Lotus Dev. Corp. v. Paperback Software Int'l, 740 F. Supp. 37, 68 (D. Mass. 1990) (finding the "user interface" of the program Lotus 1-2-3 to be copyrightable); Steven W. Lundberg et al., Baker v. Selden, Computer Programs, 17 U.S.C. Section 102(b) and Whelan revisited, 13 HAMLINE L. REV. 221 (1990); Peter S. Menell, An Analysis of the Scope of Copyright Protection for Application Programs, 41 STAN. L. REV. 1045 (1989); Steven R. Englund, Note, Idea, Process or Protected Expression?: Determining the Scope of Copyright Protection of the Structure of Computer Programs, 88 MICH. L. REV. 866 (1990).
lost when potential purchasers rent and make copies of software instead of purchasing the products.\footnote{18} The purpose of copyright law is to benefit the public by promoting the creation of works of authorship, and any changes to the copyright law should be designed to carry out this purpose.\footnote{19} This Note first examines the rights granted by a copyright, the various limitations upon those rights, and the rationale behind those rights and limitations. Next, this Note discusses the first sale doctrine and examines previous attempts to amend the doctrine. This Note then analyzes whether, short of bending the doctrine, there are any other possible solutions to resolve the problem of illegal copying of rented software. After evaluating the Software Act in light of its intended purpose, this Note concludes that, although a software rental exemption to the first sale doctrine probably furthers that purpose, the Software Act was not carefully drafted and could have unintended and undesired effects. Finally, this Note looks at the future prospects for rental rights and the first sale doctrine. As the distinction between computer programs and other works blurs,\footnote{20} and as it becomes easier to duplicate works, a careful determination must be made as to whether society will benefit more by allowing the free alienability of creative works or by allowing copyright owners to control their future distribution.

\section*{I. The Goal of Copyright Law and the Scope of Its Protection}

\subsection*{A. Providing for Public Benefit by Allowing for Private Profit}

A copyright is "the grant of a monopoly over expression."\footnote{21} Although our free market system is based on open competition, exceptions are allowed

\begin{itemize}
\item \footnote{18} See Step-Saver Data Sys., Inc. v. Wyse Technology, 939 F.2d 91, 96 n.7 (3d Cir. 1991) (discussing the motivation behind the Software Act).


\item \footnote{19} See infra notes 23-27 and accompanying text.

\item \footnote{20} See infra notes 148-55 and accompanying text.


One could argue that copyright is not a monopoly in the true sense of the word because copyrighted works must compete with other similar works in the marketplace. See, e.g., \textit{Staff of the House Comm. on the Judiciary, 87th Cong., 1st Sess., Report of the}
when there is proper justification. The justification for granting copyrights is to provide incentive for the creation of works of authorship. Because development expenses often comprise the bulk of the cost of producing an artistic or literary work, it is often possible to reproduce and sell copies of the work at a cost that is only a fraction of the author's original investment. Without the protection of copyright law, the release of an author's product into the market could destroy the market for the product and prevent the author from ever recouping his investment. The aim of copyright law is thus to promote the creation and dissemination of works by allowing authors to be financially rewarded.

REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW 3-6 (Comm. Print 1961). This Note, however, considers the effect of increasing the rights of copyright owners to be the same whether or not copyright affords a true monopoly.

22. For example, even though the intentional monopolization of interstate trade has been a federal crime since 1890, Sherman Antitrust Act, ch. 647, § 2, 26 Stat. 209 (codified as amended at 15 U.S.C.A. § 2 (West Supp. 1991)), monopolies are allowed under certain circumstances. One familiar example is the natural monopoly. See United States v. Aluminum Co. of Am., 148 F.2d 416, 430 (2d Cir. 1945) (stating that a producer is not guilty of violating the federal antitrust law if it is put in a monopoly position because the market will only support one producer).

23. The United States Constitution gives Congress the power to grant copyrights in order "[t]o promote the Progress of Science," U.S. CONST. art. I, § 8, cl. 8, the term "Science" having been used to mean general knowledge. See Williams & Wilkins Co. v. United States, 487 F.2d 1345, 1382 (Ct. Cl. 1973) (Cowen, J., dissenting), aff'd, 420 U.S. 376 (1975). The preamble to the first federal copyright statute stated that it was passed "for the encouragement of learning." Act of May 31, 1790, ch. 15, 1 Stat. 124 (repealed 1802, 1819, 1831, 1834); see also Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984) (stating that copyright law is intended to motivate authors by providing them with a reward); United States v. Paramount Pictures, Inc., 334 U.S. 131, 158 (1948) (stating that "[t]he sole interest of the United States and the primary object in conferring the monopoly lie in the general benefits derived by the public from the labors of authors") (quoting Fox Film Corp. v. Doyle, 286 U.S. 123, 127 (1932))); H.R. REP. NO. 2222, 60th Cong., 2d Sess. 7 (1909) (explaining that "[t]he granting of [the copyright law's] exclusive rights, under the proper terms and conditions, confers a benefit upon the public that outweighs the evils of the temporary monopoly").

24. Although a copy of WordPerfect can be made for $11, 1988 Senate Software Hearings, supra note 12, at 15 (statement of Heidi Roizen), the president of the WordPerfect Corporation explained that it sells for over $200 per copy because its development took years of research by highly educated employees using high technology equipment. Id. at 11 (statement of Dr. Alan C. Ashton).

25. Jon Shirley, President and Chief Operating Officer of industry-leading Microsoft Corporation, stressed the value of adequate copyright protection to the software industry by stating: "In short, what we at Microsoft produce is intellectual property, which only has value as long as the copyright laws of the United States and other nations give us the right to receive payment when it is copied and used." 1989 Senate Software Hearings, supra note 12, at 43.

26. See Paramount Pictures, 334 U.S. at 158 ("It is said that reward to the author or artist serves to induce release to the public of the products of his creative genius."). Thus, the copyright law is not "primarily designed to provide a special private benefit," but rather to promote creation of expression by granting private individuals certain exclusive rights over that expression. Sony, 464 U.S. at 429.
To achieve its purpose, copyright law requires a balancing of the need to encourage creativity through private incentive against the over-arching desire to provide public access to the works created.\textsuperscript{27} Giving authors too little control over their works may destroy their incentive to create socially valuable works. In contrast, giving them too much control may deny the public the benefit of authors' creations. The balance is achieved by giving creators certain exclusive rights\textsuperscript{28} and then placing a number of limitations on the monopoly which those rights provide. Some of these limitations are built into the fundamental parameters of the copyright law, while others explicitly limit exclusive rights. Examples of limits built into the copyright law's fundamental parameters are the principle that ideas cannot be copyrighted\textsuperscript{29} and the constitutional requirements that copyrights be granted only “for

\textsuperscript{27.} See Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 (1975). The limited scope of the copyright holder's statutory monopoly, like the limited scope of copyright duration required by the Constitution, reflects a balance of competing claims upon the public interest: Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts. \textit{Id.} (footnote omitted); see also \textit{Sony}, 464 U.S. at 429-30 n.10 (quoting the following description of the copyright balance from a Congressional report: "'In enacting a copyright law Congress must consider . . . two questions: First, how much will the legislation stimulate the producer and so benefit the public; and, second, how much will the monopoly granted be detrimental to the public?" " (omission in original) (quoting H.R. REP. No. 2222, 60th Cong., 2nd Sess. 7 (1909))).


\textsuperscript{29.} This principle is codified at 17 U.S.C. §102(b) (1988), which states: "In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery." \textit{See, e.g.,} Feist Publications, Inc. v. Rural Tel. Serv. Co., 111 S. Ct. 1282, 1287 (1991) (stating that it is a well-established copyright principle "that facts are not copyrightable"); Whelan Assocs., Inc. v. Jaslow Dental Lab., Inc., 797 F.2d 1222, 1234-36 (3d Cir. 1986) (discussing the distinction between the idea and expression elements of a computer program), \textit{cert. denied}, 479 U.S. 1031 (1987); J. Dianne Brinson, Copyrighted Software: Separating the Protected Expression from Unprotected Ideas. \textit{A Starting Point}, 29 B.C. L. REV. 803 (1988).
limited [t]imes” and for “[w]ritings.” Examples of explicit limitations on exclusive rights are the fair use and first sale doctrines.

B. The Nature of Copyright Protection and the First Sale Doctrine

A copyright protects the author’s “right to exploit the work in a particular way and to prevent others from exploiting the work in that way without first obtaining permission.” Copyright ownership consists of five exclusive rights: the right to reproduce the work, the right to derive new works from the work, the right to distribute copies of the work, and the rights to pub-

30. The Constitution gives Congress the power to grant copyrights “[t]o promote the Progress of Science . . . by securing for limited Times to Authors . . . the exclusive Right to their respective Writings.” U.S. CONST. art. I, § 8, cl. 8.

Copyrights for new works are currently given for the life of the author plus 50 years. 17 U.S.C. § 302(a) (1988). The “writings” limitation has been broadly construed to permit copyrighting of musical works, movies and computer programs. 17 U.S.C. § 102(a) (1988). For a discussion of the copyrightability of computer programs, see supra note 17. An example of expansion in the realm of copyrightable expression is the Architectural Works Copyright Protection Act, which was passed as part of the same legislation as the Software Act and which amended the copyright law to allow for copyright protection of architectural works. Judicial Improvements Act of 1990, Pub. L. No. 101-650, §§ 701-706, 104 Stat. 5089, 5133 (codified at 17 U.S.C.A. §§ 101, 102(a), 106, 120, 301(b) (West 1977 & Supp. 1991)).

31. The fair use doctrine is a principle under which the copyright owner’s exclusive rights do not prohibit others from making a “fair use” of their copyrighted works. 17 U.S.C. § 107 (1988); see, e.g., Rubin v. Boston Magazine Co., 645 F.2d 80, 83 (1st Cir. 1981) (“‘Fair use’ is a ‘privilege in others than the owner of a copyright to use copyrighted material in a reasonable manner without his consent.’ ” (quoting HORACE G. BALL, THE LAW OF COPYRIGHT AND LITERARY PROPERTY 260 (1944))).

32. BARBARA A. RINGER & PAUL GITLIN, COPYRIGHTS 20 (1965).

33. These rights are codified in 17 U.S.C.A. § 106 (West 1977 & Supp. 1991), which states that the owner of a copyright has the exclusive rights to do and to authorize any of the following:

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; and
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.


34. A derivative work is defined as follows:

A “derivative work” is a work based upon one or more pre-existing works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgement, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of
licly perform and publicly display certain types of works. The rights granted in the work of authorship by the copyright are distinct from the ownership rights in any material object on which the work is recorded. Thus, the property rights in an individual copy of a copyrighted work can be divided into two distinct bundles. One bundle contains the copyright owner's intellectual property rights—the five rights granted to him under his copyright. The other bundle contains all the rights in the material object normally flowing from the ownership of personal property, excluding the five intellectual property rights reserved to the copyright owner. A transfer in the ownership of either bundle generally does not affect the ownership rights in the other.

35. Public display and public performance are defined as follows:

To "display" a work means to show a copy of it, either directly or by means of a film, slide, television image, or any other device or process or, in the case of a motion picture or other audiovisual work, to show individual images nonsequentially.

To "perform" a work means to recite, render, play, dance, or act it, either directly or by means of any device or process or, in the case of a motion picture or other audiovisual work, to show its images in any sequence or to make the sounds accompanying it audible.

To perform or display a work "publicly" means—

(1) to perform or display it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered; or

(2) to transmit or otherwise communicate a performance or display of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.

36. This principle is codified in 17 U.S.C. § 202 (1988), which states 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 of itself convey any rights in the copyrighted work embodied in the object; nor, in the absence of an agreement, does transfer of ownership of a copyright or of any exclusive rights under a copyright convey property rights in any material object.

37. See H.R. REP. No. 1476, 94th Cong., 2d Sess. 61 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5674 (stating that the five rights granted by § 106 "comprise the so-called 'bundle of rights' that is a copyright").

38. The one exception is that, under the first sale doctrine, the exclusive right to distribute, and in some cases to publicly display and perform, a particular copy of a work is
The copyright owner's exclusive rights are explicitly limited in various ways by the copyright law. For example, the exclusive right to reproduce computer programs is limited in that the owner of a copy of a computer program may make duplicate copies for either of two specific purposes: A program may be copied provided that the copy is essential for use with a particular computer system and is used only in that manner, and a copy may be made if it is used as a back-up in case the original, rightfully owned copy is accidentally destroyed. This balancing is necessary because purchasers must be able to copy programs for these purposes in order to make meaningful use of them.

The first sale doctrine limits the copyright owner's exclusive rights to distribute his work. Codified in § 109 of the copyright law, the first sale doctrine generally extinguishes the owner's exclusive rights upon the first transfer in the ownership of the material object on which the work is recorded. 

The distinction between the copyrighted work and the object upon which it is recorded is essential to understanding the first sale doctrine.

40. 17 U.S.C. § 117(1) (1988). Before a program can be used, it is almost always necessary to copy the program into the computer's internal random access memory. See SAJJAN G. SHIVA, COMPUTER DESIGN AND ARCHITECTURE 216 (2d ed. 1991).
41. 17 U.S.C. § 117(2) (1988). This subsection states that copies may be made for "archival purposes only and [only if] all archival copies are destroyed in the event that continued possession of the computer program should cease to be rightful."
43. 17 U.S.C.A. § 109. Although the scope of this Note is limited to the first sale doctrine as it relates to the distribution right, the Software Act also contains an amendment that applies the first sale doctrine to the public performance and display rights for coin-operated electronic video games. Judicial Improvements Act of 1990, Pub. L. No. 101-650, § 803, 104 Stat. 5089, 5135 (codified at 17 U.S.C.A. § 109(e)). In addition, 17 U.S.C.A. § 109(c) arguably applies the first sale doctrine to the public display right. See supra note 35 for a definition of the public display right.

Until the enactment of § 109(e), it was generally believed that the first sale doctrine did not apply to the public performance right. Red Baron-Franklin Park, Inc. v. Taito Corp., 883 F.2d 275, 278 (4th Cir. 1989) (holding that video games could not be operated in an arcade without the permission of copyright owner), cert. denied, 110 S. Ct. 869 (1990); MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.12[D] (1990). But see Universal Film Mfg. Co. v. Copperman, 218 F. 390 (2d Cir.), cert. denied, 235 U.S. 704 (1914). Section 109(c) legislatively reversed the Fourth Circuit's holding in Red Baron. Congress passed § 109(e) after hearing testimony from the owner of a Red Baron amusement center about how Japanese manufacturers were using United States copyright law to prevent the "parallel import" of video game circuit boards and, thereby, charging a higher price for the game units. House Software Hearing, supra note 1, at 127-29 (statement of William A. Beckham on behalf of the American Operators for Equal Treatment). It is questionable whether this amendment was designed after balancing the interests of promoting development in coin-operated video games against the availability of these games to the public—the copyright balance—or whether
trine permits the lawful owner of a particular copy of a copyrighted work to "sell or otherwise dispose of the possession of that copy" without the permission of the copyright owner. The "privileges" granted in § 109, however, extend only to persons who have lawfully acquired title to the particular

...the amendment was simply designed to benefit domestic operators at the expense of foreign developers.

The scope of this Note has been limited to the first sale doctrine's limitation on the distribution right because the Software Act's amendment to the public display and public performance rights is rather insignificant. In fact, the phrase "first sale doctrine" is normally used only to refer to the limit on the distribution right.

44. Section 109 currently states, in pertinent part, that:

(a) Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

(b)(1)(A) Notwithstanding the provisions of subsection (a), unless authorized by the owners of copyright in the sound recording or the owner of copyright in a computer program (including any tape, disk, or medium embodying such program), and in the case of a sound recording in the musical works embodied therein, neither the owner of a particular phonorecord nor any person in possession of a particular copy of computer program (including any tape, disk, or medium embodying such program) may, for the purposes of direct or non-direct commercial advantage, dispose of, or authorize the disposal of, the possession of that phonorecord or computer program (including any tape, disk, or medium embodying such program) by rental, lease, or lending, or by any other act or practice in the nature of rental, lease, or lending. Nothing in the preceding sentence shall apply to the rental, lease, or lending of a phonorecord for nonprofit purposes by a nonprofit library or nonprofit educational institution. The transfer of possession of a lawfully made copy of a computer program by a nonprofit educational institution to another nonprofit educational institution or to faculty, staff, and students does not constitute rental, lease, or lending for direct or indirect commercial purposes under this subsection.

(B) This subsection does not apply to—

(i) a computer program which is embodied in a machine or product and which cannot be copied during the ordinary operation or use of the machine or product; or

(ii) a computer program embodied in or used in conjunction with a limited purpose computer that is designed for playing video games and may be designed for other purposes.

(2)(A) Nothing in this subsection shall apply to the lending of a computer program for nonprofit purposes by a nonprofit library, if each copy of a computer program which is lent by such library has affixed to the packaging containing the program a warning of copyright in accordance with requirements that the Register of Copyrights shall prescribe by regulation.

(4) Any person who distributes a phonorecord or copy of a computer program (including any tape, disk, or other medium embodying such program) in violation of paragraph (1) is an infringer of copyright under section 501 of this title and is subject to the remedies set forth in sections 502, 503, 504, 505 and 509.
copy of the work, and not to persons who acquire possession by illegal means or by rental, lease or lending. The doctrine "is an extension of the principle that ownership of the material object is distinct from ownership of the copyright in this material," and can be traced to the common law's contempt for restraints on alienation of property.

The exclusive distribution right establishes a copyright owner's right to first publication of particular copies of his works. Like the other four rights, the distribution right enables copyright owners to prevent public dissemination of individual copies for which they have not received compensation. It allows them to prevent unauthorized distributions of copies regardless of whether they could sue potential distributors for violating the duplication, derivation, public display or public performance rights. The first sale doctrine extinguishes the distribution right once the copyright owner receives compensation for a copy because a guaranteed one-time compensation per copy is deemed by the copyright law to provide sufficient incentive to spur creation. There is, therefore, no reason to allow the

(d) The privileges prescribed by subsections (a) and (c) do not, unless authorized by the copyright owner, extend to any person who has acquired possession of the copy or phonorecord from the copyright owner, by rental, lease, loan, or otherwise, without acquiring ownership of it.


See supra text accompanying notes 60-73 for a discussion of when title in a particular copyrighted work has changed hands for first sale doctrine purposes.


48. See Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 552 (1985) ("Under [§ 106(3)] the copyright owner would have the right to control the first public distribution of an authorized copy . . . of his work."

49. NIMMER, supra note 43, § 8.12[A] (discussing the rationale behind the first sale doctrine).

50. For example, if newly printed copies of a book were wrongfully obtained by a book dealer before they were ever sold, the copyright law would not provide the copyright owner with any cause of action against the book dealer if the dealer simply stored the books in a warehouse. If the book dealer attempted to distribute the books, however, the copyright owner could prevent him from so doing by asserting his exclusive distribution right regardless of the fact that the copies had been made legally.
copyright owner to control what the purchaser and future owners do with the work.\textsuperscript{51}

\textit{C. Application of the First Sale Doctrine}

A good way to examine the first sale doctrine is to look at how courts have applied it. \textit{Harrison v. Maynard, Merrill \& Co.}\textsuperscript{52} and \textit{Bobbs-Merrill Co. v. Straus}\textsuperscript{53} were two early first sale doctrine cases. The copyright statutes in effect at the time of these decisions gave copyright owners the "sole right of vending"\textsuperscript{54} without making an exception for lawfully obtained individual copies. In \textit{Harrison}, the Second Circuit held that the copyright law could not be used to prevent the resale of burned books that had been sold by the copyright owner, even though the sales contract stipulated that the books were only to be used as paper stock,\textsuperscript{55} because the vending right had ended with the first sale of the books.\textsuperscript{56} In \textit{Bobbs-Merrill}, the leading first sale doctrine case, the plaintiff sued R.H. Macy \& Company for copyright infringement after the defendant sold, for eighty-nine cents, a book containing a printed notice specifying that any sale of the book for less than one dollar would be treated as a copyright infringement.\textsuperscript{57} The Court stated that the

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\item[51] C.M. Paula Co. v. Logan, 355 F. Supp. 189, 191 (N.D. Tex. 1973); Blazon, Inc. v. DeLuxe Game Corp., 268 F. Supp. 416, 434 (S.D.N.Y. 1965); NiMMER, \textit{supra} note 43, § 8.12[A]. As the \textit{C.M. Paula} court stated, after the first sale the right to prevent unauthorized vending . . . is not so much a supplement to the intangible copyright, but is rather primarily a device for controlling the disposition of the tangible personal property which embodies the copyrighted work. Therefore, after the first sale, the policy favoring a copyright monopoly for authors gives way to the policy opposing restraints of trade and restraints on alienation. 355 F. Supp. at 191. Thus, the first sale doctrine extinguishes the distribution right once the copyright owner "has received his reward." \textit{Sebastian Int'l}, 847 F.2d at 1097 (quoting Burke \& Van Heusen, Inc. v. Arrow Drug, Inc., 233 F. Supp. 881, 884 (E.D. Pa. 1964)); see infra notes 60-73 and accompanying text.
\item[52] 61 F. 689 (2d Cir. 1894).
\item[53] 210 U.S. 339 (1908).
\item[54] The modern distribution right, 17 U.S.C. § 106(c) (1988), previously was defined in the copyright statutes as the right of "vending."
\item[55] \textit{Harrison}, 61 F. at 689-90.
\item[56] \textit{Id.} at 691. The court found that "[t]he exclusive right to vend the particular copy no longer remains in the owner of the copyright by the copyright statutes." However, in making the determination the court did not cite to or analyze any particular section of the applicable statutes. \textit{Id.}
\item[57] \textit{Bobbs-Merrill}, 210 U.S. at 341-42.
\end{footnotes}
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Copyright statute's main purpose was to give copyright owners the right to sell multiple copies of their works. Thus, the Court held that the retailer was not liable for infringing the plaintiff's right to vend because the right to vend only encompassed the right to make the initial sale, and not the right to place restrictions on future sales. The first sale doctrine was codified a year after Bobbs-Merrill in section 41 of the Copyright Act of 1909.

The first sale doctrine does not necessarily require an actual sale of a copyrighted work. For instance, the doctrine may take effect when the copyright owner gives away the work or transfers the work in a court-compelled assignment. On the other hand, the lawful possession of a copyrighted work by a party other than the copyright owner does not in itself automatically trigger the first sale doctrine—a copyright owner may transfer possession to a bailee, for example, without extinguishing his distribution right. Rather, because the rationale behind the exclusive right to distribute is to guarantee compensation, a first sale will be deemed to have occurred when another party obtains title in a transaction where the copyright owner transfers title and receives compensation for his work. This principle was applied in Platt & Munk Co. v. Republic Graphics, Inc., where the copyright owner contracted with the defendant to build copyrighted toys but refused to take delivery or pay for them because of alleged defects. Even though the manufacturer had legal title, the Second Circuit upheld an injunction barring the manufacturer from selling the toys and rejected the manufacturer's argument that, under the first sale doctrine, it had the right to distribute the works because it had obtained lawful possession.

58. Id. at 351. Because copyright protection was found to be wholly statutory, the Court based its holding solely upon its interpretation of the copyright statute. Id. at 346. The Court's opinion stated: "To add to the right of exclusive sale the authority to control all future retail sales . . . would give a right not included in the statute, and, in our view, extend its operation, by construction, beyond its meaning . . . ." Id. at 351.
59. Copyright Act of 1909, ch. 320, § 41, 35 Stat. 1075, 1084 (1909). Section 41 stated that "nothing in this Act shall be deemed to forbid, prevent or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained." The Copyright Revision Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541, replaced section 41 with 17 U.S.C. § 109, the current codification of the first sale doctrine.
60. See, e.g., Walt Disney Prods. v. Basmajan, 600 F. Supp. 439, 442 (S.D.N.Y. 1984) (denying preliminary injunction to prevent art work from being sold by defendant because the copyright owner's right to prevent distribution had been extinguished when the art work was given to the defendant).
62. Id. at 851.
63. See 1 PAUL GOLDSTEIN, COPYRIGHT § 5.6.1.b (1989); Platt, 315 F.2d at 854.
64. 315 F.2d 847 (2d Cir. 1963).
65. Id. at 849.
66. Id. at 851. Judge Friendly stated that the issue in these type of cases is "whether or not there had been such a disposition of the article that it may fairly be said that the patentee
A related issue arising under the first sale doctrine is whether title has transferred—and thus whether the doctrine takes effect—in a transaction that the parties have called a licensing.\(^{67}\) In *United States v. Wise*,\(^{68}\) for example, Wise appealed his criminal conviction for violating the exclusive right to distribute copyrighted films. He claimed that the films he received could have been sold by the studios, in which case the studios’ exclusive right to distribute would have been extinguished.\(^{69}\) The normal way films left the possession of the studios was by being “licensed” for exhibition, “lent” to individuals or sold as scrap to salvage companies.\(^{70}\) The question before the court was whether the first sale doctrine was applicable because the license or loan agreements were really sales.\(^{71}\) After examining the license and loan agreements for evidence that title had changed hands, the court found that a few of the films which had been “licensed” and “lent” actually had been sold, but it affirmed Wise’s conviction as to the other, unsold films.\(^{72}\) The characterization of the underlying transaction is important to the issue of software rental because software publishers try to characterize most consumer distributions of software as licensing arrangements through the use of controversial contracts that consumers “accept” by opening the boxes in which the software is packaged.\(^{73}\)

**D. Exemptions to the First Sale Doctrine: The Record Rental Amendment of 1984 and the Attempt at Retaining Video Rental Rights**

Section 109(b)(1)(A) of the copyright law exempts record rental from the first sale doctrine by specifically preserving the right of the owner of a copyright in a sound recording to prevent the rental of a phonorecord containing that recording.\(^{74}\) The Record Rental Amendment of 1984\(^{75}\) added this pro-

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67. See, e.g., *United States v. Wise*, 550 F.2d 1180 (9th Cir.), *cert. denied*, 434 U.S. 929 (1977); *Data Prods. Inc. v. Repart*, Copyright L. Rep. (CCH) ¶ 26,723 (D. Kan. Nov. 29, 1990) (refusing to grant summary judgment on first sale doctrine grounds because it was unclear whether the copyrighted software in question had been sold or licensed).

68. 550 F.2d 1180 (9th Cir.), *cert. denied*, 434 U.S. 929 (1977).

69. *Id.* at 1190-92. It was not determined exactly how the films had gone from possession of the motion picture studios who made them into Wise’s possession. See *id.* at 1884-85.

70. *Id.* at 1184.

71. *Id.* at 1188. The copies of those films sold to the salvage companies were unviewable. *Id.* at 1193.

72. *Id.* at 1194.

73. See *infra* notes 94-97 and accompanying text.


vision to the copyright law because Congress was concerned that records were usually rented for the purpose of illegal duplication and that the revenues lost by such duplication would have a serious effect on the recording industry. A similar amendment was contemporaneously considered to allow owners of copyrights in motion pictures recorded on video cassette tapes to prevent the rental of such tapes. The failure of the motion picture industry to secure passage of the Consumer Sales-Video Rental Amendment was not a total loss to film producers, however, because revenues from video cassette rentals are today a major source of their income.

In considering the Software Act, Congress had to determine whether software rentals are more analogous to record rentals, which were determined to be harmful, or to video cassette rentals, which provide the movie industry with handsome profits. The relevant distinctions between records, video cassettes and software are the difficulty of duplication and the degree to which consumers desire to own a permanent copy. Illegal duplication from rented copies of copyrighted works increases as copying becomes easier and as consumers' interest in keeping copies of the rented work increases. The Record Rental Amendment of 1984 was enacted because records can be copied cheaply, easily and cleanly and because there is a strong incentive

76. House Audio and Video Hearings, supra note 11, at 3 (statement of Stanley Gortikov, president of the Recording Industry Association of America). Record rental dealer advertisements as evidence that record renters were really interested in copying the records, some of which declared: "Rent your favorite album for $2.50... and get an Ampex cassette free," id. (omission in original), "Never, ever buy another record," id., and "SAVE MONEY. Rent any LP or 45. Take it home, put it on tape and return it." Id. at 28.

77. Recording industry executive Stanley Gortikov stated his concern that "rental shops merely feed off the talent and investments of others, jeopardizing jobs, careers, and music itself." Id. at 4.


79. According to the United States Commerce Department, "[f]ilm company revenues from video business has for years surpassed revenue from domestic theatrical exhibitions." United States Department of Commerce, 1991 U.S. Industrial Outlook 32-5 (1991). In his opening remarks at the House hearings on the Software Act, Chairman Kastenmeier recounted a recent statement made by Motion Picture Association of America President Jack Valenti: "'So when I fetch from my memory that long time ago when I first met a VCR, I can only tell you if I thought I was going to be sick then, I am now able to say that I am just fine.'" House Software Hearing, supra note 1, at 2.

to duplicate in order to enjoy repeated listenings of records.\textsuperscript{81} In the case of video cassette tapes, on the other hand, Congress felt that renters would have no desire to own their own copy of the rented movies.\textsuperscript{82} Based on these criteria, software appears to present a better case than records for giving copyright owners rental rights. Software can be duplicated perfectly and cheaply in a short time,\textsuperscript{83} and, as will be discussed below, there is support for the claim that software is only useful if owned on a permanent basis.\textsuperscript{84}

II. OTHER AVENUES TO PREVENT COPYING OF RENTED SOFTWARE

Although the first sale doctrine prevented software manufacturers from using their copyrights to prohibit rental, other legal and non-legal methods were available for preventing duplication of rented software. Unfortunately, these measures were not effective. For example, available technology permits the installation of "copy-protection devices" in a computer program, making duplication by ordinary means impossible.\textsuperscript{85} This solution, however, does not work in practice for two reasons. First, programs are legally available to render copy-protection devices ineffective.\textsuperscript{86} Second, programs

\textsuperscript{81}One piece of evidence presented at the House hearings was a survey made of record renters in Japan which showed that over 97% of them taped the records they rented. House Audio and Video Hearings, supra note 11, at 33 (joint statement by music and recording industry associations). The situation United States copyright owners face in Japan appears to be improving because a new law recently took effect in Japan that allows foreign copyright owners the right to prohibit rental of CD's for one year after they are issued, even though Japanese copyright owners do not have that right. T.R. Reid, \textit{End of the One-Night Disk?}, WASH. POST, Jan. 4, 1992, at Cl.

\textsuperscript{82}See House Audio and Video Hearings, supra note 11, at 238 (statement of economist Nina W. Cornell). People usually do not watch movies repeatedly, as is evidenced by the popularity of video cassette rental in contrast to the relative unpopularity of video cassettes sales. \textit{Id.} at 238-39.

\textsuperscript{83}See 1989 Senate Software Hearings, supra note 12, at 68 (statement of Bruce Kennedy, Chair of the Copyright Committee, American Association of Libraries) ("With some justice, the creators of computer programs state a case that theirs is the only type of copyrighted work that can be easily, quickly, totally and perfectly copied by an infringer."); see also \textit{supra} note 12-13.

\textsuperscript{84}See infra notes 109-17 and accompanying text.


\textsuperscript{86}The sale of anti-copy-protection programs does not constitute a copyright violation because such programs may be used in the making of archival copies of software, which themselves are specifically legal under 17 U.S.C. § 117 (1988). Vault Corp. v. Quaid Software, Ltd.,
containing copy-protection devices are not as marketable due to the consumer's desire to make duplicate copies. 87

One legal remedy available to software copyright owners would be to sue rental dealers under the copyright theory of contributory infringement. Under the doctrine of contributory infringement, a party who aids in a copyright infringement can be held liable along with the actual infringer. 88

Courts have defined contributory infringement as inducing, causing or materially contributing to copyright infringement by another party where there is or should have been knowledge of the infringement. 89 Thus, if the copyright owner can prove that the rental dealer knew or should have known that the renter intended to illegally duplicate a program, the dealer can be sued for contributory infringement. Proving that the dealer actually knew of the intent to duplicate involves proving the potentially difficult factual issue of the dealer's knowledge in each specific case—an especially difficult problem assuming that most rental dealers would not make any effort to inquire into renters' intentions. It would be easier to infer that dealers should have known that renters will copy the programs given the evidence that many renters do copy the programs. In Sony Corp. of America v. Universal City Studios, 90 however, the United States Supreme Court held that the sale of a product that can be used to duplicate copyrighted works is not a contributory infringement if the product serves a substantial non-infringing purpose, which the Court defined as frequent use for a "legitimate, unobjectionable purpose." 91 Because there arguably are substantial uses for rented software

847 F.2d 255, 266-67 (5th Cir. 1988). See supra notes 40-42 and accompanying text for a discussion of § 117.


Other disadvantages of anti-piracy devices are that they may decrease program performance and add to production costs. See Charles P. Kootz, Software Piracy Now Costs Industry Billions, LAN Times, Mar. 18, 1991, at 75, available in LEXIS, Nexis Library, TRDTEC File (discussing hardware security keys).

88. While the copyright statutes do not explicitly establish liability for contributory infringement, it has been judicially accepted. Southern Miss. Planning & Dev. Dist., Inc. v. Robertson, 660 F. Supp. 1057, 1063 (S.D. Miss. 1986).


90. 464 U.S. at 442.

91. Id.; see also Cable/Home Comm. Corp. v. Network Prods., Inc. 902 F.2d 829, 846 (11th Cir. 1990); Vault Corp. v. Quaid Software, Ltd., 847 F.2d 255, 261 (5th Cir. 1988) (holding that the developer of a program that defeats copy-protection devices was not liable for contributory infringement because the program could be used to make legal copies). Sony involved a suit brought by two television studios against the manufacturer and marketer of video tape recorder machines and a user of those machines. Sony, 464 U.S. at 419-20. The
other than illegal duplication, the act of renting software without actual knowledge that the renter intended to infringe would probably not suffice to establish liability for contributory infringement.

Although the first sale doctrine prevents copyright owners from asserting their copyright interest after a work is sold, they still may place limits on a work's distribution through the contract under which they furnish the work. Alternatively, the first sale doctrine may be avoided altogether and the distribution right preserved by structuring the transaction as one of license rather than sale. The arrangement of license and contract agreements is complicated when dealing with mass-marketed software because there may be no direct contact, and hence no privity of contract, between the manufacturer and the rental dealer. Software developers assert that they retain the title to programs, and thus preserve the distribution right for those programs, by including licensing agreements on the program's containers stating that they bind the purchaser to the agreement when the box is opened. These agreements are of questionable validity and have been challenged as adhesion contracts because they are normally not read until the program has been taken home and is about to be used. The Software Act

92. See infra text accompanying notes 109-17.

93. Even in the leading first sale doctrine case, Bobbs-Merrill Co. v. Straus, 210 U.S. 339 (1908), the Court expressed willingness to uphold a valid contract claim despite the applicability of the first sale doctrine. Id. at 350.


95. Eidelman & Shepherd, supra note 85, at 284; Ryan, supra note 15, at 2108.

96. Eidelman & Shepherd, supra note 85, at 287-88. The agreements are known as "shrink-wrap" because they normally specify that assent is manifested by the removal of the plastic shrink-wrap coating that encases the box. Deborah Kemp, Mass Marketed Software: The Legality of the Form License Agreement, 48 LA. L. REV. 87 (1987).

97. See Ryan, supra note 15; Richard H. Stern, Shrink-Wrap Licenses of Mass Marketed Software: Enforceable Contracts or Whistling in the Dark?, 11 RUTGERS COMPUTER & TECH.
alleviates the need to use either a contract or other method to prevent rental by maintaining the copyright owner's distribution right regardless of whether the transaction constitutes a sale.

III. THE SOFTWARE ACT AND FUTURE LIMITS ON THE FIRST SALE DOCTRINE: BALANCING THE COSTS AND BENEFITS

The Software Act amended the copyright law to exempt rentals of computer software, like sound recordings, from the first sale doctrine.98 Section L.J. 51 (1985); Amelia H. Boss et al., Scope of the Uniform Commercial Code: Advances in Technology and Survey of Contracting Cases, 44 Bus. Law. 1671, 1680-81 (stating that “there is serious question whether an ‘acceptance’ and contract formation... can arise from the licensee's opening the plastic”); Richard Raysman & Peter Brown, ‘Shrink-Wrap’ Licenses and Implied Warranties, N.Y. L.J., March 22, 1991, at 3 (“There is a genuine debate in the academic community concerning the enforceability of shrink-wrap licenses.”).

There have been very few cases dealing with shrink-wrap licenses. In the most recent case, decided after the enactment of the Software Act, the Third Circuit held that the application of a warranty provision in a shrink-wrap license was invalid under article 2 of the Uniform Commercial Code as it was applied to a value-added retailer with whom the plaintiff had a prior agreement. Step-Saver Data Sys., Inc. v. Wyse Technology, 939 F.2d 91, 105-06 (3d Cir. 1991). To clear up questions regarding their enforceability, a few states passed statutes that declared shrink-wrap agreements to be enforceable. See ILL. REV. STAT. ch. 29, 801-808 (1988), repealed by P.A. 85-254, § 1 (1988), P.A. 85-614, § 1 (1988); LA. REV. STAT. ANN. §§ 51:1961-1966 (West 1987). The enforceability of these statutes themselves has been questioned, however, because of possible preemption by the federal copyright law. See Vault Corp. v. Quaid Software Ltd., 847 F.2d 255 (5th Cir. 1988); Kaufman, supra note 94; Kemp, supra note 96. In Vault, the Fifth Circuit held invalid sections of a Louisiana license statute that permitted copyright owners to restrict the right to copy a program through an included license agreement because Louisiana's License Act “‘touches upon an area’ of federal copyright law.” 847 F.2d at 270. The court found that § 117 of the federal copyright law was a specific statement by Congress on the subject of software duplication. Id. at 270. See supra notes 40-42 and accompanying text for a discussion of § 117.


“Shareware” is copyrighted software which the copyright owner allows the public to duplicate and test without charge. If someone decides that they want to use the program, they are obligated to send the copyright owner a small fee. See R. Dale Hobart et al., Teaching Computer Literacy with Freeware and Shareware, T H E JOURNAL, May, 1988, at 78, 80.
109(b)(1)(A) now provides that a copy of a computer program may not be commercially rented, leased or lent without authorization of the copyright owner.\textsuperscript{99} Congress created exemptions from the Software Act's realignment of rental rights for several types of rentals,\textsuperscript{100} some of which were more clearly needed than others.\textsuperscript{101} Congress also limited the duration of the Software Act by including a termination or "sunset" provision which specifies that the Act will not apply to rentals after 19 October 1997.\textsuperscript{102}

The Software Act was motivated by a desire to increase the sale of software, and hence increase the incentive to create new software, by curbing the duplication of rented software.\textsuperscript{103} Because the copyright law should pro-

\begin{itemize}
\item \textsuperscript{99} 17 U.S.C.A. § 109(b)(1)(a).
\item Language was added to the Act applying it to practices “in the nature of rental, lease and lending” in an attempt to prevent dealers from doing an end-run around the Software Act by "selling" programs with the understanding that the programs could be returned after paying a relatively substantial restocking fee. See 136 CONG. REC. H13,315 (daily ed. Oct. 27, 1990) (statement of Rep. Fish); cf. H.R. REP. No. 987, 98th Cong., 2d Sess. 4 (1984), reprinted in 1984 U.S.C.C.A.N. 2898, 2901 (discussing identical language in the Record Rental Amendment). Some software retailers allow purchasers to return software even if the box has been opened. See Carla Lazzareschi, The Egghead Balancing Act, L.A. TIMES, Jan. 22, 1989, pt. IV, at 1, 5. The largest software retailer, Egghead Software, has a "no-questions-asked" return policy. Id. Although Egghead does not "rent" software, a well-publicized "no-questions-asked" campaign could facilitate piracy just as well as would rentals. Thus, Egghead Software and other retailers may be undermining the effectiveness of the Act even though they are just as interested as the software developers in seeing that more software is sold.
\item \textsuperscript{101} See infra notes 122-42 and accompanying text for a further discussion of these exemptions.
\item A second limitation placed on the Act's effective dates specifies that the Act does not affect rental rights for software acquired before the Act was enacted. § 804, 104 Stat. at 5136. Because the right to rent software acquired under the pre-Software Act first sale doctrine belongs to the owner of the individual copy of that software, some felt that the prospective application of the Act would violate the United States Constitution's prohibition on the taking of property without just compensation. U.S. CONST. amend. V; see H.R. REP. No. 735, 101st Cong., 2d Sess. 8 (1990), reprinted in 1990 U.S.C.C.A.N. 6935, 6939; 1989 Senate Software Hearings, supra note 12, at 107 (letter submitted by Assistant United States Attorney General Carol T. Crawford) (citing Roth v. Pritkin, 710 F.2d 934, 939 (2d Cir.) (stating that copyrights are protected by the just compensation clause), cert. denied, 464 U.S. 961 (1983))). Similar limitations were included in the Record Rental Amendment of 1984. § 4, 98 Stat. at 1728; Act of Nov. 5, 1988, § 1, Pub. L. No. 100-617, 102 Stat. 3194 (extending the Record Rental Amendment's sunset date until 4 October 1997).
\item See 136 CONG. REC. S16,310 (daily ed. Oct. 19, 1990) (statement of Sen. Orrin Hatch) (predicting that illegal duplication of rented software would devastate the software industry). Software rentals encourage copyright infringement and give infringers relatively inexpensive and easy access to programs from which they can make copies. See supra notes 14-15 and accompanying text.
\end{itemize}
mote the public benefit, the decision to realign software rental rights should be based on considerations of whether the public will ultimately benefit by such a change.\textsuperscript{104} Thus, the increased incentive to create must be balanced against the benefit that the public derives from rentals. The following analysis of the Software Act examines three categories of rentals: the retail rentals\textsuperscript{105} that Congress meant the Act to affect, the rentals that were explicitly left unaffected by the Act, and the rental transactions that the Act may unintentionally affect. A fourth section discusses the future of the first sale doctrine in the face of rapidly changing technology.

\section{The Costs and Benefits of Retail Rental}

At present, little evidence exists dealing with the effect of retail rental on the software industry or with the usefulness to society of retail software rental.\textsuperscript{106} One reason for the lack of evidence is the fact that the rental in-

\textsuperscript{104} See supra notes 23-26 and accompanying text.

\textsuperscript{105} This Note uses the phrase “retail rentals” to refer to short-term rentals by merchants who rent only finished software products.

\textsuperscript{106} Although supportive of the Software Act, Register of Copyrights Ralph Oman cautioned:

\texttt{\textup{[T]}here may be reasonable differences of opinion on whether there is present or imminent danger of serious injury to the legitimate interests of copyright holders in computer programs posed by lending operations, now legitimate under the first sale doctrine. There is not much direct experience for us to consider. We have few hard facts.}
industry never became very large. Opponents of giving software copyright owners the rental right have offered a number of possible legitimate reasons for retail software rental. Software industry spokesmen, however, dismiss these reasons and argue that the real reason for retail renting is to illegally duplicate the rented programs. The need for temporary rentals is debatable, and neither side can be dismissed without evidence from actual market studies.

One proposed legitimate reason for retail software rental is the need to test programs before purchasing them. Program testing is important because of high purchase prices and because of the wide choice of available products. Software publishers dismiss retail renting of software for testing purposes as impractical due to relatively high rental fees. Further, they contend that home testing is unnecessary because retailers will often allow customers to test programs in the store. Some observers believe, however,

House Software Hearing, supra note 1, at 34.

Some issues which could be studied are the amount of software rented, the frequency with which rented software is later purchased, and the uses to which rented software is put. The small size of the rental industry should not be taken as evidence of its potential because growth of the rental industry may have been retarded by the threat that the Software Act would be passed and make it difficult for dealers to obtain rental rights. In the House software rental hearings, however, Register of Copyrights Oman pointed out that, although software producers claimed in 1984 that the rental industry was about to take off, “It is now five years later, and rental firms have not proliferated as predicted.” Id.

108. See, e.g., House Software Hearing, supra note 1, at 48 (statement of R. Duff Thompson, Vice President and General Counsel, WordPerfect Corp.).

109. At least one software dealer found that rental of software programs leads to sales approximately 25% of the time. House Software Hearing, supra note 1, at 154.


113. 1989 Senate Software Hearings, supra note 12, at 37 (statement of Heidi Roizen, President, Software Publishers Association). One of the important attractions of the highly-successful software retailing chain Egghead Software is that it allows customers to test programs in the store or at home. Lazzareschi, supra note 99, at 5. For a discussion of the possibility that such practices may facilitate software piracy, see supra note 99.
that in-store testing is insufficient because consumers can only make informed decisions by testing software on their own systems.\textsuperscript{114}

Another possible use for rented software is to meet temporary needs. Software developers argue that renting software for a short task is not feasible because it often takes a long time to become proficient enough to make effective use of programs.\textsuperscript{115} In addition, software developers argue that the real value of using a computer to do a task lies in the ability to reuse the database that is generated; this can only be accomplished by repeated use of the program.\textsuperscript{116} Even so, there are situations in which retail rental might prove useful. For example, a businessman may need to develop a one-time presentation or may wish to take an extra copy of a program being used in his office along with him on a business trip.\textsuperscript{117} Without market research, the need to use software on a short term basis is unknown.

The extent to which illegal duplication of rented software decreases software developers' profits also bears a closer examination. Even if every renter illegally keeps a duplicate copy of the program that he rents,\textsuperscript{118} it is not clear that he would have purchased the program had he been unable to rent it. Because many programs are readily available, people intent on illegally duplicating a program probably could get a copy from a source other than a rental dealer.\textsuperscript{119} A person willing to violate the copyright law, but not motivated enough to borrow a program from a friend or from their office, would most likely not be motivated enough to spend money to purchase the program.\textsuperscript{120}

\textsuperscript{114} As one commentator analogized: "You may be able to try out a program at the retail store on a strange computer with a fictitious workload, but would you really buy a Porsche after driving it at 15 miles an hour on a quarter-mile of straight road?" Melymuka, supra note 111, at 131.

\textsuperscript{115} 1989 Senate Software Hearings, supra note 12, at 39 (statement of Heidi Roizen, President, Software Publishers Association).

\textsuperscript{116} Id.

\textsuperscript{117} House Software Hearing, supra note 1, at 80 (statement of Robert S. Bramson, General Patent and Technology Counsel, Unysis Corp.); id. at 138 (statement of Harry Manbeck, Jr., Assistant Secretary and Commissioner of Patents and Trademarks).

\textsuperscript{118} Many programs are "installed" into the internal memory of a computer before use. Thus, a copy of rented software will often be created inside a renter's computer and will be removed only if the renter is knowledgeable and honest enough to take the affirmative act of erasing it.

\textsuperscript{119} House Software Hearing, supra note 1, at 100 (statement of Robert S. Bramson, General Patent and Technology Counsel, Unysis Corp.); id. at 157 (letter from Paul Aponte, owner of a software rental store) (stating that "[m]ost software pirates get their programs off of [electronic] bulletin boards").

\textsuperscript{120} Id. at 100 (statement of Robert S. Bramson, General Patent and Technology Counsel, Unysis Corp.).
While the software developers seem to have the stronger case, the evidence is not conclusive. Congress, nonetheless, gave the developers the power to prevent software rental without waiting for further evidence. Of course, Congress cannot afford to make a detailed study every time it passes a law. Concerns for legislative efficiency and the need for immediate action may require action based on the evidence at its disposal. On the other hand, political concerns should not substitute for sound copyright policy. Copyright amendments should be designed to fulfill the purpose of the copyright law and, as with all legislation, should be drafted carefully to minimize unintended effects. The influence of politics and the importance of caution in regulating the fast-changing and pervasive area of software is illustrated by the exemptions to the Act which Congress deemed necessary.

B. The Software Act's Exemptions: Special Cases, Special Interests and Rental Prevention That Clearly Would Have Gone Too Far

The Software Act explicitly does not affect the application of the first sale doctrine as it relates to lending of software for non-commercial purposes,\(^\text{122}\) lending of software by nonprofit libraries\(^\text{123}\) and educational institutions,\(^\text{124}\) renting of certain video game software,\(^\text{125}\) and renting of software that could not ordinarily be copied in the normal use of the machine on which it is run.\(^\text{126}\) The reason for allowing lending for non-commercial purposes was not stated in the legislative history of the Act. The exemption followed the precedent set by the Record Rental Act of 1984, which contained exemptions for non-commercial lending as well as for libraries and nonprofit educational institutions.\(^\text{127}\)

The library and educational institution exceptions were included in the Software Act at the behest of libraries and schools because the lending of software by these institutions was viewed as serving a "valuable public pur-

\(^{121}\) The influence of special interests on the development of copyright law is discussed by Thomas P. Olson in his article *The Iron Law Of Consensus: Congressional Responses to Proposed Copyright Reforms Since the 1909 Act*. 36 J. COPYRIGHT SOC'TY 109 (1989). For further evidence of the influence of politics on the Software Act, see *supra* note 43, and *infra* notes 128-38 and accompanying text.


\(^{123}\) *Id.* § 109(b)(2)(A).

\(^{124}\) *Id.* § 109(b)(1)(a).

\(^{125}\) *Id.* § 109(B)(1)(b)(ii).

\(^{126}\) *Id.* § 109(b)(1)(B)(i).

Spokesmen for the libraries argued that there was no evidence that copyrighted programs lent by libraries were duplicated, that there were legitimate uses of borrowed software, and that the Software Act would prohibit the lending of mixed media products that contain copyrighted software. Educational institutions feared that the Software Act would affect their operation of computer laboratories and of outreach programs that allow students and faculty to borrow software for evaluation and educational purposes. In fact, most lending by nonprofit libraries and schools would probably be exempted under the Act’s nonprofit exemption. The only justifiable reasons for these exemptions would be that Congress felt that lending by these institutions was more socially valuable than lending by retail rental dealers or that software rented from dealers more likely would be illegally duplicated. The legislative record provides no evidence to support either of these possibilities. Another explanation would be that Congress was simply more responsive to the politically powerful library and education lobbies than it was to the fledgling software rental industry.

128. H.R. REP. No. 735, 101st Cong., 2d Sess. 8 (1990), reprinted in 1990 U.S.C.C.A.N. 6935, 6939; see 17 U.S.C.A. § 109(b)(2)(B) (suggesting that the exemption was added to allow libraries “to fulfill their function”); 136 CONG. REC. H13,314 (daily ed. Oct. 27, 1990) (statement of Rep. Fish) (stating that the educational institution exception was added “[a]t the request of nonprofit educational institutions”).

129. 1989 Senate Software Hearings, supra note 12, at 69 (statement of Bruce M. Kennedy, Chairman of the Copyright Comm., American Ass’n of Libraries). The Congress rejected these same “legitimate uses” arguments offered by the libraries when it decided that there was no legitimate reason for retail rentals. See supra text accompanying notes 109-117.

130. Congress realized that there is little difference between library lending and retail renting in terms of the economic factors that induce copying of software. See H.R. REP. No. 735, 101st Cong., 2d Sess. 8 (1990), reprinted in 1990 U.S.C.C.A.N. 6935, 6939. Congress therefore included a provision in the Software Act specifically requiring that the Register of Copyrights report to Congress in three years regarding whether the library exemption “has achieved its intended purpose of maintaining the integrity of the copyright system while providing nonprofit libraries the capability to fulfill their function.” 17 U.S.C.A. § 109(b)(2)(B). There are, however, some important distinctions between for-profit retail rentals and nonprofit library rentals: Because they are not making profits, it can be assumed that libraries would have fewer programs available and would not advertise or otherwise actively encourage rental.

131. House Software Hearing, supra note 1, at 93-95. The fear was that the physical or electronic acquisition of software which is routinely done by students and faculty would be considered “in the nature of rental,” 17 U.S.C.A. § 109(b)(1)(A), and hence would be covered by the Software Act. House Software Hearing, supra note 1, at 94.

132. 17 U.S.C.A. § 109(b)(1)(A). This assumes that the nonprofit school or library was not charging a fee for software—i.e., that the lending was not done for commercial purposes.

133. Sections 109(b)(2) and 109(b)(1)(B) were not in the original version of the bill, but were added during the legislative process. Compare S. 2727, 100th Cong., 2d Sess. 15 (1988), reprinted in 1988 Senate Software Hearings, supra note 12, at 4 and S. 198, 101st Cong., 2d Sess. 16 (1989), reprinted in 1989 Senate Software Hearings, supra note 12, at 3 with 17 U.S.C.A. § 109(b).
The exemption for video games applies to software "embodied in or used in conjunction with a limited purpose computer that is designed for playing video games and may be designed for other purposes." This exemption was justified by the technical and market realities of video game rental. The legitimate need for short term rental of video games is more established than is the need for other types of software—the entertainment value of games often wears off in a very short time. Additionally, the exemption only applies to games that are used with computers designed for the purpose of game playing. These games cannot be copied on such computers or by using any other equipment ordinarily available in this country.

The video game developers argued unsuccessfully that the rental of video games destroys the market for sales of the games and thus takes away the financial incentive to create new games.

The final Software Act exemption encompasses software that cannot be duplicated in the normal operation of the device on which the software is run. This exemption was not in a version of the Software Act passed by the Senate. Had it not been included in the final bill, software copyright own-

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135. It also appears to have been supported and opposed by parties with comparable lobbying ability. The exemption was backed by video cassette rental chains, who also rent video games, and opposed by the creators and retailers of video games. Compare House Software Hearing, supra note 1, at 101 (statement of Bruce L. Davis, Chairman and Chief Executive Officer, Mediagenic, Inc.) and id. at 203-4 (letters from Howard C. Lincoln, Senior Vice President, Nintendo of America, Inc.) and id. at 222-23 (letter from Charles Lazarus, Chairman of the Board, Toys "R" Us) with 1989 Senate Software Hearings, supra note 12, at 75 (statement of Troy Cooper, Vice President, Erol's, Inc.).

136. See, e.g., Lou Kesten, The Nintendo Rental Wars, NEWSDAY, July 12, 1989, pt. II, at 2. The market situation is similar to that of video cassette rentals. See supra notes 79-82 and accompanying text. For a discussion of the reasons that consumers would rent other software, see supra notes 109-117 and accompanying text.


138. See, e.g., House Software Hearing, supra note 1, at 215-17 (letter from James Charne, Vice President, Absolute Entertainment, Inc.). In arguing that video game rental should not be allowed, one executive claimed rentals had caused his company's A Boy and His Blob game to fail in the sales market, thus making it difficult for his company to make money. Id. This argument goes beyond Congress' stated purposes in passing the Software Act and, if adopted, would represent a fundamental change in how the copyright law provides incentive to authors. What the video game developer was claiming was not that rental undercuts its ability to receive a one time compensation for each copy of A Boy and His Blob that was sold, but that the developer needs to be compensated more than once for each copy. Congress should not dismiss this reasoning out of hand; it may just be that society will benefit more from the increased number of A Boy and His Blobs which would result if developers were compensated multiple times per copy. Such a fundamental change, however, should only be made by Congress if it realizes the extent of the change and examines the costs and benefits.

ers would have had the power to limit the rental of automobiles, microwave ovens, airplanes, and many other common products that contain copyrighted software.\textsuperscript{140} Because the Software Act applies to "any medium embodying a [computer] program," the owners of the copyrights on the software in these devices could have prevented their rental or could have charged more for versions intended for the rental market. There is no reason to give them this power because, given the extreme difficulty which would be involved in such duplication, there is essentially no danger that this software will be duplicated.\textsuperscript{141} The problem was avoided by the addition of a subsection that removes from the purview of the Software Act computer programs embodied in a machine or product "which cannot be copied during the ordinary use of that machine or product."\textsuperscript{142} Had the original version been enacted, Congress would have almost assuredly been forced to amend the law by adding an exemption similar to the one it ultimately created. The unacceptable consequences that the Senate's original version would have caused highlights the need for caution in regulating the field of software copyright.

C. Rentals Which Congress Probably Did Not Even Consider

The Software Act may unnecessarily inhibit some rental arrangements that are unlikely to facilitate copyright infringements. One example is the

\textsuperscript{140} House Software Hearing, supra note 1, at 15-16 (statement of Chairman Kastenmeier).

The software in these devices controls electronic and mechanical operations, is transparent to the users, and has been found to be protected by the copyright law. See id. at 149 (letter of Richard H. Stern, Chairman, Intellectual Property Subcomm. of the Comm. on Public Policy Institute of Elect. and Elect. Eng'rs, Computer Soc.) (citing NEC Corp. v. Intel Corp., 10 U.S.P.Q.2d 1177 (N.D. Cal. 1989)); H.R. REP. NO. 650, 101st Cong., 2d Sess. 8 (1990), reprinted in, 1990 U.S.C.C.A.N. 6935, 6939 (discussing the rationale for the exemption); House Software Hearing, supra note 1, at 30 (testimony of Ralph Oman, Register of Copyrights).

\textsuperscript{141} The reason it is so difficult to copy this software is that, unlike personal computers, these devices are not designed to allow software duplication.

\textsuperscript{142} 17 U.S.C.A. § 109(b)(1)(B)(i). Representative Brooks explained this subsection in his remarks to the Senate as follows:

I have also heard concern that [§ 109(b)(1)] would interfere with the existing legitimate rental market for machines that are not themselves computer[s] but which contain computer programs. . . . In my view, the provisions of new subsection 109(b)(1)(i) adequately allow the rental of computer hardware that embody computer programs which cannot be copied during the ordinary operation or use of that machine, including the lease or lending of computers embodying software, by, for example, hotels and airports for patrons' individual business purposes. The touchstone in all these cases is whether the computer program embodied in the computer being rented or leased can be copied during the ordinary operation of the computer.


No mention was made in the hearings or debates on the bill about how "ordinary use" would be defined.
Act's effect on the expanding practice of personal computer system rental.\textsuperscript{143} Personal computer rentals normally include software stored in the computer's memory.\textsuperscript{144} Because this software can be copied in the normal operation of the computer, it will usually be covered by the Software Act. It is unlikely, however, that personal computer systems are rented for purposes of duplicating the included software. This software is usually common\textsuperscript{145} and the would-be infringer could obtain access to it by more convenient and less expensive means. Under the Software Act, software copyright owners can charge a higher price for programs included with rented personal computers or force renters to buy their own copies of the programs. Either way, computer rental would be unjustifiably more expensive and less attractive.

Another example of rental transactions unnecessarily affected by the Act is commercial leasing of customized “turnkey” software systems. Turnkey systems are software systems arranged to fit a user's specific needs and may contain copyrighted programs purchased from many different software developers.\textsuperscript{146} Although these systems are usually licensed to the end users, it would appear unlikely that the software is illegally duplicated. Custom software developers have a greater interest than retail rental dealers in ensuring that the software has not been duplicated because such duplication would have a more dramatic impact on their business. Duplication is also more difficult because turnkey systems are often more complex. In addition, illegal duplication may not be cost effective because of the expense of setting

\textsuperscript{143} See House Software Hearing, supra note 1, at 156 (letter from Personal Computer Rentals, a micro computer rental franchise); John Hamlet et al., To Buy or Not to Buy, WHICH COMPUTER?, June 1990, at 42, available in LEXIS, Nexis Library, Current File. Among the reasons for leasing computer equipment are a lack of funds necessary for an up-front purchase, \textit{id}., and a desire to try the equipment to see if it performs up to expectations.

\textsuperscript{144} See, e.g., Candice Goodwin, Soft Market for Leases, IBM SYSTEM USER, Jan. 1990, at 28, available in LEXIS, Nexis Library, Current File. At the very least, these rented computers normally include a copyrighted operating system, which is a computer program necessary to direct the computer's internal operation. See PETER NORTON, INSIDE THE IBM PC AND PS/2 267 (4th ed. 1990); Apple Computer, Inc. v. Franklin Computer, Corp., 714 F.2d 1240, 1249 (3d Cir. 1983) (holding that operating system programs can be copyrighted), cert. dismissed, 464 U.S. 1033 (1984); Apple Computer, Inc. v. Formula Int'l, Inc., 725 F.2d 521 (9th Cir. 1984) (same).

\textsuperscript{145} See Goodwin, supra note 144, at 28 (listing types of software which may be included).

\textsuperscript{146} See Step-Saver Data Sys., Inc. v. Wyse Technology, 939 F.2d 91, 93 (3d Cir. 1991) (describing the business of defendant Step-Saver Systems, a maker of turnkey systems); House Software Hearing, supra note 1, at 31 (statement of Ralph Oman, Register of Copyrights); see also LAURENS R. SCHWARTZ, 1992 COMPUTER LAW FORMS HANDBOOK § 2.1 (1992); Steve Higgins, Wang Ships Sophisticated Turnkey System, PC WEEK, March 12, 1990, at 33, 39 (describing a turnkey system containing the WordPerfect and Lotus 1-2-3 programs, among other components). As Schwartz explains, "In the computer market, a turnkey system means hardware, software and maintenance such that at the turn of a key . . . the system is up and running." SCHWARTZ, supra, § 2.1.
up a turnkey system. Under the Act, owners of copyrights in the individual system component programs, due to competitive pressure, either can charge a premium price in exchange for giving turnkey system developers permission to lease their software or can withhold such permission entirely. This would prevent turnkey system developers from selling their systems or force them to charge a higher price.

D. The Future of Rentals and the First Sale Doctrine

As society moves further into the digital age, creative works are increasingly stored electronically rather than in the traditional printed form. The line separating computer software from other types of works is becoming less clear, and consequently, any manipulation of the computer software marketplace will have a more dramatic impact. Electronic storage formats often wed copyrighted computer software with other creative works on a single storage media, as is the case with databases stored on compact disc read only memory (CD-ROM) and with multimedia works. Because

147. Cf. House Audio and Video Hearings, supra note 11, at 157-58 (testimony of Father Robert McEwen, S.J.) (discussing the effect that giving record rental rights to copyright owners would have on the market); id. at 246-47 (statement of economist Nina W. Cornell) (discussing the effect that giving video cassette rental rights to copyright owners would have on the market).


149. See House Software Hearing, supra note 1, at 30-31 (statement of Ralph Oman, Register of Copyrights). At a hearing on the Software Act, United States Register of Copyrights Ralph Oman warned that "[t]he economic significance of [this] bill looms larger in the future as more and more works are digitized and the relationship between machines and computer software is intensified. If Congress legislates excessive protection, creativity in software development will be stifled." Id. at 30.


151. Multimedia has been defined as "[t]he combination of graphics, sound, animation and video in a single software program." David English, Multimedia Glossary, COMPUTE, Apr. 1992, at S-16. That is, multimedia allows for the combination of books, movies, musical re-
multiple copyrighted works are being stored on one media, allowing software copyright owners to prevent the rental of the software component also gives them the power to prevent the rental of the other works with which the software is combined.152

Rental transactions involving combined works resemble the transactions that the § 109(b)(1)(B)(i) exemption was designed to handle.153 The "problem" in both cases is that the software copyright owner is able to control the rental of items even though the renter was not interested, and is probably unaware of, the software that directs the operation of the item he is renting. There are two important distinctions between combined works rentals and the situations at which § 109(b)(1)(B)(i) was aimed. The first is that the software in combined works transactions probably could be copied in the normal operation of the device which it operates, and hence the § 109(b)(1)(B)(i) exemption would not apply.154 The more important distinction is that in combined works transactions the renter may be able to duplicate the non-software component; that is, he may be able to copy the creative work that he was interested in when he rented the item.

These factors raise two issues. The more immediate is the Software Act's effect on the marketplace for creative works that are combined with software that is copyable in the ordinary operation of the computer. It is possible that the Software Act may not affect this market because most of these works

cordinings, and computer programs into a single presentation. See Sueann Ambron, Introduc-
tion, in INTERACTIVE MULTIMEDIA 3 (Sueann Ambron & Kristina Hooper eds., 1988) (predicting that multimedia will change the way we look at knowledge and give us a new vision of reality). An integral component of a multimedia system is computer software. See Mike Liebhold, A Layered Theory of Design for Optical Disc Software, in INTERACTIVE MULTIMEDIA 294 (Sueann Ambron & Kristina Hooper eds., 1988).

152. Media such as CD-ROM and multimedia may contain software that could be copied in the normal operation of the computer which reads them. See Liebhold, supra note 151, at 294.


154. Because it determines who has the rental rights, the question of whether the software can be copied in the normal operation of the device is of central importance. It is impossible to say what future duplication capabilities will be because the technical layout has yet to be standardiz-
d. See Elmer-Dewitt, supra note 148, at 80. The search and retrieval software for many CD-ROMs is normally copied into the internal storage memory of the computer on which it is run, and it would appear that multimedia works would have to be copied into internal memory if they are run on computers which conform to the current architectural design standard. Arguably, this was not the type of duplication which Congress meant to bring a device outside of the § 109(B)(1)(b)(i) exemption. On the other hand, 17 U.S.C.A. § 117(1) was designed with the apparent belief that this type of duplication would be classified as "copying" under 17 U.S.C. § 106(1) (1988). See UNITED STATES NATIONAL COMMISSION ON NEW TECHNOLOGICAL USES OF COPYRIGHTED WORKS, FINAL REPORT 13 (1979); supra notes 40-42 and accompanying text.
may be licensed to the users and never sold, in which case the first sale doctrine would not become operative. The more interesting issue involves the question of whether the first sale doctrine should be further modified as all works become as easy to duplicate as software is today. If all commonly used creative works can be duplicated as easily as software can be duplicated, the same rationale which justified the Software Act may apply to these works: The public may be better served if their alienability is restricted. Providing the public with access to creative works, however, is the central theme of the copyright law. The copyright law does not seek to foster expression for expression's sake alone, but rather society access to that expression. The question of whether copyright owners should have the power to control the disposition of works should be answered only after carefully balancing the over-arching desire to provide public access against the degree to which duplication of works will destroy the market and take away the incentive to create. When Congress reconsiders the Software Act as it sunsets in 1997, and when it is faced with other attempts to reform the first sale doctrine, the goal of the copyright law must be kept in focus.

IV. Conclusion

A copyright gives the owner certain exclusive rights over the use and duplication of works of authorship in order to provide incentives for the creation of new works. The first sale doctrine extinguishes the copyright owner's exclusive right to distribute an individual copy of his work when he sells or otherwise disposes of that copy. The doctrine reflects a decision that the public benefit derived from free alienability of creative works outweighs the increased incentive to create that would stem from authors' indefinitely controlling distribution of individual copies.

The Computer Software Rental Amendments Act of 1990 modified the first sale doctrine in an attempt to reduce the illegal duplication of software. Software rental encourages duplication and provides would-be copyright infringers easy access to programs. Although there is no real evidence either way, it is likely that the limitations on retail software rental that software

155. At present, CD-ROM products are usually licensed to the user, see Jensen, supra note 150, at 13, but it is unclear whether this trend will continue. The owner of the copyright on the software in a CD-ROM may be different from its distributor and from the owner of the copyright on the CD-ROM. For example, the license agreement printed on the back of the case to the CD-ROM which was used in researching this Note states that the copyright of the database is owned by one party, while the copyright in the search and retrieval software is owned by at least two other parties. License Agreement for the Computer Select CD-ROM (Sept. 1991) (on file with author). The arrangement of the licensing agreements may become more difficult as the market becomes more complex. See supra notes 94-97 and accompanying text.
developers will now impose will benefit the public by preventing the erosion of software developers' ability to sell and, hence, incentive to create computer software. However, the Software Act exceptions that Congress did allow, did not allow, and almost did not allow reflect a lack of adequate Congressional consideration. The utmost care should be taken when regulating the dynamic and pervasive field of computer software to prevent unanticipated results. More importantly, as the boundary between computer software and other creative works becomes less clear, care must be taken to ensure that the free alienability of creative works is not unduly restricted.

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