

Chicago Daily Law Bulletin®

Volume 159, No. 80

Digital first-sale doctrine faces big test

In 1904, Macy's Department Store sold copies of a book for 89 cents a copy. The book was "The Castaway — Three Great Men Ruined in One Year — A King, A Cad and A Castaway" by Hallie Erminie Rives, a popular author in her day.

I haven't read it yet (I'm waiting for the e-book version), but judging from the title, it must be a real thriller.

While Rives is largely forgotten today, her book abides in the annals of copyright law. Macy's, always aiming to satisfy its customers, knocked 11 cents off the normal retail price of one dollar. Amazingly, this modest discount resulted in Macy's getting sued for copyright infringement by Bobbs-Merrill Co., the publisher of "The Castaway."

The case went to the U.S. Supreme Court, where the court articulated what is now known as the first-sale doctrine. *Bobbs-Merrill Co. v. Straus* (1908). The suit arose because Macy's defied a notice printed on the back of the title page. It said: "The price of this book at retail is \$1 net. No dealer is licensed to sell it at a less price, and a sale at a less price will be treated as an infringement of the copyright."

The copyright statute at that time gave the copyright owner the exclusive right to "vend" the work and the publisher argued that this right enabled it to control the resale price of the book even after its initial sale to wholesalers.

The court ruled in favor of Macy's, holding that the right to "vend" did not give the publisher the right to restrict the price of future sales by means of a restrictive notice. Bobbs-Merrill had already exercised its right to vend and the statute did not grant it the authority to control all future sales of the book by means of a notice.

The first-sale doctrine enunci-

ated in *Bobbs-Merrill* is now part of the current Copyright Act. Section 109(a) provides that the owner of a particular copy or phonorecord is entitled, without permission from the copyright owner, to sell that copy or phonorecord. It is this principle that enabled me to buy a used copy of "The Castaway" on the Internet for \$4.40 (including free shipping).

Despite its century-plus pedigree, there are some aspects of the first-sale doctrine that have yet to be explored. If I buy a copy of "A Confederacy of Dunces" by John Kennedy Toole at the bookstore, I can resell that copy as a used book. But what if I buy an e-book version of Toole's novel? Does the first-sale doctrine allow a digital resale? Since the publisher got the benefit of making the original digital sale to me, one might expect that I would have a right to sell the digital copy for less than I paid, transmit it to the buyer and delete the original digital copy from my computer.

Until recently, no court had ever addressed the question of how the first-sale doctrine applies in the digital world. We now have the first court pronouncement on this issue, though it deals with used music rather than books. *Capitol Records v. ReDigi Inc.* (S.D. N.Y. March 30, 2013). ReDigi calls itself "the world's first and only online marketplace for digital used music." It allows users to sell their legally acquired digital

“What was good for Macy's in 1908, after all, should be good for ReDigi in 2013.”

INSIDE IP LAW



WILLIAM T. McGRATH

William T. McGrath is a member of Davis, McGrath LLC, where he handles copyright, trademark and Internet-related litigation and counseling. He is also associate director of the Center for Intellectual Property Law at The John Marshall Law School. He can be contacted at wmcgrath@davismcgrath.com.

music files and buy used digital music from others.

The process is straightforward. Using ReDigi's software, the user uploads music files purchased from iTunes to a "Cloud Locker." The software "migrates" the digital data from the user's computer to the Cloud Locker and ensures that the music has not been retained on the user's computer so the data does not exist in two places at one time. If someone wants to purchase the music from the user, the software repeats the migration process to put the digital files in the purchaser's Cloud Locker.

This is a fantastic idea. I can get rid of the Britney Spears album I bought on iTunes and have grown weary of. At the same time, I can buy Pitbull's "Give Me Everything" at a fraction of what I would have to pay on iTunes and it is a perfect digital copy. Perhaps I shall sell all my old digital music files and buy some shares of ReDigi stock.

That, however, might be premature in light of the court's ruling in *Capitol v. ReDigi*. The court held that first-sale doctrine was not available for the type of digital sales that occur using

ReDigi.

Section 109(a) only allows distribution by the reseller, not reproduction of the copyrighted work. I can resell a book that I purchase, but I cannot make a copy and sell the copy. The difficulty in applying the first sale doctrine in the digital environment is that a digital transmission typically involves making another copy, i.e., there is a reproduction.

When a digital file is transferred, the result is that the data exists in a different material object than the object in which it originally existed. This, according to the court, constitutes a reproduction. It matters not that the original copy was later deleted. The court concluded that ReDigi's process involves a reproduction of a work without permission. This infringes the copyright owner's exclusive right to reproduce the work and renders the first sale doctrine inapplicable.

ReDigi will undoubtedly appeal the ruling. If there was ever a "bet the company" case, this is it. ReDigi contends that legally purchased files are simply transferred from one medium (the user's hard drive) to another (the Cloud Locker). It argues that "it strains any rational interpretation of copyright law to find that Congress intended to prohibit the movement of a particular [file] from one storage location to another," when no duplicate remains. ReDigi invokes the core principle of the first-sale doctrine in arguing that the purpose of the doctrine is to limit a copyright owner's control over a copyrighted item after it is placed in the stream of commerce. In support of this argument for a digital first-sale right, it cites the *Bobbs-Merrill* case. We'll see whether this carries the day for ReDigi in the appeal. What was good for Macy's in 1908, after all, should be good for ReDigi in 2013.