

No. \_\_\_\_\_

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IN THE  
**Supreme Court of the United States**

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REDIGI INC., JOHN OSSENMACHER,  
LARRY RUDOLPH, AKA LAWRENCE S. ROGEL,  
*Petitioners,*

—v.—

CAPITOL RECORDS, LLC, CAPITOL CHRISTIAN MUSIC GROUP, INC.,  
VIRGIN RECORDS IR HOLDINGS, INC.,  
*Respondents.*

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ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES  
COURT OF APPEALS FOR THE SECOND CIRCUIT

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**PETITION FOR A WRIT OF CERTIORARI**

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## QUESTIONS PRESENTED

1. Under 17 U.S.C. § 109(a), is the acknowledged owner of a particular digital phonorecord lawfully purchased via electronic distribution under 17 U.S.C. § 106(3) entitled to freely alienate that digital phonorecord electronically?

2. Consistent with the first sale and exhaustion doctrines embodied in 17 U.S.C. § 109(a), can the electronic disposition of a lawfully acquired digital phonorecord simultaneously violate the copyright owner's exclusive right of reproduction under 17 U.S.C. § 106(1) even though no additional copies or phonorecords are created?

3. If yes, is the alleged violation of the reproduction right nonetheless a fair use under 17 U.S.C. § 107?

## **CORPORATE DISCLOSURE STATEMENT**

Petitioner ReDigi, Inc. has no parent corporation and no publicly held corporation owns 10% or more of its stock.

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## **PARTIES TO THE PROCEEDINGS**

Petitioners ReDigi Inc., John Ossenmacher and Larry Rudolph, aka Lawrence S. Rogel (collectively “ReDigi”) were the defendants in the district court and the appellants in the appellate court.

Respondents Capitol Records, LLC, Capitol Christian Music Group, Inc., and Virgin Records IR Holdings, Inc. (collectively “Capitol”) were the plaintiffs in the district court and the appellees in the appellate court.

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## **JURISDICTION**

The judgment of the court of appeals was entered on December 12, 2018. On March 4, 2019, Justice Ginsburg extended the time within which to file a petition for a writ of certiorari to and including May 11, 2019. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

## **STATUTORY PROVISIONS INVOLVED**

The relevant provisions of the Copyright Act of 1976 are 17 U.S.C. § 101; 17 U.S.C. § 106; 17 U.S.C. § 107; 17 U.S.C. § 109; and 17 U.S.C. § 115.

## STATEMENT OF THE CASE

This case presents precedent-setting questions regarding whether the Copyright Act's first sale and exhaustion doctrines extend to lawfully purchased digital files distributed over the Internet under the authority of the copyright owner.

Petitioner ReDigi developed now-patented technology that allows the owners of iTunes digital music files lawfully purchased over the Internet to electronically sell or convey those digital music files without causing the creation of additional “copies” or versions of the files. Although accepting ReDigi's evidence that its transfer method never results in “the entire [iTunes music] file [] exist[ing] in two places at once,” Pet. App. at 7a, a panel of the Second Circuit Court of Appeals concluded that it need not decide whether the first sale protections set forth in 17 U.S.C. § 109(a) extend to lawfully purchased iTunes music files. The Court of Appeals justified its refusal to address the first sale issues on the merits, reasoning that even if the files were so protected under § 109(a), any electronic transfer of ownership infringes Capitol's reproduction right under 17 U.S.C. § 106(1). Pet. App. at 13a–15a, 31a.

The Court of Appeals' infringement analysis is problematic because it equates every “new” copy created by a computer as an infringement of the copyright owner's reproduction right unless justified as “fair use.” Pet. App. at 17a and n. 12. Though the Court of Appeals' analysis focused on the transfer of an iTunes music file between ReDigi and its customers, *its analysis of the transfer process*

*applies equally to the original transfer from Apple to the lawful purchaser.* That is, if the Court of Appeals were correct that all computer functions result in the production of “new” infringing copies under the Copyright Act—regardless of whether any additional versions of the protected work were created—then such description equally applies to the transfer of the iTunes music file from Apple to the original purchaser.

As a result, the Court of Appeals’ infringement analysis forecloses the possibility of bona fide distributions of copyrighted products over the Internet—which require an “exchange” between buyer and seller. As a result, the Court of Appeals’ infringement analysis cannot be reconciled with the Digital Performance Right Sound Recording Act, in which Congress amended the Copyright Act to recognize that digital music files transmitted over the Internet can qualify as “distributions” within the meaning of 17 U.S.C. § 106(3).

Finally, the Court of Appeals’ opinion makes clear that promotion of the Congressional policies protected by the Copyright Act’s first sale/exhaustion doctrines will not find “fair use” protection. Indeed, the Court of Appeals goes so far as to use the policies advanced by § 109(a) *as grounds for denying fair use protection.*

This case raises profoundly important first sale issues that only this Court can reasonably answer, namely, what are the scope of first sale protections available to the lawful purchasers of what all parties acknowledge are authorized

electronic distributions of digital music files resulting in a transfer of ownership of the music files to the lawful purchasers. If allowed to stand, the Second Circuit's approach will upend the reasonable and longstanding expectations of consumers that they may freely alienate their lawfully acquired personal property, regardless of whether that personal property is acquired over the Internet. Because this case is the optimal vehicle through which to address the important questions presented, the petition for a writ of certiorari should be granted.

## A. Statutory Background

1. The Copyright Act grants copyright owners exclusive rights “to do and to authorize” others to do certain things with their copyrighted works. 17 U.S.C. § 106. The Copyright Act also sets forth numerous limitations on the rights of copyright owners. *E.g., id.* §§ 107-112, 117, 121. Unique among these explicit limitations are the first sale and exhaustion doctrines enshrined in § 109(a). The first sale doctrine allows the owner of a particular copy of a copyrighted work to sell or otherwise transfer possession of that copy. *See id.* § 109(a). Recognizing that a consumer’s ability to freely alienate lawful purchases is a fundamental part of our economy, Congress defined the limitation of § 109(a) as an “entitlement” rather than as an exemption to infringement, in purposeful contrast to how the Copyright Act’s other limitations are framed.<sup>1</sup> *See id.; see also Quality King Distrib. v. L’Anza Research Int’l*, 523 U.S. 135, 137 (1998) (“there is no reason to assume that Congress intended either § 109(a) or the earlier codifications of the doctrine to limit its broad scope”).

2. In the Digital Performance Right Sound Recording Act, Congress recognized that digital music files themselves could be “phonorecords” within the meaning of the Copyright Act. *See* 17 U.S.C. § 115(a) (recognizing “the exclusive rights provided by clauses (1) and (3) of section 106, to

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<sup>1</sup> Although dismissive of its significance, the Court of Appeals acknowledged that § 109(a) “is styled as an entitlement rather than a defense to infringement.” Pet. App. at 29a.

make and to distribute phonorecords of such works are subject to compulsory licensing . . . , including those who make phonorecords or digital phonorecord deliveries”); 17 U.S.C. § 115(J) (“Nothing in this section annuls or limits . . . the exclusive rights to reproduce and distribute the sound recording and the musical work embodied therein under sections 106(1) and 106(3), including by means of a digital phonorecord delivery.”)

Congress also imposed various requirements on the distribution of digital music files, including obtaining permission from the sound recording copyright owner to make electronic distributions, obtaining a compulsory license from the copyright owner of the underlying music, and requiring that music files contain certain identifying information. *See* 17 U.S.C. §§ 115(a)(3)(C) – (G). As Congress explained, “The intention in extending the mechanical compulsory license to digital phonorecord deliveries is to maintain and reaffirm the mechanical rights of songwriters and music publishers *as new technologies permit phonorecords to be delivered by wire or over the airwaves rather than by traditional making and distribution of records, cassettes, and CD’s.*” Sen. Rep. No. 104-128, 104<sup>th</sup> Cong. 1<sup>st</sup> Sess. (1995) at p. 37 (emphasis added).

## **B. Factual Background**

In October 2011, Petitioners ReDigi Inc., John Ossenmacher and Larry Rudolph aka Lawrence S. Rogel (“ReDigi”) created a virtual marketplace in which lawful purchasers of iTunes music files may

sell or otherwise transfer ownership of those music files. In essence, ReDigi's software operates as a used record store for digital music files.

To sell or transfer original digital music files through ReDigi, a user must download and install ReDigi's Media Manager to her computer. Media Manager "reads" the copyright management information accompanying each digital music file to identify the original music files that purchasers received from Apple from any versions thereof and will only transmit the original files to ReDigi's "cloud" server. In addition, ReDigi's software scans the purchasers' computers and connected devices and, if necessary, deletes all versions of the music files before transferring any original files to ReDigi's server. ReDigi's software continues to monitor the purchasers' computer and connected devices and will detect and ultimately delete any unauthorized versions following transfer of the original file to ReDigi's server. ReDigi's software thus ensures that only the original or "particular" music file distributed by Apple is made available for sale or other disposition.

ReDigi's transfer process divides the iTunes music file into small "blocks" of data. As each "block" of data is transferred, an instruction causes the block to be removed from the original iTunes music file remaining in the purchaser's computer. Thus, at any one point in time during the transfer process as well as at its conclusion, the sum of the data transferred to ReDigi's server, when added to the size of the data remaining in the purchaser's computer or in transit, does not exceed the size of the

original file. This means that only a single version of the data comprising the iTunes music file is ever in existence. Additionally, the accompanying copyright management data will show that the iTunes music file transferred to ReDigi's server is the original version the purchaser received from Apple *and not a second version or copy*.

### **C. Procedural History**

1. On January 6, 2012, Capitol sued ReDigi in the United States District Court for the Southern District of New York alleging multiple violations of the Copyright Act and seeking, among other things, preliminary and permanent injunctions of ReDigi's service. The district court denied Capitol's motion for an injunction, finding that it failed to establish irreparable harm.

After completing its discovery, which did not include examination of ReDigi's software, Capitol sought summary judgment of its infringement claims.

The district court partially granted Capitol's motion for summary judgment, finding that ReDigi infringed Capitol's reproduction and distribution rights under sections 106(1) and 106(3). Pet. App. at 56a, 57a. The district court also found that material disputed facts prevented a ruling on Capitol's claims for infringement of its public performance and display rights under sections 106(4) and 106(5). Pet. App. at 59a. The district court also denied ReDigi's separate motion for summary judgment. Pet. App. at 59a.

The district court did not dispute that ReDigi had presented evidence that its technology did not involve the making of any additional versions of Capitol's sound recordings. Pet. App. at 54a. Nevertheless, the district court agreed with Capitol that it could grant summary judgment in Capitol's favor without having to resolve the material factual disputes about ReDigi's technology.

The district court adopted Capitol's argument that the "phonorecord" embodying Capitol's sound recordings was "the appropriate segment of the [purchaser's] hard disk' that the file would be embedded in following its transfer [to the purchaser]." Pet. App. at 52a. The district court concluded that any transfer of an iTunes music file to ReDigi's server necessarily infringed Capitol's rights because "by the laws of physics . . . [i]t is simply impossible that the same 'material object' [i.e., the phonorecord] can be transferred over the Internet." Pet. App. at 53a.

The district court relied on the same reasoning to conclude that ReDigi's technology was not protected under the first sale doctrine. 17 U.S.C. § 109(a). Noting that the first sale doctrine only permits the consumer to transfer the "particular phonorecord" the consumer had lawfully purchased from iTunes, the district court concluded that ReDigi's technology involved the transfer of "*reproductions* of copyrighted code." Pet. App. at 65a (emphasis in original). As a result, the district court concluded that the only way a consumer could legitimately transfer a lawfully purchased iTunes music file is by "the lawful owner's sale of her . . .

computer hard disk . . . or other memory device onto which the file was originally downloaded.” Pet. App. at 68a.

2. The Court of Appeals affirmed the district court’s finding that ReDigi’s technology infringed Capitol’s reproduction right but sidestepped the issue whether ReDigi infringed Capitol’s distribution right. Pet. App. at 3a. Additionally, the Court of Appeals declined to rule on the first sale issues presented by ReDigi’s appeal. Pet. App. at 13a–14a. The Court of Appeals justified its refusal to consider ReDigi’s claims under first sale doctrine on the ground that § 109(a) only limits a copyright owner’s distribution right, and therefore the panel’s ultimate infringement determination would not change even if the iTunes music files were entitled to first sale protection. Pet. App. at 13a–14a, 31a (holding the first sale doctrine does not “negate” a claim of unauthorized reproduction).

Turning to Capitol’s claim of infringement of its reproduction right, the Court of Appeals found ReDigi liable for infringement—but for reasons having nothing to do with the specifics of ReDigi’s software. The Court of Appeals concluded that “the unavoidable function of a computer” is to perform its tasks by making “new” copies, which are reproductions. Pet. App. at 14a–15a. Thus, even though ReDigi’s software was not found to be infringing on the ground it created additional versions of the copyrighted works, it nonetheless infringed Capitol’s reproduction right because the digital file that the consumer transferred to ReDigi’s marketplace using ReDigi’s software was a “new”

copy and therefore an infringing reproduction. Pet. App. at 14a–15a.

Lastly, the Court of Appeals concluded that ReDigi’s alleged violation of Capitol’s reproduction right was not entitled to “fair use” protection because it was involved in “commercial activities” and the appellate panel did not consider furtherance of the commercial and non-commercial Congressional policies enshrined in §109(a) to warrant protection under 17 U.S.C. § 107. Pet. App. at 21a–29a.

## REASONS FOR GRANTING REVIEW

ReDigi's certiorari petition presents a pivotal copyright issue that has emerged with the growth of the digital economy. That issue is whether owners of copyrighted digital music files lawfully purchased from an authorized licensee are entitled to reasonable first sale protections under 17 U.S.C. §109(a). This issue has not been addressed by the Court's prior "first sale" decisions. For the reasons set forth below, intervention is necessary to address (1) the Court of Appeals' unsupportable refusal to consider the important first sale issues presented by ReDigi's appeal; and (2) its adoption of an untenable analysis of the copyright owner's reproduction right that effectively denies any first sale protections to the lawful owners of digital music files.

### I. **LAWFUL PURCHASERS OF ITUNES MUSIC FILES ARE PROTECTED BY 17 U.S.C. § 109(A).**

In *Kirstaeng v. John Wiley & Sons, Inc.*, 568 U.S. 519 (2013), the Court stated that "one who owns a copy [of a copyrighted article] *will* receive 'first sale' protection, *provided*, of course, that the copy was '*lawfully made*' and not pirated." *Id.* at 535 (emphasis in original). Lawful purchasers of iTunes digital music files satisfy all these requirements for application of the first sale/exhaustion protections of §109(a). Specifically,

- The iTunes music files were lawfully acquired pursuant to an *authorized exercise of Capitol's distribution rights*.

The Court of Appeals found, and Capitol does not dispute, that Apple is an authorized digital distributor of Capitol sound recordings, including the iTunes music files at issue here. *See* Pet. App. at 3a–4a (“Plaintiffs also distribute their music in the form of digital files, which are sold to the public by authorized agent services, such as Apple iTunes, under license from Plaintiffs.”)

- Capitol’s *first sale* of the iTunes music files *resulted in the lawful purchasers acquiring ownership* of their files. The Court of Appeals found, and Capitol does not dispute, that “one who owns a digital file from iTunes of music that is fixed in a material object qualifies as ‘the owner of a particular . . . phonorecord lawfully made,’ 17 U.S.C. § 109(a), and is this entitled under § 109(a) ‘to sell or otherwise dispose of the possession of *that* . . . phonorecord,’” Pet. App. at 14a.

Under § 109(a), Capitol has “exhausted” its ability to impose any further restrictions on lawful purchasers’ ability to transfer or dispose of their “particular” files.

The Court of Appeals misread the Court’s decision in *Kirstaeng* as merely articulating limitations on a copyright owner’s *distribution rights*. Pet. App. at 15a, 31a. But as the Court made clear in *Impression Products, Inc. v. Lexmark International, Inc.*, 137 S.Ct. 1523 (2017), a case

involving application of the exhaustion doctrine in patent cases, the *Kirstaeng* decision was ultimately grounded in the common law doctrine of “exhaustion.” *See id.* at 1535-1536. As the Court explained, “[t]his well-established exhaustion rule marks the point where patent rights yield to the common law principle against restraints on alienation.” *Id.* at 1531-1532. The Court went on to clarify that the exhaustion doctrine is equally applicable “in the context of copyright law” such that “when a copyright owner sells a lawfully made copy of its work, *it loses the power to restrict the purchaser’s freedom ‘to sell or otherwise dispose of . . . that copy.’*” *Id.* at 1535-1536 (emphasis added).<sup>2</sup>

The Court of Appeals’ misreading of the import of the Court’s *Kirstaeng* decision is not unlike the mistakes made by the Federal Circuit in *Impression Products*. There, the Federal Circuit concluded that a patent owner’s sale of the product only provided a “presumption” of first sale rights to the lawful purchaser, a presumption that could be expressly withheld by the patent owner. *Id.* at 1533-1534. The Court’s rejection of the Federal Circuit’s analysis is instructive as it makes clear the

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<sup>2</sup> Observing that exhaustion under patent law and the Copyright Act’s first sale doctrine have their common “roots in the antipathy toward restraints on alienation,” the Court concluded,

“differentiating the patent exhaustion and copyright first sale doctrines would make little theoretical or practical sense: The two share ‘a strong similarity . . . and identity of purpose.’”

*Id.* at 1536.

significance of the first authorized sale in marking the limits of the exclusive rights of intellectual property owners:

“[T]he exhaustion doctrine is not a presumption about the authority that comes along with a sale; it is instead a limit on “the scope of the *patentee’s rights.*” *United States v. General Elec. Co.*, 272 U.S. 476, 489 (1926) (emphasis added). The right to use, sell, or import an item exists independently of the Patent Act. What a patent adds—and grants exclusively to the patentee—is a limited right to prevent others from engaging in those practices. *See Crown Die & Tool Co. v. Nye Tool & Machine Works*, 261 U.S. 24, 35 (1923). *Exhaustion extinguishes that exclusionary power. . . .* As a result, the sale transfers the right to use, sell or import because those are the rights that come along with ownership, and the buyer is free and clear of an infringement lawsuit because there is no exclusionary right left to enforce.”

*Id.* at 1534 (emphasis added). As the Court summarized the law: “[P]atent exhaustion is uniform and automatic. Once a patentee decides to sell—whether on its own or through a licensee—that sale exhausts its patent rights, regardless of any post-sale restrictions the patentee purports to impose, either directly or through a license.” *Id.* at 1535.

Like the appellate court in *Impression Products*, the Court of Appeals below interpreted the first sale doctrine as only a partial limitation on the rights of copyright owners. Without citation to any authority, the appellate panel concluded:

“Notwithstanding the purported breadth of the first sale doctrine as originally articulated by the courts, *see Bobbs-Merrill Co. v. Strauss*, 210 U.S. 339, 350, 28 S.Ct. 722 (1908). (“[T]he copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create a right to impose . . . a limitation at which the book shall be sold at retail by future purchasers . . . .”) . . . Congress, in promulgating § 109(a), adopted a narrower conception, which negates a claim of unauthorized *distribution* in violation of the author’s exclusive right under § 106(3), but not a claim of unauthorized *reproduction* in violation of the exclusive right provided by § 106(1).”

Pet. App. at 15a, 31a (emphasis in original).

The Court of Appeals was mistaken. As clarified by the Court’s decisions in *Impression Products* and *Kirstaeng*, exhaustion under the first sale doctrine, like exhaustion under patent law, is “uniform and automatic” and occurs once the copyright owner “decides to sell—whether on its own or through a licensee—that sale exhausts its . . .

rights, regardless of any post-sale restrictions the [rights holder] purports to impose, either directly or through a licensee.” *Id.* at 1535. Accordingly, under the principles of exhaustion enshrined in the Copyright Act’s “first sale doctrines,” *id.*, Capitol is powerless under copyright law to prevent the purchasers of iTunes music files from selling or otherwise transferring their “particular” music files.

## **II. REDIGI’S SOFTWARE TRANSFERS DIGITAL MUSIC FILES IN A MANNER THAT COMPORTS WITH THE FIRST SALE DOCTRINE.**

As lawful purchasers are entitled to transfer or otherwise dispose of their digital music files, only two related issues remain: (1) whether it is possible under the Copyright Act to electronically transfer digital music files in a manner that comports with the first sale doctrine; and (2) if it is, whether ReDigi’s software transfers iTunes music files in compliance with lawful purchasers’ first sale rights.

### **A. Congress Amended the Copyright Act to Recognize that Electronic Delivery of Copyrighted Music and Sound Recordings Are “Distributions” Under § 106(3) and Thus Satisfy the Copyright Act’s “Particularity” Requirement.**

In addition to declining to decide whether lawful purchasers of digital music files are entitled to first sale protection, the Court of Appeals sidestepped the issue whether iTunes music files sold through ReDigi satisfy §109(a)’s “particularity”

requirement, which limits first sale protection to the “particular . . . phonorecord . . . lawfully made.” 17 U.S.C. §109(a). Pet. App. at 12a. However, the district court believed it was impossible to transfer an iTunes music file electronically and satisfy the “particularity” requirement. Pet. App. 12a, 51a–53a.

The “particularity” requirement is not, however, unique to §109(a); *it is also a necessary component for a “distribution” within the meaning of §106(3)*. In the words of the House Report accompanying Congress’ passage of the 1976 Copyright Act, “any form of dissemination in which a material object does not change hands—performances or displays on television for example—is not a publication no matter how many people are exposed to the work.” H.R. Rep. No. 487, 92<sup>nd</sup> Cong., 1<sup>st</sup> Sess. at 138.<sup>3</sup> *See also Agee v. Paramount Communications, Inc.*, 59 F.3d 317, 325 (2d Cir. 1995) (a copyright owner’s distribution of copies or phonorecords containing copyrighted works “is generally thought to require transmission of a ‘material object’ in which the sound recording is

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<sup>3</sup> The Copyright Act does not contain a separate definition for “distribution.” However, as this Court has recognized, a key component of a copyright owner’s distribution right is the right of first publication. *Harper & Row Publishers, Inc., v. Nation Enterprises*, 471 U.S. 539, 552 (1989). It is also clear that Congress has used the terms “publication” and “distribution” interchangeably in discussing a copyright owner’s rights under § 106(3). See *id.* (“The Report of the House Committee on the Judiciary confirms that ‘Clause (3) of section 106 establishes the exclusive right of publication. Under this provision the copyright owner would have the right to control the first public distribution of an authorized copy of his work,’” *quoting* 62 U.S. Code Cong. & Admin. News 1976, p. 5675.)

fixed”). Stated another way, unless there is an exchange of a “particular . . . phonorecord . . . lawfully made” between Apple and the lawful purchaser, there is no bona fide distribution under § 106(3).

In the Digital Performance Right Sound Recording Act, Congress recognized that digital music files may be distributed electronically in a manner that satisfies § 109(a)’s “particularity” requirement. Congress did so by defining “digital phonorecord delivery” as “each individual delivery of a phonorecord by digital transmission of a sound recording which results in a *specifically identifiable* reproduction by or for any transmission recipient of a phonorecord of that sound recording.” 17 U.S.C. § 115(d) (emphasis added).

Congress envisioned that compliance with the “specifically identifiable reproduction” requirement would be accomplished by encoding basic information as part of the “digital phonorecord delivery” that uniquely identifies each file distributed by the copyright owner or authorized licensee. *See* 17 U.S.C. § 115(F) (“[A] digital phonorecord delivery licensed under this paragraph shall be accompanied by the information encoded in the sound recording, if any, by or under the authority of the copyright owner of the sound recording, that identifies the title of the sound recording, the featured recording artist who performs on the sound recording, and related information, including information concerning the underlying musical work and its writer.”)

Congressional passage of the Digital Performance Right Sound Recording Act recognized that a distribution of a phonorecord occurs upon a copyright owner's transfer of a "specifically identifiable" "digital phonorecord delivery." Plainly, Congress' definition of "digital phonorecord delivery" is incompatible with the Court of Appeals and district court's insistence that the "phonorecord" had to be a physical storage device, such as a "thumb drive" or the purchaser's computer hard drive. Pet. App. at 19a, 68a. The Court of Appeal's infringement analysis simply cannot be reconciled with the fact that "section 115 was substantially rewritten in 1995 specifically to include digital distributions of nondramatic musical compositions, *under the theory that such distributions were the equivalent in every respect, of a hard copy distribution.*" Willian F. Patry, 9 PATRY ON COPYRIGHT § 13:23 (West 2013) (emphasis added).

That "digital phonorecord deliveries" can be lawfully distributed electronically means that following the copyright owner's first sale of digital music files, lawful purchasers acquire the ability to transfer or sell that particular file to another without further interference. Otherwise, contrary to *Kirstaeng*, owners of digital music files will *not* receive the first sale protections to which they are "entitled" under the express language of § 109(a).

**B. ReDigi's Software Transfers Lawfully Acquired iTunes Music Files in a Manner That Comports with Purchasers' First Sale Protections.**

As discussed above, ReDigi's software is able to (1) identify the original iTunes digital music file that the lawful purchaser received from Apple (as distinct from any reproductions the purchaser may have made) and (2) transfer the digital music file in a manner that does not involve the creation of a second version of the copyrighted work. As the Court of Appeals described it, "the entire file never exists in two places at once." Pet. App. at 7a.

Once a purchaser's digital music file resides on ReDigi's server, any sale or transfer of those files is accomplished in a manner that also does not infringe Capitol's reproduction right. The transfer of ownership occurs through what is called an "atomic transaction." A "transaction" is a set of actions, such as insertions, deletions or modifications, that occur on the records of databases. ReDigi transfers ownership through a set of simultaneous actions that update the user identifier information that regulates access to the underlying electronic records containing the copyrighted music and sound recording. The user identifier information is distinct from the electronic data that comprises the copyrighted music and sound recording.

ReDigi's method of transferring ownership is analogous to the transfer of ownership of the contents of safe deposit box: the bank transfers

ownership of the contents by transferring possession of the key that will provide access to the box. ReDigi uses the same principle to transfer ownership of the iTunes music file by changing only the user identifier information while leaving the data comprising the copyrighted work completely untouched.

Finally, if no infringement of Capitol's rights occurs when the purchaser transfers the iTunes music file to ReDigi's server, it follows that no infringement of copyright occurs when the new owner downloads the file from ReDigi's server. Even if the Court of Appeals were correct that the download process could involve the creation of a second copy of the copyrighted work, there is no infringement because the Apple/EMI Digital Download Agreement allows lawful owners to make multiple copies for personal use without seeking further permission from Apple or Capitol. In short, ReDigi's transfer method is consistent with purchasers' first sale protections and does not independently infringe Capitol's reproduction right.

**III. THE COURT OF APPEALS' INFRINGEMENT ANALYSIS IS INCOMPATIBLE WITH CONGRESS' RECOGNITION THAT DIGITAL MUSIC FILES MAY BE DISTRIBUTED ELECTRONICALLY.**

As noted above, the Court of Appeals' conclusion that ReDigi's technology infringes Capitol's reproduction right rests on the proposition that the iTunes music files transferred to ReDigi's

server are “new” copies of the music files the purchaser received from Apple and are thus infringing reproductions. As a result, the Court of Appeals, much like the district court, concluded that first sale protections only applied to “material items” like records or, as the Court of Appeals hypothesized, “thumb drives.” Pet. App. at 19a. Indeed, the Court of Appeals’ ill-fated attempt to show how its infringement analysis is compatible with some limited first sale rights, actually demonstrates precisely the opposite.

The Court of Appeals states that “ReDigi far overstates its economic argument when it asserts that the ‘district court’s ruling . . . eliminat[es] any meaningful competition from resellers’ as ‘no secondary market . . . can ever develop if consumers are required to give away their computer hard discs as part of any resale.” Pet. App. at 19a. In response, the Court of Appeals writes:

“A secondary market can readily be imagined for first purchasers who cost-effectively *place* 50 to 100 (or more) songs on an inexpensive device such as a thumb drive and sell it. *See* U.S. Copyright Office, Library of Cong., Digital Millennium Copyright Act § 104 Report 78 (2001). (‘Physical copies of works in a digital format, such as CDs or DVDs, are subject to section 109 in the same way as physical copies of works in analog form.’)”

Pet. App. at 19a (emphasis added).

The Court of Appeals failed to appreciate that a lawful purchaser's "placement" of the iTunes music files on a thumb drive is very different than purchasing a CD or DVD containing prerecorded music. Unlike the situation with CDs or DVDs, the only way a purchaser can "place 50 to 100 (or more) songs on an inexpensive device, such as a thumb drive" *is by the creating what the Court of Appeals considers "new" copies and hence infringing reproductions.* The fallacy of the Court of Appeals' infringement analysis is that it ultimately cannot reconcile the electronic distribution of copyrighted music and sound recordings with its position that a computer only performs transactions by making "new" copies that are presumptively infringing reproductions.

Also problematic is the Court of Appeals' conclusion that "ReDigi effectuates an unlawful reproduction even if the digital file itself qualifies as a phonorecord." Pet. App. at 13a-14a. If the digital file is the "phonorecord," then the storage of the file on the purchaser's computer hard drive does not infringe the copyright owner's rights because at all times only the single original copy of the file exists. In other words, if the digital file is the phonorecord, then the "fixing" of that file on the purchaser's computer hard drive is not the creation of a "new" phonorecord. Instead, a computer's storage of an electronic phonorecord is directly analogous to placing a vinyl record in a juke box. By issuing very simple commands to the juke box (e.g. pushing the buttons "A7" for Del Shannon's "*Runaway*,"), the juke box then plays the appropriate selection. Likewise here, if the digital file is the phonorecord,

then *the computer is not a phonorecord but the record player*, which like a juke box, both stores and plays the phonorecords embodying the copyrighted sound recordings.

In short, if the Court of Appeals had truly accepted that “the digital file itself qualifies as a phonorecord,” *id.*, it would have realized, as Congress did in passing the Digital Performance Right Sound Recording Act, that the electronic exchange of a digital music file is a distribution of a phonorecord.<sup>4</sup> Therefore, a lawful owner’s sale or transfer of its digital music file cannot be infringing so long as a second version of the protected work is not created. As previously discussed, ReDigi’s software satisfies this requirement through its patented transfer method.

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<sup>4</sup> Congress’ recognition that a digital music file can constitute a “phonorecord” also resolves the issue whether an electronic file is a “material object.” *See* 17 U.S.C. § 101 (defining “phonorecords” as “material objects in which sounds . . . are fixed . . . and from which the sounds can be perceived, reproduced, or otherwise communicated”).

It is worth noting that in *London-Sire Records, Inc. v. John Doe 1*, 542 F.Supp.2d 153 (D.Mass. 2008), the one case on which both the district court and Court of Appeals rely, the court expressly found that electronic files satisfy the definition of “material objects.” The *London-Sire* court reasoned that “the sole purpose of the term ‘material object’ is to provide a reference point for the terms ‘phonorecords’ and ‘fixed’” and therefore “any object in which a sound recording can be fixed is a ‘material object’ [and] [t]hat includes . . . electronic files.” *Id.* at 171.

**IV. THE COURT OF APPEALS' FAIR USE ANALYSIS IS FLAWED BECAUSE IT FAILS TO RECOGNIZE THAT CONGRESSIONAL POLICIES EMBODIED IN THE FIRST SALE DOCTRINE ALSO MERIT FAIR USE PROTECTION.**

As applied to electronic files, the Court of Appeals' fair use analysis is both breathless in its scope while at the same time limited in terms of the relief it provides. On the one hand, the predictable consequence of the Court of Appeals' determination that all "new" copies made by computers are reproductions, is heavy reliance on the doctrine of fair use to excuse what would otherwise be unending pervasive infringing conduct. On the other hand, the Court of Appeals makes clear that promoting the public goals advanced by the first sale doctrine will not be considered worthy of fair use protection.

Both thoughts are captured in the following passage from the Court of Appeals' opinion:

"We recognize that use of computers with digital files of protected matter will often result in the creation of innocuous copies which we would be loath to consider infringements because doing so would effectively bar society from using invaluable computer technology in relation to protected works. We believe this precedent will not have that undesirable effect for reasons discussed below in the section on fair use. What we consider here is

that the making of unauthorized reproductions *in pursuit of an objective to distribute protected matter in competition with the rights holder*. The production of innocuous, unauthorized reproductions through the unavoidable function of a computer, when done for purposes that do not involve competing with the rights holder in its exclusive market, is outside the scope of this dispute.”

Pet. App at 17a, n. 12 (emphasis in original). At no time does the Court of Appeals show any recognition that the limited competition afforded by a resale market does not supplant the sale of original files with unauthorized copies. Instead, any claimed “competition” *results solely from the second sale of the original files*.

The Court of Appeals’ fair use analysis is flawed for two additional related reasons. *First*, the Court of Appeals gave no consideration to whether ReDigi’s technology was entitled to fair use protection because it furthered the Congressional policies enshrined in §109(a). *Second*, the Court of Appeals assumes that because ReDigi is involved in “commercial” activities, the first and fourth fair use factors, which in the appellate court’s view are the only two decisive factors, will weigh against ReDigi unless it can show that its conduct is “transformative.”

**A. The Court of Appeals' Fair Use Analysis Is Flawed Because It Failed To Consider Other Important Copyright Interests Identified By Congress.**

The plain language of §107 makes clear that consideration of whether a party is entitled to fair use protection “includes” consideration of the four enumerated factors *but is not limited to them*. As this Court noted in *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 577-578 (1994), “[t]he text [of §107] employs the terms ‘including’ and ‘such as’ in the preamble paragraph to indicate the “illustrative and not limitative” function of the examples . . . are to be explored, and *the results weighed together, in light of the purposes of copyright.*” (emphasis added).

In *Kirstaeng* and *Impression Products*, this Court emphasized that a principal goal of the first sale/exhaustion doctrines is preservation of downstream markets for the resale or disposition of copyrighted products. In *Kirstaeng*, the Court observed that the first sale doctrine includes “the freedom to resell,” and that public access to copyrighted works is increased by “leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods.” 568 U.S. at 539 (emphasis added). As the Court explained in *Impression Products*, “[p]atent exhaustion reflects the principle that, when an item passes into commerce, it should not be shaded by a legal cloud on title as it moves through the marketplace.” 137 S.Ct. at 1534.

Here, by sharp contrast, the Court of Appeals found the policies advanced by the first sale doctrines *to be grounds for denying fair use protection*:

“What ReDigi does is essentially to provide a market for the resale of digital music files, which resales compete with sales of the same recorded music by the rights holder. *These characteristics of ReDigi’s use favor Plaintiffs under Factor One.*”

Pet. App. at 15a, 31a (emphasis added). Had the Court of Appeals applied the fair use analysis articulated by the Court in *Campbell, supra*, it would have recognized that advancing the Congressional policies championed by § 109(a) are equally deserving of fair use protection. Thus, providing “a market for the resale of digital music files” should have been a basis for *granting* fair use protection, not denying it.<sup>5</sup>

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<sup>5</sup> At the beginning of its opinion the Court of Appeals acknowledged that,

“ReDigi was not making efforts in the shadows to infringe on copyrights. To the contrary, *it invented a system designed in good faith to achieve a goal generally favored by the law of copyright*, reasonably hoping the system would secure court approval as conforming to the demands of the Copyright Act.” Pet. App. at 4a, n. 3 (emphasis added).

Unfortunately, this recognition was missing from the Court of Appeal’s evaluation of ReDigi’s fair use defense. Pet. App. at 21a–29a.

**B. ReDigi is Not Foreclosed from Receiving Fair Use Protection Because It is Involved in Commercial Activities.**

The Court of Appeals' consideration of each of the four enumerated fair use factors conveys a similar message: ReDigi's software is not entitled to fair use protection because it is a commercial activity. *See, e.g.*, Pet. App. at 25a ("the commercial motivation here argues against ReDigi with respect to Factor One"); Pet. App. at 26a (the fourth factor does not favor ReDigi because "[w]hen a secondary use competes in the rightsholder's market as an effective substitute for the original, it impedes the purpose of copyright to incentivize new creative works by enabling their creators to profit from them").

As noted above, the Court of Appeals fails to appreciate that any "loss" that Capitol will suffer from ReDigi's "commercial activity" *is solely from the second sale of the digital music file, which Capitol is powerless to control under § 109(a)*. ReDigi's marketplace merely facilitates the secondary sale of lawfully purchased iTunes music files. By definition, Capitol has already reaped its financial reward from the first sale of these files. As a result, effectively granting Capitol monopoly status by precluding the development of any secondary market cannot be justified as promoting "fair use." *See Sega Enterprises Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1523-24 (9th Cir. 1992) ("An attempt to monopolize the market by making it impossible for others to compete runs counter to the statutory purpose of promoting creative expression

and cannot constitute a strong equitable basis for resisting the invocation of the fair use doctrine”).

The development of secondary markets for copyrighted works also *furtheres important non-commercial interests* by, among other things, helping ensure that the societal benefits of being exposed to copyrighted works are available to a wider population. *See* Brief for American Library Association et al. as Amici Curiae submitted to the Court of Appeals (Dkt. No. 98 at 6-7). None of these worthwhile public policies advanced by § 109(a) were considered in the Court of Appeals’ one-sided fair use analysis.

### **C. The Balance of Fair Use Factors Favor ReDigi.**

Finally, when each of the enumerated fair use factors is evaluated in light of the public policies advanced by the first sale doctrine, it is not difficult to see that the balance of fair use factors clearly favors ReDigi.

The first fair use factor concerns “the purpose and character of the use.” 17 U.S.C. § 107(1). The Court of Appeals evaluated this factor in terms of whether ReDigi’s technology was “transformative.” Pet. App. at 15a, 31a, *quoting Fox News Network, LLC v. TVEyes, Inc.*, 883 F.3d 169, 177 (2d Cir. 2018). Instead of focusing on whether ReDigi’s technology was “transformative,”<sup>6</sup> the Court of

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<sup>6</sup> There is nothing particularly “transformative” about used books, records, CD’s and DVD’s and yet they are entitled to first sale protection.

Appeals should have considered that “the purpose and character” of ReDigi’s use of the iTunes music files containing Capitol’s sound recordings was solely to permit lawful owners to be able sell or transfer their music files in a secondary market. This is a very “traditional,” centuries-old “use” deriving from the common law’s prohibition against restraints on the alienation of chattels. *Kirstaeng*, 568 U.S. at 538; *Impression Products*, 137 S.Ct. at 1531-1532. The first fair use factor favors ReDigi.

The second factor, “the nature of the copyrighted work” (17 U.S.C. § 107(2)), also favors ReDigi. Here, the relevant “nature” of the copyrighted work is that it is embodied in digital music files over which the copyright owner has transferred ownership. The import of the copyright exhaustion and first sale doctrines is that purchasers of lawfully acquired copyrighted products have superior rights over copyright owners in terms of being able to sell or dispose of their personal property. As the Court said in *Impression Products*, “the sale transfers the right to use, sell, or import because those are the rights that come along with ownership, and the buyer is free and clear of an infringement lawsuit because there is no exclusionary right left to enforce.” 137 S.Ct. at 1534.

The third factor is “the amount and substantiality of the portion [of the original] used in relation to the copyrighted work as a whole” 17 U.S.C. § 107(3). As the Court of Appeals observed, the “use of the entirety of a digital file is not necessarily inconsistent with a finding of fair use [citations omitted], [but] it tends to disfavor a

finding of fair use.” Pet. App. at 25a. At the same time, allowing lawful purchasers to transfer anything less than the entirety of an iTunes music file would frustrate the public purpose served by the first sale doctrine. At best, this factor favors neither party.

The fourth factor is “the effect of the use upon the potential market for or value of the copyrighted work,” which this Court has described as “undoubtedly the single most important element of fair use.” *Harper & Row Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 566 (1985). As the Court of Appeals acknowledged, this factor “focuses on whether the copy brings to the marketplace a competing substitute for the original.” Pet. App. at 26a, quoting *Authors Guild v. Google, Inc.*, 804 F.3d 202, 223 (2d Cir. 2015) at 223. For the reasons discussed above, ReDigi’s technology simply allows the lawful purchaser *to bring the original version to the marketplace for a second sale of the music file*. Here, it is undisputed that every iTunes music file sold on ReDigi’s marketplace had previously been lawfully purchased at the price set for the first sale by Capitol’s licensee.

Significantly, the record in this case is devoid of any evidence showing that the “effect” ReDigi’s marketplace will have on Capitol’s sales will be any different than the effect existing secondary markets have on Capitol’s sales of CDs or DVDs. If anything, the evidence submitted by ReDigi shows that the safeguards incorporated into its software far exceed the protections Capitol enjoys with regard to other types of media. The fourth factor favors ReDigi.

**CONCLUSION**

Nothing in the Copyright Act warrants denial of reasonable first sale protections to lawful purchasers of iTunes digital music files. ReDigi's patented technology ensures that lawful iTunes purchasers can only transfer the "particular" or "original" version of the iTunes music file they received from Apple in conformity with the Copyright Act's "particularity" requirements. In short, the factual record in this case provides this Court with an opportunity to make clear that lawful purchasers and owners of copyrighted works acquired over the Internet are, under appropriate conditions, entitled to reasonable first sale protections as are purchasers of similar items obtained through non-electronic modes of commerce.

MAY 10, 2019

Respectfully submitted,

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## **APPENDIX**

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Appendix A

UNITED STATES COURT OF APPEALS  
FOR THE SECOND CIRCUIT

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August Term, 2017

(Argued: August 22, 2017

Decided: December 12, 2018)

Docket No. 16-2321

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CAPITOL RECORDS, LLC,  
CAPITOL CHRISTIAN MUSIC GROUP, INC.,  
VIRGIN RECORDS IR HOLDINGS, INC.,

*Plaintiffs-Appellees,*

—v.—

REDIGI INC., JOHN OSSENMACHER,  
LARRY RUDOLPH, AKA LAWRENCE S. ROGEL,

*Defendants-Appellants.*

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Before:

JON O. NEWMAN, PIERRE N. LEVAL,  
and ROSEMARY S. POOLER,

*Circuit Judges.*

Defendants, ReDigi Inc. and related persons, appeal from the grant of partial summary judgment and stipulated final judgment by the United States District Court for the Southern District of New York (Richard J. Sullivan, *J.*) in favor of Plaintiffs, record companies whose copyrighted sound recordings were resold through the ReDigi platform. The district court found copyright infringement. AFFIRMED.

RICHARD S. MANDEL, New York, N.Y. (Jonathan Z. King, Cowan, Liebowitz & Latman, P.C., New York, N.Y., on the brief), *for Plaintiffs-Appellees*.

ROBERT C. WELSH, New York, N.Y. (C. Dennis Loomis, Baker & Hostetler LLP, Los Angeles, CA, on the brief) *for Defendant-Appellants*.

LEVAL, *Circuit Judge*:

Defendant ReDigi, Inc. and its founders, Defendants Larry Rudolph and John Ossenmacher,<sup>1</sup> appeal from the judgment of the United States District Court for the Southern District of New York (Richard J. Sullivan, *J.*) in favor of Plaintiffs, Capitol Records, LLC, Capitol Christian Music Group, Inc., and Virgin Records IR Holdings, Inc. (“Plaintiffs”), finding copyright infringement. Defendants had created an Internet platform designed to enable the lawful resale, under the first sale doctrine, of lawfully purchased digital music files, and had hosted resales of such files on

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<sup>1</sup> Hereinafter “ReDigi” is used to designate all three Defendants, except where the context makes clear it refers solely to the company.

the platform. The district court concluded that, notwithstanding the “first sale” doctrine, codified in the Copyright Act of 1976, 17 U.S.C. § 109(a), ReDigi’s Internet system version 1.0 infringed the Plaintiffs’ copyrights by enabling the resale of such digital files containing sound recordings of Plaintiffs’ copyrighted music. We agree with the district court that ReDigi infringed the Plaintiffs’ exclusive rights under 17 U.S.C. § 106(1) to reproduce their copyrighted works. We make no decision whether ReDigi also infringed the Plaintiffs’ exclusive rights under 17 U.S.C. § 106(3) to distribute their works.<sup>2</sup>

## BACKGROUND

### I. Facts

Plaintiffs are record companies, which own copyrights or licenses in sound recordings of musical performances. Plaintiffs distribute those sound recordings in numerous forms, of which the most familiar twenty years ago was the compact disc. Today, Plaintiffs also distribute their music in the form of digital files, which are sold to the public by authorized agent services, such as Apple

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<sup>2</sup> We do not adjudicate whether ReDigi’s system version 2.0 infringed any of the Plaintiffs’ rights as this question (although stipulated in the final judgment) was not litigated in the district court. Defendants stipulated that a judgment in Plaintiffs’ favor would enjoin the Defendants, as well as all persons in specified relationships with the Defendants, such as their “officers, agents, servants, representatives . . . and licensees,” from implementing version 2.0. Stipulated Final Judgment ¶5, *Capitol Records, LLC. V. ReDigi, Inc.*, No. 12-CV-95 (RJS), ECF No. 222 (S.D.N.Y. June 3, 2015).

iTunes, under license from Plaintiffs. Purchasers from the Apple iTunes online store download the files onto their personal computers or other devices.

ReDigi was founded by Defendants Ossenmacher and Rudolph in 2009 with the goal of creating enabling technology and providing a marketplace for the lawful resale of lawfully purchased digital music files.<sup>3</sup> Ossenmacher served as ReDigi's Chief Executive Officer and Rudolph, who spent twelve years as a Principal Research Scientist at the Massachusetts Institute of Technology, served as ReDigi's Chief Technical Officer. During the period addressed by the operative complaint, ReDigi, through its system version 1.0, hosted resales of digital music files containing the Plaintiffs' music by persons who had lawfully purchased the files from iTunes.

Considering the evidence in the light most favorable to ReDigi, ReDigi's system version 1.0 operates as follows.

*1. Music Manager:* A person who owns a digital music file lawfully purchased from iTunes and intends to employ ReDigi's system to resell it (the "user") must first download and install onto her computer ReDigi's "Music Manager" software program ("Music Manager"). Once Music Manager

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<sup>3</sup> ReDigi was not making efforts in the shadows to infringe on copyrights. To the contrary, it invented a system designed in good faith to achieve a goal generally favored by the law of copyright, reasonably hoping the system would secure court approval as conforming to the demands of the Copyright Act.

has been installed, it analyzes the digital file intended for resale, verifies that the file was originally lawfully purchased from iTunes, and scans it for indications of tampering. If the file was lawfully purchased, Music Manager deems it an “Eligible File” that may be resold.<sup>4</sup>

2. *Data Migration:* The ReDigi user must then cause the file to be transferred to ReDigi’s remote server, known as the “Cloud Locker.” To effectuate this transfer, ReDigi developed a new method that functions differently from the conventional file transfer. The conventional process is to reproduce the digital file at the receiving destination so that, upon completion of the transfer, the file exists simultaneously on both the receiving device and on the device from which it was transferred. If connectivity is disrupted during such a standard transfer, the process can be repeated because the file remains intact on the sender’s device.

Under ReDigi’s method—which it calls “data migration”—ReDigi’s software “begins by breaking the [digital] music file into small ‘blocks’ [of data] of roughly four thousand bytes in length.” Appellants Br. 24. Once the file has been broken into blocks of data (“packets”), ReDigi’s system creates a “transitory copy” of each packet in the initial purchaser’s computer buffer. *Id.* Upon copying (or “reading”) a packet into the initial purchaser’s computer buffer, ReDigi’s software

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<sup>4</sup> Music Manager will deem a file “Eligible” if it was purchased by the user from iTunes or it was purchased by the user through ReDigi, having been originally purchased lawfully by another from iTunes.

sends a command to delete that packet of the digital file from permanent storage on the initial purchaser's device. Rogel Decl. App'x 690-91. ReDigi's software then sends the packet to the ReDigi software to be copied into the buffer and deleted from the user's device. Rogel Decl. App'x 691. During the data migration process, the digital file cannot be accessed, played, or perceived. If connectivity is disrupted during the data migration process, the remnants of the digital file on the user's device are unusable, and the transfer cannot be re-initiated. In such circumstances, ReDigi (according to its brief) bears the cost of the user's loss. Appellants Br. 25.<sup>5</sup>

Once all the packets of the source file have been transferred to ReDigi's server, the Eligible File has been entirely removed from the user's device. The packets are then re-assembled into a complete, accessible, and playable file on ReDigi's server.

ReDigi describes its primary technological innovation using the metaphor of a train (the digital file) leaving from one station (the original purchaser's device) and arriving at its destination (in the first instance, ReDigi's server). Under either the typical method or ReDigi's method, packets are sent sequentially, such that, conceptually, "each packet is a car" moving from

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<sup>5</sup> It is unclear from the evidence cited in ReDigi's Rule 56.1 statement whether ReDigi purchases a new file from iTunes to effectuate resale, pays the user to offset the loss of her file, or otherwise bears the cost of the loss. *See* App'x 1489 at ¶ 35. These alternatives do not affect our decision.

the source to the destination device. App'x 657. Once all the packets arrive at the destination device, they are reassembled into a usable file. *Id.* At that moment, in a typical transfer, the entire digital file in usable form exists on both devices. *Id.* ReDigi's system differs in that it effectuates a deletion of each packet from the user's device immediately after the "transitory copy" of that packet arrives in the computer's buffer (before the packet is forwarded to ReDigi's server). In other words, as each packet "leaves the station," ReDigi deletes it from the original purchaser's device such that it "no longer exists" on that device. *Id.* As a result, the entire file never exists in two places at once. *Id.*

After the file has reached ReDigi's server but before it has been resold, the user may continue to listen to it by streaming audio from the user's Cloud Locker on ReDigi's server. If the user later re-downloads the file from her Cloud Locker to her computer, ReDigi will delete the file from its own server.

3. *Resale:* Once an Eligible File has "migrated" to ReDigi's server, it can be resold by the user utilizing ReDigi's market function. If it is resold, ReDigi gives the new purchaser exclusive access to the file. ReDigi will (at the new purchaser's option) either download the file to the new purchaser's computer or other device (simultaneously deleting the file from its own server) or will retain the file in the new purchaser's Cloud Locker on ReDigi's server, from which the new purchaser can stream the music. ReDigi's terms of

service state that digital media purchases may be streamed or downloaded only for personal use.

4. *Duplicates:* ReDigi purports to guard against a user's retention of duplicates of her digital music files after she sells the files through ReDigi. To that end, Music Manager continuously monitors the user's computer hard drive and connected devices to detect duplicates. When a user attempts to upload an Eligible File to ReDigi's server, ReDigi "prompt[s]" her to delete any pre-existing duplicates that Music Manager has detected. If ReDigi detects that the user has not deleted the duplicates, ReDigi blocks the upload of the Eligible File. After an upload is complete, Music Manager continues to search the user's connected devices for duplicates. If it detects a duplicate of a previously uploaded Eligible File, ReDigi will prompt the user to authorize ReDigi to delete that duplicate from her personal device and, if authorization is not granted, it will suspend her account.

Plaintiffs point out, and ReDigi does not dispute, that these precautions do not *prevent* the retention of duplicates after resale through ReDigi. Suspension of the original purchaser's ReDigi account does not negate the fact that the original purchaser has both sold and retained the digital music file after she sold it. So long as the user retains previously-made duplicates on devices not linked to the computer that hosts Music Manager, Music Manager will not detect them. This means that a user could, prior to resale through ReDigi, store a duplicate on a compact disc, thumb drive, or third-party cloud service

unconnected to the computer that hosts Music Manager and access that duplicate post-resale.<sup>6</sup> While ReDigi's suspension of the original purchaser's ReDigi account may be a disincentive to the retention of sold files, it does not prevent the user from retaining sold files.

## II. Proceedings Below

On January 6, 2012, Plaintiffs brought this action, originally solely against ReDigi, Inc., alleging *inter alia*, that in the operation of ReDigi's system version 1.0, it infringed Plaintiffs' copyrights by unauthorized reproduction and distribution of Plaintiffs' copyrighted works. The parties cross-moved for summary judgment. On March 30, 2013, the district court granted partial summary judgment in Plaintiffs' favor finding infringement. Plaintiffs subsequently filed a first amended complaint, adding Ossenmacher and Rudolph as individual defendants. On November 2, 2015, the parties proposed a joint stipulation in which Ossenmacher and Rudolph waived their right to contest liability independent of ReDigi, Inc. On June 6, 2016, the district court entered a stipulated final judgment awarding damages to Plaintiffs in the amount of three million five hundred thousand dollars (\$3,500,000) and

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<sup>6</sup> Defendants do not dispute that, under Apple iCloud's present arrangements, a user could sell her digital music files on ReDigi, delete Music Manager, and then redownload the same files to her computer for free from the Apple iCloud. Apple's iCloud service allows one who has purchased a file from iTunes to re-download it without making a new purchase. App'x 1292 at ¶ 62.

permanently enjoining Defendants from operating the ReDigi system.<sup>7</sup> In the stipulation, Defendants reserved the right to appeal solely from the district court's finding of liability for reproduction and distribution as set forth in the summary judgment order. Defendants timely filed notice of this appeal on July 1, 2016. On August 11, 2016, the appeal was stayed as a result of the Defendants' bankruptcy proceedings in the United States Bankruptcy Court for the Southern District of Florida. The stay was lifted on December 12, 2016.

## DISCUSSION

### I. The First Sale Doctrine

The primary issue on appeal is whether ReDigi's system version 1.0 lawfully enables resales of its users' digital files. Sections 106(1) and (3) of the Copyright Act respectively grant the owner of a copyright the exclusive right to control the reproduction and the distribution of the copyrighted

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<sup>7</sup> Notwithstanding that the operative complaint addressed only ReDigi's system version 1.0 (making no mention of version 2.0, which ReDigi launched on June 11, 2012), and the record before the district court did not address version 2.0, the stipulated judgment is binding as to version 2.0 against defendants and persons in specified relationships with ReDigi, as explained *supra* in footnote 2. Because neither we, nor the district court, have decided whether version 2.0 would infringe, this opinion does not decide on the lawfulness of the use—by persons who are independent of the Defendants—of systems functioning like version 2.0, at least to the extent that their systems differ from the aspects of version 1.0 that are adjudicated in this opinion.

work.<sup>8</sup> 17 U.S.C. § 106(1) & (3). Under the first sale doctrine, codified in § 109(a), the rights holder’s control *over the distribution* of any particular copy or phonorecord that was lawfully made effectively terminates when that copy or phonorecord is distributed to its first recipient. Section 109(a) provides:

“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.”

17 U.S.C. § 109(a).

Under this provision, it is well established that the lawful purchaser of a copy of a book is free to resell, lend, give, or otherwise transfer that copy without violating the copyright holder’s exclusive right of distribution. The copy so resold or re-transferred may be re-transferred again and again without violating the exclusive distribution right. *See Kirtsaeng v. John Wiley & Sons, Inc.*, 568 U.S. 519, 530 (2013); *Quality King Distribs. v. L’Anza Research Int’l, Inc.*, 523 U.S. 135, 152 (1998); *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 351 (1908); *see*

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<sup>8</sup> “Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following: (1) to reproduce the copyrighted work in copies or phonorecords . . . [and] (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 . . . .” 17 U.S.C. § 106(1), (3).

*also* 4 Patry on Copyright § 13:15 (“Placing a lawful copy of a work in commerce exhausts the distribution and display rights with respect to that particular copy . . .”). It is undisputed that one who owns a digital file from iTunes of music that is fixed in a material object qualifies as “the owner of a particular . . . phonorecord lawfully made,” 17 U.S.C. § 109(a), and is thus entitled under § 109(a) “to sell or otherwise dispose of the possession of *that* . . . phonorecord,” *id.* (emphasis added), without violating § 106(3). On the other hand, § 109(a) says nothing about the rights holder’s control under § 106(1) over *reproduction* of a copy or phonorecord.

The district court found that resales through ReDigi were infringing for two reasons. The first reason was that, in the course of ReDigi’s transfer, the phonorecord has been reproduced in a manner that violates the Plaintiffs’ exclusive control of *reproduction* under § 106(1); the second was that the digital files sold through ReDigi, being unlawful reproductions, are not subject to the resale right established by § 109(a), which applies solely to a “particular . . . phonorecord lawfully made.” 17 U.S.C. § 109(a). We agree with the first reason underlying the district court’s finding of infringement. As that is a sufficient reason for affirmance of the judgment, we make no ruling on the district court’s second reason.

ReDigi argues on appeal that its system effectuates transfer of the *particular* digital file that the user lawfully purchased from iTunes, that it should not be deemed to have reproduced that file, and that it should therefore come within the protection of 17 U.S.C. § 109(a). ReDigi makes

two primary contentions in support of these arguments.

First, ReDigi asserts—as it must for its first sale argument to succeed—that the digital files should be considered “material objects” and therefore, under 17 U.S.C. § 101’s definition of “phonorecords” as “material objects,” should qualify as “phonorecords” eligible for the protection of § 109(a).

Second, ReDigi argues that from a technical standpoint, its process should not be seen as making a reproduction. ReDigi emphasizes that its system simultaneously “causes [packets] to be removed from the . . . file remaining in the consumer’s computer” as those packets are copied into the computer buffer and then transferred to the ReDigi server, Appellants Br. 24, so that the complete file never exists in more than one place at the same time, and the “file on the user’s machine continually shrinks in size while the file on the server grows in size.” App’x 691.<sup>9</sup> ReDigi points out that the “sum of the size of the data” stored in the original purchaser’s computer and in ReDigi’s server never exceeds the “size of the original file,” which, according to ReDigi, “confirms that no reproductions are made during the transfer process.” Appellants Br. 25.

As for ReDigi’s first argument, that the digital file it transfers is a phonorecord protected by § 109(a),

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<sup>9</sup> From October 13, 2011 until March 2012, ReDigi’s system sometimes made temporary archival copies that were deleted as soon as the migration process was complete. Those backup files have not been put at issue in this appeal.

we do not decide this issue because we find that ReDigi effectuates an unlawful reproduction even if the digital file itself qualifies as a phonorecord.<sup>10</sup>

As for ReDigi’s second argument, we reject it for the following reasons. The Copyright Act defines phonorecords as “material objects in which sounds . . . are fixed by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.” 17 U.S.C. § 101. Accordingly, when the purchaser of a digital music file from iTunes possesses that file, embodied “for a period of more than transitory duration” in a computer or other physical storage device, *Cartoon Network LP v. CSC Holdings, Inc.*, 536 F.3d 121, 127 (2d Cir. 2008) (quoting 17 U.S.C. § 101), that device—or at least the portion of it in which the digital music file is fixed (*e.g.*, the location on the hard drive)—becomes a phonorecord. *See London-Sire Records, Inc. v. Doe*, 542 F. Supp. 2d 153, 171 (D. Mass. 2008) (holding that the segment of a hard disc on which an electronic music file is encoded is a “phonorecord” under the Copyright Act). In the course of transferring a digital music file from an original purchaser’s computer, through ReDigi, to a new purchaser, the digital file is first received and stored on ReDigi’s server and then, at the new

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<sup>10</sup> A conclusion that a digital file cannot be a phonorecord would have decisive implications for a system functioning like ReDigi’s version 2.0, as well as its version 1.0. Because our understanding of the technology is limited, as is our ability to appreciate the economic implications, we find it preferable to rule more narrowly.

purchaser's option, may also be subsequently received and stored on the new purchaser's device.<sup>11</sup> At each of these steps, the digital file is fixed in a new material object "for a period of more than transitory duration." *Cartoon Network*, 536 F.3d at 127. The fixing of the digital file in ReDigi's server, as well as in the new purchaser's device, creates a new phonorecord, which is a reproduction. ReDigi version 1.0's process for enabling the resale of digital files thus inevitably involves the creation of new phonorecords by reproduction, even if the standalone digital file is deemed to be a phonorecord.

As for the argument that, as ReDigi copies a packet of data, it deletes the equivalent packet in the user's device so that the amount of data extant in the transfer process remains constant, this does not rebut or nullify the fact that the eventual receipt and storage of that file in ReDigi's server, as well as in the new purchaser's device (at his option), does involve the making of new phonorecords. Unless the creation of those new phonorecords is justified by the doctrine of fair use, which we discuss and reject in a later portion of this opinion, the creation of such new phonorecords involves unauthorized reproduction, which is not protected, or even addressed, by § 109(a).

ReDigi makes several additional arguments designed to characterize its process as involving the transfer of its users' lawfully made phonorecords, rather than the creation of new phono-

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<sup>11</sup> The new purchaser at his option may alternatively choose to leave the digital file in the new purchaser's storage locker on ReDigi's server and stream it for access.

records. None of these arguments negates the crucial fact that each transfer of a digital music file to ReDigi's server and each new purchaser's download of a digital music file to his device creates new phonorecords. ReDigi argues, for example, that during a transfer through ReDigi's data migration technology, each packet of data from the original source file resides in a buffer "for less than a second" before being overwritten, Appellants Br. 27, and thus fails to satisfy the requirement that a sound recording must be embodied "for a period of more than transitory duration" to qualify as a phonorecord, 17 U.S.C. § 101; *Cartoon Network*, 536 F.3d at 127. Even if, during transfer, ReDigi's system retains each digital file *in a computer buffer* for a period of no more than transitory duration, those files subsequently become embodied in ReDigi's server and in the new purchaser's device, where they remain for periods "of more than transitory duration." *Cartoon Network*, 536 F.3d at 127. ReDigi's server and the resale purchaser's device on which the digital music files are fixed constitute or contain new phonorecords under the statute.

ReDigi next argues that, in the course of transferring a user's file to ReDigi's own server, and to the resale purchaser's device, ReDigi sees to it that all of the original purchaser's preexisting duplicates are destroyed. As an initial matter, as noted above, ReDigi here overclaims. It does not ensure against retention of duplicate phonorecords created by the original owner. ReDigi's assertion that "there is never an instance when [an] Eligible File could exist in more than one

place or be accessed by more than one user” is simply not supported by ReDigi’s own evidence. Def. 56.1 Statement, App’x 1490. In addition, even if ReDigi effectively compensated (by offsetting deletions) for the making of unauthorized reproductions in violation of the rights holder’s exclusive reproduction right under § 106(1), nonetheless ReDigi’s process itself involves the making of unauthorized reproductions that infringe the exclusive reproduction right unless justified under fair use.<sup>12</sup> We are not free to disregard the terms of the statute merely because the entity performing an unauthorized reproduction makes efforts to nullify its consequences by the counterbalancing destruction of the pre-existing phonorecords.

ReDigi further argues, citing *ABKCO Music, Inc. v. Stellar Records, Inc.*, 96 F.3d 60 (2d Cir. 1996), that the computer hard drive into which the original purchaser’s digital file is embedded cannot be her lawfully made phonorecord. A computer hard drive, ReDigi argues, cannot qualify as a phonorecord under § 101 because it contains more

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<sup>12</sup> We recognize that the use of computers with digital files of protected matter will often result in the creation of innocuous copies which we would be loath to consider infringements because doing so would effectively bar society from using invaluable computer technology in relation to protected works. We believe this precedent will not have that undesirable effect for reasons discussed below in the section on fair use. What we consider here is that the making of unauthorized reproductions *in pursuit of an objective to distribute protected matter in competition with the rights holder*. The production of innocuous, unauthorized reproductions through the unavoidable function of a computer, when done for purposes that do not involve competing with the rights holder in its exclusive market, is outside the scope of this dispute.

than a sound recording. This argument misinterprets *ABKCO*. We held in *ABKCO* that a license to publish a phonorecord did not authorize the publication of compact discs for use in karaoke that contained both sound recordings and visual depictions of song lyrics. 96 F.3d at 64. The *ABKCO* opinion undertook to construe the breadth of a compulsory license. The opinion does not support the conclusion that a compact disc that stores visual depictions of words as well as recorded music does not *contain* a phonorecord. To be sure, a license to distribute phonorecords of a particular song would not by its terms authorize the distribution of whatever other copyrighted content is contained in a computer hard drive that also contains the recording of the song. But it does not follow that a device or other “material object[] in which sounds . . . are fixed . . . and from which the sounds can be perceived, reproduced, or otherwise communicated,” 17 U.S.C. § 101, is not a phonorecord, merely because it contains other matter as well. We reject ReDigi’s argument.<sup>13</sup>

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<sup>13</sup> ReDigi also draws our attention to the Ninth Circuit’s decision in *Recording Industry Association of America v. Diamond Multimedia Systems, Inc.*, 180 F.3d 1072 (9th Cir. 1999). In *Diamond*, the Ninth Circuit held that “a hard drive is excluded from the definition of digital music recordings” under the Audio Home Recording Act (“AHRA”) because § 1001(5)(B) expressly provides that a “digital music recording” does *not* include material objects “in which one or more computer programs are fixed,” and “a hard drive is a material object in which one or more [computer] programs are fixed.” *Id.* at 1076. Even if we were to accept the Ninth Circuit’s construction of the term “digital music recording” under the AHRA, that would not alter the meaning of the term “phonorecord” under § 101 of the Copyright Act. *See id.* at 1077 n.4.

Finally, ReDigi argues that the district court's conclusion makes no sense because it would "require a customer to sell her [valuable] computer in order to be able to sell a[n] . . . iTunes music file" that was lawfully purchased for under \$1.00. Appellants Br. 28. Of course it would make no economic sense for a customer to sell her computer or even a \$5.00 thumb drive in order to sell "a[n] . . . iTunes music file" purchased for \$1.00. But ReDigi far overstates its economic argument when it asserts that the "district court's ruling . . . eliminat[es] any meaningful competition from resellers" as "no secondary market . . . can ever develop if consumers are required to give away their computer hard disks as part of any resale." Appellants Br. 35. A secondary market can readily be imagined for first purchasers who cost-effectively place 50 or 100 (or more) songs on an inexpensive device such as a thumb drive and sell it. See U.S. Copyright Office, Library of Cong., Digital Millennium Copyright Act § 104 Report 78 (2001) ("DMCA Report 2001") ("Physical copies of works in a digital format, such as CDs or DVDs, are subject to section 109 in the same way as physical copies of works in analog form."); 4 Patry on Copyright § 13:23 (observing that § 109 permits the sale of an iPod that contains lawfully made digital music files). Furthermore, other technology may exist or be developed that could lawfully effectuate a digital first sale.

We conclude that the operation of ReDigi version 1.0 in effectuating a resale results in the making of at least one unauthorized reproduction. Unauthorized reproduction is not protected by § 109(a). It violates the rights holder's exclusive reproduction

rights under § 106(1) unless excused as fair use. For reasons explained below, we conclude that the making of such reproductions is not a fair use.

Our conclusion is supported by the fact that the Copyright Office also concluded that the resale of digital files is infringing. In 1998, Congress mandated that the Register of Copyrights evaluate “the relationship between existing and emergent technology and the operation of section[] 109 . . . .” Digital Millennium Copyright Act, Pub. L. No. 105-304, 112 Stat. 2860, 2876 (1998). The Copyright Office conducted a multi-year evaluation, including review of comments and testimony from the public, academia, libraries, copyright organizations and copyright owners. DMCA Report 2001 at vi. The Register concluded that § 109 does not apply to otherwise unauthorized digital transmissions of a copyrighted work, reasoning that such transmissions cause the recipient to obtain a new copy of the work. *Id.* at 79-80. The Register reasoned that the creation of a new copy of the work would constitute an unauthorized reproduction falling outside the authorization of § 109(a). *Id.*; *see also* 2 Nimmer on Copyright § 8.13[A] (describing the Register’s “recommend[ation] against amending the Copyright Act to facilitate a digital *first sale*”).

ReDigi argues that the Register’s 2001 report is obsolete because it presumed that the only way to transfer digital files over the Internet was by the traditional “copy and delete” method, whereas new technologies either have been or might be developed that transfer digital files over the Internet using a non-infringing method. Plaintiffs counter that, in

2016, the Register again asserted that “a digital file transfer creates a new copy or phonorecord on the transferee’s computer” and thus does not qualify for first sale protection. U.S. Copyright Office, Library of Cong., *The Making Available Right in the United States* 22, n.94 (2016) (quoting the district court’s decision in this action with approval). We need not pronounce upon the ongoing relevance of the Register’s 2001 report, or decide whether *all* digital file transmissions over the Internet make reproductions, to determine that ReDigi’s system version 1.0 does so.<sup>14</sup>

## II. Fair Use

ReDigi argues that, regardless of whether what it does is protected by § 109(a), its actions are protected under the doctrine of fair use. We evaluate ReDigi’s claim in accordance with the fair use statute. Section 107 of the Copyright Act provides:

[T]he fair use of a copyrighted work . . . for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case

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<sup>14</sup> Having rejected ReDigi’s arguments for the reasons explained above, we have no need to consider whether an electronic digital music file, independent of any physical storage device in which the file is fixed, can qualify as a phonorecord in view of § 101’s definition of phonorecords as “material objects.” 17 U.S.C. §101.

is a fair use the factors to be considered shall include—

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to
- (4) the effect of the use upon the potential market for or value of the copyrighted work.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

17 U.S.C. § 107.

ReDigi’s argument for fair use in its opening brief did not address the statutory factors. Nonetheless, we consider each in turn.

*A. Factor One*

Factor One considers “the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes.” § 107(1). The Supreme Court has observed that this factor favors secondary uses that are transformative, meaning that the use “adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message[,]” rather than merely superseding the original work. *Campbell v.*

*Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994). Uses that criticize, comment on, provide information about, or provide new uses for the copyrighted work are those likely to be deemed transformative. *See, e.g., Campbell*, 510 U.S. at 580-81 (“Parody needs to mimic an original to make its point, and so has some claim to use the creation of its victim’s . . . imagination, whereas satire can stand on its own two feet and so requires justification for the very act of borrowing.”) (internal citations and footnote omitted). Similarly, a secondary use may be transformative if it provides information about the original, “or expands its utility.” *Authors Guild v. Google, Inc.*, 804 F.3d 202, 214 (2d Cir. 2015) (“Google Books”). Examples of such utility-expanding transformative fair uses have included scanning books to create a full-text searchable database and public search function (in a manner that did not allow users to read the texts), *Authors Guild, Inc. v. HathiTrust*, 755 F.3d 87, 97-98 (2d Cir. 2014); copying works into a database used to detect plagiarism, *A.V. ex rel. Vanderhuy v. iParadigms, LLC*, 562 F.3d 630, 639 (4th Cir. 2009); displaying tiny, low-resolution “thumbnail” reproductions of art works to provide links serving as Internet pathways to the appropriate websites containing the originals, *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1165 (9th Cir. 2007); *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 818-19 (9th Cir. 2003), and copying by one who has acquired the right to view the content of a telecast to enable a single, non-commercial home viewing at a more convenient time, *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417,

421, 448-55 (1984). In *Sony*, the “apparent reasoning was that a secondary use may be a fair use if it utilizes technology to achieve the transformative purpose of improving the efficiency of delivering content without unreasonably encroaching on the commercial entitlements of the rights holder” because the improved delivery was to one entitled to receive the content. *Fox News Network, LLC v. TVEyes, Inc.*, 883 F.3d 169, 177 (2d Cir. 2018).

ReDigi makes no change in the copyrighted work. It provides neither criticism, commentary, nor information about it. Nor does it deliver the content in more convenient and usable form to one who has acquired an entitlement to receive the content. What ReDigi does is essentially to provide a market for the resale of digital music files, which resales compete with sales of the same recorded music by the rights holder. These characteristics of ReDigi’s use favor Plaintiffs under Factor One.

In addition, while the mere fact of a commercial motivation rarely pushes the first factor determination against fair use (as so many of the canonical fair uses, such as book reviews; quotation of prominent figures in news reports, news commentary, and history books; the performance of parodic plays; and the sale of parodic books, are all commercial, *see Google Books*, 804 F.3d at 219), in some circumstances a commercial motive will weigh against a finding of fair use under Factor One. As noted in *Campbell*, the less a use provides transformative value, the more its commercialism will weigh against a

finding of fair use. *See* 510 U.S. at 579. Here, ReDigi hosts a remunerative marketplace that enables resale by purchasers of digital music files, which is a commercial purpose. Especially in view of the total absence (or at least very low degree) of transformative purpose, the commercial motivation here argues against ReDigi with respect to Factor One.

*B. Factor Two*

The second fair use factor concerns “the nature of the copyrighted work.” 17 U.S.C. § 107(2). Except to the extent that the nature of the copyrighted work is necessarily considered alongside the character and purpose of the secondary use in deciding whether the secondary use has a transformative purpose, it rarely, by itself, furnishes any substantial reasoning for favoring or disfavoring fair use. *See Google Books*, 804 F.3d at 220. This case is no exception.

*C. Factor Three*

The third factor considers “the amount and substantiality of the portion [of the original] used in relation to the copyrighted work as a whole.” 17 U.S.C. § 107(3). ReDigi’s system makes identical copies of the whole of Plaintiffs’ copyrighted sound recordings. Although use of the entirety of a digital file is not necessarily inconsistent with a finding of fair use, *see Google Books*, 804 F.3d at 221-22; *HathiTrust*, 755 F.3d at 98; *iParadigms*, 562 F.3d at 642; *Perfect 10*, 508 F.3d at 1165; *Arriba Soft*, 336 F.3d at 818-19, it tends to disfavor a finding of fair use.

*D. Factor Four*

The fourth statutory factor is “the effect of the [copying] use upon the potential market for or value of the copyrighted work.” § 107(4). When a secondary use competes in the rightsholder’s market as an effective substitute for the original, it impedes the purpose of copyright to incentivize new creative works by enabling their creators to profit from them. For this reason, the Supreme Court in *Harper & Row Publishers, Inc. v. Nation Enterprises* described the fourth factor as “undoubtedly the single most important element of fair use.” 471 U.S. 539, 566 (1985) (relying on the Nimmer treatise).<sup>15</sup> Factor Four “focuses on whether the copy brings to the marketplace a competing substitute for the original, or its derivative, so as to deprive the rights holder of significant revenues because of the likelihood that potential purchasers may opt to acquire the copy in preference to the original.” *TVEyes*, 883 F.3d at 179 (quoting *Google Books*, 804 F.3d at 223). Factor Four is necessarily intertwined with Factor One; the more the objective of secondary use

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<sup>15</sup> *Harper & Row* cited 3 Nimmer § 13.05[A]. See 4 Nimmer § 13:05[A] (“The fourth factor . . . emerges as the most important, and indeed, central fair use factor.”). To be clear, a secondary use may seriously harm the value of the copyright for the quoted material and yet be a clear case of fair use, such as where a critic pans a new book, quoting passages to show its absurdity. See Pierre N. Leval, *Fair Use Rescued*, 44 UCLA L. Rev. 1449, 1459 (1997). In such circumstances, a secondary use’s infliction of harm on the value of the copyright does not enlist the fourth factor against the copying use, as it would where the copying work offers a substitute for the original.

differs from that of the original, the less likely it will supplant the commercial market for the original. *See Google Books*, 804 F.3d at 223.

As Plaintiffs argue, ReDigi made reproductions of Plaintiffs' works for the purpose of resale in competition with the Plaintiffs' market for the sale of their sound recordings.<sup>16</sup> ReDigi's replicas were sold to the same consumers whose objective in purchasing was to acquire Plaintiffs' music. It is also of possible relevance that there is a distinction between ReDigi's resales and resales of physical books and records. The digital files resold by ReDigi, although used, do not deteriorate the way printed books and physical records deteriorate. As the district court observed, the principal difference between the "product sold in ReDigi's secondary market" and that sold by Plaintiffs or their licensees in the primary market was its lower price. *Capitol Records, LLC v. ReDigi Inc.*, 934 F. Supp. 2d 640, 654 (S.D.N.Y. 2013).

Factor Four weighs powerfully against fair use.

#### *E. Factors Weighed Together Four*

The Supreme Court has instructed that, to ascertain whether there is fair use, all four of the statutory factors must be weighed together. *Campbell*, 510 U.S. at 577-78. Our consideration is informed by our recent holding in *TVEyes*, 883 F.3d at 175. TVEyes copied all televised video

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<sup>16</sup> To the extent a reproduction was made solely for cloud storage of the user's music on *ReDigi's* server, and not to facilitate resale, the reproduction would likely be fair use just as the copying at issue in *Sony* was fair use.

programming throughout the nation, together with its accompanying closed-captioned text, into a database. It offered a commercial subscription service through which business and professional clients could search the transcripts, receive a list of video segments that mentioned the searched terms, and then view up to ten minutes of each video segment. *Id.* Fox News Network, a producer of televised content, sued, claiming that TVEyes's distribution of Fox's programming to TVEyes's subscribers infringed Fox's copyright. *Id.* We found that TVEyes's secondary use deployed modestly transformative technology (akin to the time shifting technology of *Sony*) in that "it enable[d] nearly instant access to a subset of material—and to information about the material—that would otherwise be irretrievable, or else retrievable only through prohibitively inconvenient or inefficient means." *Id.* at 177. As in *Sony*, it enabled its customers to view "programming they want at a time and place that is convenient to them, rather than at the time and place of broadcast." *Id.* at 177-78. Nonetheless, we held that TVEyes's use was not a fair use because it substantially competed with the rights holders' legitimate market. *Id.* at 180. By providing Fox's copyrighted programming to its clients "without payment to [the rights holder], TVEyes . . . usurped a market that properly belong[ed] to the copyright-holder." *Id.* (internal quotation marks and alteration omitted).

*TVEyes* is a substantial precedent for our holding here. The transformative purpose and character of TVEyes's use, while modest, was far more transformative than what ReDigi has shown

here. TVEyes’s transformative uses were nonetheless easily outweighed by the harm to the rights holders’ market considered under Factor Four. *Id.* at 181. Even if ReDigi is credited with some faint showing of a transformative purpose, that purpose is overwhelmed by the substantial harm ReDigi inflicts on the value of Plaintiffs’ copyrights through its direct competition in the rights holders’ legitimate market, offering consumers a substitute for purchasing from the rights holders. We find no fair use justification.

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We conclude by addressing policy-based arguments raised by ReDigi and its amici. They contend that ReDigi’s version 1.0 ought to be validated as in compliance with § 109(a) because it allows for realization of an economically beneficial practice, originally authorized by the courts in the common law development of copyright, *see Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908), and later endorsed by Congress. They also contend that the Copyright Act must be read to vindicate purchasers’ ability to alienate digital copyrighted works under the first sale doctrine—emphasizing that § 109(a) is styled as an entitlement rather than a defense to infringement—without regard to technological medium. *See* Copyright Law Professors Br. 4, 12, 14; *see also* Appellants Br. 38-41. On this score, they rely heavily on the breadth of the common law first sale doctrine, and on a purported imperative, described as the “principle of technological neutrality” by amici and the “equal treatment principle” by

ReDigi, not to disadvantage purchasers of digital copyrighted works, as compared with purchasers of physical copyrighted works. *See* Copyright Law Professors Br. 14; Appellants Br. 36-42.

As for whether the economic consequences of ReDigi's program are beneficial and further the objectives of copyright, we take no position. Courts are poorly equipped to assess the inevitably multifarious economic consequences that would result from such changes of law. So far as we can see, the establishment of ReDigi's resale marketplace would benefit some, especially purchasers of digital music, at the expense of others, especially rightsholders, who, in the sale of their merchandise, would have to compete with resellers of the same merchandise in digital form, which, although second hand, would, unlike second hand books and records, be as good as new.

Furthermore, as to the argument that we should read § 109(a) to accommodate digital resales because the first sale doctrine protects a fundamental entitlement, without regard to the terms of § 109(a) (and incorporated definitions), we think such a ruling would exceed the proper exercise of the court's authority. The copyright statute is a patchwork, sometimes varying from clause to clause, as between provisions for which Congress has taken control, dictating both policy and the details of its execution, and provisions in which Congress approximatively summarized common law developments, implicitly leaving further such development to the courts. The paradigm of the latter category is § 107 on fair

use. See *Campbell*, 510 U.S. at 577 (“Congress meant § 107 ‘to restate the present judicial doctrine of fair use, not to change, narrow, or enlarge it in any way’ and intended that courts continue the common-law tradition of fair use adjudication.” (quoting H.R. Rep. No. 94–1476, 66 (1976)); see also *Google Books*, 804 F.3d at 213 (“[I]n passing the statute, Congress had no intention of normatively dictating fair use policy.”). In the provisions here relevant, Congress dictated the terms of the statutory entitlements. Notwithstanding the purported breadth of the first sale doctrine as originally articulated by the courts, see *Bobbs-Merrill Co.*, 210 U.S. at 350 (“[T]he copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose . . . a limitation at which the book shall be sold at retail by future purchasers . . . .”); *Bureau of Nat’l Literature v. Sells*, 211 F. 379, 381-82 (W.D. Wash. 1914) (finding no infringement, in light of first sale doctrine, where reseller re-bound used books and held them out as new books), Congress, in promulgating § 109(a), adopted a narrower conception, which negates a claim of unauthorized *distribution* in violation of the author’s exclusive right under § 106(3), but not a claim of unauthorized *reproduction* in violation of the exclusive right provided by § 106(1). If ReDigi and its champions have persuasive arguments in support of the change of law they advocate, it is Congress they should persuade. We reject the invitation to substitute our judgment for that of Congress.

CONCLUSION

We have considered ReDigi's remaining arguments against the district court's ruling and find them to be without merit. The judgment of the district court is AFFIRMED.

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Appendix B

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

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12 Civ. 0095 (RJS)

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CAPITOL RECORDS, LLC, CAPITOL  
CHRISTIAN MUSIC GROUP, INC. and  
VIRGIN RECORDS IR HOLDINGS, INC.,

—against— *Plaintiffs,*

REDIGI INC., JOHN OSSENMACHER and  
LARRY RUDOLPH a/k/a LAWRENCE S. ROGEL,

*Defendants.*

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**STIPULATED FINAL JUDGMENT  
SUBJECT TO RESERVATION OF  
RIGHT OF APPEAL**

WHEREAS, on January 6, 2012, Capitol Records, LLC (“Capitol”) commenced this action (the “Action”) against ReDigi Inc. (“ReDigi”), alleging that aspects of the ReDigi music service, which asserted that it provided an online marketplace for among other things the alleged “re-sale” of digital music files, constituted copyright infringement of Capitol’s sound recordings under the United States Copyright Act and the common law of the State of New York; and

WHEREAS, on March 30, 2013, the Court issued a Memorandum and Order in the Action (ECF No. 109) granting Capitol’s motion for summary judgment finding ReDigi directly and secondarily liable for copyright infringement based on the unauthorized reproduction and distribution of Capitol’s sound recordings (the “Summary Judgment Order”); and

WHEREAS, on August 30, 2013, Capitol filed a First Amended Complaint in the Action adding ReDigi’s founders, John Ossenmacher (“Ossenmacher”) and Larry Rudolph a/k/a Lawrence S. Rogel (“Rudolph”), as additional defendants; and

WHEREAS, on October 30, 2014, Capitol, Capitol Christian Music Group, Inc. (“CCMG”) and Virgin Records IR Holdings, Inc. (“Virgin”) filed a Second Amended Complaint in the Action adding CCMG and Virgin as additional plaintiffs; and

WHEREAS, on November 2, 2015, the Court entered an order approving a joint conditional stipulation as to the individual liability of Ossenmacher and Rudolph for copyright infringement; and

WHEREAS, the Court has scheduled a trial for April 11, 2016 in order to determine the amount of damages to which Capitol, CCMG and Virgin (collectively, "Plaintiffs") are entitled against ReDigi, Ossenmacher and Rudolph (the "ReDigi Parties") for the copyright infringement claims previously adjudicated in the Summary Judgment Order; and

WHEREAS, in order to avoid the expense and burden of a damages trial, while reserving Defendants' right to appeal the Summary Judgment Order, the parties have agreed to enter into this Stipulated Conditional Final Judgment to fix the amount of damages and the form of an injunction and permit the parties to proceed to an appeal of the Summary Judgment Order.

NOW, THEREFORE, IT IS HEREBY ORDERED, ADJUDGED AND DECREED as follows:

1. This Court has jurisdiction over the parties hereto and over the subject matter in issue, and venue is proper in this District.
2. In the interest of efficiency and judicial economy, Plaintiffs and the ReDigi Parties agree to stipulate to the amount of damages set forth in paragraph 4 below and the form of a final injunction set forth in paragraph 5 below in order to permit this case to proceed to an appeal of the

Summary Judgment Order. The relief awarded in paragraphs 4 and 5 below is expressly conditioned on the ReDigi Parties' reservation of their right of appeal as set forth in paragraph 3 below.

3. The parties stipulate that the the ReDigi Parties have expressly reserved their right on appeal to challenge solely the judgment of liability for copyright infringement as addressed in the Summary Judgment Order and no other rulings or orders in this case. If the judgment of liability for copyright infringement is reversed or vacated on appeal, wholly or partially, this Stipulated Final Judgment shall be set aside to the extent inconsistent with any such decision on appeal or ruling of this Court on remand. For the purpose of clarity, to the extent the question of the ReDigi Parties' liability for copyright infringement is reversed, reversed in part, or vacated and remanded, in whole or in part, both the damages award and the injunction will be set aside to the extent inconsistent with such a ruling. Otherwise, the parties agree that the provisions of this Stipulated Final Judgment, including the award of damages and injunction set forth in paragraphs 4 and 5, shall be fully binding on all parties. Enforcement of this Stipulated Conditional Final Judgment shall not be stayed pending appeal.

4. Subject to paragraphs 2-3 above, the parties stipulate that the amount of damages awarded to Plaintiffs against the ReDigi Parties jointly and severally shall be three million five hundred thousand dollars (\$3,500,000). For purpose of this judgment, the amount of damages is stipulated to

be an equal amount for each recording Plaintiffs have accused Defendants of infringing.

5. Subject to paragraphs 2-3 above, the ReDigi Parties and any of their respective officers, agents, servants, representatives, directors, affiliates, employees, successors, assigns and licensees and any other entities which the ReDigi Parties control, to the extent such persons or entities are working under the ReDigi Parties' control, and all persons or companies in active concert or participation with any of them or acting on their behalf, are permanently enjoined and restrained from directly engaging in the United States or assisting others in engaging in the United States in the unauthorized sale, offering for sale, or distribution, or reproduction facilitating such sale, offer for sale or distribution, of any copyrighted sound recordings or musical compositions owned by Plaintiffs, UMG Recordings, Inc. or any of their parents, subsidiaries, affiliated or related companies, divisions or record labels (collectively, "UMG Content"), or any other direct or secondary infringement of the copyrights in UMG Content in the United States, including, without limitation, by operating, offering, using or otherwise exploiting the services known as ReDigi 1.0 and ReDigi 2.0..

6. The parties agree that costs (other than attorneys' fees) shall not be awarded. However, Plaintiffs shall have the right under this Judgment to move for an award of attorneys' fees, provided that the amount of such fees to be sought by Plaintiffs shall be capped at not more than five

hundred thousand dollars (\$500,000) and the ReDigi Parties shall retain the right to oppose any such motion for an award of attorneys' fees. Nothing contained herein shall have any effect on the right of Plaintiffs or the ReDigi Parties to seek an award of attorneys' fees in connection with the appeal of this Stipulated Conditional Final Judgment or any future proceedings in the District Court that may occur following the entry of this Stipulated Conditional Final Judgment.

7. This Court shall retain continuing jurisdiction over the parties to this Stipulated Conditional Final Judgment and over the subject matter of the Action for the purposes of interpreting and enforcing the terms of this Stipulated Final Judgment, subject to the ReDigi Parties' right of appeal set forth above

AGREED AS TO FORM AND SUBSTANCE:

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Title: Head of Litigation

CAPITOL CHRISTIAN MUSIC GROUP, INC.

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Name: Alasdair J. McMullan

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VIRGIN RECORDS IR HOLDINGS, INC.

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By: /s/ John Ossenmacher

Name:

Title: President

By: /s/ John Ossenmacher

Name:

Title: President

By: /s/

LARRY RUDOLPH a/k/a

LAWRENCE S. ROGEL

Attorneys for Defendants

APPROVED AND ORDERED this 3<sup>rd</sup> day of June,  
2016

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By: /s/  
Richard J. Sullivan, U.S.D.J.

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Appendix C

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

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No. 12 Civ. 95(RJS)

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CAPITOL RECORDS, LLC,  
*Plaintiff,*

—v.—

REDIGI, INC,  
*Defendant.*

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MEMORANDUM AND ORDER

March 30, 2013

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RICHARD J. SULLIVAN, District Judge:

Capitol Records, LLC (“Capitol”), the recording label for such classic vinyls as Frank Sinatra’s “Come Fly With Me” and The Beatles’ “Yellow Submarine”, brings this action against ReDigi Inc. (“ReDigi”), a twenty-first century technology company that touts itself as a virtual marketplace for pre-owned digital music. What has ensued is a fundamental clash over culture, policy, and copyright law, with Capitol alleging that ReDigi’s web-based service amounts to copyright infringement in violation of the Copyright Act of 1976 (the “Copyright Act”), 17 U.S.C. 101 *et seq.* Now before the Court are Capitol’s motion for partial summary judgment and ReDigi’s motion for summary judgment, both filed pursuant to Federal Rule of Civil Procedure 56. Because this is a court of law and not a congressional subcommittee or technology blog, the issues are narrow, technical, and purely legal. Thus, for the reasons that follow, Capitol’s motion is granted and ReDigi’s motion is denied.

## I. BACKGROUND

### A. Facts

ReDigi markets itself as “the world’s first and only online marketplace for digital used music.”<sup>1</sup>

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<sup>1</sup> The facts are taken from the pleadings, the parties’ Local Civil Rule 56.1 Statements, the affidavits submitted in connection with the instant motions, and the exhibits attached thereto. The facts are undisputed unless otherwise noted. Where one party’s 56.1 Statement is cited, the other

(Capitol 56.1 Stmt., Doc. No. 50 (“Cap. 56.1”), ¶ 6.) Launched on October 13, 2011, ReDigi’s website invites users to sell their legally acquired digital music files, and buy used digital music from others at a fraction of the price currently available on iTunes. (*Id.* ¶¶ 6, 9.) Thus, much like used record stores, ReDigi permits its users to recoup value on their unwanted music. Unlike used record stores, however, ReDigi’s sales take place entirely in the digital domain. (*See* ReDigi Reply 56.1 Stmt., Doc. No. 83 (“RD Rep. 56.1”), 4 ¶ 16.)

To sell music on ReDigi’s website, a user must first download ReDigi’s Media Manager to his computer. (ReDigi 56.1 Stmt., Doc. No. 56 (RD 56.1), ¶ 8.) Once installed, Media Manager analyzes the user’s computer to build a list of digital music files eligible for sale. (*Id.*) A file is eligible only if it was purchased on iTunes or from another ReDigi user; music downloaded from a CD or other file-sharing website is ineligible for sale. (*Id.*) After this validation process, Media Manager continually runs on the user’s computer and attached devices to ensure that the user has not retained music that has been sold or uploaded for sale. (*Id.* ¶ 10.) However, Media Manager cannot detect copies stored in other locations. (Cap. 56.1 5961, 63; *see* Capitol Reply 56.1 Stmt., Doc. No. 78 (Cap. Rep. 56.1), ¶ 10.) If a copy is detected, Media Manager prompts the user to delete the file. (Cap. 56.1 ¶ 64.) The file is not deleted automatically or involuntarily, though ReDigi’s

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party does not dispute the fact asserted, has offered no admissible evidence to refute that fact, or merely objects to inferences drawn from that fact.

policy is to suspend the accounts of users who refuse to comply. (*Id.*)

After the list is built, a user may upload any of his eligible files to ReDigi's "Cloud Locker", an ethereal moniker for what is, in fact, merely a remote server in Arizona. (RD 56.1 ¶¶ 9, 11; Cap. 56.1 ¶22.) ReDigi's upload process is a source of contention between the parties. (*See* RD 56.1 ¶¶ 14-23; Cap. Rep. 56.1 ¶¶ 14-23.) ReDigi asserts that the process involves "migrating" a user's file, packet by packet – "analogous to a train" – from the user's computer to the Cloud Locker so that data does not exist in two places at any one time.<sup>2</sup> (RD 56.1 ¶¶ 14, 36.) Capitol asserts that, semantics aside, ReDigi's upload process "necessarily involves copying" a file from the user's computer to the Cloud Locker. (Cap. Rep. 56.1 ¶14.) Regardless, at the end of the process, the digital music file is located in the Cloud Locker and not on the user's computer. (RD 56.1 ¶ 21.) Moreover, Media Manager deletes any additional copies of the file on the user's computer and connected devices. (*Id.* ¶ 38.)

Once uploaded, a digital music file undergoes a second analysis to verify eligibility. (Cap. 56.1 ¶¶ 31-32.) If ReDigi determines that the file has not been tampered with or offered for sale by another user, the file is stored in the Cloud Locker, and the user is given the option of simply storing and

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<sup>2</sup> A train was only one of many analogies used to describe ReDigi's service. At oral argument, the device was likened to the Star Trek transporter – "Beam me up, Scotty" – and Willy Wonka's teleportation device, Wonkavision. (Tr., dated Oct. 5, 2012 ("Tr."), 10:2-12; 28:15-20.)

streaming the file for personal use or offering it for sale in ReDigi's marketplace. (*Id.* ¶¶ 33-37.) If a user chooses to sell his digital music file, his access to the file is terminated and transferred to the new owner at the time of purchase. (*Id.* ¶ 49.) Thereafter, the new owner can store the file in the Cloud Locker, stream it, sell it, or download it to her computer and other devices. (*Id.* ¶ 50.) No money changes hands in these transactions. (RD Rep. 56.1 5 ¶ 18.) Instead, users buy music with credits they either purchased from ReDigi or acquired from other sales. (*Id.*) ReDigi credits, once acquired, cannot be exchanged for money. (*Id.*) Instead, they can only be used to purchase additional music. (*Id.*)

To encourage activity in its marketplace, ReDigi initially permitted users to preview thirty-second clips and view album cover art of songs posted for sale pursuant to a licensing agreement with a third party. (*See* RD 56.1 ¶¶ 73-78.) However, shortly after its launch, ReDigi lost the licenses. (*Id.*) Accordingly, ReDigi now sends users to either YouTube or iTunes to listen to and view this promotional material. (*Id.* ¶¶ 77, 79.) ReDigi also offers its users a number of incentives. (Cap. 56.1 ¶ 39.) For instance, ReDigi gives twenty-cent credits to users who post files for sale and enters active sellers into contests for prizes. (*Id.* ¶¶ 39, 42.) ReDigi also encourages sales by advising new users via email that they can “[c]ash in” their music on the website, tracking and posting the titles of sought after songs on its website and in its newsletter, notifying users when they are low on credits and advising them to either purchase more credits or sell songs, and connecting users

who are seeking unavailable songs with potential sellers. (*Id.* ¶¶ 39-48.)

Finally, ReDigi earns a fee for every transaction. (*Id.* ¶ 54.) ReDigi’s website prices digital music files at fifty-nine to seventy-nine cents each. (*Id.* ¶ 55.) When users purchase a file, with credits, 20% of the sale price is allocated to the seller, 20% goes to an escrow fund for the artist, and 60% is retained by ReDigi.<sup>3</sup> (*Id.*)

### B. Procedural History

Capitol, which owns a number of the recordings sold on ReDigi’s website, commenced this action by filing the Complaint on January 6, 2012. (*See* Complaint, dated Jan. 5, 2012, Doc. No. 1 (“Compl.”); Cap. 56.1 ¶¶ 68-73.) In its Complaint, Capitol alleges multiple violations of the Copyright Act, 17 U.S.C. 101, *et seq.*, including direct copyright infringement, inducement of copyright infringement, contributory and vicarious copyright infringement, and common law copyright infringement. (Compl. ¶¶ 44-88.) Capitol seeks preliminary and permanent injunctions of ReDigi’s services, as well as damages, attorney’s

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<sup>3</sup> On June 11, 2012, ReDigi launched ReDigi 2.0, new software that, when installed on a user’s computer, purportedly directs the user’s new iTunes purchases to upload from iTunes directly to the Cloud Locker. (RD 56.1 ¶¶ 40-41.) Accordingly, while access may transfer from user to user upon resale, the file is never moved from its initial location in the Cloud Locker. (*Id.* ¶¶ 44-52.) However, because ReDigi 2.0 launched after Capitol filed the Complaint and mere days before the close of discovery, the Court will not consider it in this action. (*See* Tr. 19:220:3.)

fees and costs, interest, and any other appropriate relief. (*Id.* at 1718.) On February 6, 2012, the Court denied Capitol’s motion for a preliminary injunction, finding that Capitol had failed to establish irreparable harm. (Doc. No. 26.)

On July 20, 2012, Capitol filed its motion for partial summary judgment on the claims that ReDigi directly and secondarily infringed Capitol’s reproduction and distribution rights. (Doc. No. 48.) ReDigi filed its cross-motion the same day, seeking summary judgment on all grounds of liability, including ReDigi’s alleged infringement of Capitol’s performance and display rights.<sup>4</sup> (Doc. No. 54.) Both parties responded on August 14, 2012 and replied on August 24, 2012. (Doc. Nos. 76, 79, 87, 90.) The Court heard oral argument on October 5, 2012.

## II. LEGAL STANDARD

Pursuant to Federal Rule of Civil Procedure 56(a), a court may not grant a motion for summary judgment unless “the movant shows that there is no genuine dispute as to any material fact and the movant is entitled to judgment as a

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<sup>4</sup> ReDigi’s arguments in this round of briefing differ markedly from those it asserted in opposition to Capitol’s motion for a preliminary injunction. (*See* ReDigi Opp’n to Prelim. Inj., dated Jan. 27, 2012, Doc. No. 14 (“ReDigi Opp’n to PI”).) For instance, ReDigi no longer asserts an essential step defense, nor does it argue that copying to the Cloud Locker for storage is protected by the fair use defense. (*Id.* at 914.) ReDigi has also abandoned its argument that the Digital Millennium Copyright Act, 17 U.S.C. 512, bars Capitol’s claim. (*Id.* at 22.) As such, the Court will consider only those arguments made in the instant motions.

matter of law.” Fed. R. Civ. P. 56(a); *see Celotex Corp. v. Catrett*, 477 U.S. 317, 322-23, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986). The moving party bears the burden of showing that it is entitled to summary judgment. *See Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 256 (1986). The court “is not to weigh evidence but is instead required to view the evidence in the light most favorable to the party opposing summary judgment, to draw all reasonable inferences in favor of that party, and to eschew credibility assessments.” *Amnesty Am. v. Town of W. Hartford*, 361 F.3d 113, 122 (2d Cir. 2004) (internal quotation marks omitted); *accord Anderson*, 477 U.S. at 249. As such, “if there is any evidence in the record from any source from which a reasonable inference in the [nonmoving party’s] favor may be drawn, the moving party simply cannot obtain a summary judgment.” *Binder & Binder PC v. Barnhart*, 481 F.3d 141, 148 (2d Cir. 2007) (internal quotation marks omitted).

Inferences and burdens of proof on cross-motions for summary judgment are the same as those for a unilateral motion. *See Straube v. Fla. Union Free Sch. Dist.*, 801 F. Supp. 1164, 1174 (S.D.N.Y. 1992). “That is, each cross-movant must present sufficient evidence to satisfy its burden of proof on all material facts.” *U.S. Underwriters Ins. Co. v. Roka LLC*, No. 99 Civ. 10136 (AGS), 2000 WL 1473607, at \*3 (S.D.N.Y. Sept. 29, 2000); *see Barhold v. Rodriguez*, 863 F.2d 233, 236 (2d Cir. 1988).

### III. DISCUSSION

Section 106 of the Copyright Act grants “the owner of copyright under this title” certain “exclusive rights,” including the right “to reproduce the copyrighted work in copies or phonorecords,” “to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership,” and to publicly perform and display certain copyrighted works. 17 U.S.C. §§ 106(1), (3)-(5). However, these exclusive rights are limited by several subsequent sections of the statute. Pertinently, Section 109 sets forth the “first sale” doctrine, which provides that “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.” *Id.* 109(a). The novel question presented in this action is whether a digital music file, lawfully made and purchased, may be resold by its owner through ReDigi under the first sale doctrine. The Court determines that it cannot.

#### A. Infringement of Capitol’s Copyrights

To state a claim for copyright infringement, a plaintiff must establish that it owns a valid copyright in the work at issue and that the defendant violated one of the exclusive rights the plaintiff holds in the work. *Twin Peaks Prods., Inc. v. Publ’ns Int’l, Ltd.*, 996 F.2d 1366, 1372 (2d Cir. 1993) (citing *Feist Publ’ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 361 (1991)). It is undisputed that Capitol owns copyrights in a number of the

recordings sold on ReDigi's website. (See Cap. 56.1 ¶¶ 68-73; RD Rep. 56.1 18-19, ¶¶ 68-73; Decl. of Richard S. Mandel, dated July 19, 2012, Doc. No. 52 ("Mandel Decl."), ¶ 16, Ex. M; Decl. of Alasdair J. McMullan, dated July 19, 2012, Doc. No. 51 ("McMullan Decl."), ¶¶ 3-5, Ex. 1.) It is also undisputed that Capitol did not approve the reproduction or distribution of its copyrighted recordings on ReDigi's website. Thus, if digital music files are "reproduce[d]" and "distribute[d]" on ReDigi's website within the meaning of the Copyright Act, Capitol's copyrights have been infringed.

### 1. Reproduction Rights

Courts have consistently held that the unauthorized duplication of digital music files over the Internet infringes a copyright owner's exclusive right to reproduce. See, e.g., *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1014 (9th Cir. 2001). However, courts have not previously addressed whether the unauthorized transfer of a digital music file over the Internet – where only one file exists before and after the transfer – constitutes reproduction within the meaning of the Copyright Act. The Court holds that it does.

The Copyright Act provides that a copyright owner has the exclusive right "to reproduce the copyrighted work *in . . . phonorecords.*" 17 U.S.C. § 106(1) (emphasis added). Copyrighted works are defined to include, *inter alia*, "sound recordings, which are works that result from the fixation of a series of musical, spoken, or other

sounds.” *Id.* § 101. Such works are distinguished from their material embodiments. These include phonorecords, which are the “*material objects* in which sounds . . . are fixed by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.” *Id.* § 101 (emphasis added). Thus, the plain text of the Copyright Act makes clear that reproduction occurs when a copyrighted work is fixed in a new *material object*. See *Matthew Bender & Co., Inc. v. W. Pub. Co.*, 158 F.3d 693, 703 (2d Cir. 1998).

The legislative history of the Copyright Act bolsters this reading. The House Report on the Copyright Act distinguished between sound recordings and phonorecords, stating that “[t]he copyrightable work comprises the aggregation of sounds and not the tangible medium of fixation. Thus, sound recordings’ as copyrightable subject matter are distinguished from ‘phonorecords[,]’ the latter being physical objects in which sounds are fixed.” H.R.Rep. No. 94-1476, at 56 (1976). Similarly, the House and Senate Reports on the Act both explained:

Read together with the relevant definitions in [S]ection 101, the right “to reproduce the copyrighted work in copies or phonorecords” means the right to produce a material object in which the work is duplicated, transcribed, imitated, or simulated in a fixed form from which it can be “perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.”

*Id.* at 61; S. Rep. No. 94-473, at 58 (1975). Put differently, the reproduction right is the exclusive right to embody, and to prevent others from embodying, the copyrighted work (or sound recording) in a new material object (or phonorecord). See Nimmer on Copyright § 8.02 (stating that “in order to infringe the reproduction right, the defendant must embody the plaintiff’s work in a ‘material object’”).

Courts that have dealt with infringement on peer-to-peer (“P2P”) file-sharing systems provide valuable guidance on the application of this right in the digital domain. For instance, in *LondonSire Records, Inc. v. John Doe 1*, the court addressed whether users of P2P software violated copyright owners’ distribution rights. 542 F. Supp. 2d 153, 166 & n. 16 (D. Mass. 2008). Citing the “material object” requirement, the court expressly differentiated between the copyrighted work – or digital music file – and the phonorecord – or “appropriate segment of the hard disk” that the file would be embodied in following its transfer. *Id.* at 171. Specifically,

[w]hen a user on a [P2P] network downloads a song from another user, he receives into his computer a digital sequence representing the sound recording. That sequence is magnetically encoded on a segment of his hard disk (or likewise written on other media). With the right hardware and software, the downloader can use the magnetic sequence to *reproduce* the sound recording. The electronic file (or, perhaps more accurately, the

appropriate segment of the hard disk) is therefore a phonorecord within the meaning of the statute.

*Id.* (emphasis added). Accordingly, when a user downloads a digital music file or “digital sequence” to his “hard disk,” the file is “reproduce[d]” on a new phonorecord within the meaning of the Copyright Act. *Id.*

This understanding is, of course, confirmed by the laws of physics. It is simply impossible that the same “material object” can be transferred over the Internet. Thus, logically, the court in *London-Sire* noted that the Internet transfer of a file results in a material object being “created elsewhere at its finish.” *Id.* at 173. Because the reproduction right is necessarily implicated when a copyrighted work is embodied in a new material object, and because digital music files must be embodied in a new material object following their transfer over the Internet, the Court determines that the embodiment of a digital music file on a new hard disk is a reproduction within the meaning of the Copyright Act.

This finding holds regardless of whether one or multiple copies of the file exist. *London-Sire*, like all of the P2P cases, obviously concerned multiple copies of one digital music file. But that distinction is immaterial under the plain language of the Copyright Act. Simply put, it is the creation of a *new* material object and not an *additional* material object that defines the reproduction right. The dictionary defines “reproduction” to mean, *inter alia*, “to produce again” or “to cause to exist again or anew.” See *Merriam-Webster*

*Collegiate Edition* 994 (10th ed. 1998) (emphasis added). Significantly, it is not defined as “to produce again while the original exists.” Thus, the right “to reproduce the copyrighted work in . . . phonorecords” is implicated whenever a sound recording is fixed in a new material object, regardless of whether the sound recording remains fixed in the original material object.

Given this finding, the Court concludes that ReDigi’s service infringes Capitol’s reproduction rights under any description of the technology. ReDigi stresses that it “migrates” a file from a user’s computer to its Cloud Locker, so that the same file is transferred to the ReDigi server and no copying occurs.<sup>5</sup> However, even if that were the case, the fact that a file has moved from one material object – the user’s computer – to another

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<sup>5</sup> It bears noting that ReDigi made numerous admissions to the contrary at the preliminary injunction stage. For instance, in its opposition to Capitol’s motion, ReDigi stated that, “The only *copying* which takes place in the ReDigi service occurs when a user uploads music files to the ReDigi Cloud, . . . or downloads music files from the user’s Cloud Locker.” (See ReDigi Opp’n to PI at 9 (emphasis added).) ReDigi also stated that, after a digital music file was uploaded to the Cloud Locker, “the copy from which it was made was actually *deleted* from the user’s machine.” (*Id.* at 14 (emphasis added).) ReDigi’s officers made similar statements in their depositions, and ReDigi’s patent application for its upload technology states that “to be offered for sale, [a music file] is first *copied* to the remote server and stored on the disc.” (See Capitol Mem. of Law, dated July 20, 2012, Doc. No. 49 (“Cap. Mem.”), at 89, n. 6 (emphasis added).) But, as earlier stated, these semantic distinctions are immaterial as even ReDigi’s most recent description of its service runs afoul of the Copyright Act.

– the ReDigi server – means that a reproduction has occurred. Similarly, when a ReDigi user downloads a new purchase from the ReDigi website to her computer, yet another reproduction is created. It is beside the point that the original phonorecord no longer exists. It matters only that a new phonorecord has been created.

ReDigi struggles to avoid this conclusion by pointing to *C.M. Paula Co. v. Logan*, a 1973 case from the Northern District of Texas where the defendant used chemicals to lift images off of greeting cards and place them on plaques for resale. 355 F. Supp. 189, 190 (N.D. Tex. 1973); (*see* ReDigi Mem. of Law, dated July 20, 2012, Doc. No. 55 (“ReDigi Mem.”), at 13). The court determined that infringement did not occur because “should defendant desire to make one hundred ceramic plaques . . . , defendant would be required to purchase one hundred separate . . . prints.” *C.M. Paula*, 355 F. Supp. at 191. ReDigi argues that, like the defendant in *C.M. Paula*, its users must purchase a song on iTunes in order to sell a song on ReDigi. (ReDigi Mem. 13.) Therefore, no “duplication” occurs. *See C.M. Paula*, 355 F. Supp. at 191 (internal quotation marks omitted). ReDigi’s argument is unavailing. Ignoring the questionable merits of the court’s holding in *C.M. Paula*, ReDigi’s service is distinguishable from the process in that case. There, the copyrighted print, or material object, was lifted from the greeting card and transferred in toto to the ceramic tile; no new material object was created. By contrast, ReDigi’s service by necessity creates a new material object when a digital music file is either uploaded to or downloaded from the Cloud Locker.

ReDigi also argues that the Court's conclusion would lead to "irrational" outcomes, as it would render illegal any movement of copyrighted files on a hard drive, including relocating files between directories and defragmenting. (ReDigi Opp'n, dated Aug. 14, 2012, Doc. No. 79 ("ReDigi Opp'n"), at 8.) However, this argument is nothing more than a red herring. As Capitol has conceded, such reproduction is almost certainly protected under other doctrines or defenses, and is not relevant to the instant motion. (Cap. Reply, dated Aug. 24, 2012, Doc. No. 87 ("Cap. Reply"), at 5 n.1.)

Accordingly, the Court finds that, absent the existence of an affirmative defense, the sale of digital music files on ReDigi's website infringes Capitol's exclusive right of reproduction.

## 2. Distribution Rights

In addition to the reproduction right, a copyright owner also has the exclusive right "to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership." 17 U. S. C. § 106(3). Like the court in *London-Sire*, the Court agrees that "[a]n electronic file transfer is plainly within the sort of transaction that § 106(3) was intended to reach [and] . . . fit[s] within the definition of 'distribution' of a phonorecord." *London-Sire*, 542 F. Supp. 2d at 173-74. For that reason, "courts have not hesitated to find copyright infringement by distribution in cases of file-sharing or electronic transmission of copyrighted works." *Arista Records LLC v. Greubel*, 453 F. Supp. 2d 961, 968 (N.D. Tex. 2006) (collecting cases); *see, e.g., Napster*, 239 F.3d at 1014. Indeed, in *New*

*York Times Co., Inc. v. Tasini*, the Supreme Court stated it was “clear” that an online news database violated authors’ distribution rights by selling electronic copies of their articles for download. 533 U.S. 483, 498 (2001).

There is no dispute that sales occurred on ReDigi’s website. Capitol has established that it was able to buy more than one-hundred of its own recordings on ReDigi’s website, and ReDigi itself compiled a list of its completed sales of Capitol’s recordings. (Cap. 56.1 ¶¶ 68-73; RD Rep. 56.1 ¶¶ 68-73.) ReDigi, in fact, does not contest that distribution occurs on its website – it only asserts that the distribution is protected by the fair use and first sale defenses. (*See, e.g.,* ReDigi Opp’n 15 (noting that “any distributions . . . which occur on the ReDigi marketplace are protected”).)

Accordingly, the Court concludes that, absent the existence of an affirmative defense, the sale of digital music files on ReDigi’s website infringes Capitol’s exclusive right of distribution.<sup>6</sup>

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<sup>6</sup> Capitol argues that ReDigi also violated its distribution rights simply by making Capitol’s recordings available for sale to the public, regardless of whether a sale occurred. (*See* Cap. Mem. 11 n.8 (citing *Hotelling v. Church of Jesus Christ of Latter-Day Saints*, 118 F.3d 199, 201 (4th Cir.1997)). However, a number of courts, including one in this district, have cast significant doubt on this “make available” theory of distribution. *See, e.g., Elektra Entm’t Grp., Inc. v. Barker*, 551 F. Supp. 2d 234, 243 (S.D.N.Y. 2008) (“[T]he support in the case law for the make available theory of liability is quite limited.”); *London-Sire*, 542 F. Supp. 2d at 169 (“[T]he defendants cannot be liable for violating the plaintiffs’ distribution right unless a ‘distribution’ actually occurred.”). In any event, because the Court concludes that actual sales on ReDigi’s website infringed Capitol’s distribution right, it does not reach this additional theory of liability.

### 3. Performance and Display Rights

Finally, a copyright owner has the exclusive right, “in the case of . . . musical . . . works, to perform the copyrighted work publicly.” 17 U.S.C. § 106(4). Public performance includes transmission to the public regardless of whether the members of the public . . . receive it in the same place or in separate places and at the same time or at different times. *Id.* 101. Accordingly, audio streams are performances because a “stream is an electronic transmission that renders the musical work audible as it is received by the client-computer’s temporary memory. This transmission, like a television or radio broadcast, is a performance because there is a playing of the song that is perceived simultaneously with the transmission.” *United States v. Am. Soc. Of Composers, Authors, & Publishers*, 627 F.3d 64, 74 (2d Cir.2010). To state a claim for infringement of the performance right, a plaintiff must establish that (1) the public performance or display of the copyrighted work was for profit, and (2) the defendant lacked authorization from the plaintiff or the plaintiff’s representative. *See Broad. Music, Inc. v., 315 W. 44th St. Rest. Corp.*, No. 93 Civ. 8082 (MBM), 1995 WL 408399, at \*2 (S.D.N.Y. July 11, 1995).

The copyright owner also has the exclusive right, “in the case of . . . pictorial [and] graphic . . . works[,] . . . to display the copyrighted work publicly.” 17 U.S.C. § 106(5). Public display includes show[ing] a copy of [a work], either directly or by means of a film, slide, television image, or any other device or process. *Id.* § 101.

The Ninth Circuit has held that the display of a photographic image on a computer may implicate the display right, though infringement hinges, in part, on where the image was hosted. *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1160 (9th Cir. 2007).

Capitol alleges that ReDigi infringed its copyrights by streaming thirty-second song clips and exhibiting album cover art to potential buyers. (Compl. ¶¶ 25-26.) ReDigi counters that it only posted such content pursuant to a licensing agreement and within the terms of that agreement. (ReDigi Mem. 24-25.) ReDigi also asserts that it promptly removed the content when its licenses were terminated, and instead sent users to YouTube or iTunes for previews. (*Id.*) Capitol, in response, claims that ReDigi's use violated the terms of those licenses and did not cease at the time the licenses were terminated. (*Compare* RD 56.1 ¶¶ 73-79, *with* Cap. Rep. 56.1 ¶¶ 73-79.) As such, there are material disputes as to the source of the content, whether ReDigi was authorized to transmit the content, when authorization was or was not revoked, and when ReDigi ceased providing the content. Because the Court cannot determine whether ReDigi infringed Capitol's display and performance rights on the present record, ReDigi's motion for summary judgment on its alleged infringement of these exclusive rights is denied.

#### B. Affirmative Defenses

Having concluded that sales on ReDigi's website infringe Capitol's exclusive rights of reproduction and distribution, the Court turns to whether the

fair use or first sale defenses excuse that infringement. For the reasons set forth below, the Court determines that they do not.

### 1. Fair Use

“The ultimate test of fair use . . . is whether the copyright law’s goal of ‘promot[ing]’ the Progress of Science and useful Arts’ would be better served by allowing the use than by preventing it.” *Castle Rock Entm’t, Inc. v. Carol Publ’g Grp., Inc.*, 150 F.3d 132, 141 (2d Cir. 1998) (quoting U.S. Const., art. I, 8, cl. 8). Accordingly, fair use permits reproduction of copyrighted work without the copyright owner’s consent “for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research.” 17 U.S.C. § 107. The list is not exhaustive but merely illustrates the types of copying typically embraced by fair use. *Castle Rock Entm’t, Inc.*, 150 F.3d at 141. In addition, four statutory factors guide courts’ application of the doctrine. Specifically, courts look to:

(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.

17 U.S.C. § 107. Because fair use is an “equitable rule of reason,” courts are “free to adapt the

doctrine to particular situations on a case-by-case basis.” *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 448 n.31 (1984) (quoting H. Rep. No. 94-1476, at 65-66 *see Iowa State Univ. Research Found., Inc. v. Am. Broad. Cos.*, 621 F.2d 57, 60 (2d Cir. 1980).

On the record before it, the Court has little difficulty concluding that ReDigi’s reproduction and distribution of Capitol’s copyrighted works falls well outside the fair use defense. ReDigi obliquely argues that uploading to and downloading from the Cloud Locker for storage and personal use are protected fair use.<sup>7</sup> (See ReDigi Mem. 15.) Significantly, Capitol does not contest that claim. (See Tr. 12:8-23.) Instead, Capitol asserts only that uploading to and downloading from the Cloud Locker *incident to sale* fall outside the ambit of fair use. The Court agrees. See *Arista Records, LLC v. Doe 3*, 604 F.3d 110, 124 (2d Cir. 2010) (rejecting application of fair use to user uploads and downloads on P2P file-sharing network).

Each of the statutory factors counsels against a finding of fair use. The first factor requires the Court to determine whether ReDigi’s use “transforms” the copyrighted work and whether it is commercial. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578-79 (1994). Both inquiries disfavor ReDigi’s claim. Plainly, the upload, sale, and download of digital music files on ReDigi’s

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<sup>7</sup> ReDigi’s argument is, perhaps, a relic of the argument it previously levied that “copying” to the Cloud Locker is protected as “space shifting” under the fair use doctrine. (See ReDigi Opp’n to PI at 10.)

website does nothing to “add[] something new, with a further purpose or different character” to the copyrighted works. *Id.*; *see, e.g., Napster*, 239 F.3d at 1015 (endorsing district court finding that “downloading MP3 files does not transform the copyrighted work”). ReDigi’s use is also undoubtedly commercial. ReDigi and the uploading user directly profit from the sale of a digital music file, and the downloading user saves significantly on the price of the song in the primary market. *See Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 562 (1985) (“The crux of the profit/nonprofit distinction is not whether the sole motive of the use is monetary gain but whether the user stands to profit from exploitation of the copyrighted material without paying the customary price.”). ReDigi asserts that downloads for personal, and not public or commercial, use “must be characterized as . . . noncommercial, nonprofit activity.” (ReDigi Mem. 16 (quoting *Sony*, 464 U.S. at 449).) However, ReDigi twists the law to fit its facts. When a user downloads purchased files from the Cloud Locker, the resultant reproduction is an essential component of ReDigi’s commercial enterprise. Thus, ReDigi’s argument is unavailing.

The second factor – the nature of the copyrighted work – also weighs against application of the fair use defense, as creative works like sound recordings are “close to the core of the intended copyright protection” and “far removed from the . . . factual or descriptive work more amenable to fair use.” *UMG Recordings, Inc. v. MP3.Com, Inc.*, 92 F .Supp.2d 349, 351 (S.D.N.Y. 2000) (alteration

and internal quotation marks omitted) (citing *Campbell*, 510 U.S. at 586). The third factor – the portion of the work copied – suggests a similar outcome because ReDigi transmits the works in their entirety, “negating any claim of fair use.” *Id.* at 352. Finally, ReDigi’s sales are likely to undercut the “market for or value of the copyrighted work” and, accordingly, the fourth factor cuts against a finding of fair use. *Cf. Arista Records, LLC v. Doe 3*, 604 F.3d at 124 (rejecting application of fair use to P2P file sharing, in part, because “the likely detrimental effect of file-sharing on the value of copyrighted compositions is well documented.” (citing *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 923 (2005))). The product sold in ReDigi’s secondary market is indistinguishable from that sold in the legitimate primary market save for its lower price. The clear inference is that ReDigi will divert buyers away from that primary market. ReDigi incredibly argues that Capitol is preempted from making a market-based argument because Capitol itself condones downloading of its works on iTunes. (ReDigi Mem. 18.) Of course, Capitol, as copyright owner, does not forfeit its right to claim copyright infringement merely because it permits certain uses of its works. This argument, too, is therefore unavailing.

In sum, ReDigi facilitates and profits from the sale of copyrighted commercial recordings, transferred in their entirety, with a likely detrimental impact on the primary market for these goods. Accordingly, the Court concludes that the fair use defense does not permit ReDigi’s users

to upload and download files to and from the Cloud Locker incident to sale.

## 2. First Sale

The first sale defense, a common law principle recognized in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908) and now codified at Section 109(a) of the Copyright Act, provides that:

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.

17 U.S.C. § 109. Under the first sale defense, “once the copyright owner places a copyrighted item [here, a phonorecord] in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution.” *Quality King Distrib., Inc. v. L’anza Research Int’l, Inc.*, 523 U.S. 135, 152 (1998); see *Kirtsaeng v. John Wiley & Sons, Inc.*, No. 11-697, 2013 WL 1104736, at \*4 (U.S. Mar. 19, 2013).

ReDigi asserts that its service, which involves the resale of digital music files lawfully purchased on iTunes, is protected by the first sale defense. (ReDigi Mem. 19.) The Court disagrees.

As an initial matter, it should be noted that the fair use defense is, by its own terms, limited to assertions of the *distribution right*. 17 U.S.C. § 109 (referencing Section 106(3)); see Nimmer on

Copyright § 8.12. Because the Court has concluded that ReDigi's service violates Capitol's reproduction right, the first sale defense does not apply to ReDigi's infringement of those rights. See *Design Options v. BellePointe, Inc.*, 940 F.Supp. 86, 91 (S.D.N.Y. 1996).

In addition, the first sale doctrine does not protect ReDigi's distribution of Capitol's copyrighted works. This is because, as an unlawful reproduction, a digital music file sold on ReDigi is not "lawfully made under this title." 17 U.S.C. § 109(a). Moreover, the statute protects only distribution by "the owner of a *particular* copy or phonorecord . . . of *that* copy or phonorecord." *Id.* Here, a ReDigi user owns the phonorecord that was created when she purchased and downloaded a song from iTunes to her hard disk. But to sell that song on ReDigi, she must produce a new phonorecord on the ReDigi server. Because it is therefore impossible for the user to sell her "particular" phonorecord on ReDigi, the first sale statute cannot provide a defense. Put another way, the first sale defense is limited to material items, like records, that the copyright owner put into the stream of commerce. Here, ReDigi is not distributing such material items; rather, it is distributing *reproductions* of the copyrighted code embedded in new material objects, namely, the ReDigi server in Arizona and its users' hard drives. The first sale defense does not cover this any more than it covered the sale of cassette recordings of vinyl records in a bygone era.

Rejecting such a conclusion, ReDigi argues that, because “technological change has rendered its literal terms ambiguous, the Copyright Act must be construed in light of [its] basic purpose,” namely, to incentivize creative work for the “ultimate[] . . . cause of promoting broad public availability of literature, music, and the other arts.” *Sony*, 464 U.S. at 432 (quoting *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156, (1975)). Thus, ReDigi asserts that refusal to apply the first sale doctrine to its service would grant Capitol “a Court sanctioned extension of rights under the [C]opyright [A]ct . . . which is against policy, and should not be endorsed by this Court.” (ReDigi Mem. 24.)

The Court disagrees. ReDigi effectively requests that the Court amend the statute to achieve ReDigi’s broader policy goals – goals that happen to advance ReDigi’s economic interests. However, ReDigi’s argument fails for two reasons. First, while technological change may have rendered Section 109(a) unsatisfactory to many contemporary observers and consumers, it has not rendered it ambiguous. The statute plainly applies to the lawful owner’s “particular” phonorecord, a phonorecord that by definition cannot be uploaded and sold on ReDigi’s website. Second, amendment of the Copyright Act in line with ReDigi’s proposal is a legislative prerogative that courts are unauthorized and ill suited to attempt.

Nor are the policy arguments as straightforward or uncontested as ReDigi suggests. Indeed, when confronting this precise subject in its report on the Digital Millennium Copyright Act, 17 U.S.C. § 512,

the United States Copyright Office (the “USCO”) rejected extension of the first sale doctrine to the distribution of digital works, noting that the justifications for the first sale doctrine in the physical world could not be imported into the digital domain. *See* USCO, Library of Cong., DMCA Section 104 Report (2001) (“DMCA Report”); *see also* *Cartoon Network LP v. CSC Holdings, Inc.*, 536 F.3d 121, 129 (2d Cir.2008) (finding that the DMCA report is entitled to deference under *Skidmore v. Swift & Co.*, 323 U.S. 134, 140 (1944)). For instance, the USCO stated that “the impact of the [first sale] doctrine on copyright owners [is] limited in the off-line world by a number of factors, including geography and the gradual degradation of books and analog works.” DMCA Report at xi. Specifically,

[p]hysical copies of works degrade with time and use, making used copies less desirable than new ones. Digital information does not degrade, and can be reproduced perfectly on a recipient’s computer. The “used” copy is just as desirable as (in fact, is indistinguishable from) a new copy of the same work. Time, space, effort and cost no longer act as barriers to the movement of copies, since digital copies can be transmitted nearly instantaneously anywhere in the world with minimal effort and negligible cost. The need to transport physical copies of works, which acts as a natural brake on the effect of resales on the copyright owner’s market, no longer exists in the realm of digital transmissions. The ability

of such “used” copies to compete for market share with new copies is thus far greater in the digital world.

*Id.* at 82-83 (footnotes omitted). Thus, while ReDigi mounts attractive policy arguments, they are not as one-sided as it contends.

Finally, ReDigi feebly argues that the Court’s reading of Section 109(a) would in effect exclude digital works from the meaning of the statute. (ReDigi Mem. 21.) That is not the case. Section 109(a) still protects a lawful owner’s sale of her “particular” phonorecord, be it a computer hard disk, iPod, or other memory device onto which the file was originally downloaded. While this limitation clearly presents obstacles to resale that are different from, and perhaps even more onerous than, those involved in the resale of CDs and cassettes, the limitation is hardly absurd – the first sale doctrine was enacted in a world where the ease and speed of data transfer could not have been imagined. There are many reasons, some discussed herein, for why such physical limitations may be desirable. It is left to Congress, and not this Court, to deem them outmoded.

Accordingly, the Court concludes that the first sale defense does not permit sales of digital music files on ReDigi’s website.

### C. Liability

Having determined that sales on ReDigi’s website infringe Capitol’s copyrights, the Court turns to whether ReDigi is directly and/or secondarily liable for that infringement. Direct liability requires “volitional conduct” that “causes”

the reproduction or distribution to be made. *See Cartoon Network*, 536 F.3d at 131. Secondary infringement occurs when a defendant contributed to or benefitted from a third party's infringement such that it is "just" to hold the defendant accountable for the infringing activity. *Sony*, 464 U.S. at 435. For the reasons stated below, the Court finds that ReDigi directly and secondarily infringed Capitol's copyrights.

### 1. Direct Infringement

To be liable for direct infringement, a defendant must have "engaged in some volitional conduct sufficient to show that [it] actively" violated one of the plaintiff's exclusive rights. *Arista Records LLC v. Usenet.com, Inc.*, 633 F. Supp. 2d 124, 148 (S.D.N.Y. 2009). In other words, "to establish direct liability under . . . the Act, something more must be shown than mere ownership of a machine used by others to make illegal copies. There must be actual infringing conduct with a nexus sufficiently close and causal to the illegal copying that one could conclude that the machine owner himself trespassed on the exclusive domain of the copyright owner." *Cartoon Network*, 536 F.3d at 130 (quoting *CoStar Group, Inc. v. LoopNet, Inc.*, 373 F.3d 544, 550 (4th Cir. 2004)) (citing *Religious Tech. Ctr. v. Netcom On-Line Commc'n Servs., Inc.*, 907 F. Supp. 1361, 1370 (N.D. Cal. 1995)).

In *Cartoon Network*, the Second Circuit addressed whether the cable television provider Cablevision had directly infringed the plaintiff's copyrights by providing digital video recording

devices to its customers. 536 F.3d 121. The court determined that it had not. Though Cablevision had “design[ed], hous[ed], and maintain[ed]” the recording devices, it was Cablevision’s customers who “made” the copies and therefore directly infringed the plaintiff’s reproduction rights. *Id.* at 131-32. The court reasoned that, “[i]n determining who actually ‘makes’ a copy, a significant difference exists between making a request to a human employee, who then volitionally operates the copying system to make the copy, and issuing a command directly to a system, which automatically obeys commands and engages in no volitional conduct.” *Id.* at 131. However, the court allowed that a case may exist where “one’s contribution to the creation of an infringing copy [is] so great that it warrants holding that party directly liable for the infringement, even though another party has actually made the copy.” *Cartoon Network*, 536 F.3d at 133.

On the record before it, the Court concludes that, if such a case could ever occur, it has occurred with ReDigi. ReDigi’s founders built a service where *only* copyrighted work could be sold. Unlike Cablevision’s programming, which offered a mix of protected and public television, ReDigi’s Media Manager scans a user’s computer to build a list of eligible files that consists *solely* of protected music purchased on iTunes. While that process is itself automated, absolving ReDigi of direct liability on that ground alone would be a distinction without a difference. The fact that ReDigi’s founders programmed their software to choose copyrighted content satisfies the volitional

conduct requirement and renders ReDigi's case indistinguishable from those where human review of content gave rise to direct liability. See *Usenet.com*, 633 F. Supp. 2d at 148; *Playboy Enters., Inc. v. Russ Hardenburgh, Inc.*, 982 F. Supp. 503, 512-13 (N.D. Ohio 1997). Moreover, unlike Cablevision, ReDigi infringed both Capitol's reproduction and distribution rights. ReDigi provided the infrastructure for its users' infringing sales and affirmatively brokered sales by connecting users who are seeking unavailable songs with potential sellers. Given this fundamental and deliberate role, the Court concludes that ReDigi's conduct "transform[ed] [it] from [a] passive provider[] of a space in which infringing activities happened to occur to [an] active participant[] in the process of copyright infringement." *Usenet.com*, 633 F. Supp. 2d at 148. Accordingly, the Court grants Capitol's motion for summary judgment on its claims for ReDigi's direct infringement of its distribution and reproduction rights.<sup>8</sup>

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<sup>8</sup> Capitol also asserts a claim for common law copyright infringement arising from sales of its pre-1972 recordings on ReDigi's website. (Compl. ¶¶ 82-88.) Capitol correctly argues in its memorandum that the elements for a direct infringement claim under federal law mirror those for infringement of common law copyright under state law. See *Capitol Records, Inc. v. Naxos of Am., Inc.*, 4 N.Y.3d 540, 563 (2005); (Cap. Mem. 4.) Accordingly, the Court also grants Capitol's motion for summary judgment with respect to ReDigi's direct infringement of Capitol's distribution and reproduction rights in its pre-1972 recordings. However, because neither Capitol nor ReDigi addressed the question of secondary infringement of common law copyrights, the Court does not reach that claim.

## 2. Secondary Infringement

“The Copyright Act does not expressly render anyone liable for infringement committed by another.” *Sony*, 464 U.S. at 434. However, common law doctrines permit a court to impose secondary liability where “just” and appropriate. *Id.* at 435. Capitol asserts that ReDigi is secondarily liable for its users’ direct infringement under three such doctrines: contributory infringement, inducement of infringement, and vicarious infringement. (Cap. Mem. 13-16.) The Court agrees with respect to contributory and vicarious infringement, and therefore does not reach the inducement claim.

### a. Contributory Infringement

Contributory infringement occurs where “one . . . with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another.” *Arista Records, LLC v. Doe 3*, 604 F.3d at 118 (quoting *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir.1971)); *see, e.g., Grokster*, 545 U.S. at 930. The knowledge requirement is “objective” and satisfied where the defendant knew or had reason to know of the infringing activity. *See Arista Records, LLC v. Doe 3*, 604 F.3d at 118. Further, the support must be “more than a mere quantitative contribution to the primary infringement . . . [, it] must be substantial.” *Usenet.com*, 633 F. Supp. 2d 124, 155 (S.D.N.Y. 2009). However, even where a defendant’s contribution is material, it may evade liability if its product is “capable of substantial

noninfringing uses.” *Sony*, 464 U.S. at 442 (the “*Sony-Betamax*” rule).

In weighing the knowledge requirement, courts consider evidence of actual and constructive knowledge, including cease-and-desist letters, officer and employee statements, promotional materials, and industry experience. *See, e.g., Napster*, 239 F.3d at 102021, 1027; *Arista Records LLC v. Lime Grp. LLC*, 784 F. Supp. 2d at 432; *Usenet.com*, 633 F.Supp.2d at 155. In addition, courts have consistently found that material support existed where file-sharing systems provided “the site and facilities” for their users’ infringement. *Napster*, 239 F.3d at 1022; *see, e.g., Usenet.com*, 633 F. Supp. 2d at 155.

The Court has little difficulty concluding that ReDigi knew or should have known that its service would encourage infringement. Despite the fact that ReDigi boasted on its website that it was “The Legal Alternative” and insisted “YES, ReDigi is LEGAL,” ReDigi warned investors in its subscription agreements that “the law cannot be said to be well-settled” in this area and that it could not guarantee ReDigi would prevail on its copyright defenses. (Cap. 56.1 ¶¶ 65-66.) The Recording Industry Association of America (“RIAA”) sent ReDigi a cease-and-desist letter in November 2011, advising ReDigi that its website violated Capitol’s and other RIAA members’ copyrights. (Compl. ¶41.) Further, ReDigi was ensnared in a licensing dispute over song clips and cover art shortly after its launch, plainly indicating that infringement could be afoot. (RD 56.1 ¶¶ 74-75, 77.) ReDigi was also, of course,

aware that copyright protected content was being sold on its website – a fact central to its business model and promotional campaigns. (Cap. 56.1 ¶¶ 70-73). Finally, ReDigi’s officers claim to have “researched copyright law [and] consulted with attorneys” concerning their service, and also to have met with record companies “to get input, get marketing support[,] and enter into deals with the labels.” (RD Rep. 56.1 2 ¶ 5, 5 ¶ 20.) By educating themselves, the officers presumably understood the likelihood that use of ReDigi’s service would result in infringement. Indeed, though ReDigi attempts to use its consultations with counsel as a shield, it is telling that ReDigi declined to reveal any of the advice it received on the subject. (See Cap. Reply 9). ReDigi’s lone rebuttal to this surfeit of evidence could only be that it “sincerely” believed in the legality of its service. However, the Court has not found and will not create a subjective, good faith defense to contributory liability’s objective knowledge requirement, and therefore concludes that, based on the objective facts, ReDigi was aware of its users’ infringement.

The Court also finds that ReDigi materially contributed to its users’ infringement. As ReDigi has admitted, “more than any other website that permits the sale of music, ReDigi is intimately involved in examining the content that will be sold and supervising the steps involved in making the music available for sale and selling it.” (Cap. 56.1 ¶ 35; RD Rep. 56.115 ¶ 35.) ReDigi thus provided the “site and facilities” for the direct infringement. See, e.g., *Napster*, 239 F.3d at 1022; *Usenet.com*, 633 F. Supp .2d at 155; *Lime Grp.*, 784 F. Supp. 2d at 434. Without ReDigi’s Cloud Locker, no

infringement could have occurred. Indeed, Media Manager ensured that *only* infringement occurred by limiting eligible files to iTunes tracks. Contrary to any conception of remote conduct, ReDigi's service was the hub and heart of its users' infringing activity.

The Court finally concludes that ReDigi's service is not capable of substantial noninfringing uses. The *Sony-Betamax* rule requires a court to determine whether a product or service is *capable* of substantial noninfringing uses, not whether it is currently used in a non-infringing manner. *Napster*, 239 F.3d at 1021 (discussing *Sony*, 464 U.S. at 442-43, 104 S.Ct. 774). But, put simply, ReDigi, by virtue of its design, is incapable of compliance with the law. ReDigi's business is built on the erroneous notion that the first sale defense permits the electronic resale of digital music. As such, ReDigi is built to trade only in copyright protected iTunes files. However, as determined above, ReDigi's legal argument – and therefore business model – is fundamentally flawed. Accordingly, to comply with the law, either the law or ReDigi must change. While ReDigi 2.0, 3.0, or 4.0 may ultimately be deemed to comply with copyright law – a finding the Court need not and does not now make – it is clear that ReDigi 1.0 does not. Given the fundamental disconnect between ReDigi and the Copyright Act, and ReDigi's failure to provide any evidence of present or potential noninfringing uses, the Court concludes that the *Sony-Betamax* rule cannot save ReDigi from contributory liability.

Accordingly, the Court grants Capitol's motion for summary judgment on its claim for ReDigi's contributory infringement of its distribution and reproduction rights.<sup>9</sup>

#### b. Vicarious Infringement

Vicarious liability for copyright infringement exists where the defendant “has the right and ability to supervise the infringing activity and also has a direct financial interest in such activities.” *Napster*, 239 F.3d at 1022 (quoting *Gershwin Pub. Corp.*, 443 F.2d at 1162); see *Grokster*, 545 U.S. at 930. Unlike contributory infringement, knowledge is not an element of vicarious liability. *Gershwin*, 443, F.2d at 1162; see *Fonovisa, Inc. v. Cherry Auction Inc.*, 76 F.3d 259, 262-63 (9th Cir. 1996).

Clearly, ReDigi vicariously infringed Capitol's copyrights. As discussed, ReDigi exercised complete control over its website's content, user access, and sales. Indeed, ReDigi admits that it “is

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<sup>9</sup> As noted above, Capitol has alleged a separate cause of action for inducement of infringement. (Compl. ¶¶ 51-60.) Disagreement exists over whether “inducement of infringement” is a separate theory of liability for copyright infringement or merely a subset of contributory liability. Compare *Flava Works, Inc. v. Gunter*, 689 F.3d 754, 758 (7th Cir. 2012) (describing inducement as “a form of contributory infringement”), with *Lime Grp.*, 784 F. Supp. 2d at 424 (“In *Grokster*, the Supreme Court confirmed that inducement of copyright infringement constitutes a distinct cause of action.”). Regardless, because the Court concludes that ReDigi is liable for contributing to its users' direct infringement of Capitol's copyrights, it does not reach Capitol's inducement claim.

intimately involved in . . . supervising the steps involved in making the music available for sale and selling it” on the website. (Cap. 56.1 ¶ 35; RD Rep. 56.1 ¶ 35); *see, e.g., Lime Grp.*, 784 F. Supp. 2d at 435 (finding right to supervise where P2P file sharing system could filter content and regulate users). In addition, ReDigi financially benefitted from every infringing sale when it collected 60% of each transaction fee. *See e.g., Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 308 (2d Cir.1963) (finding a direct financial benefit where the defendant received a share of the gross receipts on every infringing sale). Notably, ReDigi failed to address any of these arguments in its opposition brief, instead insisting that it was not vicariously liable for infringement that occurred *outside* the ReDigi service, for instance, when a user impermissibly retained files on his computer. (*See* ReDigi Opp’n 22-23.) However, this argument is inapposite to the instant motions. Accordingly, the Court grants Capitol’s motion for summary judgment on its claim for ReDigi’s vicarious infringement of its distribution and reproduction rights.

#### IV. CONCLUSION

At base, ReDigi seeks judicial amendment of the Copyright Act to reach its desired policy outcome. However, “[s]ound policy, as well as history, supports [the Court’s] consistent deference to Congress when major technological innovations alter the market for copyrighted materials. Congress has the constitutional authority and the institutional ability to accommodate fully the

varied permutations of competing interests that are inevitably implicated by such new technology.” *Sony*, 464 U.S. at 431. Such deference often counsels for a limited interpretation of copyright protection. However, here, the Court cannot of its own accord condone the wholesale application of the first sale defense to the digital sphere, particularly when Congress itself has declined to take that step. Accordingly, and for the reasons stated above, the Court GRANTS Capitol’s motion for summary judgment on its claims for ReDigi’s direct, contributory, and vicarious infringement of its distribution and reproduction rights. The Court also DENIES ReDigi’s motion in its entirety.

Because issues remain with respect to Capitol’s performance and display rights, and ReDigi’s secondary infringement of Capitol’s common law copyrights, as well as damages, injunctive relief, and attorney’s fees, IT IS HEREBY ORDERED THAT the parties shall submit a joint letter to the Court no later than April 12, 2013 concerning the next contemplated steps in this case.

The Clerk of Court is respectfully directed to terminate the motions pending at Doc. Nos. 48 and 54.

SO ORDERED.

/s/ \_\_\_\_\_  
RICHARD J. SULLIVAN  
United States District Judge

Dated: March 30, 2013  
New York, New York

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Plaintiff is represented by Richard Stephen Mandel, Jonathan Zachary King, and Robert William Clarida of Cowan, Liebowitz & Latman, P.C., 1133 Avenue of the Americas, New York, New York 10036.

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