

ReDigi and the Application of the First Sale Doctrine to Digital Works

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I. Introduction

The First Sale Doctrine, codified in section 109(a) of the Copyright Act, generally permits the owner of a lawfully made “copy” or “phonorecord” containing a copyrighted work to resell the copy or phonorecord without violating the copyright holder’s distribution right. For example, if someone purchases a music album on a compact disc, that person has a right to resell that copy of the album. For years, however, it has been unclear how the First Sale Doctrine would apply to digital works. Indeed, Nimmer notes that “the voyage from low- to high-tech often brings confusion in its wake. That phenomenon has played out in the context of case law applying the [First Sale Doctrine] to computer software.”¹ Like computer software, confusion has also surrounded the application of the First Sale Doctrine to digital media, such as songs purchased and downloaded from iTunes. The recent ruling by the Second Circuit in *Capitol Records LLC v. ReDigi Inc.* provides some clarity on this issue.

II. The First Sale Doctrine

Among the exclusive rights granted to a copyright holder, sections 106(1) and 106(3) of the Copyright Act grant a copyright holder the right to, respectively, reproduce and distribute a copyrighted work.² Specifically, section 106(1) grants copyright holders the right to “reproduce the copyrighted work in copies or phonorecords,”³ while section 106(3) grants copyright holders the right to “distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending.”⁴ However, the Act limits a copyright owner’s right of distribution in a way that benefits the lawful purchaser of a copyrighted work. Section 109(a) of the Act, which codifies the First Sale Doctrine, states: “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.”⁵

The definitions of “copies” and “phonorecords” are important to understanding the reproduction and distribution rights and the First Sale Doctrine. The Act defines “copies” as “material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.”⁶ It defines “phonorecords” as “material objects in which sounds, other than those accompanying a motion picture or other audiovisual work, 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.”⁷ Thus, “copies” and “phonorecords” are the material objects in which a copyrighted work is fixed in a way that the work can be perceived or communicated either directly or with assistance from some sort of device.

Accordingly, section 109(a) allows the lawful purchaser of a copy or phonorecord, such as a book or compact disc, to “resell, lend, give, or otherwise transfer that copy without violating the copyright holder’s exclusive right of distribution.”⁸ The bygone era of used book stores and secondhand records and compact discs shops was likely a byproduct of the First Sale Doctrine.

The Supreme Court first recognized the First Sale Doctrine in 1908. At that time, the doctrine was not yet codified in the Copyright Act. Still, the Supreme Court recognized in *Bobbs-Merrill Co. v. Straus* that “while [the Copyright Act] protect[s] the owner of the copyright in his right to multiply and sell his production, [it does] not create the right to impose . . . a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract.”⁹ The Court reached this conclusion by analyzing the Copyright Act’s purpose, and it noted that to hold otherwise would “give a right not included in the terms of the statute, and, in our view, extend its operation, by construction, beyond its meaning”¹⁰

In response to *Bobbs-Merrill*, Congress added the First Sale Doctrine to the Copyright Act of 1909, and it remained in the 1976 Copyright Act. Of course, in 1909 and 1976 courts and Congress were faced primarily with physical copies and phonorecords, such as books, vinyl records, and compact discs. These types of physical copies and phonorecords could easily be resold without making new reproductions. Today, however, a substantial amount of media is transmitted and used digitally. Indeed, in a recent report the Recording Industry Association of America found that 87 percent of music industry revenue generated in the first half of 2018 was from streaming and digital downloads, with digital downloads making up about 12 percent of this total.¹¹ Because uploading, downloading, and transmission of digital media necessarily requires reproduction, it was unclear if, or how, the First Sale Doctrine might apply to the resale of copyrighted digital media lawfully purchased online. As described more fully

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below, ReDigi's software was specifically designed to allow purchasers of iTunes songs to take advantage of the First Sale Doctrine to resell those songs in the secondary market.

III. ReDigi's Business

ReDigi was founded in 2009 with the goal of using the First Sale Doctrine to create "enabling technology and provid[e] a marketplace for the lawful resale of lawfully purchased digital music files."¹² Specifically, ReDigi was designed to allow lawful resale of music files purchased from iTunes. To do this, ReDigi created a software program called "Music Manager" that a user downloaded to her computer.¹³ Once downloaded, Music Manager analyzed the digital file intended for resale, verified that the file was lawfully purchased from iTunes, and scanned the file for evidence of tampering.¹⁴ If the file passed these tests, the ReDigi system permitted the file to be resold.

ReDigi also took steps to ensure that the seller did not retain a digital copy of the file after selling it on ReDigi's system. Specifically, the Music Manager software continuously monitored the seller's computer, including connected devices, to ensure no other copies of the file existed or were uploaded.²³ If the Music Manager detected duplicates, it asked the seller to delete that duplicate copy of the file, or it would suspend the seller's account.²⁴ In its discussion of ReDigi's system, the Second Circuit noted that there was no way to prevent a seller from copying their digital music file to an external storage device before transferring it to ReDigi on their computer, thereby circumventing ReDigi's monitoring of duplicate copies.²⁵

IV. The *ReDigi* Lawsuit

The plaintiffs in *ReDigi* are record companies that own copyrights or licenses in sound recordings of musical performances and distribute those recordings in the form of,

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Once the ReDigi system determined that a file was eligible for resale, it transferred the file to ReDigi's remote server.¹⁵ Importantly, ReDigi's system did *not* simply make a copy of the file so that the file still existed on the seller's device and in ReDigi's server. Instead, ReDigi used a process called "data migration."¹⁶ Data migration consists of breaking the music file into small blocks of data and then creating a "transitory copy" of those data blocks, which are then stored in the seller's computer's buffer (a temporary storage space used when data is being moved from one place to another).¹⁷ As the data blocks were stored in the buffer, ReDigi's software deleted the data blocks that were on the user's computer, permanently removing the file from the user's computer. ReDigi then re-assembled the complete playable file onto ReDigi's server.¹⁸

ReDigi's innovation was that once the data blocks arrived at the computer's buffer, ReDigi's software deleted the permanent copy of those data blocks from the seller's computer before they were transmitted from the buffer to ReDigi's servers.¹⁹ According to ReDigi, the result of this was that the digital file never existed in two places at once.²⁰ Once a file had been transferred to ReDigi's server, the seller could still listen to the file by streaming it.²¹ The seller could also resell the file. If the file was resold, ReDigi allowed the buyer to either download the file using the same mechanism by which the file was uploaded, or the buyer could keep the file on ReDigi's servers and access the file by streaming it.²²

among other things, digital files.²⁶ They sell these digital files through authorized agent services such as Apple's iTunes.²⁷ The plaintiffs alleged that ReDigi and its users "duplicated digital files both in uploading and downloading discrete copies distinct from the original file that originally resided on the user's computer."²⁸ The trial court in the Southern District of New York held on summary judgment that ReDigi was liable for direct and secondary infringement of the plaintiffs' copyrights.²⁹ In particular, it held that ReDigi violated the plaintiffs' exclusive right of reproduction:

ReDigi's service infringes [the plaintiffs'] 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. However, even if that were the case, the fact that a file has moved from one material object — the user's computer — to another — 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.³⁰

Notably, the court defined the relevant “phonorecords” for iTunes files as the “computer hard disk, iPod, or other memory device onto which the file was originally downloaded.”³¹

Ultimately, a jury awarded the plaintiffs \$3,500,000 in damages. On appeal, ReDigi presented several issues for review, including:

- Whether the district court erred in interpreting the Copyright Act’s definition of “phonorecords” as “material objects” to mean that in the context of distributing iTunes music files or downloads over the internet, the “phonorecord” was a consumer’s computer hard disk.
- Whether the district court erred in failing to recognize that iTunes music files or downloads are themselves “phonorecords” under the Copyright Act.
- Whether the restraints imposed by the district court on a consumer’s ability to convey lawfully purchased iTunes music files violated the First Sale Doctrine.
- Whether the district court erred in determining that ReDigi’s software, which it claimed did not make any reproductions, violated the reproduction and distribution rights under the Copyright Act.³²

V. Arguments on Appeal

ReDigi argued on appeal that iTunes files themselves, rather than the device containing the iTunes files, are “phonorecords,” the resale of which is protected by the First Sale Doctrine.³³ Second, ReDigi argued that there was no violation of the copyright holders’ right of reproduction because its technology did not “reproduce” any copies or phonorecords.³⁴ To support this argument, ReDigi explained that its technology did not use the standard “copy and delete” or “forward and delete” transfer mechanisms that required the making of an actual copy of the digital file.³⁵ Instead, as described more fully above, ReDigi’s technology was structured so that the iTunes file never existed on the purchaser’s computer or on ReDigi’s server at the same time as it resided on the seller’s computer. Third, ReDigi argued that its method of transfer complied with the policy underlying the First Sale Doctrine. Noting that the district court’s reading of the First Sale Doctrine would require the user to sell her computer to be able to lawfully sell a purchased iTunes file, ReDigi argued that such a reading exceeded the restraints provided by, and policy behind, the First Sale Doctrine.³⁶

Notably, several groups submitted *amicus* briefs on both sides of this case. One brief in support of ReDigi was submitted by a group of copyright law scholars who argued that the First Sale Doctrine is actually an “entitlement” or right granted by the Copyright Act and that

the district court should have read the Copyright Act to effectuate that entitlement even if some reproduction was necessary.³⁷ The scholars contended that “incidental copying necessary to effectuate the First Sale entitlement is outside the bounds of the reproduction right.”³⁸ They also argued that when a work is “merely transferred from one medium to another, and only one copy remains at the end of the process, there has been no act of reproduction at all.”³⁹ In addition, they made several policy arguments, including that the district court’s ruling would prevent any consumer from being able to resell digital copies, which they believed contravened the purpose of the First Sale Doctrine.⁴⁰

The plaintiffs argued that the district court correctly relied on the definitions of “copy” and “phonorecord” to hold that ReDigi’s software infringed their reproduction rights. They maintained that the district court held correctly that the uploading to and subsequent downloading of a file from ReDigi’s server, no matter what technology was used, constituted the creation of reproductions, and was not merely a distribution, under the Copyright Act because new phonorecords containing the copyrighted work were created.⁴¹ The plaintiffs further argued that the district court held correctly that the First Sale Doctrine did not provide a defense to unlawful reproduction even if it was incidental to distribution.⁴²

In response to policy arguments by ReDigi and its *amici*, the plaintiffs noted that such arguments would require the court to effectively amend the Copyright Act,⁴³ the plaintiffs noted, as did the district court, that “it should ultimately be left to Congress rather than the Courts to assess whether the physical limitations of the First Sale Doctrine should be abandoned in today’s digital world.”⁴⁴

VI. The Second Circuit Decision

The Second Circuit ruled in favor of the plaintiffs, affirming the district court. In particular, the court agreed with the district court that “in the course of ReDigi’s transfer, the phonorecord has been reproduced in a manner that violates the [p]laintiffs’ exclusive control of reproduction under § 106(1)[.]”⁴⁵ In an opinion by Judge Pierre N. Leval, the court noted that when a purchaser of a digital music file from iTunes possesses that file, the device (or portion of the device containing the file) becomes a phonorecord.⁴⁶ When ReDigi attempts to transfer the file, at each step in the transfer, the file becomes fixed in a new material object for a period of more than transitory duration.⁴⁷ Accordingly, the transfer creates a new phonorecord, which is, by definition, a reproduction under the Copyright Act.⁴⁸ The court found that this act of reproduction is not changed by the fact that packets of data making up the file are deleted as the equivalent packets are transferred, as it is the ultimate receipt of the file on ReDigi’s server and the ultimate purchaser’s computer that creates new phonorecords.⁴⁹ Given this holding, the Second Circuit did not

reach ReDigi’s argument that the iTunes file itself is the phonorecord.

As for the argument that the district court’s ruling leads to absurd results because it would require a purchaser of digital music to sell her entire computer in order to resell iTunes files, the Second Circuit conceded that this might occur. But the court noted that there could be a secondary market for initially downloading 50 to 100 purchased songs onto an inexpensive device, such as a USB drive, and selling that physical device as a means of creating a secondary market without making new phonorecords of the purchased files.⁵⁰ Ultimately, regardless of the impact on the secondary market, the court held that “[i]f Redigi and its champions have persuasive [policy] arguments in support of the change of law they advocate, it is Congress they should persuade.”⁵¹

ReDigi has indicated that it intends to seek Supreme Court review.

VII. Impact of the Decision

Although the Second Circuit’s decision will likely have a large impact on the secondary market for the sale of digital media files, with the advent of music streaming services like Spotify and Amazon Music, the market for the purchase of digital music has been declining steadily since ReDigi launched in 2009.⁵² Currently, there does not appear to be any digital resale technology that avoids unlawful reproduction on a new device. While it is possible to resell digital media files by selling the physical device on which they are held, it is unclear whether that is actually a feasible or realistic solution. For now, absent a reversal by the Supreme Court, the most likely result of *ReDigi* is that there is no secondary market for purchasers to sell their “used” digital media files, and the market for music streaming services will continue to increase.⁵³ Should the public want the First Sale Doctrine to apply beyond physical copies and phonorecords in order to create a secondary market for digital media, it will likely require Congress to amend the Copyright Act.

Endnotes

1. 2 Nimmer on Copyright § 8.12 (2018).

2. 17 U.S.C. §§ 106(1), (3).

3. 17 U.S.C. § 106(1).

4. 17 U.S.C. § 106(3).

5. 17 U.S.C. § 109(a).

6. 17 U.S.C. § 101.

7. 17 U.S.C. §§ 101.

8. See *Capitol Records LLC v. ReDigi Inc.*, 910 F.3d 649 (2d Cir. 2018).

9. 210 U.S. 339, 350 (1908).

10. See *id.* at 351.

11. MID-YEAR 2018 RIAA MUSIC REVENUES REPORT, <http://www.riaa.com/wp-content/uploads/2018/09/RIAA-Mid-Year-2018-Revenue-Report-News-Notes.pdf> (last visited Feb. 19, 2019).

12. *ReDigi Inc.*, 910 F.3d at 652.

13. See *id.* at 652-653.

14. See *id.*

15. See *id.* at 653.

16. See *id.*

17. See *id.*

18. See *id.* at 653-654.

19. See *id.*

20. See *id.*

21. See *id.* at 654.

22. See *id.*

23. See *id.*

24. See *id.*

25. See *id.* at 658.

26. See *id.* at 652.

27. See *id.*

28. Second Amended Complaint at ¶ 37, *Capital Records, LLC v. ReDigi Inc.*, No. 1:12-cv-00095-RJS (S.D.N.Y. Oct. 30, 2014), ECF No. 161.

29. *Capitol Records, LLC v. ReDigi Inc.*, 934 F. Supp. 2d 640 (S.D.N.Y. 2013).

30. See *id.* at 650.

31. See *id.* at 656.

32. Brief for Defendants-Appellants at pp. 2-4, *Capitol Records LLC v. ReDigi Inc.*, 16-2321 (Feb. 7, 2017), ECF 55.

33. See *id.* at p. 12.

34. See *id.* at p. 22.

35. See *id.* at p. 24.

36. Although not relevant for purposes of this article, ReDigi also argued that its software was protected by the Fair Use Doctrine.

37. Brief of Copyright Scholars as *Amici Curiae* at p. 13, *Capitol Records LLC v. ReDigi Inc.*, 16-2321 (Feb. 15, 2017), ECF 90.

38. See *id.* at 10.

39. See *id.* at 11.

40. See *id.* at 15.

41. Brief for Plaintiffs-Appellees at pp. 10, 15-17., *Capitol Records LLC et al. v. ReDigi Inc. et al.*, 16-2321 (May 12, 2017), ECF 110.

42. See *id.* at pp. 12, 27-39.

43. See *id.* at 40.

44. See *id.* at p. 47 (quotation omitted).

45. *ReDigi Inc.*, 910 F.3d at 656.

46. See *id.* at 657.

47. See *id.*

48. See *id.*

49. See *id.* at 657-58.

50. See *id.* at 659.

51. See *id.* at 664.

52. From 2015 to 2018 alone, RIAA data shows that the sales of digitally downloaded music decreased by over 55 percent. See MID-YEAR 2018 RIAA MUSIC REVENUES REPORT, <http://www.riaa.com/wp-content/uploads/2018/09/RIAA-Mid-Year-2018-Revenue-Report-News-Notes.pdf> (last visited Feb. 19, 2019).

53. Revenues for music streaming services have increased since 2015 by 28 percent year-over-year. See *id.*