

Southern District of New York Holds Copyright First Sale Doctrine Does Not Apply to Digital Music Files; Resale of Digital Music Through Transmit-and-Delete Process Violates Copyright Law

In *Capital Records, LLC v. ReDigi Inc.*, 12 Civ. 95, (Mar. 30, 2013) (“*Capital Records v. ReDigi*”) Judge Sullivan of the Southern District of New York held that the copyright “first sale doctrine is limited to ‘material items’” and cannot apply to digital files. ReDigi, Inc. (“ReDigi”) advertises¹ its cloud based service as a sort of storage locker and used book store for digital music files. Through ReDigi a user could “store, stream, buy and sell your legally purchased pre-owned music.” Important to the legal context for this business is ReDigi’s contention that, through the careful design and operation of a file transfer system for digital files, ReDigi’s used file business should be subject to the same ‘first sale’ protections from copyright infringement as the operators of used physical books and records. Judge Sullivan rejected this argument.

Facts and Procedural History

ReDigi offers a service that allows users to sell digital music files that they have obtained either through iTunes or through ReDigi itself. To sell music using ReDigi, users download ReDigi’s “Media Manager” to their computer, which finds eligible music on the user’s computer. The user then has the ability to upload the music to ReDigi’s servers and sell it to other users for credits. When a piece of music is sold to another user, ReDigi transfers a copy of the file to the buyer’s computer and the Media Manager finds and erases any copies of the music on the seller’s computer. However, the Media Manager cannot erase copies of the file that are not on the seller’s computer.

Capitol Records LLC (“Capitol”) sued ReDigi on January 6, 2012, alleging violations of the Copyright Act (“the Act”), specifically Section 106 of the Act, which grants the owner of a copyright the exclusive right to reproduce and distribute the copyrighted work. ReDigi’s primary defense was that its method of transferring sold files brought the sale of ‘used’ digital files within the protection of the “first sale” exception to the Act (§109(a) of the Act), which permits the owner of a copy or “phonorecord” lawfully made under the Act to resell that copy. In particular, ReDigi’s system included careful checks for valid file ownership and a process of deleting the seller’s file in close conjunction with the creation of a copy of the file on the buyer’s device. ReDigi analogized the process of simultaneous deletion and duplication to transporting the file on a train, or ‘teleporting’ the file between seller and buyer through a Star Trek ‘transporter.’

On March 30, 2013, the Court granted Capitol’s motion for partial summary judgment, denying ReDigi’s first sale defense and finding infringement.

Holding and Reasoning

The Court offered two principal reasons for its holding. Initially, the Court found that despite its complexity, the process of deletion at one location and reproduction at another is, in fact, reproduction and not distribution. And the first sale doctrine does not excuse reproduction.

Second, the Court found more broadly that “the first sale doctrine is limited to material items that the copyright owner put into the stream of commerce.” *Capital Records v. ReDigi*, at 12. Hence, while the first sale

¹ Although we write this alert in the present tense, since the ruling reported here the ReDigi.com web site appears to have come down.

doctrine may protect commerce in specific copies of digital files stored on specific devices (“computer hard disk, iPod, or other memory device” *ibid.* at 13) it will not protect the distribution of the digital file itself. It is notable that the Court expressed this limitation not as a necessary implication of the inevitability of reproduction in common methods of pure digital transfer, but as a directive of the legislative intent based on the fact that: “Physical copies of works degrade with time Digital information does not.” The Court reasoned that, as a result, digital transfers pose a different and greater threat to the value of the underlying copyright that the Court believes has been recognized by the legislature in a categorical exclusion of digital works from first sale protections.

The Court does not discuss at all the fact that many digital files are not sold in the first instance, but licensed on terms that prevent resale.

Conclusion

The Court’s two findings, that (i) the first sale doctrine has no application to digital works, and (ii) that any form of digital transmission (or, at least, any form the Court could think of in light of the record presented here) implicates the copyright holder’s right of reproduction, have broad and adverse implications for efforts to create a legally compliant secondary market for what has become the dominant format for music and an important format for books and movies, all of which have traditionally traded in secondary or ‘used’ markets in the physical world. Because there is undeniable consumer demand for secondary trade in these products, the implication of the Court’s ruling here may be more to establish an issue for further consideration in cases and committees than to put the issue to rest.