



## COPYRIGHT ACT'S TEXT CONSTRAINS FIRST SALE DOCTRINE'S APPLICATION TO DIGITAL FILE RESALE

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This past December, the Second Circuit squelched an effort by ReDigi Inc. to create a secondary market for lawfully purchased digital music files. *See Capitol Records, LLC v. ReDigi Inc.*, 910 F.3d 649 (2d Cir. 2018). ReDigi's efforts were lauded in some circles because copyright law intends to represent a careful balance between the rights of creators and the interests of the public and consumers, and it makes sense that the first sale doctrine should apply not merely to books and other traditionally copyrighted works, but also to digital works. *See, e.g., C. Todd Mosley, Mourning the Loss of Copyright's Unsung Hero: Destruction of the First Sale Doctrine*, 14 Chi.-Kent J. Intell. Prop. 235 (2014); Clark D. Asay, *Kirtsaeng and the First-Sale Doctrine's Digital Problem*, 66 Stan. L. Rev. Online 17 (May 7, 2013).

Copyright law assigns copyright owners the exclusive rights to distribute and reproduce their works, subject to certain important limits. One limit is the first sale doctrine, which, to promote alienation of property, permits unauthorized distributions: "[T]he owner of a particular copy or phonorecord lawfully made . . . 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. That is, once a lawful sale (or other distribution) has been made, the owner of that authorized copy or phonorecord may re-distribute it, regardless of the copyright owner's wishes. For physical books, for example, the operation of the first sale doctrine is relatively straightforward. The purchaser of a book from a publisher may re-sell the book or give it away—full stop. Why wouldn't this doctrine protect the resale of digital files such as MP3s too?

In *ReDigi* the Second Circuit addressed that question in the context of an infringement suit by record companies against ReDigi. 910 F.3d at 651-52. Although the court made clear that it viewed ReDigi as trying "in good faith to achieve a goal generally favored by the law of copyright," *id.* at 652 n.3, it found no such protection for the original version of ReDigi's resale platform. The Second Circuit's negative response arose from two complications, one legal, and the other technical. The legal complication is that the first sale doctrine does not permit unauthorized *reproductions*. The technical complication is that for digital files, additional "copies" are to some extent inevitable. Put simply, copyright law didn't anticipate how technology would evolve. And the result, at least according to the rationale of this decision, appears to be a scale tipped against digital resales.

ReDigi's resale platform operated via several steps. First, a software program analyzed the file to ensure it had been originally purchased lawfully. *Id.* at 652. Second, ReDigi broke the file into packets of data; copied each packet onto ReDigi's server and deleted that packet from the user's device; and re-assembled the packets (now all on ReDigi's server) into a playable music file. *Id.* at 653. Third, a new purchaser could download the file or stream the music from ReDigi's server. *Id.* at 654. Unlike previous processes, ReDigi's packet method made it so the entire playable file never existed in two places at once. *Id.* at 653. Notably, although ReDigi's software searched the user's devices for duplicate copies of the file, duplicates remained possible because, for instance, the user could have copied the file elsewhere before installing ReDigi's software.

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The district court held that ReDigi infringed the record companies' distribution and reproduction rights, and awarded them \$3.5 million in damages. *Id.* at 655. In an opinion by Judge Leval, the Second Circuit affirmed.

The core of the court's opinion was that no matter how ReDigi sliced its technology, its transfer method constituted reproducing a particular phonorecord. And that was so "even if the digital file itself qualifies as a phonorecord." *Id.* at 656. As the court explained, fixing the digital file in ReDigi's server "creates a new phonorecord, which is a reproduction." *Id.* at 657. ReDigi's packet method—making a copy of a segment of the file and deleting the equivalent segment—"does not rebut or nullify the fact that 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." *Id.*

The court found support in a congressionally-mandated report from the Copyright Office on emergent technology. *Id.* at 659-660. The Office concluded that, "[u]nlike the traditional circumstances of a first sale transfer, the recipient [of a digital transfer] obtains a new copy, not the same one with which the sender began. Indeed, absent human or technological intervention, the sender retains the source copy." U.S. Copyright Office, *DMCA Section 104 Report* 79 (Aug. 2001).

In short, by creating a new file, ReDigi made an unlawful reproduction. The first sale doctrine therefore could not immunize its conduct.

Next, the Second Circuit easily rejected ReDigi's alternative contention that the fair use doctrine protected its conduct. 910 F.3d at 660-663. Key to the court's holding was its finding of "the substantial harm ReDigi inflicted on the value of Plaintiffs' copyrights through its direct competition in the rights holders' legitimate market." *Id.* at 663. By and large, a file's price marked the only difference between the "used" files sold via ReDigi and those sold by plaintiffs or their licensees in the primary markets. *Id.* at 662-663. Unlike physical works, these digital files "do not deteriorate." *Id.* at 662. ReDigi thus offered consumers a nearly perfect "substitute for purchasing from the rights holders." *Id.* at 663.

At many points, the court tried to write a narrow opinion. It focused specifically on the details of ReDigi's transfer method; did not address a newer version of ReDigi's technology (*id.* at 655 n.7); assumed *arguendo* that a digital file *itself* is a phonorecord (*id.* at 656 & n.10); and expressly denied any negative implications for "innocuous, unauthorized reproductions through the unavoidable function of a computer" (*id.* at 658 n.12). The court opined, albeit without explanation, that "other technology may exist or be developed that could lawfully effectuate a digital first sale." *Id.* at 659. All this indicates some (unspecified) circumstances where digital transfer technology might withstand a copyright challenge.

Yet it is unclear how much room the holding actually leaves for technology companies to maneuver. The court proposed that reselling could occur by "cost-effectively plac[ing] 50 or 100 (or more) songs on an inexpensive device such as a thumb drive and sell[ing] it" (*id.* at 659), but that kind of bulk sale leaves little flexibility for the average consumer, presumably also entails reproduction, and fails to exploit the benefits of cloud computing.

Accordingly, disclaimers aside and absent some remarkable technological innovation, it is difficult to see how a file could be moved, in the court's view, without creating an unlawful reproduction. At the end of its opinion, the court invited a solution from Congress: "Courts are poorly equipped to assess the inevitably multifarious economic consequences that would result from" changing the law to put digital and physical copyrighted works on equal footing. *Id.* at 664.

While the Second Circuit was plainly sympathetic to ReDigi's efforts, it felt constrained by the extant statutory text. Until that text changes or other courts interpret the first sale doctrine (alone or in conjunction with fair use) to allow resale of lawfully created digital copies on a 1:1 ratio with an original purchase, companies will be hard pressed to commercialize in this space.