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## Capitol Records, LLC v. ReDIGI, Inc.: 934 F. Supp. 2D 640 (S.D.N.Y. 2013)

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## CAPITOL RECORDS, LLC V. ReDIGI, INC.

934 F. SUPP. 2D 640 (S.D.N.Y. 2013)

### I. INTRODUCTION

In *Capitol Records, LLC v. ReDigi Inc.*, Capitol Records, LLC (“Capitol”) filed suit against ReDigi, Inc. (“ReDigi”) for copyright infringement in violation of the Copyright Act of 1976.<sup>1</sup> Capitol is a recording company, and ReDigi is a creator of an online marketplace for “pre-owned” digital music.<sup>2</sup> Capitol alleged infringement of its exclusive reproduction, distribution, performance, and display rights when ReDigi allowed digital music owners to sell their lawfully purchased songs to other users on its online marketplace.<sup>3</sup> ReDigi raised two affirmative defenses, arguing that the reproduction of the work without consent was fair use and that the lawful owners of the digital music were authorized to sell their copies under the first sale doctrine.<sup>4</sup>

The District Court of the Southern District of New York (“the District Court”) granted Capitol’s motion for partial summary judgment and denied ReDigi’s motion for summary judgment.<sup>5</sup> At issue before the District Court was “whether a digital music file, lawfully made and purchased, may be resold by its owner through ReDigi under the first sale doctrine.”<sup>6</sup> The District Court concluded, “that the first sale defense does not permit sales of digital music files” by lawful owners on websites.<sup>7</sup> Consequently, Capitol’s motion for summary judgment on the issues of direct, contributory, and vicarious infringement was granted.<sup>8</sup>

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1. *Capitol Records, LLC v. ReDigi, Inc.*, 934 F. Supp. 2d 640, 644-645 (S.D.N.Y. March 30, 2013).

2. *Id.*

3. *Id.* at 648.

4. *Id.* at 652.

5. *Id.* at 648.

6. *Id.*

7. *ReDigi*, 934 F. Supp. 2d at 656.

8. *Id.* at 660-661.

## II. BACKGROUND

### A. *Factual History*

ReDigi's website was an online marketplace that allowed users to sell their lawfully purchased digital music and buy digital music from other users.<sup>9</sup> First, a user was required to download an application called "Media Manager," which sifted through the user's computer to compile a list of digital music eligible for sale.<sup>10</sup> Digital music purchased on iTunes or from another user was eligible, but digital music from other sharing websites or CD downloads were not eligible.<sup>11</sup>

The application continued to run on the user's computer and attached devices to guarantee that the user did not retain a copy of the digital music file once an appropriate file had been selected for sale by the user.<sup>12</sup> If a copy was detected, the program prompted the user to delete the digital music file. But the deletion was not automatic; it was a voluntary decision of the user.<sup>13</sup> ReDigi's policy was to suspend the user's account if the user refused to comply with the deletion request.<sup>14</sup>

The next step required the user to upload any eligible digital music to the "Cloud Locker," so that the digital music was no longer located on the user's computer.<sup>15</sup> After the upload process, the digital music was once again verified for eligibility, and then stored in the Cloud Locker.<sup>16</sup> The users were then able to store and stream the digital music for personal use or sell it on ReDigi's

9. *Id.* at 645.

10. *Id.*

11. *Id.*

12. *Id.* But, the application cannot detect copies stored in other locations or devices. *Id.*

13. *ReDigi*, 934 F. Supp. 2d at 645.

14. *Id.*

15. *Id.* ReDigi argued that the uploading process migrates a user's file "from the user's computer to the Cloud Locker so that data does not exist in two places at any one time." *Id.* Capitol argued that the uploading process "necessarily involves copying" a file from the user's computer to the Cloud Locker." *Id.* at 646.

16. *Id.* at 646.

marketplace.<sup>17</sup> “If the user sold the digital music, the user’s access to the digital music was terminated and transferred to the new owner at the time of purchase.”<sup>18</sup> “The new owner could then store the music in the Cloud Locker, sell it, stream it, or download it to a personal computer or other devices.”<sup>19</sup>

Users only bought music through a system of credits, which were purchased from ReDigi or acquired through sales of digital music in the ReDigi marketplace.<sup>20</sup> Credits could only be used to purchase music on ReDigi’s marketplace and could not be exchanged for real money.<sup>21</sup> ReDigi earned a 60% fee on the sale price of every music item purchased through credits, another 20% of the sale price was given to the seller, and 20% went to an “escrow” fund for the artist.<sup>22</sup>

### B. Procedural History

Capitol sued ReDigi in the District Court of the Southern District of New York for copyright infringement under the Copyright Act on January 6, 2012.<sup>23</sup> Capitol sought both preliminary and permanent injunctions against ReDigi, but the District Court denied Capitol’s motion for a preliminary injunction because Capitol failed to establish irreparable harm.<sup>24</sup> Both Capitol’s motion for a preliminary injunction and motion for a permanent injunction were denied.<sup>25</sup> Capitol filed a motion for partial summary judgment on the direct and secondary infringement claims on July 20, 2012; on the same day, ReDigi filed its cross-motion for summary judgment and raised the affirmative defenses of fair use and first sale.<sup>26</sup>

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17. *Id.*

18. *Id.*

19. *ReDigi*, 934 F. Supp. 2d at 646.

20. *Id.*

21. *Id.*

22. *Id.*

23. *Id.* at 646-647.

24. *Id.* at 647.

25. *ReDigi*, 934 F. Supp. 2d at 647.

26. *Id.*

## III. LEGAL ANALYSIS

The District Court addressed Capitol's motion for partial summary judgment on copyright infringement in three sections: (1) whether Capitol owned a valid copyright and ReDigi's website violated one of Capitol's exclusive rights, (2) whether ReDigi had a fair use or first sale defense to excuse the infringement, and (3) whether ReDigi was liable for direct and secondary infringement.<sup>27</sup>

## A. Copyright Infringement

The District Court held that both the sale of digital music files on ReDigi's website and ReDigi's technology violated Capitol's exclusive rights in its copyrighted works.<sup>28</sup> To state a copyright infringement claim, a Plaintiff must show that it owned a valid copyright in the work and that the Defendant violated one or more of the exclusive rights granted to copyright holders.<sup>29</sup> It was undisputed that Capitol owned a valid copyright in the works at issue.<sup>30</sup> "It [was] also undisputed that Capitol did not approve of the reproduction or distribution of the copyrighted works on ReDigi's website."<sup>31</sup> Courts have held that "the unauthorized duplication of digital music files over the Internet infringes a copyright owner's exclusive right to reproduce."<sup>32</sup> However, at issue here was "whether the unauthorized transfer of a digital music file over the Internet" constituted reproduction and distribution within the meaning of the Copyright Act.<sup>33</sup>

The District Court noted that ReDigi did not contest that distribution occurred on its website, but instead raised the fair use and first sale defenses as protection.<sup>34</sup> With regard to the reproduction right, the District Court looked to the plain text of the

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27. *Id.* at 648.

28. *Id.*

29. *Id.*

30. *Id.*

31. *ReDigi*, 934 F. Supp. 2d at 648.

32. *Id.* (citing *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1014 (9th Cir. 2001)).

33. *Id.*

34. *Id.* at 651.

Copyright Act, and determined that “reproduction occurs when a copyrighted work is fixed in a new material object.”<sup>35</sup> In addition, other court decisions involving peer-to-peer file-sharing systems have found that when a user downloaded a digital music file to a hard disk, the file was “reproduced” within the meaning of the Copyright Act.<sup>36</sup> The District Court concluded that “it is the creation of a new material object and not an additional material object that defines the reproduction right[s].”<sup>37</sup> Since it is “impossible that the same ‘material object’ can be transferred over the Internet,” the transfer of a file over the Internet results in the creation of a new material object on a different computer.<sup>38</sup>

Ultimately, the District Court held that the sale of digital music files on ReDigi’s website infringed on Capitol’s exclusive distribution and reproduction rights, but infringement of Capitol’s display and performance rights could not be determined from the record.<sup>39</sup>

### B. Affirmative Defenses

After finding that the sale of digital music files on ReDigi’s website infringed on Capitol’s reproduction and distribution rights,

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35. *Id.* at 648.

36. *Id.* at 649 (citing *London-Sire Records, Inc. v. John Doe 1*, 542 F. Supp. 2d 153, 171 (D. Mass. 2008)). The District Court based this assumption on its interpretation of *London-Sire Records*, a case that dealt with infringement on peer-to-peer file-sharing systems. *Id.* There the court defined the portion of the hard disk in which the file would be embodied after the transfer as a “phonorecord” within the meaning of the Copyright Act and differentiated it from the digital music file. *Id.* When a user on a peer-to-peer network downloads a song from another user, a digital sequence is magnetically encoded on a segment of the users hard disk, which can be used to reproduce the sound recording. *Id.* (citing *London-Sire Records*, 542 F. Supp. 2d at 171). “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.* (quoting *London-Sire Records*, 542 F. Supp. 2d at 171).

37. *ReDigi*, 934 F. Supp. 2d at 650.

38. *Id.* (citing *London-Sire Records*, 542 F. Supp. 2d at 171).

39. *Id.* at 652.

the District Court determined whether the fair use and first sale defenses could negate ReDigi's liability for infringement.<sup>40</sup>

*1. Fair Use*

The District Court concluded that ReDigi's reproduction and distribution of Capitol's works was not fair use.<sup>41</sup> The test used by the District Court for fair use was "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."<sup>42</sup> The use of the copyrighted work without consent is permitted for purposes, such as "criticism, comment, news reporting, teaching, scholarship, or research."<sup>43</sup> The District Court examined the four statutory factors:

- (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.<sup>44</sup>

Capitol asserted that "uploading to and downloading from the Cloud Locker incident to sale fall outside the ... fair use [defense]."<sup>45</sup> The District Court found that all four factors weighed unquestionably in favor of Capitol.<sup>46</sup> Reviewing the first factor, the District Court observed that ReDigi used the work for commercial purposes and directly profited from sales.<sup>47</sup> Furthermore, the use of ReDigi's website to upload and download

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40. *Id.*

41. *Id.* at 653.

42. *Id.* at 652-653.

43. *ReDigi*, 934 F. Supp. 2d at 653 (quoting 17 U.S.C. § 107).

44. *Id.* (citing 17 U.S.C. § 107).

45. *Id.*

46. *Id.*

47. *Id.*

digital music did not add something new to transform the copyrighted work.<sup>48</sup> Under the second factor, the nature of the copyrighted digital sound recordings was creative, much different from the factual nature of the works listed as permissive fair use.<sup>49</sup> The third factor weighed against the application of fair use because the copyrighted works were transferred in their entirety.<sup>50</sup> Finally, the District Court noted that ReDigi's sales were likely to undercut "the market for the copyrighted works because the goods sold in the secondary market, which were sold for a lower price, were indistinguishable from those sold in the primary market."<sup>51</sup> The District Court concluded that there was no fair use defense because "ReDigi facilitate[d] and profit[ed] from the sale of copyrighted commercial recordings, transferred in their entirety, with a likely detrimental impact on the primary market for these goods."<sup>52</sup>

## 2. First Sale

The District Court held that the first sale defense did not allow ReDigi's reproduction and distribution of Capitol's works.<sup>53</sup> Pursuant to the first sale doctrine:

Notwithstanding the provision of section 106(3), the owner of a particular copy or phonorecord lawfully made... 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.<sup>54</sup>

ReDigi asserted that the sale of lawfully purchased, eligible digital music on its website was protected by the first sale

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48. *Id.*

49. *ReDigi*, 934 F. Supp. 2d at 654.

50. *Id.*

51. *Id.*

52. *Id.*

53. *Id.* at 656.

54. *Id.* at 654 (citing 17 U.S.C. § 109). Section 106(3) lays out the exclusive right of a copyright owner to distribute copies or phonorecords. *See* 17 U.S.C. § 106(3).

doctrine.<sup>55</sup> The District Court started by stating that the first sale doctrine was limited to assertions of the distribution right and did not apply to the reproduction right.<sup>56</sup> The District Court determined that when the user used ReDigi to upload the digital music file, the lawful owner produced a new unlawful reproduction on the ReDigi server.<sup>57</sup> Thus, the first sale doctrine did not protect ReDigi's infringement of Capitol's distribution right because "as an unlawful reproduction, a digital music file sold on ReDigi is not 'lawfully made.'"<sup>58</sup> The District Court reasoned that because ReDigi's service violated Capitol's reproduction right by creating a new copy of the digital music file, the first sale defense did not apply to ReDigi's infringement.<sup>59</sup>

The District Court then looked to the plain language to determine that the statute "applies to the lawful owner's 'particular' phonorecord, a phonorecord that by definition cannot be uploaded and sold on ReDigi's website."<sup>60</sup> The District Court also looked at the Digital Millennium Copyright Act ("DMCA") Report, in which the United States Copyright Office ("USCO") explicitly expressed concerns with the extension of the first sale doctrine to the distribution of digital works because "time, space, effort and cost no longer act as barriers to the movement of copies."<sup>61</sup> The digital copy, the "used" copy, is just as desirable as the "new" copy of the same work, which may undercut the market for copyright owners.<sup>62</sup> The District Court acknowledged that the lawful owner's sale of the particular phonorecord was still protected with required physical limitations: the sale of the digital music through the sale of the "computer hard disk, iPod, or other

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55. *ReDigi*, 934 F. Supp. 2d at 655.

56. *Id.* "As an initial matter, it should be noted that the [first sale] defense is, by its own terms, limited to assertions of the *distribution right*." *Id.* (emphasis in original) (citing 17 U.S.C. § 109).

57. *Id.*

58. *Id.*

59. *Id.*

60. *Id.*

61. *ReDigi*, 934 F. Supp. 2d at 656 (citing U.S. Copyright Office, Digital Millennium Act (DMCA), *Section 104 Report* 82-83 (Aug. 2001), available at <http://www.copyright.gov/reports/studies/dmca/sec-104-report-vol-1.pdf>).

62. *Id.*

memory device onto which the file was originally downloaded.”<sup>63</sup> Accordingly, the District Court held that “the first sale defense does not permit sales of digital music on ReDigi’s website.”<sup>64</sup>

### C. Liability

For direct liability, a defendant must engage in “volitional conduct” that “causes” the reproduction or distribution of the copyrighted work.<sup>65</sup> ReDigi’s service allowed the sale of digital music on its website only if the works were copyrighted, most notably protected music purchased from iTunes.<sup>66</sup> The District Court concluded that ReDigi’s conduct, by providing the infrastructure for the sale of copyrighted works, resulted in active participation in the process of copyright infringement and not mere passive conduct as a provider for infringing activities.<sup>67</sup>

A defendant is secondarily liable under contributory infringement, if the defendant has actual or constructive “knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another.”<sup>68</sup> However, if the product is “capable of substantial noninfringing uses,” the defendant will not be liable even if there is a material contribution.<sup>69</sup> The District Court noted that ReDigi was aware of its users’ infringement and should have known that its services would encourage infringement.<sup>70</sup> The District Court also found that ReDigi materially contributed to its users’ infringement because “ReDigi’s service was the hub and heart of its users’ infringing activity.”<sup>71</sup>

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63. *Id.*

64. *Id.*

65. *Id.*; see *Cartoon Network LP v. CSC Holdings, Inc.*, 536 F.3d 121, 131 (2d Cir. 2008).

66. *Id.* at 657.

67. *ReDigi*, 934 F. Supp. 2d at 657.

68. *Id.* at 658; see, e.g., *Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930 (2005).

69. *Id.* at 658; see *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984).

70. *Id.* at 659.

71. *Id.*

A defendant is secondarily liable under vicarious infringement, if the defendant has a “direct financial interest” and has “the right and ability to supervise” the infringing activity.<sup>72</sup> The District Court found that ReDigi exercised control over the website and sales, from which it financially benefitted.<sup>73</sup> Consequently, the District Court held ReDigi liable for direct infringement as well as secondary infringement, including contributory and vicarious liability, for violating Capitol’s exclusive distribution and reproduction rights.<sup>74</sup>

#### IV. FUTURE IMPLICATIONS

The District Court in *ReDigi* limits the expansion of the first sale doctrine to digital copyrighted works through its observation that any transfer of digital music over the Internet requires the creation of a new copy.<sup>75</sup> When the user uploaded digital music to ReDigi’s Cloud Locker for sale or personal use, that person produced a new unlawful reproduction on the ReDigi server.<sup>76</sup> As the District Court stated, “put simply, ReDigi, by virtue of its design, is incapable of compliance with the law.”<sup>77</sup> However, “ReDigi 1.0” has changed its business model so that it now complies with the District Court’s ruling by circumventing its reasoning. “ReDigi 2.0” allows a user to purchase digital music from iTunes and download the original to the ReDigi Cloud Locker as opposed to the user’s personal computer.<sup>78</sup> If the user chooses to sell the original copy, the user does not create an unlawful reproduction of the original by uploading it to the ReDigi Cloud Locker, allowing the application of the first-sale doctrine. It

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72. *Id.* at 660; *see, e.g.*, *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971).

73. *ReDigi*, 934 F. Supp. 2d at 660.

74. *Id.* at 660-661.

75. *Id.* at 649.

76. *Id.* at 651.

77. *Id.* at 659.

78. Matt Peckham, *ReDigi CEO Says the Court Just Snatched Away Your Right to Resell What You Legally Own*, TIME TECH (Apr. 25, 2013), <http://techland.time.com/2013/04/25/redigi-ceo-says-the-court-just-snatched-away-your-right-to-resell-what-you-legally-own>.

would seem that the District Court in *ReDigi* gave too much significance to the technicalities of transmitting digital music over the Internet than to the practicalities of its decision.

The District Court looked to the DMCA 2001 Report (“the Report”), which evaluated the expansion of the first sale doctrine to digital files and advised against the doctrine’s expansion, without giving more consideration to current development in business, technology, and the law.<sup>79</sup> The primary concerns at the time appeared to be the adverse effect on the market and the potential for exploitation.<sup>80</sup> Withholding the expansion of the doctrine was recommended because of the adverse economic impact and lack of control over digital content on the Internet.<sup>81</sup> The USCO emphasized the drastic difference between used physical copies, which degrade over time, and used digital copies, which are identical and retain their quality.<sup>82</sup> Because the used digital copy is as desirable as a new copy, the concern was that used digital copies would directly compete with new digital copies over the Internet to the detriment of the copyright owner.<sup>83</sup>

Used copies are, in fact, increasingly, directly competing with new copies in today’s digital world. Illegal pirating and peer-to-peer sharing activities have changed the market landscape. These activities are a clear calling for Congress to consider the regulation, rather than the prohibition, of the sale of used digital copies and to provide guidance for the application of the first sale doctrine to digital music. The expansion of the first sale doctrine to digital music is arguably a moot point since the rapid change in technology and consumer habits make it impossible to predict the

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79. *ReDigi*, 934 F. Supp. 2d at 655-656; U.S. Copyright Office, Digital Millennium Copyright Act (DMCA), *Section 104 Report* 82-83 (Aug. 2001), available at <http://www.copyright.gov/reports/studies/dmca/sec-104-report-vol-1.pdf>.

80. U.S. Copyright Office, Digital Millennium Copyright Act (DMCA), *Section 104 Report* 82-84 (Aug. 2001).

81. *Id.*

82. *Id.* at 82-83.

83. *Id.* “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.” *Id.*

future of this issue. For example, music streaming services allow subscribers to listen to digital music for a monthly fee without purchasing or downloading music. Although the development of music streaming services may reduce the consumer market for digital music ownership, ownership will continue because it guarantees access to and control of the digital music content. Thus, the restrictions on the application of the first sale doctrine to digital music are still a valid concern for consumers.

The rationale for the first sale doctrine is based in the common-law principle that prevents the copyright owner from restraining the free alienability of tangible property, in the absence of clear congressional intent to abrogate this principle.<sup>84</sup> In the Report, an argument is made that the distinction between tangible and intangible property is critical to the rationale.<sup>85</sup> However, the nature of tangible and intangible property, from an economic point of view in today's commercial sale of digital content, is often indistinguishable. The Report concluded that to recommend a broadened scope of the first sale doctrine, there has to be a need for change that outweighs the concerns of the proposed expansion.<sup>86</sup>

One recent change is the evolution of the Internet into a marketplace for goods that has increased international commerce for digital content, as evidenced by this case. ReDigi is a company that has promoted its "pre-owned" marketplace for digital music files abroad. As such, looking to foreign court decisions that have dealt with this particular issue is useful guidance. The European Court of Justice ("ECJ") dealt with the identical issue of "whether the right to distribute a copy... is exhausted when the acquirer has made the copy with the rightholder's consent by downloading the program from the internet onto a data carrier."<sup>87</sup> The ECJ held that

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84. *Id.* at 86.

85. *Id.*

86. U.S. Copyright Office, Digital Millennium Copyright Act (DMCA), *Section 104 Report* 97 (Aug. 2001).

87. *UsedSoft GmbH v. Oracle International Corp.*, Case C-128/11, 2012 E.C.R. 19, ¶ 1. In *UsedSoft GmbH*, Oracle International Corp. ("Oracle") a computer software developer distributed its software products through the Internet onto the purchaser's computer. *Id.* at ¶ 2. Oracle's license agreement provided for use of the software product for an unlimited period of time in

the download of a program for a payment constituted first sale of a program.<sup>88</sup> The analysis focused on the classification of the license in question as a sale, so that the term “sale” was given broad interpretation to include a grant of the right to use a copy for an unlimited period of time in return for a payment corresponding to the economic value of that copy.<sup>89</sup> The ECJ went a step further by holding that in the event of a resale of a digital copy acquired by the first user for an unlimited period of time in return for a payment corresponding to the economic value of that copy, the second user that acquires the copy and “any subsequent acquirer of it, will be able to rely on the exhaustion of the distribution right...” as long as the former copies are rendered unusable at the time of resale.<sup>90</sup>

This decision was also noteworthy because it emphasized the economic value of the program regardless of whether the program was made available to the customer as intangible property by means of a download on the Internet or as tangible property by means of a material medium such as a CD. The ECJ noted, “from an economic point of view, the sale... [by] a CD-ROM or DVD and the sale... by downloading from the Internet are similar. The online transmission method is the functional equivalent of the supply of a material medium.”<sup>91</sup> The ECJ, unlike the District Court in *ReDigi*, considered the online transmission method as the simple equivalent of a material medium and was not entrenched in the technicalities of the method. Furthermore, the ECJ emphasized the economic value that makes tangible and intangible property, in the context of digital content, indistinguishable. The District Court in *ReDigi* disregarded the fact that ReDigi’s application deleted or rendered the original user’s copy unusable. Thus, for all practical purposes, it would be considered a true transfer of the digital music file.

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exchange for a payment. *Id.* at ¶ 3. UsedSoft GmbH (“UsedSoft”) resold “used” software licenses it obtained from the original purchaser to its customers. *Id.* at ¶ 4. Customers who purchased licenses for additional users downloaded the software to the main memory of the users’ computers. *Id.*

88. *Id.* at ¶ 1.

89. *Id.* at ¶ 7.

90. *Id.* at ¶ 8.

91. *Id.* at ¶ 12.

In *Kirtsaeng v. John Wiley & Sons, Inc.*, the US Supreme Court recently confronted the issue of grey market goods and emphasized the important role of the first sale doctrine in American copyright law.<sup>92</sup> The Supreme Court held that the first sale doctrine applies to copies of a copyrighted work lawfully made abroad, but to arrive at its decision, the Supreme Court had to interpret the words “lawfully made under this title.”<sup>93</sup> In the analysis, the present language of the first sale defense §109(a) was compared with the language of its immediate predecessor.<sup>94</sup> The Supreme Court deduced that the “language of the former version referred to those who are not owners of a copy, but mere possessors who ‘lawfully obtained’ a copy,” while “[t]he present version covers only those who are owners of a ‘lawfully made’ copy.”<sup>95</sup> The Supreme Court concluded that owners of a copy have first sale protection, but lessees and bailees with mere possession of a copy do not receive first sale protection.<sup>96</sup> This broad interpretation of the first sale doctrine by the Supreme Court would suggest a movement towards the further expansion of the first sale doctrine.

With the growing presence of digital content and the development of more online marketplaces for such content, Congress and the courts are bound to confront the issue of the first sale doctrine’s expansion to digital content in the near future. The courts’ reaction to this push for expansion may be to continue to limit the first sale defense for digital music until Congress provides guidance.

## V. CONCLUSION

The United States District Court of the Southern District of New York granted Capitol’s motion for partial summary judgment and

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92. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013).

93. *Kirtsaeng*, 133 S. Ct. 1351, 1355-56 (2013).

94. *Id.* at 1360-61.

95. *Id.* “[N]othing in this Act shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained.” *Id.* (quoting Copyright Act of 1909, §41, 35 Stat. 1084).

96. *Id.* at 1361.

denied ReDigi's motion for summary judgment.<sup>97</sup> The District Court held that there was direct infringement and secondary infringement, including contributory and vicarious liability.<sup>98</sup> The District Court held that the sale of digital music on ReDigi's website and ReDigi's technology violated Capitol's exclusive rights because the transfer over the Internet necessarily results in the creation of a new material object.<sup>99</sup> Because transmission over the Internet requires the creation of a new material object, the copy in question is an unlawful reproduction of the original; thus, the first sale defense did not apply to ReDigi's infringement.<sup>100</sup> By not broadening the scope of the first sale defense to digital music, the District Court gave deference to "the constitutional authority and the institutional ability" of Congress to provide guidance for "major technological innovations [that] alter the market of copyrighted materials."<sup>101</sup> Congress has made it clear that the need for change must outweigh the concerns for expanding the first sale defense to digital files.<sup>102</sup> Consequently, the courts will continue to find ways of limiting the expansion of the first sale defense to digital files when they confront the issue in the future until Congress provides a legislative solution.

*Jorge Anguiano\**

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97. *ReDigi*, 934 F. Supp. 2d at 648.

98. *Id.* at 660-661.

99. *Id.* at 648, 649-650 (citing *London-Sire Records*, 542 F. Supp. 2d at 171).

100. *Id.* at 655.

101. *Id.* at 660 (quoting *Sony Corp. of Am.*, 464 U.S. at 431).

102. U.S. Copyright Office, Digital Millennium Copyright Act (DMCA), *Section 104 Report* 97 (Aug. 2001).

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