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# Unresolved Textual Tension: *Capitol Records v. ReDigi* and a Digital First Sale Doctrine

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*In Capitol Records v. ReDigi, the District Court for the Southern District of New York ruled that the first sale doctrine does not apply when consumers resell copyrighted goods by digital distribution, even if they use “forward-and-delete” software that ensures that the seller’s copy is deleted during the transaction. This ruling hinged on the court’s interpretation of the word “particular” in § 109 of the Copyright Act. The court reasoned that when copyrighted music is downloaded, the specific location on the disk to which it is downloaded is a “phonorecord.” According to the court, a digital copy is made anywhere else constitutes a reproduction for the purposes of copyright infringement. Because it is impossible for that physical piece of the disk to be transferred via digital transmission, and every digital transmission thus necessarily requires a reproduction, there can be no first sale protection for the distribution of digital goods.*

*Because of the metaphysical differences between physical and digital media, this comment argues that the fair use doctrine cannot be*

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*applied in a media-neutral fashion. Digital goods cannot be moved from place to place in the same way that physical goods can be moved, even though the use of forward-and-delete technology (such as the kind ReDigi utilizes) can cause the functional result to be the same: one copy before the transmission, one copy after the transmission. The court's strict demand that the physical substrate where a copyrighted work is fixed must remain identical in order to be considered the same "particular" copy (and thus eligible for first sale protection) is at odds with earlier courts' rulings that repaired and restored works are eligible for first sale protection. The court's demand is also at odds with its own conclusion that iPods and other mobile devices containing music can be legally resold. These inconsistencies demonstrate that the phrase "particular copy or phonorecord" in 17 U.S.C. § 109 (which codifies the first sale doctrine) makes the statute unable to account for digital media and thus unable to apply in a media-neutral fashion. A specific carve-out for digital media is necessary for the law to keep up with the development of technology. Such a change is preferable because media-neutral application of the first sale doctrine permits a secondary market for digital goods to exist, which better serves both ends of copyright—the instrumental goal of rewarding authors and the ultimate goal of providing the public access to creative works—by promoting economic efficiency.*

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## I. INTRODUCTION

When Bruce Willis is worried about something, you know it’s trouble. In September of 2012, a British tabloid claimed that Bruce Willis was gearing up for a legal battle against Apple, worried that he could not pass his digital music collection onto his daughters in his will, since doing so would constitute copyright infringement.<sup>1</sup> This story turned out to be fake,<sup>2</sup> but such rumors die hard—as does the concern that underlies the story. Had his music collection been on CD or vinyl, he would not have had any reason to worry because of the first sale doctrine, which provides that consumers who own lawful copies of copyrighted works can sell their copies without authorization from the copyright owner. But because music is largely distributed digitally,<sup>3</sup> the lawfulness of consumers’ ability to transfer copyrighted digital media to others is no longer so clear-cut. The judicial and academic debate about how the first sale doctrine applies to digital

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<sup>1</sup> Fran Wetzel, *Bruce Willis to fight Apple over rights to music collection after his death*, SUN (Sept. 2, 2012), <http://www.thesun.co.uk/sol/homepage/showbiz/4517317/Bruce-Willis-to-fight-Apple-over-music-rights-after-his-death.html>.

<sup>2</sup> Oscar Raymundo, *Bruce Willis Did Not Sue Apple Over His iTunes Library*, ROLLING STONE (Sept. 5, 2012), <http://www.rollingstone.com/culture/blogs/gear-up/bruce-willis-did-not-sue-apple-over-his-itunes-library-20120905#ixzz2SeVKeTay>.

<sup>3</sup> Interview by Jeremy Hobson and Stacey Vanek Smith with Joshua P. Friedlander, vice president of strategic data analysis at RIAA, *Digital music sales surpass CD and vinyl*, MARKETPLACE (Mar. 29, 2012), <http://www.marketplace.org/topics/life/mid-day-update/digital-music-sales-surpass-cd-and-vinyl>.

media can be summarized by the following exchange between characters in the FX series *Archer*:

Lammers: For the last time, you idiot—it's not hydrogen, it's helium!  
Lana: And what about that are you still not getting exactly?  
Archer: Well, obviously the core concept, Lana.<sup>4</sup>

The court's opinion granting summary judgment against music retailer ReDigi, Inc. in *Capitol Records v. ReDigi* on March 30, 2013 underscores this point.<sup>5</sup> Because digital distribution is not only outstripping sales of physical copies of music, but also changing the way that consume movies,<sup>6</sup> books,<sup>7</sup> and video games,<sup>8</sup> it is crucial to clarify and update the law to ensure that it furthers the goals of copyright in this important, and growing, sector of the economy. The first sale doctrine clearly lags behind technology and the market. For example, Amazon and Apple have both filed for patents on marketplaces for "used" digital media, which would seem to be illegal under the court's ruling.<sup>9</sup> Even the Registrar of the United States Copyright Office, whose office staunchly opposed the idea of a digital

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<sup>4</sup> *Archer: Skytanic* (FX television broadcast Feb. 18, 2010).

<sup>5</sup> *Capitol Records, LLC v. ReDigi Inc.*, 934 F. Supp. 2d 604, (S.D.N.Y. 2013).

<sup>6</sup> Julianne Pepitone, *Americans now watch more online movies than DVDs*, CNN MONEY (Mar. 22, 2012), <http://money.cnn.com/2012/03/22/technology/streaming-movie-sales/index.htm>; Press Release, HIS iSuppli, *Worldwide Consumer Spending on Movies Sees Accelerated Growth in 2012* (Jan. 21, 2013), <http://www.isuppli.com/media-research/news/pages/worldwide-consumer-spending-on-movies-sees-accelerated-growth-in-2012.aspx> ("On the whole, TV-based Video-on-Demand (VOD) and digital rentals from over-the-top services such as Apple's iTunes vastly outpaced the number of digital movies purchased in 2012.").

<sup>7</sup> This is based on Amazon sales numbers. Press Release, Amazon.com, *Amazon.com Now Selling More Kindle Books Than Print Books* (May 19, 2011), <http://phx.corporate-ir.net/phoenix.zhtml?c=176060&p=irol-newsArticle&ID=1565581&highlight>. But even if this is not true for total book sales, the fact that Kindle books are selling more than hardcover and paperback books combined still illustrates this point.

<sup>8</sup> Dan Crowley, *New physical video game sales account for less than 50% of a \$14 billion market in 2012*, VENTUREBEAT (Feb. 5, 2013), <http://venturebeat.com/2013/02/05/new-games-accounted-for-less-than-half-2012s-total-spend/> (last visited May 7, 2013). In 2012, spending on physical copies of new and used games dropped 21%, whereas spending on digital content grew 16%.

<sup>9</sup> David Streitfeld, *Imagining a Swap Meet for E-Books and Music*, N.Y. TIMES, Mar. 7, 2013, available at [http://www.nytimes.com/2013/03/08/technology/revolution-in-the-resale-of-digital-books-and-music.html?pagewanted=all&\\_r=0](http://www.nytimes.com/2013/03/08/technology/revolution-in-the-resale-of-digital-books-and-music.html?pagewanted=all&_r=0).

first sale doctrine roughly a decade ago,<sup>10</sup> has since retreated from that position, stating that the issue is “ripe for review.”<sup>11</sup>

The first sale doctrine, codified at 17 U.S.C. § 109, has traditionally served to strike a fair balance between copyright owners’ interest in holding a monopoly over the distribution of their works and consumers’ interests in the ability to sell their property. Since this doctrine emerged decades before computers could be used to share and consume copyrighted works, its language could not have been written in a way that would account for the starkly disparate manner in which owners sell copyrighted works today. The use of the word “particular” in § 109 of the Copyright Act and the limitation of the section to “distribution” (as it was understood by legislators writing before the advent of digital distribution) remains problematic due to the wholly new nature of digital media. This is not merely a semantic difference. Since there is no practical distinction between an “original” digital file and a “reproduction,” the economics of the markets are wholly different.<sup>12</sup> Because digital distribution, unlike its physical counterpart, requires reproduction, the court argued that it is impossible to sell a “particular” file digitally and thus the first sale doctrine cannot apply.

ReDigi provides a service that acts as part cloud storage provider, part used record store. Its crowning achievement is proprietary software that ensures both that its users have acquired all the music files they seek to put in their Cloud Lockers from iTunes, and that no duplicate copies are kept by the users. It then allows its members to sell the copies in their Cloud Lockers “used” to other members. Whereas ReDigi purports to be the functional equivalent of a garage sale or eBay, Capitol Records denounces it as a business model predicated on widespread copyright infringement, since users must

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<sup>10</sup> UNITED STATES COPYRIGHT OFFICE, DMCA SECTION 104 REPORT: A REPORT OF THE REGISTER OF COPYRIGHTS PURSUANT TO § 104 OF THE DIGITAL MILLENNIUM COPYRIGHT ACT (2001), *available at* <http://www.copyright.gov/reports/studies/dmca/sec-104-report-vol-1.pdf> (hereinafter “DMCA Report”).

<sup>11</sup> Maria A. Pallante, Director, U.S. Copyright Office, Twenty-Sixth Horace S. Manges Lecture at University of Columbia: The Next Great Copyright Act (Mar 4, 2013), *available at* [http://www.copyright.gov/docs/next\\_great\\_copyright\\_act.pdf](http://www.copyright.gov/docs/next_great_copyright_act.pdf).

<sup>12</sup> For instance, the costs associated with stocking, storing and shipping physical goods, as well as the delay between a consumer’s purchase and receipt of goods that need to be shipped, are eliminated by physical goods. The costs associated with storing and transferring digital media require a wholly different infrastructure. Compare, for example, the railroad infrastructure used to ship physical goods to the Internet.

make copies of their song files in order to upload them to their Cloud Lockers and sell them.

The Copyright Clause of the U.S. Constitution empowers Congress “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”<sup>13</sup> According to one school of thought, copyright law is thought to be forward-looking and promote the dissemination of new information and creative works for the benefit of the public.<sup>14</sup> According to an opposing view, the goal of copyright law is to reward authors for making creative works.<sup>15</sup> Even if the first part of the Copyright Clause, the so-called “Progress Clause,” is a mere preamble that does not impose an actual constitutional limit on Congress’s powers,<sup>16</sup> it at least represents “the main explanatory of the purpose of copyright.”<sup>17</sup>

<sup>13</sup> U.S. CONST. art. I, § 8, cl. 8.

<sup>14</sup> See, e.g., 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 1.03[A], at 1-88.17 (rev. ed. 2011) (“The primary purpose of copyright is not to reward the author, but is rather to secure ‘the general benefits derived by the public from the labors of authors.’” (footnotes omitted)); see also *Eldred v. Ashcroft*, 537 U.S. 186, 205-06 (2003) (rejecting the notion that “the only way to promote the progress of science is to provide incentives to create new works” (internal quotation omitted)); *Pennock v. Dialogue*, 27 U.S. 1, 19 (1829) (“[T]he main object was ‘to promote the progress of science and useful arts;’ and this could be done best, by giving the public at large a right to make, construct, use, and vend the thing invented, at as early a period as possible . . .”).

<sup>15</sup> See, e.g., 2 JOHN TEBBEL, A HISTORY OF BOOK PUBLISHING IN THE UNITED STATES: THE EXPANSION OF AN INDUSTRY, 1865–1919, at 640–41 (1975); SIVA VAIDHYANATHAN, COPYRIGHTS AND COPYWRONGS: THE RISE OF INTELLECTUAL PROPERTY AND HOW IT THREATENS CREATIVITY 201 n.26 (2001) (“[S]tate copyright statutes under the Articles of Confederation declared that copyright was to benefit the author primarily.”); Peter Burger, *The Berne Convention: Its History and Its Key Role in the Future*, 3 J.L. & TECH. 1, 56–57 (1988) (“The individual rights of authors, including authors’ personal relationship to their works, must become the central focus of contemporary efforts.”).

<sup>16</sup> That is to say, there is no *per se* Constitutional requirement to “promote the Progress of Science and useful Arts.” See 1 NIMMER & NIMMER, *supra* note 14, § 1.03[B], at 1-88.21 (“[T]he introductory phrase, rather than constituting a limitation on Congressional authority, has for the most part tended to expand such authority.” (footnotes omitted)); Edward C. Walterscheid, *To Promote the Progress of Science and the Useful Arts: The Anatomy of a Congressional Power*, 43 IDEA 1, 29 (2002) (“This phrase is sometimes referred to as the preamble, particularly by those addressing copyright issues and is argued to be intended merely as a statement of purpose or object which does not limit the authority given to Congress.” (footnote omitted)).

<sup>17</sup> 1 NIMMER & NIMMER, *supra* note 14, § 1.03, at 1-88.17. See also *Feist Publ’ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 349 (1991) (“The primary objective of copyright is not to reward the labor of authors, but ‘[t]o promote the Progress of Science and useful Arts.’” (alteration in original) (quoting U.S. CONST. art. I, § 8, cl. 8)).

The goal of promoting progress is served by granting the public access to creative works,<sup>18</sup> and the first sale doctrine serves this goal by doing just that – creating secondary markets that provide consumers access to creative works at affordable price points and freeing up wealth in those likely to re-invest it in new creative works.<sup>19</sup>

In order to explain the problem inherent in trying to identify a digital copy as a “particular” copy, Part I of this comment will lay out a brief history of the first sale and fair use doctrines, as well as the goals of copyright law, starting in the unfortunate era before computers were invented. This comment will then examine how copyright law developed to respond to the development of technology. Part II will delve into the arguments made for both sides and the court’s opinion on summary judgment in *Capitol Records v. ReDigi*. Part III will argue that the use of the word “particular” in the statute cannot meaningfully apply to digital copies, and so the statute must be revised in order to apply in a media-neutral manner. Part IV will argue that in updating the statute, the policy goals of copyright would be best served by permitting a digital secondary market.

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<sup>18</sup> See, e.g., Thomas B. Nachbar, *Constructing Copyright’s Mythology*, 6 GREEN BAG 2d 37, 44 (2002) (“The scope of copyright protection existing at the time of the framing,” trained as it was on “publication, not creation,” “is inconsistent with claims that copyright must promote creative activity in order to be valid.” (internal quotation marks omitted)); Orrin G. Hatch & Thomas R. Lee, “*To Promote the Progress of Science*”: *The Copyright Clause and Congress’s Power to Extend Copyrights*, 16 HARV. J.L. & TECH. 1 (2002); Malla Pollack, *Dealing With Old Father William, or Moving From Constitutional Text to Constitutional Doctrine: Progress Clause Review of the Copyright Term Extension Act*, 36 LOY. L.A. L. REV. 337, 340 (2002) (“Congress was granted power to pass only those copyright and patent statutes that promote the dissemination of knowledge and technology to the public.”); Malla Pollack, *What Is Congress Supposed to Promote?: Defining “Progress” in Article I, Section 8, Clause 8 of the United States Constitution, or Introducing the Progress Clause*, 80 NEB. L. REV. 754 (2001).

<sup>19</sup> See R. Anthony Reese, *The First Sale Doctrine in the Era of Digital Networks*, 44 B.C. L. REV. 577, 585-90 (2003)..

II. SETTING THE STAGE . . . FOR CONFUSION

A. *The First Sale Doctrine: The Supreme Court Seems To Think That It Is Boring*<sup>20</sup> (But Unanimously Agrees That This Section Isn't)

In the early twentieth century, American courts adopted the first sale doctrine from English common law, distinguishing between copyright holders' rights in their works and their rights in copies of those works.<sup>21</sup> The first sale doctrine is a limitation on copyright owners' exclusive right to distribute their works. According to this doctrine, a copyright owner's right to control the sale and resale of particular copies of his or her copyrighted work ends once the copies have been sold (or otherwise lawfully transferred) to new owners. It establishes that owners of legally-acquired copies of copyrighted works may dispose of the copies they own without the permission of the copyright owner.

The first sale doctrine first appeared in Supreme Court case law in the 1908 case *Bobbs-Merrill Co. v. Straus*. In *Bobbs-Merrill*, the dispute between the parties was whether selling a copy of a work exhausted the copyright owner's exclusive right to "vend,"<sup>22</sup> or whether the copyright owner could continue to control subsequent resale of copies under the right to vend. According to the Supreme Court, permitting a copyright owner to prevent or restrict subsequent resale of copies "would give a right not included in the terms of the [copyright] statute, and . . . extend its operation, by construction, beyond its meaning."<sup>23</sup> It ruled that once that "first sale" has occurred, the copyright owner cannot use copyright to impose limits on future sales.

Congress codified the doctrine shortly thereafter in the 1909 Copyright Act and recodified it in 1947 without alteration.<sup>24</sup> It is currently codified at 17 U.S.C. § 109(a), which reads:

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<sup>20</sup> Although the first sale doctrine has existed for over a century, the Supreme Court has addressed it in a meaningful way only three times – in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908), *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, 523 U.S. 135 (1998) and *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013).

<sup>21</sup> H.R. REP. NO. 98-987, at 2 (1984), reprinted in 1984 U.S.C.C.A.N. 2898, 2899 (citing *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908)).

<sup>22</sup> This was the word used in the Copyright Act of 1790, before the word "distribute" replaced it. Copyright Act of 1790, ch. 15 § 1, 1 Stat. 124.

<sup>23</sup> *Bobbs-Merrill*, 210 U.S. at 351.

<sup>24</sup> H.R. REP. NO. 98-987, *supra* note 21, at 2 (citing *Bobbs-Merrill*, 210 U.S. 339).

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.<sup>25</sup>

Under § 109(a), the test that must be satisfied in order to defeat a copyright infringement action with a first sale defense requires that (1) the copy at issue was lawfully produced with the permission of the copyright owner; (2) it left the possession of the copyright owner under his or her authority; (3) the defendant is the lawful owner of the copy; and (4) the defendant distributed the particular copy that she acquired.<sup>26</sup>

This doctrine developed when the word “file” was still predominantly a verb, and use of the phrase “digital distribution” would get a person burned at the stake. Although the copyright content industry has moved to address consumers’ use of digital media and demand for digital distribution, the law has not kept pace.

Supreme Court jurisprudence on the first sale doctrine is scarce, and there have only been two prominent decisions issued on the topic since *Bobbs-Merrill – Quality King Distributors, Inc. v. L’anza Research International, Inc.* and *Kirtsaeng v. John Wiley & Sons, Inc.* Neither case addresses new technology, but both explain the first sale doctrine as a policy that recognizes the “exhaustion” of copyright owners’ rights once they sell copies,<sup>27</sup> and one that serves to prevent restraints on the alienation of property.<sup>28</sup> The doctrine recognizes that the distribution right is a mere supplement to the reproduction right,

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<sup>25</sup> 17 U.S.C. § 109(a).

<sup>26</sup> See 2 NIMMER & NIMMER, *supra* note 14, § 8.12(B)(1)(a).

<sup>27</sup> *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1355 (2013) (“In copyright jargon, the ‘first sale’ has ‘exhausted’ the copyright owner’s § 106(3) exclusive distribution right.”); *Quality King Distributors, Inc. v. L’anza Research International, Inc.*, 523 U.S. 135, 152 (1998) (“The whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution.”).

<sup>28</sup> *Kirtsaeng*, 133 S.Ct. at 1363 (“The ‘first sale’ doctrine is a common-law doctrine with an impeccable historic pedigree. In the early 17th century Lord Coke explained the common law’s refusal to permit restraints on the alienation of chattels.); *Quality King*, 523 U.S. at 1128-29 (“It is not denied that one who has sold a copyrighted article, without restriction, has parted with 1129 all right to control the sale of it. The purchaser of a book, once sold by authority of the owner of the copyright, may sell it again, although he could not publish a new edition of it.”)

and no reproduction occurs when a particular copy is resold.<sup>29</sup> Thus, the rationale is that when a copyright owner consents to placing copies of his or her work into the stream of commerce and is compensated for the sales of his or her work, his or her exclusive rights under copyright take a back seat to the property rights of the owner of the property purchased.<sup>30</sup>

Copyrighted works embodied in digital media complicate the application of the doctrine, because computer programs and even media files are oftentimes licensed, not sold, to users. The Ninth Circuit examined the difference between a licensee and an owner in *Vernor v. Autodesk, Inc.*, establishing a three-part test to distinguish one from the other. In *Vernor*, the defendant purchased CDs containing the plaintiff's software and put them up for auction on eBay.<sup>31</sup> The plaintiff's software was available to customers under a "click-through" license, which provided that the software was non-transferrable and had a host of additional restrictions (for example, the user could not make modifications to the software or translate it and the plaintiff kept records of the serial number associated with each copy sold). The plaintiff argued that because of these restrictions, the defendant was a licensee rather than an owner, and thus not eligible for a fair use defense. The Ninth Circuit agreed, setting out a test for software licensing cases:

to prescribe three considerations that we may use to determine whether a software user is a licensee, rather than an owner of a copy. First, we consider whether the copyright owner specified that a user is granted a license. Second, we consider whether the copyright owner significantly restricts the user's ability to transfer the software. Finally, we consider whether the copyright owner imposes notable use restrictions.<sup>32</sup>

Under the Ninth Circuit's test, a software user is a licensee of a copy of copyrighted software, rather than its owner, when the owner of the copyright (1) specifies that the user is granted a license; (2) significantly restricts the user's ability to transfer the software; and (3)

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<sup>29</sup> See 2 NIMMER & NIMMER, *supra* note 14, § 8.12(A).

<sup>30</sup> See *Id.*

<sup>31</sup> *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010), *cert. denied*, 132 S. Ct. 105 (2011).

<sup>32</sup> *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1110-11 (9th Cir. 2010).

imposes notable use restrictions. If these criteria are met, the user of a copyrighted digital work is found to be a licensee and not entitled to resell his or her copy under the first sale doctrine.

This case was distinguished one year later in *UMG Recordings v. Augusto*, which was also decided by the Ninth Circuit. Here, the plaintiff sent promotional CDs of its sound recordings to music critics and DJs. The CDs bore labels that read:

This CD is the property of the record company and is licensed to the intended recipient for personal use only. Acceptance of this CD shall constitute an agreement to comply with the terms of the license. Resale or transfer of possession is not allowed and may be punishable under federal and state laws.<sup>33</sup>

Or, the more succinct statement, “Promotional Use Only—Not for Sale.”<sup>34</sup> The defendant lawfully acquired several of these CDs and sold them on eBay. The Ninth Circuit ruled that because the plaintiff transferred possession of the CDs to its recipients without meaningful control of the status of the CDs after shipment, that accomplished a transfer of title.<sup>35</sup> Generally, then, a copyright owner must retain sufficient “incidents of ownership over copies” to sensibly be considered their owner.<sup>36</sup>

However, the main point of contention between the parties in *ReDigi* appears to be disagreement over whether it matters that only one copy remains at the time of the resale, even the seller creates a reproduction in the process of getting to the sale. Digital media presents the novel issue that one copy can easily become one million copies with a minimal investment of time and effort. The United States Copyright Office has addressed this issue, and the court in *ReDigi* adopted its view 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.”<sup>37</sup> Specifically:

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<sup>33</sup> *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175, 1177-78 (9th Cir. 2011).

<sup>34</sup> *Id.* at 1178.

<sup>35</sup> *Id.* at 1182.

<sup>36</sup> *Id.* at 1183.

<sup>37</sup> DMCA Report, *supra* note 10, at 82-83.

Physical 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. . . . Additionally, unless a "forward-and-delete" technology is employed to automatically delete the sender's copy, the deletion of a work requires an additional affirmative act on the part of the sender subsequent to the transmission. This act is difficult to prove or disprove, as is a person's claim to have transmitted only a single copy, thereby raising complex evidentiary concerns.<sup>38</sup>

The Copyright Office went on to reason that "[t]he ultimate product of . . . digital transmission is a new copy in the possession of a new person. Unlike the traditional circumstances of a first sale transfer, the recipient obtains a new copy, not the same one with which the sender began," and since "absent human or technological intervention the sender retains the source copy," it concluded that the first sale doctrine does not apply to digital copies.<sup>39</sup> It also recommended that § 109 not be amended to include digital sales in the first sale doctrine.<sup>40</sup>

The Copyright Office found that:

[u]nless a "forward-and delete" technology is employed to automatically delete the sender's copy, the deletion of a work requires an additional affirmative act on the part of the sender subsequent to the transmission. This act is difficult to prove or disprove, as is a person's claim to

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<sup>38</sup> *Id.*

<sup>39</sup> *Id.* at 79-80.

<sup>40</sup> *Id.* at 97-101.

have transmitted only a single copy, thereby raising complex evidentiary concerns. There were conflicting views on whether effective forward and delete technologies exist today. Even if they do, it is not clear that the market will bear the cost of an expensive technological measure.

Forward-and-delete technology is central to ReDigi's business model, but the court was not persuaded that such technology meets the demands of the Copyright Act's text, as discussed *infra* Section II.C.

B. *What's So Confusing About The Fair Use Doctrine?*

The doctrine of fair use has been called “the most troublesome in the whole law of copyright.”<sup>41</sup> But what about it is so troubling?

1. Everything.

The rationale behind the fair use doctrine comes straight from the Constitution. Specifically, the Copyright Clause begins with the phrase “To Promote the Progress of Science and useful Arts.”<sup>42</sup> Fair use is a doctrine of equity that permits certain uses of copyrighted works, and much like the first sale doctrine, it seeks to strike a balance—here, it is a balance between copyright owners' individual economic interests and the public's interest in the ability to create new works by using works that have come before them. In American case law, it is slightly older than the first sale doctrine, having first appeared in the 1841 case *Folsom v. Marsh*. In *Folsom*, the defendant quoted some of the plaintiff's copyrighted material in a biography. The court reasoned that:

we must often, in deciding questions of this sort, look to the nature and objects of the selections made, the quantity and value of the materials used, and the degree

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<sup>41</sup> *Dellar v. Samuel Goldwyn, Inc.*, 104 F.2d 661, 662 (2d Cir. 1939); see *Triangle Publications, Inc. v. Knight-Ridder Newspapers, Inc.*, 626 F.2d 1171, 1174 (5th Cir. 1980); *Meeropol v. Nizer*, 560 F.2d 1061, 1068 (2d Cir. 1977), *cert. denied*, 434 U.S. 1013 (1978).

<sup>42</sup> U.S. CONST. art. I, § 8, cl. 8.

in which the use may prejudice the sale, or diminish the profits, or supersede the objects, of the original work.<sup>43</sup>

As the doctrine matured, courts also recognized that they must consider whether uses of copyrighted material “would serve the public interest in the free dissemination of information.”<sup>44</sup> It was eventually codified in the Copyright Act of 1976, which provides:

Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, 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 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 the copyrighted work as a whole; and
- (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.<sup>45</sup>

In order to aid courts in applying this doctrine for which “no generally applicable definition is possible” and where “each case raising the question must be decided on its own facts,” the House Report provided several examples of fair uses, including:

quotation of excerpts in a review or criticism for purposes of illustration or comment; quotation of short

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<sup>43</sup> *Folsom v. Marsh*, 9 F. Cas. 342, 348 (C.C.D. Mass. 1841).

<sup>44</sup> *Rosemont Enters. v. Random House, Inc.*, 366 F.2d 303 (2d Cir. 1966).

<sup>45</sup> 17 U.S.C. § 107.

passages in a scholarly or technical work, for illustration or clarification of the author's observations; use in a parody of some of the content of the work parodied; summary of an address or article, with brief quotations, in a news report; reproduction by a library of a portion of a work to replace part of a damaged copy; reproduction by a teacher or student of a small part of a work to illustrate a lesson; reproduction of a work in legislative or judicial proceedings or reports; incidental and fortuitous reproduction, in a newsreel or broadcast, of a work located in the scene of an event being reported.<sup>46</sup>

But again, these are all mere guidelines for courts. Moreover, because of the amount of freedom that judges have to decide cases on their facts, fair use jurisprudence has developed into a confusing body of scholarship. It has developed in response to new technology. There are at least three views of when fair use should serve as a defense to the use of a work. One view focuses on the First Amendment and the public good that the copyright system was implemented to serve. Another view is market-focused, and holds that fair use is inappropriate unless a reasonable copyright owner would have consented to the use given the importance of the material copied (from the point of view of the reasonable copyright owner). A third view is concerned with whether or not a use transforms the original work.

The landmark case *Sony v. Universal* is the second most important case to understand for the purposes of this comment,<sup>47</sup> and *ReDigi* relies upon it heavily in its arguments. The controversy in *Sony* was over the Betamax recorder, and the Court ruled that making copies of TV programs to watch later was a fair use.<sup>48</sup> The plaintiff argued that users of the defendant's Betamax would create unauthorized copies of their television shows.<sup>49</sup> However, the Court ruled that the primary character of the consumers' use was what it called "time-shifting."<sup>50</sup> Although the purpose and character of the use was for nothing more than consumption of the copyrighted work, it was still a non-commercial, nonprofit use that the Court reasoned had a social

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<sup>46</sup> H.R. REP. NO. 94-1476, at 65 (1976).

<sup>47</sup> The most important case, of course, is *Capitol Records v. ReDigi*.

<sup>48</sup> *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 419-20 (1984).

<sup>49</sup> *Id.* at 420.

<sup>50</sup> *Id.* at 423-24.

benefit.<sup>51</sup> The Court's reasoning here seemed grounded in the preamble to the Copyright Clause, because it found that copying with a Betamax served the purpose of increasing public access to materials that were already broadcast for free over public airwaves.<sup>52</sup> On the nature of the copyrighted work, the Court once again pointed to the fact that TV programs were (at the time) meant to be viewed without consumers paying for them, so even though the plaintiff's works were highly creative and deserving of thick copyright protection, the second factor still weighed in favor of fair use.<sup>53</sup> The fact that the consumers were invited to watch the programs in their entirety for free on their TVs also obviated the third factor.<sup>54</sup> When considering the fourth factor, the Court determined that the market was advertisement revenue, and it found that the Betamax did not affect those revenues, since the Nielson ratings (which were used to set prices) counted live viewers of TV shows and consumers who recorded the shows on Betamax the same.<sup>55</sup>

An implicit fifth factor also seemed to lurk in the Court's ruling—consideration of cultural expectations:

One may search the Copyright Act in vain for any sign that the elected representatives of millions of people who watch television every day have made it unlawful to copy a program for later viewing at home, or have enacted a flat prohibition against the sale of machines that make such copying possible.<sup>56</sup>

The Court here seems to be saying that it is hesitant to rule that the millions of people recording TV are criminals, and that if Congress disagrees with that ruling, it can amend the Copyright Act. Ultimately, the Court ruled that copying for personal, non-commercial "time-shifting" was a public good that made creative works more accessible to the public. On the view adopted by this Court, fair use was not an

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<sup>51</sup> *Id.* at 455 n.20.

<sup>52</sup> *Id.* at 448-50.

<sup>53</sup> *Sony*, 464 U.S. at 448-50. On this point, the Dissent pointed to the fact that this was a departure from the traditional approach to the third factor, and argued that because of 80% of TV programs were fiction and entertainment, analysis of the third factor should acknowledge that and come down against fair use. *Id.* at 497 n.48.

<sup>54</sup> *Id.* at 450.

<sup>55</sup> *Id.* at 417, n.36.

<sup>56</sup> *Id.* at 456.

exception to copyright, but rather an integral part of copyright law that served the same goals as the copyright incentive and the First Amendment - to promote the dissemination of ideas and robust debate.

One year later, this view of the fair use doctrine appeared in the dissenting opinion in *Harper & Row v. Nation Enterprises*, where the majority endorsed a market-based standard. In *Harper & Row*, the defendant got copies of the manuscript of President Ford's forthcoming autobiography. The defendant published an article that copied approximately 300 words out of the 200,000-word autobiography in an article.<sup>57</sup> The Court ruled that such copying was not fair use.<sup>58</sup> On the first factor, it rejected that the publication was "news reporting," one of the fair uses suggested by 17 U.S.C. § 107. Rather, it found that the publication was "commercial," reasoning that:

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.<sup>59</sup>

Here, the Court adopted the *Sony* presumption that every commercial exploitation is presumptively an unfair.<sup>60</sup> When considering the second factor, the Court noted that the original work was not yet on the market, which weighed against fair use.<sup>61</sup> The Court wrote that even though the copied portion only amounted to about 1.5% of the work as a whole, the proper metric to measure amount and substantiality is by determining whether the copied portion was valuable to the plaintiff's work.<sup>62</sup> The Court ruled that the portion taken was the "heart" of the plaintiff's work, and therefore it was qualitatively substantial enough to weigh against fair use.<sup>63</sup> Finally, the

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<sup>57</sup> *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539 (1985).

<sup>58</sup> *Id.* at 540.

<sup>59</sup> *Id.* at 562.

<sup>60</sup> The dissent, which adopted a First Amendment approach to fair use, argued that the use was in fact "news reporting" and that the defendant only took what was necessary to lend authenticity to its news story. *Id.* at 590-91 (Brennan, J., dissenting).

<sup>61</sup> *Id.* at 564.

<sup>62</sup> *Id.* at 564-66.

<sup>63</sup> *Id.* at 565-66. On this point, the dissent argued that the key metric was instead whether the defendant copied more than necessary for a favored purpose, or whether the amount taken was justified by the defendant's favored purpose.

Court declared that the fourth factor was the single most important factor, and because there was a clear example of market harm in this case, it ruled against fair use.<sup>64</sup>

Nearly a decade after *Harper & Row*, the Court advocated yet another approach to fair use in *Campbell v. Acuff-Rose* – the transformative use approach. In *Campbell*, the defendant wrote a song using a guitar riff from the defendant’s song, claiming it parodied the original.<sup>65</sup> When examining the first factor, the Court ruled that the central purpose of the fair use inquiry is to determine whether the use is transformative, writing:

The central purpose of [the fair use inquiry] is to see . . . whether the new work merely ‘supercede[s] the objects’ of the original creation . . . or instead adds something new, with a further purpose or different character, [or] altering the first with new expression, meaning or message; it asks, in other words, whether and to what extent the new work is “transformative.”<sup>66</sup>

The Court wrote that “[t]he more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use.”<sup>67</sup> Thus, this decision overturned the *Sony* presumption, at least in respect to transformative works. Further, the Court clarified the third factor, confirming that the key metric is whether the defendant copied more than necessary for its favored use.<sup>68</sup> It also rejected the fourth factor as the most important, stating that courts must consider not only the harm the defendant’s use caused directly, but also “whether unrestricted and widespread conduct of the sort engaged in by the defendant . . . would result in a substantially adverse impact on the potential market for the original.”<sup>69</sup> The decision laid out a market substitution test, asking how likely it would be that the defendant’s work would empirically substitute for the original work.<sup>70</sup> The Court found that in the case of transformative uses, it is empirically less likely that transformative works usurp

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<sup>64</sup> *Id.* at 566-67.

<sup>65</sup> *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994).

<sup>66</sup> *Id.* at 579.

<sup>67</sup> *Id.* at 568.

<sup>68</sup> *Id.* at 589.

<sup>69</sup> *Id.* at 590 (quoting 3 NIMMER & NIMMER § 13.05[A][4], p. 13-102.61 (footnote omitted)).

<sup>70</sup> *Id.* at 591-92.

demand for originals, because they cannot serve as market substitutes.<sup>71</sup>

Since 2005, virtually all fair use decisions assess whether the defendant's use is transformative.<sup>72</sup> On this test, courts ask whether or not the work has a new, different expressive purpose from the original. Then if the use is transformative, courts ask whether the defendant copied more than reasonably necessary in light of that transformative purpose.<sup>73</sup>

## 2. The Mysteries of Time and Space (Shifting)

Although *Sony* did not specifically hold that private, non-commercial consumptive copying is fair use, there have been developments in the law extending fair use from "time-shifting" to "space-shifting." This extension, however, is extremely narrow.

In *Recording Industry Association of America v. Diamond Multimedia Systems*, the Ninth Circuit considered whether consumers could lawfully copy music files they owned and transfer them onto their portable listening devices.<sup>74</sup> The court reasoned that the defendant's device merely made copies of lawfully acquired music files in order to render them portable, or "space-shift" them, and such use was analogous to *Sony's* "time-shifting."<sup>75</sup> The court did not directly rule on the issue of fair use, but ruled that space-shifting was "paradigmatic non-commercial use entirely consistent with the copyright law"<sup>76</sup> and thus protected use under 17 U.S.C. § 1008, which "protects all noncommercial copying by consumers of digital and analog musical recordings."<sup>77</sup>

However, two years later in *A&M Records v. Napster*, the Second Circuit seemed to recognize *Diamond* as precedent standing for space-shifting as fair use. In *Napster*, the Ninth Circuit actually distinguished *Diamond*, suggested that space-shifting could be fair use, unless it simultaneously involves "distribution of the copyrighted material to the

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<sup>71</sup> *Campbell*, 510 U.S. at 591-92.

<sup>72</sup> See Neil Weinstock Netanel, *Making Sense of Fair Use*, 15 LEWIS & CLARK L. REV. 715 (2011).

<sup>73</sup> *Id.*

<sup>74</sup> *Recording Indus. Ass'n of America v. Diamond Multimedia Sys., Inc.*, 180 F.3d 1072, 1079 (9th Cir. 1999).

<sup>75</sup> *Id.*

<sup>76</sup> *Id.*

<sup>77</sup> *Id.* (quoting H.R. REP. NO. 102-873(I), at 59 (1992)).

general public,” rather than “only to the original user.”<sup>78</sup> However, the court also cited a case from the Southern District of New York ruling that “space-shifting of MP3 files [is] not a fair use even when previous ownership is demonstrated before a download is allowed.”<sup>79</sup> Thus, the space-shifting argument remains unresolved.

C. *A Brief History of Copyright: Let’s Have a Look, Shall We?*<sup>80</sup>

The Constitution grants Congress the power to implement copyright as one of the few enumerated powers listed in Article I, § 3, clause 8.<sup>81</sup> Congress used this power two years after the ratification of the Constitution, passing the Copyright Act of 1790.<sup>82</sup> The motivating concern behind the Act was a fear that failing to provide authors legal protection for their works would permit publishers to copy works for free and undersell the authors, disincentivizing creativity.<sup>83</sup> The framers feared that most authors and scientists would stop their pursuits if there was no money to be had from them, bringing progress to a grinding halt.<sup>84</sup> However, there was also a concern that protection would inhibit the progress to be had from artists’ use, criticism, supplementation, and consideration of previous works.<sup>85</sup> Thus, the Framers sought to strike a balance, protecting creative works just long enough to encourage further creation, but after enough time passes, let the works enter the public domain.<sup>86</sup>

The original Copyright Act of 1790 made works available to the public relatively soon after their publication, protecting new works for an initial fourteen-year period, with the possibility of a fourteen-year renewal.<sup>87</sup> Copyright protection, however, was not granted automatically upon the creation of the work. Rather, authors had to

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<sup>78</sup> A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1019 (9th Cir. 2001).

<sup>79</sup> *Id.* (citing UMG Recordings, Inc. v. MP3.com, Inc., 92 F. Supp. 2d 349, 351-52 (S.D.N.Y. 2000)).

<sup>80</sup> This title is a direct allusion to the title of Sid Nadkarni’s Comment, *Let’s Have a Look, Shall We?*, 61 UCLA L. REV. 148 (2013).

<sup>81</sup> U.S. CONST. art. I, § 8, cl. 8 (empowering Congress “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries”).

<sup>82</sup> Copyright Act of 1790, ch. 15, 1 Stat. 124 (repealed 1831).

<sup>83</sup> VAIDHYANATHAN, *supra* note 15, at 21.

<sup>84</sup> *Id.*

<sup>85</sup> *Id.*

<sup>86</sup> *Id.*

<sup>87</sup> *Id.*; see also ROBERT L. BARD & LEWIS KURLANTZICK, COPYRIGHT DURATION: DURATION, TERM EXTENSION, THE EUROPEAN UNION AND THE MAKING OF COPYRIGHT POLICY 7 (1999).

take specific steps beyond mere creation to be eligible for copyright protection. These ramifications included depositing a printed copy of the title of the work with the clerk's office of the local U.S. district court before publication, providing notice of his or her copyright with four weekly newspaper advertisements, and depositing a copy of the work with the Secretary of State within six months of publication.<sup>88</sup>

Congress revised the Copyright Act in 1831 to include musical compositions<sup>89</sup> and provide for longer periods of protection.<sup>90</sup> In 1870, Congress again revised the Act to centralize copyright functions in the Library of Congress<sup>91</sup> and afford protection to visual fine arts, including paintings and sculptures.<sup>92</sup> In 1909, Congress added protection for even more categories of creative works and extended the copyright term yet again.<sup>93</sup> Under this revision, authors were required to publish works with a “notice of copyright . . . affixed to each copy thereof published or offered for sale in the United States” in order to be eligible for copyright.<sup>94</sup> If an author failed to do so, the work entered the public domain. The “formal prerequisites and traps for the

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<sup>88</sup> Copyright Act of 1790, ch. 15, § 3–4, 1 Stat. 124 (repealed 1831); *see also* Benjamin W. Rudd, *Notable Dates in American Copyright, 1783–1969*, 28 Q.J. LIBR. CONGRESS 137, 138 (1971), available at <http://www.copyright.gov/history/dates.pdf>.

<sup>89</sup> Copyright Act of 1831, ch. 16, § 1, 4 Stat. 436 (repealed 1870).

<sup>90</sup> The initial protection term doubled from fourteen to twenty-eight years, while the renewal term remained the same. *Id.*; *see also* BARD & KURLANTZICK, *supra* note 87, at 7.

<sup>91</sup> Copyright Act of 1870, ch. 230, § 85, 16 Stat. 198, 212 (repealed 1909). “The Copyright Office became a separate department of the Library of Congress in 1897.” *U.S. Copyright Office: A Brief Introduction and History*, COPYRIGHT.GOV, <http://www.copyright.gov/circs/circ1a.html> (last visited Mar. 18, 2013).

<sup>92</sup> Copyright Act of 1870, ch. 230, § 86, 16 Stat. 198, 212 (repealed 1909); *see also* Rudd, *supra* note 88, at 140.

<sup>93</sup> Copyright protection was extended to include “all works of authorship.” *See Copyright Timeline: A History of Copyright in the United States*, ASS'N RES. LIBR. (May 7, 2013) <http://www.arl.org/pp/ppcopyright/copyresources/copytimeline~print.shtml>. Also, Congress extended the renewal term to twenty-eight years, for a maximum possible term of fifty-six years. Copyright Act of 1909, ch. 320, § 23, 35 Stat. 1075, 1080 (repealed 1976).

<sup>94</sup> Copyright Act of 1909, ch. 320, § 9, 35 Stat. 1077 (repealed 1976). Generally, notice on a “visually perceptible copy” of a work (for example, a book), consists of three elements: (1) the copyright symbol (©) or the word “copyright,” (2) the year of first publication, and (3) the name of the copyright owner. U.S. COPYRIGHT OFFICE, CIRCULAR 3: COPYRIGHT NOTICE 2 (2011), available at <http://www.copyright.gov/circs/circ03.pdf>. For further discussion of acceptable forms of copyright notice, see 2 NIMMER & NIMMER, *supra* note 14, at § 7.07. The 1909 Act's notice requirement was in addition to the formalities that had already been required by earlier statutes. *See* Copyright Act of 1909, ch. 320, § 9, 35 Stat. 1077 (repealed 1976) (requiring publication to secure copyright); *Id.* at § 12, (requiring deposit of copies with the register of copyrights).

unwary”<sup>95</sup> requiring authors to take affirmative steps to secure their copyright demonstrate that Congress viewed copyright as a system “[n]ot primarily for the benefit of the author, but primarily for the benefit of the public . . . .”<sup>96</sup> Additionally, the Act’s requirement that authors had to publish their works promoted the goal of disseminating information to the public.

The Copyright Act of 1976 superseded the 1909 Act.<sup>97</sup> It addressed technological innovations and again extended the copyright term from twenty-eight years with a possible twenty-eight year renewal to the life of the author plus fifty years.<sup>98</sup> It also featured the first codifications of the fair use and first sale doctrines<sup>99</sup> and extended copyright protection to unpublished works for the first time.<sup>100</sup>

In 1998, Congress enacted the Digital Millennium Copyright Act (DMCA),<sup>101</sup> which aimed to update copyright law to better reflect the landscape of information given innovations like the Internet. At the same time, Congress passed the Sonny Bono Copyright Term Extension Act (CTEA),<sup>102</sup> which extended the copyright term to the life of the author plus seventy years.<sup>103</sup>

The extension of the copyright term and the system’s change from an opt-in system that seemed more than willing to trick authors into losing protection to an automatic system for all creative works for the author’s life plus seventy years seems to indicate that the economic interests driving copyright law have evolved with consumer markets.<sup>104</sup>

Unfortunately, Congress has yet to change copyright law to reflect the changing realities of the digital landscape. The number of users of and uses for the Internet has increased exponentially since 1999,<sup>105</sup> and as discussed in the following Sections, copyright law must be updated

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<sup>95</sup> MELVILLE B. NIMMER ET AL., *CASES AND MATERIALS ON COPYRIGHT AND OTHER ASPECTS OF ENTERTAINMENT LITIGATION INCLUDING UNFAIR COMPETITION, DEFAMATION, PRIVACY* § 1.01, at 1 (7th ed. 2006).

<sup>96</sup> H.R. REP. NO. 2222, at 7 (1909).

<sup>97</sup> NIMMER ET AL., *supra* note 94.

<sup>98</sup> 17 U.S.C. § 302 (2006).

<sup>99</sup> 17 U.S.C. § 107 (2006).

<sup>100</sup> 17 U.S.C. § 102 (2006).

<sup>101</sup> Pub. L. No. 105-304, 112 Stat. 2860 (1998).

<sup>102</sup> Pub. L. No. 105-298, 112 Stat. 2827 (1998).

<sup>103</sup> 17 U.S.C. § 302(a) (2006). The constitutionality of the CTEA was affirmed by the U.S. Supreme Court in *Eldred v. Ashcroft*, 537 U.S. at 187.

<sup>104</sup> For discussion of the impact of the digital goods market on copyright law, see *infra* Part V.

<sup>105</sup> See generally Orin S. Kerr, *A Theory of Law*, 16 GREEN BAG 2D 111 (2012).

to reflect the changes that have come with the evolution of the Internet. In the information era, consumers value dissemination of and access to information and media.<sup>106</sup> As copyright law catches up with technology, that value should be reflected in legislation. The *ReDigi* court had the opportunity to interpret the law in a forward-looking way, but as we will see in the next Section, it instead applied language from the 1970's in a rote fashion, even though the case that could not have even been envisioned in the 1970's.

### III. *CAPITOL RECORDS V. REDIGI*: THE UPLOAD SHOWDOWN

ReDigi serves the dual functions of cloud storage and “secondhand” music marketplace. In order to use ReDigi for either of these purposes, a user must install its proprietary “Music Manager” software on his or her computer.<sup>107</sup> When a user seeks to upload a song file to his or her ReDigi cloud locker, the Music Manager software first analyzes the song to determine whether the user legally downloaded it from iTunes.<sup>108</sup> This initial analysis validates the file ownership, source, purchase dates, UITS code (if it exists), metadata, and changes any modifications for each song file.<sup>109</sup> Once a file passes this first evaluation, the file is uploaded to the user's Cloud Locker, where it undergoes a more intensive analysis of its source and ownership, as well as another examination to ensure the file has not been modified or tampered with.<sup>110</sup> These two validation processes determine whether a file is eligible for use with ReDigi.<sup>111</sup> Once a file is uploaded and deemed eligible, Music Manager deletes all copies of the file from the user's computer and synced devices.<sup>112</sup> Music Manager continues running in the background of the user's machine, policing it and the user's synced devices for any new instances of the uploaded file.<sup>113</sup> If it detects any copies of the song, it prompts the user to authorize their deletion – if the user fails to do so, her account is suspended until the

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<sup>106</sup> See *supra* Section I.

<sup>107</sup> ReDigi, Inc.'s Answer to the Compl. of Capitol Records, LLC, No. 12-0095 (S.D.N.Y. 2012) [hereinafter ReDigi's Answer], at 7.

<sup>108</sup> *Id.* at 8.

<sup>109</sup> *Id.*

<sup>110</sup> *Id.*

<sup>111</sup> *Id.*

<sup>112</sup> *Id.*

<sup>113</sup> ReDigi's Answer, *supra* note 107, at 8.

duplicate copies are deleted.<sup>114</sup> If the user downloads a song file from her Cloud Locker onto her machine, the file in the Cloud Locker is deleted.<sup>115</sup>

When a user wishes to listen to a song file stored in her Cloud Locker, she must log into his or her secure ReDigi account, where she is only able to access the files that she uploaded to or purchased from ReDigi through “file pointers.”<sup>116</sup> While playing, the file is loaded into the user’s machine’s RAM, and it is deleted from RAM once the song file has finished playing.<sup>117</sup> And when a user sells a song file to another user, the file stays in ReDigi’s cloud, but the file pointer grants access to the purchaser.<sup>118</sup> The user who sold the file no longer has access to the song file that she has sold.<sup>119</sup>

Now knowing how ReDigi works, let’s have a look at the parties arguments, shall we?

A. Capitol Records’ *Textual Arguments: ReDigi’s Got Trouble With a Capitol “T,” and That Rhymes With “P,” and That Stands For Phonorecords*

In arguing that ReDigi is liable for copyright infringement for violating its exclusive right of reproduction, Capitol Records relied on the text of the Copyright Act to make the case seem open-and-shut. In its motion for summary judgment, Capitol first lays out the three pieces of legislation needed to construct its argument: 17 U.S.C. §§ 101, 106(1), and 106(3). Sound recordings, the copyrighted works at issue, are defined by the Copyright Act as “works that result from the fixation of a series of musical, spoken, or other sounds, . . . regardless of the nature of the material objects, such as disks, tapes, or other phonorecords, in which they are embodied.”<sup>120</sup> As owner of the copyrights in the sound recordings at issue, Capitol holds the exclusive right “to reproduce the copyrighted work in copies or phonorecords.”<sup>121</sup> “Phonorecords,” under the Copyright Act, are defined as “material

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<sup>114</sup> *Id.* at 9.

<sup>115</sup> *Id.*

<sup>116</sup> *Id.* at 7.

<sup>117</sup> *Id.* at 9.

<sup>118</sup> *Id.* at 9.

<sup>119</sup> *Id.*

<sup>120</sup> 17 U.S.C. § 101; Mem. of Law in Supp. of Pl.’s Mot. for Partial Summ. J., No. 12-0095 (S.D.N.Y. 2012) [hereinafter Capitol Memo], at 5.

<sup>121</sup> 17 U.S.C. § 106(1); Capitol Memo, *supra* note 120, at 5.

objects in which sounds . . . are fixed by any method now known or later developed, and from which sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.”<sup>122</sup> From there, the motion draws upon the distinction between the copyrighted work and the material object in which the work is fixed. This distinction clarifies what exactly the reproduction right includes, relying on the Senate and House Reports for the 1976 Copyright Act:

Read together with the relevant definitions in section 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.’<sup>123</sup>

Thus, the reproduction of a copyrighted work in a new or different material object necessarily serves “to reproduce the copyrighted work in phonorecords” within the meaning of section 106(3).<sup>124</sup> The argument then sets its sights on ReDigi’s business model.

Capitol argues that ReDigi’s marketplace requires users to make new phonorecords for every sale, which is a violation of Capitol’s reproduction right. In order for a user to offer his or her music file for sale on the marketplace, she must upload the file from the physical disk inside his or her home computer to the physical disks associated with ReDigi’s cloud server. After each upload, Capitol’s sound recordings can be perceived by playing the files on ReDigi’s servers. Therefore, after each upload, the sound files are “fixed” in the disks of the ReDigi cloud servers and thus embodied in new phonorecords.<sup>125</sup> Simple as

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<sup>122</sup> 17 U.S.C. § 101, Capitol Memo, *supra* note 120, at 5.

<sup>123</sup> S. REP. NO. 94-473, at 58 (1975); H.R. REP. NO. 94-1476, at 61 (1976) (both quoted in Capitol Memo, *supra* note 120, at 5-6).

<sup>124</sup> Capitol Memo, *supra* note 120, at 6. Capitol also cited *Chase v. Public Utility Comm’n of Pa.*, 2008 WL 906491, at \*5 (M.D. Pa. Mar. 31, 2008) (“[T]he reproduction right guaranteed by § 106 ensures that a copyright owner has the exclusive right to create new material objects in which a copyrighted work may be fixed.”).

<sup>125</sup> Capitol Memo, *supra* note 120, at 6. Again, Capitol relies on the text of 17 U.S.C. § 101 here (“A work is ‘fixed’ in a tangible medium of expression when its embodiment in a copy or phonorecord . . . is sufficiently permanent or stable to permit it to be perceived,

that, uploading music files to the ReDigi server results in new fixations of the copyrighted works in different physical objects, located in different physical spaces, creating what Capitol argues are, by definition, new phonorecords.<sup>126</sup>

Capitol generalizes this principle and argues that because uploading and downloading can only be accomplished by making new phonorecords of the original sound recording, any unauthorized uploads and downloads are violations of the copyright holder's exclusive right to reproduce.<sup>127</sup> This "new phonorecord" argument anticipates the first sale defense, which only serves to excuse the unauthorized distribution of phonorecords—not the unauthorized reproduction. Additionally, because the phonorecords made upon each upload to ReDigi's servers are distinct from the original phonorecords that existed inside the user's computer, they cannot be the "particular" copies that the user can legally sell under the first sale doctrine.

In arguing that ReDigi violated its exclusive right to distribution, Capitol simply analogizes to *Arista Records, LLC v. Greubel* and *New York Times Co. v. Tasini*. In *Tasini*, the defendants operated an online database from which users could download digital copies of newspaper articles on request. The Supreme Court ruled that it was "clear" that "by selling copies of the Articles through the NEXIS Database," the

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reproduced, or otherwise communicated for a period of more than transitory duration.").

<sup>126</sup> Capitol Memo, *supra* note 120, at 6-7. Here, Capitol draws additional support from *London-Sire Records, Inc. v. Doe I*, 543 F. Supp. 2d 153, 171 (D. Mass. 2008) (explaining that the "appropriate segment of the hard disk" where the digital sequence representing a sound recording constitutes a "phonorecord" under the Copyright Act). Capitol concedes that the electronic file itself – which is simply a digital sequence that cannot be perceived – does not constitute a "phonorecord" on its own, except to the extent that it is fixed in a material object from which it can be perceived or reproduced. But once it is fixed, it counts. *See, e.g., Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1160 (9th Cir. 2007) ("A photographic image is . . . 'fixed in a tangible medium of expression,' for the purposes of the Copyright Act, when embodied (i.e., stored) in a computer's server (or hard disk, or other storage device"); *Matthew Bender & Co. v. West Publ'g Co.*, 158 F.3d 693, 703 (2d Cir. 1998) ("[R]eproductions of copyrighted works contained on media such as floppy disks, hard drives, and magnetic tapes . . . meet the Copyright Act's 'fixation' requirement."); Final Report of the National Commission on New Technological Uses of Copyrighted Works, H.R. REP. NO. 96-1307 at 22 (1980) ("Because works in computer storage may be repeatedly reproduced, they are fixed and, therefore, are copies.").

<sup>127</sup> Capitol Memo, *supra* note 120, at 7. Capitol further supports this argument with an appeal to *Sega Enter. Ltd. v. MAPHIA*, 948 F. Supp. 923, 932 (N.D. Cal 1996) (holding that "copies were made" for purposes of the Copyright Act when copyrighted works were "uploaded to or downloaded from" the defendant's electronic bulletin board). It also, somewhat unnecessarily, cites to 2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.02[C], at 8-35 (Matthew Bender, rev. ed. 2012) ("[C]opyright infringement occurs whenever an unauthorized . . . phonorecord is made.").

defendants “distribute[d] copies of the Articles to the public by sale” in violation of the copyright owner’s exclusive right of distribution.”<sup>128</sup> Capitol argues that *Tasini* has completely analogous facts on the issue of distribution.

### 1. All’s Fair In Love And War, But Not Copyright Law

Capitol anticipates and contests ReDigi’s fair use defense to the unauthorized reproduction claim, arguing that ReDigi’s copying neither promotes the policy goals of fair use nor meets any of the four statutory factors. Capitol further argues that because ReDigi duplicates sound recordings to undersell Capitol’s authorized retailers, its use undermines incentives for artistic creativity.<sup>129</sup> Capitol briefly asserts that the case has nothing to do with “space shifting,” where copying is “for personal, non-commercial use,” but rather wants to focus the issue on ReDigi’s “commercial enterprise based on sales transactions.”<sup>130</sup> This, however, is the extent of the discussion on space shifting, and both Capitol and the court are at fault for overlooking the important matter of “space-shifting” as fair use.<sup>131</sup>

The first factor, the purpose and character of the use at issue,<sup>132</sup> weighs against fair use because, according to Capitol, the uploads to ReDigi’s servers are of a commercial nature and are not transformative. Capitol reasons that because ReDigi earns a transaction fee on every sale, the purpose of the transfer of the music files is to benefit ReDigi commercially. Additionally, because ReDigi offers mere “replicas” of Capitol’s sound recordings,<sup>133</sup> there is nothing “new, with a further purpose or different character” that would transform the works.<sup>134</sup> The second factor, the nature of the

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<sup>128</sup> *New York Times Co. v. Tasini*, 533 U.S. 483 (2001). *See also London-Sire Records*, 542 F. Supp. 2d at 173-74 (“An electronic file transfer is plainly within the sort of transaction that § 106(3) was intended to reach.”).

<sup>129</sup> Capitol Memo, *supra* note 120, at 17. Capitol says that copying for the purpose of resale is far removed from the kinds of uses, such as “criticism, comment, news reporting, teaching . . . scholarship, or research” that are favored for promoting the goals of copyright law. 17 U.S.C. § 107.

<sup>130</sup> Capitol Memo, *supra* note 120, at 17.

<sup>131</sup> This is a fault because if users are in fact engaged in fair use and creating lawful copies, then the entire matter must be reasoned differently. *See infra* Part II(B).

<sup>132</sup> 17 U.S.C. § 107(1).

<sup>133</sup> Capitol Memo, *supra* note 120, at 18.

<sup>134</sup> *Id.* (citing *Castle Rock Entm’t, Inc. v. Carol Publ’g Group, Inc.*, 150 F.3d 132, 142 (2d.

copyrighted work,<sup>135</sup> cuts in Capitol's favor, it argues, because its sound recordings are highly creative works "close to the core of intended copyright protection" and "far removed from the more factual or descriptive work[s] more amenable to fair use."<sup>136</sup> ReDigi's use also militates the third factor, the amount and substantiality of the portion used in relation to the copyrighted work as a whole,<sup>137</sup> against fair use according to Capitol because ReDigi duplicates entire recordings.<sup>138</sup> Lastly, Capitol argues that the fourth factor, the effect of the use on the potential market for or value of the copyrighted work,<sup>139</sup> weighs against fair use because even though the authorized and unauthorized sales are of the same product, that ReDigi merely undercuts authorized sellers and thereby supplants the market for authorized digital distribution. Here, Capitol analogizes to *Napster*, arguing that in both cases the "deleterious effect on the present and future digital download market" defeats fair use.<sup>140</sup>

## 2. First Sale? More Like First Fail.

Capitol also argues against ReDigi's first sale defense. Again, it appeals directly to the text of the Copyright Act; specifically, the language in 17 U.S.C. § 109(a) which provides that an owner of a "particular phonorecord" may dispose of "that phonorecord" without authorization from the copyright owner.<sup>141</sup> Capitol then relies on its "new phonorecord" argument to demonstrate why the copies users sell in ReDigi's marketplace are not the "particular" copies that the first sale doctrine permits users to sell. Because uploading a music file from a user's computer to the ReDigi server necessarily results in the

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Cir. 1998); *A&M Records v. Napster, Inc.*, 239 F.3d 1004, 1015 (9th Cir. 2001) ("[D]ownloading MP3 files does not transform the copyrighted work."); *UMG Recordings, Inc. v. MP3.com, Inc.*, 92 F. Supp. 2d 349, 351 (S.D.N.Y. 2000) (holding that copying MP3 files added no "new aesthetics, new insights and understandings).

<sup>135</sup> 17 U.S.C. § 107(2).

<sup>136</sup> Capitol Memo, *supra* note 120, at 18 (quoting *UMG Recordings, Inc. v. MP3.com, Inc.*, 92 F. Supp. 2d 349, 351 (S.D.N.Y. 2000)) (citations and quotations omitted).

<sup>137</sup> 17 U.S.C. § 107(3).

<sup>138</sup> Capitol Memo, *supra* note 120, at 18.

<sup>139</sup> 117 U.S.C. § 107(4).

<sup>140</sup> *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1017 (9th Cir. 2001).

<sup>141</sup> 17 U.S.C. § 109(1) (emphasis added). Capitol also analogizes to *Mirage Editions, Inc. v. Albuquerque A.R.T. Co.*, 856 F.2d 1341, 1344 (9th Cir. 1988) (stating that "the right to transfer [under the first sale doctrine] applies only to the particular copy of the book which appellant has purchased and nothing else"). Capitol Memo, *supra* note 120, at 21.

fixation of the copyrighted sound recording in a new phonorecord and it is the new phonorecord which is sold, ReDigi's unauthorized sales are not of the particular phonorecords initially transferred from the copyright owner to the users.<sup>142</sup> Capitol even turns one of ReDigi's assets into a liability in a stylistic, if not completely logically satisfying gambit. Capitol argues that ReDigi's forward-and-delete technology in fact unmakes its argument, reasoning that if it were in fact the same phonorecord transferred during the transactions, no deletion would be required "or could even logically take place."<sup>143</sup>

Capitol also relies on the U.S. Copyright's DMCA Report for additional authority stating that the very nature of digital transfer requires that each transfer makes new reproductions, and thus the first sale doctrine cannot apply to digital media.

Digital transmission of a work does not implicate the alienability of a physical artifact. When a work is transmitted, the sender is not exercising common-law dominion over an item of personal property; he is exercising the central copyright right of reproduction with respect to the intangible work. Conversely, the copyright owner's reproduction right does not interfere at all with the ability of the owner of the physical copy to dispose of ownership or possession of that copy, since the first sale doctrine applies fully with respect to the tangible object (e.g., the user's hard drive) in which the work is embodied.<sup>144</sup>

Going further, Capitol points out that the Copyright office considered and rejected legislative proposals to amend the Copyright Act to incorporate a "digital first sale doctrine."<sup>145</sup> According to Capitol, the fact that a statutory amendment would be necessary to legalize digital resale reinforces its argument that existing law does not protect ReDigi's business.

Capitol also argues that the copies are not "lawfully made" within the meaning of § 109(a). This section of the argument is very short, as

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<sup>142</sup> Capitol Memo, *supra* note 120, at 21.

<sup>143</sup> *Id.*

<sup>144</sup> DMCA Report, *supra* note 10, at 87.

<sup>145</sup> Capitol Memo, *supra* note 120, at 22. This was also discussed *supra* Section II.A.

the arguments that the copies infringe the reproduction right and are not eligible for fair use demonstrate this principle very thoroughly.

B. ReDigi's *Functional Arguments: Head, and Phonorecords, In the Clouds*

ReDigi presents clever arguments that appeal to the functional realities of its business model, arguing that its sales ultimately function as though its users were selling the copies they initially purchased, and that any copying that occurs along the way is legal under the fair use doctrine. It stresses the fact that no copies are actually created at the point of sale.

ReDigi first pushes against the idea that infringement is a definitional issue, arguing that it is a fact-specific issue that demands examination of the method of transfer.<sup>146</sup> ReDigi argues that Capitol cannot actually prove copying on the facts of the case, analogizing to *C.M. Paula Co. v. Logan*. In the precedent case, the defendant had purchased greeting cards from the plaintiff and used a chemical to lift the copyrighted images from the greeting cards and re-apply the images elsewhere.<sup>147</sup> The court held that such a process was not copying, even though the embodiment of the copyrighted design was originally fixed in one medium, and then at the end of the process affixed in a different medium.<sup>148</sup> Transferring the work from one physical medium to another did not constitute reproduction when no reproduction was made, and the court focused on the fact that if the defendant wanted to make 100 plaques of the same print, he would have to purchase 100 separate prints.<sup>149</sup> ReDigi points to the fact that because of its Music Manager software, the same 1:1 ratio holds, and so moving a song file from one disk to another does not constitute reproduction in the same way that moving a design from a greeting card to a plaque does not constitute reproduction.<sup>150</sup>

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<sup>146</sup> Memorandum of Law in Support of ReDigi, Inc.'s Motion for Summary Judgment [hereinafter ReDigi Memo], at 12. Here, it relies on *Feist Publ'ns, Inc. v. Rural Telephone Service Co.*, 499 U.S. 340, 361 (1991) (holding that to prevail in a copyright infringement action a plaintiff must prove copying) and *Cartoon Network LP, LLP v. CSC Holdings, Inc.*, 536 F.3d 121, 130 (2d Cir. 2008) (rejecting the notion that courts can ignore the facts of specific transfer methods when deciding on the issue).

<sup>147</sup> ReDigi Memo, *supra* note 146, at 12-13; *C.M. Paula Co. v. Logan*, 355 F. Supp. 189, 190 (N.D. Tex. 1973).

<sup>148</sup> *C.M. Paula Co.*, 355 F. Supp. at 191.

<sup>149</sup> *Id.*

<sup>150</sup> ReDigi Memo, *supra* note 146, at 13-14.

### 1. The Fairest (Uses) Of Them All

Even if Capitol can prove copying, ReDigi answers that the copies its users make are for the purpose of storage and thus protected by the fair use doctrine.<sup>151</sup> ReDigi's first argument is that Capitol does not contest that copying for the purpose of cloud storage is fair use.<sup>152</sup> Its second argument is a more in-depth exploration of fair use. ReDigi first notes that 17 U.S.C. § 107 states that the fair use of a copyrighted work, "including such use by reproduction in copies or phonorecords" for a favored purpose is not an infringement of copyright.<sup>153</sup> ReDigi then appeals to the notion that fair use limits the control copyright owners have over the uses of their works. It relies on the landmark *Sony* decision make its argument.

On the first fair use factor, the purpose and character of the use, ReDigi argues that the Personal Use Copy a user makes by moving a file to or from his or her Cloud Locker is exactly the "private home use [which] must be characterized as a noncommercial, nonprofit activity" according to the *Sony* Court.<sup>154</sup> ReDigi points to its terms of service, which specify that music purchased through ReDigi may only be "downloaded or streamed for [the user's] personal use."<sup>155</sup> ReDigi argues that the nature of sound files is to be available to the users who purchase them on any device they choose.<sup>156</sup> Since the owners of copyrighted music authorize playing the music on devices other than the ones the music files were originally downloaded to, ReDigi argues that the nature of the original work weighs in favor of fair use.<sup>157</sup> And following *Sony*, ReDigi contends that reproduction of an entire work for the purpose of allowing a user to do something she is already authorized to do (conveniently listen to the music that she has purchased) does not have the ordinary effect of weighing against fair use.<sup>158</sup> On the fourth factor, ReDigi appeals again to *Sony*, where the

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<sup>151</sup> *Id.* at 14.

<sup>152</sup> *Id.* at 14-15.

<sup>153</sup> *Id.* at 15 (citing 17 U.S.C. § 107).

<sup>154</sup> *Id.* at 16 (citing *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 449 (1984)).

<sup>155</sup> *Id.*

<sup>156</sup> *Id.*

<sup>157</sup> *Id.*

<sup>158</sup> *Id.* at 17 (citing *Sony*, 464 U.S. at 449-50).

Court reasoned that “[a] challenge to a noncommercial use . . . requires proof of either that the particular use is harmful, or that if it should become widespread it would adversely affect the potential market for the copyrighted work.”<sup>159</sup> ReDigi argues that allowing users to decide where to keep and listen to the music files they have already legally purchased has no detrimental effect on the potential market for music or the value of the works.<sup>160</sup> Further, ReDigi points out that Capitol and iTunes have in fact encouraged this practice, presumably because it benefits the music market.<sup>161</sup>

ReDigi then appeals to the legislative intent behind the enactment of 17 U.S.C. § 107, which, it argues, is to limit copyright owners’ control over their works.<sup>162</sup> It argues that the four fair use factors are not exhaustive, and that:

the endless variety of situations and combinations of circumstances that can rise in particular cases precludes the formulation of exact rules in the statute. The bill endorses the purpose and general scope of the judicial doctrine of fair use, but there is no disposition to freeze the doctrine in the statute, especially during a period of rapid technological change. Beyond a very broad statutory explanation of what fair use is and come of the criteria applicable to it, the courts must be free to adapt the doctrine to particular situations on a case-by-case basis.<sup>163</sup>

Because technology (and copyright owners) allow the convenient use of legally purchased music on multiple personal devices, ReDigi argues that there is nothing about the use with is unfair. It also makes a sort of estoppel argument, contending that since Capitol has encouraged use of its copyrighted works in ways that require reproduction for transfer to multiple portable devices (as it has with

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<sup>159</sup> *Sony*, 464 U.S. at 451.

<sup>160</sup> ReDigi Memo, *supra* note 146, at 17.

<sup>161</sup> *Id.* at 17-18.

<sup>162</sup> *Id.* at 17 (arguing that “the Court should still apply the first sale doctrine in order to give full effect its purpose, which is to limit a copyright owner’s control over a copyrighted item after it is placed in the stream of commerce by the copyright owner” (citing *Quality King Distributors, Inc. v. L’anza Research Int’l, Inc.*, 523 U.S. 135, 152 (1998); *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 351 (1908))).

<sup>163</sup> H.R. REP. NO. 94-1476, at 65-66 (1976).

iTunes), it would be unfair to prohibit that practice when it comes to cloud storage.<sup>164</sup>

## 2. First Sale: ReDigi's Last Line of Defense

ReDigi contends that its marketplace does not violate Capitol's exclusive distribution right because the transactions between its users are protected by the first sale doctrine. It agrees with Capitol that digital music files are phonorecords, but disagrees with Capitol over whether owners of digital files may sell or otherwise dispose of those phonorecords.<sup>165</sup> ReDigi refutes Capitol's appeal to the Copyright Office's DMCA Section 104 Report with two arguments. First, it reminds the court that the Report "deserves only *Skidmore* deference, deference based on its 'power to persuade'" and cites *Cartoon Network LP, LLLP v. CSC Holdings, Inc.*, where the Second Circuit declined to follow the Report on other grounds.<sup>166</sup> Second, ReDigi states that the Report focuses on whether there should be a digital first sale doctrine that applies to instances where "reproduction of the works [is] involved."<sup>167</sup> ReDigi contrasts this with its own sale process, arguing there is no reproduction involved – it is less like printing a new book and handing it to a buyer and more like handing him or her the keys to a house.<sup>168</sup>

ReDigi then delves back into the delicate task of interpreting the language of § 109. It cites *U.S. ex rel Eisenstein v. City of New York, New York*, which "require[s] statutes to be construed in a manner that gives effect to all of their provisions."<sup>169</sup> It then points out that the word "phonorecord," a term defined in the Copyright Act, appears in both 17 U.S.C. §§ 106 and 109. From there, ReDigi argues that it would be "absurd and contrary to controlling law to interpret the 'phonorecord' as having different meanings" between the two

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<sup>164</sup> ReDigi Memo, *supra* note 146, at 18.

<sup>165</sup> *Id.* at 20.

<sup>166</sup> *Cartoon Network LP, LLLP v. CSC Holdings, Inc.*, 536 F.3d 121, 129 (2d. Cir. 2008) (declining to follow the Report's interpretation regarding durational requirements).

<sup>167</sup> ReDigi Memo, *supra* note 146, at 20 n.5 (citing DMCA Report, *supra* note 10, at 70-80).

<sup>168</sup> *Id.*

<sup>169</sup> *Id.* (citing *U.S. ex rel Eisenstein v. City of New York, New York*, 556 U.S. 928, 933 (2009)).

sections.<sup>170</sup> Moreover, it adds, if the meaning of the word “phonorecord” were to include digital files in § 106, but not include digital files in § 109, such an interpretation would run afoul of *Eisenstein*’s admonishment to give full effect to the provisions of § 109. Specifically, ReDigi argues that Capitol’s position removes the effect of § 109 (insert whatever the provision is) that allows owners of lawfully obtained phonorecords to resell or otherwise dispose of them without the copyright owner’s authorization, it argues. ReDigi advocates for a uniform statutory interpretation of “phonorecord” to prevent confusion and uncertainty, consistent with Congress’ intent in defining the Act’s terms in the first place.<sup>171</sup> Finally, it presents an estoppel-type argument – if Capitol asserts that it has the rights in its phonorecords conferred by § 106, then it must admit that the subsequent lawful owners of those phonorecords also have the rights in their phonorecords conferred by § 109.

ReDigi also argues that allowing the resale of digital media furthers copyright law’s purpose of incentivizing the creation of new works for the ultimate purpose of enriching society with the broad public availability of literature, music, and other arts.<sup>172</sup> It then returns to *Sony* to urge the court to construe the language of the Copyright Act in line with its intent to benefit society as a whole.<sup>173</sup> It argues that, just like with a physical first sale, Capitol is fairly compensated for the digital music files it sells to users, and thus it exhausts its distribution right with respect to those files. Attempts to control the further distribution of those files, it argues, would be beyond the scope of its exclusive rights, would stifle the re-dissemination of creative works, and would impose a restraint on the alienation of property in a way that the *Bobbs-Merrill* Court sought to avoid.<sup>174</sup>

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<sup>170</sup> ReDigi Memo, *supra* note 146, at 21.

<sup>171</sup> *Id.*

<sup>172</sup> *Id.* at 22. Here, ReDigi appeals to the language of *Fox Film Corp. v. Doyal*, 268 U.S. 123, 127 (1932) (stating that copyright’s “ultimate aim, is by this incentive, to stimulate artistic creativity for the general public good”).

<sup>173</sup> *Sony Corp. of Am.*, 464 U.S. at 432 (citing *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975)) (“When technological change has rendered its literal terms ambiguous, the Copyright Act must be construed in light of this basic purpose.”).

<sup>174</sup> ReDigi Memo, *supra* note 146, at 24.

### C. The Ruling on Summary Judgment: ReDigi Faces the Music

In an opinion filed March 30, 2013, the District Court for the Southern District of New York granted Capitol's motion for summary judgment, holding in relevant part: (1) the transfer of a digital file, even when only one file exists before and after the transfer, infringes the reproduction right; (2) reproduction and distribution of copyrighted digital works incident to sale are not fair uses; and (3) there cannot be a digital first sale doctrine given the language of the Copyright Act.

In its opinion, the court acknowledges that the issue of the reproduction right is one of first impression:

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.<sup>175</sup>

The court holds that “the plain text of the Copyright Act makes clear that reproduction occurs when a copyrighted work is fixed in a new material object.”<sup>176</sup> Because the text indicates that the reproduction right is “the exclusive right to embody, and to prevent others from embodying, the copyrighted work . . . in a new material object,” the court reasons that it is implicated whenever a sound recording is fixed in a new material object.<sup>177</sup> The number of phonorecords that exist at the end of the process is immaterial because “it is the creation of a *new* material object and not an *additional* material object that defines the reproduction right.”<sup>178</sup> It draws from cases dealing with peer-to-peer file sharing systems and reasons that when a music file is downloaded and written to a hard disk, the “appropriate segment of the hard disk” is the material object in which a music file is embodied, and therefore that segment of the hard disk is a phonorecord.<sup>179</sup> Because it is impossible for a disk to be

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<sup>175</sup> Capitol Records, LLC v. ReDigi Inc., 934 F. Supp. 2d 640, 648 (S.D.N.Y. 2013).

<sup>176</sup> *Id.*

<sup>177</sup> *Id.* at 649.

<sup>178</sup> *Id.* at 650.

<sup>179</sup> *Id.* at 649 (citing *London-Sire Records*, 542 F. Supp. 2d at 171 (“When 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

transferred over the Internet, every Internet transfer results in a new material object being “created elsewhere at its finish.”<sup>180</sup>

As such, the court distinguishes the *C.M. Paula Co.* ruling (the merits of which it finds “questionable”) by articulating that in *C.M. Paula Co.*, the “print, or material object, was lifted from the greeting card and transferred in toto to the ceramic tile; no new material object was created.”<sup>181</sup> Dissimilarly, the transfer of each file in this case “by necessity creates a new material object when a digital music file is either uploaded to or downloaded from the Cloud Locker.”<sup>182</sup> It dismisses the concerns raised by defragmentation and relocating files between directories on the same computer as “nothing more than a red herring,” because such reproductions are “almost certainly protected under other doctrines or defenses.”<sup>183</sup>

Determining that ReDigi’s sales infringe Capitol’s exclusive right of reproduction absent any affirmative defenses, the court turns its attention to the distribution right. Because ReDigi does not contest that distribution occurs on its website, the court concludes that ReDigi is also liable for infringement of Capitol’s exclusive right of distribution absent any affirmative defenses.<sup>184</sup>

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The court acknowledges that the parties agree that uploading and downloading files to the Cloud Locker for storage and personal use are protected fair uses.<sup>185</sup> But it agrees with Capitol that uploading and downloading “*incident to sale*” falls outside the protection of fair use, analogizing to the Second Circuit’s decision in *Arista Records*.<sup>186</sup>

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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.”)

<sup>180</sup> *Id.* (citing *London-Sire Records*, 542 F. Supp. 2d at 173).

<sup>181</sup> *ReDigi*, 934 F. Supp. 2d at 650-51. The District Court here seems to find the ink to be the “material object” in *C.M. Paula*.

<sup>182</sup> *Id.* at 651.

<sup>183</sup> *Id.*

<sup>184</sup> *Id.*

<sup>185</sup> *Id.* at 653. Here, the court calls ReDigi’s argument a “relic of an argument it previously made that copying files to the Cloud Locker is protected as “space shifting.” *Id.*

<sup>186</sup> *Id.* 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 peer-to-peer file-sharing network).

It performs its own analysis of the four fair use factors, finding that none weighs in favor of fair use. Under the first factor, whether ReDigi's use transforms the copyrighted work and whether it is commercial, the court determines that the upload, sale, and download of digital music files on ReDigi's website does nothing to "add [ ] something new, with a further purpose or different character" to the copyrighted works<sup>187</sup> and thus "[p]lainly" disfavors ReDigi's claim.<sup>188</sup> It also agrees with Capitol that the nature of its creative 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," weighting the second factor against ReDigi.<sup>189</sup> Because ReDigi transmits the works in their entirety, the court concludes that the third factor "negat[es] any claim of fair use."<sup>190</sup> Lastly, it decides 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.<sup>191</sup> This is because ReDigi's product is indistinguishable from the product sold by Capitol's authorized retailers, save for its lower price, so it is "clear" to the court that "ReDigi will divert buyers away from that primary market."<sup>192</sup> Accordingly, the fair use doctrine does not apply to ReDigi's reproduction of Capitol's copyrighted works.

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The Court turns its attention to Capitol Records' distribution claim, rejecting ReDigi's the first sale defense.

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

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<sup>187</sup> *Id.* (citing *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578–79 (1994)); *see, e.g.*, *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1015 (9th Cir. 2001) (endorsing district court finding that "downloading MP3 files does not transform the copyrighted work").

<sup>188</sup> *ReDigi*, 934 F. Supp. 2d at 654..

<sup>189</sup> *Id.* (citing *UMG Recordings, Inc. v. MP3.Com, Inc.*, 92 F. Supp. 2d 349, 351 (S.D.N.Y.2000)).

<sup>190</sup> *Id.*

<sup>191</sup> *Id.*

<sup>192</sup> *Id.*

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.<sup>193</sup>

It then rejects ReDigi’s argument that technological change has made the terms of the Copyright Act ambiguous, and so the text should be construed in a way that promotes the public availability of creative works. First, the court states that although the text may have been rendered unsatisfactory by new technology, it is not ambiguous. It plainly applies to “the lawful owner’s “particular” phonorecord, a phonorecord that by definition cannot be uploaded and sold on ReDigi’s website.”<sup>194</sup> Second, it states that amending the Copyright Act to conform with ReDigi’s position would be the domain of the legislature, not the courts.<sup>195</sup> Additionally, it relies on the Copyright Office’s DMCA Report cited by Capitol to call into doubt ReDigi’s policy arguments.<sup>196</sup>

Lastly, the Court rejects ReDigi’s argument that excluding digital distribution would exclude digital works from the meaning of “phonorecords” as it is used in § 109.

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<sup>193</sup> *ReDigi*, 934 F. Supp. 2d at 655 (emphasis added).

<sup>194</sup> *Id.*

<sup>195</sup> *Id.*

<sup>196</sup> *Id.* at 655-56 (noting that “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” (citing USCO, Library of Cong., DMCA Section 104 Report (2001)).

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.<sup>197</sup>

Having dispatched the fair use and first sale defenses, the Court determines that sales on ReDigi's website infringe Capitol's copyrights. The court's conclusion presents the problem of deeming digital transmissions infringing, but not for the purposes of the first sale doctrine.

#### IV. AFTERMATH: THE "METAPHYSICS OF THE LAW" MEETS THE OTHER KIND OF METAPHYSICS

##### A. *That's the Ax That Slayed Me. OR ISN'T IT?*

The problem really presented by embodying creative works in digital media, where copies can be moved from one place on the same physical object to another with ease and without any appreciable difference to the file, is the same problem presented by the ship of Theseus. I, however, think that the problem of identity is best illustrated by David Wong in his horror/comedy epic *John Dies at the End*.

Let's say you have an ax. Just a cheap one, from Home Depot. On one bitter winter day, you use said ax to behead a man. Don't worry, the man was already dead. Or maybe you should worry, because you're the one who shot him. He had been a big, twitchy guy with veiny skin stretched over swollen biceps, a tattoo of a

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<sup>197</sup> *Id.* at 656.

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swastika on his tongue. Teeth filed into razor-sharp fangs, you know the type. And you're chopping off his head because, even with eight bullet holes in him, you're pretty sure he's about to spring back to his feet and eat the look of terror right off your face. On the follow-through of the last swing, though, the handle of the ax snaps in a spray of splinters. You now have a broken ax. So, after a long night of looking for a place to dump the man and his head, you take a trip into town with your ax. You go to the hardware store, explaining away the dark reddish stains on the broken handle as barbecue sauce. You walk out with a brand new handle for your ax.

The repaired ax sits undisturbed in your garage until the next spring when [something similar happens]. You grab your trusty ax and chop the thing into several pieces. On the last blow, however, the ax strikes a metal leg of the overturned kitchen table and chips out a notch right in the middle of the blade. Of course, a chipped head means yet another trip to the hardware store. They sell you a brand new head for your ax.

As soon as you get home with your newly-headed ax, though, you meet the reanimated body of the guy you beheaded last year. He's also got a new head, stitched on with what looks like plastic weed trimmer line, and it's wearing that unique expression of 'you're the man who killed me last winter' resentment that one so rarely encounters in everyday life. You brandish your ax. The guy takes a long look at the weapon with his squishy, rotting eyes and in a gargly voice he screams, 'That's the same ax that slayed me!' Is he right?<sup>198</sup>

Identity is a difficult philosophical subject, but it is very important to the *ReDigi* discussion because so much hinges on the meaning of the word "particular" as it applies to a copy or phonorecord.

Just like the designation "the same ax that slayed me" and a copyrighted work, the data that is fixed in a copy or phonorecord of a copyrighted work can move independently of the static physical

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<sup>198</sup> DAVID WONG, JOHN DIES AT THE END 1-2 (2010).

location in which it was initially embodied. In this way, it is wholly different from physical media.

There are instances where it would clearly be in error to call two things the same particular thing. For example, it is by definition incorrect to say that 1 is the same number as 2. They have different values, and so it cannot be correct to say that  $1 = 2$ . It is also almost certainly wrong to say that Macklemore is the same artist as Michelangelo, but because of their attributes, rather than because they are by definition different. Because the two did not live during the same century, create any of the same works, or inhabit the same body or possess the same consciousness, there is enough evidence to have the justified true belief that they are two distinct beings with distinct bodies of work. Those distinguishing traits, demonstrate that is not correct to say that Macklemore is the same particular individual as Michelangelo. Conversely, is by definition true to say that 1 is the same number as 1. If I were to buy a Michelangelo sculpture, it would be the same sculpture before the sale and after the sale.

But not every case is so clear-cut, for example, determining whether Dr. Jekyll and Mr. Hyde are the same particular individual or determining the same of Bruce Wayne and Batman. Philosophers studying the theory of mind question whether we persist in being the same person throughout our lives,<sup>199</sup> and Trekkies question whether Star Trek characters are the same person before and after being “beamed” to and from their ships.<sup>200</sup> The *ReDigi* court ruled that the use at issue was not space-shifting fair use, but even if it were, it would not be protected by the first sale doctrine because it only excuses selling the “particular” phonorecord the consumer purchased, not lawful copies made of that phonorecord.

#### B. *Teleportation: “Particular”ly Problematic*<sup>201</sup>

The Copyright Act was drafted before the advent of digital technology—and certainly before the advent of widespread teleportation—and the distinction between the terms “distribution” and “replication” in the Act have been interpreted in ways that reflect this. To the drafters, exercising the distribution right was like using the pony

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<sup>199</sup> See, e.g., DEREK PARFIT, REASONS AND PERSONS, PART THREE (1984).

<sup>200</sup> See, e.g., RICHARD HANLEY, THE METAPHYSICS OF STAR TREK § 2 (1997).

<sup>201</sup> At oral argument, the court asked the parties about Star Trek transporters, so I feel justified in addressing the same.

express—a copy started in one place and it ended up in another. Somewhere along the line, ownership changed hands. Dissimilarly, exercising the reproduction right was like using movable type—one copy started in a print shop, and then its owner used it to make new copies there. Because of the limitations of old-timey technology, the two necessarily had to be different.

But because of computers and the Internet, that is not the case anymore. Digital transmission is not a mere hybrid of the two (which would look like a pony express rider taking a movable type and a copy of a book to the intended recipient, then using the movable type to create a new copy for the new owner there); instead, sending a copy over the Internet results in the original owner keeping the original copy while the recipient gets a new one. Nor is digital distribution akin to the Star Trek transporter, which converts people to energy, then “beams” the energy from one place to another and reconstitutes them at the final destination.<sup>202</sup> It is more like the malfunction in the transporter that created two Rikers, or more accurately, the teleporters in *Think Like a Dinosaur*, which scanned people’s bodies, made reproductions on the moon, then destroyed the original bodies.<sup>203</sup>

The court in *ReDigi* required that the atoms comprising the embodiments be the same in order to constitute a distribution without reproduction (the “different phonorecords” argument). The use of a Star Trek transporter to beam a book to someone else would therefore presumably be mere distribution, because the atoms that make up the “particular” copy would be preserved. But the *ReDigi* argument is not that easy.

In 1901, the Seventh Circuit anticipated the first sale doctrine, granting copy owners the right to renew or repair, even if repair entails altering or copying the underlying work.<sup>204</sup> In *Doan*, the defendant book restoration company acquired “soiled and torn” copies of the plaintiff’s books that were defaced and missing covers.<sup>205</sup> It then repaired the books to “render [them] serviceable,” rebinding them and in some cases replicated the original copyrighted cover designs for

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<sup>202</sup> Kayla Iacovino, *Science of Star Trek: Transporters*, YOUTUBE (Nov. 9, 2007), <http://www.youtube.com/watch?v=mD7X9vGMX0k>.

<sup>203</sup> *Star Trek: The Next Generation: Second Chances* (first-run syndicated television broadcast May 22, 1993); JAMES PATRICK KELLEY, THINK LIKE A DINOSAUR AND OTHER STORIES (1997).

<sup>204</sup> *Doan v. American Book Co.*, 105 F. 772, 776-77 (7th Cir. 1901).

<sup>205</sup> *Id.* at 777.

books with missing covers.<sup>206</sup> The court concluded that the “right of repair or renewal” that passed to the owner of each copy included the right to prepare an “exact imitation of the original.”<sup>207</sup> This was permitted despite the fact that it required reproduction “in exact similitude” of the copyrighted work.<sup>208</sup> *Doan* was cited six years later by *Bureau of National Literature v. Sells*, where the defendants “overhauled, reconstructed and sold to the public” copies of the plaintiff’s copyrighted work, and the court held such practice to be lawful.<sup>209</sup>

Following the *ReDigi* court’s logic, these copies would not be the “particular” copies eligible for first-sale protection because the copyrighted works were not embodied in the same material objects as they were when their owners first purchased them. The court would have to say that once an ax’s handle or head is replaced, it is not the “particular” ax its owner used to decapitate the zombie the autumn before its repair. The court would say that first sale permits a pony express rider to rip every page out of a book to fit it in his satchel then put it back together upon delivery to the person he sold it to, but it does not permit a rider who has lost a page of that book to print a replacement page and stick it back in as he reassembles it on delivery. But under *Doan*, such a sale is in fact permitted.

This demonstrates that the first sale doctrine as written cannot be applied in a media-neutral manner. It also raises issues with one of the *ReDigi* court’s conclusions. It was careful in its ruling to conclude that despite its ruling on digital transmissions, consumers could still sell any “phonorecord, be it a computer hard disk, iPod, or other memory device onto which the file was originally downloaded.”<sup>210</sup> But, given a cursory examination of how people generally use their computers, this is likely not the case. When a user defragments his or her hard drive with a sound file on it, or moves a file from one disk or partition to another, it becomes embodied in a different physical location. And because it is no longer embodied in the particular place on the user’s hard drive that it was upon purchase, under the *ReDigi* court’s logic, it is not the same “particular” phonorecord. Because users download

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<sup>206</sup> *Id.*

<sup>207</sup> *Id.* at 776-77.

<sup>208</sup> *Id.* at 778.

<sup>209</sup> *Bureau of Nat’l Literature v. Sells*, 211 F. 379, 381 (W.D. Wash. 1914).

<sup>210</sup> *ReDigi*, 2013 WL 1286134 at 11. The court here does not seem to acknowledge that music is not downloaded directly to iPods when purchased.

music to their computers, then sync that music to their iPods (if they still use iPods), iPods never contain the “particular” file that was originally downloaded. The *ReDigi* court decided that the reproduction caused by defragmenting or moving files would be legal, saying that such use must be protected (perhaps by space-shifting), but never addressed whether these reproductions would be the same “particular” phonorecords as were originally purchased. However, under the court’s first sale analysis, consumers who have moved the files around or defragmented their hard drives would not be protected because their disks would contain phonorecords that were no longer the “particular” phonorecords first purchased. This result is absurd, but there is no way for a court to interpret the word “particular” that would permit the resale of such hard drives (or synced mobile devices with music on them), but not the resale of music files purchased and kept in cloud storage. Therefore, the first sale doctrine as written cannot be applied in a media-neutral manner.

V. TEXTUAL HEALING: THE ECONOMICS OF PREVIOUSLY-USED GOODS  
(AND IN THE CASE OF THIS SECTION, PREVIOUSLY-USED PUNS)

Less than a week after the District Court ruled on *ReDigi*, NPR’s *Planet Money* aired an episode explaining the importance of secondary (or, resale) markets.<sup>211</sup> By and large, secondary markets – from the housing market to the stock market—are uncontroversial and economically efficient. Consumers’ ability to resell reduces the risk associated with buying goods that may become undesirable to the consumer, thereby encouraging consumers to make purchases with confidence. It also promotes economic efficiency by putting goods into the possession of the consumers who will more likely make use of them. Resale also serves to lower prices for consumers unable to afford new products, freeing up consumers’ resources to make more purchases.

The secondary digital market is different from the secondary market for physical goods for two main reasons—first, consumers can easily sell digital goods while keeping copies for themselves; second, there is no degradation in quality when a digital good is “used,” as compared to when it is “new.” *ReDigi*’s Music Manager software prevents the first difference from being a problem. And although the

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<sup>211</sup> Planet Money, *Episode 449: The Hidden Digital Wealth In Your Pocket*, NPR (Apr. 5, 2013, 6:22 PM), <http://www.npr.org/blogs/money/2013/04/05/176335511/episode-449-the-hidden-digital-wealth-in-your-pocket?sc=tw&cc=share>.

court expressed worries with consumers circumventing the technology's safeguards against consumers both selling and keeping copies, those exact same worries are present with sale of physical goods containing digital media, like CDs, DVDs, and Blu-Ray discs. A consumer can easily purchase a CD, rip the music onto his or her hard drive for personal use, and sell the CD used, presenting the exact same situation—that the consumer can both keep and sell the copyrighted work.

Consumers purchased 1.26 billion digital tracks and 117.6 million digital albums in 2013<sup>212</sup>, demonstrating that there is a massive amount of consumer wealth that could be freed up and returned to the market by merely applying the first sale doctrine in a media-neutral manner. As is the case with physical used music stores, consumers are likely to put that money back into the primary market, selling old works and using the proceeds to purchase newly-created works. Knowing that consumers who have purchased new music in the past (and are therefore more likely to continue to do so in the future) have additional resources at their disposal to purchase new music certainly incentivizes the creation of new music. Users would be able to purchase more works, with the knowledge that if they disliked songs, they could resell them to people whose tastes they better suit. Also, just like with physical secondary markets, digital secondary markets would provide lower price points where more consumers could enter and stimulate the market.

If this is offensive to rights holders, they can use methods other than copyrightcontrol the distribution of and prevent a secondary market for digital music, including DRM and streaming. iTunes initially sold DRM-restricted music files to its consumers, which meant that consumers were licensees, rather than owners, and thus were not protected by the first sale doctrine, like the defendants in *Vernor*. Rights holders or distributors could change their business model to a streaming one like Rhapsody or Spotify, thereby merely granting access to consumers, rather than selling them “phonorecords” at all.<sup>213</sup>

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<sup>212</sup> Ed Christman, *Digital Music Sales Decrease For First Time in 2013*, Billboard Biz, (Jan. 3, 2014), <http://www.billboard.com/biz/articles/news/digital-and-mobile/5855162/digital-music-sales-decrease-for-first-time-in-2013>.

<sup>213</sup> Although the market for streaming music cannibalizes the market for digital downloads and subscription music services like Spotify and Pandora are on track to double by 2017, it is unclear if streaming subscription services can be economically sustainable for distributors. See Paul Resnikoff, *Streaming Services Will Never Become Profitable, Study Finds*, Digital Music News, (Feb. 18, 2014), <http://www.digitalmusicnews.com/permalink/2014/02/18/profitless>.

Both of these alternatives would serve their interests in controlling the market without depriving consumers of the right to freely alienate their property or hobbling economic efficiency.

Recognizing a digital secondary market is consistent with the evolution of copyright's goals discussed *infra* Section II(C). Therefore Congress should grant consumers the same rights in their digital goods as their physical counterparts.

## VI. CONCLUSION

The ReDigi court's interpretation of the phrase "particular phonorecord" as used in 17 U.S.C. § 107 is problematic because it cannot be applied in a media-neutral manner. As a result, it forecloses the possibility of a digital secondary market, a market consistent with copyright's goal of promoting public access to creative works. The court's strict demand that the physical substrate where a copyrighted work is initially fixed must remain identical in order to be considered the same "particular" copy is incompatible not only with other courts' rulings on consumers' rights to repair their copies, but also the court's own conclusion that iPods with music on them are eligible for first sale protection. The platform on which *ReDigi* operates ensures the same functional result as a physical sale (1 copy before sale, 1 copy after sale) with very little more risk for circumvention than the sale of CDs. 17 U.S.C. § 107 should be amended by Congress to recognize a secondary market for digital goods. This would serve the goals of copyright by providing the public with more access to creative works at affordable prices and incentivizing the creation of new works by freeing up consumer wealth in the consumers who are likely to spend money to purchase more creative works. Because the word "particular" is so problematic, either it must be removed from the statute or the statute must be updated to contain a specific carve-out for digital media in order for it to apply in a media-neutral manner.