

The Second Circuit Shuts Down Application of First Sale Doctrine

December 27, 2018 – *The TMCA*

by Jeffrey R. Cadwell



In a decision issued on December 12, 2018, the Second Circuit refused to recognize application of the first sale doctrine to a service that had been established as a marketplace for resale of digital music files. Under the first sale doctrine (set forth in Section 109(a) of the Copyright Act), owners of legally-obtained copies of copyrighted works can resell those copies without violating the rights of the copyright holder. This is the reason we have stores and websites that focus on the sale of secondhand books, CDs, and other physical media.

The Second Circuit's case involved ReDigi, which was an internet platform established in 2009 to allow the resale of digital music files that had been lawfully purchased on iTunes. The ReDigi platform featured a mechanism for effecting transfer of a seller's digital music file so that once the file was transferred to ReDigi's server, it would be deleted from the uploader's device. According to ReDigi, its software ensured that there was never a complete version of the digital music file in two places at the same time. The process would then be replicated to transfer the file from ReDigi's server to a buyer's device. ReDigi's software also continuously monitored an uploader's computer and connected devices to detect duplicate files. If duplicate files were found, ReDigi could suspend a

user's account.

Capitol Records, Capitol Christian Music Group, and Virgin Records sued ReDigi for copyright infringement in 2012. The district court for the Southern District of New York found in favor of the plaintiffs and awarded \$3.5 million in damages. In affirming the judgment, the Second Circuit concluded that ReDigi's service violated the copyright owners' exclusive rights of reproduction under the Copyright Act.

In an opinion authored by Judge Pierre Leval, the Second Circuit acknowledged that ReDigi was acting in good faith in developing its platform, and was "not making efforts in the shadows to infringe on copyrights." The key problem for the court is that the first sale doctrine as codified in the Copyright Act relates to *distribution* of copyrighted works and not to *reproduction* of those works. Accordingly, because the Second Circuit determined that the ReDigi platform creates a reproduction of the music file, the first sale doctrine was inapplicable. Despite ReDigi's argument that its technology ensured the complete music file never existed in two places simultaneously, the court concluded that "each transfer of a digital music file to ReDigi's server and each new purchaser's download of a digital music file to his device creates new [copies]." The court also seemed particularly concerned that there would be no way to ensure the seller of a music file did not retain a copy. For example, if a user had copied the file to an external hard drive prior to uploading the file to ReDigi's server and the user never again attached the external hard drive to the user's computer, ReDigi would not find the duplicate copy.

The Second Circuit did not, however, shut the door completely on application of the first sale doctrine in the digital context, acknowledging that "other technology may exist or be developed that could lawfully effect a first sale." The court posits that a person could place digital song files on a thumb drive and sell the thumb drive and it also cites William Patry's copyright treatise for the observation that the first sale doctrine would permit sale of an iPod that contains lawfully made digital music files. (In the author's opinion, neither of these options addresses the court's key holding that the first sale doctrine is inapplicable when *reproduction* of the digital music files is involved. In fact, both of the examples given by the court most likely involve a reproduction of the file before the sale occurs. In the thumb drive example, unless the owner originally downloaded the song files directly to the thumb drive, the act of placing the songs on the thumb drive before selling the songs requires reproduction of the song files. Likewise, the typical manner in which users transfer songs to their iPods (or now, more likely, their iPhones) is to download the songs from iTunes onto their computer or an external hard drive and then to upload them onto the iPod. Hence, the digital sound files residing on the iPod to be sold may very well be reproductions of the originally-purchased file. If either the flash drive or the iPod were to be sold containing these reproductions, then the first sale doctrine cannot be applied. However, if the original song owner were to sell his or her hard drive where the songs all were originally downloaded, this sale would presumably be within the first sale doctrine under the court's reasoning.)

Turning back to the Second Circuit's analysis, the court also held that ReDigi's actions did not amount to fair use under test set forth in Section 107 of the Copyright Act,

because the copying of the files was not transformative and essentially replaced the copyright owner's marketplace for selling digital music files.

Finally, in closing the opinion, Judge Leval issues the time-honored sentiment that can be found in federal court opinions throughout history and across all areas of law: If you have persuasive arguments to support a change in the law, then lobby Congress to codify those changes in statute, because the court cannot "substitute our judgment for that of Congress."