

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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CAPITOL RECORDS, LLC, CAPITOL
CHRISTIAN MUSIC GROUP, INC., and VIRGIN
RECORDS IR HOLDINGS, INC.

Case No.: 12CV00095
(RJS) Doc. 198

Plaintiffs,

v.

REDIGI INC., JOHN OSSENMACHER and LARRY
RUDOLPH a/k/a LAWRENCE S.
ROGEL,

Defendants.
-----X

DEFENDANT REDIGI INC.'S PRETRIAL MEMORANDUM

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PRELIMINARY STATEMENT

Defendant ReDigi Inc. (“Defendant” or “ReDigi”) respectfully submits this Pretrial Memorandum pursuant to the October 13, 2015 Order of this Court.

POINT I

PLAINTIFFS WILL NOT BE ABLE TO PROVE OWNERSHIP OR A RIGHT TO SUE FOR INFRINGEMENT FOR MANY SOUND RECORDINGS

In order to succeed on a claim of copyright infringement, a copyright owner must prove two elements: “(1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original.” *Arden v. Columbia Pictures Indus., Inc.*, 908 F. Supp. 1248, 1257 (S.D.N.Y. 1995) (quoting *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 361, 111 S. Ct. 1282, 113 L. Ed. 2d 358 (1991)). *See also Capitol Records, Inc. v. Naxos of Am., Inc.*, 4 N.Y.3d 540, 563, 830 N.E.2d 250, 266 (2005) (A copyright infringement cause of action in New York consists of two elements: (1) the existence of a valid copyright; and (2) unauthorized reproduction of the work protected by the copyright).

While an *admissible* certificate of registration from the United States Copyright Office is *prima facie* proof that the claimed copyright is valid and that the *registrant* is its legitimate owner, here many of the registrations at issue, even if admitted at trial, are not in the name of any of the Plaintiffs. *See Dynamic Sols., Inc. v Planning & Control, Inc.*, 646 F Supp. 1329, 1337 (S.D.N.Y. 1986). Additionally, “copyright registration is not prima facie evidence of ownership of a valid copyright when the registration . . . is made more than five years after the original publication.” *Intl. Media Films, Inc. v Lucas Entertainment, Inc.*, 703 F Supp. 2d 456, 463 (S.D.N.Y. 2010) (citing *Troll Co. v. Uneeda Doll Co.*, 483 F.3d 150, 154 n. 5 (2d Cir.2007)).

Here many of the certificates of registrations for the sound recordings at issue are not in any of the Plaintiffs names. As such it is Defendant’s position that Plaintiffs will not be able to prove

that they are the owners or exclusive licensees of a valid copyright for many of the sound recordings they claim in this action.

A “transferee plaintiff in a copyright infringement action must prove that the copyright was properly transferred to the plaintiff.” *Intl. Media Films, Inc. v Lucas Entertainment, Inc.*, 703 F Supp. 2d 456, 463 (S.D.N.Y. 2010) (internal citations omitted); 3-12 Nimmer on Copyright § 12.11 (“assignee of a previously registered statutory copyright bears the burden of proving his chain of title, given that nothing in the registration certificate filed by his predecessor evidences his own right to claim through the original copyright claimant”). To the extent Plaintiffs will not be able to provide admissible evidence that they own a valid copyright in and to certain sound recordings they claim were infringed, these works must be excluded as a matter of law as Plaintiffs will have failed to satisfy their burden of proof on the first and most essential element of their claims for copyright infringement.

In addition, even if Plaintiffs prove that they owned a valid copyright or were the exclusive licensee of certain sound recordings at the time of alleged infringement, it appears that Plaintiffs have since sold or otherwise conveyed some of the sound recordings at issue and will likely not be able to prove that Plaintiffs retained the right to sue for past infringement.

The right to prosecute an accrued cause of action for infringement is also an incident of copyright ownership. *See Davis v Blige*, 505 F.3d 90, 99 (2d Cir. 2007) (citing *ABKCO Music, Inc. v. Harrisongs Music, Ltd.*, 944 F.2d 971, 980 (2d Cir. 1991)). An owner may also convey his interest in prosecuting accrued causes of action for infringement. *See id.* To the extent that Plaintiffs conveyed or sold their right to sue for the alleged infringement in this action, Plaintiffs will not be able to seek damages on those tracks at trial.

POINT II

PLAINTIFF SHOULD NOT BE PERMITTED TO RECOVER DAMAGES FOR THE 134 SOUND RECORDINGS THAT PLAINTIFFS PURCHASED

ReDigi will further seek an elimination and/or reduction of any damages award on the grounds that Plaintiffs have failed to mitigate their damages and are not entitled to damages on the 134 tracks that the paralegal investigator Coleen Hall purchased. Prior to filing the instant action, Capitol, through one of its employees downloaded approximately 134 musical tracks as part of Capitol's "investigation" of the ReDigi system. Now, Plaintiffs seek an award of statutory damages on all 134 musical tracks it had its own paralegal download.

As an initial matter, it is elementary that the lawful owner of a copyright is incapable of infringing a copyright interest that is owned by him." *U.S. Nav. Inst. v Charter Communications, Inc.*, 936 F.2d 692, 695 (2d Cir. 1991) (citing *Cortner v. Israel*, 732 F.2d 267, 271 (2d Cir.1984)). As such the 134 tracks that were purchased by Ms. Hall and thereafter some of them downloaded, cannot be "unauthorized" distributions, reproductions or infringements,¹ as those tracks were purchased by the alleged copyright holder. *See also* 17 U.S.C. § 106 (the owner of copyright under this title has the exclusive rights to do and to authorize any of the following . . . reproduce . . . distribute copies or phonorecords of the copyrighted work to the public."

Even assuming these acts could be infringement, which is doubtful, the tracks Capitol itself purchased and downloaded should not be part of any potential damages calculation for statutory damages. To count these works as "infringements" for the purpose of determining a statutory damage award, would reward Capitol for downloading far more works than necessary to determine the functionality of the ReDigi website or gather evidence of alleged infringement.

¹ The Court previously ruled that the "sale of digital music files on ReDigi's website infringes Capitol's exclusive right of reproduction". *See* 3/30/13 Order p.7.

At most, *Plaintiffs could be entitled* to claim their “costs” for the investigation. However, here Plaintiffs have produced no evidence of these costs and regardless, Plaintiffs should not be entitled to an award of costs, where Plaintiffs have not shown how any such alleged costs were “necessary to the litigation”. *C.f. Millennium TGA, Inc. v Leon*, 12 cv 01360, 2013 WL 5719079, at *15 (E.D.N.Y. Oct. 18, 2013) (allowing costs to compensate for investigator hired to find identity of defendant and track and *remove his infringement*).

Here, to allow Plaintiffs’ to recover a statutory damage award for the 134 works that Ms. Hall downloaded would only encourage future copyright plaintiffs to engage in investigative activity that far exceeds what is arguably necessary to their litigation. As ReDigi will show at trial. Plaintiffs’ paralegal offered no reason for needing to purchase the number of tracks that she did. Here roughly twenty six to twenty seven percent (26-27%) of the tracks potentially at issue were downloaded by Plaintiffs paralegal. To allow Plaintiffs to recover statutory damages on these works would not serve the goal of deterring future infringers, rather it would serve the goal of encouraging plaintiffs to participate and encourage infringement, in order to artificially inflate a potential statutory damage award that they may seek to obtain later. In the context of online music sales and distributions, such a precedent would encourage content owners, like Plaintiffs here, to have interns and paralegals download hundreds or thousands of their own works to exaggerate the scope of the activity and drive up a potential damages award, when such activity is completely unnecessary to “investigate” potentially infringing activity.

POINT III

TO THE EXTENT PLAINTIFFS CAN RECOVER ANY AWARD FOR THE 134 INVESTIGATOR TRACKS, DEFENDANTS ARE ENTITLED TO A REDUCTION OF DAMAGES FOR THESE TRACKS

Even if the Court were to allow Plaintiffs to include the tracks purchased by Plaintiffs’ paralegal as a part of the damages calculation, Defendants are entitled to reduced award in

connection with these tracks. As ReDigi will show at trial, there was no reason for Ms. Hall to purchase 134 works in order to “investigate” how the ReDigi system worked. To the contrary, as her testimony will show, she did so for no reason at all, and as a result even if the Court allows the Jury to consider a damage award in connection with these tracks, the Jury should also be instructed to consider Plaintiffs’ failure to mitigate damages.² While Plaintiffs have objected to such an instruction, and will argue that mitigation is not available when a plaintiff elects statutory damages as an award, their objection should be overruled. Other Courts in this District have overruled such objections to allow a failure to mitigate defense even where statutory damages are sought instead of actual damages, holding that “because the jury has ‘broad discretion in determining how to award statutory damages and may consider actual damages as a factor in making that determination, a failure to mitigate damages may remain relevant’”. *See e.g. UMG Recordings, Inc. v Escape Media Group, Inc.*, 11 CIV. 8407 TPG, 2015 WL 1873098, at *8 (S.D.N.Y. Apr. 23, 2015) (internal citations omitted). This is especially true given that statutory damages must bear some relation to actual damages suffered by Plaintiffs. *See RSO Records, Inc. v. Peri*, 596 F.Supp. 849, 862 (S.D.N.Y.1984).

Here Plaintiffs are essentially asking the Court to prevent Defendants from having the Jury consider the fact that Plaintiffs are the cause of twenty six to twenty seven percent (26-27%) of the allegedly infringing activity when calculating damages. The fact that Plaintiffs, themselves are responsible for such a large portion of the of the sound recordings Plaintiffs are claiming were infringed, is absolutely relevant to the Jury’s determination of statutory damages. Especially when they are being asked to consider that other factors such as revenue lost by Plaintiffs, and the deterrent effect on third parties. The fact that Plaintiffs caused a considerable portion of the

² Defendant raised Plaintiffs’ failure to mitigate damages as its third affirmative defense. *See Answer to Second Amended Complaint [DE 164]*.

statutory damages requested, is something that the Jury must be allowed to consider in combination with these other factors. The Plaintiffs here did not lose revenue by purchasing the 134 tracks as part of their investigation, nor is it a deterrent to third parties, to award statutory damages that Plaintiffs caused a large portion of. The Jury may find it appropriate to award less for these tracks, or less overall, given Plaintiffs' failure to mitigate damages (or their attempt to artificially inflate them). For these reasons, it is ReDigi's position that this instruction is particularly relevant and should be given to the Jury.

POINT IV

FAIR USE AS TO THE WORKS UPLOADED TO THE REDIGI CLOUD LOCKER AND LATER OFFERED FOR SALE BUT NOT SOLD

ReDigi will also ask the Jury to consider whether tracks that were uploaded to the Cloud Locker, and later offered for sale (i.e. made available), but not actually sold, are protected by fair use. On summary judgment ReDigi argued that uploading to and downloading from the Cloud Locker for storage and personal use are protected fair use, and Capitol agreed. *See* 3/30/13 Order, p. 10. Capitol instead asserted that "uploading to and downloading from the Cloud Locker *incident to sale* fall outside the ambit of fair use," and the Court agreed. *See id.*

Section 107 of the Copyright Act, provides that the "fair use of a copyrighted work, including such use by reproduction in copies or phonorecords . . . is not an infringement of copyright." *See* 17 U.S.C. §107. In determining whether the use made of a work in any particular case is a fair use the Court should consider, *inter alia*:

- (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. *Id.*

In the Court's 3/30/13 Opinion, the Court determined that works uploaded *and* sold through the ReDigi website were not protected by fair use because, among other reasons, "ReDigi and the uploading user directly profit from the sale of a digital music file, and the downloading user saves significantly on the price of the song in the primary market." *See* 3/30/13 Opinion, p. 10. Additionally the Court found that "the product sold in "ReDigi's secondary market is indistinguishable from that sold in the legitimate primary market. . . The clear inference is that ReDigi will divert buyers away from that primary market." *See id.*

However these findings are not applicable to works uploaded to the Cloud Locker for storage and then later offered for sale. In an offer for sale there is no profit from the sale, no savings to the purchaser, and no alleged diversion of buyers away from the primary market.

Additionally, the migration (upload) to the Cloud Locker and later offer for sale are two distinct steps, the latter of which happens at a separate point in time. Under ReDigi 1.0, a user could have chosen to offer an eligible file for sale³ long after it had migrated that file to the Cloud Locker for storage, an act which is not challenged by Capitol.

As set forth above merely offering a particular track for sale i.e. making it available, is not an infringement, especially here where at any time the user could cancel the offer for sale and leave

³ Additionally, as this Court correctly noted "a number of courts, including one in this district, have cast significant doubt on this 'make available' theory" . . . but "because the Court concludes that actual sales on ReDigi's website infringed Capitol's distribution right, it does not reach this additional theory of liability". *See* 3/30/13 Order at 8, n.6. Cases from this and other circuits have consistently held that there can be no distribution where no sale occurred. *See London-Sire Records, Inc. v Doe I*, 542 F Supp. 2d 153, 169 (D Mass. 2008) (defendants cannot be liable for violating the plaintiffs' distribution right unless a "distribution" actually occurred); *Natl Car Rental Sys., Inc., v. Computer Assocs Int'l, Inc.*, 991 F.2d 426, 434 (8th Cir. 1993) (stating that infringement of the distribution right requires the actual dissemination of copies or phonorecords); *Elektra Entm't Grp., Inc. v. Barker*, 551 F. Supp. 2d 234, 243 (S.D.N.Y. 2008) (the support in the case law for the "make available" theory of liability is quite limited). Under relevant law, it is not a violation of the distribution right to merely make a work available, where no sale or transfer of ownership is consummated and this Court has already declined to decide that making a work available is an infringement.

that track in the cloud for storage purposes. The migration and the offer for sale are two distinct acts that happen at two separate points in time. By claiming that the tracks offered for sale but not sold are “infringements” Capitol is trying to fuse two distinct acts, both of which are legal that happened at two separate points in time, into one and then claim they are illegal. Each allegation of infringement must be looked at on its own and here there is no evidence to support the contention that the two alleged acts should be combined into one. As such, tracks that were merely offered for sale through the ReDigi marketplace, but never sold, may not be considered as “infringements” for the purposes of calculating statutory damages at trial in this action.

This is especially true here where, Capitol has repeatedly stated that it is not challenging the legality of uploading works to the cloud for storage and this Court has noted that such an act is likely protected by fair use. *See* 2/6/12 Tr. 21:4-23; 8/9/13 Tr. Pp. 2-3; 10/5/12 Tr. 12:8-14 (Plaintiffs’ Counsel acknowledging that there is likely a fair use defense for uploading to the cloud for storage). Just because a user had the ability to sell, does not mean that the upload to the cloud is an infringement, when the simple upload to the cloud is a fair use. If ReDigi never sold a track, there would have been no decision on infringement, it is the sale that the Court determined was the infringing act. ReDigi, under the Court’s ruling, is simply another Dropbox type of entity that uploads tracks to the cloud for storage. There were only a minimal amount of tracks that were actually sold, the rest are just that –tracks stored in cloud storage for personal use, which is fair use as Capitol admits and iTunes permits.

A jury may find that the later offer for sale did not take the initial migration outside of the protection of fair use. As such, to the extent users uploaded tracks to their Cloud Locker and then later offered them for sale, but did not actually consummate a sale, the Jury should be allowed to consider whether the migration process is protected by fair use.

POINT V

PLAINTIFF'S CLAIMS ARE BARRED IN PART BY AN EXPRESS OR IMPLIED LICENSE

ReDigi further intends to prove that the works uploaded to the Cloud Locker and offered for sale but not sold, cannot be considered for statutory damages as the alleged “reproduction” during the upload process is protected by an express or implied license. “[A] nonexclusive license may be . . . implied from conduct . . . In fact consent given in the form of mere permission or lack of objection is also equivalent to a nonexclusive license and is not required to be in writing.” *Keane Dealer Servs., Inc. v. Harts*, 968 F. Supp. 944, 947 (S.D.N.Y. 1997). Here it is ReDigi’s position that Users were given an express or implied license to store their music in multiple locations by Plaintiffs and/or iTunes, which was encouraged by both Plaintiffs and iTunes. As such Plaintiffs’ cannot challenge those acts now.

POINT VI

ANY STATUTORY DAMAGES AWARD SHOULD BE REDUCED BY THE DOCTRINE OF INNOCENT INTENT

ReDigi further intends to offer as an affirmative defense, that any statutory damages award, if one is awarded, should be reduced by its innocent intent, to as low as \$200.00 per work proved to be infringed. *See* 17 U.S.C. § 504(c)(2).

Section 504(c)(2) provides that:

In a case where the infringer sustains the burden of proving, and the court finds, that such infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright, the court in its discretion may reduce the award of statutory damages to a sum of not less than \$200.

As ReDigi will show at trial, ReDigi was designed to facilitate the lawful transfer of legally purchased used digital goods. ReDigi was designed to comply with the law. While the Court has ruled otherwise, there is no dispute that this action presented a “novel question”. *See* 3/30/13,

Opinion p.4. ReDigi could not have known how a novel issue like this would be decided by this Court. Given that ReDigi believed its system was legal, ReDigi intends to seek a reduction of any statutory damages awarded based on its innocence.


POINT VII

THE STANDARD FOR WILLFUL / PUNITIVE DAMAGES

ReDigi further contends that Plaintiffs will not be able to show the intent necessary to prevail on their claims for willful federal copyright infringement or common law punitive damages. “A copyright holder seeking to prove that a copier's infringement was willful must show that the infringer ““had knowledge that its conduct represented infringement or ... recklessly disregarded the possibility.””. *Bryant v Media Right Productions, Inc.*, 603 F.3d 135, 143 (2d Cir. 2010). “The common law New York standard for an award of punitive damages is one of “moral culpability” on the defendant's part, involving “evil and reprehensible motives” or “gross” fraud.” *Big Seven Music Corp. v. Lennon*, 554 F.2d 504, 513 (2d Cir. 1977). Here Plaintiffs will be unable to prove either such intent as it was simply not present.

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