

June 16, 2016

VIA ELECTRONIC MAIL AND ECF

Capitol Records, LLC v. ReDigi, Inc.
Hon. Richard J. Sullivan

Doc. 224

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Re: *Capitol Records LLC v. ReDigi Inc., et al.* (12 Civ. 00095) (RJS)

Hon. Judge Sullivan:

This letter constitutes Defendants' response to Plaintiffs' June 13, 2016 pre-motion conference request.¹ Defendants oppose Plaintiffs' claim of entitlement to an award of attorneys' fees. Such an award on the unique facts of this case would contravene the purposes of the Copyright Act.

Today, the U.S. Supreme Court unanimously approved the Second Circuit's approach to determining whether to award attorneys' fees in copyright cases holding that federal courts are required to give "substantial weight to the objective (un)reasonableness of a losing party's litigating position." *Kirtsaeng v. John Wiley & Sons, Inc.*, No. 15-375, Slip Opinion at p. 2. As Justice Kagan explained in her unanimous opinion for the Court, "placing substantial weight on objective reasonableness also treats plaintiffs and defendants even-handedly [because] [n]o matter which side wins a case, the court must assess whether the other side's position was (un)reasonable." The Supreme Court made clear that the question whether the losing party's position was objectively reasonable cannot be answered by whether or not the party has been found to infringe copyright.²

This lawsuit was never a run-of-the-mill copyright infringement case. ReDigi developed new, patented technology intended to enable consumers of lawfully purchased copyrighted digital music files to lawfully buy, sell or otherwise transfer these pre-owned music files—just as consumers are free to sell their legitimately purchased cd's. ReDigi believed, and argued to the Court, that its technology successfully accomplished this worthwhile purpose. As this Court recognized "[t]he novel question presented in this action is whether a digital music file, lawfully made and purchased, may be resold by its owner through ReDigi under the first sale doctrine" "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." *See* 3/30/13 Order p. 4-5 [DE 109]. *See also* TR: 2/6/12 p. 3:4-6 [DE 26] ("I find this to be a fascinating issue. We raised a lot of

¹ As an initial matter the Court's April 28, 2016 Order, directed the parties to submit "any contemplated motions regarding costs and fees by June 3, 2016".

² "Courts every day see reasonable defenses that ultimately fail (just as they see reasonable claims that come to nothing); in this context, as in any other, they are capable of distinguishing between those defenses (or claims) and the objectively unreasonable variety. And if some court confuses the issue of liability with that of reasonableness, its fee award should be reversed for abuse of discretion." *Id.* at p. 10.

technical and statutory issues that make this kind of a niche case”); TR: 10/5/12 p. 3 [DE 107] (“there are honest disagreements as to what the law says and how it ought to be applied”).

The fact that the Court found that ReDigi’s technology did not fully accomplish its copyright-conforming objective does not retroactively make Defendants’ arguments and defenses objectively unreasonable.³ To the contrary, the just-announced *Kirtsaeng* decision makes clear that this is precisely the kind of case where the objectively reasonable arguments that ReDigi advanced militate strongly against an award of attorneys’ fees. As *Kirtsaeng* declares, attorneys’ fees awards “are a double-edged sword.” Penalizing losing parties who advance objectively reasonable albeit unsuccessful positions in hard and novel cases is contrary to the Copyright Act’s goal of “enriching the general public through access to creative works.” *Id.* at p. 6. The prevailing party (*Kirtsaeng*) argued that attorneys’ fees should be awarded in hard and novel cases because it resulted in some clarification of the law. The Supreme Court reached the opposite conclusion, holding that an award of attorneys’ fees in hard and novel cases “could just as easily discourage as encourage parties to pursue the kinds of suits that ‘meaningfully clarif[y]’ copyright law.” *Id.* at p. 8.

ReDigi’s fair use defense was also not objectively unreasonable. Indeed, while the parties disputed the application of fair use to works uploaded to ReDigi and later offered for sale or sold, Plaintiffs did not contest that works uploaded to ReDigi for storage was fair use. *See* 3/30/13 Order at p. 10. Nor was ReDigi’s position that fair use applied objectively unreasonable given, *inter alia*, the factually sensitive, and evolving, nature of the fair use defense, and that the iTunes Store Terms and Conditions (as cited in ReDigi’s briefs) authorized the practice of using and transferring purchased music to other devices. *See* ReDigi 7/20/12 Br. at 16-17.

Further, the resolution of ReDigi’s defenses on summary judgment is not tantamount to a determination that these defenses were objectively unreasonable or devoid of legal or factual support. Courts in this Circuit have previously held that a summary judgment decision against a party, i.e. a “finding that no reasonable juror could find in favor of one party is *not the same* as a finding that the losing party’s claim was objectively unreasonable—something more is required.” *Belair v MGA Entertainment, Inc.*, 2012 Copr. L Dec P 30253 (S.D.N.Y. May 10, 2012) (citing *Fogerty*, 510 U.S. at 527) (emphasis added). Here, although the Court found the facts not disputed, the application of the law to the facts was, and remains, disputed.

Plaintiffs are unable to demonstrate anything more than that Defendants’ arguments did not prevail. Defendants have not litigated this case in an objectively unreasonable manner. Contrary to Capitol’s assertions, ReDigi did not backpedal on key factual admissions. Moreover, for Capitol to characterize ReDigi’s explanation as a “semantic play” or imply surprise is without

³ Courts have routinely held that “only those claims that are clearly without merit or otherwise patently devoid of legal or factual basis ought to be deemed objectively unreasonable.” *Jovani Fashion, Ltd. v Cinderella Divine, Inc.*, 820 F Supp. 2d 569, 573 (S.D.N.Y. 2011) (rejecting the argument that because plaintiff’s theory of copyright ability shifted over the course of litigation, plaintiff never had a reasonable claim in the first place and holding that without more, the claim was not “clearly without merit”); *Penguin Books U.S.A., Inc. v. New Christian Church of Full Endeavor Ltd.*, No. 96 Civ. 4126, 2004 WL 728878, at *3 (S.D.N.Y. Apr. 6, 2004) (“[O]nly those claims that are clearly without merit or otherwise patently devoid of legal or factual basis ought to be deemed objectively unreasonable”). Defendants’ honestly held legal position that ReDigi 1.0 does not violate the Copyright Act, supported by Defendants’ technical understanding of how the system works, was not “patently devoid of legal or factual basis,” even though, in the end, the Court reached a different conclusion.

foundation. As set forth in ReDigi's opposition to Capitol's motion for summary judgment, and as acknowledged by Capitol, the highly technical nature of ReDigi's transfer process was fully explained during depositions. Moreover, Plaintiffs' claim that the information obtained during discovery forced them to undertake additional work, is belied by Capitol's own arguments that the alleged "semantic shift is legally irrelevant". See Pl. 7/20/12 Br. at p. 8. Capitol chose not to explore these technology issues further during discovery, and even admitted that the previously undisclosed expert whom they first introduced with their opposition to ReDigi's summary judgment papers was not necessary.

The argument that ReDigi maintained absurd affirmative defenses until Plaintiff was "put to task on briefing them on summary judgment" is also wholly without merit. To cite but one example, there was ample support for ReDigi's contention that tracks uploaded to the cloud and offered for sale but not sold would ultimately be held not infringing: Capitol conceded that fair use applied to tracks uploaded to the cloud for storage, and as this Court noted, other decisions have cast significant doubt on the "make available" theory of distribution. See 3/30/13 Order p. 8 n.6, p. 10. There is no pattern of unreasonable conduct on Defendants part in this action.

Plaintiff's accusations of delay are unfounded. In most instances, the parties *jointly* asked the court for extensions and Defendants routinely attempted to streamline the action. For example, following the second amended complaint, in the interests of conserving resources, the individual defendants stipulated to reserve their right to appeal the issues previously raised in their motion to dismiss and motion for reconsideration, thus avoiding a second motion to dismiss. See 11/13/14 Stipulation & Order [DE 165]. Similarly following the Court's August 27, 2015 Order, the individual defendants entered into the joint conditional stipulation as to liability so that the case could proceed to trial on damages and appeal. See 10/30/15 Stipulation & Order [DE 178]. Perhaps most significantly, the parties agreed to a stipulated final judgment subject to reservation of right to appeal which avoided the significant additional time, effort and expense of a damages trial. See 6/3/16 Stipulated Final Judgment Subject to Reservation of Right to Appeal [DE 222].

The other factors to be considered on a claim for fees similarly do not support Plaintiff's claim. There has been no finding nor is there evidence of frivolousness or improper motivation on Defendants' part, nor is there a need for deterrence here given the novel issues raised in this case. Capitol raises the issue of willfulness, but there has been no finding of willfulness. On the contrary, that issue was to be adjudicated at the damages trial, which was obviated by the parties' conditional stipulated judgment. See Joint Proposed Jury Instructions at 51, [DE 193]; Parties Proposed Special Verdict Form at 2; [DE 197]; Plaintiff's Motion in Limine at 7, [DE 195].

We greatly appreciate Your Honor's time and consideration in this matter.

Respectfully Submitted,

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