

16-2321

Capitol Records, LLC et. al. v. ReDigi Inc., et. al.

1 UNITED STATES COURT OF APPEALS
2 FOR THE SECOND CIRCUIT

3
4 August Term, 2017

5
6 (Argued: August 22, 2017 Decided: December 12, 2018)

7
8 Docket No. 16-2321

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11 Capitol Records, LLC, Capitol Christian Music Group, Inc., Virgin Records IR
12 Holdings, Inc.,

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14 *Plaintiffs-Appellees,*

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16 v.

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18 ReDigi Inc., John Ossenmacher, Larry Rudolph, AKA Lawrence S. Rogel,

19
20 *Defendants-Appellants.*

21
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23 Before:

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25 JON O. NEWMAN, PIERRE N. LEVAL, and ROSEMARY S. POOLER,
26 *Circuit Judges.*

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28 Defendants, ReDigi Inc. and related persons, appeal from the grant of
29 partial summary judgment and stipulated final judgment by the United States
30 District Court for the Southern District of New York (Richard J. Sullivan, J.) in
31 favor of Plaintiffs, record companies whose copyrighted sound recordings
32 were resold through the ReDigi platform. The district court found copyright
33 infringement. AFFIRMED.

34
35 RICHARD S. MANDEL, New York,
36 N.Y. (Jonathan Z. King, Cowan,
37 Liebowitz & Latman, P.C., New York,
38 N.Y., on the brief), *for Plaintiffs-Appellees.*
39

1 ROBERT C. WELSH, New York, N.Y.
2 (C. Dennis Loomis, Baker & Hostetler
3 LLP, Los Angeles, CA, on the brief) *for*
4 *Defendant-Appellants.*
5

6 LEVAL, *Circuit Judge:*

7 Defendant ReDigi, Inc. and its founders, Defendants Larry Rudolph
8 and John Ossenmacher,¹ appeal from the judgment of the United States
9 District Court for the Southern District of New York (Richard J. Sullivan, *J.*) in
10 favor of Plaintiffs, Capitol Records, LLC, Capitol Christian Music Group, Inc.,
11 and Virgin Records IR Holdings, Inc. (“Plaintiffs”), finding copyright
12 infringement. Defendants had created an Internet platform designed to enable
13 the lawful resale, under the first sale doctrine, of lawfully purchased digital
14 music files, and had hosted resales of such files on the platform. The district
15 court concluded that, notwithstanding the “first sale” doctrine, codified in the
16 Copyright Act of 1976, 17 U.S.C. § 109(a), ReDigi’s Internet system version 1.0
17 infringed the Plaintiffs’ copyrights by enabling the resale of such digital files
18 containing sound recordings of Plaintiffs’ copyrighted music. We agree with
19 the district court that ReDigi infringed the Plaintiffs’ exclusive rights under 17

¹ Hereinafter “ReDigi” is used to designate all three Defendants, except where the context makes clear it refers solely to the company.

1 U.S.C. § 106(1) to reproduce their copyrighted works. We make no decision
2 whether ReDigi also infringed the Plaintiffs' exclusive rights under 17 U.S.C.
3 § 106(3) to distribute their works.²

4 BACKGROUND

5 I. Facts

6 Plaintiffs are record companies, which own copyrights or licenses in
7 sound recordings of musical performances. Plaintiffs distribute those sound
8 recordings in numerous forms, of which the most familiar twenty years ago
9 was the compact disc. Today, Plaintiffs also distribute their music in the form
10 of digital files, which are sold to the public by authorized agent services, such
11 as Apple iTunes, under license from Plaintiffs. Purchasers from the Apple
12 iTunes online store download the files onto their personal computers or other
13 devices.

14 ReDigi was founded by Defendants Ossenmacher and Rudolph in 2009
15 with the goal of creating enabling technology and providing a marketplace

² We do not adjudicate whether ReDigi's system version 2.0 infringed any of the Plaintiffs' rights as this question (although stipulated in the final judgment) was not litigated in the district court. Defendants stipulated that a judgment in Plaintiffs' favor would enjoin the Defendants, as well as all persons in specified relationships with the Defendants, such as their "officers, agents, servants, representatives . . . and licensees," from implementing version 2.0. Stipulated Final Judgment ¶5, *Capitol Records, LLC. V. ReDigi, Inc.*, No. 12-CV-95 (RJS), ECF No. 222 (S.D.N.Y. June 3, 2015).

1 for the lawful resale of lawfully purchased digital music files.³ Ossenmacher
2 served as ReDigi's Chief Executive Officer and Rudolph, who spent twelve
3 years as a Principal Research Scientist at the Massachusetts Institute of
4 Technology, served as ReDigi's Chief Technical Officer. During the period
5 addressed by the operative complaint, ReDigi, through its system version 1.0,
6 hosted resales of digital music files containing the Plaintiffs' music by persons
7 who had lawfully purchased the files from iTunes.

8 Considering the evidence in the light most favorable to ReDigi,
9 ReDigi's system version 1.0 operates as follows.

10 1. *Music Manager*: A person who owns a digital music file lawfully
11 purchased from iTunes and intends to employ ReDigi's system to resell it (the
12 "user") must first download and install onto her computer ReDigi's "Music
13 Manager" software program ("Music Manager"). Once Music Manager has
14 been installed, it analyzes the digital file intended for resale, verifies that the
15 file was originally lawfully purchased from iTunes, and scans it for

³ ReDigi was not making efforts in the shadows to infringe on copyrights. To the contrary, it invented a system designed in good faith to achieve a goal generally favored by the law of copyright, reasonably hoping the system would secure court approval as conforming to the demands of the Copyright Act.

1 indications of tampering. If the file was lawfully purchased, Music Manager
2 deems it an “Eligible File” that may be resold.⁴

3 2. *Data Migration:* The ReDigi user must then cause the file to be
4 transferred to ReDigi’s remote server, known as the “Cloud Locker.” To
5 effectuate this transfer, ReDigi developed a new method that functions
6 differently from the conventional file transfer. The conventional process is to
7 reproduce the digital file at the receiving destination so that, upon completion
8 of the transfer, the file exists simultaneously on both the receiving device and
9 on the device from which it was transferred. If connectivity is disrupted
10 during such a standard transfer, the process can be repeated because the file
11 remains intact on the sender’s device.

12 Under ReDigi’s method – which it calls “data migration” – ReDigi’s
13 software “begins by breaking the [digital] music file into small ‘blocks’ [of
14 data] of roughly four thousand bytes in length.” Appellants Br. 24. Once the
15 file has been broken into blocks of data (“packets”), ReDigi’s system creates a
16 “transitory copy” of each packet in the initial purchaser’s computer buffer. *Id.*

⁴ Music Manager will deem a file “Eligible” if it was purchased by the user from iTunes or it was purchased by the user through ReDigi, having been originally purchased lawfully by another from iTunes.

1 Upon copying (or “reading”) a packet into the initial purchaser’s computer
2 buffer, ReDigi’s software sends a command to delete that packet of the digital
3 file from permanent storage on the initial purchaser’s device. Rogel Decl.
4 App’x 690-91. ReDigi’s software then sends the packet to the ReDigi software
5 to be copied into the buffer and deleted from the user’s device. Rogel Decl.
6 App’x 691. During the data migration process, the digital file cannot be
7 accessed, played, or perceived. If connectivity is disrupted during the data
8 migration process, the remnants of the digital file on the user’s device are
9 unusable, and the transfer cannot be re-initiated. In such circumstances,
10 ReDigi (according to its brief) bears the cost of the user’s loss. Appellants Br.
11 25.⁵

12 Once all the packets of the source file have been transferred to ReDigi’s
13 server, the Eligible File has been entirely removed from the user’s device. The
14 packets are then re-assembled into a complete, accessible, and playable file on
15 ReDigi’s server.

⁵ It is unclear from the evidence cited in ReDigi’s Rule 56.1 statement whether ReDigi purchases a new file from iTunes to effectuate resale, pays the user to offset the loss of her file, or otherwise bears the cost of the loss. *See* App’x 1489 at ¶ 35. These alternatives do not affect our decision.

1 ReDigi describes its primary technological innovation using the
2 metaphor of a train (the digital file) leaving from one station (the original
3 purchaser's device) and arriving at its destination (in the first instance,
4 ReDigi's server). Under either the typical method or ReDigi's method, packets
5 are sent sequentially, such that, conceptually, "each packet is a car" moving
6 from the source to the destination device. App'x 657. Once all the packets
7 arrive at the destination device, they are reassembled into a usable file. *Id.* At
8 that moment, in a typical transfer, the entire digital file in usable form exists
9 on both devices. *Id.* ReDigi's system differs in that it effectuates a deletion of
10 each packet from the user's device immediately after the "transitory copy" of
11 that packet arrives in the computer's buffer (before the packet is forwarded to
12 ReDigi's server). In other words, as each packet "leaves the station," ReDigi
13 deletes it from the original purchaser's device such that it "no longer exists"
14 on that device. *Id.* As a result, the entire file never exists in two places at once.
15 *Id.*

16 After the file has reached ReDigi's server but before it has been resold,
17 the user may continue to listen to it by streaming audio from the user's Cloud

1 Locker on ReDigi's server. If the user later re-downloads the file from her
2 Cloud Locker to her computer, ReDigi will delete the file from its own server.

3 3. *Resale:* Once an Eligible File has "migrated" to ReDigi's server, it
4 can be resold by the user utilizing ReDigi's market function. If it is resold,
5 ReDigi gives the new purchaser exclusive access to the file. ReDigi will (at the
6 new purchaser's option) either download the file to the new purchaser's
7 computer or other device (simultaneously deleting the file from its own
8 server) or will retain the file in the new purchaser's Cloud Locker on ReDigi's
9 server, from which the new purchaser can stream the music. ReDigi's terms of
10 service state that digital media purchases may be streamed or downloaded
11 only for personal use.

12 4. *Duplicates:* ReDigi purports to guard against a user's retention of
13 duplicates of her digital music files after she sells the files through ReDigi. To
14 that end, Music Manager continuously monitors the user's computer hard
15 drive and connected devices to detect duplicates. When a user attempts to
16 upload an Eligible File to ReDigi's server, ReDigi "prompt[s]" her to delete
17 any pre-existing duplicates that Music Manager has detected. If ReDigi
18 detects that the user has not deleted the duplicates, ReDigi blocks the upload

1 of the Eligible File. After an upload is complete, Music Manager continues to
2 search the user's connected devices for duplicates. If it detects a duplicate of a
3 previously uploaded Eligible File, ReDigi will prompt the user to authorize
4 ReDigi to delete that duplicate from her personal device and, if authorization
5 is not granted, it will suspend her account.

6 Plaintiffs point out, and ReDigi does not dispute, that these precautions
7 do not *prevent* the retention of duplicates after resale through ReDigi.
8 Suspension of the original purchaser's ReDigi account does not negate the
9 fact that the original purchaser has both sold and retained the digital music
10 file after she sold it. So long as the user retains previously-made duplicates on
11 devices not linked to the computer that hosts Music Manager, Music Manager
12 will not detect them. This means that a user could, prior to resale through
13 ReDigi, store a duplicate on a compact disc, thumb drive, or third-party cloud
14 service unconnected to the computer that hosts Music Manager and access
15 that duplicate post-resale.⁶ While ReDigi's suspension of the original

⁶ Defendants do not dispute that, under Apple iCloud's present arrangements, a user could sell her digital music files on ReDigi, delete Music Manager, and then re-download the same files to her computer for free from the Apple iCloud. Apple's iCloud service allows one who has purchased a file from iTunes to re-download it without making a new purchase. App'x 1292 at ¶ 62.

1 purchaser's ReDigi account may be a disincentive to the retention of sold files,
2 it does not prevent the user from retaining sold files.

3

4 II. Proceedings Below

5 On January 6, 2012, Plaintiffs brought this action, originally solely
6 against ReDigi, Inc., alleging *inter alia*, that in the operation of ReDigi's system
7 version 1.0, it infringed Plaintiffs' copyrights by unauthorized reproduction
8 and distribution of Plaintiffs' copyrighted works. The parties cross-moved for
9 summary judgment. On March 30, 2013, the district court granted partial
10 summary judgment in Plaintiffs' favor finding infringement. Plaintiffs
11 subsequently filed a first amended complaint, adding Ossenmacher and
12 Rudolph as individual defendants. On November 2, 2015, the parties
13 proposed a joint stipulation in which Ossenmacher and Rudolph waived their
14 right to contest liability independent of ReDigi, Inc. On June 6, 2016, the
15 district court entered a stipulated final judgment awarding damages to
16 Plaintiffs in the amount of three million five hundred thousand dollars
17 (\$3,500,000) and permanently enjoining Defendants from operating the

1 ReDigi system.⁷ In the stipulation, Defendants reserved the right to appeal
2 solely from the district court's finding of liability for reproduction and
3 distribution as set forth in the summary judgment order. Defendants timely
4 filed notice of this appeal on July 1, 2016. On August 11, 2016, the appeal was
5 stayed as a result of the Defendants' bankruptcy proceedings in the United
6 States Bankruptcy Court for the Southern District of Florida. The stay was
7 lifted on December 12, 2016.

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DISCUSSION

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I. The First Sale Doctrine

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The primary issue on appeal is whether ReDigi's system version 1.0 lawfully enables resales of its users' digital files. Sections 106(1) and (3) of the Copyright Act respectively grant the owner of a copyright the exclusive right

⁷ Notwithstanding that the operative complaint addressed only ReDigi's system version 1.0 (making no mention of version 2.0, which ReDigi launched on June 11, 2012), and the record before the district court did not address version 2.0, the stipulated judgment is binding as to version 2.0 against defendants and persons in specified relationships with ReDigi, as explained *supra* in footnote 2. Because neither we, nor the district court, have decided whether version 2.0 would infringe, this opinion does not decide on the lawfulness of the use—by persons who are independent of the Defendants—of systems functioning like version 2.0, at least to the extent that their systems differ from the aspects of version 1.0 that are adjudicated in this opinion.

1 to control the reproduction and the distribution of the copyrighted work.⁸ 17
2 U.S.C. § 106(1) & (3). Under the first sale doctrine, codified in § 109(a), the
3 rights holder's control *over the distribution* of any particular copy or
4 phonorecord that was lawfully made effectively terminates when that copy or
5 phonorecord is distributed to its first recipient. Section 109(a) provides:

6 "Notwithstanding the provisions of section 106(3), the owner of
7 a particular copy or phonorecord lawfully made under this title,
8 or any person authorized by such owner, is entitled, without the
9 authority of the copyright owner, to sell or otherwise dispose of
10 the possession of that copy or phonorecord."

11

12 17 U.S.C. § 109(a).

13 Under this provision, it is well established that the lawful purchaser of
14 a copy of a book is free to resell, lend, give, or otherwise transfer that copy
15 without violating the copyright holder's exclusive right of distribution. The
16 copy so resold or re-transferred may be re-transferred again and again
17 without violating the exclusive distribution right. *See Kirtsaeng v. John Wiley &*
18 *Sons, Inc.*, 568 U.S. 519, 530 (2013); *Quality King Distribs. v. L'Anza Research*
19 *Int'l, Inc.*, 523 U.S. 135, 152 (1998); *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 351

⁸ "Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following: (1) to reproduce the copyrighted work in copies or phonorecords . . . [and] (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending . . ." 17 U.S.C. § 106(1), (3).

1 (1908); *see also* 4 Patry on Copyright § 13:15 (“Placing a lawful copy of a work
2 in commerce exhausts the distribution and display rights with respect to that
3 particular copy”). It is undisputed that one who owns a digital file from
4 iTunes of music that is fixed in a material object qualifies as “the owner of a
5 particular . . . phonorecord lawfully made,” 17 U.S.C. § 109(a), and is thus
6 entitled under § 109(a) “to sell or otherwise dispose of the possession of
7 that . . . phonorecord,” *id.* (emphasis added), without violating § 106(3). On
8 the other hand, § 109(a) says nothing about the rights holder’s control under §
9 106(1) over *reproduction* of a copy or phonorecord.

10 The district court found that resales through ReDigi were infringing for
11 two reasons. The first reason was that, in the course of ReDigi’s transfer, the
12 phonorecord has been reproduced in a manner that violates the Plaintiffs’
13 exclusive control of *reproduction* under § 106(1); the second was that the
14 digital files sold through ReDigi, being unlawful reproductions, are not
15 subject to the resale right established by § 109(a), which applies solely to a
16 “particular . . . phonorecord . . . lawfully made.” 17 U.S.C. § 109(a). We agree
17 with the first reason underlying the district court’s finding of infringement.

1 As that is a sufficient reason for affirmance of the judgment, we make no
2 ruling on the district court's second reason.

3 ReDigi argues on appeal that its system effectuates transfer of the
4 *particular* digital file that the user lawfully purchased from iTunes, that it
5 should not be deemed to have reproduced that file, and that it should
6 therefore come within the protection of 17 U.S.C. § 109(a). ReDigi makes two
7 primary contentions in support of these arguments.

8 First, ReDigi asserts—as it must for its first sale argument to succeed—
9 that the digital files should be considered “material objects” and therefore,
10 under 17 U.S.C. § 101’s definition of “phonorecords” as “material objects,”
11 should qualify as “phonorecords” eligible for the protection of § 109(a).

12 Second, ReDigi argues that from a technical standpoint, its process
13 should not be seen as making a reproduction. ReDigi emphasizes that its
14 system simultaneously “causes [packets] to be removed from the . . . file
15 remaining in the consumer’s computer” as those packets are copied into the
16 computer buffer and then transferred to the ReDigi server, Appellants Br. 24,
17 so that the complete file never exists in more than one place at the same time,
18 and the “file on the user’s machine continually shrinks in size while the file

1 on the server grows in size.” App’x 691.⁹ ReDigi points out that the “sum of
2 the size of the data” stored in the original purchaser’s computer and in
3 ReDigi’s server never exceeds the “size of the original file,” which, according
4 to ReDigi, “confirms that no reproductions are made during the transfer
5 process.” Appellants Br. 25.

6 As for ReDigi’s first argument, that the digital file it transfers is a
7 phonorecord protected by § 109(a), we do not decide this issue because we
8 find that ReDigi effectuates an unlawful reproduction even if the digital file
9 itself qualifies as a phonorecord.¹⁰

10 As for ReDigi’s second argument, we reject it for the following reasons.
11 The Copyright Act defines phonorecords as “material objects in which sounds
12 . . . are fixed by any method now known or later developed, and from which
13 the sounds can be perceived, reproduced, or otherwise communicated, either
14 directly or with the aid of a machine or device.” 17 U.S.C. § 101. Accordingly,
15 when the purchaser of a digital music file from iTunes possesses that file,

⁹ From October 13, 2011 until March 2012, ReDigi’s system sometimes made temporary archival copies that were deleted as soon as the migration process was complete. Those backup files have not been put at issue in this appeal.

¹⁰ A conclusion that a digital file cannot be a phonorecord would have decisive implications for a system functioning like ReDigi’s version 2.0, as well as its version 1.0. Because our understanding of the technology is limited, as is our ability to appreciate the economic implications, we find it preferable to rule more narrowly.

1 embodied “for a period of more than transitory duration” in a computer or
2 other physical storage device, *Cartoon Network LP v. CSC Holdings, Inc.*, 536
3 F.3d 121, 127 (2d Cir. 2008) (quoting 17 U.S.C. § 101), that device—or at least
4 the portion of it in which the digital music file is fixed (*e.g.*, the location on the
5 hard drive)—becomes a phonorecord. *See London-Sire Records, Inc. v. Doe*, 542
6 F. Supp. 2d 153, 171 (D. Mass. 2008) (holding that the segment of a hard disc
7 on which an electronic music file is encoded is a “phonorecord” under the
8 Copyright Act). In the course of transferring a digital music file from an
9 original purchaser’s computer, through ReDigi, to a new purchaser, the
10 digital file is first received and stored on ReDigi’s server and then, at the new
11 purchaser’s option, may also be subsequently received and stored on the new
12 purchaser’s device.¹¹ At each of these steps, the digital file is fixed in a new
13 material object “for a period of more than transitory duration.” *Cartoon*
14 *Network*, 536 F.3d at 127. The fixing of the digital file in ReDigi’s server, as
15 well as in the new purchaser’s device, creates a new phonorecord, which is a
16 reproduction. ReDigi version 1.0’s process for enabling the resale of digital
17 files thus inevitably involves the creation of new phonorecords by

¹¹ The new purchaser at his option may alternatively choose to leave the digital file in the new purchaser’s storage locker on ReDigi’s server and stream it for access.

1 reproduction, even if the standalone digital file is deemed to be a
2 phonorecord.

3 As for the argument that, as ReDigi copies a packet of data, it deletes
4 the equivalent packet in the user's device so that the amount of data extant in
5 the transfer process remains constant, this does not rebut or nullify the fact
6 that the eventual receipt and storage of that file in ReDigi's server, as well as
7 in the new purchaser's device (at his option), does involve the making of new
8 phonorecords. Unless the creation of those new phonorecords is justified by
9 the doctrine of fair use, which we discuss and reject in a later portion of this
10 opinion, the creation of such new phonorecords involves unauthorized
11 reproduction, which is not protected, or even addressed, by § 109(a).

12 ReDigi makes several additional arguments designed to characterize its
13 process as involving the transfer of its users' lawfully made phonorecords,
14 rather than the creation of new phonorecords. None of these arguments
15 negates the crucial fact that each transfer of a digital music file to ReDigi's
16 server and each new purchaser's download of a digital music file to his device
17 creates new phonorecords. ReDigi argues, for example, that during a transfer
18 through ReDigi's data migration technology, each packet of data from the

1 original source file resides in a buffer “for less than a second” before being
2 overwritten, Appellants Br. 27, and thus fails to satisfy the requirement that a
3 sound recording must be embodied “for a period of more than transitory
4 duration” to qualify as a phonorecord, 17 U.S.C. § 101; *Cartoon Network*, 536
5 F.3d at 127. Even if, during transfer, ReDigi’s system retains each digital file *in*
6 *a computer buffer* for a period of no more than transitory duration, those files
7 subsequently become embodied in ReDigi’s server and in the new purchaser’s
8 device, where they remain for periods “of more than transitory duration.”
9 *Cartoon Network*, 536 F.3d at 127. ReDigi’s server and the resale purchaser’s
10 device on which the digital music files are fixed constitute or contain new
11 phonorecords under the statute.

12 ReDigi next argues that, in the course of transferring a user’s file to
13 ReDigi’s own server, and to the resale purchaser’s device, ReDigi sees to it
14 that all of the original purchaser’s preexisting duplicates are destroyed. As an
15 initial matter, as noted above, ReDigi here overclaims. It does not ensure
16 against retention of duplicate phonorecords created by the original owner.
17 ReDigi’s assertion that “there is never an instance when [an] Eligible File
18 could exist in more than one place or be accessed by more than one user” is

1 simply not supported by ReDigi's own evidence. Def. 56.1 Statement, App'x
2 1490. In addition, even if ReDigi effectively compensated (by offsetting
3 deletions) for the making of unauthorized reproductions in violation of the
4 rights holder's exclusive reproduction right under § 106(1), nonetheless
5 ReDigi's process itself involves the making of unauthorized reproductions
6 that infringe the exclusive reproduction right unless justified under fair use.¹²
7 We are not free to disregard the terms of the statute merely because the entity
8 performing an unauthorized reproduction makes efforts to nullify its
9 consequences by the counterbalancing destruction of the preexisting
10 phonorecords.

11 ReDigi further argues, citing *ABKCO Music, Inc. v. Stellar Records, Inc.*,
12 96 F.3d 60 (2d Cir. 1996), that the computer hard drive into which the original
13 purchaser's digital file is embedded cannot be her lawfully made
14 phonorecord. A computer hard drive, ReDigi argues, cannot qualify as a

¹² We recognize that the use of computers with digital files of protected matter will often result in the creation of innocuous copies which we would be loath to consider infringements because doing so would effectively bar society from using invaluable computer technology in relation to protected works. We believe this precedent will not have that undesirable effect for reasons discussed below in the section on fair use. What we consider here is that the making of unauthorized reproductions *in pursuit of an objective to distribute protected matter in competition with the rights holder*. The production of innocuous, unauthorized reproductions through the unavoidable function of a computer, when done for purposes that do not involve competing with the rights holder in its exclusive market, is outside the scope of this dispute.

1 phonorecord under § 101 because it contains more than a sound recording.
2 This argument misinterprets *ABKCO*. We held in *ABKCO* that a license to
3 publish a phonorecord did not authorize the publication of compact discs for
4 use in karaoke that contained both sound recordings and visual depictions of
5 song lyrics. 96 F.3d at 64. The *ABKCO* opinion undertook to construe the
6 breadth of a compulsory license. The opinion does not support the conclusion
7 that a compact disc that stores visual depictions of words as well as recorded
8 music does not *contain* a phonorecord. To be sure, a license to distribute
9 phonorecords of a particular song would not by its terms authorize the
10 distribution of whatever other copyrighted content is contained in a computer
11 hard drive that also contains the recording of the song. But it does not follow
12 that a device or other “material object[] in which sounds . . . are fixed . . . and
13 from which the sounds can be perceived, reproduced, or otherwise
14 communicated,” 17 U.S.C. § 101, is not a phonorecord, merely because it
15 contains other matter as well. We reject ReDigi’s argument.¹³

¹³ ReDigi also draws our attention to the Ninth Circuit’s decision in *Recording Industry Association of America v. Diamond Multimedia Systems, Inc.*, 180 F.3d 1072 (9th Cir. 1999). In *Diamond*, the Ninth Circuit held that “a hard drive is excluded from the definition of digital music recordings” under the Audio Home Recording Act (“AHRA”) because § 1001(5)(B) expressly provides that a “digital music recording” does *not* include material objects “in which one or more computer programs are fixed,” and “a hard drive is a material object in which one or more [computer] programs are fixed.” *Id.* at

1 Finally, ReDigi argues that the district court’s conclusion makes no
2 sense because it would “require a customer to sell her [valuable] computer in
3 order to be able to sell a[n] . . . iTunes music file” that was lawfully purchased
4 for under \$1.00. Appellants Br. 28. Of course it would make no economic
5 sense for a customer to sell her computer or even a \$5.00 thumb drive in order
6 to sell “a[n] . . . iTunes music file” purchased for \$1.00. But ReDigi far
7 overstates its economic argument when it asserts that the “district court’s
8 ruling . . . eliminat[es] any meaningful competition from resellers” as “no
9 secondary market . . . can ever develop if consumers are required to give
10 away their computer hard disks as part of any resale.” Appellants Br. 35. A
11 secondary market can readily be imagined for first purchasers who cost-
12 effectively place 50 or 100 (or more) songs on an inexpensive device such as a
13 thumb drive and sell it. *See* U.S. Copyright Office, Library of Cong., Digital
14 Millennium Copyright Act § 104 Report 78 (2001) (“DMCA Report 2001”)
15 (“Physical copies of works in a digital format, such as CDs or DVDs, are
16 subject to section 109 in the same way as physical copies of works in analog

1076. Even if we were to accept the Ninth Circuit’s construction of the term “digital music recording” under the AHRA, that would not alter the meaning of the term “phonorecord” under § 101 of the Copyright Act. *See id.* at 1077 n.4.

1 form.”); 4 Patry on Copyright § 13:23 (observing that § 109 permits the sale of
2 an iPod that contains lawfully made digital music files). Furthermore, other
3 technology may exist or be developed that could lawfully effectuate a digital
4 first sale.

5 We conclude that the operation of ReDigi version 1.0 in effectuating a
6 resale results in the making of at least one unauthorized reproduction.

7 Unauthorized reproduction is not protected by § 109(a). It violates the rights
8 holder’s exclusive reproduction rights under § 106(1) unless excused as fair
9 use. For reasons explained below, we conclude that the making of such
10 reproductions is not a fair use.

11 Our conclusion is supported by the fact that the Copyright Office also
12 concluded that the resale of digital files is infringing. In 1998, Congress
13 mandated that the Register of Copyrights evaluate “the relationship between
14 existing and emergent technology and the operation of section[] 109”
15 Digital Millennium Copyright Act, Pub. L. No. 105-304, 112 Stat. 2860, 2876
16 (1998). The Copyright Office conducted a multi-year evaluation, including
17 review of comments and testimony from the public, academia, libraries,
18 copyright organizations and copyright owners. DMCA Report 2001 at vi. The

1 Register concluded that § 109 does not apply to otherwise unauthorized
2 digital transmissions of a copyrighted work, reasoning that such
3 transmissions cause the recipient to obtain a new copy of the work. *Id.* at 79-
4 80. The Register reasoned that the creation of a new copy of the work would
5 constitute an unauthorized reproduction falling outside the authorization of
6 § 109(a). *Id.*; see also 2 Nimmer on Copyright § 8.13[A] (describing the
7 Register’s “recommend[ation] against amending the Copyright Act to
8 facilitate a digital *first sale*”).

9 ReDigi argues that the Register’s 2001 report is obsolete because it
10 presumed that the only way to transfer digital files over the Internet was by
11 the traditional “copy and delete” method, whereas new technologies either
12 have been or might be developed that transfer digital files over the Internet
13 using a non-infringing method. Plaintiffs counter that, in 2016, the Register
14 again asserted that “a digital file transfer creates a new copy or phonorecord
15 on the transferee’s computer” and thus does not qualify for first sale
16 protection. U.S. Copyright Office, Library of Cong., *The Making Available*
17 *Right in the United States* 22, n.94 (2016) (quoting the district court’s decision
18 in this action with approval). We need not pronounce upon the ongoing

1 relevance of the Register’s 2001 report, or decide whether *all* digital file
2 transmissions over the Internet make reproductions, to determine that
3 ReDigi’s system version 1.0 does so.¹⁴

4

5 II. Fair Use

6 ReDigi argues that, regardless of whether what it does is protected by
7 § 109(a), its actions are protected under the doctrine of fair use. We evaluate
8 ReDigi’s claim in accordance with the fair use statute. Section 107 of the
9 Copyright Act provides:

10 [T]he fair use of a copyrighted work . . . for purposes such as
11 criticism, comment, news reporting, teaching (including multiple
12 copies for classroom use), scholarship, or research, is not an
13 infringement of copyright. In determining whether the use made
14 of a work in any particular case is a fair use the factors to be
15 considered shall include—

16

17 (1) the purpose and character of the use, including whether such
18 use is of a commercial nature or is for nonprofit educational
19 purposes;

20

21 (2) the nature of the copyrighted work;

22

23 (3) the amount and substantiality of the portion used in relation to
24 the copyrighted work as a whole; and

¹⁴ Having rejected ReDigi’s arguments for the reasons explained above, we have no need to consider whether an electronic digital music file, independent of any physical storage device in which the file is fixed, can qualify as a phonorecord in view of § 101’s definition of phonorecords as “material objects.” 17 U.S.C. §101.

1
2 (4) the effect of the use upon the potential market for or value of
3 the copyrighted work.

4
5 The fact that a work is unpublished shall not itself bar a finding of
6 fair use if such finding is made upon consideration of all the above
7 factors.

8
9 17 U.S.C. § 107.

10
11 ReDigi's argument for fair use in its opening brief did not address the
12 statutory factors. Nonetheless, we consider each in turn.

13 A. *Factor One*

14 Factor One considers "the purpose and character of the use, including
15 whether such use is of a commercial nature or is for nonprofit educational
16 purposes." § 107(1). The Supreme Court has observed that this factor favors
17 secondary uses that are transformative, meaning that the use "adds
18 something new, with a further purpose or different character, altering the first
19 with new expression, meaning, or message[,]" rather than merely
20 superseding the original work. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569,
21 579 (1994). Uses that criticize, comment on, provide information about, or
22 provide new uses for the copyrighted work are those likely to be deemed
23 transformative. *See, e.g., Campbell*, 510 U.S. at 580-81 ("Parody needs to mimic

1 an original to make its point, and so has some claim to use the creation of its
2 victim's . . . imagination, whereas satire can stand on its own two feet and so
3 requires justification for the very act of borrowing." (internal citations and
4 footnote omitted). Similarly, a secondary use may be transformative if it
5 provides information about the original, "or expands its utility." *Authors*
6 *Guild v. Google, Inc.*, 804 F.3d 202, 214 (2d Cir. 2015) ("Google Books").
7 Examples of such utility-expanding transformative fair uses have included
8 scanning books to create a full-text searchable database and public search
9 function (in a manner that did not allow users to read the texts), *Authors*
10 *Guild, Inc. v. HathiTrust*, 755 F.3d 87, 97-98 (2d Cir. 2014); copying works into a
11 database used to detect plagiarism, *A.V. ex rel. Vanderhuy v. iParadigms,*
12 *LLC*, 562 F.3d 630, 639 (4th Cir. 2009); displaying tiny, low-resolution
13 "thumbnail" reproductions of art works to provide links serving as Internet
14 pathways to the appropriate websites containing the originals, *Perfect 10, Inc.*
15 *v. Amazon.com, Inc.*, 508 F.3d 1146, 1165 (9th Cir. 2007); *Kelly v. Arriba Soft*
16 *Corp.*, 336 F.3d 811, 818-19 (9th Cir. 2003), and copying by one who has
17 acquired the right to view the content of a telecast to enable a single, non-
18 commercial home viewing at a more convenient time, *Sony Corp. of Am. v.*

1 *Universal City Studios, Inc.*, 464 U.S. 417, 421, 448-55 (1984). In *Sony*, the
2 “apparent reasoning was that a secondary use may be a fair use if it utilizes
3 technology to achieve the transformative purpose of improving the efficiency
4 of delivering content without unreasonably encroaching on the commercial
5 entitlements of the rights holder” because the improved delivery was to one
6 entitled to receive the content. *Fox News Network, LLC v. TVEyes, Inc.*, 883 F.3d
7 169, 177 (2d Cir. 2018).

8 ReDigi makes no change in the copyrighted work. It provides neither
9 criticism, commentary, nor information about it. Nor does it deliver the
10 content in more convenient and usable form to one who has acquired an
11 entitlement to receive the content. What ReDigi does is essentially to provide
12 a market for the resale of digital music files, which resales compete with sales
13 of the same recorded music by the rights holder. These characteristics of
14 ReDigi’s use favor Plaintiffs under Factor One.

15 In addition, while the mere fact of a commercial motivation rarely
16 pushes the first factor determination against fair use (as so many of the
17 canonical fair uses, such as book reviews; quotation of prominent figures in
18 news reports, news commentary, and history books; the performance of

1 parodic plays; and the sale of parodic books, are all commercial, *see Google*
2 *Books*, 804 F.3d at 219), in some circumstances a commercial motive will weigh
3 against a finding of fair use under Factor One. As noted in *Campbell*, the less a
4 use provides transformative value, the more its commercialism will weigh
5 against a finding of fair use. *See* 510 U.S. at 579. Here, ReDigi hosts a
6 remunerative marketplace that enables resale by purchasers of digital music
7 files, which is a commercial purpose. Especially in view of the total absence
8 (or at least very low degree) of transformative purpose, the commercial
9 motivation here argues against ReDigi with respect to Factor One.

10 *B. Factor Two*

11 The second fair use factor concerns “the nature of the copyrighted
12 work.” 17 U.S.C. § 107(2). Except to the extent that the nature of the
13 copyrighted work is necessarily considered alongside the character and
14 purpose of the secondary use in deciding whether the secondary use has a
15 transformative purpose, it rarely, by itself, furnishes any substantial
16 reasoning for favoring or disfavoring fair use. *See Google Books*, 804 F.3d at
17 220. This case is no exception.

18

1 C. *Factor Three*

2 The third factor considers “the amount and substantiality of the portion
3 [of the original] used in relation to the copyrighted work as a whole.” 17
4 U.S.C. § 107(3). ReDigi’s system makes identical copies of the whole of
5 Plaintiffs’ copyrighted sound recordings. Although use of the entirety of a
6 digital file is not necessarily inconsistent with a finding of fair use, *see Google*
7 *Books*, 804 F.3d at 221-22; *HathiTrust*, 755 F.3d at 98; *iParadigms*, 562 F.3d at
8 642; *Perfect 10*, 508 F.3d at 1165; *Arriba Soft*, 336 F.3d at 818-19, it tends to
9 disfavor a finding of fair use.

10 D. *Factor Four*

11 The fourth statutory factor is “the effect of the [copying] use upon the
12 potential market for or value of the copyrighted work.” § 107(4). When a
13 secondary use competes in the rightsholder’s market as an effective substitute
14 for the original, it impedes the purpose of copyright to incentivize new
15 creative works by enabling their creators to profit from them. For this reason,
16 the Supreme Court in *Harper & Row Publishers, Inc. v. Nation Enterprises*
17 described the fourth factor as “undoubtedly the single most important
18 element of fair use.” 471 U.S. 539, 566 (1985) (relying on the *Nimmer*

1 treatise).¹⁵ Factor Four “focuses on whether the copy brings to the
2 marketplace a competing substitute for the original, or its derivative, so as to
3 deprive the rights holder of significant revenues because of the likelihood that
4 potential purchasers may opt to acquire the copy in preference to the
5 original.” *TVEyes*, 883 F.3d at 179 (quoting *Google Books*, 804 F.3d at 223).
6 Factor Four is necessarily intertwined with Factor One; the more the objective
7 of secondary use differs from that of the original, the less likely it will
8 supplant the commercial market for the original. *See Google Books*, 804 F.3d at
9 223.

10 As Plaintiffs argue, ReDigi made reproductions of Plaintiffs’ works for
11 the purpose of resale in competition with the Plaintiffs’ market for the sale of
12 their sound recordings.¹⁶ ReDigi’s replicas were sold to the same consumers
13 whose objective in purchasing was to acquire Plaintiffs’ music. It is also of
14 possible relevance that there is a distinction between ReDigi’s resales and

¹⁵ *Harper & Row* cited 3 Nimmer § 13.05[A]. *See* 4 Nimmer § 13:05[A] (“The fourth factor . . . emerges as the most important, and indeed, central fair use factor.”). To be clear, a secondary use may seriously harm the value of the copyright for the quoted material and yet be a clear case of fair use, such as where a critic pans a new book, quoting passages to show its absurdity. *See* Pierre N. Leval, *Fair Use Rescued*, 44 UCLA L. REV. 1449, 1459 (1997). In such circumstances, a secondary use’s infliction of harm on the value of the copyright does not enlist the fourth factor against the copying use, as it would where the copying work offers a substitute for the original.

¹⁶ To the extent a reproduction was made solely for cloud storage of the user’s music on *ReDigi’s* server, and not to facilitate resale, the reproduction would likely be fair use just as the copying at issue in *Sony* was fair use.

1 resales of physical books and records. The digital files resold by ReDigi,
2 although used, do not deteriorate the way printed books and physical records
3 deteriorate. As the district court observed, the principal difference between
4 the “product sold in ReDigi’s secondary market” and that sold by Plaintiffs or
5 their licensees in the primary market was its lower price. *Capitol Records, LLC*
6 *v. ReDigi Inc.*, 934 F. Supp. 2d 640, 654 (S.D.N.Y. 2013).

7 Factor Four weighs powerfully against fair use.

8 *E. Factors Weighed Together Four*

9 The Supreme Court has instructed that, to ascertain whether there is
10 fair use, all four of the statutory factors must be weighed together. *Campbell*,
11 510 U.S. at 577-78. Our consideration is informed by our recent holding in
12 *TVEyes*, 883 F.3d at 175. TVEyes copied all televised video programming
13 throughout the nation, together with its accompanying closed-captioned text,
14 into a database. It offered a commercial subscription service through which
15 business and professional clients could search the transcripts, receive a list of
16 video segments that mentioned the searched terms, and then view up to ten
17 minutes of each video segment. *Id.* Fox News Network, a producer of
18 televised content, sued, claiming that TVEyes’s distribution of Fox’s

1 programming to TVEyes’s subscribers infringed Fox’s copyright. *Id.* We
2 found that TVEyes’s secondary use deployed modestly transformative
3 technology (akin to the time shifting technology of *Sony*) in that “it enable[d]
4 nearly instant access to a subset of material—and to information about the
5 material—that would otherwise be irretrievable, or else retrievable only
6 through prohibitively inconvenient or inefficient means.” *Id.* at 177. As in
7 *Sony*, it enabled its customers to view “programming they want at a time and
8 place that is convenient to them, rather than at the time and place of
9 broadcast.” *Id.* at 177-78. Nonetheless, we held that TVEyes’s use was not a
10 fair use because it substantially competed with the rights holders’ legitimate
11 market. *Id.* at 180. By providing Fox’s copyrighted programming to its clients
12 “without payment to [the rights holder], TVEyes . . . usurped a market that
13 properly belong[ed] to the copyright-holder.” *Id.* (internal quotation marks
14 and alteration omitted).

15 *TVEyes* is a substantial precedent for our holding here. The
16 transformative purpose and character of TVEyes’s use, while modest, was far
17 more transformative than what ReDigi has shown here. TVEyes’s
18 transformative uses were nonetheless easily outweighed by the harm to the

1 rights holders' market considered under Factor Four. *Id.* at 181. Even if ReDigi
2 is credited with some faint showing of a transformative purpose, that purpose
3 is overwhelmed by the substantial harm ReDigi inflicts on the value of
4 Plaintiffs' copyrights through its direct competition in the rights holders'
5 legitimate market, offering consumers a substitute for purchasing from the
6 rights holders. We find no fair use justification.

7 * * *

8 We conclude by addressing policy-based arguments raised by ReDigi
9 and its amici. They contend that ReDigi's version 1.0 ought to be validated as
10 in compliance with § 109(a) because it allows for realization of an
11 economically beneficial practice, originally authorized by the courts in the
12 common law development of copyright, *see Bobbs-Merrill Co. v. Straus*, 210
13 U.S. 339 (1908), and later endorsed by Congress. They also contend that the
14 Copyright Act must be read to vindicate purchasers' ability to alienate digital
15 copyrighted works under the first sale doctrine—emphasizing that § 109(a) is
16 styled as an entitlement rather than a defense to infringement—without
17 regard to technological medium. *See Copyright Law Professors Br. 4, 12, 14;*
18 *see also Appellants Br. 38-41.* On this score, they rely heavily on the breadth of

1 the common law first sale doctrine, and on a purported imperative, described
2 as the “principle of technological neutrality” by amici and the “equal
3 treatment principle” by ReDigi, not to disadvantage purchasers of digital
4 copyrighted works, as compared with purchasers of physical copyrighted
5 works. *See* Copyright Law Professors Br. 14; Appellants Br. 36-42.

6 As for whether the economic consequences of ReDigi’s program are
7 beneficial and further the objectives of copyright, we take no position. Courts
8 are poorly equipped to assess the inevitably multifarious economic
9 consequences that would result from such changes of law. So far as we can
10 see, the establishment of ReDigi’s resale marketplace would benefit some,
11 especially purchasers of digital music, at the expense of others, especially
12 rightsholders, who, in the sale of their merchandise, would have to compete
13 with resellers of the same merchandise in digital form, which, although
14 second hand, would, unlike second hand books and records, be as good as
15 new.

16 Furthermore, as to the argument that we should read § 109(a) to
17 accommodate digital resales because the first sale doctrine protects a
18 fundamental entitlement, without regard to the terms of § 109(a) (and

1 incorporated definitions), we think such a ruling would exceed the proper
2 exercise of the court’s authority. The copyright statute is a patchwork,
3 sometimes varying from clause to clause, as between provisions for which
4 Congress has taken control, dictating both policy and the details of its
5 execution, and provisions in which Congress approximately summarized
6 common law developments, implicitly leaving further such development to
7 the courts. The paradigm of the latter category is § 107 on fair use. *See*
8 *Campbell*, 510 U.S. at 577 (“Congress meant § 107 ‘to restate the present
9 judicial doctrine of fair use, not to change, narrow, or enlarge it in any way’
10 and intended that courts continue the common-law tradition of fair use
11 adjudication.” (quoting H.R. Rep. No. 94–1476, 66 (1976)); *see also Google Books*,
12 804 F.3d at 213 (“[I]n passing the statute, Congress had no intention of
13 normatively dictating fair use policy.”). In the provisions here relevant,
14 Congress dictated the terms of the statutory entitlements. Notwithstanding
15 the purported breadth of the first sale doctrine as originally articulated by the
16 courts, *see Bobbs-Merrill Co.*, 210 U.S. at 350 (“[T]he copyright statutes, while
17 protecting the owner of the copyright in his right to multiply and sell his
18 production, do not create the right to impose . . . a limitation at which the

1 book shall be sold at retail by future purchasers"); *Bureau of Nat'l*
2 *Literature v. Sells*, 211 F. 379, 381-82 (W.D. Wash. 1914) (finding no
3 infringement, in light of first sale doctrine, where reseller re-bound used
4 books and held them out as new books), Congress, in promulgating § 109(a),
5 adopted a narrower conception, which negates a claim of unauthorized
6 *distribution* in violation of the author's exclusive right under § 106(3), but not
7 a claim of unauthorized *reproduction* in violation of the exclusive right
8 provided by § 106(1). If ReDigi and its champions have persuasive arguments
9 in support of the change of law they advocate, it is Congress they should
10 persuade. We reject the invitation to substitute our judgment for that of
11 Congress.

12 CONCLUSION

13 We have considered ReDigi's remaining arguments against the district
14 court's ruling and find them to be without merit. The judgment of the district
15 court is AFFIRMED.