

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

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No. 12 Civ. 95 (RJS)

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CAPITOL RECORDS, LLC,

Plaintiff,

VERSUS

REDIGI INC.,

Defendant.

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MEMORANDUM AND ORDER  
March 30, 2013

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RICHARD J. SULLIVAN, District Judge:

Capitol Records, LLC (“Capitol”), the recording label for such classic vinyls as Frank Sinatra’s “Come Fly With Me” and The Beatles’ “Yellow Submarine,” brings this action against ReDigi Inc. (“ReDigi”), a twenty-first century technology company that touts itself as a “virtual” marketplace for “pre-owned” digital music. What has ensued in a fundamental clash over culture, policy, and copyright law, with Capitol alleging that ReDigi’s web-based service amounts to copyright infringement in violation of the Copyright Act of 1976 (the “Copyright Act”), 17 U.S.C. § 101, *et seq.* Now before the Court are Capitol’s motion for partial summary judgment and ReDigi’s motion for summary judgment, both filed pursuant to Federal Rule of Civil Procedure 56. Because this is a court of law and not a congressional subcommittee or technology

blog, the issues are narrow, technical, and purely legal. Thus, for the reasons that follow, Capitol’s motion is granted and ReDigi’s motion is denied.

#### I. BACKGROUND

##### A. Facts

ReDigi markets itself as “the world’s first and only online marketplace for digital used music.”<sup>1</sup> (Capitol 56.1 Stmt., Doc. No. 50

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<sup>1</sup> The facts are taken from the pleadings, the parties’ Local Civil Rule 56.1 Statements, the affidavits submitted in connection with the instant motions, and the exhibits attached thereto. The facts are undisputed unless otherwise noted. Where one party’s 56.1 Statement is cited, the other party does not dispute the fact asserted, has offered no

(“Cap. 56.1”), ¶ 6.) Launched on October 13, 2011, ReDigi’s website invites users to “sell their legally acquired digital music files, and buy used digital music from others at a fraction of the price currently available on iTunes.” (*Id.* ¶¶ 6, 9.) Thus, much like used record stores, ReDigi permits its users to recoup value on their unwanted music. Unlike used record stores, however, ReDigi’s sales take place entirely in the digital domain. (*See* ReDigi Reply 56.1 Stmt., Doc. No. 83 (“RD Rep. 56.1”), 4 ¶ 16.)

To sell music on ReDigi’s website, a user must first download ReDigi’s “Media Manager” to his computer. (ReDigi 56.1 Stmt., Doc. No. 56 (“RD 56.1”), ¶ 8.) Once installed, Media Manager analyzes the user’s computer to build a list of digital music files eligible for sale. (*Id.*) A file is eligible only if it was purchased on iTunes or from another ReDigi user; music downloaded from a CD or other file-sharing website is ineligible for sale. (*Id.*) After this validation process, Media Manager continually runs on the user’s computer and attached devices to ensure that the user has not retained music that has been sold or uploaded for sale. (*Id.* ¶ 10.) However, Media Manager cannot detect copies stored in other locations. (Cap. 56.1 ¶¶ 59-61, 63; *see* Capitol Reply 56.1 Stmt., Doc. No. 78 (“Cap. Rep. 56.1”), ¶ 10.) If a copy is detected, Media Manager prompts the user to delete the file. (Cap. 56.1 ¶ 64.) The file is not deleted automatically or involuntarily, though ReDigi’s policy is to suspend the accounts of users who refuse to comply. (*Id.*)

After the list is built, a user may upload any of his eligible files to ReDigi’s “Cloud Locker,” an ethereal moniker for what is, in fact, merely a remote server in Arizona. (RD 56.1 ¶¶ 9, 11; Cap. 56.1 ¶ 22.)

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admissible evidence to refute that fact, or merely objects to inferences drawn from that fact.

ReDigi’s upload process is a source of contention between the parties. (*See* RD 56.1 ¶¶ 14-23; Cap. Rep. 56.1 ¶¶ 14-23.) ReDigi asserts that the process involves “migrating” a user’s file, packet by packet – “analogous to a train” – from the user’s computer to the Cloud Locker so that data does not exist in two places at any one time.<sup>2</sup> (RD 56.1 ¶¶ 14, 36.) Capitol asserts that, semantics aside, ReDigi’s upload process “necessarily involves copying” a file from the user’s computer to the Cloud Locker. (Cap. Rep. 56.1 ¶ 14.) Regardless, at the end of the process, the digital music file is located in the Cloud Locker and not on the user’s computer. (RD 56.1 ¶ 21.) Moreover, Media Manager deletes any additional copies of the file on the user’s computer and connected devices. (*Id.* ¶ 38.)

Once uploaded, a digital music file undergoes a second analysis to verify eligibility. (Cap. 56.1 ¶¶ 31-32.) If ReDigi determines that the file has not been tampered with or offered for sale by another user, the file is stored in the Cloud Locker, and the user is given the option of simply storing and streaming the file for personal use or offering it for sale in ReDigi’s marketplace. (*Id.* ¶¶ 33-37.) If a user chooses to sell his digital music file, his access to the file is terminated and transferred to the new owner at the time of purchase. (*Id.* ¶ 49.) Thereafter, the new owner can store the file in the Cloud Locker, stream it, sell it, or download it to her computer and other devices. (*Id.* ¶ 50.) No money changes hands in these transactions. (RD Rep. 56.1 5 ¶ 18.) Instead, users buy music with credits they either purchased

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<sup>2</sup> A train was only one of many analogies used to describe ReDigi’s service. At oral argument, the device was likened to the Star Trek transporter – “Beam me up, Scotty” – and Willy Wonka’s teleportation device, Wonkavision. (Tr., dated Oct. 5, 2012 (“Tr.”), 10:2-12; 28:15-20.)

from ReDigi or acquired from other sales. (*Id.*) ReDigi credits, once acquired, cannot be exchanged for money. (*Id.*) Instead, they can only be used to purchase additional music. (*Id.*)

To encourage activity in its marketplace, ReDigi initially permitted users to preview thirty-second clips and view album cover art of songs posted for sale pursuant to a licensing agreement with a third party. (*See* RD 56.1 ¶¶ 73-78.) However, shortly after its launch, ReDigi lost the licenses. (*Id.*) Accordingly, ReDigi now sends users to either YouTube or iTunes to listen to and view this promotional material. (*Id.* ¶¶ 77, 79.) ReDigi also offers its users a number of incentives. (Cap. 56.1 ¶ 39.) For instance, ReDigi gives twenty-cent credits to users who post files for sale and enters active sellers into contests for prizes. (*Id.* ¶¶ 39, 42.) ReDigi also encourages sales by advising new users via email that they can “[c]ash in” their music on the website, tracking and posting the titles of sought after songs on its website and in its newsletter, notifying users when they are low on credits and advising them to either purchase more credits or sell songs, and connecting users who are seeking unavailable songs with potential sellers. (*Id.* ¶¶ 39-48.)

Finally, ReDigi earns a fee for every transaction. (*Id.* ¶ 54.) ReDigi’s website prices digital music files at fifty-nine to seventy-nine cents each. (*Id.* ¶ 55.) When users purchase a file, with credits, 20% of the sale price is allocated to the seller, 20% goes to an “escrow” fund for the artist, and 60% is retained by ReDigi.<sup>3</sup> (*Id.*)

<sup>3</sup> On June 11, 2012, ReDigi launched ReDigi 2.0, new software that, when installed on a user’s computer, purportedly directs the user’s new iTunes purchases to upload from iTunes directly to the Cloud Locker. (RD 56.1 ¶¶ 40-41.) Accordingly, while access may transfer from user to user upon resale, the file is never moved from its initial location

## B. Procedural History

Capitol, which owns a number of the recordings sold on ReDigi’s website, commenced this action by filing the Complaint on January 6, 2012. (*See* Complaint, dated Jan. 5, 2012, Doc. No. 1 (“Compl.”); Cap. 56.1 ¶¶ 68-73.) In its Complaint, Capitol alleges multiple violations of the Copyright Act, 17 U.S.C. § 101, *et seq.*, including direct copyright infringement, inducement of copyright infringement, contributory and vicarious copyright infringement, and common law copyright infringement. (Compl. ¶¶ 44-88.) Capitol seeks preliminary and permanent injunctions of ReDigi’s services, as well as damages, attorney’s fees and costs, interest, and any other appropriate relief. (*Id.* at 17-18.) On February 6, 2012, the Court denied Capitol’s motion for a preliminary injunction, finding that Capitol had failed to establish irreparable harm. (Doc. No. 26.)

On July 20, 2012, Capitol filed its motion for partial summary judgment on the claims that ReDigi directly and secondarily infringed Capitol’s reproduction and distribution rights. (Doc. No. 48.) ReDigi filed its cross-motion the same day, seeking summary judgment on all grounds of liability, including ReDigi’s alleged infringement of Capitol’s performance and display rights.<sup>4</sup> (Doc. No. 54.) Both parties

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in the Cloud Locker. (*Id.* ¶¶ 44-52.) However, because ReDigi 2.0 launched after Capitol filed the Complaint and mere days before the close of discovery, the Court will not consider it in this action. (*See* Tr. 19:2-20:3.)

<sup>4</sup> ReDigi’s arguments in this round of briefing differ markedly from those it asserted in opposition to Capitol’s motion for a preliminary injunction. (*See* ReDigi Opp’n to Prelim. Inj., dated Jan. 27, 2012, Doc. No. 14 (“ReDigi Opp’n to PI”).) For instance, ReDigi no longer asserts an “essential step defense,” nor does it argue that “copying” to the Cloud Locker for storage is protected by the fair use defense. (*Id.* at

responded on August 14, 2012 and replied on August 24, 2012. (Doc. Nos. 76, 79, 87, 90.) The Court heard oral argument on October 5, 2012.

## II. LEGAL STANDARD

Pursuant to Federal Rule of Civil Procedure 56(a), a court may not grant a motion for summary judgment unless “the movant shows that there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law.” Fed. R. Civ. P. 56(a); *see Celotex Corp. v. Catrett*, 477 U.S. 317, 322–23 (1986). The moving party bears the burden of showing that it is entitled to summary judgment. *See Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 256 (1986). The court “is not to weigh evidence but is instead required to view the evidence in the light most favorable to the party opposing summary judgment, to draw all reasonable inferences in favor of that party, and to eschew credibility assessments.” *Amnesty Am. v. Town of W. Hartford*, 361 F.3d 113, 122 (2d Cir. 2004) (internal quotation marks omitted); *accord Anderson*, 477 U.S. at 249. As such, “if there is any evidence in the record from any source from which a reasonable inference in the [nonmoving party’s] favor may be drawn, the moving party simply cannot obtain a summary judgment.” *Binder & Binder PC v. Barnhart*, 481 F.3d 141, 148 (2d Cir. 2007) (internal quotation marks omitted).

Inferences and burdens of proof on cross-motions for summary judgment are the same as those for a unilateral motion. *See Straube v. Fla. Union Free Sch. Dist.*, 801 F. Supp.

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9-14.) ReDigi has also abandoned its argument that the Digital Millennium Copyright Act, 17 U.S.C. § 512, bars Capitol’s claim. (*Id.* at 22.) As such, the Court will consider only those arguments made in the instant motions.

1164, 1174 (S.D.N.Y. 1992). “That is, each cross-movant must present sufficient evidence to satisfy its burden of proof on all material facts.” *U.S. Underwriters Ins. Co. v. Roka LLC*, No. 99 Civ. 10136 (AGS), 2000 WL 1473607, at \*3 (S.D.N.Y. Sept. 29, 2000); *see Barhold v. Rodriguez*, 863 F.2d 233, 236 (2d Cir. 1988).

## III. DISCUSSION

Section 106 of the Copyright Act grants “the owner of copyright under this title” certain “exclusive rights,” including the right “to reproduce the copyrighted work in copies or phonorecords,” “to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership,” and to publicly perform and display certain copyrighted works. 17 U.S.C. §§ 106(1), (3)-(5). However, these exclusive rights are limited by several subsequent sections of the statute. Pertinently, Section 109 sets forth the “first sale” doctrine, which provides that “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.” *Id.* § 109(a). The 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. The Court determines that it cannot.

### A. Infringement of Capitol’s Copyrights

To state a claim for copyright infringement, a plaintiff must establish that it owns a valid copyright in the work at issue and that the defendant violated one of the exclusive rights the plaintiff holds in the work. *Twin Peaks Prods., Inc. v. Publ’ns*

*Int'l, Ltd.*, 996 F.2d 1366, 1372 (2d Cir. 1993) (citing *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 361 (1991)). It is undisputed that Capitol owns copyrights in a number of the recordings sold on ReDigi's website. (See Cap. 56.1 ¶¶ 68-73; RD Rep. 56.1 18-19, ¶¶ 68-73; Decl. of Richard S. Mandel, dated July 19, 2012, Doc. No. 52 ("Mandel Decl."), ¶ 16, Ex. M; Decl. of Alasdair J. McMullan, dated July 19, 2012, Doc. No. 51 ("McMullan Decl."), ¶¶ 3-5, Ex. 1.) It is also undisputed that Capitol did not approve the reproduction or distribution of its copyrighted recordings on ReDigi's website. Thus, if digital music files are "reproduce[d]" and "distribute[d]" on ReDigi's website within the meaning of the Copyright Act, Capitol's copyrights have been infringed.

### 1. Reproduction Rights

Courts have consistently held that the unauthorized duplication of digital music files over the Internet infringes a copyright owner's exclusive right to reproduce. See, e.g., *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1014 (9th Cir. 2001). However, 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.

The Copyright Act provides that a copyright owner has the exclusive right "to reproduce the copyrighted work *in . . . phonorecords.*" 17 U. S. C. § 106(1) (emphasis added). Copyrighted works are defined to include, *inter alia*, "sound recordings," which are "works that result from the fixation of a series of musical, spoken, or other sounds." *Id.* § 101. Such works are distinguished from their material

embodiments. These include phonorecords, which are the "*material objects* in which sounds . . . are fixed by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device." *Id.* § 101 (emphasis added). Thus, the plain text of the Copyright Act makes clear that reproduction occurs when a copyrighted work is fixed in a new *material object*. See *Matthew Bender & Co., Inc. v. W. Pub. Co.*, 158 F.3d 693, 703 (2d Cir. 1998).

The legislative history of the Copyright Act bolsters this reading. The House Report on the Copyright Act distinguished between sound recordings and phonorecords, stating that "[t]he copyrightable work comprises the aggregation of sounds and not the tangible medium of fixation. Thus, 'sound recordings' as copyrightable subject matter are distinguished from 'phonorecords[,] the latter being physical objects in which sounds are fixed.'" H.R. Rep. No. 94-1476, at 56 (1976). Similarly, the House and Senate Reports on the Act both explained:

Read together with the relevant definitions in [S]ection 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."

*Id.* at 61; S. Rep. No. 94-473, at 58 (1975). Put differently, the reproduction right is the exclusive right to embody, and to prevent others from embodying, the copyrighted work (or sound recording) in a new material object (or phonorecord). See Nimmer on

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