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and the Internet

Hearing on: First Sale Under Title 17

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Extended Oral Statement

Chairman Coble, Ranking Member Nadler,

Thank you for the opportunity to testify today before your Subcommittee on an issue of significant importance to the American economy, culture and to approximately 200 million American consumers.

I am the founder and CEO of a company called ReDigi. Our company has been on the front lines of digital copyright and first sale doctrine, which this panel is addressing. For those of you who are not aware of it, ReDigi, largely an MIT based team, started its technological initiatives about 5 years ago and launched its service just over two years ago.

Our company has built an innovative mechanism that verifies digital ownership and authenticity of a users digital goods (kind of a CSI for digital data) we then built a technology enabled marketplace that allows users to transfer title of their lawfully acquired, pre-owned digital goods to a willing buyer or charity without making copies.

Since our launch, American consumers have responded to ReDigi enthusiastically and signed up for our platform. They do so because of a frustration that they feel – that we all feel – when we buy digital goods. When we buy a digital song from iTunes or an e-book from Amazon, we expect the same deal we've always been offered – to own the song or book until we're done with it and then to take advantage of the free market and resell it, donate it, or give it away. Yet these digital vendors don't offer us that deal anymore; there may be a "buy" or "rent" button but there is no "resell" or "donate" button.

ReDigi was invented to give consumers that choice and that option for digital goods and to ensure that the first sale doctrine lives on into the digital age. Every year, American consumers lose billions of dollars in resale value because digital media they lawfully purchased remains locked up in devices they own and they do not have a mechanism resell or donate the books or music they no longer want simply because the content is in digital form. That is wrong.

During the 106 years since the First Sale doctrine was approved by the U.S. Supreme Court in a case involving the resale of books, the combination of court rulings and law worked well for the first 70 years or so. Then the balance between consumers and copyright holders began to tilt away from consumers, slightly at first, then more drastically as digital material like software began to become more common. Consumers found they no longer could make use of the software they thought they owned -- they were told they could only leasing it, and often had no choice in doing so.

The same thing is happening now with digital books and music. Consumers are given the option to "buy" music, movies, and books on their computer screen the buy button looks the same for digital and physical items but in the largely illegible legalese (that no one reads) the rights of ownership are watered down or worse, dissolved all-together for e-books and digital downloads.

Studies show consumers believe that they own what they buy when downloading. Content producers are attempting to take away a fundamental consumer choice by styling what they call a long term lease/license into their less than forthright marketing strategies.

If the consumer wants a lease, and any benefits that might come with it, that's fine. But ownership has been and should always remain an option as well.

The First Sale doctrine is premised on a simple concept – you bought it, you own it – and it has never concerned itself with a specific format or technology, nor with the condition of the goods being resold. It establishes the commonsense principle that the creator deserves to be paid once, and then the owners, and subsequent owners, have the right to resell that good, to donate it or to give it away.

It is not an extreme position to advocate that "you bought it, you own it." It is a logical, conservative position that adheres to the long-standing principles of law. It applies in every other type of good; it should apply here as well.

ReDigi has made progress over the years, and is loved by consumers and creators alike but our service has had its challenges as well as litigation from rights holders. It is those issues, and the industry created lack of clarity that I would like to bring to your attention.

If a consumer legally buys something do they have the right to dispose of it, donate it, resell it? The answer has historically been a resounding yes. The status quo for consumers, creators and holders is yes, consumers have had the absolute right under title 17 to resell, donate or even destroy the copyright works that they have lawfully acquired. What then is at issue?

The ability to dispose of copyright goods has always been the consumers right and has always been transparent to the method of delivery of the copyright works, ie: paper, vinyl, tape, magnetic disk. Why now is the method of delivery which has nothing at all to do with the copyright and is wholly separate from copyright just as patents/inventions are separate from copyrights, why now is the method of delivery, being considered at issue with copyright law in such a way as if it is part of the copyright itself which, if fact, it is not?

As credible as it may sound by stating that technology has made it easier to pirate copyright works and therefore copyright exclusions need to be changed it is a “red-herring” a mere smokescreen, laws already exist to punish offenders and we have all seen and read about some of the cases to which I am referring, what is really being attempted is to exclude the digital method of delivery from title 17 which would directly diminish consumers rights and the ability to protect the works from removal or deletion by societies and or government’s. The exclusion of digital from Title 17 would be no different than the taking away of any property right from Americans simply because technology has changed and even improved our way of life.

But with digital the consumer can cheat the system? I believe the answer here is that copyright law already has many stringent enforcement components, as a matter of fact, copyright violations carry penalties often more stringent than criminal ones. So the argument that the ease of copying a digital file is a reason to take away the rights from law-abiding citizens is preposterous. Ease of access actually improves distribution and a sharing of artistic expression, it is the lack of value, the fact that if title 17 excludes digital that would cause greater issues with protection as consumers would feel cheated and why should they protect something that has no value. CD’s are digital and actually are less protected than downloads and they are not excluded from Title 17.

Those who object and claim that first sale for digital goods would maim the publishing industry because digital material doesn't deteriorate fail to take into account three simple truths. One: technology changes and eventually becomes obsolete. Has anyone listened to an eight-track tape or cassette lately? Or tried to run a software program from the 1990s for that matter?

In summary: secondary markets have always existed. They play an important part in our economy; some people just cannot afford to buy new, some people buy knowing that what they own has resale or donation value, should these people be alienated and neglected because of technological advancement? We think not.

Digital media is a multi-billion dollar a year industry, companies want a bigger piece of the pie, greater profits, less cost. The people want the ability to choose, the ability to own property/media, basically what they have always had, the people are not trying to change the rules or to make the playing field less level, the people are accustomed to the status quo of media ownership, resale, donation, gifting, etc. therefore on behalf of consumers everywhere we ask that you do all in your power to insure these ownership/property rights and copyrights and exclusions remain mutually protected.

It is historically apparent that the intent of the law is to have all Copyright goods protected regard of their delivery formats. First sale is not about the medium in which a work is held; it is about the exhaustion of the owner’s rights upon the collection of the first payment in consideration of a sale, or even a transfer of a particular copy without payment. Is a copyright good any more or less protected merely because it is on paper, rather than on tape or on plastic or on a magnetic disk, canvas or parchment? The answer is of course not.

The discussion is not, should first sale be “extended” to new forms or means of sale and distribution, but how do policymakers and lawmakers maintain the status quo for all parties? The group includes the creators the owners and the consumers in the marketplace, all of which must be served if the kind of balance and growth of the digital market envisioned by copyright law it to be achieved.

Benefits of the First Sale Doctrine

The benefits of the first sale doctrine make a direct and significant impact in our countries financial well-being. Billions of dollars in copyright goods are transacted by consumers each quarter, the First Sale Doctrine is what allows this secondary market to flourish and for consumers to be able to realize the value of their property and to buy and sell and then buy again. As commerce becomes more and more electronic the impact of First Sale on our countries fiscal growth will be critical. Any change in the status quo that would prevent or limit consumers from being able to realize the value of their property through

digital resale will be a significant and direct blow to our economy.

At present there are minimal benefits being realized; the few copyright monopolies that exist are doing a good job at swaying the legal system in an effort to control their revenue streams while stifling creativity and preventing the fair trade of digital goods in America. Currently, these organizations are resisting any attempt to allow consumers to realize the value of their digital property and at the same time they are controlling and suppressing the rights of the actual creators.

The potential for benefit, however, by including digital commerce, is enormous. The secondary market in physical objects, online and off, far exceeds the size of the market in new object transactions, and buying and selling goods is a way of life for most all Americans. Used Books, CDs LPs, video games, software, educational materials, artwork, and goods of almost every other kind are an important part of our everyday commerce. Hundred's of billions of dollars of used physical goods are transacted each year between buyers and sellers.

Attorney Seth Greenstein, writing in Fortune, regarding digital resale, said: "The economic implications of the first sale doctrine are enormous. According to Commerce Department figures, video rental in the United States is a \$9.5 billion industry. Video game retailer GameStop (GME) reported nearly \$2.4 billion in 2009 revenue from used game sales. Considering that, in just a few years, Apple (AAPL) has sold more than 10 billion music downloads, 3 billion apps, and 375 million television episodes, the future impact of the first sale doctrine could be huge."

That should be an indication of the demand. Companies like eBay, Amazon (and others like them) which also sell used things, and every used bookstore and clothing store, "previously owned" car lot, etc., in the country show there is a thriving secondary market economy.

The existence and sales of those stores, much less yard sales, which exist but probably can't be quantified, answers the last part. Everything else can be resold. Obviously, consumers are not reaping the benefits in the digital marketplace because of the perception that the law restricts the used market.

This begs the question, why are the benefits of the right of secondary sale, that are applicable to each and every other category of property in America, potentially being discriminated against and withheld from digital commerce? Where does the First Sale Doctrine exclude, prejudicially, digital goods?

By correcting and clarifying digital as part of Copyright law and the First Sale Doctrine the legitimate interests of the creator, the copyright owner, the purchaser, and the interest of society as a whole, a free and efficient digital marketplace will be realized and maximized. It is important to clarify that the first sale doctrine is independent of the medium of the copyright material and applies to all transactions properly considered to be sales, regardless of how they may be characterized by the seller.

The secondary market provides an outlet for copyright goods no longer used by their owner and provides value to that person and at the same time may make a copyright good available to someone who may not have been able to purchase the goods at the "new" price. A secondary market in digital will lessen the divide between the haves and the haves-less and will free up billions of dollars of currently locked up value on peoples personal computers and devices.

The opportunities for multiple use are severely limited

Amazon allows you to loan one book one time only, for 14 days. It must be read either on Kindle or on a device with the Kindle software. Amazon has a Kindle Owners Lending Library, with the following terms: The Kindle Owners' Lending Library is available to Amazon Prime members—paid Amazon Prime, paid Amazon Student, 30-day free trial, and customers receiving a free month of Prime benefits with a Kindle Fire device—who own a Kindle device. The Lending Library features over 350,000 titles, including many New York Times bestsellers. Books borrowed from the Lending Library have no due date and can be delivered to other Kindle devices registered to your Amazon account.

Books that are borrowed from the Kindle Owners' Lending Library can be read only on Kindle devices. There are some startups that want to get into the business, but none has made a splash. Scribd, the document service, has announced a plan to get into the business as well.

Apple does now allow lending and limited sharing is allowed within iTunes accounts.

As an additional point, there often seems to be an assumption that the first sale doctrine somehow implies a “fire sale” in “used goods”; this is also incorrect. Not everyone buys “used” because it is “less-than-full-price”. Often older classics or limited editions are worth substantially more than new versions; with today’s technology this type of collectability is also a reality.

It is ironic then that good companies like ReDigi who have made sure that legally obtained digital goods can be resold in a very controlled manner have been sued by monopolistic interests motivated by the same instincts that would close all used record stores, flea markets and similar outlets for the legitimate resale of used goods. The justice system needs guidance to prevent such injustices and the damage being caused to legitimate market interests.

The Future of a Digital Secondary Market

If the market does not currently provide such opportunities, will it do so in the near future? If not, are there alternative means to incorporate the benefits of the first sale doctrine in the digital marketplace? How would adoption of those alternatives impact the markets for copyrighted works?

Opportunities are extremely limited and complex today so, yes; let’s hope legal clarification will come from our lawmakers in the near future to clarify our laws and to help prevent manipulation, in an ever increasingly digital world. Digital is just another medium of delivery and it would appear that the Copyright Act would benefit from an explicit recognition of first sale principles in the digital context, especially given technology available today that facilitates compliance by users.

An update to de-emphasize the role of “reproduction” in a controlled transfer of a digital good, not unlike that forged by the European Court of Justice in its software decision, would go far to reinstate the legitimate balance between the copyright owner’s interest and that of the consumer that characterized the copyright world for all time before the emergence of digital commerce.

Such adoption/clarification of Digital First Sale, would greatly expand the markets for copyright works in all areas; purchase, resale, gifting, donation, etc. Ownership should be ownership and paper, plastic, disk or digital all should have the same rights and opportunities in the marketplace. To suggest alternatives is to divorce artificially the long-held right of alienation of property from the essential bundle of property rights recognized by centuries of common law, to the great detriment of both the creator and the consumer (even if it sometimes seems counterintuitive to copyright owners).

Certainly large companies recognize the potential for a digital secondary market, as Amazon and Apple have filed for patents (and Amazon has received one) for methods for a secondary market.

In its application for a patent for a secondary market for digital objects, Amazon said:

“As use of digital objects increases, users may wish to transfer the digital objects to other users. These transfers may include a sale, a rental, a gift, a loan, a trade, etc. ... A secondary market which allows users to effectively and permissibly transfer ‘used’ digital objects to others while maintaining scarcity is therefore desired.”

Apple has filed for a similar patent, also recognizing the potential benefits of such a system. However, it is unlikely that either will come to fruition unless the law is changed to back to the first principles of first sale.

A Brief History of First Sale

The concept of First Sale was established by the U.S. Supreme Court in *Bobbs-Merrill v Straus* in 1908, and codified the next year by Congress. At the time, the law read, “nothing in this Act shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained.”

The big change came in 1976 when the law was rewritten to center on the owner of the copy. Sec. 109 defines first sale, “...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.”

University of North Carolina Law Professor Anne Klinefelter, writing in *Information Outlook* in May, 2001, described what

came next: "When software entered the picture and was recognized as a proper subject for the copyright, copyright owners focused new energies on avoiding the first sale doctrine's limitations on their control over each copy sold.

In 1990 Congress passed the Software Rental Amendments Act in response to software publishers' concerns that sales of their products were diminished by the development of a secondary market that would rent the software to other users. This amendment narrowed first sale rights significantly by forbidding the renting or lending of computer programs, providing an exception only for nonprofit libraries serving a nonprofit need."

The test case came the next year, in *Step-Saver Data Sys., Inc. v. Wyse Tech.*, in the Third Circuit U.S. Court of Appeals. On the surface, the case dealt with box-top licensing of software, but the court also made an astute observation about the use of licenses: "When these form licenses were first developed for software, it was, in large part, to avoid the federal copyright law first sale doctrine."

The court wrote: "By characterizing the original transaction between the software producer and the software rental company as a license, rather than a sale, and by making the license personal and non-transferable, software producers hoped to avoid the reach of the first sale doctrine." 7

The result is the system of e-books and digital music that we have today. Where some sellers of digital music and e-books surreptitiously characterized their products as licensees, although few people had any idea that it was not a normal and typical purchase.

The European Court of Justice in the Oracle case said that copyright holders who "license" downloaded software without a time limit on use are deemed to "sell" it, leaving the purchaser free to re-sell it as long as the purchaser takes necessary steps to destroy any additional copies. In short, the Court recognized the applicability of the exhaustion principle to downloaded software, without erecting an insurmountable technological obstacle to the "reproduction" deemed to occur in the act of effecting the transfer. Rather, pay for a single instance, sell a single instance, pay for multiple instances, and sell multiple instances. European creators and consumers have welcomed this clarification of digital rights and significant increases in revenue are expected for all. The secondary market always has supported the primary market--market dynamics 101.

Because the "seller" controls the content, situations can arise as in 2009 in which Amazon deleted copies of George Orwell's "1984" on the Kindle devices of customers. After an outcry, Amazon said it wouldn't do such a thing again.

Yet, a similar case emerged in Europe in which a woman in Norway, where Amazon did not operate, purchased a Kindle in the U.K. When the device acted up, Amazon replaced it once. When the replacement developed a problem, she tried again and found her account, and all her books, had been wiped out for an unexplained violation of Amazon's policies.

Clearly, that could not have happened if she owned the books on the device. Instead, she was an unwilling lessee.

Clearly, as the companies try to amend the law with their own versions/agreements the secondary market including digital music or e-books is at risk. Reverting to the 1908 definitions would be one way to do it. Another would be to adapt first-sale requirements to meet the expectations of consumers. If a consumer wishes to lease, he may do so. If she wishes to buy, she may do so. It is technically possible to do those things easily enough, and to make certain the original copy is deleted if indeed there is a sale. But make sure that it is transparent to the consumer what they are actually getting and make sure that whatever it is complies with the law.

Such a protocol would have a positive affect at all on the markets for copyrighted works. As shown, the secondary market for video games is going strong, as is the original sale of games, which is actually supported by wealth created by the consumer's secondary sale. A healthy secondary market would develop just as it has in books or in physical music CDs.

Concerns that electronic content does not degrade over time, particularly when concerning e-books, are misplaced. The content may not degrade, but public tastes change. A book or song popular today will be an afterthought next year --except to the person looking for it or the person looking to sell it and nowhere in copyright law was condition contemplated.

Consideration of New Technologies

The fundamental issues in the Green Paper inquiry are what has changed since the Copyright Office's 2001 report and, as

importantly, what has not.

Yes, there are substantial changes in technological capabilities. However, the Copyright Office may have been under-reaching in 2001 by simply not clarifying that digital delivery of a copyright good carries all of the same protections and exclusions as a physical delivery method and cleaning up definitions like reproduction and phonorecord.

This would have helped prevent special interests from creating confusion regarding those terms and as to how they should be interpreted in the digital age.

And yes, technology has evolved significantly in the past 12 years in such a way that business and society are even more able to provide copyright protections to digital goods that are far superior to even those protections available for their non-digital counterparts. It is important to note that the fact remains; existing law provides ample remedies to discourage piracy without the need to erect artificial barriers to a legitimate secondary market where participants can innovate and implement systems to prevent copyright abuse.

Furthermore, systems now exist that allow digital files to be secured without device digital rights management (DRM) schemas and provide the transfer of single instances of those protected files, while rendering ancillary copies inoperable. Limited editions are a reality now. Forensic analysis for removal of pirated goods is a reality now, as well as, technologies that provide ongoing monitoring of resold items.

Instantaneous transactions, where copies are never made as part of a transaction between a buyer and seller, eliminated the need for old-fashioned “forward and delete” methods. The technology described is in use and exists today that has surpassed the forward and delete methods.

At the same time, the market place has clearly changed since the original report. Digital materials are now mainstream. Music and books in digital form have become the norm. In that sense, they deserve to be treated much as a book was in the original first sale case, *Bobbs-Merrill*.

Look at the trends over the years. When the 2001 report was issued, compact discs (CD) accounted for almost 94 percent of revenues in the music business. The cassette was in the final throes of its demise. Downloading of singles and albums wasn't even a blip on the charts, according to data compiled by the Recording Industry Association of America (RIAA). It wasn't until 2004 that downloading even appeared, and the downloading of singles accounted for 1.1 percent of revenue, and downloading of albums for 0.4 percent.

The International Federation of the Phonographic Industry (IFPI) in 2004 issued its first “Online Music Report.” One highlight was the 2003 emergence of iTunes, which sold 25 million downloads by mid-December of that year. Ten years later, customer have downloaded 25 billion songs worldwide. The IFPI reported there were between 400,000 and 500,000 tracks available to consumers. Now, consumers have a choice of 26 million – and that is from iTunes alone.

As a result of the growth in legal downloading sources, the technology by which consumers received music continued to evolve. Cassettes disappeared. In 2010, CDs for the first time accounted for less than half of industry revenue. In 2012, CDs accounted for 35.8 percent of revenue, while downloaded songs were 23 percent and downloaded albums were 17.1 percent. Streaming entered the picture in 2005, and now accounts for 8.1 percent of revenue.

The RIAA reported that U.S. revenue from digital formats passed the \$4 billion mark in 2012, accounting for about 60 percent “Industry revenues from digital formats continued to grow, and in 2012 surpassed \$4 billion for the first time, accounting for about 60 percent of the total market in the U.S. After having crossed the 50 percent mark the year before. Digital downloads of songs accounted for \$2.9 billion in revenue in 2012, while digital album downloads were just over \$1 billion, according to RIAA's publication “News and Notes on 2012 RIAA Music Industry Shipment and Revenue Statistics.”

The curve for e-books is even steeper. According to the Association of American Publishers, digital books accounted for .005% of publisher net revenue in 2002, the year after the Copyright Office report was issued.

By 2009, digital trade books were only 7 percent of the total. In 2012, after the introduction of many new tablets and e-readers, e-books accounted for 22.55 percent of net revenue. The trade books sector, which includes adult fiction and non-

fiction, young adult, children's and religious books, was worth \$7.1 billion last year.

Trends for e-book reading are accelerating, according to the Pew Research Center. In a June 25, 2013 report, 23 percent of Americans age 16 and over read an e-book in 2012, up from 16 percent in 2011. For readers age 16-17, the percentage doubled from 2011 to 2012, from 12 percent to 25 percent.

In the public's mind, their digital music and e-books are interchangeable with traditional phonorecords and printed books, and the copyright law should recognize that evolution and maintain that status quo.

At the same time as the consumer market and expectation have rapidly changed, certain technological realities and their accompanying statutes have not.

The Copyright Office was correct in 2001 to recognize that a change was needed to the definition in Sec. 101. The Office said: "We recommend that Congress enact legislation amending the Copyright Act to preclude any liability arising from the assertion of a copyright owner's reproduction right with respect to temporary buffer copies that are incidental to a licensed digital transmission of a public performance of a sound recording and any underlying musical work."

The recommendation was based on the completely sound observation that: "The economic value of licensed streaming is in the public performances of the musical work and the sound recording, both of which are paid for. The buffer copies have no independent economic significance." A buffer copy is created every time anything is downloaded. It exists for less than a second, yet this ephemeral collection of bits is holding up the creation and development of vast new markets for the resale of digital material that would benefit consumers and booksellers alike.

As an integral part of recommending a new first-sale doctrine, the Office should again make its recommendations regarding temporary buffer copies and a better definition of reproduction. This time, however, it should be in the context of the creation of a new digital age in which commerce is conducted and include the technology sector in drafting these updated notes solely for the copyright sector that is looking only to protect their self interest.

Also in 2001 the Copyright Office observed that a digital transmission creates a perfect copy of the work, which could both negatively affect the development of the digital marketplace and fuel piracy.

It has become quite obvious that any protection of copyright goods presumed to follow from the Copyright Office's recommended position proved to be wholly illusory; digital piracy in the past decade has been rampant with, for example, numbers of greater than 80% of digital music downloads being from pirated sources.

The failure of the Copyright Act and its amendments to protect creators in the digital age by providing a mechanism of "value" for the digital goods being distributed in secondary transactions has proved, perhaps counter-intuitively, extremely harmful to the creators (not necessarily the copyright owners who are most often different from the creators themselves).

Many file sharers have openly stated "Why should I buy it when as soon as I do, the file I purchase has zero economic value." Never before in the history of property in the United States has a group of powerful monopolies so controlled the legal rights of both creators and consumers. Today there is not a balance between the interests of copyright owners and consumers (a hallmark of every non-digital marketplace in copyrighted goods). Absent digital first sale there is no longer incentive for creators to create or buyers to protect their copyright goods in the current broken digital system.

A system where the few copyright mammoths are permitted to twist the *intent and interpretation of "reproduction" and the common law of exhaustion*—which is the earliest enunciations of the first sale doctrine—they do so simply in order to protect their personal copyright monopolies in the rapidly expanding digital marketplace. This needs to be corrected.

Section III. Title 17 allows digital first sale

There is no question that Title 17 even as written allows for first sale of digital goods. The underlined text proves that conclusively.

HIGHLIGHTED POINTS IN: 17 U.S. Code § 109 - Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord

(a) Notwithstanding the provisions of section 106 (3), 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. Notwithstanding the preceding sentence, copies or phonorecords of works subject to restored copyright under section 104A that are manufactured before the date of restoration of copyright or, with respect to reliance parties, before publication or service of notice under section 104A (e), may be sold or otherwise disposed of without the authorization of the owner of the restored copyright for purposes of direct or indirect commercial advantage only during the 12-month period beginning on—

(1) the date of the publication in the Federal Register of the notice of intent filed with the Copyright Office under section 104A (d)(2)(A), or

(2) the date of the receipt of actual notice served under section 104A (d)(2)(B),

whichever occurs first.

(b)

(1)

(A) Notwithstanding the provisions of subsection (a), unless authorized by the owners of copyright in the sound recording or the owner of copyright in a computer program (including any tape, disk, or other medium embodying such program), and in the case of a sound recording in the musical works embodied therein, neither the owner of a particular phonorecord nor any person in possession of a particular copy of a computer program (including any tape, disk, or other medium embodying such program), may, for the purposes of direct or indirect commercial advantage, dispose of, or authorize the disposal of, the possession of that phonorecord or computer program (including any tape, disk, or other medium embodying such program) by rental, lease, or lending, or by any other act or practice in the nature of rental, lease, or lending. Nothing in the preceding sentence shall apply to the rental, lease, or lending of a phonorecord for nonprofit purposes by a nonprofit library or nonprofit educational institution. The transfer of possession of a lawfully made copy of a computer program by a nonprofit educational institution to another nonprofit educational institution or to faculty, staff, and students does not constitute rental, lease, or lending for direct or indirect commercial purposes under this subsection.

(B) This subsection does not apply to—

(i) a computer program which is embodied in a machine or product and which cannot be copied during the ordinary operation or use of the machine or product; or

(ii) a computer program embodied in or used in conjunction with a limited purpose computer that is designed for playing video games and may be designed for other purposes.

(C) Nothing in this subsection affects any provision of chapter 9 of this title.

(2)

(A) Nothing in this subsection shall apply to the lending of a computer program for nonprofit purposes by a nonprofit library, if each copy of a computer program which is lent by such library has affixed to the packaging containing the program a warning of copyright in accordance with requirements that the Register of Copyrights shall prescribe by regulation.

(B) Not later than three years after the date of the enactment of the Computer Software Rental Amendments Act of 1990, and at such times thereafter as the Register of Copyrights considers appropriate, the Register of Copyrights, after consultation with representatives of copyright owners and librarians, shall submit to the Congress a report stating whether this paragraph has achieved its intended purpose of maintaining the integrity of the copyright system while providing nonprofit libraries the capability to fulfill their function. Such report shall advise the Congress as to any information or recommendations that the Register of Copyrights considers necessary to carry out the purposes of this subsection.

(3) Nothing in this subsection shall affect any provision of the antitrust laws. For purposes of the preceding sentence, “antitrust laws” has the meaning given that term in the first section of the Clayton Act and includes section 5 of the Federal Trade Commission Act to the extent that section relates to unfair methods of competition.

(4) Any person who distributes a phonorecord or a copy of a computer program (including any tape, disk, or other medium embodying such program) in violation of paragraph (1) is an infringer of copyright under section 501 of this title and is subject to the remedies set forth in sections 502, 503, 504, and 505. Such violation shall not be a criminal offense under section 506 or cause such person to be subject to the criminal penalties set forth in section 2319 of title 18.

(c) Notwithstanding the provisions of section 106 (5), the owner of a particular copy lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to display that copy publicly, either directly or by the projection of no more than one image at a time, to viewers present at the place where the copy is located.

(d) The privileges prescribed by subsections (a) and (c) do not, unless authorized by the copyright owner, extend to any person who has acquired possession of the copy or phonorecord from the copyright owner, by rental, lease, loan, or otherwise, without acquiring ownership of it.

(e) Notwithstanding the provisions of sections 106 (4) and 106 (5), in the case of an electronic audiovisual game intended for use in coin-operated equipment, the owner of a particular copy of such a game lawfully made under this title, is entitled, without the authority of the copyright owner of the game, to publicly perform or display that game in coin-operated equipment, except that this subsection shall not apply to any work of authorship embodied in the audiovisual game if the copyright owner of the electronic audiovisual game is not also the copyright owner of the work of authorship.

(Pub. L. 94–553, title I, § 101, Oct. 19, 1976, 90 Stat. 2548; Pub. L. 98–450, § 2, Oct. 4, 1984, 98 Stat. 1727; Pub. L. 100–617, § 2, Nov. 5, 1988, 102 Stat. 3194; Pub. L. 101–650, title VIII, §§ 802, 803, Dec. 1, 1990, 104 Stat. 5134, 5135; Pub. L. 103–465, title V, § 514(b), Dec. 8, 1994, 108 Stat. 4981; Pub. L. 105–80, § 12(a)(5), Nov. 13, 1997, 111 Stat. 1534; Pub. L. 110–403, title II, § 209(a)(1), Oct. 13, 2008, 122 Stat. 4264.)

Historical and Revision Notes

house report no. 94–1476

Effect on Further Disposition of Copy or Phonorecord. Section 109 (a) restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy or phonorecord of a work, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means. Under this principle, which has been established by the court decisions and section 27 of the present law [section 27 of former title 17], the copyright owner’s exclusive right of public distribution would have no effect upon anyone who owns “a particular copy or phonorecord lawfully made under this title” and who wishes to transfer it to someone else or to destroy it.

Thus, for example, the outright sale of an authorized copy of a book frees it from any copyright control over its resale price or other conditions of its future disposition. A library that has acquired ownership of a copy is entitled to lend it under any conditions it chooses to impose. This does not mean that conditions on future disposition of copies or phonorecords, imposed by a contract between their buyer and seller, would be unenforceable between the parties as a breach of contract, but it does mean that they could not be enforced by an action for infringement of copyright. Under section 202 however, the owner of the physical copy or phonorecord cannot reproduce or perform the copyrighted work publicly without the copyright owner’s consent.

To come within the scope of section 109 (a), a copy or phonorecord must have been “lawfully made under this title,” though not necessarily with the copyright owner’s authorization. For example, any resale of an illegally “pirated” phonorecord would be an infringement, but the disposition of a phonorecord legally made under the compulsory licensing provisions of section 115 would not.

Effect on Display of Copy. Subsection (b) of section 109 deals with the scope of the copyright owner’s exclusive right to control the public display of a particular “copy” of a work (including the original or prototype copy in which the work was first fixed). Assuming, for example, that a painter has sold the only copy of an original work of art without restrictions, would it be possible for him to restrain the new owner from displaying it publicly in galleries, shop windows, on a projector, or on television?

Section 109 (b) adopts the general principle that the lawful owner of a copy of a work should be able to put his copy on public display without the consent of the copyright owner. As in cases arising under section 109 (a), this does not mean that contractual restrictions on display between a buyer and seller would be unenforceable as a matter of contract law.

The exclusive right of public display granted by section 106 (5) would not apply where the owner of a copy wishes to show it directly to the public, as in a gallery or display case, or indirectly, as through an opaque projector. Where the copy itself is intended for projection, as in the case of a photographic slide, negative, or transparency, the public projection of a single image would be permitted as long as the viewers are “present at the place where the copy is located.”

On the other hand, section 109 (b) takes account of the potentialities of the new communications media, notably television, cable and optical transmission devices, and information storage and retrieval devices, for replacing printed copies with visual images. First of all, the public display of an image of a copyrighted work would not be exempted from copyright

control if the copy from which the image was derived were outside the presence of the viewers. In other words, the display of a visual image of a copyrighted work would be an infringement if the image were transmitted by any method (by closed or open circuit television, for example, or by a computer system) from one place to members of the public located elsewhere.

Moreover, the exemption would extend only to public displays that are made “either directly or by the projection of no more than one image at a time.” Thus, even where the copy and the viewers are located at the same place, the simultaneous projection of multiple images of the work would not be exempted. For example, where each person in a lecture hall is supplied with a separate viewing apparatus, the copyright owner’s permission would generally be required in order to project an image of a work on each individual screen at the same time.

The committee’s intention is to preserve the traditional privilege of the owner of a copy to display it directly, but to place reasonable restrictions on the ability to display it indirectly in such a way that the copyright owner’s market for reproduction and distribution of copies would be affected. Unless it constitutes a fair use under section 107, or unless one of the special provisions of section 110 or 111 is applicable, projection of more than one image at a time, or transmission of an image to the public over television or other communication channels, would be an infringement for the same reasons that reproduction in copies would be. The concept of “the place where the copy is located” is generally intended to refer to a situation in which the viewers are present in the same physical surroundings as the copy, even though they cannot see the copy directly.

Effect of Mere Possession of Copy or Phonorecord. Subsection (c) of section 109 qualifies the privileges specified in subsections (a) and (b) by making clear that they do not apply to someone who merely possesses a copy or phonorecord without having acquired ownership of it. Acquisition of an object embodying a copyrighted work by rental, lease, loan, or bailment carries with it no privilege to dispose of the copy under section 109(a) or to display it publicly under section 109(b). To cite a familiar example, a person who has rented a print of a motion picture from the copyright owner would have no right to rent it to someone else without the owner’s permission.

Burden of Proof in Infringement Actions. During the course of its deliberations on this section, the Committee’s attention was directed to a recent court decision holding that the plaintiff in an infringement action had the burden of establishing that the allegedly infringing copies in the defendant’s possession were not lawfully made or acquired under section 27 of the present law [section 27 of former title 17]. *American International Pictures, Inc. v. Foreman*, 400 F.Supp. 928 (S.D. Alabama 1975). The Committee believes that the court’s decision, if followed, would place a virtually impossible burden on copyright owners. The decision is also inconsistent with the established legal principle that the burden of proof should not be placed upon a litigant to establish facts particularly within the knowledge of his adversary. The defendant in such actions clearly has the particular knowledge of how possession of the particular copy was acquired, and should have the burden of providing this evidence to the court. It is the intent of the Committee, therefore, that in an action to determine whether a defendant is entitled to the privilege established by section 109(a) and (b), the burden of proving whether a particular copy was lawfully made or acquired should rest on the defendant.

References in Text

The date of the enactment of the Computer Software Rental Amendments Act of 1990, referred to in subsec. (b)(2)(B), is the date of enactment of Pub. L. 101–650, which was approved Dec. 1, 1990.

The first section of the Clayton Act, referred to in subsec. (b)(3), is classified to section 12 of Title 15, Commerce and Trade, and section 53 of Title 29, Labor. The term “antitrust laws” is defined in section 12 of Title 15.

Section 5 of the Federal Trade Commission Act, referred to in subsec. (b)(3), is classified to section 45 of Title 15.

Amendments

2008—Subsec. (b)(4). Pub. L. 110–403 substituted “and 505” for “505, and 509”.

1997—Subsec. (b)(2)(B). Pub. L. 105–80 substituted “Register of Copyrights considers appropriate” for “Register of Copyright considers appropriate”.

1994—Subsec. (a). Pub. L. 103–465 inserted at end “Notwithstanding the preceding sentence, copies or phonorecords of

works subject to restored copyright under section 104A that are manufactured before the date of restoration of copyright or, with respect to reliance parties, before publication or service of notice under section 104A (e), may be sold or otherwise disposed of without the authorization of the owner of the restored copyright for purposes of direct or indirect commercial advantage only during the 12-month period beginning on—

“(1) the date of the publication in the Federal Register of the notice of intent filed with the Copyright Office under section 104A (d)(2)(A), or

“(2) the date of the receipt of actual notice served under section 104A (d)(2)(B),

whichever occurs first.”

1990—Subsec. (b)(1). Pub. L. 101–650, § 802(2), added par. (1) and struck out former par. (1) which read as follows: “Notwithstanding the provisions of subsection (a), unless authorized by the owners of copyright in the sound recording and in the musical works embodied therein, the owner of a particular phonorecord may not, for purposes of direct or indirect commercial advantage, dispose of, or authorize the disposal of, the possession of that phonorecord by rental, lease, or lending, or by any other act or practice in the nature of rental, lease, or lending. Nothing in the preceding sentence shall apply to the rental, lease, or lending of a phonorecord for nonprofit purposes by a nonprofit library or nonprofit educational institution.”

Subsec. (b)(2), (3). Pub. L. 101–650, § 802(1), (2), added par. (2) and redesignated former pars. (2) and (3) as (3) and (4), respectively.

Subsec. (b)(4). Pub. L. 101–650, § 802(3), added par. (4) and struck out former par. (4) which read as follows: “Any person who distributes a phonorecord in violation of clause (1) is an infringer of copyright under section 501 of this title and is subject to the remedies set forth in sections 502, 503, 504, 505, and 509. Such violation shall not be a criminal offense under section 506 or cause such person to be subject to the criminal penalties set forth in section 2319 of title 18.”

Pub. L. 101–650, § 802(1), redesignated par. (3) as (4).

Subsec. (e). Pub. L. 101–650, § 803, added subsec. (e).

1988—Subsec. (d). Pub. L. 100–617 substituted “(a) and (c)” for “(a) and (b)” and “copyright” for “coyright”.

1984—Subsecs. (b) to (d). Pub. L. 98–450 added subsec. (b) and redesignated existing subsecs. (b) and (c) as (c) and (d), respectively.

Effective Date of 1990 Amendment

Pub. L. 101–650, title VIII, § 804, Dec. 1, 1990, 104 Stat. 5136, as amended by Pub. L. 103–465, title V, § 511, Dec. 8, 1994, 108 Stat. 4974, provided that:

“(a) In General.—Subject to subsection (b), this title [amending this section and enacting provisions set out as notes under sections 101 and 205 of this title] and the amendments made in section 802 [amending this section] shall take effect on the date of the enactment of this Act [Dec. 1, 1990]. The amendment made by section 803 [amending this section] shall take effect one year after such date of enactment.

“(b) Prospective Application.—Section 109 (b) of title 17, United States Code, as amended by section 802 of this Act, shall not affect the right of a person in possession of a particular copy of a computer program, who acquired such copy before the date of the enactment of this Act [Dec. 1, 1990], to dispose of the possession of that copy on or after such date of enactment in any manner permitted by section 109 of title 17, United States Code, as in effect on the day before such date of enactment.

“(c) Termination.—The amendments made by section 803 shall not apply to public performances or displays that occur on or after October 1, 1995.”

Effective Date of 1984 Amendment

Pub. L. 98–450, § 4, Oct. 4, 1984, 98 Stat. 1728, as amended by Pub. L. 100–617, § 1, Nov. 5, 1988, 102 Stat. 3194; Pub. L. 103–182, title III, § 332, Dec. 8, 1993, 107 Stat. 2114, provided that:

“(a) The amendments made by this Act [amending this section and section 115 of this title and enacting provisions set out as

a note under section 101 of this title] shall take effect on the date of the enactment of this Act [Oct. 4, 1984].

“(b) The provisions of section 109 (b) of title 17, United States Code, as added by section 2 of this Act, shall not affect the right of an owner of a particular phonorecord of a sound recording, who acquired such ownership before the date of the enactment of this Act [Oct. 4, 1984], to dispose of the possession of that particular phonorecord on or after such date of enactment in any manner permitted by section 109 of title 17, United States Code, as in effect on the day before the date of the enactment of this Act.”

[Amendment by Pub. L. 103–182 to section 4 of Pub. L. 98–450, set out above, effective on the date the North American Free Trade Agreement enters into force with respect to the United States [Jan. 1, 1994], see section 335 of Pub. L. 103–182, set out as an Effective Date of 1993 Amendment note under section 1052 of Title 15, Commerce and Trade.]

Evaluation of Impact of Copyright Law and Amendments on Electronic Commerce and Technological Development

Pub. L. 105–304, title I, § 104, Oct. 28, 1998, 112 Stat. 2876, provided that:

“(a) Evaluation by the Register of Copyrights and the Assistant Secretary for Communications and Information.—The Register of Copyrights and the Assistant Secretary for Communications and Information of the Department of Commerce shall jointly evaluate—

“(1) the effects of the amendments made by this title [enacting chapter 12 of this title and amending sections 101, 104, 104A, 411, and 507 of this title] and the development of electronic commerce and associated technology on the operation of sections 109 and 117 of title 17, United States Code; and

“(2) the relationship between existing and emergent technology and the operation of sections 109 and 117 of title 17, United States Code.

“(b) Report to Congress.—The Register of Copyrights and the Assistant Secretary for Communications and Information of the Department of Commerce shall, not later than 24 months after the date of the enactment of this Act [Oct. 28, 1998], submit to the Congress a joint report on the evaluation conducted under subsection (a), including any legislative recommendations the Register and the Assistant Secretary may have.”

The legal background and case analysis:

THE FIRST SALE DOCTRINE SHOULD PROTECT THE RESALE OF DIGITAL MUSIC AND OTHER DIGITAL GOODS

It is ReDigi’s position that the First Sale Doctrine should apply to digital music, books and other digital files in the same way that it applies to physical goods. Similarly the First Sale Doctrine should protect the provisioning of market place for the re-sale of lawfully purchased digital music and other lawfully purchased digital goods, in the same way that the First Sale Doctrine protects second hand book or CD or record stores.

I. FIRST SALE DOCTRINE APPLIES TO DIGITAL SOUND RECORDINGS

A “phonorecord” as defined in the Copyright Act includes digital music files and as such Section 109 should be applied to digital files in the same way it is applied to traditional physical phonorecords. Section 109 entitled “Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord” provides that notwithstanding the exclusive rights of copyright owners:

the owner of a particular copy or phonorecord¹ 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**

¹ Phonorecords are defined as “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.” (Emphasis Added). *Id.* at §101.

phonorecord. (Emphasis Added). See 17 U.S.C. §109(a).

There is no question that digital music files qualify under the definition of “phonorecord” in the Copyright Act. Other Courts have consistently premised findings on the fact that digital music files were “phonorecords” within the meaning of the Copyright Act. See e.g. *London-Sire Records, Inc. v. Doe I*, 542 F. Supp. 2d 153, 171 (D. Mass. 2008) (“any object in which a sound recording can be fixed is a ‘material object’ . . . that includes the electronic files.”).

As such to the extent, digital music is purchased from an authorized retailer, such as iTunes, in digital form, and becomes the legal owner of a particular copy and/or phonorecord in digital form that person is the owner of a phonorecord or particular copy lawfully made under the Copyright Act. Thus in accordance with the provisions of Section 109, that individual is entitled to sell or otherwise dispose of the possession of that phonorecord or that particular copy. See 17 U.S.C. § 109.

II. POTENTIAL INTERPRETATIONS OF THE COPYRIGHT ACT

On March 31, 2013, in the case *Capitol Records, LLC v. ReDigi Inc.*, 12 Civ. 95, which is currently pending in the United States District Court for the Southern District of New York, the Honorable Richard J. Sullivan, by his Memorandum and Decision on the parties cross motions for summary judgment, rejected ReDigi’s argument that its marketplace was protected by the First Sale Doctrine. Specifically, Judge Sullivan found that “[b]ecause the reproduction right is necessarily implicated when a copyrighted work is embodied in a new material object, and because digital music files must be embodied in a new material object following their transfer over the internet, the Court determines that the embodiment of a digital music file on a new hard disk is a reproduction within the meaning of the Copyright Act.” 3/31/13 Memorandum and Order at p. 6. The Court concluded that since “ReDigi’s service violates . . . [the] reproduction right, the first sale defense does not apply to ReDigi’s infringement of those rights.” With respect to the distribution right the Court held and that because by transferring a music file over the internet ReDigi necessarily ‘reproduces’ the phonorecord a music file migrated through ReDigi 1.0 and sold on ReDigi is not “lawfully made under this title”. 3/31/13 Memorandum and Order at p. 11. Judge Sullivan stated as follows:

[A] ReDigi user owns the phonorecord that was created when she purchased and downloaded a song from iTunes to her hard disk. But to sell that song on ReDigi, she must produce a new phonorecord on the ReDigi server. Because it is therefore impossible for the user to sell her “particular” phonorecord on ReDigi, the first sale statute cannot provide a defense. Put another way, the first sale defense is limited to material items, like records, that the copyright owner put into the stream of commerce. Here, ReDigi is not distributing such material items; rather, it is distributing *reproductions* of the copyrighted code embedded in new material objects, namely, the ReDigi server in Arizona and its users’ hard drives.

3/31/13 Memorandum and Order at p. 12. The Court held that “Section 109(a) still protects a lawful owner’s sale of her “particular” phonorecord, be it a computer hard disk, iPod, or other memory device onto which the file was originally downloaded.” 3/31/13 Memorandum and Order at p. 13.

As noted by the District Court, “[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.” Order at 4-5.

ReDigi respectfully disagrees with the District Court’s interpretation of the law, and plans to appeal the 3/31/13 Memorandum. However, in the event that other Courts make similar findings, it seems that the language of the Copyright Act needs to be revised to account for technological advancements and changes in the way utilize and dispose of legally purchased digital goods. Following the Court’s reasoning in *Capitol Records, LLC v. ReDigi, Inc.*, and each time a digital is fixed on a different particular segment of even a single hard-drive a “reproduction” is made. These processes occur naturally during de-fragmentation and automatic organization processes. Utilizing such a hyper technical interpretation of the exclusive right to “reproduce” in a world where we often move our digital property to and from various personal devices is absurd. Similarly utilizing these definitions to support the proposition that a consumers right to re-sell only allows them to sell the physical hard drive onto which the file was originally downloaded no longer effectuates the basic purpose of the First Sale Doctrine.

The law is not static. To the extent that the Copyright Act is being interpreted in ways that give substantially more control to copyright owners who distribute their works digitally, as opposed to physically, in an increasingly digital world, the law should be revised or clarified so that it continues to effectuate its basic purpose, while taking into account changing

technology and delivery methods.

III. THE REALE OF DIGITAL MUSIC THROUGH THE INTERNET PROMOTES THE GOALS OF COPYRIGHT LAW

Application of the first sale doctrine, as inclusive of the right to re-sell digital goods via the internet, is consistent with overall purposes of the Copyright Act. The Constitution gives Congress the power to “promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.” U.S. Const. Art. 1, §8, cl. 8. “The limited scope of the copyright holder’s statutory monopoly, like the limited copyright duration required by the Constitution, reflects a balance of competing claims upon the public interest.” *See Sony Corp. of Am.*, 464 U.S. at 432 (quoting *Fox Film Corp. v. Doyal*, 268 U.S. 123, 127 (1932)).

On one hand creative work should be encouraged and rewarded, but the motivations and incentives to create must ultimately serve the cause of promoting broad public availability of literature, music and other arts. *Id.* To this end although the immediate effect of copyright law is to secure a fair return for creative labor, the “ultimate aim, is by this incentive, to stimulate artistic creativity for the general public good.” *Id.* The primary object of conferring a limited monopoly lies in the “general benefits derived by the public from the labors of authors.” *Id.*

While authors are entitled to a fair return for their creative labor, their entitlement to the monopoly that provides that return is not unlimited. To the contrary, the exclusive rights granted to authors must be limited in order to achieve the greater goal, which is to enrich society as a whole. It is ReDigi’s position that ensuring that the First Sale Doctrine applies to the sale of digital goods over the internet will help promote both of these goals. Secondary markets for used goods increases access to works of art that have been put into the stream of commerce by the copyright owner, by allowing donation, re-sale and other disposal, of used works at a decreased price. In addition, ensuring that consumers have the same rights in their digital property as they do in their physical property, including that the work has value in resale, actually increases the perceived value of digital goods as whole. Overall this increases the economic benefit that authors can receive for the sale of their works, as it increases the likelihood that consumers will legally purchase works rather than pirate those same works. Alternatively, if consumers do not have the same rights to use and dispose of digital goods as they have in their physical goods, it creates the perception that those digital goods have less value and only re-enforces the attitude amongst some consumers that piracy is acceptable.

IV. ALLOWING THE FIRST SALE DOCTRINE TO APPLY TO DIGITAL GOODS SOLD OVER THE INTERNET PROMOTES GOOD POLICY

The importance of ownership rights and the limitations on the exclusive rights given to authors under the copyright act is at the very heart of the First Sale Doctrine. *See Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 351 (1908). In *Bobbs-Merrill* the court noted that the copyright owner sold copies of the book in quantities and at a price “satisfactory to it” and when it did so it exercised its right to vend. *Id.*

“To add to the right of exclusive sale the authority to control all future retail sales . . . would give a right not included in the terms of the statute, and, in our view, extend its operation, by construction, beyond its meaning, when interpreted with a view to ascertaining the legislative intent in its enactment.” *Id.*

“The whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution.” *Quality King Distribs v. L’anza Research Int’l, Inc.*, 523 U.S. 135, 152 (1998). This reflects the common law rule that “a general restraint upon alienation is ordinarily invalid.” *Dr. Miles Med. Co. v. John D. Park & Sons Co.*, 220 U.S. 373, 404-5 (1911).² Here basic policy considerations underlying the Copyright Act, dictate that the first sale doctrine is without doubt applicable to phonorecords in digital form. When copyright owners authorize retailers to sell copies of their copyrighted sound recordings in the quantities and at a prices that are satisfactory to them, they have exercised its right to distribution and received the benefit from the limited monopoly that they are entitled to.

As noted in the recent decision *Kirtsaeng v. John Wiley & Sons, Inc.*, like the common law refusal to permit restraints on the

² Overruled with respect to vertical agreements restraining trade by *Leegin Creative Leather Products, Inc. v. PSKS, Inc.*, 551 U.S. 877 (2007).

alienation of chattels, a “law that permits a copyright holder to control the resale or other disposition of a chattel once sold is similarly ‘against Trade and Traffi[c], and bargaining and contracting.’” 133 S. Ct. 1351, 1363 (2013). To the extent that Courts are interpreting the Copyright Act, to prohibit the resale and disposition of digital goods in any meaningful way, those laws must be revised so that they do not run afoul of the limitations on these exclusive rights or common law principles which refuse to permit undue restraints on the alienation of property.

Allowing copyright owners to control distribution of digital personal property in perpetuity, does not further the ultimate purpose of copyright law. Rather it stifles the disposition of digital goods by sale or gift. Like traditional physical mediums, authors who distribute their works digitally receive the benefit the limited monopoly that the copyright law provides when they are paid upon the first sale. Upon the completion of that transaction those authors have exercised their distribution right and their right to control distribution is exhausted. Allowing the law to restrict the disposition of lawfully purchased digital goods because the law fails to account for the technology that we now use to transmit those goods, would in effect give copyright owners an extension of their exclusive rights under the copyright act that is not contemplated.

In *Bobbs-Merill*, the Court noted that, the copyright statutes “while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose . . . a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract.” *Bobbs-Merill*, at 350-51. The reproduction right should not be implicated where a particular legally purchased copy of a work is merely transferred to a new location so long as more than one copy does not exist at the same time. The essence of duplication and/or reproduction is that more than one of a particular phonorecord or copy could exist at the same time.³ To the extent courts interpret the current copyright law to differently, the law should be revised so that the reproduction right is understood as the exclusive “right to multiply.” In this context for example, if a user legally acquires a digital music the reproduction right is only implicated if the user actually duplicates or makes additional copies. However, to the extent the legally purchased file is transferred from one place to another, so long as two copies i.e. one on the hard drive and one on the cloud, do not exist at the same time, no reproduction has taken place.

When the law was written, and “copy” and “phonorecord” were defined to include “material objects in which [sounds/a work]. . . [is/are] fixed by any method” it contemplated physical goods in which works are permanently fixed, such as records and books, to fix a work required a duplication or multiplication i.e. the making of a second copy of a work. However, with migration technology, like the technology used by ReDigi, that is no longer true. A legally purchased copy of a work can be moved without it ever being fixed in two places at the same time. It is illogical to conclude that Congress intended to prevent movement of a singularly purchased copyrighted good whether tangible or in-tangible, so long as it is not duplicated. In fact the congressional reports are indicative of this conclusion. The legislative history indicates that the reproductive right to produce a material object is concerned with preventing unauthorized duplication. *See* S. Rep. No. 94-473, 58 (1975) (“As under the present law, a copyrighted work would be infringed by reproducing it in whole or in any substantial part, and by **duplicating it** exactly or by imitation or simulation.” (Emphasis Added.)). There is no indication that the exclusive right to “reproduce” intended to limit the ability to transfer a purchased work to a new location, as ReDigi does.

Some Courts have come to this conclusion as well. *See also C.M. Paula Co. v. Logan*, 355 F. Supp. 189 (N.D. Tex. 1973) (“plaintiff has the burden of establishing there has been a copying – a ‘reproduction or duplication’ of a thing” (citing *White Smith Music Pub. Co. v. Appolo Co.*, 209 U.S. 1, 28 (1908))). In *C.M. Paula*, the defendant utilized a process of transferring printed designs from legally purchased greeting cards to other mediums. Essentially the defendant coated greeting cards that plaintiffs copyrighted designs were affixed to with resins and then through the use of chemicals lifted the original image from the greeting card and reapplied that same lifted image elsewhere. *Id.* at 190. The Court held that such a process was not a reproduction. *Id.* at 191. Each plaque sold by defendant required the purchase and use an individual piece of artwork sold by plaintiff. If defendant wanted to make 100 plaques using the identical print, defendant would be required to purchase 100 separate prints, and that process did not “constitute copying.” *Id.* The court rejected the notion that merely because the design was affixed to different mediums at different times, that it was “reproduced” or “copied” in violation of the Copyright Act. The design was transferred, but transfer of the work from one physical medium to another does not constitute a reproduction where no reproduction of the work was made.

If technology has made it possible to dispose of legally purchased digital goods without duplicating or multiplying the number of copies that exist, the exclusive right to “reproduce” is not offended and should not be a bar to the right to dispose

³ With reference to ReDigi’s migration to the Cloud Locker, and atomic transfer of ownership, there is never an instance when an Eligible File could exist in more than one place or be accessed by more than one user, and as such ReDigi maintains that no reproduction has occurred.

of a legally purchased copy of a work. Through ReDigi for 100 copies of *I Walk the Line*, by Johnny Cash to be available for sale, 100 different digital files of that song would have to have been legally purchased and offered for sale on ReDigi.

This proposition that sale of digital goods should be allowed, even if migration is ultimately found not to fit perfectly within the existing Copyright Act, is further supported by the common law principles of exhaustion, which provide far broader protection than the language of First Sale doctrine as codified in Section 109. See e.g. *Doan v. American Book Co.*, 105 F. 772 (7th Cir. 1901) (holding that the sale of a copy exhausts the exclusive right to vend, but that copy ownership also implies a right to renew or repair, even if repair entails altering or copying the underlying work such as replication of cover designs).

CONCERNS ABOUT CHANGE TO THE FIRST SALE DOCTRINE

As mentioned above, it is ReDigi's position that ensuring the legality of re-sale of legally purchased music and other digital goods over the internet will have the effect of reducing piracy by enhancing the perceived value of legal purchase options. The critics of change voice many of the same arguments over and over again. The first argument is that allowing resale of digital goods through the internet will result in more widespread piracy and will make it more difficult to identify infringers. Similar arguments have been rejected by Courts in international jurisdictions. By way of example in a recent decision by the European Court of Justice it was held that to enable a copyright holder to prevent further sales of a digital copy of a work would allow copyright holders to circumvent the rule of exhaustion and divest it of all scope. See *UsedSoft GmbH v. Oracle Int'l Corp.*, 128/11 E.C.J. at 47-49 (2012). That court further held that to avoid infringing the exclusive right to reproduction of a computer program that was being lawfully sold, all the seller had to do was make the copy downloaded to the computer unusable at the time of sale. *Id.* at 78. In response to the argument that this would make infringement more difficult to detect, the court noted that it would be no more difficult for the copyright holder to determine if the copy was made unusable, than it would be to determine if a person selling a CD-ROM had made a copy prior to sale. *Id.* at 79.

Critics further argue that to allow resale of digital music over the internet would violate the First Sale doctrine as it would allow to resell "unlawful copies". ReDigi disagrees. The first sale doctrine is meant to allow an owner of a *particular copy* lawfully made to dispose of it without any further permission from the copyright owner. If an individual legally purchases a digital music track from an authorized retailer that track is a particular copy that is lawfully made. If that same individual then wishes to re-sell that same track, the method of delivery should not render it an unlawful copy on a technicality. ReDigi's migration process does not *reproduce* the music file. The legally purchased particular copy is able to be migrated from the user's local hard drive to the Cloud without ever existing in two places at once. As such the resulting music file that is stored in the Cloud Locker is still the particular copy that was legally purchased. When that particular file is sold, all that is transferred is the Key to the particular segment of the Cloud Locker where it is stored, so that as soon as the track is sold, only the purchaser has access to the track. The law was written at a time when a transfer of a work from one place to another would necessarily result in two copies existing at the same time. Now that is no longer true.

Another criticism is that the ability of used digital copies to be able to compete for market share with new copies is far greater because they do not degrade and time, space and effort do not act as barriers to movement of the copies. As an initial matter, the doctrine of exhaustion upon which the first sale doctrine is founded, is concerned with the alienability of property and *limiting* on the copyright holder's ability to control further distribution. See *Quality King Distributors, Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 152 (1998) ("[t]he whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution."). These concerns seem irrelevant to this basic purpose.

Moreover, the criticisms are simply without merit. As an initial matter there are differences between used and new digital copies i.e. older digital music may be of lower and inferior file size, it may not contain album artwork, or other enhancements. Additionally, give the ease with which we can purchase physical copies of media via online secondary markets, time, space and effort no longer act as significant barriers to the movement of physical copies either.

Similarly, the criticism that viable technology is not available is no longer viable. In the report from Copyright Office from August 2001 "DMCA Section 104 Report," the Copyright office noted that one of the issues with expansion of the first sale doctrine was that unless a forward and delete technology was employed, transmission of a copy would require an affirmative act which would be very difficult to prove whether it had taken place, and moreover that there was no evidence that such technology was viable. DMCA Section 104 Report at 81-84 (unless a 'forward and delete' technology is employed an additional affirmative act by sender would be required which would make it difficult to prove or disprove whether the act of transfer had taken place and increases the risk of infringement). Although ReDigi is not a "forward and delete," technology, it has achieved this goal. The technology does exist. With ReDigi's recently patented software, an individual can transfer ownership of a legally purchased music file, without duplication. ReDigi's media manager software

not only verifies that the each file is legally purchased, but further requires removal of any additional archival or personal copies that the user may have kept on connected devices as part of the sale process.

There is no reason to treat a legally purchased digital property differently or in an inferior manner to legally purchased physical property. The content owners who seek to prevent the first sale doctrine from applying to digital goods sold over the internet, have no right to the unfettered control over the resale of copies of their work that they have put into the stream of commerce. The content owners receive the benefit of their exclusive rights at the time they are paid for the sale of each copy of their work that they authorize. The First Sale Doctrine should give effect to its purpose that after that sale, the rights of the author to control distribution, whether of digital goods over the internet, or physical goods in a brick and mortar store, are exhausted.