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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
WESTERN DIVISION

UMG RECORDINGS, INC.,
a Delaware corporation,

Plaintiff,

v.

TROY AUGUSTO d/b/a ROAST
BEAST MUSIC COLLECTABLES
AND ROASTBEASTMUSIC, an
individual; and DOES 1 through 10,
inclusive,

Defendants.

Case No. 2:07-cv-3106 SJO (AJWx)

**MEMORANDUM OF POINTS AND
AUTHORITIES IN SUPPORT OF
TROY AUGUSTO'S MOTION FOR
SUMMARY JUDGMENT**

Date: May 5, 2008
Time: 10:00 AM
Ctrm: 880 Roybal Federal Bldg.
Judge: Hon. S. James Otero

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I. INTRODUCTION

1
2 *Bill Weasley:* To a goblin, the rightful and true master of any object is
3 the maker, not the purchaser. All goblin-made objects are, in goblin
4 eyes, rightfully theirs.

5 *Harry Potter:* But if it was bought—

6
7 *Bill Weasley:* —then they would consider it rented by the one who
8 had paid the money. They have, however, great difficulty with the
9 idea of goblin-made objects passing from wizard to wizard. ... They
10 consider our habit of keeping goblin-made objects, passing them from
11 wizard to wizard without further payment, little more than theft.

12 —J.K. Rowling, HARRY POTTER AND THE DEATHLY HALLOWS 517
13 (2007).
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16 This case poses a simple question: does the secondhand sale of a music CD
17 bearing a “promotional use only” legend infringe copyright law? Like the goblins
18 in J.K. Rowling’s “Harry Potter” books, Plaintiff and Counter-Defendant UMG
19 Recordings, Inc. (“UMG”) maintains that the eternal owner of the object is the
20 maker, rather than the purchaser, at least where these “promo CDs” are concerned.
21 That view, however, is no more the law under the Copyright Act than it is in the
22 fictional world of Harry Potter.

23 UMG sued Defendant and Counter-Claimant Troy Augusto for copyright
24 infringement based on his efforts to resell on eBay “promo CDs” that he buys from
25 other eBay sellers and from stores in the Los Angeles area. Augusto
26 counterclaimed to stop UMG from making knowing misrepresentations to eBay
27 falsely claiming that Augusto’s sales are infringing. The facts showing why
28 Augusto was entitled to sell the CDs he bought are straightforward and undisputed:

1 UMG gave away the CDs at issue in order to promote the sales of its commercial
2 releases. The recipients of those CDs lawfully gave or sold them to secondhand
3 record sellers, from whom Augusto lawfully bought them. Under the Copyright
4 Act's first sale doctrine, 17 U.S.C. § 109, Augusto was entitled to resell the CDs he
5 bought.

6 Augusto hereby moves for summary judgment pursuant to Fed. R. Civ. P. 56
7 on both UMG's copyright claim and his own counterclaim.

8 II. STANDARD OF REVIEW

9 A court may grant summary judgment when the submissions in the record
10 "show that there is no genuine issue as to any material fact and that the moving
11 party is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(c). A "genuine
12 issue" of material fact means that there is sufficient evidence in favor of the non-
13 moving party to allow a jury to return a verdict in its favor. *Anderson v. Liberty*
14 *Lobby, Inc.*, 477 U.S. 242, 248 (1986). It is not enough for the non-moving party to
15 produce a mere "scintilla" of evidence. *Id.* at 252. Nor is it enough for the non-
16 moving party to show that there is some "metaphysical doubt as to the material
17 facts," provided that any inferences from the underlying facts are viewed in the
18 light most favorable to the non-moving party. *Matsushita Elec. Indus. v. Zenith*
19 *Radio*, 475 U.S. 574, 586-87 (1986). The burden is on the non-moving party to
20 designate specific facts showing a genuine issue for trial. *See Celotex Corp. v.*
21 *Catrett*, 477 U.S. 317, 322 (1986).

22 III. FACTUAL BACKGROUND

23 Mr. Augusto makes his living selling secondhand collectible merchandise,
24 much of it through auction listings on eBay, the leading auction site on the
25 Internet. (SUF ¶ 1.) Augusto does business on eBay under the name "Roast Beast
26 Music Collectibles." (SUF ¶ 2.) The majority of his sales on eBay are of
27 collectible "promo CDs"—music CDs that are sent by record labels, unsolicited, to
28

1 reviewers and industry insiders for promotional purposes at no charge to the
2 recipient. (SUF ¶ 3.) Augusto obtains the “promo CDs” that he sells on eBay by
3 purchasing them from a variety of retail music stores in the Los Angeles area that
4 sell secondhand CDs, from thrift stores like Goodwill and The Salvation Army, or
5 by purchasing them on eBay. (SUF ¶ 4.) Each of the 26 “promo CDs” at issue in
6 this case was obtained by Augusto in this manner. (SUF ¶ 5.)

7 UMG is one of the world’s largest music companies. (SUF ¶ 6.) As part of
8 its business, UMG mails out hundreds of thousands of “promo CDs” in hopes that
9 these mailings will result in publicity and exposure for forthcoming music releases
10 issued by UMG’s subsidiary record labels. (SUF ¶ 7.) These CDs are sent
11 unsolicited. (SUF ¶ 21.) Each of the “promo CDs” at issue in this case bears a
12 legend that recites that the CD is intended for promotional use only and not for
13 sale. (SUF ¶ 8.)

14 UMG generally ships these unsolicited “promo CDs” by means of the U.S.
15 Postal Service. (SUF ¶ 9.) The intended recipients are never instructed to return
16 the CDs they receive. (SUF ¶ 10.) To the best of UMG’s knowledge, no intended
17 recipient has ever returned a “promo CD” after receiving one. (SUF ¶ 11.) UMG
18 has made no efforts to retrieve any of the “promo CDs” it has mailed, nor does it
19 keep permanent records of who the intended recipients are for any particular
20 “promo CDs” dispatched. (SUF ¶ 12 & 13.)

21 UMG’s copyright infringement claim against Augusto is based on 26
22 auction listings posted by Augusto on eBay between September 2006 and March
23 2007, each of which offered a single “promo CD” for sale. D.I. 1 (Complaint),
24 Exh. A. UMG alleges that these 26 auction listings infringe a total of 8 sound
25 recording copyrights that UMG claims to own. D.I. 1 (Complaint), Exh. B.

26 Since at least 2004, UMG has worked with its agent, the Recording Industry
27 Association of America (“RIAA”), to target Augusto’s eBay “promo CD” auction
28 listings for removal from eBay. (SUF ¶ 14.) Acting at UMG’s behest, the RIAA

1 has sent multiple “takedown” notices to eBay, each of which alleges that a specific
2 auction listing is an “infringing activity” and demands the immediate removal of
3 the listing from eBay’s website. (SUF ¶ 15.) Upon receipt of these takedown
4 notices, eBay removes the listing from its website. (SUF ¶ 16.) Although Augusto
5 has submitted “counter-notices” to eBay to restore his auction listings, the UMG
6 takedown notices result in the removal of the listings from eBay for a period of at
7 least 2 weeks. (SUF ¶ 17 & 18.) In addition, Augusto’s eBay account has
8 repeatedly been suspended as a result of UMG’s takedown notices, thereby making
9 it impossible for Augusto to transact any business on eBay until his account can be
10 restored, including sales of merchandise unrelated to UMG. (SUF ¶ 19.)

11 **IV. PROCEDURAL HISTORY**

12 UMG filed this action against Augusto on May 10, 2007, alleging copyright
13 infringement of 8 copyrighted sound recordings based on 26 eBay auction listings.
14 Augusto filed his Answer and Counterclaim on August 6, 2007. UMG filed its
15 Reply to Augusto’s Counterclaim on September 10, 2007.

16 With one exception, discovery in this matter closed on March 24, 2008. On
17 March 25, 2008, Magistrate Wistrich granted Augusto’s motion to compel further
18 discovery with respect to UMG’s tax treatment of “promo CDs.” UMG was
19 ordered to comply no later than April 8, 2008, one day after the parties were to
20 submit their motions for summary judgment under the parties’ agreed briefing
21 schedule.

22 The Court has set a trial date of June 24, 2008.
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V. ARGUMENT

A. Augusto is Entitled to Summary Judgment on UMG’s Copyright Infringement Claim.

The undisputed evidence establishes that UMG’s copyright infringement claim against Augusto is barred by the first sale doctrine.

1. The First Sale Doctrine.

UMG’s copyright infringement claim against Augusto is based on his offering 26 promo CDs for sale on eBay. (D.I. 1 (Complaint), Exh. A.) The Copyright Act grants to copyright owners the exclusive right to “distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership.” 17 U.S.C. § 106(3).¹ This distribution right, however, is subject to an important limitation:

Notwithstanding the provisions of § 106(3), the owner of a particular copy or phonorecord² 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.

17 U.S.C. § 109(a).

Although this statutory limitation is known as the “first sale” doctrine, it does not require a “sale”—it is triggered by the “first authorized disposition by which title passes.” 2 NIMMER & NIMMER, NIMMER ON COPYRIGHT (hereafter

¹ This case involves only the § 106(3) distribution right. UMG has not alleged that Augusto infringed any other exclusive right protected by the Copyright Act.

² The Copyright Act defines a “phonorecord” as “material objects in which sounds, other than those accompanying a motion picture or other audiovisual work, are fixed.” 17 U.S.C. § 101. Accordingly, the music CDs at issue in this case are technically “phonorecords” under the Act, rather than “copies.” The underlying intangible copyrighted work is properly referred to as a “sound recording.”

1 “Nimmer”) § 8.12[B][1][a]; *accord* 4 William F. Patry, PATRY ON COPYRIGHT
2 § 13:15 (“Since the principle [of first sale] applies when copies are given away or
3 are otherwise permanently transferred without the accoutrements of a sale,
4 ‘exhaustion’ is the better description.”). There is uniform agreement among courts
5 and commentators that § 109 applies to gifts as well as sales. *See, e.g., Walt Disney*
6 *Prods. v. Basmajian*, 600 F. Supp. 439, 442 (S.D.N.Y. 1984) (“Title may be
7 transferred by gift.”); 2 Nimmer § 8.12[B][1][a] (“[A]lthough the initial disposition
8 of that copy may be a sale, the identical legal conclusion applies to a gift or any
9 other transfer of title in the copy.”); 2 Paul Goldstein, GOLDSTEIN ON COPYRIGHT
10 § 7.6.1 n.4 (3d ed.) (“[A] gift of copies or phonorecords will qualify as a ‘first sale’
11 to the same extent as an actual sale for consideration.”).

12 The first sale doctrine serves a critical function in the copyright scheme,
13 balancing the intangible property interests of copyright owners with the tangible
14 property interests of purchasers. *See* Joseph P. Liu, *Owning Digital Copies:*
15 *Copyright Law and the Incidents of Copy Ownership*, 42 WM. & MARY L. REV.
16 1245, 1289-94 (2001). Were it not for the first sale doctrine, lending libraries,
17 video rental shops, and secondhand bookstores would all infringe a copyright
18 owner’s distribution right, as would selling a book at a garage sale or loaning a
19 DVD to a friend. While copyright owners may complain about the effect that these
20 “competitors” have on their primary markets, Congress and the courts have
21 repeatedly rejected efforts to extend the rightsholder’s control over the distribution
22 of material objects beyond the first passage of title. *Id.* at 1293-94 (describing
23 failed legislative efforts by copyright holders to obtain control over the lending of
24 books and the sale of used CDs). As described in more detail below, UMG asks
25 this Court to find that a mere label can trump the first sale doctrine, an end-run that
26 is not only impermissible in this instance, but that would threaten to open a
27 Pandora’s Box of use restrictions (*e.g.*, “for home use only, not for rental” or
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1 “personal use only, not for library lending”) that would undermine the first sale
2 doctrine.

3 **2. Because Augusto owned the CDs he bought, he was entitled to sell**
4 **them under the First Sale Doctrine.**

5 The undisputed evidence here satisfies all of the prerequisites of the first sale
6 doctrine. There is no dispute that the 26 eBay auctions at issue involved CDs
7 lawfully made by UMG. (SUF ¶ 20.) The evidence also establishes that Augusto
8 lawfully purchased the CDs from retailers in the Los Angeles area or on eBay, as is
9 his general practice when acquiring collectibles for resale on eBay (SUF ¶ 4),
10 thereby making him the “owner” of the CDs in question.

11 The only remaining question is whether there has been a “first authorized
12 disposition by which title passes”—in other words, whether title initially passed
13 from UMG to the intended recipients of the “promo CDs,” exhausting UMG’s
14 distribution rights with respect to those particular phonorecords. 2 Nimmer
15 § 8.12[B][1][a]. In the Ninth Circuit, courts look behind the form to the substance
16 of a transaction in evaluating whether title has passed for first sale purposes. *See*
17 *United States v. Atherton*, 561 F.2d 747, 750 (9th Cir. 1977) (holding that certain
18 transactions denominated as “licensing agreements” amounted to first sale); *United*
19 *States v. Wise*, 550 F.2d 1180, 1190-92 (9th Cir. 1977) (same).

20 With respect to the “promo CDs” at issue here, the facts surrounding the
21 transactions are not in dispute—at issue is the legal consequence that flows from
22 those facts. Taken together, the following facts indicate that the CDs in question
23 are gifts to their initial intended recipients, and that title to the CDs has thus passed
24 from UMG to those initial intended recipients:

- 25 • “Promo CDs” are sent unsolicited to recipients, by mail or UPS, SUF
26 ¶ 21 & 22;
- 27 • UMG has never made any efforts to retrieve “promo CDs” from
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recipients, SUF ¶ 12;

- UMG has no plans to ask any recipients to return “promo CDs,” SUF ¶ 10;
- UMG has no knowledge of any “promo CD” of the kind at issue here ever being returned after having been received by an intended recipient, SUF ¶ 11;
- Nothing on the packaging of “promo CDs” intimates that they must ever be returned to UMG, SUF ¶ 23;
- UMG does not keep permanent records of who received any particular “promo CDs,” SUF ¶ 13;
- There is no indication on the “promo CDs” that the recipient will be responsible for any loss or destruction of the “promo CDs,” SUF ¶ 24;
- UMG does not insure “promo CDs” in the possession of intended recipients against loss or damage, SUF ¶ 25;
- UMG acknowledges that “promo CDs” have no value to UMG other than for their promotional impact in the hands of intended recipients (SUF ¶ 26)—and accordingly, once they have been received, UMG has received full value for them.

In short, those to whom UMG mails “promo CDs” enjoy all the principal hallmarks of ownership: their possession is unlimited in time, they are under no obligation to return the CDs, and there is no penalty to them should the CDs be lost, damaged or destroyed. UMG, for its part, also behaves as though it has parted with ownership: it does not keep records regarding the whereabouts of the CDs, nor has it ever sought their return from the recipients. The Ninth Circuit has

1 concluded in similar circumstances that a conveyance of a film with use
2 restrictions, but without any obligation to return it, triggers the first sale doctrine.
3 *See Atherton*, 561 F.2d at 750-51 (even a “sale to a purchaser with restrictions that
4 are subsequently breached constitutes a first sale”); *Wise*, 550 F.2d at 1190-92;
5 accord John A. Rothchild, *The Incredible Shrinking First Sale Rule: Are Software*
6 *Resale Limits Lawful?*, 57 RUTGERS L. REV. 1, 18 (2004) (“The question then is
7 whether any of these intermediate, sales-with-restrictions should be deemed not to
8 constitute a first sale. I believe the statute requires a negative answer to this
9 question.”).

10 **a. UMG passed title to the CDs by operation of law under 35**
11 **U.S.C. § 3009.**

12 Under federal postal and competition law, UMG, by shipping unordered
13 “promo CDs,” made a gift of the CDs to those who received them. The recipients
14 thus had good title to the CDs, and were entitled to give or sell the CDs to the thrift
15 stores, secondhand music shops, and eBay sellers from whom Augusto purchased
16 them. (SUF ¶ 4.)

17 Under 39 U.S.C. § 3009, any “unordered merchandise” “may be treated as a
18 gift by the recipient, who shall have the right to retain, use, discard, or dispose of it
19 in any manner he sees fit without any obligation whatsoever to the sender.” 39
20 U.S.C. § 3009(a) & (b). “Unordered merchandise” means any “merchandise
21 mailed without the prior expressed request or consent of the recipient.” 39 U.S.C.
22 § 3009(d). As the Third Circuit recently held, “§ 3009(b)’s language is ‘rights-
23 creating.’” *Wisniewski v. Rodale, Inc.*, 510 F.3d 294, 302 (3d Cir. 2008). That is,
24 it “create[s] a personal right for recipients to treat unsolicited merchandise as a
25 gift.” *Id.*

26 Nor is title in unordered merchandise transferred to the recipient only when
27 that merchandise is shipped via U.S. Mail. As the Federal Trade Commission has
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1 explained: “Consumers who receive unordered merchandise are legally entitled to
 2 treat the merchandise as a gift. The Postal Reorganization Act refers to ‘mailing’
 3 of unordered merchandise. The Commission, however, has explained that the
 4 application of Section 5 of the FTC Act to such practices is not limited to
 5 unordered merchandise distributed through the U.S. mail.” 65 Fed. Reg. 2867,
 6 2868 n.8 (Jan. 19, 2000) (citing 43 Fed. Reg. 4113 (Jan. 11, 1978)).³

7 California state law contains a similar provision, stating that “[t]he receipt of
 8 any [unordered] goods, wares, merchandise, or services shall for all purposes be
 9 deemed an unconditional gift to the recipient who may use or dispose of the goods,
 10 wares, merchandise, or services in any manner he or she sees fit without any
 11 obligation on his or her part to the sender or provider.” Cal. Civil Code § 1584.5.
 12 This provision applies regardless of the method by which the unordered
 13 merchandise is sent or provided to the recipient. *Id.*

14 The “promo CDs” at issue in this case were “unordered merchandise” under
 15 § 3009, since it is undisputed that they were sent without the “prior expressed
 16

17 ³ In fact, the FTC has advised businesses that:

18 **in any approval or other sale you must obtain the customer’s**
 19 **prior express agreement to receive the merchandise.** Otherwise
 20 the merchandise may be treated as **unordered** merchandise. It is
 21 unlawful to:

22 Send any merchandise *by any means* without the express request of
 23 the recipient (unless the merchandise is clearly identified as a gift, free
 24 sample, or the like); or,

25 Try to obtain payment for or the return of the unordered merchandise.

26 Merchants who ship unordered merchandise with knowledge that it is
 27 unlawful to do so can be subject to civil penalties of up to \$11,000 per
 28 violation. Moreover, customers who receive unordered merchandise
 are legally entitled to treat the merchandise as a gift. Using the U.S.
 mails to ship unordered merchandise also violates the Postal laws.

29 Fed. Trade Comm’n, *A Business Guide to the Federal Trade Commission’s Mail*
 30 *or Telephone Order Merchandise Rule* at 9 (2002), available at
 31 <http://www.ftc.gov/bcp/conline/pubs/buspubs/mailorder.pdf> (emphases in original)
 32 (Exhibit 10 to the concurrently-filed Declaration of Joseph C. Gratz).

1 request or consent of the recipient.” (SUF ¶ 21.)⁴ It is further undisputed that
2 UMG shipped the CDs by U.S. Mail or by UPS and that U.S. Mail was the default
3 shipping method. (SUF ¶ 22 & 27.) Finally, promotional CDs qualify as
4 “merchandise” within the meaning of § 3009. *See, e.g., Great Am. Music*
5 *Machine, Inc. v. Mid-South Record Pressing Co.*, 393 F. Supp. 877, 884 (M.D.
6 Tenn. 1975) (holding that promotional vinyl records were “unordered
7 merchandise” under § 3009).

8 Accordingly, any recipient of a UMG promotional CD is free to “retain, use,
9 discard, or dispose of it in any manner he sees fit without any obligation
10 whatsoever” to UMG. 39 U.S.C. § 3009(b). Good title passed to the charity thrift
11 shops and secondhand record stores to which the original recipients gave or sold
12 their promotional CDs, and Augusto took good title when he purchased the CDs
13 from those outlets.

14 **b. UMG abandoned the CDs under California law.**

15 Even assuming, *arguendo*, that unordered merchandise laws did not apply
16 here, UMG abandoned the promotional CDs, and thus cannot claim ownership
17 over them.

18 Under California law, abandoned personal property becomes “the property
19 of the first appropriator.” *Gerhard v. Stephens*, 68 Cal.2d 864, 887 (1968).
20 Abandonment has two elements: (1) non-possession and (2) intent to abandon.
21 1 Cal. Jur. 3d Abandonment § 2 (updated 2008); *Gerhard*, 68 Cal.2d at 891-92.
22 Abandonment “may arise from a single act or from a series of acts.” *Pickens v.*
23 *Johnson*, 107 Cal. App. 2d 778, 787 (Cal. Ct. App. 1951). And intent to abandon
24

25 ⁴ Because UMG admits that the only way in which the recipients consented to
26 receive the CDs “was based on the understanding of the parties, including the
27 license,” there was no *prior expressed* request or consent to receive the CDs. The
28 understanding of the parties is by definition not “expressed,” and the purported
license on the face of the CDs was not available to the recipients “prior” to their
receipt of the CDs.

1 is determined based on “consideration of all the circumstances of the case,”
2 including all “acts of ownership and dominion, or a want of such acts.” *Moon v.*
3 *Rollins*, 36 Cal. 333, 338-40 (1868). One has intent to abandon when one
4 relinquishes possession “without any present intention to repossess.” *Utt v. Frey*,
5 106 Cal. 392, 397 (1895).

6 The first element, “non-possession,” is manifestly present: UMG admits that
7 it has never regained possession of any of the promotional CDs. (SUF ¶ 11.)

8 The second element, “intent to abandon,” is also present. Most significantly,
9 UMG cannot show that it has any “intention to repossess” the CDs: Kathleen
10 Strouse, UMG’s corporate designee under Federal Rule of Civil Procedure
11 30(b)(6), admitted at deposition that the corporation had no knowledge of any
12 intent to regain possession of the CDs. (SUF ¶ 28.) In addition to this admission,
13 the “want of” any “acts of ownership and dominion,” *Moon*, 36 Cal. at 338-40,
14 demonstrates UMG’s intent to abandon. In particular, the undisputed facts show
15 that UMG:

- 16 • Made no effort to retrieve the CDs from those to whom it had
17 distributed them (SUF ¶ 12);
- 18 • Did not intend that the CDs be returned by any specific date (SUF ¶
19 29);
- 20 • Did not include instructions for the return of the CDs when it
21 distributed them (SUF ¶ 10); and
- 22 • Did not in fact regain possession of any of the CDs it distributed (SUF
23 ¶ 11).⁵

24
25
26
27 ⁵ Additional evidence of intent to abandon may be found in documents and
28 testimony to be produced pursuant to Magistrate Judge Wistrich’s March 25, 2008
order compelling UMG to respond to Augusto’s discovery requests concerning
UMG’s tax treatment of promotional CDs. Magistrate Judge Wistrich ordered

1 Because the “circumstances of the case,” *Moon*, 36 Cal. at 340, show UMG’s
 2 intent to abandon, the CDs’ recipients took good title to the CDs, and validly
 3 passed that title to the merchants to whom they gave or sold the CDs. Augusto
 4 thereafter took good title to the CDs when he bought them.

5 **c. The presence of “Promotional Use Only” and similar**
 6 **legends on the face of the CDs does not prevent title from**
 7 **passing or restrict resale.**

8 Nor does the presence of “Promotional Use Only” legends on the “promo
 9 CDs” at issue here change the first sale analysis.⁶

10 Courts have repeatedly rejected attempts by copyright owners to trump the
 11 first sale doctrine by affixing a contrary legend or label to copies or phonorecords.
 12 For example, in the seminal case of *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339
 13 (1908), the Supreme Court rejected a book publisher’s attempt to restrict resale of
 14 a book via a notice that prohibited sales for less than one dollar. *See id.* at 341.
 15 Similarly, Judge Learned Hand in 1940 rejected an effort by RCA to enforce a
 16 “Not Licensed for Radio Broadcast” legend emblazoned on its records. *See RCA*
 17 *Mfg. Co. v. Whiteman*, 114 F.2d 86, 90 (2d Cir. 1940) (“RCA Manufacturing
 18 Company, Inc., had no power to impose the pretended servitude upon the
 19 records.”). Subsequent decisions agree that “[e]ven if the copyright owner places
 20 restrictions on the purchaser in a first sale (such as specifying the permissible uses
 21 of the article), the buyer’s disregard of the restrictions on resale does not make the
 22 buyer or person who buys in the secondary market liable for infringement.” *Amer.*
 23

24 _____
 25 UMG to comply by April 8, 2008, the day after the filing of this Motion.

26 ⁶ Nine of the 26 “promo CDs” at issue bore a legend that read: “Promotional Use
 27 Only. Not for Resale.” The remaining 17 bore a lengthier legend: “This CD is the
 28 property of the record company and is licensed for the intended recipient for
 personal use only. Acceptance of this CD shall constitute an agreement to comply
 with the terms of the license. Resale or transfer of possession is not allowed and
 may be punishable under federal and state laws.” UMG admits that the two
 versions of the legend have the same meaning. (SUF ¶ 30.)

1 *Int'l Pictures, Inc. v. Foreman*, 576 F.2d 661, 664 (5th Cir. 1978); accord *Indep.*
2 *News Co. v. Williams*, 293 F.2d 510, 517-18 (3d Cir. 1961) (refusing to enforce a
3 notice printed on comic books prohibiting resale after that comic book's cover is
4 removed). Ninth Circuit rulings concur. See *Atherton*, 561 F.2d at 751 (endorsing
5 *Bobbs-Merrill v. Straus*); *Wise*, 550 F.2d at 1187 (where the copyright owner has
6 parted with title to a particular copy, subsequent owners are "not restricted by
7 statute from further transfers of that copy, even though in breach of an agreement
8 restricting its sale.").

9 Here, the "Promotional Use Only" legends affixed to the "promo CDs" do
10 nothing to alter the substance of the transaction. To the extent they purport to
11 restrict post-acquisition use of the CDs in the hands of intended recipients, they are
12 precisely the sort of restrictions that courts have held cannot overcome the first sale
13 doctrine. *Amer. Int'l Pictures, Inc.*, 576 F.2d at 664 (restrictions on use or resale
14 will not support an infringement claim against downstream owners); *Atherton*, 561
15 F.2d at 751-52.

16 To the extent that the lengthier version of the legend purports to reserve title,
17 it also cannot prevent title from passing in the face of the undisputed contrary
18 evidence establishing that UMG has permanently parted with possession of the
19 CDs. (SUF ¶ 30 (UMG's admission that both versions of the legend have the same
20 meaning)); see *Softman Products Co. v. Adobe Systems Inc.*, 171 F. Supp. 2d 1075,
21 1086-87 (C.D. Cal. 2001) (holding that the "actual character" of the transaction
22 indicated transfer of ownership for first sale purposes, notwithstanding license
23 agreement term purporting to retain title); Rothchild, *The Incredible Shrinking*
24 *First Sale Rule*, 57 RUTGERS L. REV. at 39-43 (purported retention of title does not
25 preclude title from passing for first sale purposes).

26 Nor does the legend affect the abandonment analysis under California law.
27 In the context of abandonment, actions speak louder than words, and UMG's
28 actions unequivocally demonstrate that it gave away the CDs "without any present

1 intention to repossess.” *Utt*, 106 Cal. at 397. As the California Supreme Court has
2 held, the requisite intent to abandon “may be proved by the acts and conduct of a
3 party even against his express declarations to the contrary.” *Trevaskis v. Peard*,
4 111 Cal. 599, 605 (1896). *See also Myers v. Spooner*, 55 Cal. 257, 260 (1880) (“If
5 . . . all any party would have to do in order to defeat . . . abandonment, would be to
6 say he did not intend to abandon,” the defense would be meaningless); *United*
7 *States v. Crawford*, 239 F.3d 1086, 1091 (9th Cir. 2001) (an official’s testimony
8 that it was not the policy of a university to abandon its property could not be
9 dispositive of the legal question of abandonment).

10 Because the CDs were lawfully made and were no longer owned by UMG,
11 Augusto was “entitled, without the authority of the copyright owner, to sell or
12 otherwise dispose of the possession of” those CDs. 17 U.S.C. § 109(a).
13 Accordingly, Augusto is entitled to summary judgment that his offer to sell the
14 CDs did not infringe UMG’s copyrights.

15 **B. Augusto is entitled to summary judgment on his § 512(f) counterclaim.**

16 Augusto is also entitled to summary judgment on his counterclaim, brought
17 under Section 512(f) of the Copyright Act, relating to UMG’s persistent and
18 knowing interference with Augusto’s eBay auctions. Section 512(f) provides that:

19 Any person who knowingly materially misrepresents under [17 U.S.C.
20 § 512] that material or activity is infringing . . . shall be liable for any
21 damages, including costs and attorneys’ fees, incurred by the alleged
22 infringer...who is injured by such misrepresentation, as the result of
23 the service provider relying upon such misrepresentation in removing
24 or disabling access to the material or activity claimed to be
25 infringing....”
26

27 17 U.S.C. § 512(f). In other words, “any person who sends a cease and desist letter
28 [to an online service provider] with knowledge that claims of infringement are

1 false may be liable for damages.” *Online Policy Group v. Diebold, Inc.*, 337 F.
2 Supp. 2d 1195, 1202 (N.D. Cal. 2004).

3 Congress enacted § 512(f) as part of the Digital Millennium Copyright Act’s
4 (“DMCA”) so-called “safe harbor” provisions, which shield certain online service
5 providers like eBay from monetary damages for copyright infringement, so long as
6 they respond expeditiously to notices of infringement sent by copyright owners.
7 *See* 17 U.S.C. § 512(c); *Hendrickson v. eBay Inc.*, 165 F. Supp. 2d 1082, 1088-89
8 (C.D. Cal. 2001); *see generally* 3 Nimmer § 12B.01[C]. In order to prevent abuses
9 of this statutory “notice-and-takedown” mechanism, Congress enacted § 512(f) “to
10 deter knowingly false allegations to service providers in recognition that such
11 misrepresentations are detrimental to rights holders, service providers, and Internet
12 users.” S. Rep. 105-190 at 49 (1998); *see generally* 3 Nimmer § 12B.08.

13 UMG’s repeated “takedown” notices to eBay regarding Augusto’s auctions
14 constitute a violation of § 512(f). This Court has already held that “eBay clearly
15 meets the DMCA’s broad definition of online ‘service provider’” under § 512.
16 *Hendrickson v. eBay*, 165 F. Supp. 2d at 1088. UMG admits that its agent, the
17 RIAA, sent numerous “Notices of Claimed Infringement” to eBay on UMG’s
18 behalf demanding the removal of “promo CD” auction listings posted by Augusto,
19 including the 26 auction listings at issue in this case. (SUF ¶ 15.) For the reasons
20 explained above, none of Augusto’s “promo CD” auction listings infringed any
21 UMG copyrights, which make the allegations of infringement contained in the
22 notices misrepresentations. It is also undisputed that eBay disabled access to
23 Augusto’s auction listings after receiving UMG’s notices, injuring Augusto’s
24 business. (SUF ¶ 15-19). Moreover, on several occasions UMG’s notices to eBay
25 resulted in the suspension of Augusto’s entire eBay account, disabling all of his
26 auction listings, further injuring his business.⁷ (SUF ¶ 19).

27
28 ⁷ The DMCA requires that service providers reasonably implement “a policy that provides for the termination in appropriate circumstances of subscribers and

1 This leaves only two remaining questions: (1) whether UMG's notices were
2 sent "under this section," as the statute requires; and (2) whether the
3 misrepresentations contained in the notices were made "knowingly." 17 U.S.C.
4 § 512(f).

5 In its discovery responses, UMG denies that the notices sent on its behalf to
6 eBay are "DMCA notices," presumably in order to assert that the notices are not
7 within the ambit of § 512(f). (Supp. & Amended Responses to RFA No. 11-26).
8 This is insupportable sophistry. The statute sets forth a number of requirements for
9 compliant takedown notices sent to online service providers under § 512(c). *See* 17
10 U.S.C. § 512(c)(3)(A); *Hendrickson v. eBay*, 165 F. Supp. 2d at 1089. Where
11 these requirements are substantially met, online service providers like eBay ignore
12 them at the peril of being stripped of the safe harbor provided by the DMCA. *Id.* at
13 1088. Where the notices fall short of the statutory requirements, in contrast,
14 service providers are entitled to ignore them. *Id.* at 1089.

15 In this case, the notices sent by UMG (via its agent, the RIAA) to eBay
16 include *every* statutory element set forth in § 512(c)(3)(A). (SUF ¶¶ 31 (written
17 communications), 32 (provided to the designated agent of a service provider), 33
18 (signed), 34 (identifying works claimed to be infringed), 35 (identifying allegedly
19 infringing material), 36 (including the submitter's contact information), 37
20 (alleging a good faith belief that the alleged infringement is not authorized by the
21 copyright owner or by the law), 38 (stating that the information in the notification
22 is accurate and that the complaint is authorized by the copyright holder)). This is
23 not surprising—UMG plainly wanted to put eBay at risk of losing the DMCA safe
24 harbor if it failed to respond to these notices. In fact, the RIAA admits that it is not
25 aware of a single instance where eBay failed to remove an auction after receiving
26 an infringement notice sent on behalf of UMG. (SUF ¶ 16.) Having gone to such
27
28 account holders of the service provider's system or network who are repeat
infringers." 17 U.S.C. § 512(i).

1 lengths to obtain the benefits of “takedown notices” neatly mapped to the
2 requirements of the DMCA, UMG cannot now avoid its concomitant obligations
3 under § 512(f) by claiming that the notices were not sent pursuant to the DMCA.
4 Such an outcome would render § 512(f) a dead letter—putative rightsholders could
5 rely on §512(c)(3) to craft intentionally false copyright infringement notices in
6 order to interfere with noninfringing activities, then turn the tables and argue that
7 the misrepresentations nevertheless elude the reach of § 512(f) because the notices
8 were somehow not “DMCA notices.”

9 UMG also possessed the relevant *scienter* under § 512(f). The law imposes
10 liability where a party “knowingly” and “materially” misrepresents that copyright
11 infringement has occurred. “‘Knowingly’ means that a party actually knew, or
12 should have known if it acted with reasonable care or diligence, or would have had
13 no substantial doubt had it been acting in good faith, that it was making
14 misrepresentations.” *Online Policy Group v. Diebold*, 337 F. Supp. 2d at 1204.
15 “‘Material’ means that the misrepresentation affected the [service provider’s]
16 response to a DMCA letter.” *Id.*

17 In this case, the evidence speaks clearly. UMG is among the largest record
18 companies in the world, and its eBay policing efforts are headed by David
19 Benjamin, UMG’s Senior Vice-President for Content Protection, an attorney with
20 30 years of music industry experience. (SUF ¶ 39 & 40.) With the exception of
21 Augusto, however, Mr. Benjamin was unable to recall UMG’s having *ever*
22 instigated copyright enforcement efforts against *anyone* for selling “promo CDs.”⁸
23 (SUF ¶ 41.) For example, no enforcement action was taken after Mr. Benjamin
24 himself personally purchased a “promo CD” from a major record store in Los
25

26
27 ⁸ UMG designated Mr. Benjamin as its representative pursuant to Fed. R. Civ. P.
28 30(b)(6) on the question of “UMG’s efforts to enforce any claimed physical
property rights in PROMO CDs after it has distributed them.” Accordingly, his
recollections are those of the corporation on this issue.

1 Angeles. (SUF ¶ 42.)⁹ Nor has UMG has ever sued any other eBay seller of
2 “promo CDs,” despite its having identified dozens, if not hundreds, of such sellers
3 since 2004. (SUF ¶ 44). In fact, Mr. Benjamin could not recall ever even sending a
4 cease-and-desist letter to any of the other eBay sellers that sold “promo CDs.”
5 (SUF ¶ 41.)

6 Coupled with this lack of copyright enforcement activity is the lack of any
7 legal support for the proposition that Augusto’s auction listings violate copyright
8 law. As detailed above, the first sale doctrine is well-established in both the statute
9 and case law. Efforts to use of label notices to curtail the first sale doctrine have
10 been rejected by courts in several contexts, including books, comic books, LP
11 records, and software. *See supra* part V-A-2-c. No published opinion has ever
12 found a sale of a “promo CD” to infringe copyright.

13 In the face of this evidence, Mr. Benjamin makes the conclusory allegation
14 that, when he or his staff authorized the notices of infringement to eBay, UMG
15 believed that the eBay auction listings for “promo CDs” infringed copyright. (SUF
16 ¶ 45.) In light of the undisputed evidence, however, this statement is not enough to
17 create a disputed issue of fact. *See Taylor v. List*, 880 F.2d 1040, 1045 (9th Cir.
18 1989) (“A summary judgment motion cannot be defeated by relying solely on
19 conclusory allegations unsupported by factual data.”). When questioned about the
20 basis for UMG’s belief, Mr. Benjamin asserted that it was based on “the fact that
21 these are promotional goods not intended for sale,” or on Benjamin’s own
22 “knowledge of the industry.” (SUF ¶ 46). These statements, however, merely
23 suggest that UMG *objects* to the resale of “promo CDs,” not that the resale of
24 “promo CDs” *violates the Copyright Act*. When pressed on whether the *Copyright*
25 *Act* played any part in UMG’s professed “belief that the use of the material in the

26
27 ⁹ Mr. Benjamin recalled one occasion in which “promo CDs” were seized during a
28 raid of a retail store, but admits that the raid was not instigated by UMG and has no
recollection regarding the reason for the raid. (SUF ¶ 43.)

1 manner complained of is not authorized by . . . the law” (SUF ¶ 37), Mr. Benjamin
2 was repeatedly instructed not to answer by his counsel. (SUF ¶ 47.) Accordingly,
3 other than Mr. Benjamin’s unsupported, conclusory assertion to the contrary, the
4 evidence in the record all indicates that UMG did *not* believe that Augusto’s
5 auction listings were infringing when it sent its notices of infringement to eBay.
6 Moreover, given the established law surrounding the first sale doctrine, UMG
7 “should have known if it acted with reasonable care or diligence” on these facts
8 that Augusto’s auctions were not infringing. *Online Policy Group v. Diebold*, 337
9 F. Supp. 2d at 1204.

10 **VI. CONCLUSION**

11 For the reasons above, Augusto respectfully requests that the Court grant
12 him summary judgment on both UMG’s claim and his counterclaim.
13

14 Dated: April 7, 2008

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15 KEKER & VAN NEST, LLP
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