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UMG RECORDINGS, INC.

8  
9 UNITED STATES DISTRICT COURT  
10 CENTRAL DISTRICT OF CALIFORNIA  
11

12 UMG RECORDINGS, INC., a Delaware  
corporation,

13 Plaintiff,

14 v.

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

18 Defendants.  
19

CASE NO. 2:07 CV 3106 SJO (AJWx)

The Honorable S. James Otero

**PLAINTIFF UMG RECORDINGS,  
INC.'S NOTICE OF MOTION AND  
MOTION FOR PARTIAL  
SUMMARY JUDGMENT ON  
LIABILITY ON COMPLAINT**

DATE: May 5, 2008

TIME: 10:00 a.m.

CTRM.: 880

(Declarations of Kathleen Strouse, David Benjamin, Mark McDevitt, Tegan Kossowicz and Russell J. Frackman, and related documents, filed concurrently herewith)

20 AND RELATED COUNTERCLAIM.  
21  
22  
23  
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26  
27

1 TO: DEFENDANT AND HIS COUNSEL OF RECORD:

2 PLEASE TAKE NOTICE that on May 5, 2008, at 10:00 a.m., or as soon  
3 thereafter as the matter may be heard, in Courtroom 880 located at 255 East Temple  
4 Street, Los Angeles, California 90012, Plaintiff UMG Recordings, Inc., will and  
5 hereby does move, pursuant to Rule 56 of the Federal Rules of Civil Procedure, for  
6 partial summary judgment on liability determining that defendant Troy Augusto is  
7 liable for copyright infringement.

8  
9 This motion is based upon the grounds that there is no triable issue of fact on  
10 defendant's liability for copyright infringement, and is based upon this Notice, the  
11 Memorandum of Points and Authorities in Support of this Motion, the Declarations  
12 of Kathleen Strouse, David Benjamin, Mark McDevitt, Tegan Kossowicz, and  
13 Russell J. Frackman, and the Request for Judicial Notice, all filed concurrently  
14 herewith, all pleadings and papers on file in this matter, and oral argument.

15  
16 Plaintiff has complied with Local Rule 7-3. See Declaration of Russell J.  
17 Frackman at ¶ 2.

18  
19 DATED: April 7, 2008

RUSSELL J. FRACKMAN  
KARIN G. PAGNANELLI  
AARON M. WAIS  
MITCHELL SILBERBERG & KNUPP LLP

20  
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22  
23 By:                   /s/ Russell J. Frackman                    
24 Russell J. Frackman  
25 Attorneys for Plaintiff  
26 UMG RECORDINGS, INC.

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1 **INTRODUCTION**

2 This copyright infringement action was commenced by UMG Recordings,  
3 Inc. (“UMG”) against defendant Troy Augusto d/b/a Roastbeast Music Collectibles  
4 (“Augusto”) because Augusto was offering for sale, selling, and distributing over  
5 eBay, UMG’s copyrighted sound recordings without consent or authorization.  
6 Augusto counterclaimed, claiming that UMG’s notices of infringement to eBay  
7 materially misrepresented that his conduct was infringing. This motion seeks partial  
8 summary judgment on the issue of Augusto’s liability on UMG’s complaint for  
9 copyright infringement. Because Augusto infringed UMG’s copyrights and because  
10 UMG’s notices of infringement were accurate and sent in good faith, UMG  
11 concurrently moves for summary judgment on Augusto’s counterclaim. (The only  
12 remaining issue is UMG’s remedies on its complaint.)<sup>1</sup>

13 **I. SUMMARY OF RELEVANT FACTS**

14 UMG is a record company that, under various labels including Interscope,  
15 Island Def Jam, Geffen, and Universal, creates, manufactures, and sells  
16 phonorecords embodying its copyrighted sound recordings.<sup>2</sup> SUF 1. In addition to  
17 the commercial recordings UMG sells to the public, UMG (like other record  
18 companies) licenses a small number of “promotional” CDs to select individuals,  
19 often before a commercial release to the public of a full album, for purposes of  
20 promoting and advertising that commercial release. SUF 2. These individuals are  
21 in or associated with the music business, such as reviewers, disc jockeys, and radio  
22 stations, and are in a position to generate interest in UMG’s commercial recordings  
23 among the consuming public. SUF 3. Promotional CDs differ from the commercial  
24

---

25 <sup>1</sup> Although the legal issues and arguments in the two motions are discrete, for  
26 convenience the “Summary of Relevant Facts” is included in both motions.

27 <sup>2</sup> Phonorecords are “material objects in which sounds ... are fixed.” 17 U.S.C.  
28 § 101. CDs are phonorecords. Sound recordings are “works that result from the  
embodied on phonorecords are sound recordings.” *Id.* The recorded performances

1 CDs sold by UMG to the public (e.g., they may have only one or two selections and  
2 they may not include artwork). SUF 4. Unlike commercial CDs, UMG does not  
3 sell promotional CDs, UMG receives no payment for them, UMG expressly retains  
4 ownership of them, and UMG does not permit them to be sold or transferred by their  
5 recipients. SUF 5.

6 Each of UMG's promotional CDs contains the name of one of UMG's labels  
7 and language indicating it is the property of UMG and its sale or transfer is  
8 expressly prohibited under the terms by which it is provided and accepted. SUF 6.  
9 This license is printed on the CD itself and/or on its packaging and has included the  
10 following language:

11 "This CD is the property of the record company and is  
12 licensed to the intended recipient for personal use only.  
13 Acceptance of this CD shall constitute an agreement to  
14 comply with the terms of the license. Resale or transfer of  
15 possession is not allowed and may be punishable under  
16 federal and state laws." SUF 7.

17 Although this language has varied over the years, its intent and purpose has always  
18 clearly been that promotional CDs are provided only for limited purposes, are  
19 licensed to the recipients, and their sale or distribution by the recipients is not  
20 permitted. SUF 8.

21 UMG selects the recipients of each of its promotional CDs from proprietary  
22 lists maintained and updated by various departments within UMG. Each  
23 promotional CD is sent with a return address. SUF 9. Those promotional CDs  
24 which are not accepted by the recipients or are not deliverable are returned to UMG  
25 and destroyed. SUF 10. While UMG does not otherwise request the return of  
26 promotional CDs from legitimate recipients (among other reasons, because to do so  
27 would be logistically difficult, expensive, time consuming, and unnecessary), UMG  
28 polices the unauthorized sales of its promotional CDs over eBay by locating



1 auctions on eBay that offer UMG's promotional CDs for sale and requesting that  
2 eBay remove the auctions pursuant to a procedure set up and implemented by eBay  
3 known as the Verified Rights Owner ("VeRO") program. SUF 11. Additionally, if  
4 UMG determines that a recipient of its promotional CDs has been offering them for  
5 sale, it attempts to delete that individual from the lists of persons to whom  
6 promotional CDs are provided. SUF 12.

7 For Augusto, selling promotional CDs (including over eBay) is his occupation  
8 and primary source of income (70% to 80% of Augusto's business is selling  
9 promotional CDs). SUF 13. Among the promotional CDs offered for sale and sold  
10 by Augusto were promotional CDs embodying fourteen different sound recordings  
11 covered collectively by eleven UMG copyright registrations. (the "UMG Promo  
12 CDs") SUF 14. Augusto cannot, or will not, identify his source of the UMG Promo  
13 CDs or their original recipients (although he admits he did not receive them from  
14 UMG directly). He claims he kept no business records with respect to his sales of  
15 promotional CDs. SUF 15.

16 Augusto is well aware of the nature of promotional CDs and, in fact,  
17 prominently identifies his product as "Promo CDs" and uses such terms as "rare"  
18 and "INDUSTRY EDITION – NOT SOLD IN STORES" to advertise them. SUF  
19 16. He formerly was involved in the music business and at that time received  
20 promotional CDs directly from record companies. SUF 17. He knows that  
21 promotional CDs contain language that indicates they are licensed for limited  
22 purposes to specific individuals and that sale or transfer is not authorized ("It's not  
23 designed to be sold in a normal retail outlet" and "this particular CD wasn't  
24 designed for – was designed for people who work in the industry"). SUF 18. He  
25 also is, or should be, aware that eBay, over which Augusto makes the bulk of his  
26 illicit sales, warns its sellers that it is "an infringement to sell [promotional CDs] and  
27 many copyright holders do care and enforce in this area." SUF 19. As eBay  
28 explains on its website to its sellers:

1           “Each promotional item is a copyrighted work. When  
2           they initially are distributed they are not sold. They  
3           technically remain the property of the record company or  
4           the studio that distributed them. The radio stations, movie  
5           theatres, etc., that receive them are only licensed to use the  
6           promo materials for limited promotional purposes. They  
7           are prohibited from selling them or giving them away; the  
8           materials themselves often state right on them ‘Not For  
9           Sale.’” SUF 20.

10           In a prior lawsuit based on Augusto’s sale of promotional CDs over eBay,  
11 brought by two record labels unrelated to UMG, Augusto agreed to a consent  
12 judgment that:

13           “Defendant [Augusto] has, on numerous occasions, and  
14           despite repeated warnings, offered Plaintiffs’ Promo CDs  
15           for sale through an online auction website known as  
16           eBay.com. These sales, made without Plaintiffs’  
17           authorization, violated Plaintiffs’ exclusive rights under 17  
18           U.S.C. § 106(3).” SUF 21.

19           Here, too, UMG notified Augusto directly on two occasions that his sale of  
20 promotional CDs violated its rights. SUF 22. In addition, UMG provided notices to  
21 eBay pursuant to the VeRO program that Augusto’s auctions of UMG’s promotional  
22 CDs were infringing. SUF 24. However, because Augusto sent false “counter-  
23 notices” to eBay, declaring under penalty of perjury that UMG’s notices were  
24 “mistaken,” eBay permitted Augusto to re-list those items for sale unless and until  
25 UMG filed suit. SUF 25. When Augusto continued blatantly to ignore UMG’s  
26 rights, this lawsuit was filed. (The eleven copyrights involved here constitute only a  
27 small portion of the UMG copyrights infringed by Augusto in his promotional CD  
28 business).

1 **II. AUGUSTO HAS INFRINGED UMG'S EXCLUSIVE DISTRIBUTION**  
 2 **RIGHTS IN ITS COPYRIGHTED SOUND RECORDINGS.**

3 A *prima facie* case of copyright infringement consists of (1) ownership of  
 4 copyrights and (2) violation of one of the exclusive rights granted to a copyright  
 5 owner. See generally 4 M. & D. Nimmer, Nimmer On Copyright § 13.01 (2006).  
 6 Innocent intent or lack of knowledge is not a defense to liability. See, e.g., Los  
 7 Angeles News Serv. v. Conus Commc'n Co., 969 F. Supp. 579, 584 (C.D. Cal.  
 8 1997).

9 UMG owns the eleven copyrights at issue. SUF 26. Since the works were  
 10 registered within five years of their publication, they constitute *prima facie* evidence  
 11 of the validity of the copyrights and of the facts stated in the certificate, 17 U.S.C.  
 12 § 410, including ownership. See, e.g., Marisa Christina, Inc. v. Bernard Chaus, Inc.,  
 13 808 F. Supp. 356, 357 (S.D.N.Y. 1992).<sup>3</sup>

14 Augusto's unauthorized distribution of the UMG Promo CDs violated UMG's  
 15 exclusive right to distribute its copyrighted works. 17 U.S.C. §§ 106(3) (exclusive  
 16 distribution right), 501(a) ("Anyone who violates any of the exclusive rights of the  
 17 copyright owner ... is an infringer of copyright"). Augusto advertised and offered  
 18 to the public each of the UMG Promo CDs for auction on eBay. SUF 28. Under  
 19 eBay rules, he was obligated to sell them to the highest qualifying bidder. SUF 29.  
 20 Augusto never received consent to sell the UMG Promo CDs. SUF 23. His  
 21 auctions violate UMG's distribution right under the Copyright Act.

22 Recently, in Perfect 10, Inc. v. Amazon.com, Inc., 508 F.3d 1146 (9th Cir.  
 23 2007), the Court referred to A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004,  
 24 1014 (9th Cir. 2001) and Hotaling v. Church of Jesus Christ of Latter-Day Saints,

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25  
 26  
 27 <sup>3</sup> These copyright registrations sometimes cover an entire album or compilation of  
 28 recordings. Such registrations apply to each of the individual tracks in that album.  
 37 C.F.R. § 202.3(h)(3)(A). The fourteen different, individual sound recordings  
 infringed here are covered by eleven registrations. SUF 27.

1 118 F.3d 199, 203 (4th Cir. 1997), as authority for the proposition that making  
 2 available copyrighted works to the public is “deemed distribution” in violation of  
 3 the exclusive distribution right:

4 “Hotaling held that the owner of a collection of works who  
 5 makes them available to the public may be deemed to have  
 6 distributed copies of the works. Similarly, the distribution  
 7 rights of the plaintiff copyright owners were infringed by  
 8 Napster *users* ... when they used Napster software to  
 9 make their collections available to all other Napster  
 10 users.”<sup>4</sup> 508 F.3d at 1162 (italics in original, citations  
 11 omitted)

12 See Matlow v. Solomon, No. Civ. 04-6109-HO, 2005 WL 309976 \*1 (D. Or. Feb. 7,  
 13 2005) (defendant’s offer for sale of unauthorized photographs by listing them on  
 14 eBay violated the Copyright Act, even though he later destroyed the photographs);  
 15 see also Wildlife Internationale, Inc. v. Clements, 591 F. Supp. 1542, 1547 (S.D.  
 16 Ohio 1984) (“the distribution, through sale or offer of sale to the public or otherwise  
 17 ... constitutes an infringement”); Universal City Studios Prods. LLLP v. Bigwood,  
 18 441 F. Supp. 2d 185, 190 (D. Me. 2006) (using online service to make available  
 19 motion pictures over the Internet violated plaintiffs’ exclusive right to distribute the  
 20 motion pictures).

21 Augusto also acknowledged at least an actual sale of a UMG Promo CD.  
 22 SUF 30 (“Get Stoned”). Augusto also produced documents showing completed  
 23 sales for two other UMG Promo CDs. SUF 31 (“Just Vibe” and “Read My Mind”).  
 24

25 <sup>4</sup> The Perfect 10 Court concluded that the deemed distribution rule did not apply in  
 26 that case because, unlike Napster and Hotaling, the defendant Google did not have  
 27 possession of (but only linked to) a collection of infringing images; therefore, it  
 28 could not be deemed to be distributing them under this authority. 508 F.3d at 1162.  
 Here, of course, Augusto has possession of the infringing UMG Promo CDs he  
 offers for sale on eBay and he actually puts them up for auction, receives bids on  
 them, and sells some, if not all, of them.

1 There is documentary evidence that at least one other UMG Promo CD was  
2 involved in a completed sale, as reflected by the “feedback” on that specific sale  
3 posted by its purchaser. SUF 32 (“Say It Right”). Further, Augusto testified that if  
4 he offers a promotional CD for sale and it doesn’t sell, he may re-list it under a new  
5 auction number. SUF 33. Alternatively, Augusto testified that “a common way to  
6 dispose of them” is to give unsold promotional CD away, or he may throw them  
7 away. SUF 34. Both are unauthorized distributions. Augusto also sold promotional  
8 CDs privately and “offline” when certain of his auctions were disabled by eBay.  
9 SUF 35.

10 Finally, Augusto has made it impossible to determine the disposition of the  
11 remaining UMG Promo CDs. He cannot (or will not) reveal any information  
12 concerning these phonorecords. Even though they were the primary product of his  
13 eBay auctions and essentially his sole source of income, he has no documents  
14 whatsoever that reflect the source or the sale or the present location of the UMG  
15 Promo CDs. SUF 36. He claims not to know whether or not they were sold (but  
16 does not outright deny that they were in fact sold). SUF 36. He failed to keep the  
17 confirmations of sales provided to him by eBay. SUF 36. He does not even know  
18 whether he still possesses any of the UMG Promo CDs. SUF 36.

19 Augusto knew that UMG claimed his auction of UMG’s promotional CDs  
20 was infringing. SUF 11, 22. He admits that 80% of the promotional CDs he offers  
21 are ultimately sold. SUF 37. The failure to keep records, given that Augusto’s  
22 business was selling promotional CDs, that he offered and accepted bids on the  
23 UMG Promo CDs and intended to and did sell them, and his inability to state where  
24 the UMG Promo CDs are located now or their disposition, is evidence that they  
25 were sold in the course of his business. See Hotaling, 118 F.3d at 203 (holding  
26 library liable for infringing distribution of copyrighted works by making them  
27 available without keeping records of specific instances when the infringing copies  
28 actually were distributed because otherwise “a copyright holder would be prejudiced

1 by a [defendant] library that does not keep records of public use, and the [defendant]  
2 library would unjustly profit by its own omission.”).

3 **III. THE FIRST SALE AFFIRMATIVE DEFENSE CANNOT SHIELD**  
4 **AUGUSTO’S SALES OF THE UMG PROMO CDs.**

5 **A. The First Sale Defense is a Limited Affirmative Defense On Which**  
6 **Augusto Bears The Burden of Proof.**

7 Augusto’s primary asserted defense to UMG’s claims of infringement is the  
8 first sale affirmative defense.<sup>5</sup> SUF 38. That defense is, however, inapplicable here  
9 because the first sale defense is limited to owners of copies or phonorecords. It  
10 expressly excludes from its provision others, such as Augusto, who may obtain  
11 possession but not ownership of copies or phonorecords. Thus, because there was no  
12 first sale of the UMG Promo CDs (but only a limited license to specific recipients),  
13 the first sale defense cannot apply.

14 The first sale defense is codified in 17 U.S.C. § 109:

15 “(a) The *owner* of a particular copy or phonorecord  
16 lawfully made under this title, or any person authorized by  
17 such *owner* is entitled, without authority of the copyright  
18 owner, to sell or otherwise dispose of the possession of  
19 that copy or phonorecord.” 17 U.S.C. § 109(a) (emphasis  
20 added).

21 . . .

22 “[t]he *privilege* [ ] described by subsection (a) [does] not,  
23 unless authorized by the copyright owner, extend to any  
24

---

25 <sup>5</sup> Augusto also alleged the affirmative defenses of estoppel and unclean hands.  
26 His sole response to an interrogatory requiring him to state each and every fact on  
27 which he based his affirmative defenses (including the first sale defense) was  
28 “Augusto bases his affirmative defenses upon the facts alleged in the complaint, and  
upon additional facts which may emerge on discovery.” Augusto never  
supplemented this response. SUF 39.

1 person who has acquired possession of the copy or  
 2 phonorecord from the copyright owner *by rental, lease,*  
 3 *loan or otherwise, without acquiring ownership of it.*”

4 Id. § 109(d) (emphasis added).<sup>6</sup>

5 The legislative history also makes clear the narrow limitations of the first sale  
 6 defense. Those who merely possess copies (like Augusto, who cannot or will not  
 7 even say where he obtained them) do not have a first sale defense.

8 “Subsection (c) of Section 109 [now subsection (d)]  
 9 qualifies the privilege specified in subsection (a) ... by  
 10 making clear that [it does] not apply to someone who  
 11 *merely possesses* a copy or phonorecord without having  
 12 acquired ownership of it. Acquisition of an object  
 13 embodying a copyrighted work by rental, lease, loan or  
 14 bailment carries with it no privilege to dispose of the copy  
 15 under section 109(a).” H.R. Rep. No. 94-1476, at 80; S.  
 16 Rep. No. 94-473, at 72-73 (1975) (emphasis added).<sup>7</sup>

17 The first sale defense is an affirmative defense, an exception to the rights of  
 18 copyright holders, and a limited “privilege.” See American Int’l Pictures v.  
 19 Foreman, 576 F.2d 661, 665 (5th Cir. 1978) (“because copyright law favors the  
 20 rights of the copyright holder, the person claiming authority to copy or vend  
 21 generally must show that his authority to do so flows from the copyright holder”).  
 22 As an affirmative defense, Augusto has the burden of proving all of the underlying

---

24 <sup>6</sup> At some time, Augusto began selectively to quote § 109(a) on eBay in  
 25 advertising his auctions of promotional CDs. However, tellingly, he omitted  
 § 109(d)’s express limitations on that defense. (When asked why, he stated: “That’s  
 just the way I roll.”). SUF 40.

26 <sup>7</sup> The Copyright Act does not define “owner.” However, a licensee is not an  
 27 owner. Microsoft v. Harmony Computers & Electronics, 846 F. Supp. 208, 213  
 (E.D.N.Y. 1994) (“Entering into a license agreement is not a ‘sale’ for purposes of  
 the first sale doctrine.”); compare H. R. Rep. No. 94-1476 at 79 (“Outright sale” of a  
 28 book is an example of “where the copyright owner has transferred ownership.”).

1 facts necessary to support that defense. See, e.g., Harmony Computers &  
2 Electronics, 846 F. Supp. at 212; Novell, Inc. v. Unicom Sales, Inc., 2004 Copr. L.  
3 Dec. ¶ 28,900 at 37,684, No. C-03-2785 MMC, 2004 WL 1839117 \*8 (N.D. Cal.  
4 August 17, 2004) (defendant bears burden of proof on first sale defense); see also  
5 Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 590 (1994) (defendant bears the  
6 burden to support fair use affirmative defense).

7 This burden requires that Augusto must trace the chain of title of *each*  
8 *specific copy of the UMG Promo CDs he auctioned* to the original alleged transfer  
9 of ownership, and show the existence of a first sale *for that particular UMG Promo*  
10 *CD*. That is what he has alleged (SUF 41. Augusto alleges he is the owner of the  
11 *particular copies* of phonorecords at issue in this action), and that is what the law  
12 requires he must prove:

13 “The defendant in such actions clearly has the particular  
14 knowledge of how possession of the particular copy was  
15 acquired, and should have the burden of providing this  
16 evidence to the court. It is the intent of the Committee,  
17 therefore, that in an action to determine whether a  
18 defendant is entitled to the [first sale] privilege established  
19 by Section 109(a) and (b), ... the burden of proving  
20 whether a *particular copy* was lawfully made or acquired  
21 should rest on the defendant.” See H.R. Rep. No. 94-1476,  
22 at 81 (emphasis added).

23 This follows from the fact that one who “merely possesses” a copy of a copyrighted  
24 work does not satisfy the requirements of the first sale defense. Rather, if Augusto  
25 relies on the first sale defense, he must prove a first sale of the particular copy he  
26 possessed. He is in the best position to do so; the burden is and should be his.  
27 Augusto is the one who obtained the particular copy. Only he knows or should  
28 know his source, and only he can, if necessary, use that information to trace the



1 copy to the original recipient (and then prove there was a transfer of ownership to  
2 that recipient and not a license).

3       Moreover, while UMG provides promotional CDs in limited quantities,  
4 generally several thousand copies of any specific promotional CD are sent to  
5 recipients. SUF 42. UMG's lists of recipients constantly are updated, and for these  
6 and other reasons, it is not possible to determine with certainty who received all of  
7 the copies of all the UMG Promo CDs, let alone the source of the particular UMG  
8 Promo CDs obtained after they were sent, and subsequently distributed by Augusto.  
9 Even if all of the original recipients of all the UMG Promo CDs could be  
10 determined, they would number in the tens of thousands and it still would not be  
11 possible for UMG to trace the particular CD Augusto auctioned to a specific  
12 recipient. SUF 43. UMG does not "watermark" or otherwise identify each copy of  
13 each of its promotional CDs. Of course, UMG as a copyright owner has no  
14 obligation to do so and, moreover, it would be prohibitively expensive and  
15 impractical to make that attempt. SUF 44. (In any event, even if the CDs were  
16 watermarked, UMG would need to obtain the specific CD auctioned by Augusto to  
17 tie it to a recipient. Augusto does not know where the CDs are or to whom they  
18 were sold. SUF 44.)

19       Since Augusto was not a direct recipient from UMG of any of the UMG  
20 Promo CDs at issue, only Augusto could know his source (who may or may not  
21 have been an original recipient). SUF 45. Thus, only Augusto can establish  
22 "whether a particular copy was lawfully ... acquired." While *all* the UMG Promo  
23 CDs were licensed and there was no transfer of ownership in any of them (see  
24 Section B *infra*), to the extent Augusto claims (as he must for purposes of his  
25 affirmative defense) that the particular copy he auctioned somehow was not subject  
26 to the license, he must prove it.

27       Augusto has admitted that he cannot provide the requisite proof of a first sale,  
28 and, therefore, he cannot prevail on that defense. Augusto cannot relate any of the

1 UMG Promo CDs at issue to the source of any alleged first sale; he could not or  
2 would not even identify his source of the UMG Promo CDs; he had no business  
3 records or any other way of determining either his source or the original recipient of  
4 the UMG Promo CDs; and he did not know the disposition or present location of the  
5 UMG Promo CDs. SUF 46. This admitted complete failure of proof on the  
6 predicate element of the first sale defense means Augusto cannot defeat UMG's  
7 claims.

8 In Harmony Computers & Electronics, defendants were sued for violation of  
9 the exclusive distribution right by the sale of Microsoft software that was provided  
10 subject to a limited license. Defendants asserted the first sale defense. In rejecting  
11 that defense and granting a preliminary injunction, the Court held:

12 "Defendants fail to prove that the first sale doctrine applies  
13 because they do not trace their purchase of Microsoft  
14 Products to a 'first sale' by Microsoft or any party  
15 authorized by Microsoft to sell the Products."

16 ...

17 "In civil actions for copyright infringement, the defendant  
18 has the burden of proving that the particular pieces of the  
19 copyrighted work that he sold were lawfully made or  
20 acquired."

21 ...

22 "[D]efendants have the burden of tracing the chain of title  
23 to show that their authority to sell Microsoft Products  
24 flows from the copyright holder."

25 ...

26 "Defendants' only evidence of a chain of title for any of  
27 their Products is an invoice of their purchase of several  
28 pieces of Microsoft Products from an entity called

1 Innovative Datronics Corp. The fact that defendants  
 2 bought their Microsoft Products from another party does  
 3 not by itself establish a first sale.”

4 ...

5 “Defendants’ failure to meet their burden of proving a  
 6 chain of title ... precludes the applicability of the first sale  
 7 doctrine to this case.” 846 F. Supp. at 212-13.

8 Here, too, Augusto’s inability to trace the UMG Promo CDs he sold to a specific  
 9 “first sale” is a “failure to meet [his] burden of proving a chain of title [and]  
 10 precludes the applicability of the first sale doctrine to this case.” Id. See, e.g.,  
 11 Microsoft Corp. v. Software Wholesale Club, Inc., 129 F. Supp. 2d 995, 1008 (S.D.  
 12 Tex. 2000) (summary judgment on first sale defense because “[d]efendants have not  
 13 met their burden of tracing the chain of title to show a basis for the first-sale  
 14 doctrine”); Too, Inc. v. Kohl’s Department Stores, Inc., 2002 Copr. L. Dec ¶ 28,521  
 15 at 35,382, 2002 WL 31409852, (S.D. Ohio 2002) (“The alleged infringer bears the  
 16 burden of tracing the chain of title to prove that the first sale doctrine applies.”);  
 17 NCR Corp. v. ATM Exchange, Inc., 2006 U.S. Dist. LEXIS 30296 at \*3-4, 81  
 18 U.S.P.Q.2d 1216 (S.D. Ohio May 17, 2006) (same); see also W.F. Patry, 4 Patry on  
 19 Copyright § 13:16 at 13-36 – 13-37 (2008) (“The first sale doctrine is, therefore,  
 20 adjudicated on a copy-by-copy basis: if the particular copy or copies at issue are  
 21 unauthorized, it is unavailing to defendant if other, authorized copies have been  
 22 sold.”).

23 **B. In Any Event, The First Sale Defense Cannot Apply To The**  
 24 **Licensed UMG Promo CDs.**

25 Given Augusto’s inability to satisfy the predicate element of the first sale  
 26 defense, the Court need not examine the issue further. However, the first sale  
 27 defense could not apply in any event because UMG exercised its right, as the  
 28 copyright owner, to license, rather than transfer ownership to, promotional CDs

1 containing its copyrighted works. The limited license of the UMG Promo CDs to  
 2 intended recipients was not a transfer of ownership or a “first sale”: “The  
 3 distribution right under Section 106(3) includes the right to control not only the ‘sale  
 4 or other transfer of ownership’ of copies or phonorecords, but also their disposition  
 5 ‘by rental, lease, or lending.’” Parfums Givenchy, Inc. v. C&C Beauty Sales, Inc.,  
 6 832 F. Supp. 1378, 1389 (C.D. Cal. 1993), aff’d, 38 F.3d 477 (9th Cir. 1994). If the  
 7 copyright owner has licensed the copy of its work, rather than transferred title, it  
 8 retains ownership and there has been no first sale. In that event, sale by the licensee  
 9 (or anyone obtaining from the licensee) violates the distribution right and constitutes  
 10 copyright infringement. See, e.g., Adobe Sys, Inc. v. One Stop Micro, Inc., 84 F.  
 11 Supp. 2d 1086, 1089 (N.D. Cal. 2000) (“a copyright owner does not forfeit his right  
 12 to distribution by entering into a licensing agreement”).

13 UMG licenses the UMG Promo CDs for free to a limited number and class of  
 14 people solely for promotional purposes. The select recipients are associated with  
 15 the music business. SUF 47. Most of the copyrighted sound recordings at issue  
 16 were embodied in at least one UMG Promo CD offered for sale by Augusto that  
 17 included the following language:

18 “This CD is the property of the record company and is  
 19 licensed to the intended recipient for personal use only.  
 20 Acceptance of this CD shall constitute an agreement to  
 21 comply with the terms of the license. Resale or transfer of  
 22 possession is not allowed and may be punishable under  
 23 federal and state laws.” SUF 48.<sup>8</sup>

24 This language constitutes an offer by UMG to enter into an agreement with  
 25 the recipient based on terms that include retention of ownership by UMG and  
 26 \_\_\_\_\_

27 <sup>8</sup> Some of the sound recordings were embodied on promotional CDs which  
 28 contained other shorter, but no less equivocal language: “For Promotional Use Only  
 – Not for Sale.” SUF 50.

1 prohibit sale. Most recipients chose to accept promotional CDs. Promotional CDs  
2 include a return address. Promotional CDs that are not deliverable are returned, and  
3 a relatively few recipients also return them. (UMG destroys the returned copies.)  
4 SUF 49. The UMG Promo CDs sold by Augusto obviously were not returned by  
5 their recipients. When a recipient chooses to keep the CD, he or she assents to the  
6 terms of the license. See generally 1 Corbin On Contracts § 3.21 at 425-26 (1993)  
7 (“an offeree whose conduct indicates assent to the offeror, creates a contract”); 1  
8 Witkin, Summary of California Law § 195 at 228-29 (10th ed. 2005) (“Where the  
9 offeree, with freedom to reject them, makes use of services, or other consideration  
10 tendered with the offer, this conduct amounts to an acceptance); see, e.g., Arizona  
11 Cartridge Remanufacturers Assn. v. Lexmark Int’l, Inc., 421 F.3d 981, 987-88 (9th  
12 Cir. 2005) (enforceable contract created by acceptance and use of patented cartridge  
13 where there was notice of terms, a chance to reject product, and a reduced price);  
14 ProCD, Inc., v. Zeidenberg, 86 F.3d 1447, 1452 (7th Cir. 1996) (“ProCD proposed a  
15 contract that a buyer would accept by *using* the software after having an opportunity  
16 to read the license at leisure”) (emphasis in original); Register.com, Inc. v. Verio,  
17 Inc., 356 F.3d 393, 403 (2d Cir. 2004) (“It is standard contract doctrine that when a  
18 benefit is offered subject to stated conditions, and the offeree makes a decision to  
19 take the benefit with knowledge of the terms of the offer, the taking constitutes an  
20 acceptance of the terms, which accordingly become binding on the offeree”); see  
21 also Storm Impact, Inc. v. Software of Month Club, 13 F. Supp. 2d 782, 785, 791  
22 (N.D. Ill. 1998) (express reservation of right to distribute software made available  
23 for free over the Internet was valid and enforceable).

24 No reported decision has discussed the licensing of promotional CDs.  
25 However, the principle that possession of copyrighted works may be licensed  
26 without transfer of ownership and, therefore, there is no first sale (and no first sale  
27 defense), has been applied most significantly in the context of software licensing,  
28 where “[a] common method of distribution is through licensing agreements, which

1 permit the copyright holder to place restrictions upon the distribution of its  
2 products.” One Stop Micro, Inc., 84 F. Supp. 2d at 1092. In that way, software  
3 copyright owners retain ownership of the physical discs on which their copyrighted  
4 software resides. Software licenses prohibiting resale apply to millions of discs  
5 even after they have been paid for by the public for general use. Nevertheless, such  
6 software licenses customarily are enforced. See, e.g., DSC Comm’n Corp. v. Pulse  
7 Comm’n, Inc., 170 F.3d 1354, 1361-62 (Fed. Cir. 1999); MAI Sys Corp. v. Peak  
8 Computer, Inc., 991 F.2d 511, 517-519 (9th Cir. 1993); see also Meridian Project  
9 Systems, Inc. v. Hardin Construction Co., LLC, 426 F. Supp. 2d 1101, 1106-07  
10 (E.D. Cal. 2006) (shrink wrap license enforceable; defendant had an opportunity to  
11 return software and never objected to terms). On the other hand, UMG’s  
12 promotional CD licenses apply only to a relatively few discs that are not  
13 commercially sold to the public or paid for by recipients who are knowledgeable  
14 about their restrictions.

15 The Ninth Circuit recently addressed this issue in a different context in Wall  
16 Data v. Los Angeles County Sheriff’s Department, 447 F.3d 769 (9th Cir. 2006).  
17 The Sheriff’s Department obtained software for 3,663 installations, but installed the  
18 software in 6,007 computers. Wall Data, the software owner, sued for copyright  
19 infringement claiming that the additional copies exceeded the limited license under  
20 which it had provided the software. The Sheriff’s Department argued that it had  
21 purchased and “owned” the copies of the software.<sup>9</sup> In holding that there was no  
22 transfer of ownership but only a license, the Court enunciated the rule in this  
23 Circuit:

24  
25  
26 <sup>9</sup> The question of ownership was important in light of the Sheriff Department’s  
27 claim that making the copies was protected under 17 U.S.C. § 117, which permits  
28 the “owner of a copy” to make another copy of the program if the additional copy is  
an “essential step in the utilization of the computer program... [and] is used in no  
other manner.” 447 F.3d at 784.

1 Generally, if the copyright owner makes it clear that she or  
2 he is granting only a license to the copy of software and  
3 imposes significant restrictions on the purchaser's ability  
4 to redistribute or transfer that copy, the purchaser is  
5 considered a licensee, not an owner, of the software. 447  
6 F.3d at 785.

7 Of particular relevance here is the Court's reference to the first sale doctrine in  
8 discussing the issue of ownership:

9 Indeed, the first sale doctrine rarely applies in the software  
10 world because software is rarely "sold." *Adobe Systems*  
11 *Inc. v. One Stop Micro, Inc.*, 84 F. Supp. 2d 1086, 1091  
12 (N.D. Cal. 2000) ("[V]irtually all end users do not buy—  
13 but receive a license for—software. The industry uses  
14 terms such as 'purchase' 'sell,' 'buy,'... because they are  
15 convenient and familiar, but the industry is aware that all  
16 software... is distributed under license.") 447 F.3d at 769,  
17 n. 9.

18 Several courts within this circuit have held that such license restrictions  
19 limiting transfer preclude assertion of the first sale defense. See, e.g., One Stop  
20 Micro, Inc., 84 F. Supp. 2d at 1093 (summary judgment to plaintiff because  
21 copyright in software licensed only for sale to educational users was infringed by  
22 distribution to non-educational users); Novell, Inc., 2004 WL 1839117 \*10-13,  
23 Copr. L. Dec. ¶ 28,900 (N.D. Cal. 2004) (summary judgment on license agreement  
24 included in software box); Adobe Systems Inc. v. Stargate Software, Inc., 216 F.  
25 Supp. 2d 1051, 1059-60 (N.D. Cal. 2002) (shrink wrap license enforceable); see also  
26 S.O.S., Inc. v. Payday, Inc., 886 F.2d 1081, 1088-89 & n.9 (9th Cir. 1989) (licensee  
27 of software "would be entitled to possess a copy of the software to enable it to  
28 exercise its limited right of use, but would not *own* that copy. An owner of a copy of

1 software has certain rights under the Copyright Act which a mere possessor does  
 2 not.”) citing Section 109 (italics in original). Courts outside the Ninth Circuit have  
 3 reached similar conclusions. See, e.g., Harmony Computers & Electronics, 846 F.  
 4 Supp. 2d at 208; Software Wholesale Club, Inc., 129 F. Supp. 2d at 1007-08  
 5 (summary judgment rejecting first sale defense); ISC-Bunker Ramo Corp. v. Altech,  
 6 Inc., 765 F. Supp. 1310, 1331 (N.D. Ill. 1990) (first sale defense does not apply  
 7 where owner of copyrighted programs “through its licensing agreements, has  
 8 specifically limited distribution”).<sup>10</sup>

9 Since the UMG Promo CDs were licensed, and title and ownership did not  
 10 pass to their initial recipients, Augusto could not himself receive title and ownership  
 11 (even if he could establish his chain of title, which he cannot). See American Int’l  
 12 Pictures, 576 F.2d at 664 (absent a transfer of title “an unwitting purchaser who  
 13 buys a copy in the secondary market can be held liable for infringement if the copy  
 14 was not the subject of a first sale by the copyright holder. Thus, unless title to the  
 15 copy passes through a first sale by the copyright holder, subsequent sales do not  
 16 confer good title.”); Major League Baseball Promotion v. Colour-Tex, 729 F. Supp.  
 17 1035, 1041 (D. N.J. 1990) (“A licensee who has ... materially breached the  
 18 licensing contract has no right to give a sublicense under which the sublicensee can  
 19 take cover in a copyright infringement case, and therefore, both the licensee and  
 20 sublicensee can be held liable for acting without authorization and thereby

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21  
 22  
 23 <sup>10</sup> Some district courts prior to Wall Data reached a different conclusion in  
 24 situations that are distinguishable from the present one. For example, in SoftMan  
 25 Products Co., LLC v. Adobe Systems, Inc., 171 F. Supp. 2d 1075, 1085 (C.D. Cal.  
 26 2001), the district court’s rationale for finding a sale rather than a license was “the  
 27 transfer of a product for consideration with a transfer of title and risk of loss  
 28 generally constitutes a sale.” Id. at 1085. See Stargate Software, 216 F. Supp. 2d at  
 1058-59 (distinguishing and disagreeing with SoftMan; “The court in Softman [sic]  
 dealt with the question of whether the purchaser of a retail collection of Adobe  
 software can re-distribute the collection’s constituent parts.”); see also Meridian  
Project Sys., 426 F. Supp. 2d at 1106, n.5 (“In SoftMan, the court did not reach the  
 issue of whether ‘shrink wrap licenses’ were enforceable because the court found  
 that the plaintiff never loaded the software, and thus never assented to the EULA.”).



1 infringing the licensor’s copyright”); see also Altech Inc., 765 F. Supp. at 1331  
2 (“there is no such thing as a bona fide purchaser for value in copyright law”); cf.  
3 Parfums Givenchy, Inc., 832 F. Supp. at 1384 (“a copyright owner may sue ‘any  
4 member of the distribution chain.’”).

5  
6 **CONCLUSION**

7 UMG owns the copyrights to the sound recordings embodied in the UMG  
8 Promo CDs. Augusto distributed them without authority. That violates UMG’s  
9 exclusive distribution right. Augusto cannot carry his burden of establishing his  
10 “chain of title” for the particular copies of the UMG Promo CDs he distributed  
11 without authority. In any event, since the UMG Promo CDs were licensed to  
12 recipients, there was no transfer of ownership and no “first sale.” UMG is entitled  
13 to partial summary judgment on the issue of liability.

14 Respectfully submitted,

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