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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)

[PUBLIC REDACTED] REPLY 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

Compl. Filed: May 10, 2007
Trial Date: June 24, 2008

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I. Introduction

UMG's opposition is based on a fundamental fallacy: that there is a legally cognizable difference between a "promo CD" and a "commercial CD." There is none. Each is a single, physical copy (a "phonorecord") of a copyrighted work that has passed out of UMG's possession permanently. As courts have held for over a century, emblazoning one's desired rules on a copy does not impose those rules on the subsequent owner of that copy.[1]

In its Opposition, UMG assures the Court that it is not attempting to restrict the resale of commercial CDs sold in stores. But under UMG's theory, that restraint relies solely on UMG's own good will. If the label language at issue in this case constitutes a "license," there is no limit to copyright holders' power to restrict secondary markets in copyrighted works, be they CDs, DVDs, or textbooks. This Court, however, has already seen the extent of the music industry's restraint when it comes to the interests of consumers. *See, e.g.*, *Elektra Entm't Group Inc., UMG Recordings, Inc., et al. v. O'Brien*, No. CV 06-5289 (C.D. Cal. Mar. 2, 2007) (order to show cause) (Otero, J.) (expressing concern that "the federal judiciary is being used as a hammer by a small group of plaintiffs to pound settlements out of unrepresented defendants"). This Court should resist UMG's overreaching, and decline to expand UMG's rights at the expense of the first sale doctrine and the public.

II. Argument

A. A "Promotional Use Only" label is not a license, nor does it prevent transfer of title.

UMG fundamentally confuses two separate legal concepts: a *license* to undertake some act which, but for the license, would be copyright infringement, and a *loan* of a physical object. It is black letter law that a copyright is separate

[1] *See, e.g.*, *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908) (rejecting a copyright claim on the basis that a notice purporting to restrict the sale price of a novel has no legal significance).

from property rights in the physical objects embodying the copyrighted work. UMG attempts to conflate these very different concepts, stating that it has decided to "license possession of that property." UMG Opp. at 2. This is a novel concept indeed: a thorough search of federal case law reveals that the only "licensed possession" of a chattel heretofore recognized in the law has to do with a government-issued "license" to possess wildlife, firearms, or nuclear materials.

But one does not need a license to do things that are not prohibited in the first place, and that is why UMG's reference to software licensing cases is misplaced here. The critical difference between software and music CDs is that one *needs* a license to make ordinary uses of computer software: computers cannot do anything without copying data into RAM, and it is common that computer programs must be copied onto a hard drive even before they can be copied yet again into RAM. *See MAI Sys., Inc. v. Peak Computer, Inc.*, 991 F.2d 511, 518-519 (9th Cir. 1993). While some of these copies are privileged under 17 U.S.C. § 117, some are not. Thus, because ordinary computer use would infringe copyright but for some license or applicable exception, a license is generally needed where software is concerned. No comparable license is needed to play a music CD.

This is why, even if UMG's purported "license" had any legal weight at all, a breach would have to be remedied in *contract* law, not as a copyright infringement. UMG is attempting to transform what is, at best, a contract or a conversion claim against the original recipient into a claim for copyright infringement against any and all downstream purchasers. Its reasons for doing so are easy to discern: UMG contends that the CDs are of no continuing value to it, and thus the damages from a contract or conversion claim would be nonexistent. But in copyright, a plaintiff is entitled to statutory damages of up to $150,000 per work even without showing any damage. 17 U.S.C. § 504(c)(2); *see Warner Bros. Entm't v. Foitzik*, No. CV 06-0921 (C.D. Cal. Sep. 15, 2006) (Otero, J.) (awarding statutory damages of "a thousand times the retail value of the goods sold" for the

sale of one counterfeit *Friends* DVD set on an online auction site by a defaulting defendant). This court should not countenance UMG's attempt to leverage what would be a valueless contract or conversion claim into a copyright case, especially where, unlike cases such as *Foitzik*, there is no allegation that any unlawful copying has taken place.

UMG claims that it has prevented transfer of title in CDs it gives away simply by writing "Promotional Use Only – Not For Sale" on the face of the CDs. But even if this language had some legal meaning, it would not result in UMG's retention of title to the chattel. In analogous circumstances, courts have consistently found that label notices like UMG's do *not* prevent transfer of title. For example, makers of hair care products frequently place prominent labels on their products stating "Professional Use Only – Not To Be Sold at Retail," or words to that effect. None of the numerous courts that have considered such labels has found them to prevent transfer of title.[2] Nor do label notices create an "implied equitable servitude upon the chattel," such restraints on alienation being disfavored at common law. *Clairol, Inc. v. Cody's Cosmetics, Inc.*, 353 Mass. 385, 393 (1967) (finding labels stating "For Professional Use" to have no legal significance).

B. The undisputed facts show that Augusto owned the CDs.

1. UMG ignores the plain text of 39 U.S.C. § 3009.

Section 3009 provides that "unordered merchandise"—that is, any "merchandise mailed without the prior expressed request or consent of the

[2] *See, e.g., Tripoli Co. v. Wella Corp.*, 425 F.2d 932, 941 (3d Cir. 1970) (enforcement of legend on products "marked 'for professional use only' not to be sold retail" would be "a serious restriction on freedom of trade and competition"); *Matrix Essentials v. Quality King Distribs.*, 522 F. Supp. 2d 470, 478-79 (E.D.N.Y. 2007) (finding that the trademark first sale doctrine barred enforcement of "professional use only" restriction); *Matrix Essentials v. Cosmetic Gallery*, 870 F. Supp. 1237, 1241 (D.N.J. 1994) (refusing to enforce a legend stating "For professional use. Not for retail sale."); *Polymer Tech. Corp. v. Mimran*, 841 F. Supp. 523, 529-30 (S.D.N.Y. 1994) (no valid claim for unauthorized distribution despite plaintiff's "expression of intent so to restrict sales by labeling its products 'For Professional Use Only.'").

recipient"—"may be treated as a gift by the recipient." In its Opposition, UMG does not dispute (1) that it "mailed" the "promo CDs," nor (2) that it did so without "prior expressed request or consent." Opp. at 8-10. Instead, UMG relies on *Blakemore v. Superior Court*, 129 Cal. App. 4th 36 (2005), to argue that recipients of the "promo CDs" were not "recipient[s]" under § 3009.

In *Blakemore*, the California Court of Appeal held that Avon sales representatives, who distributed for sale cosmetics products shipped to them by Avon, could not invoke § 3009 because the term "recipient" did not encompass "parties to an ongoing contractual relationship involving the sale of the same merchandise," such as "independent jobbers and wholesalers." *Id.* at 51-52. But UMG does not contend that recipients of "promo CDs" are parties to a contract for their resale, or are jobbers or wholesalers. Opp. at 3. Accordingly, recipients of "promo CDs" do not fall within the wholesaler exception to § 3009 enumerated in *Blakemore*.

Finally, in passing, UMG attempts to argue that the "promo CDs" are not "merchandise." Opp. at 10. But this argument is defeated by the plain language of § 3009, which includes as "unordered merchandise" even "free samples" when they are not "clearly and conspicuously labeled as such." 39 U.S.C. § 3009(a).

Because "promo CDs" satisfy all of the statutory elements of § 3009, their recipients had "the right to retain, use, discard, or dispose of [them] in any manner . . . without any obligation whatsoever to [UMG]," and Augusto acquired good title. *Id.* § 3009(b).

2. Under California law, UMG's admitted intent never to regain possession is intent to abandon.

UMG does not dispute that Augusto has shown the first element of abandonment—non-possession. But UMG erroneously asserts that he has not shown intent to abandon—that is, relinquishment of possession "without any present intention to repossess." *Utt v. Frey*, 106 Cal. 397, 397 (1895). UMG does

not rebut the facts presented by Augusto clearly showing a "want of" "acts of ownership and dominion." Opening Br. at 13-14; *Moon v. Rollins*, 36 Cal. 333, 338-40 (1868). Nor can UMG avoid abandonment by saying it "did not intend to abandon," when it engaged in a course of conduct wholly inconsistent with such a statement. *Myers v. Spooner*, 55 Cal. 257, 260 (1880).

In fact, materials produced by UMG after Augusto filed his Opening Brief offer further proof of UMG's intent to abandon the "promo CDs." Specifically, documents and 30(b)(6) deposition testimony show that **[[MATERIAL REDACTED PURSUANT TO PROTECTIVE ORDER]].** This tax treatment of the "promo CDs" is inconsistent with UMG's contention that it intends to maintain an ongoing "property interest" in them. *See* Augusto's P. & A. in Opp'n to UMG's Mots. for Summ. J. at 11. Because UMG abandoned the "promo CDs," title passed to the recipients, and through them to Augusto.

III. Conclusion

This Court should not countenance UMG's attempt to claim rights in perpetuity over CDs it has given away by recourse to the simple expedient of a label stating "For Promotional Use Only – Not For Sale." Augusto's motion for summary judgment should be granted.[3]

[3] With respect to Augusto's section 512(f) counterclaim, UMG did not raise in its opposition any matters that require further response other than to note that UMG's position would bring about results antithetical to the purposes of the DMCA.

Dated: April 28, 2008

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