Case No. 08-55998

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

UMG RECORDINGS, INC., a Delaware corporation,
Plaintiff, Counter-defendant, Appellant,

vs.

TROY AUGUSTO d/b/a ROAST BEAST MUSIC COLLECTABLES AND ROASTBEASTMUSIC, an individual; and DOES 1 through 10, inclusive,
Defendant, Counter-claimant, Appellee.

Appeal From The United States District Court,
Central District of California,
Honorable S. James Otero, District Judge
U.S.D.C. No. 2:07 CV 3106 SJO (AJWx)

APPELLANT'S OPENING BRIEF

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CORPORATE DISCLOSURE STATEMENT

Pursuant to Federal Rule of Appellate Procedure 26.1, Appellant UMG Recordings, Inc. submit the following statement identifying its parent company and any publicly held corporation that owns 10% or more of its stock:

1. Vivendi S.A., which is a publicly traded corporation, and the ultimate parent of UMG Recordings, Inc.

DATED: December 15, 2008

MITCHELL SILBERBERG & KNUPP LLP
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INTRODUCTION

The District Court's decision dismissing the claims of Appellant UMG Recordings, Inc. ("UMG") for copyright infringement seriously curtails the long-standing record industry practice of promoting sales of commercial recordings by licensing a small number of free promotional recordings ("promotional CDs") to music industry professionals. The license provides that UMG retains ownership in the promotional CDs and prohibits their resale or transfer.

Promotional CDs allow music industry professionals to conduct their business of writing reviews or articles or playing new music at clubs or on the radio. The resulting increased sales of commercial recordings assist the record companies in recouping their considerable investments, provide a benefit to recording artists whose commercial recordings are being promoted and to record distributors and retailers (both brick and mortar and online) who sell the commercial recordings. Finally, promotional CDs benefit the public by educating the consumer before making a purchasing decision (through the ability to "preview" a record on radio or in clubs or to read professional reviews). While the promotional CDs benefit many, they harm no one.

Appellee Troy Augusto ("Augusto") obtained promotional CDs from unspecified sources and sold them, contrary to the license restrictions. Augusto did not receive the promotional CDs from UMG, and the terms under which promotional CDs were licensed are not here challenged by any direct recipient.

Nevertheless, and notwithstanding the express license terms, the District Court held that promotional CDs were a "gift or sale" and, therefore, subject to the first sale defense of 17 U.S.C. §109. On that basis, it dismissed UMG's claims against Augusto for copyright infringement.

I. STATEMENT OF JURISDICTION

The District Court had federal question jurisdiction under 28 U.S.C. §§1331, 1338(a). Excerpts of Record ("ER") 1137. Final judgment granting Augusto's motion for summary judgment dismissing UMG's complaint was entered on June 11, 2008. ER:1-15. The District Court's opinion is reported at 558 F.Supp.2d 1055 (C.D. Cal. 2008). UMG timely filed its notice of appeal on June 13, 2008, pursuant to Fed.R.App.P. 4. ER:16. This Court has jurisdiction under 28 U.S.C. §1292(a)(1).

II. STATEMENT OF ISSUES

1. Did the District Court commit error in holding, as a matter of law, that the first sale affirmative defense constituted a complete defense to the claims of copyright infringement because the original recipients of the copyrighted works were not "licensees" but "owners," notwithstanding that the works were not sold and were not gifts but rather were provided pursuant to a licensing agreement that reserved title to the licensor and prohibited their further distribution?

2. Did the District Court commit error in holding that the failure to include an express provision for the return of the licensed works negated the existence of the license even though, among other things, the nature of the transaction made return impractical and unnecessary, and the licensor expressly retained title to the works?

3. Did the District Court commit error in refusing to place the burden of proof on the defendant to trace his chain of title to a "first sale" to the original recipient of the "particular" copyrighted works that he sold?

4. Did the District Court commit error in holding that the copyrighted works constituted "unordered merchandise" pursuant to the Postal Reorganization Act, and as a result constituted a gift, notwithstanding that the works were not provided for the "unconscionable" purpose of tricking or bullying consumers into paying (the specific practice the Act was intended to deter), were licensed for free for promotional purposes, and the defendant did not provide any evidence that the copies he sold had ***not*** been "requested or consented" to by the original recipients?

III. STATEMENT OF THE CASE

On May 10, 2007, UMG filed its complaint alleging that Augusto had infringed UMG's copyrights in sound recordings by distributing promotional CDs embodying those sound recordings without authorization. ER:1136-49. Augusto responded, raising various affirmative defenses. ER:1126-35. Only the first sale affirmative defense is relevant here. ER:1129. Augusto also filed a counterclaim pursuant to the Digital Millennium Copyright Act (17 U.S.C. §512(f)), alleging that UMG had knowingly and materially misrepresented that Augusto's conduct was infringing. ER:1130-35.

The parties each sought summary judgment on the complaint and on the counterclaim. ER:908-32, 949-50.[1] After taking the motions under submission without oral argument (ER:1451), the District Court entered an order on June 11, 2008, granting Augusto's motion dismissing the complaint and denying UMG's motion on the complaint.[2] ER:1-15.

IV. STATEMENT OF FACTS.[3]

The practice of providing promotional CDs began with vinyl records and now largely involves compact discs. ER:359. Promotional CDs are different than the commercial CDs they promote. For example, they may have only one or two selections (not a full album) and they may not include artwork. ER:170. Only a few thousand copies of each promotional CD are made (id.), and they generally are

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1 The declarations supporting UMG's summary judgment motion are not included in the excerpts of record because they are identical to those filed in opposition to Augusto's motion.

2 The District Court also dismissed Augusto's counterclaim based on Rossi v. Motion Picture Ass'n of Am., 391 F.3d 1000, 1004-05 (9th Cir. 2004). See 558 F.Supp.2d at 1065. Augusto did not appeal.

3 The material facts were largely undisputed. ER:115-30, 168-87, 290-321, 933-48.

made available to the recipients before release of the commercial recordings they promote. ER:349. UMG selects the recipients of each promotional CD from proprietary lists of music industry "insiders." ER:172, 349-50. These include record reviewers, disc jockeys, and radio stations. ER:185-86, 399. Promotional CDs are ***never*** sold or otherwise made available to the public by UMG, and UMG never receives any payment for them. ER:170.

The recipients understand the promotional CDs are for use in their music-related businesses and to generate consumer interest in UMG's commercial recordings. ER:169-70, 185-86, 359. The label and/or packaging of each promotional CD contains language notifying the recipient that acceptance is agreement to a "license," that title is retained by UMG, that the promotional CD is for the intended recipient for personal use, and that its resale or transfer of possession is prohibited:

> "This CD is the property of the record company and is licensed to 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." ER:641; see generally id., at 641-74.

Although this language has varied over the years, the different iterations have the same meaning. 558 F.Supp.2d at 1058 n.1; see ER:187, 306-07.

Each promotional CD is sent with a return address (ER:172, 352), and a recipient can accept, decline, or return it. ER:172. Promotional CDs that are not deliverable are returned to UMG and are destroyed. Id. UMG does not specifically request the return of promotional CDs because, among other reasons, they may be used by the recipients over time (to write reviews of a subsequent album by the same artist, an article about the artist, the music, or the record company, or to be played in clubs by disc jockeys or on radio). ER:352. Although only a few thousand copies of each promotional CD are made, the total number of all UMG promotional CDs is substantial. ER:183, 351. It would be logistically difficult, expensive, and time consuming to seek return and then process them only to arrange for and pay for their destruction. ER:352. Moreover, almost all recipients comply with the restriction on transfer. As to those who do not, UMG polices unauthorized distribution by locating online auctions, requesting that those auctions be removed, determining the identities of those offering the promotional CDs for sale, and deleting from its lists any recipient UMG learns is responsible for an unauthorized transfer. ER:172-72, 353, 356-58.

Augusto, as well as the music industry recipients, was aware of the nature and purpose of promotional CDs. ER:174-75. Augusto prominently identified the CDs he sold as "Promo CDs," and "INDUSTRY EDITION -NOT SOLD IN STORES." ER:174; see generally ER:377-590. He formerly was a music critic and knew that promotional CDs are licensed to specific individuals and contain language that they are licensed for a limited purpose and sale or transfer is not authorized (e.g., "this particular CD wasn't designed for – was designed for people who work in the industry"). ER:175, 680, 685, 692-93, 754-55.

This action was brought after UMG twice notified Augusto that he was violating its copyrights. ER:359-60, 365-66. At issue are Augusto's unauthorized sales of promotional CDs that comprise just a small portion of those he sold. ER:173-74, 178-80; see generally ER:377-590. Although no longer on its website, eBay, over which Augusto made many of those sales, in the past had warned that it is "an infringement to sell [promotional CDs] and many copyright holders do care and enforce in this area," and that

> "Each promotional item is a copyrighted work. When they initially are distributed they are not sold. They technically remain the property of the record company or the studio that distributed them. The radio stations, movie theaters, etc., that receive them are only licensed to use the promo materials for limited promotional purposes. They are prohibited from selling them or giving them away; the materials themselves often state right on them 'Not For Sale.'"[4] ER:98 (referring to archived version of eBay U.S. website).

In a previous lawsuit by plaintiffs unrelated to UMG against Augusto for copyright infringement based on his sale of promotional CDs, Augusto acknowledged in a consent judgment that:

[4] eBay later modified this warning on its U.S. site (for unexplained reasons). ER:274. This warning continued to appear – in English – on at least one foreign eBay website. ER:274, 286 (Indian eBay site).

> "Defendant [Augusto] has, on numerous occasions, and despite repeated warnings, offered plaintiff's promo CDs for sale through an online auction website known as eBay.com. These sales made without plaintiff's authorization violated plaintiff's exclusive rights under 17 USC §106(3)." ER:901.

While the sale of promotional CDs constitutes most of Augusto's business, he claims to have no business records concerning their acquisition or sale. ER:682-84, 689-91, 704, 713-17, 724-25, 730-39. He admitted that he did not receive the promotional CDs directly from UMG, but he never identified his source of the specific promotional CDs he sold or their original recipients. Nor did he identify any customer to whom they were sold. Id.; see ER:686-88, 699-700, 764. Because each copy of a particular promotional CDs is identical, without this information (known only to Augusto), UMG could not determine the identity of the original recipients of the copies Augusto sold or how Augusto obtained them. ER:350-52.

V. SUMMARY OF ARGUMENT

A copyright owner has the right to retain ownership of his or her copyrighted work while licensing its use to others. The first sale affirmative defense is limited to "owners" of copyrighted works and does not apply to others, such as licensees, who may otherwise obtain possession of copyrighted works. UMG never sold its promotional CDs and never intended to make a gift of them by divesting itself of control and vesting ownership in the recipients. Rather, the original recipients of the promotional CDs received them as licensees and not owners and, therefore, could not transfer ownership to Augusto. There was no "first sale" and, therefore, Augusto's unauthorized sales violated UMG's exclusive distribution right.

The promotional CDs bear the indicia of a license, including language imprinted on the packaging and/or the CD referring to a "license," expressly reserving title in UMG, and restricting transfer or sale. The purpose and context of the long-standing practice of providing promotional CDs also evidences a license: they are non-commercial products provided for free to a small number of industry insiders for the limited business purpose of promoting commercial recordings. A license of promotional CDs provides industry recipients the opportunity to obtain a valuable resource to do their work while at the same time preserving UMG's copyright interests. There is no reason and no intent to transfer ownership of promotional CDs.

In addition, the proponent of the first sale affirmative defense has the burden of proving the predicate element – that there was a first sale of the "***particular***" copyrighted works he sold. Augusto did not receive the promotional CDs directly from UMG and did not disclose the identities of his sources for the copies he sold or their original recipients. He failed to trace the chain of title to the promotional CDs he sold to any first sale, and, therefore, could not prove the defense.

The promotional CDs also were not gifts of "unordered merchandise" under the Postal Reorganization Act, including because (1) the Act applies to the sales technique of mailing unsolicited merchandise to a consumer and then deceptively and harassingly demanding payment; (2) the Act does not apply where the parties to the transaction are not seller and consumer but instead enter into a contractual relationship; and (3) Augusto, not UMG as the District Court held, had the burden of proving, and failed to prove, that the specific promotional CDs he sold were "unordered" by the recipients, were not "requested or consented to," and that the original recipients had chosen to treat them as gifts.

VI. ARGUMENT

A. Standard Of Review

The decision to grant or deny summary judgment is reviewed *de novo*. See, e.g., Moreno v. Baca, 431 F.3d 633, 638 (9th Cir. 2005); Buono v. Norton, 371 F.3d 543, 545 (9th Cir. 2004). Generally, the denial of summary judgment is not a final judgment. However, "an order denying summary judgment is reviewable when, as is the case here, it is coupled with a grant of summary judgment to the opposing party." See Padfield v. AIG Life Ins. Co., 290 F.3d 1121, 1124 (9th Cir. 2002). A decision on cross motions for summary judgment also is reviewed *de novo*. See id.; Arakaki v. Hawaii, 314 F.3d 1091, 1094 (9th Cir. 2002).

This Court's review is governed by the same standard used by the District Court. See, e.g., Suzuki Motor Corp. v. Consumers Union of U.S., Inc., 330 F.3d 1110, 1131 (9th Cir. 2003). The Court determines, viewing the evidence in the light most favorable to the non-moving party, "whether there are any genuine issues of material fact and whether the District Court correctly applied the substantive law." Olsen v. Idaho State Bd. of Med., 363 F.3d 916, 922 (9th Cir. 2004).

B. Augusto Infringed UMG's Exclusive Distribution Rights In Its Copyrighted Sound Recordings.

Augusto conceded that UMG had established a *prima facie* case of infringement because it "owns the copyright to sound recordings embodied in the [promotional] CDs and ... Augusto sold these [promotional] CDs through eBay ... in violation of UMG's exclusive right to sell copies of those sound recordings to the public." 558 F.Supp.2d at 1059; ER:178-80.[5] See 17 U.S.C. §106(3) (distribution right); §501(a) ("Anyone who violates any of the exclusive rights of the copyright owner ... is an infringer of the copyright."). Augusto's sole defense was the first sale affirmative defense.

[5] "Sound recordings are "works that result from the fixation of a series of musical ... sounds." 17 U.S.C. §101. "Phonorecords are material objects in which sounds ... are fixed." Promotional CDs are "phonorecords." Id.

C. <u>The First Sale Defense Applies Only To "Owners" Of Copyrighted Works And Not To Licensees Of Those Works.</u>

1. The Promotional CDs Are Not Sales Or Gifts.

The District Court concluded that promotional CDs were a "gift ***or*** sale." Id. at 1061, 1062 (emphasis added). However, they were never sold by UMG. And they could not be gifts, as there was no unequivocal intent to vest ownership in the recipients. A gift is made "by delivering it to the donee, ... with the manifested intention that the donee be the owner of the personal property." Restatement (Second) of Property, Don. Trans., §31.1 (1992); see, e.g., United States v. Alcaraz-Garcia, 79 F.3d 769, 775 (9th Cir. 1996)(elements of gift include "a ***voluntary intent*** on part of the donor to make a gift; ... [and] complete divestment of control by the donor.")(emphasis added); Jaffe v. Carroll, 35 Cal.App.3d 53, 59 (1973)(same).

UMG did not "unequivocally" intend to vest title in its promotional CDs in others and to divest itself of all control. In fact, in holding that the promotional CDs were ***not*** abandoned, the District Court found that UMG had (and expressed) the opposite intent:

> "One has intent to abandon when one relinquishes possession 'without any present intention to repossess.' ... There 'must be some clear and unmistakable affirmative act or series of acts indicating an intention to relinquish ownership.' ... UMG has not affirmatively disavowed its rights to the Promo CDs, and in fact prints on the Promo CDs that it retains title." 558 F.Supp.2d at 1064-65.

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UMG did not sell or give away its promotional CDs, but exercised its right to retain ownership and to license them for a limited and disclosed purpose. See Parfums Givenchy, Inc. v. C&C Beauty Sales, Inc., 832 F.Supp. 1378, 1389 (C.D. Cal. 1993), aff'd. 38 F.3d 477 (9th Cir. 1994)("The distribution right under Section 106(3) includes the right to control not only the 'sale or other transfer of ownership' of copies or phonorecords, but also their disposition 'by rental, lease, or lending.'").

2. The First Sale Defense Is A Limited Affirmative Defense.

The first sale defense is an exception to the exclusive distribution right and a narrow "privilege." It applies only to "owners of copies or phonorecords," and excludes others who obtain possession but not ownership:

> "(a) [T]he ***owner of a particular copy or phonorecord*** lawfully made under this title, or any person authorized by such ***owner*** is entitled, without authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord."
>
> . . .
>
> "(d) [t]he ***privilege***[] described by subsection (a) [does] not, unless authorized by the copyright owner, extend to any person who has acquired possession of the copy or phonorecord from the copyright owner ***by rental, lease, loan or otherwise, without acquiring ownership of it.***" 17 U.S.C. §109(a), (d)(emphasis added).[6]

[6] A licensee is not an owner. Morris v. Business Concepts, Inc., 259 F.3d 65, 70 (2d Cir. 2001)("[A]n exclusive licensee is not a copyright owner."); MAI Sys. Corp. v. Peak Computer,

(...continued)

The legislative history reiterates the qualified nature of the "privilege":

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

The District Court erroneously expanded the first sale defense beyond its limited parameters to include promotional CDs owned by UMG and ***licensed*** for free to a limited number of sophisticated music industry recipients for a specific purpose.

3. The Promotional CDs Were Licensed With UMG Retaining Ownership.

This Court recently addressed the ability of a copyright owner to license, instead of transferring title to, its copyrighted works. In Wall Data v. Los Angeles County Sheriff's Department, 447 F.3d 769 (9th Cir. 2006), the Sheriff's Department paid for and obtained copyrighted software limited to 3,663 installations, but installed it in 6,007 computers. Id. at 774-75. Wall Data sued for infringement claiming that the additional copies exceeded the limited license under which the software was provided. The Sheriff's Department argued that it had

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(...continued)
Inc., 991 F.2d 511, 518 n.5 (9th Cir. 1993)("Since MAI licensed its software, the Peak customers do not qualify as 'owners' of the software."). Compare H.R.Rep. No. 94-1476 at 79 ("Outright sale" of book is an example of "where the copyright owner has transferred ownership.").

purchased and "owned" the software.[7] In holding that there was a license, not a transfer of ownership (despite the fact the software was sold and there apparently was no obligation to return it), this Court stated:

> "Generally, if the copyright owner makes it clear that she or he is granting only a license to the copy of software and imposes significant restrictions on the purchaser's ability to redistribute or transfer that copy, the purchaser is considered a licensee, not an owner, of the software." Id. at 785.

See MDY Indus., LLC v. Blizzard Entm't., Inc., 2008 WL 2757357, *8 (D.Az., July 14, 2008)(referring to Wall Data's two-part test for determining whether a purchaser is a licensee: if the copyright holder (1) makes clear it is granting a license, and (2) imposes significant restrictions on the use or transfer of the copy). Of particular relevance is the reference in Wall Data to the first sale defense:

> "Indeed, the first sale doctrine rarely applies in the software world because software is rarely 'sold.' *See Adobe Systems Inc. v. One Stop Micro, Inc.*, 84 F.Supp. 2d 1086, 1091 (N.D. Cal. 2000) ('[V]irtually all end users do not buy—but receive a license for—software.' The industry uses terms such as 'purchase' 'sell,' 'buy,'... because they are convenient and familiar, but the industry is aware that all software... is distributed under license.)." 447 F.3d at 785 n. 9.

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7 The question of ownership was important in light of the defense that making copies was protected under 17 U.S.C. §117, which permits the "owner" of a copy of a program to make another copy as an "essential step in the utilization of the computer program." 447 F.3d at 784. A licensee does not have that right. Id. at 785. The definition of "owner" under Section 117 is the same as under Section 109. See id. at 785 n.9.

This Court in Wall Data declined to reconsider its previous holdings that licensees of software – even those who purchased and were entitled to permanent possession of copies – did not own the copies they possessed. Id., citing Triad Sys. Corp. v. Se. Express Co., 64 F.3d 1330, 1333 (9th Cir. 1995) and MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511, 518 n.5 (9th Cir. 1993); see S.O.S., Inc. v. Payday, Inc., 886 F.2d 1081, 1088-89 & n.9 (9th Cir. 1989)(software license provided that series of programs "is the property of S.O.S."; therefore, licensee "would be entitled to possess a copy of the software to enable it to exercise its limited right of use, but would not *own* that copy")(emphasis in original); see also MDY Indus., LLC, 2008 WL 2757357 at *8 ("The resolution of this issue is controlled by Ninth Circuit law. At least three cases – MAI, Triad, and Wall Data … – hold that licensees of a computer program do not 'own' their copy of the program.")(citation omitted).

A majority of district courts within this Circuit also have held that license restrictions limiting transfer of a copyrighted work preclude the first sale defense. See, e.g., Novell, Inc. v. Unicom Sales, Inc., 2004 WL 1839117, *10-13 (N.D. Cal., Aug. 17, 2004)(summary judgment on license agreement included in software box); Adobe Sys., Inc. v. Stargate Software, Inc., 216 F.Supp.2d 1051, 1059-60 (N.D. Cal. 2002)(shrink wrap license enforceable); Adobe Sys., Inc. v. One Stop Micro, Inc., 84 F.Supp.2d 1086, 1092 (N.D. Cal. 2000)("[A] common method of distribution is through licensing agreements, which permit the copyright holder to place restrictions upon the distribution of its products."). Other courts have reached similar conclusions. See, e.g., Microsoft Corp. v. Software Wholesale Club, Inc., 129 F.Supp.2d 995, 1007-08 (S.D. Tex. 2000)(summary judgment rejecting first sale defense); Storm Impact, Inc. v. Software of Month Club, 13 F.Supp.2d 782, 791 (N.D. Ill. 1998)(reservation of right to distribute software made available over the internet was valid and enforceable); Microsoft v. Harmony Computers & Electronics, 846 F.Supp. 208 (E.D.N.Y. 1994); ISC-Bunker Ramo Corp. v. Altech, Inc., 765 F.Supp. 1310, 1331 (N.D. Ill. 1990)(first sale defense not applicable where owner, "through its licensing agreements, has specifically limited distribution").

The promotional CDs bear the indicia of a license as described in Wall Data and other cases. Here, as in Wall Data, "the copyright owner makes it clear that she or he is granting only a license to the copy." 447 F.3d at 785. The promotional CDs state: "This CD ... is licensed ... Acceptance of this CD shall constitute an agreement to comply with the terms of the license." Here, too, "the industry is aware that all [promotional CDs] … [are] distributed under license." Wall Data, 447 F.3d at 785 n.9 (quotation omitted). Finally, here, too, there was a "significant restriction[] on the [recipient's] ability to redistribute or transfer that copy." Id. at 785. The promotional CDs state: "Resale or transfer of possession is not allowed."

Because ownership of the promotional CDs did not pass to the initial recipients, Augusto could not receive title, regardless of where or how he obtained them, and his sales infringed UMG's exclusive distribution right. See 558 F.Supp.2d at 1060 (stating that if UMG retained title to, and ownership of, promotional CDs, Augusto's actions are excluded from protection of the first sale doctrine); see, e.g., American Int'l Pictures v. Foreman, 576 F.2d 661, 664 (5th Cir. 1978)("[U]nless title to the copy passes through a first sale by the copyright holder, subsequent sales do not confer good title.").

4. The District Court's Determination That The Right To "Indefinite Possession" Negates The Existence Of A License Is Erroneous.

The District Court initially set up a strawman characterizing UMG as contending that the use of the word "license" "create[s] a license between UMG and any recipient who accepts the Promo CD." 558 F.Supp.2d at 1060. To be sure, the term "license" expressed that recipients did not "own" promotional CDs. But that is just the beginning, not the end, of the issue. The entire language and surrounding facts and circumstances are what make the promotional CDs subject to a license. Other relevant facts not considered by the District Court include: promotional CDs were provided only to selected music industry insiders; recipients understood, based on their language, purpose, and practice, that the use of the promotional CDs was limited to the recipient and solely to promote commercial recordings, ER:169-70, 185-86, 359; promotional CDs were distributed in limited quantities, ER:183; promotional CDs were provided for free and were never sold, ER:170; promotional CDs differed in appearance and content from the commercial CDs they promoted and frequently were provided prior to the sale of commercial CDs, ER:170; UMG retained title to the promotional CDs ("This CD is the property of the record company"); "Resale or transfer of possession" of the promotional CDs was prohibited; and recipients were advised on the cover and/or the disc that "[a]cceptance of this CD shall constitute an agreement to comply with the terms of the license." ER:641, 352.

The District Court all but ignored these various factors. Instead, relying on a 30-year-old criminal copyright case, United States v. Wise, 550 F.2d 1180 (9th Cir. 1977), the District Court constructed a standard that focused on the single element of whether the recipient's right to possession of the work is "indefinite." 558 F.Supp.2d at 1061. Although the District Court characterized the copyright owner's "***intent***" to regain possession as "one hallmark" of a license (id. at 1060), the District Court effectively made this the dispositive factor.[8] In so doing, the District Court ignored that UMG retained ownership of the promotional CDs,

[8] As noted, the District Court's conclusion that UMG did not have the ***intent*** to regain possession was inconsistent with its conclusion that UMG ***did not abandon the promotional CDs*** because it did not relinquish possession without any present intention to repossess. See pp. 12-13, supra.

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disregarded the context and entire language of the promotional CD license, and that, in any event, the nature of promotional CDs made regaining possession impractical and unnecessary.

The District Court also ignored the weight of authority and this Court's precedent in MAI Sys., Triad Sys., and Wall Data, each of which found a license despite the fact that there was no provision for the licensor to regain possession. See MAI Sys., 991 F.2d at 517; Triad Sys., 64 F.3d at 1333, Wall Data, 447 F.3d at 755-56 n.5. The District Court also ignored that licenses can be of indefinite duration. See, e.g., Asset Marketing Sys., Inc. v. Gagnon, 542 F.3d 748, 757 (9th Cir. 2008)(copyright owner granted oral, unlimited, irrevocable license); 1mage Software, Inc. v. Reynolds and Reynolds Co., 459 F.3d 1044, 1047 (10th Cir. 2006)(claim of infringement for violating "perpetual license" to use, market, and distribute software).[9]

The District Court also misread and misconstrued the facts and analysis of Wise.[10] In Wise, the defendant was convicted of illegal distribution of movie

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[9] The first sale defense also applies in other contexts where there is no definite duration for possession, for example "loans." 17 U.S.C. §109(d).

[10] The District Court apparently relied on, but did not cite, Vernor v. Autodesk, Inc., 555 F.Supp.2d 1164 (D. Wash. 2008). The result in Vernor hinged on a supposed conflict between Wise and this Court's subsequent opinions in MAI, Triad, and Wall Data (referred to by Vernor as the "MAI trio."), which led it to conclude that under the "earliest opinion" rule, it "must" follow the earlier "conflicting" Wise opinion. Id. at 1169-72. However, as discussed hereafter, that "conflict" was of the Vernor court's own making as Wise and the MAI trio are consistent. None of the MAI trio even cited Wise, much less referred to conflict. As Vernor acknowledged,
(...continued)

prints that had been licensed by the copyright owners for television distribution or to selected individuals in the movie industry ("VIPs"). The defendant claimed that ownership of the prints had been transferred and invoked the first sale defense. With limited exceptions, the Court rejected the defense.

In its cursory and selective summary of Wise, the District Court stated:

> "In Wise, the court evaluated several contracts under which movie studios transferred movie prints. Most of the contracts required that the recipients return the movie print after a fixed term. ... The Ninth Circuit determined that these contracts were licenses.
>
> "However, some of the contracts permitted the recipient to keep the film print. In particular, one contract allowed an actress to keep possession of the film print 'at all times' for her personal use and enjoyment, 'but prevented her from transferring the print to anyone else.' ... The Ninth Circuit determined that this contract was a sale, not a license." 558 F.Supp.2d at 1060-61 (citations omitted).

Properly analyzed, Wise supports UMG's position that the express reservation of title, other provisions on the promotional CDs, and their nature and purpose, result in a license, notwithstanding that there is no provision for return.

The "one contract [that] allowed an actress to keep possession of the film print" – on which the District Court supported its rationale and which Wise determined to be a sale and not a license – was a "VIP" contract for a print

(...continued)
in the absence of the non-existent conflict, the MAI trio support the position that a license existed. Id. at 1172 ("Audodesk prevails in its motion if the court follows the MAI trio").

provided to Vanessa Redgrave ***in return for an upfront payment.*** 550 F.2d at 1192. That payment was a significant factor in denominating the transaction a sale:

> "While the provision for payment for the cost of the film, ***standing alone***, does not establish a sale, ***when taken with the rest of the language of the agreement***, it reveals a transaction strongly resembling a sale." Id. (emphasis added).

Wise quoted a portion of the Redgrave contract but did not identify specifically "the rest of the language" that, combined with the payment, resulted in a sale or explain how it reached that conclusion.[11] It is noteworthy, however, that the Redgrave contract neither provided that title was retained by the studio nor referred to a "license."

In contrast to the Redgrave contract, Wise analyzed three other VIP contracts that it determined to be licenses. ***Precisely like the Redgrave contract, "all of these agreements required the licensee to retain the film print in his possession at all times,"*** (id.) -- the exact language the District Court believed was dispositive in finding the Redgrave contract a ***sale.*** However, each of the other VIP contracts was found to be a ***license,*** notwithstanding that the recipient was to keep possession of the print "at all times," and that only one of the three required

[11] The Court also was influenced by the fact the Government has the burden of proving the ***absence*** of a first sale. 550 F.2d at 1190, 1192. The burden of proof in a civil infringement action is on the defendant. See Section E., infra.

the print to be returned "upon ... request." Id.[12] Further, unlike the Redgrave contract but similar to the promotional CDs, each VIP contract deemed to be a license was characterized internally as a "loan" or a "license," and none provided for payment to the copyright owner. Id.

Rather than a return requirement, the key difference between the Redgrave contract (a sale) and the other VIP contracts (licenses), from Wise's description, was that, in addition to payment, the Redgrave contract did not reserve title in the transferor, whereas the other three VIP licenses expressly did.[13] Wise concluded as to those three VIP contracts: "We find the terms of these agreements to be consistent with their designation as loans or licenses, and that they do not effect sales of the motion pictures." Id.; see MDY Indus. LLC, 2008 WL 2757357 at *10 n.7 ("Under Wise, a transaction is a license where the recipient is required to return the copy to the copyright owner ***or the copyright owner retains title to the copy***"), citing Wise, 550 F.2d at 1190-92 (emphasis in original).

Further evidence that providing for return was not the deciding factor in Wise is the Court's reference with approval to Hampton v. Paramount Pictures Corp., 279 F.2d 100 (9th Cir. 1960). In Hampton, the copyright owner had given

[12] Even with respect to the one VIP license that required "return upon ... request," there was no time specified and Wise did not indicate whether the print was requested or returned. 550 F.2d at 1192. Obviously the fact of return was not determinative (indeed, was not particularly important).

[13] Two such contracts provided that the studio copyright owner "retained title." Id. The third reserved to the studio "'all rights in, to and with respect to' the film." 550 F.2d at 1152.

to Kodascope rights to produce prints for "non-theatrical exhibition" in return for a flat payment. Id. at 102. One print was later sold by Kodascope to Hampton. As described by Wise, the Hampton Court determined that the prints had been licensed originally to Kodascope by looking to the contractual language and the limited "purpose of the license." 550 F.2d at 1189. Based on that analysis, Hampton held the agreement was not a first sale of the prints even though there was "no limitation as to time" and "no requirement that outstanding prints and negatives were to be returned." Id. at 1190. Wise specifically relied on Hampton in holding that theatrical distribution agreements were licenses and not sales, "[i]n accordance with the holding and reasoning of Hampton ... since both on their face and by their terms they were restricted licenses and not sales." Id.[14]

It is apparent from the Wise Court's analysis that no single factor was "critical" to its determination. Rather "[i]n each case, the court must analyze the arrangement at issue and decide whether it should be considered a first sale." Id. at 1189 (citation omitted). That is precisely what the Court did with respect to the four VIP contracts. It examined the terms, purpose, and context of each contract

[14] Although Hampton did not use the term "first sale," that was the issue (279 F.2d at 103). Wise cited Hampton as precedent on the first sale defense. 550 F.2d at 1189 ("The question of what constitutes a first sale has been considered in a number of cases," citing Hampton).

and did not simply divide them between those that required return and those that did not.[15]

Since Wise and prior to Vernor (and the District Court here), no other court, including this Court in Wall Data, MAI Sys., and Triad Sys., has cited Wise as limiting the first sale inquiry to whether the copyright owner provided for regaining possession of the work. The reason is because that is not the express or implicit holding of Wise. Rather, the lack of payment, the retention of title, the restriction on transfer, the reference to a "license," and the limited nature of the transaction all *must* be considered under Wise. All point to a license of the promotional CDs.

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[15] That approach is clear from the ***only*** other agreement, in addition to the Redgrave contract (and contracts that admittedly were sales of prints for salvage), that Wise characterized as a transfer of title – a distribution agreement with ABC for telecast of the movie *Funny Girl*. The Court held that agreement was not a license based on its unique provisions and ***not*** on the fact that the copyright owner failed to provide for regaining possession. The ABC agreement allowed the recipient (ABC) "at [its] election and cost" to retain a "file screening copy" of the print, which "clearly contemplates the sale of a film print to ABC at ABC's election." Id. at 1191. There was "[n]o restriction on the use or further resale of such a copy." Id. at 1191 n.20. Wise considered all of the language and context of the agreement, including that the contract was "not phrased in terms of a license" and failed "to provide for the retention of title" in the copyright owner. Id. at 1191. The Court concluded that since the transaction ***could have*** transferred title if ABC had elected to exercise its right to purchase a print, the Government was unable to satisfy its burden of proving the ***absence*** of a first sale. Id. at 1191-92

Wise contrasted the ABC agreement to an agreement between a studio and NBC for telecast of the movie *Camelot*. This agreement also permitted the licensee (NBC) the option to buy prints (and thus retain them). Id. at 1191. Notwithstanding that fact, Wise held that this agreement was a license, relying on the "entire contract" and specifically the provision that "[t]itle to all prints and tapes shall be and remain in Licensor [Warner] subject to the right granted to NBC under this agreement." Id.

The only case, other than Wise, cited by the District Court in support of this analysis was Krause v. Titleserv., Inc., 402 F.3d 119 (2d Cir. 2005). The unusual circumstances of that case involved computer programs owned and created by the plaintiff while working for the defendant and for which the defendant paid "a substantial sum to develop." Id. at 122. In finding transfer of ownership, the Court relied on a number of factors in addition to the right to indefinite possession, including that the plaintiff was paid "substantial consideration to develop the programs for [defendant's] sole benefit. [Plaintiff] customized the software to serve [defendant's] operations. The copies were stored on a server owned by [defendant]," and there were no material restrictions on use. Id. at 124. The Court concluded that all of these facts "***in the aggregate satisfy*** §117(a)'s requirement of ownership of a copy." Id. (emphasis added).

In reaching its conclusion, the Court in Krause cited with approval and contrasted its facts to DSC Comm'ns Corp. v. Pulse Comm'ns, Inc., 170 F.3d 1354 (Fed. Cir. 1999). In DSC Comm'ns, the district court determined that the defendants were owners of copies of software because they had obtained "their interests in the copies of the software through a single payment and for an unlimited period of time." Id. at 1362. The Court disagreed, noting that this reasoning

> "has not been accepted by other courts … and we think it overly simplistic. The concept of ownership of a copy

> entails a variety of rights and interests. The fact that the right of possession is perpetual, or that the possessor's rights were obtained through a single payment, is certainly relevant to whether the possessor is an owner, but those factors are not necessarily dispositive if the possessor's right to use the software is heavily encumbered by other restrictions that are inconsistent with the status of owner." Id.

Finding this Court's opinion in MAI "instructive" (id. at 1360-61), Krause held that these "other restrictions," including reserving to the copyright owner "[a]ll rights, title, and interest in the Software" and limiting the "recipient's right to transfer copies," compelled reversal. Id. at 1361-62.

The District Court also attempted to support its conclusion on the assumption that "there are no consequences for the recipient should she lose or destroy the Promo CDs." 558 F.Supp.2d at 1061. But to the extent this is relevant, there are consequences. Should UMG determine that any lost promotional CD later was sold, the recipient risks the significant consequence of forfeiting entitlement to receive promotional CDs to use in his or her business activities. ER:352-53.[16] And, if a promotional CD is lost, there is no first sale, and UMG can enforce its copyright against anyone who may find and sell it. Novell, Inc. v.

[16] The District Court incorrectly noted in passing that "UMG does not keep permanent records identifying who received which Promo CDs." 558 F.Supp.2d at 1061. A copyright owner does not have to keep specific records to enforce its copyright. In any event, the evidence is that UMG does keep a variety of records and databases that are continually updated and does delete from its lists of recipients those who sell its promotional CDs. ER:351-53, 830-35. UMG would have done so here had Augusto disclosed his sources.

Weird Stuff, Inc., 1993 U.S. Dist. LEXIS 6674 (N.D. Cal., May 14, 1993). Of course, if a promotional CD is destroyed rather than lost, it cannot be redistributed or sold. That is precisely why UMG destroys those that are returned.

Further, even though loss or destruction of promotional CDs may breach the license, because of their non-commercial nature they have little or no intrinsic value (and are not reused or sold). ER:352. Therefore, in order to impose any "consequences for the recipient," UMG not only would have to be aware that the recipient lost or destroyed the promotional CD but also choose to seek "consequences" against important industry insiders for potentially inadvertent breaches. The fact that UMG does not pursue this course of action does not affect the existence of a license any more than when a software copyright owner does not pursue an individual who breaches a license. See Unicom Sales, Inc., 2004 WL 1839117, at *12 ("The Court sees no reason why Novell's failure … to take steps to enforce the requirement in its Software License that the software be destroyed or returned if the license is breached … should affect the transaction's status as a license or sale.").

5. The District Court's Reliance On The Purported Absence Of A Recurring Benefit To UMG Is Both Incorrect And Irrelevant.

The District Court next attempted to support its conclusion by the sweeping statement that "generally, licenses provide recurring benefits for the copyright owner." 558 F.Supp.2d at 1061. This statement is a *non-sequitur*. Neither of the two cases cited by the District Court enunciates such a requirement for a license (and both cases differ in material respects from this case).

In re DAK Indus., Inc., 66 F.3d 1091 (9th Cir. 1995), applying bankruptcy principles, found that no license existed because of the "economic reality" reflected in the agreement that the "licensee" could adapt the copyrighted software ***and*** distribute it to consumers. Id. at 1092. Additionally, "the pricing structure of the agreement," including a lump sum payment (of $2,750,000), evidenced a sale. Id. at 1095. SoftMan Products Co., LLC v. Adobe Sys., Inc., 171 F.Supp.2d 1075, 1085 (C.D. Cal. 2001) found a sale because "[t]he transfer of a product for consideration with a transfer of title and risk of loss generally constitutes a sale." See also n.20, infra.[17]

The cases relied upon by the District Court also are not apposite because they contrasted a single payment (as evidencing a sale) with a royalty or other recurring payment (as evidencing a license). Such a comparison is not helpful when, as here, the product is provided under specific and limited circumstances without ***any payment*** that might reflect a purchase and transfer of ownership. In fact, the first sale statute includes, among those who are not "owners" and cannot invoke the defense, one who receives the copyrighted work by "loan" (such as a

[17] When this Court discussed the first sale defense and that "virtually all end users do not buy – but receive a license for – software," it chose to quote with approval One Stop Micro, not SoftMan, as the relevant precedent. Wall Data, 447 F.3d at 785 n.9.

loan of a CD) – a transaction that does not contemplate a payment or any benefit, let alone a recurring one (at least by the District Court's definition).

Moreover, to the extent relevant, UMG did receive a recurring benefit. The promotional CDs are licensed to make them available, among other things, for reviews and articles concerning the artist or repeated radio airplay, all potentially over a period of years and all directed to increasing sales of commercial recordings. ER:169, 352. The District Court's statement that there is "no guaranty" or requirement that a specific recipient actually will use the promotional CD is beside the point. The license provides a mutual benefit: The recipient has the opportunity to use for free in his or her business, and generally in advance of commercial sales, the otherwise unavailable promotional CDs. UMG benefits from the opportunity to promote its commercial records and from the goodwill engendered among the recipients who are important to the ongoing promotion of UMG's products. In these respects, promotional CDs are analogous to the VIP prints provided to movie industry insiders without any "recurring" or "guaranteed" benefit. As the District Court acknowledged, most VIP prints are licensed. 558 F.Supp.2d at 1061-62. If anything, VIP prints confer even less of a "recurring" benefit than do promotional CDs, whose purpose is to promote future sales to the public.[18] See Jacobsen v. Katzer, 535 F.3d 1373, 1379 (Fed.Cir. 2008)("open source" software licensed for free: "There are substantial benefits, including economic benefits, to the creation and distribution of copyrighted works under public licenses that range far beyond traditional license royalties. For example, program creators may generate market share for their programs by providing certain components free of charge.").

D. A License Of The Promotional CDs Does Not Restrain Trade.

Under the heading that "the only apparent benefit of promotional CDs is restraint of trade," the District Court briefly reached several disconnected, and ultimately incorrect, conclusions. 558 F.Supp.2d at 1061-62.

1. Licensing Of Promotional CDs Promotes Competition And Is A Valid Means Of Protecting Copyright Interests.

The District Court's broad (and speculative) statement that the "only apparent benefit to a license for UMG is to restrain transfer of its music" (558 F.Supp.2d at 1061), not only is irrelevant, it is unsupported and wrong. All licenses "restrain trade" by prohibiting activities or transactions, including transfer,

[18] That some of the licenses contain the phrase "for personal use only" does not alter this analysis, as the District Court implied. 558 F.Supp.2d at 1061. That phrase is consistent with the prohibition against transfer. Some promotional CDs included the language "for promotional use only." 558 F.Supp.2d at 1058 n.1. Augusto agreed that all versions had the same meaning. Id. The purpose of the promotional CDs was use by the recipients in promotion. That is the meaning of "personal use." See, e.g., One Stop Micro, 84 F.Supp.2d at 1091 ("The industry uses terms such as 'purchase,' 'sell,' 'buy' ... because they are convenient and familiar, but the industry is aware that all software ... is distributed under license."), quoted by Wall Data, 447 F.3d at 785 n.9.

that otherwise would be permitted to an "owner."[19] Many software licenses prohibit distribution and also impose additional broad "restraints." See, e.g., Advanced Computer Services, v. MAI Sys., 845 F.Supp. 356, 370 (E.D. Va. 1994)(license prohibiting "loading" or "booting" of software onto a computer not anticompetitive or copyright misuse: "MAI is simply attempting to protect the rights accruing to it as the holder of valid copyrights in its software."). For promotional CDs, the prohibited activity is distribution, a copyright interest UMG can validly protect. See Wall Data, 447 F.3d at 785 n.9 ("By licensing copies of their computer software, instead of selling them, software developers maximize the value of their software, minimize their liability, [and] ***control distribution channels*** ...")(emphasis added); see also S.O.S., Inc., 886 F.2d at 1088 ("The [software] license must be construed in accordance with the purposes underlying federal copyright law.... Chief among these purposes is protection of the author's rights")(citations omitted).

The license of a few thousand promotional CDs is an adjunct to the marketplace sale of millions of commercial CDs. All music copyright owners can, and many do, engage in this practice. In fact, the means of informing the

[19] "Restraint of trade" is not a defense to copyright infringement, and Augusto did not claim that the licenses constituted copyright misuse. The misuse defense would have been unavailing. See, e.g., A&M Records, Inc. v. Napster, 239 F.3d 1004, 1026-27 (9th Cir. 2001)(rejecting misuse defense because plaintiffs only sought to "control reproduction and distribution of their copyrighted works").

consuming public of new commercial releases is to provide the opportunity to hear them (by sending promotional CDs to radio stations and disc jockeys) or to read reviews (by sending promotional CDs to music critics). A competitive market depends upon such access to information. See Barry v. Blue Cross, 805 F.2d 866, 872 (9th Cir. 1986). In performing that function, promotional CDs promote fair and informed competition and benefit consumers, recording artists, and retail sellers of records, as well as the record companies and the industry recipients.

Neither Augusto nor anyone else is restrained from re-selling commercial CDs after they are sold in the market and UMG has received payment. What the promotional CD licenses restrict is the potential for "unfair" trade; for example, making multiple, unlawful, digital copies or uploading a copy of a promotional CD to the internet to be made "virally" and prematurely available to millions of computer users. See, e.g., A&M Records, 239 F.3d at 1025 (recognizing harm to copyright owners in sound recordings by transmitting copies over the internet).

The three cases to which the District Court referred in support of its characterization of the promotional CDs as restraints of trade deal with a much narrower and very different situation; specifically, a restriction attempted to be imposed ***after*** the sale and transfer of a work. 558 F.Supp.2d at 1061-62. In Bobbs Merrill v. Strauss, 210 U.S. 339 (1908), the copyright owner attempted to prohibit resale of books for less than one dollar ***after they were purchased*** by wholesalers for the specific purpose of retail sale. Id. at 341-42. The Supreme Court specifically noted that "[t]here is no claim in this case of contract limitation, nor license agreement controlling the subsequent sales of the book." Id. at 350. In RCA Manufacturing Co. v. Whiteman, 114 F.2d 86, 90 (2d Cir. 1940), the owner of common law copyrights attempted to restrict the use of commercial recordings ***after sale and after*** its common law copyright had expired and it no longer possessed any rights. In SoftMan, 171 F.Supp.2d at 1085-86, the copyright owner attempted to place ***post-sale*** restrictions on software copies specifically intended for resale by the distributor.[20] See also Stargate Software, Inc., 216 F.Supp.2d at 1058 ("This Court respectfully declines to accept the *Softman* analysis.").

The District Court's reliance on these cases conflates a post-sale contractual covenant imposed after transfer of ownership and a license reserving to the licensor a specific copyright right (here, the distribution right). That is a crucial distinction. Compare, e.g., Bobbs Merrill, 210 U.S. at 339 (contractual restriction

[20] The more detailed rationale for finding a transfer of ownership in SoftMan is

> "The distributors pay full value for the merchandise and accept the risk that the software may be damaged or lost. The distributors also accept the risk that they will be unable to resell the product. The distributors then resell the product to other distributors in the secondary market. The secondary market and the ultimate consumer also pay full value for the product, and accept the risk that the product may be lost or damaged. This evidence suggests a transfer of title in the good. The transfer of a product for consideration with a transfer of title and risk of loss generally constitute a sale." 171 F.Supp.2d at 1085.

on resale price after books had been sold to a distributor) with Wall Data, 447 F.3d at 785 (license restriction on copying, i.e., the exclusive reproduction right).

2. There Is No Reason To Afford Less Protection To Promotional CDs Than To Software For First Sale Purposes.

The District Court next referred to a purported distinction between promotional CDs and software, reasoning that "[u]nlike the use of software, which necessitates a license because software must be copied onto a computer to function, music CDs are not normally subject to licensing. Therefore, the benefits of a license for software do not exist under these facts."[21] 558 F.Supp.2d at 1062. However, the District Court never explains how a software license that may limit further distribution, modification, ***and*** a myriad of other activities is "necessary" so a user may make a single copy for use on a computer.

The distinction the District Court drew between software and phonorecords is not in Section 109, which applies equally to phonorecords and other "copies," including software. See, e.g., 17 U.S.C. §§109(a),(d)(referring to the owner of a "copy or phonorecord"). In fact, the statute sometimes treats phonorecords ***and*** computer programs differently from all other "copies." See 17 U.S.C. §109(b)(prohibiting disposing of a copy of a "phonorecord or computer program

[21] Preliminarily, that "music CDs are not normally subject to licensing" misses the point – it is precisely because the relatively few promotional CDs are not "normal" commercial CDs that they are licensed.

… by rental, lease, or lending"). By contrast, where the Copyright Act intended to distinguish between software and phonorecords, it did so explicitly. See, e.g., 17 U.S.C. §114 ("Scope of exclusive rights in sound recordings"); §117 ("Limitations on exclusive rights: computer programs").

More to the point and directly contrary to the District Court's underlying assumption, a ***license*** of computer software is ***not*** necessary to permit copying onto a computer. The opposite is true: The ***owner*** of computer software has the right to make a copy to use it on a computer. 17 U.S.C. §117 ("it is not an infringement for the ***owner*** of a copy of a computer program to make … a copy [provided that it] is created as an essential step in the utilization of the computer program") (emphasis added). On the other hand, a ***licensee*** of computer software does not possess that right. Wall Data, 447 F.3d at 784-785 ("[I]f a software developer retains ownership of every copy of software and merely licenses the use of those copies, §117 does not apply.")(emphasis in original).

3. The "Economic Realities" Favor A License Of Promotional CDs.

The District Court next referred briefly to the purported "economic realities" of the promotional CD transaction, again emphasizing the right to perpetual possession. 558 F.Supp.2d at 1062. However, the "economic reality" points to a license of promotional CDs and this does not change, even assuming promotional CD licenses permit "perpetual possession" (as do many software licenses).

Promotional CDs are, however, different than software in the economic function they perform in ways that reflect a license transaction. ***They are not sold.*** They are made in limited quantities for the economic purpose of promoting commercial sales. They perform a distinct business function, beneficial to both UMG, the recipients, and others. For that reason, they are provided to a limited number of selected industry insiders for free with an express limitation on their transfer. See Arizona Cartridge, 421 F.3d at 989-88 ("In exchange for agreeing to the restricted use of the [licensed] cartridge, consumers receive consideration in the form of the price discount"). Promotional CDs are distinctly different, in form and function, from the commercial CDs that are sold and to which ownership is transferred, and which can then be freely distributed by the purchaser. A license limiting distribution of promotional CDs is crucial to their purpose and to protect UMG's investment in its commercial recordings. See Jacobsen, 535 F.3d at 1382 ("The clear language of the [free] Artistic License creates conditions to protect the economic rights at issue in the granting of a public license.").

Finally, the District Court's statement that the promotional CD transaction provides the recipient with "the freedom from obligations to UMG" (558 F.Supp.2d at 1062) assumes that there is no license. To the contrary, the license does provide for obligations, including most specifically, that the promotional CDs cannot be transferred or distributed.

E. Augusto Failed To Carry His Burden Of Tracing His Chain Of Title To A First Sale Of The "Particular" Promotional CDs He Sold.

The party asserting an affirmative defense bears the burden of proof. See, e.g., Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 590 (1994)(fair use). That burden of proof on the first sale defense required that Augusto trace his chain of title to a first sale of the "particular" copy of each promotional CD he sold:

> "The defendant in such actions clearly has the particular knowledge of how possession of the ***particular copy*** was acquired, and should have the burden of providing this evidence to the court. It is the intent of the Committee, therefore, that in an action to determine whether a defendant is entitled to the [first sale] privilege . . ., the burden of proving whether a ***particular copy*** was lawfully made or acquired should rest on the defendant." H.R.Rep. No. 94-1476, at 81.[22] (emphasis added)

See NCR Corp. v. ATM Exchange, Inc., 2006 WL 1401635, *2 (S.D. Ohio May 17, 2006)(burden on defendant to trace chain of title to first sale); Mapinfo Corp. v. Spatial Re-Engineering Consultants, 2004 WL 26350 *3-4 (N.D.N.Y. Jan. 5, 2004)(same); Too, Inc. v. Kohl's Dep't Stores, Inc., 2002 WL 31409852, *3 (S.D. Ohio, Sept. 4, 2002)(same); Software Wholesale Club, Inc., 129 F.Supp.2d at 1008 (summary judgment rejecting first sale defense because "[d]efendants have

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[22] The adjective "particular" echoes Section 109 ("owner of a particular copy") and must be given meaning. Tabor v. Ulloa, 323 F.2d 823, 824 (9th Cir. 1963). "Particular" is defined as "of, relating to, or being a single definite person or thing as distinguished from some or all others." Webster's Third New Int'l Dictionary of the English Language, Unabridged (2002 ed.). The phrase "particular copy" reflects that the party asserting the first sale defense must show that ***each copy*** was acquired initially through a first sale.

not met their burden of tracing the chain of title to show a basis for the first-sale doctrine"); Harmony Computers & Electronics, 846 F.Supp. at 212 ("[T]he defendant has the burden of proving that the particular pieces of the copyrighted work that he sold were lawfully made or acquired."); see also American Int'l Pictures, 576 F.2d at 665 ("[B]ecause copyright law favors the rights of the copyright holder, the person claiming authority to copy or vend generally must show that his authority to do so flows from the copyright holder."); see generally 4 W.F. Patry, Patry On Copyright § 13:16 at 13-38 (2008)("The first sale doctrine is, therefore, adjudicated on a copy-by-copy basis: if the particular copy or copies at issue are unauthorized, it is unavailing to defendant if other, authorized copies have been sold.").

"Possession" of a copy does not satisfy the requirements of the first sale defense. See American Int'l Pictures, 576 F.2d at 666 ("[F]or purposes of the first sale doctrine, each copy is unique; if the copyright holder possesses 100 copies and sells 99 of them, the final copy nonetheless remains protected."). The burden of showing an actual first sale is on the party asserting the defense since he or she obtained the copyrighted work and, therefore, has knowledge of how and where that copy was acquired. Here, Augusto admittedly did not receive the promotional CDs from UMG, and would or could not identify his sources. His failure to do so is a failure of proof on the predicate element of the first sale defense. See

Harmony Computers & Electronics, 846 F.Supp. at 213 ("Defendants' failure to meet their burden of proving a chain of title … precludes the applicability of the first sale doctrine.").

The District Court sidestepped Augusto's failure to carry his burden by briefly noting that "by showing that UMG transferred ownership of the Promo CDs to the music industry insiders, Augusto would show that UMG no longer has a copyright interest in the Promo CDs." 558 F.Supp.2d at 1060 n.2. That reasoning is circular. The only way Augusto could show "that UMG transferred ownership … to the music industry insiders," would be to prove that the original recipient of ***each*** of the "***particular***" promotional CDs somehow was not bound by the license terms. He offered no evidence to make that showing. See, e.g., Arizona Cartridge, 421 F.3d at 987-88 (patent license: "consumers … had notice of the restrictions on use and had a chance to reject the condition before opening the clearly marked cartridge container…. [T]he consumer accepts the terms placed on usage of the ... cartridge by opening the box."); Register.com, Inc. v. Verio, Inc., 356 F.3d 393, 403 (2d Cir. 2004)("It is standard contract doctrine that when a benefit is offered subject to stated conditions, and the offeree makes a decision to take the benefit with knowledge of the terms of the offer, the taking constitutes an acceptance of the terms, which accordingly become binding on the offeree.").

F. The Promotional CDs Were Not Gifts Pursuant To The Postal Reorganization Act.

1. The Promotional CD Transaction Is Not An Unconscionable Sales Technique.

The District Court alternatively held that the promotional CDs were "gifts of unordered merchandise" pursuant to the Postal Reorganization Act. 39 U.S.C. §3009 ("the Act"). 558 F.Supp.2d at 1062. The Act provides in relevant part:

> "(b) [a]ny [unordered] merchandise ... may be treated as a gift by the recipient, who shall have the right to retain, use, discard, or dispose of it in any manner he sees fit without any obligation whatsoever to the sender.
>
> "(c) No mailer of any merchandise mailed in violation of subsection (a) of this section . . . shall mail to any recipient of such merchandise a bill for such merchandise or any dunning communication." 39 U.S.C. §3009(b),(c).

"Merchandise" is not defined in the Act. See 39 U.S.C. §3009(d) ("'unordered merchandise' means merchandise mailed without the prior expressed request or consent of the recipient."). However, that term portends a sales transaction. See Sanford v. Memberworks, Inc., 2008 WL 4482159,*5 (S.D. Cal. September 30, 2008)("the Unordered Merchandise Statute governs only merchandise, and not everything that can be mailed falls within that category"; holding membership in discount club sent with a membership kit not subject to the Act because "The membership kit contained nothing that was the subject of sale"); Kashelkar v. Rubin & Rothman, 97 F.Supp.2d 383, 395 (S.D.N.Y. 2000)(check sent to plaintiff was not merchandise, but an offer to open a line of credit); see also In re Holmes, 187 Cal. 640, 643 (1921)("the term 'merchandise' is defined by Webster and the other lexicographers as 'the objects of commerce; whatever is usually bought and sold in trade, or market, or by merchants'"); Black's Law Dictionary, 1008 (8th ed. 2004)(defining "merchandise" as "[i]n general, a movable object involved in trade or traffic; that which is passed from hand to hand by purchase and sale."). The definition of "merchandise" reflects the purpose of the Act, to prohibit the ***sales practice*** of mailing unsolicited goods to consumers followed by deceptive demands for payment.

In Kipperman v. Academy Life Ins. Co., 554 F.2d at 377, 379 (9th Cir. 1977), the defendant mailed unsolicited promotional materials concerning life insurance and "what appears to be a fully executed term insurance policy ... [and] ... a notice indicating a PREMIUM AMOUNT NOW DUE." This Court held that practice outside the Act, because "such an offer is no more 'merchandise' than is an unsolicited offer to sell kitchen appliances." In this context, the Court reviewed the purpose of the Act:

> "Section 3009's main purpose is to combat the old and pernicious practice of mailing unsolicited merchandise by enabling the Federal Trade Commission to attack the practice as a per se violation of unfair trade laws and by allowing the consumer to keep the item received. ... ***The purpose of the amendment was to 'control the unconscionable practice of persons who ship unordered merchandise to consumers and then trick or bully them***

> ***into paying for it.***'" Id., 554 F.2d at 379, quoting 116 Cong. Record at 22314 (June 30, 1970)(remarks of Senator Magnuson, who offered the language of the Act as an amendment to the Postal Services Act)(emphasis added).

A more complete recitation of this legislative history further confirms the Act's intent:

> "Fifteen States have now moved to bring under control the unconscionable practice of persons who ship unordered merchandise to consumers and then trick or bully them into paying for it.
>
> "The very first volume, amazingly, of Federal Trade Commission's published decisions in 1918, dealt with this very practice.[23] Yet, nothing has been done about it up to date.
>
> "Throughout the years, however, the Federal Trade Commission has brought one case after another before it, because they had to bring individual cases in order to try to stop the practice on a case-by-case basis, involving automobile accessories, books, reading cards, advertisements, novelty merchandise, photographs, vitamins, pharmaceuticals, and stamps.
>
> * * *
>
> "As with many consumer frauds, the burden most often falls heaviest upon minors, the poor, the aged, those who are the most vulnerable to this predatory collection technique, in which invariably the reception in sending unordered merchandise lies in the ability of the seller to convince an unsuspecting consumer that he is obligated

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[23] Apparently Federal Trade Comm'n v. Vacuum Oil Co., 1 F.T.C. 305, 309 (1918)(requiring respondent cease and desist from shipping to customers or prospective customers products without having sold or received orders and attempting to induce consignees to accept and purchase the products).

> to purchase or return the merchandise. The consumer, even where he is not specifically told that he has an obligation to pay for the unsolicited merchandise, assumes that he must do so or return it, and rather than go to the trouble of shipping the items back and answering dunning letters, many consumers just go ahead and pay. Usually, they are small amounts, but often of consequence to those consumers."

116 Cong. Record at 22314;[24] see Kipperman, 554 F.2d at 379 ("the purpose of enforcement is to protect recipients of unwanted merchandise from being badgered into paying therefor"); Blakemore v. Superior Court, 129 Cal. App. 4th 36, 50 (2005)(Section 3009 designed to "prevent the practice of shipping unordered merchandise to consumers and then tricking them into paying for it.").

As noted in the legislative history, the Act was the culmination of years of concern and action by the FTC, targeting the same deceptive ***sales technique*** of mailing unordered merchandise, badgering the consumer, and deceptively demanding payment. See 116 Cong. Record at 22314. See, e.g., Portwood v. F.T.C., 418 F.2d 419, 420-21 (10th Cir. 1969)(sending unsolicited "approval book" of stamps and subsequent notices requesting payment); S&S Pharm. Co. v. F.T.C., 408 F.2d 487, 488-89 (5th Cir. 1969)(sending drugs to pharmacists and then billing); Independent Directory Corp. v. F.T.C., 188 F.2d 468, 469 (2d Cir. 1951)(deceiving companies into ordering advertisements and then billing); 1895

[24] Statements of the sponsor of a bill evidence its meaning and intended effect. See, e.g., Galvan v. Press, 347 U.S. 522, 527 (1954).

Assoc., Inc., Trade Reg. Rptr. (1965-67 Transfer Binder) ¶17,319 (FTC 1965)(publishing unordered advertisements and seeking payment); In the Matter of Nat'l Educators, Inc., 1953 FTC LEXIS 97, *6, 49 F.T.C. 1358 (1953)(Respondents "[i]n some instances send sets of their encyclopedias to persons who have not contracted to buy same and then endeavor to enforce payment for them by stating that they are legally obligated to pay therefor"); In the Matter of House of Plate, Inc., 1951 FTC LEXIS 62, *5 (1951)(unauthorized shipments of plastic ducks to retailers and billing); Betty Phillips, Inc., Trade Reg. Rptr. (1954-55 Binder) ¶25,221 (FTC 1954)(shipping unordered greeting cards followed by a series of collection letters); Interstate Home Equip. Co., Inc., Trade Reg. Rptr. (1942-48 Binder) ¶ 12,831 (FTC 1944)(FTC complaint alleging unfair practices including "threat to sue purchasers if unordered merchandise is not paid for"); Mystic Stamp Co., 28 FTC 1796 (1939)(using deceptive practices for the purpose of collecting payment for unordered stamp approval sheets). This historical context also reflects the intent of the statute. See, e.g., District of Columbia v. John R. Thompson Co., Inc., 346 U.S. 100, 109 (1953).

By the time the Act was passed in 1970, its Sponsor referred to the fact that fifteen states had already moved to bring under control the same unconscionable practice of "persons who ship unordered merchandise to consumers and then trick or bully them into paying." 116 Cong. Record at 22314; see Kipperman, 554 F.2d at 380 ("It is true that the practice with which section 3009 is concerned traditionally has been governed by state law."). The California statute (enacted one year before the Act) "is similarly directed at sellers marketing products or services to consumers." Blakemore, 129 Cal.App.4th at 51, citing Cal. Civ. Code §1584.5. Several other statutes, also adopted one year before the Act, prohibit offering for sale unsolicited goods that are not ordered or requested. See, e.g., Conn. Gen. Stat. §42-126b; Haw. Rev. Stat. Ann. §481B-1; Mich. Stat. §445.131; W.Va. Code §47-11A-12a. "While the existence of a state statute on the same subject does not control the interpretation of a federal law, it serves to demonstrate the similarity of purpose in the statutes – ***the protection of consumers from sellers of unsolicited goods or services.***" Blakemore, 129 Cal.App.4th at 51 (emphasis added).

Consistent with this background, since its adoption, it appears that no court has considered application of the Act in the absence of a demand for payment ***directed to a purchaser by the seller***. See, e.g., Wisniewski v. Rodale, Inc., 510 F.3d 294, 295-96 (3d Cir. 2007)(alleged violation of the Act where defendant sent books never ordered and demanded payment); Paul v. HCI Direct, Inc., 2003 U.S. Dist. LEXIS 12170, *2 (C.D. Cal. July 14, 2003)(manufacturer mailed unsolicited package of pantyhose and then "two collection letters threatening to report Plaintiff as a delinquent creditor if the pantyhose were not paid for immediately"); Great American Music Machine, Inc. v. Mid-South Record Pressing Co., 393 F.Supp. 877, 880 (M.D. Tenn. 1975)(32,000 copies of the recording at issue sent to a sorority with a written request that $5.00 be remitted to the seller for each).

The unconscionable sales practice to which the Act is directed is the opposite of the practice of periodically licensing promotional CDs for free to selected and sophisticated music industry insiders. Promotional CDs are not the type of "merchandise" covered by the Act, and the recipients are not the "consumers" intended to be protected by the Act. Promotional CDs are ***never*** sold, and there was no dunning communication or "trickery or bullying" involved. Contrary to the District Court's characterization, there are no "affirmative obligations" on the recipient. The only restriction is that they ***not*** be distributed in violation of copyright, which is clearly disclosed and follows decades of practice. The District Court's opinion converts this long-standing, mutually beneficial transaction that bears no relationship to the "unconscionable" transactions the Act meant to regulate into an "unfair method of competition" and violation of the Federal Trade Commission Act. See 15 U.S.C. §45(a)(1),(2).

2. The Act Does Not Apply To The Contractual Relationship Between UMG And Industry Recipients.

Just as the Act applies only to a purchase and sale transaction between a seller and a consumer, it does ***not*** apply to an independent contractual relationship

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between parties who are not sellers and consumers. See cases cited at p. 41-42, supra. In Blakemore, the defendant shipped to independent sales representatives products they did not order and then allegedly coerced them to pay for the unordered products. 129 Cal.App.4th at 41. Even though the representatives were charged for the unordered products, the court held there was no violation because the Act "is addressed to the mailing of unordered merchandise by the ***seller*** to the ***consumer*** of that merchandise, not to parties who have contracted with each other to promote the sale of the same merchandise to third persons." Id. at 51. The court concluded:

> "In sum, section 3009 forbids the mailing of unordered merchandise by ***sellers to consumers***, and was not intended to apply to independent jobbers or wholesalers ***or, as in this case, where a contractual relationship exists between the parties relating to the sale of the merchandise."*** Id. at 52 (emphasis added).

Similarly, the FTC has promulgated a Mail or Telephone Order Merchandise Rule, which is directed to the same type of "sales" technique as the Act: **"in any approval or other sale, you must obtain the customer's prior express agreement to receive the merchandise."** Federal Trade Commission, A Business Guide to the Trade Commission's Mail or Telephone Order Merchandise Rule (Jan. 2002) at 9 (emphasis in original); ER:1079-98. The FTC applied this limitation in practice and interpreted the scope of the prohibited conduct in In the Matter of Commercial Lighting Products, Inc., 1980 FTC LEXIS 83 (1980). In that proceeding, the FTC entered a Consent Order pursuant to the Act and the FTC Act, requiring that a company cease and desist from "Shipping Products or causing Products to be shipped, without the expressed request or consent of ***a Person***" but defined the type of "Person" subject to the order's protection as:

> "'Person' shall mean a recipient of Products from the Respondent ... in connection with the advertising, offering for sale or sale of Products, as defined. Provided, however, that Person shall ***not*** mean a natural person, business establishment or institution ***which does not purchase said Products for consumption*** (i.e., independent jobbers or wholesalers)" Id. at *11 (emphasis added).[25]

The District Court did not give any weight to the fact that promotional CDs are not part of a deceptive sales practice but are part of an independent relationship between UMG and industry professionals. Instead, District Court narrowly construed both the FTC precedent and Blakemore by limiting it to the "exempted non-consumers of the kind ***specifically*** identified" in those opinions, and not to recipients of promotional CDs because "sales representatives, jobbers, and wholesalers all pass the physical product on to purchasers." 558 F.Supp.2d at 1063 (emphasis added). However, as discussed in Blakemore and by the FTC, "independent jobbers or wholesalers" were only illustrative categories "where a contractual relationship exists between the parties relating to the sale of the

[25] See Chevron U.S.A., Inc. v. Natural Resources Defense Council, Inc., 467 U.S. 837, 844 (1984)("[C]onsiderable weight should be accorded to an executive department's construction of a statutory scheme it is entrusted to administer.").

merchandise." 129 Cal.App.4th at 52. The point here is that the Act applies to sales transactions to consumers, not to those who are offered a contractual relationship, even unsolicited. Grudgingly recognizing the Act was designed to protect consumers, the District Court strained to categorize music industry insiders as "consumers," based on the fact they "listen" to promotional CDs. 558 F.Supp.2d at 1063. But "consumers" purchase CDs. It tortures the language, to say the least, to equate a consumer with someone who does not purchase but is provided for free the ability to listen to a recording for a business purpose.[26]

3. Augusto Did Not Carry His Burden Of Proving That The Promotional CDs Were "Unordered."

The District Court also was incorrect in finding that the recipients of the promotional CDs sold by Augusto did not "request or consent" to receive them. Augusto did not submit any evidence that was the case. Unlike the merchandise targeted by the Act, promotional CDs were sent following decades of industry-wide practice to those who participated in and understood the terms of the practice (many of whom no doubt had received promotional recordings over the years). In fact, the recipients would have relied on this practice to conduct their business (e.g., review music before it is commercially released to the public) and that likely is a reason they generally complied with the license terms.

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[26] Of course, whether or not recipients of promotional CDs "consume" them is not the point. They are not the "consumers" envisioned by the Act and are not involved in a purchase and sale transaction implicating the Act.

Every case brought under the Act (until this one) has been brought by the actual "recipient" of the merchandise. See, e.g., Kipperman, 554 F.2d at 380 (implying private cause of action because section 3009 is specifically designed to protect the ***recipients*** of unordered merchandise). No "recipient" of promotional CDs has ever claimed that the Act applied. Augusto himself was not a party to the initial promotional CD transaction; therefore, whether ***he*** requested or consented to receive them is not the issue. 39 U.S.C. §3009(b)("unordered merchandise may be treated as a gift ***by the recipient"***)(emphasis added). Because he did not reveal the identities of those recipients, he could not carry his burden of showing that the promotional CDs at issue were "unordered" in the first instance. It certainly is possible (indeed, probable) that music industry insiders requested that the promotional CDs be provided or consented to receive them.

The failure by Augusto to identify his sources of "unordered" promotional CDs highlights another problem with the District Court's reasoning. The Act provides that unordered merchandise "***may*** be treated as a gift," not that it "***shall*** be deemed a gift." Further, "[s]ection 3009 does not explicitly declare any agreement to be void." Wisniewski, 510 F.3d at 306 & n.34.[27] Thus, all else aside,

[27] The District Court marginalized this reasoning in Wisniewski because it held the Act does not create a private cause of action, contrary to the holding of this Court. 558 F.Supp.2d at 1064, citing Kipperman, 554 F.2d at 380. However, the relevant issue is not the circuit split, but the Wisniewski Court's distinction between the Act's provisions and the effect of a separate contract between the mailer and the recipient.

the recipient has the option to choose to treat "merchandise" as a "gift" or not to do so. Because Augusto was not the recipient of the promotional CDs and not a party to the license, he did not have that option to treat promotional CDs as gifts or to declare any agreement between UMG and the recipients to be void. The Act does not apply here for this independent reason.

The District Court's conclusion that "UMG mistakes the music industry insider's actions – keeping the Promo CDs – as accepting the license, when those actions are perfectly consistent with treating the merchandise as a gift," 558 F.Supp.2d at 1064, does not change this result but merely begs the question. Retaining the promotional CDs is equally consistent with accepting a license for products that are not gifts. Augusto did not prove otherwise. Also erroneous is the District Court's conclusion that "those music industry insiders whose Promo CDs ultimately ended up in Augusto's possession affirmatively refuted the license agreement by transferring possession to somebody else." Id. Augusto did not provide any evidence to support that conclusion. In fact, the transfer of possession would not be a "refutation" of the license but a breach of the license.[28]

The District Court ultimately based its determination that the promotional CDs were "unordered" on the lack of evidence produced by UMG that they were

[28] Moreover, since Augusto did not carry his burden of proving the source of his promotional CDs, it could not be determined how the CDs he sold were "transferred" by the initial recipients and whether they were ***voluntarily*** transferred or, for example, stolen or lost.

ordered. 558 F.Supp.2d at 1062 n.6. This was the wrong approach: First, Augusto relied on the Act as a defense. Proof that the "merchandise" he sold was "unordered," not requested, and not consented to, is a necessary element of that statutory defense and the burden of making that showing was on Augusto. Cf., Washington Capitols Basketball Club, Inc. v. Barry, 419 F.2d 472, 477 (9th Cir. 1969)(burden on defendant to prove affirmative defense of illegality of contract under general principles and as a violation of statute, specifically the Sherman Anti-Trust Act). Second, the District Court improperly would have required UMG to prove that ***all*** promotional CDs were ordered by ***all*** recipients, not just those sold by Augusto. And even as to the specific promotional CDs sold by Augusto (assuming *arguendo* that UMG had the burden imposed by the District Court), Augusto made it impossible for UMG to prove they had been "ordered" by a specific recipient because he did not disclose the identities of the original recipients.

* * *

The Act and its intent are clear: the promotional CDs sold by Augusto are not unordered merchandise mailed to a consumer to coerce payment. They are not gifts.

CONCLUSION

For all of the foregoing reasons, the judgment dismissing the complaint should be reversed and judgment should be entered in favor of UMG.

Respectfully submitted,

DATED: December 15, 2008

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CERTIFICATE OF COMPLIANCE WITH RULE 32(a)

I hereby certify that, pursuant to Federal Rule of Appellate Procedure 32(a)(7)(B)(i) and Ninth Circuit Rule 32-1, the enclosed opening brief is proportionately spaced, has a typeface of 14 points or more and contains 13,584 words. Counsel relies on the word count of the computer program used to prepare this brief.

DATED: December 15, 2008

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STATEMENT OF RELATED CASES

Appellant UMG Recordings, Inc. is not aware of any related cases pending before the Ninth Circuit Court of Appeals.

Addendum A

Federal Statues Relevant to Determination of Issues Presented

(Ninth Circuit Rule 28.2.7)

Effective: November 2, 2002

United States Code Annotated Currentness
Title 17. Copyrights (Refs & Annos)
Chapter 1. Subject Matter and Scope of Copyright (Refs & Annos)

§ 106. Exclusive rights in copyrighted works

Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

(1) to reproduce the copyrighted work in copies or phonorecords;

(2) to prepare derivative works based upon the copyrighted work;

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;

(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and

(6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

CREDIT(S)

(Pub.L. 94-553, Title I, § 101, Oct. 19, 1976, 90 Stat. 2546; Pub.L. 101-318, § 3(d), July 3, 1990, 104 Stat. 288; Pub.L. 101-650, Title VII, § 704(b)(2), Dec. 1, 1990, 104 Stat. 5134; Pub.L. 104-39, § 2, Nov. 1, 1995, 109 Stat. 336; Pub.L. 106-44, § 1(g)(2), Aug. 5, 1999, 113 Stat. 222; Pub.L. 107-273, Div. C, Title III, § 13210(4)(A), Nov. 2, 2002, 116 Stat. 1909.)

Current through P.L. 110-453 approved 12-2-08

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Effective: October 13, 2008

United States Code Annotated Currentness
Title 17. Copyrights (Refs & Annos)
Chapter 1. Subject Matter and Scope of Copyright (Refs & Annos)

§ 109. Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord

(a) Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord. Notwithstanding the preceding sentence, copies or phonorecords of works subject to restored copyright under section 104A that are manufactured before the date of restoration of copyright or, with respect to reliance parties, before publication or service of notice under section 104A(e), may be sold or otherwise disposed of without the authorization of the owner of the restored copyright for purposes of direct or indirect commercial advantage only during the 12-month period beginning on--

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

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

whichever occurs first.

(b)(1)(A) Notwithstanding the provisions of subsection (a), unless authorized by the owners of copyright in the sound recording or the owner of copyright in a computer program (including any tape, disk, or other medium embodying such program), and in the case of a sound recording in the musical works embodied therein, neither the owner of a particular phonorecord nor any person in possession of a particular copy of a computer program (including any tape, disk, or other medium embodying such program), may, for the purposes of direct or indirect commercial advantage, dispose of, or authorize the disposal of, the possession of that phonorecord or computer program (including any tape, disk, or other medium embodying such program) by rental, lease, or lending, or by any other act or practice in the nature of rental, lease, or lending. Nothing in the preceding sentence shall apply to the rental, lease, or lending of a phonorecord for nonprofit purposes by a nonprofit library or nonprofit educational institution. The transfer of possession of a lawfully made copy of a computer program by a nonprofit educational institution to another nonprofit educational institution or to faculty, staff, and students does not constitute rental, lease, or lending for direct or indirect commercial purposes under this subsection.

(B) This subsection does not apply to--

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

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

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

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

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

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

(4) Any person who distributes a phonorecord or a copy of a computer program (including any tape, disk, or other medium embodying such program) in violation of paragraph (1) is an infringer of copyright under section 501 of this title and is subject to the remedies set forth in sections 502, 503, 504, and 509. Such violation shall not be a criminal offense under section 506 or cause such person to be subject to the criminal penalties set forth in section 2319 of title 18.

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

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

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

CREDIT(S)

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

Current through P.L. 110-453 approved 12-2-08

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Effective: October 28, 1998

United States Code Annotated Currentness
Title 17. Copyrights (Refs & Annos)
Chapter 1. Subject Matter and Scope of Copyright (Refs & Annos)

§ 117. Limitations on exclusive rights: Computer programs

(a) Making of additional copy or adaptation by owner of copy.--Notwithstanding the provisions of section 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided:

(1) that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner, or

(2) that such new copy or adaptation is for archival purposes only and that all archival copies are destroyed in the event that continued possession of the computer program should cease to be rightful.

(b) Lease, sale, or other transfer of additional copy or adaptation.--Any exact copies prepared in accordance with the provisions of this section may be leased, sold, or otherwise transferred, along with the copy from which such copies were prepared, only as part of the lease, sale, or other transfer of all rights in the program. Adaptations so prepared may be transferred only with the authorization of the copyright owner.

(c) Machine maintenance or repair.--Notwithstanding the provisions of section 106, it is not an infringement for the owner or lessee of a machine to make or authorize the making of a copy of a computer program if such copy is made solely by virtue of the activation of a machine that lawfully contains an authorized copy of the computer program, for purposes only of maintenance or repair of that machine, if--

(1) such new copy is used in no other manner and is destroyed immediately after the maintenance or repair is completed; and

(2) with respect to any computer program or part thereof that is not necessary for that machine to be activated, such program or part thereof is not accessed or used other than to make such new copy by virtue of the activation of the machine.

(d) Definitions.--For purposes of this section--

(1) the "maintenance" of a machine is the servicing of the machine in order to make it work in accordance with its original specifications and any changes to those specifications authorized for that machine; and

(2) the "repair" of a machine is the restoring of the machine to the state of working in accordance with its original specifications and any changes to those specifications authorized for that machine.

CREDIT(S)

(Pub.L. 94-553, Title I, § 101, Oct. 19, 1976, 90 Stat. 2565; Pub.L. 96-517, § 10(b), Dec. 12, 1980, 94 Stat. 3028; Pub.L. 105-304, Title III, § 302, Oct. 28, 1998, 112 Stat. 2887.)

Current through P.L. 110-453 approved 12-2-08

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Effective: November 2, 2002

United States Code Annotated Currentness
Title 17. Copyrights (Refs & Annos)
Chapter 5. Copyright Infringement and Remedies (Refs & Annos)

§ 501. Infringement of copyright

(a) Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 122 or of the author as provided in section 106A(a), or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright or right of the author, as the case may be. For purposes of this chapter (other than section 506), any reference to copyright shall be deemed to include the rights conferred by section 106A(a). As used in this subsection, the term "anyone" includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this title in the same manner and to the same extent as any nongovernmental entity.

(b) The legal or beneficial owner of an exclusive right under a copyright is entitled, subject to the requirements of section 411, to institute an action for any infringement of that particular right committed while he or she is the owner of it. The court may require such owner to serve written notice of the action with a copy of the complaint upon any person shown, by the records of the Copyright Office or otherwise, to have or claim an interest in the copyright, and shall require that such notice be served upon any person whose interest is likely to be affected by a decision in the case. The court may require the joinder, and shall permit the intervention, of any person having or claiming an interest in the copyright.

(c) For any secondary transmission by a cable system that embodies a performance or a display of a work which is actionable as an act of infringement under subsection (c) of section 111, a television broadcast station holding a copyright or other license to transmit or perform the same version of that work shall, for purposes of subsection (b) of this section, be treated as a legal or beneficial owner if such secondary transmission occurs within the local service area of that television station.

(d) For any secondary transmission by a cable system that is actionable as an act of infringement pursuant to section 111(c)(3), the following shall also have standing to sue: (i) the primary transmitter whose transmission has been altered by the cable system; and (ii) any broadcast station within whose local service area the secondary transmission occurs.

(e) With respect to any secondary transmission that is made by a satellite carrier of a performance or display of a work embodied in a primary transmission and is actionable as an act of infringement under section 119(a)(5), a network station holding a copyright or other license to transmit or perform the same version of that work shall, for purposes of subsection (b) of this section, be treated as a legal or beneficial owner if such secondary transmission occurs within the local service area of that station.

(f)(1) With respect to any secondary transmission that is made by a satellite carrier of a performance or display of a work embodied in a primary transmission and is actionable as an act of infringement under section 122, a television broadcast station holding a copyright or other license to transmit or perform the same version of that work shall, for purposes of subsection (b) of this section, be treated as a legal or beneficial owner if such secondary transmission occurs within the local market of that station.

(2) A television broadcast station may file a civil action against any satellite carrier that has refused to carry television broadcast signals, as required under section 122(a)(2), to enforce that television broadcast station's rights under section 338(a) of the Communications Act of 1934.

CREDIT(S)

(Pub.L. 94-553, Title I, § 101, Oct. 19, 1976, 90 Stat. 2584; Pub.L. 100-568, § 10(a), Oct. 31, 1988, 102 Stat. 2860; Pub.L. 100-667, Title II, § 202(3), Nov. 16, 1988, 102 Stat. 3957; Pub.L. 101-553, § 2(a)(1), Nov. 15, 1990, 104 Stat. 2749; Pub.L. 101-650, Title VI, § 606(a), Dec. 1, 1990, 104 Stat. 5131; Pub.L. 106-44, § 1(g)(5), Aug. 5, 1999, 113 Stat. 222; Pub.L. 106-113, Div. B, § 1000(a)(9) [Title I, §§ 1002(b), 1011(b)(3)], Nov. 29, 1999, 113 Stat. 1536, 1501A-527, 1501A-544; Pub.L. 107-273, Div. C, Title III, § 13210(4)(B), Nov. 2, 2002, 116 Stat. 1909.)

Current through P.L. 110-453 approved 12-2-08

END OF DOCUMENT

C

Effective:[See Text Amendments]

United States Code Annotated Currentness
Title 39. Postal Service (Refs & Annos)
Part IV. Mail Matter
Chapter 30. Nonmailable Matter (Refs & Annos)

§ 3009. Mailing of unordered merchandise

(a) Except for (1) free samples clearly and conspicuously marked as such, and (2) merchandise mailed by a charitable organization soliciting contributions, the mailing of unordered merchandise or of communications prohibited by subsection (c) of this section constitutes an unfair method of competition and an unfair trade practice in violation of section 45(a)(1) of title 15.

(b) Any merchandise mailed in violation of subsection (a) of this section, or within the exceptions contained therein, may be treated as a gift by the recipient, who shall have the right to retain, use, discard, or dispose of it in any manner he sees fit without any obligation whatsoever to the sender. All such merchandise shall have attached to it a clear and conspicuous statement informing the recipient that he may treat the merchandise as a gift to him and has the right to retain, use, discard, or dispose of it in any manner he sees fit without any obligation whatsoever to the sender.

(c) No mailer of any merchandise mailed in violation of subsection (a) of this section, or within the exceptions contained therein, shall mail to any recipient of such merchandise a bill for such merchandise or any dunning communications.

(d) For the purposes of this section, "unordered merchandise" means merchandise mailed without the prior expressed request or consent of the recipient.

CREDIT(S)

(Pub.L. 91-375, Aug. 12, 1970, 84 Stat. 749.)

Current through P.L. 110-453 approved 12-2-08

END OF DOCUMENT

Addendum B

Federal Opinions Unavailable Electronically

(Federal Rule of Appellate Procedure 32.1(b))

Trade Regulation Reporter

Eleventh Edition

Transfer Binder

Federal Trade Commission Complaints and Orders

1965-1967

Containing complaints and orders of
the Federal Trade Commission
March 1965 to April 1967

COMMERCE CLEARING HOUSE, INC.
PUBLISHERS of TOPICAL LAW REPORTS

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burden to any other party or in any undue delay of the proceeding. . . ."

This rule gives the examiner broad discretion on matters of discovery. He may order depositions upon a showing of certain minimum requirements, that is, that the depositions will constitute or contain relevant evidence and that the taking of the depositions will not result in any undue burden to another party or any undue delay in the proceeding. The examiner, however, is not bound to order the taking of depositions when these conditions are met; he may require more. He may, for instance, require a showing as to the usefulness and need of the requested depositions or other justification. He likewise has broad discretion as to the manner and form of the depositions and the protections which may be needed for a party or a deponent (§ 3.10(d) of the Rules of Practice).

The examiner, in this case, was confronted with an extensive request for depositions (including interrogatories) covering 196 persons. It is clear that he believed, after hearing the arguments, that respondent had not made the minimum justification required by the Commission's rule, namely, relevancy and the avoidance of undue burden to any party or undue delay in a proceeding. The fact that almost 200 persons were to be deposed over a period of some two months time, and probably more, with the great likelihood of many motions to quash or modify and the necessity of rulings thereon, could well have suggested to the examiner that the proposed discovery procedure would necessarily result in an undue delay of the trial of this proceeding.

The examiner, furthermore, looked beyond the claim of mere relevance. He in effect required respondent to show some real necessity for the taking of this large number of depositions, with the inevitable delays and burdens connected therewith. We neither agree nor disagree with his decision to require a greater showing. We hold simply that in this proceeding and in these circumstances he did not abuse his discretion in the requirements he established and in his denial of the applications. We emphasize that in the matter of discovery the hearing examiner is given, by the Commission's Rules of Practice, a broad discretion, and the Commission, except by a clear showing of an abuse of that discretion, will sustain the examiner in his rulings in such matters.

Respondent has not shown that the ruling herein involves substantial rights and will materially affect the final decision and that a determination of its correctness before the conclusion of the hearing will better serve the interests of justice. Accordingly, it is directed that the appeal from the examiner's ruling denying respondent's applications for depositions and subpoenas be denied. An appropriate order will be entered. (Issued September 1, 1965.)

UNFAIR PRACTICES

[¶ 17,319] 1895 Associates, Inc.—Consent order to cease and desist, Dkt. C-985.

The publisher of National Jewish Chronicle, a tabloid size newspaper, is prohibited from publishing unordered or unauthorized advertisements, and seeking payment for these nonexistent debts, under terms of a consent order issued by the Commission.

The agreed-to order cites 1895 Associates, Inc., New York City, and Bernard K. Hoffer, the concern's principal employee and editor-in-chief of the publication.

They are charged in the FTC's complaint with engaging in the foregoing unfair and deceptive practice, in violation of Section 5 of the FTC Act. (Issued September 2, 1965; released September 9, 1965.)

See ¶ 7143.

ENCYCLOPEDIAS

[¶ 17,320] Crowell-Collier Publishing Co.—Initial order dismissing complaint, Dkt. 7751.

A Commission hearing examiner has issued an order which would dismiss charges that The Crowell-Collier Publishing Co., New York City, and its now dissolved wholly-owned subsidiary, P. F. Collier & Son Corp., made false claims through their door-to-door salesmen and in promotional material to induce the sale of Collier's Encyclopedia, its annual supplement and other books.

In an initial decision, Examiner Loren H. Laughlin ruled that a "valid order to cease and desist" cannot be issued against (1) Crowell-Collier because "it has not been engaged in commerce as that term is defined in the Federal Trade Commission Act" and "it did not control, dictate, or dominate the acts and practices of respondent P. F. Collier and Son Corporation during its existence," and (2) P. F. Collier because "it was dissolved and went out of existence in December 1960."

The examiner held that "there has not been established by a preponderance of reliable, substantial, and probative evidence either any lawful cause for complaint against respondent corporations or either of them or a showing of any specific and substantial public interest in this proceeding warranting the issuance of any order against either of said respondents and that the complaint herein should be dismissed as to each of them." (Issued September 3, 1965; released September 10, 1965.)

See ¶ 9601.

Trade Regulation Reporter

Tenth Edition

Federal Trade Commission Complaints, Orders, Stipulations 1954-1955

Containing complaints, orders and stipulations
of the Federal Trade Commission
August 1954 through December 1955

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MEDICINAL PREPARATIONS

[¶ 25,220] The S. S. S. Co.—Stipulation 8554.

The S. S. S. Company, of Atlanta, Georgia, has entered into an agreement with the Commission to modify its advertising claims for "S.S.S. Tonic."

The company agrees to stop representing:

(1) That the product is a competent or effective treatment for anemia, unless limited to iron deficiency or hypochromic anemias;

(2) That the effects of the product are superior to liver;

(3) That the product improves the digestibility of food or gives greater nourishment from the food consumed;

(4) That the product relieves sour stomach, bloat, gas, or discomfort after eating where those conditions are due to gastric hyperacidity;

(5) That the product strengthens the individual or relieves nervousness, tiredness, sleeplessness or a sickly or run down feeling, unless such symptoms are caused by iron deficiency or hypochromic anemias, or are caused by an inadequate diet due to lack of appetite;

(6) That the product is of value in the treatment or relief of pimples, bumps, boils or acne, or is of value in the treatment or relief of sallow skin, except where sallow skin is caused by iron deficiency or hypochromic anemias.

This stipulation is supplemental to a stipulation (No. 0651) approved April 27, 1934, and amended July 10, 1951 which remains in effect except as to those provisions in conflict with or qualified by this supplemental stipulation.

The stipulation was approved in accordance with the Commission's policy of encouraging law observance through cooperation in certain types of cases where there has been no intent to defraud or mislead. (Released November 2, 1954.)

See Unfair Practices, Vol. 2, ¶ 5087.03, 5087.41, 5087.51, 5087.65, 5087.69.

SHIPPING WITHOUT ORDER

[¶ 25,221] Betty Phillips, Inc.—Stipulation 8555.

A greeting card firm has agreed with the Commission to stop representing that persons to whom it sends unordered products are obligated either to return them or to pay for them.

The agreement declares that in a series of collection letters following unsolicited shipments of greeting cards, Betty Phillips, Inc., Newton, Mass., has represented contrary to fact that persons receiving these shipments were obligated to return the cards or pay for them. The following statements were cited by the Commission:

"Your remittance"

"For one box of * * * cards—Amount Due $1.00"

"unpaid accounts"

"Now—please be fair and send us $1.00 to settle your account. We don't want to bother you again about this small remittance unless you compel more drastic action."

The president, Walter P. Phillips, joined with the company in the stipulation accepted by the Commission. (Released November 2, 1954.)

See Unfair Practices, Vol. 2, ¶ 5129.10.

WILL FORM PACKAGE—MISREPRESENTATION

[¶ 25,222] Providence Publishing Co. et al.—Stipulation 8556.

The "Providence Will Package" will no longer be advertised as providing a sure-fire method of writing a valid, unbreakable will, under a stipulation approved by the Commission.

The FTC said John C. Kulik and Dorice W. Kulik, partners trading as Providence Publishing Company, Keene, New Hampshire, have agreed to modify their advertising of a $1.00 package containing a will form and other printed material for writing wills.

Under the agreement, the partners will stop representing that all required legal wording is printed on the will form or that the pamphlet contained in the package gives all the facts about making wills. They also agree to discontinue claims that the use of their printed materials gives a person sufficient legal knowledge to enable him to write a valid will, unbreakable in any state.

In addition, the stipulation calls for the partners to refrain from the use of "fully guaranteed," "unconditionally guaranteed" or any other representation contrary to fact that the printed materials are unconditionally guaranteed. Such words as "guarantee" may be used, however, to describe a limited or conditional guarantee where the limitations or conditions are clearly and fully disclosed. (Released November 4, 1954.)

See Unfair Practices, Vol. 2, ¶ 5081, 5099.30.

DETERGENTS

[¶ 25,223] American Hospital Supply Corp.—Stipulation 8557.

American Hospital Supply Corporation, Evanston, Ill., has agreed with the Commis-

Trade Regulation Reporter

Ninth Edition

Federal Trade Commission Orders and Complaints 1942—1948

Containing orders and complaints of the Federal Trade Commission reported from May 29, 1942, through December 10, 1948

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L. Rothschild, operating stores in Chicago, Minneapolis and St. Paul, was paid $1,000 a month for advertising and window displays.

Complaint issued June 3, 1944; released June 8, 1944.

See annotations, Vol. 1, ¶ 2212.340, 2212.530, 2215.20.

HOUSEHOLD ARTICLES

[¶ 12,831] Interstate Home Equipment Co., Inc., Consumers Home Equipment Co.—New complaints, FTC Dkts. 5173 & 5174.

Charge: The Commission has issued two complaints in which the respondents are charged with use of unfair and deceptive acts and practices in connection with the sale of household articles, including silverware, mattresses, blankets and radios.

One complaint (5173) is directed against Interstate Home Equipment Co., Inc., Providence, R. I., and its officers, Benjamin N. Kane, Sidney A. Kane, Irwin E. Kane, Reuben Lipson, Samuel Leven, and William G. Goldstein. In the second complaint (5174), the respondents are Consumers Home Equipment Co., Detroit, and its officers and directors, Avery B. Chereton, Harry H. Chereton, H. H. Gordon, E. Mallison, and Mrs. Hannah Chereton.

The respondents' products are sold by house-to-house canvassers whose customary practice is to exhibit samples of the merchandise they offer for sale, sign a purchaser to a contract, and obtain a down payment.

In the operation of their respective businesses, both groups of respondents, directly or through canvassers, have falsely represented, the complaints allege, that they are selling Rogers 1847 silverware at a price substantially less than the usual price at which it is customarily sold at retail; that they are conducting a special advertising campaign to acquaint the public with their merchandise which is being sold at less than the regular or usual price; that their silverware is superior in quality to that offered by local stores at comparable prices and the patterns sold by the respondents can be duplicated in local department stores; and that they are representatives of local and well-known business houses.

Other unfair practices allegedly engaged in by the respondents include their refusal to return deposits on unsatisfactory merchandise; their delivery to purchasers of inferior or unordered goods and their threat to sue purchasers if unordered merchandise is not paid for; and their failure to comply with purchaser contracts to replace or repair unsatisfactory or defective goods and to return merchandise which has been taken up for repair.

Interstate Home Equipment Co., Inc., also is charged with falsely representing that its mattresses are equal in quality and grade to the well-known Beauty Rest mattresses and contain health features endorsed by physicians, and that their blankets are composed in whole or in part of wool.

Complaints issued June 3, 1944; released June 6, 1944.

See annotations, Vol. 2, ¶ 6325.50, 6610.30, 6620.065, 6620.482, 6660.22, 6660.75.

LOTTERY METHODS

[¶ 12,832] Rose Greenberg, d. b. a. Central States Supply Co.—Order to cease and desist, FTC Dkt. 3845.

An order to cease and desist from selling or otherwise disposing of merchandise by means of lottery methods has been issued by the Commission against Rose Greenberg, trading as Central States Supply Co., Chicago. The respondent is engaged in the interstate sale and distribution of fishing tackle, silverware, rifles, radios, cups and blankets, in connection with which, the Commission found, she furnishes devices and merchandising plans by means of which the merchandise is sold to ultimate purchasers wholly by lot or chance.

The respondent is ordered to cease and desist from supplying or placing in the hands of others punchboards, or other devices, either with assortments of merchandise or separately, which are to be used or may be used in sale of such merchandise to the public by means of a game of chance, gift enterprise or lottery scheme; and from shipping, mailing or transporting to dealers, agents, or members of the public pull cards or other devices which are to be used or may be used in making sales to the public by means of game of chance, gift enterprise or lottery scheme.

Order issued May 30, 1944; released June 3, 1944.

See annotations, Vol. 2, ¶ 6501.50.

CORRESPONDENCE COURSES

[¶ 12,833] Edward D. Miller, d. b. a. National Technical Institute (formerly National Diesel Institute).—Order to cease and desist, FTC Dkt. 4789.

Edward D. Miller, trading as National Technical Institute, Virginia, Ill., has been ordered by the Commission to cease and desist from misrepresentation of correspondence courses of instruction he sells in interstate commerce. He formerly traded as National Diesel Institute and offers courses of study in diesel engineering, air-conditioning, aeronautical engineering, electrical engineering and commercial training.

Representations made by the respondent or his agents which the Commission found to be false and misleading, and which are prohibited by the order, are as follows:

That prospective students of the courses have been especially selected or that they have been recommended by their high school principal, or other persons, unless such recommendations actually have been made; that graduates of the courses usually or generally have obtained lucrative employment in the particular field in which instruction has been received or that the respondent's training assures such employment; that the respondent's school occupies any building larger than it actually occupies, or owns or uses any equipment in excess of that owned or used; that the respondent maintains a faculty of engineers or teachers qualified to give instructions in the various courses offered; that instructors will call upon students to teach, assist or review the work of such students, unless this is actually done by instructors having the necessary technical qualifications; or representing, by means of so-called "scholarships," or otherwise, that the usual and customary tuition fee for a course is a special or reduced price.

The order also directs the respondent to discontinue use of the term "Institute" as part

FEDERAL TRADE COMMISSION DECISIONS

▽

FINDINGS, ORDERS, AND STIPULATIONS

JANUARY 1, 1939, TO MAY 31, 1939

PUBLISHED BY THE COMMISSION

VOLUME 28

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON: 1940

For sale by the Superintendent of Documents, Washington, D. C. - - - - - Price $2.50 (Buckram)

STIPULATIONS [1]

DIGEST OF GENERAL STIPULATIONS OF THE FACTS AND AGREEMENTS TO CEASE AND DESIST [2]

2351. Radios—Prices.—Midwest Radio Corp., engaged in the manuacture of radio receiving sets and in the sale and distribution thereof in interstate commerce, in competition with other corporations, individuals, firms, and partnerships likewise engaged, entered into the following agreement to cease and desist from the alleged unfair methods of competition as set forth therein.

Midwest Radio Corp., in soliciting the sale of and selling its products in interstate commerce, agreed to cease and desist from illustrating or describing a radio set or any other merchandise and quoting therewith a display price in the advertising copy which is not the actual price of the set or other merchandise as illustrated or described; from illustrating a high-priced set and quoting a price which applies to a less expensive set, or otherwise making representations in advertising copy which do not conform accurately to the representations and illustrations contained in its sales catalog. From quoting a price which does not cover the complete set as illustrated, unless in juxtaposition therewith and in equally conspicuous type the explanation be made that the price quoted applies only to specified parts or items and no more. (Jan. 3, 1939.)

2352. Automobile Parts and Accessories—Source or Origin, Business Status and Prices.—Dallas E. Winslow, Inc., a corporation, trading under the name Continental-DeVaux Parts and Service Division and

[1] For false and misleading advertising stipulations effected through the Commission's radio and periodical division, see p. 1825 et seq.

The digests published herewith cover those accepted by the Commission during the period covered by this volume, namely, January 1, 1939, to May 31, 1939, inclusive. Digests of all previous stipulations of this character accepted by the Commission—that is, numbers 1 to 2350, inclusive—may be found in vols. 10 to 27 of the Commission's decisions.

[2] In the interest of brevity there is omitted from the published digests of the published stipulations agreements under which the stipulating respondent or respondents, as the case may be, broadly agree that should such stipulating respondent or respondents ever resume or indulge in any of the practices, methods, or acts in question the stipulation may be used in evidence against such respondent or respondents in the trial of the complaint which the Commission may issue, or that in event of such resumption or indulgence, or of issuance by Commission of complaint and institution of formal proceedings against respondent, as in the stipulation provided, such stipulation and agreement, if relevant, may be received in such proceedings as evidence of the prior use by the respondent or respondents of the methods, acts, or practices herein referred to.

(b) Labels, brands, or other trade indicia bearing the words "Artica" or "antartica," or words, phrases, statements, or representations of similar import as descriptive of products not procured from the said Polar regions; or picturizations on labels, brands, or other trade indicia of polar bears or other fur-bearing animals designed to indicate or give the impression that such products are fabricated from the fur or pelt of a polar bear or other fur-bearing animal, when such is not the fact.

(c) Labels, brands, or other trade indicia bearing the word "Squirrel" either independently or as a part of the word "Squirrelece," or words, phrases, statements, or representations of similar import as descriptive of products not composed of squirrel fur. (Apr. 3, 1939.)

2434. **Mattresses—Value and Price.**—J. M. Kanter and M. A. Kanter, copartners, trading under firm name and style "Empire Mattress Company," engaged in business of manufacturing mattresses and in the sale thereof in interstate commerce, in competition with other partnerships, corporations, individuals, and firms likewise engaged, entered into the following agreement to cease and desist from the alleged unfair methods of competition as set forth therein.

J. M. Kanter and M. A. Kanter, in connection with the offering for sale, sale or distribution of their products in commerce as defined by the act, agreed to cease and desist from:

1. Representing, directly or indirectly, that said products retail, or were manufactured to retail, at a price in excess of the price at which said products are regularly and customarily offered for sale and sold by retailers.

2. Placing on said products labels or tags indicating a retail price in excess of the price at which said products are regularly and customarily sold by retailers.

3. Selling or supplying customers for sale to others products to which are affixed or which bear any false, fictitious or misleading price in excess of the price at which said products are usually sold at retail. (Apr. 3, 1939.)

2435. **Stamps and Philatelic Supplies—Value, Prices, Fictitious Collection Agency, Etc.**—Lawrence K. Shaver, a sole trader, doing business under the various names of Mystic Stamp Co., World Wide Stamp Co. and National Credit Bureau, engaged in the sale and distribution in interstate commerce of stamps and philatelic supplies, in competition with other individuals, corporations, firms, and partnerships likewise engaged, entered into the following agreement to cease and desist from the alleged unfair methods of competition as set forth therein.

Lawrence K. Shaver, in connection with his sale and distribution of stamps and philatelic supplies in commerce as defined by the act, agreed he will cease and desist from representing, either by direct assertion or by implication, that any recipient of approval sheets of stamps or other merchandise not ordered or otherwise requested by said recipient, is under contract, legally enforceable, either to pay for said unsolicited merchandise or to return the same; quoting a figure purporting to be the actual or genuine value of a stamp, set of stamps or other merchandise which is in excess of the price for which said article or group of articles is sold or can be obtained in the usual course of business; or representing that the actual value of a miscellaneous assortment of stamps in bulk is the sum of the catalog nominal list prices of all such stamps; or applying the term "catalog value" to a packet of stamps in a manner so as to import or imply or cause the belief that any figure so designated is its actual value, when such is not the fact; the use of the trade name "National Credit Bureau" or of any other fictitious name purporting to be an independent collection agency or credit bureau, for the purpose of collecting payments on his contracts or his alleged contracts, when in fact no such agency exists or is employed by him; representing that such spurious credit bureau is a nation-wide institution for the interchange of credit information and general collection of accounts, or is in position to impair one's credit standing with the various stamp dealers; or the use of pretended notices simulating court summons or similar instruments designed to frighten debtors by false appearance of legal proceedings against them. (Apr. 4, 1939.)

2436. **Burial Vaults—Composition and Qualities.**—Arthur Martin and Joe Fitzjarrald, copartners trading under the firm name and style "Progress Manufacturing Company," engaged in the business of manufacturing metal burial vaults and in the sale thereof in interstate commerce, in competition with other partnerships, corporations, individuals, and firms likewise engaged, entered into the following agreement to cease and desist from the alleged unfair methods of competition as set forth therein.

Arthur Martin and Joe Fitzjarrald agreed, and each of them agreed, to cease and desist from stating or representing, in connection with offering for sale or selling in interstate commerce burial vaults, in purported guarantees, in advertising, or in any other manner, that said vaults, or any thereof, are or is made of rust-resisting materials or of material which will not rust, or that said vaults, or any thereof, are or is waterproof or impervious to the passage therethrough of water or air and/or that they, or any thereof, will so remain and endure under any and all burial conditions. (Apr. 4, 1939.)

2437. **Casein Glue—Qualities.**—Henning-Larson Glue Co., a corporation, engaged in the manufacture of a casein glue and other products and in the sale thereof in interstate commerce, in competition with

FEDERAL TRADE COMMISSION DECISIONS

FINDINGS, ORDERS

AND

CONFERENCE RULINGS OF THE FEDERAL TRADE COMMISSION

MARCH 16, 1915, TO JUNE 30, 1919

PUBLISHED BY THE COMMISSION

VOLUME I

WASHINGTON
GOVERNMENT PRINTING OFFICE
1920

of Congress approved September 26, 1914, entitled "An act to create a Federal Trade Commission, to define its powers and duties, and for other purposes," which said report is hereby referred to and made a part hereof: Now, therefore,

It is ordered, That the respondent, The Silvex Co., of New York, and its officers, directors, representatives, agents, servants, and employees cease and desist from directly or indirectly advertising or publishing or circulating or distributing any circular letter, advertisement or printed matter whatsoever, in which it is stated or held out that respondent's Bethlehem aviation spark plug has been "certified by the Bureau of Standards."

FEDERAL TRADE COMMISSION *v.* VACUUM OIL CO.

COMPLAINT IN THE MATTER OF THE ALLEGED VIOLATION OF SECTION 5 OF THE ACT OF CONGRESS APPROVED SEPTEMBER 26, 1914.

Docket No. 219.—December 27, 1918.

SYLLABUS.

Where an oil company—

(*a*) shipped large quantities of goods to its customers and customers of its competitors, without theretofore having received orders for the same; and,

(*b*) induced and attempted to induce such consignees to accept and purchase the goods so shipped, by (1) the extension of long time credits, and (2) guaranteeing the resale of such consignments and the assistance of its salesmen in procuring the same:

Held, That such acts constituted an unfair method of competition in violation of section 5 of the act of September 26, 1914.

COMPLAINT.

I. The Federal Trade Commission having reason to believe from a preliminary investigation made by it, that the Vacuum Oil Co., hereinafter referred to as respondent, has been and is using unfair methods of competition in interstate commerce in violation of the provisions of section 5 of an act of Congress, approved September 26, 1914, entitled "An act to create a Federal Trade Commission, to define its

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powers and duties, and for other purposes," and it appearing that a proceeding by it in respect thereof would be to the interest of the public, issues this complaint, stating its charges in that respect on information and belief as follows:

PARAGRAPH 1. That the respondent, Vacuum Oil Co., is now and was at all times hereinafter mentioned a corporation organized, existing, and doing business under and by virtue of the laws of the State of New York, having its principal office and place of business located in the city of New York, State of New York, now and for more than one year last past engaged in commerce in petroleum and in the manufacture, sale, and distribution of its products in direct competition with other persons, firms, corporations, and copartnerships similarly engaged.

PAR. 2. That the respondent, Vacuum Oil Co., is engaged in the business of purchasing petroleum in oil-producing districts of the United States; in causing to be shipped and transported crude oil from such districts through and into other States; in refining the petroleum and manufacturing it into various products; in shipping and transporting petroleum products through and into different States of the United States and in selling petroleum products in different localities in various States of the United States and in the District of Columbia; that after such products are so manufactured in various States of the United States they are continuously moved to, from and among other States and Territories of the United States, the District of Columbia, and foreign countries, and there is continuously and has been at all times hereinafter mentioned a constant current of trade and commerce in said products between and among the various States and Territories of the United States, the District of Columbia, and foreign countries, and especially through and to the city of Olean, State of New York, and therefrom to and through other States of the United States, the Territories thereof, the District of Columbia, and foreign countries.

PAR. 3. That the respondent, with the intent, purpose, and effect of stifling and suppressing competition in the manufacture, sale, and distribution of petroleum products in interstate commerce within the year last past has adopted and maintained a system of marketing its various petroleum products, whereby it ships at market prices to various customers of its competitors, large quantities of its products without having theretofore sold or received orders for the same. and in the furtherance of said system the respondent induces and attempts to induce such consignees to accept and purchase such consignments so shipped as aforesaid by various means and methods among which are the following, to wit:

1. The extension of long-time credits.
2. Guaranteeing the resale of such consignments and the assistance of its salesmen in procuring the same.

That such system and methods are calculated and designed to and do enlarge respondent's gallonage output and cause the customers of its competitors to be overstocked, and to hinder, harass, and restrain such competitors in the conduct of their business.

REPORT, FINDINGS AS TO THE FACTS, AND ORDER.

The Federal Trade Commission having issued and served its complaint herein, wherein it is alleged that it had reason to believe that the above-named respondent, Vacuum Oil Co., has been and now is using unfair methods of competition in interstate commerce in violation of the provisions of section 5 of an act of Congress approved September 26, 1914, entitled "An act to create a Federal Trade Commission, to define its powers and duties, and for other purposes," and that a proceeding by it in that respect would be to the interest of the public, and fully stating its charges in this respect, and the respondent having appeared by Edward Prizer, its president, and filed its answer admitting that certain of the matters and things alleged in the said complaint are true in the manner and form herein set forth. and denying others therein contained, and thereafter having made and executed an agreed statement of facts which has been heretofore filed in which it is stipulated and agreed by the respondent that the Federal Trade Commission shall take such agreed statement of facts as the evidence in this case and in lieu of testimony and proceeding forthwith thereupon to make and enter its report, stating its findings as to the facts and its conclusions and its order, disposing of this proceeding without the introduction of testimony, or the presentation of argument, the Federal Trade Commission now makes and enters its report, stating its findings as to the facts and its conclusions.

FINDINGS AS TO THE FACTS.

1. That the respondent, Vacuum Oil Co., is a corporation organized, existing, and doing business under and by virtue of the laws of the State of New York, having its principal office and place of business located in the city and State of New York, now and for more than one year last past engaged in the manufacture and sale of petroleum and its products generally in commerce throughout the various States of the United States in direct competition with other persons, firms, copartnerships, and corporations similarly engaged.

2. That during the month of November, 1917, the manager of the Des Moines office of the respondent company shipped at market prices to various customers of the respondent and to customers of its competitors throughout the State of Iowa large quantities of its products without having theretofore sold or received orders for the same, and induced and attempted to induce such consignees to accept and purchase such consignments so shipped as aforesaid, by (1) the extension of long-time credits, and (2) guaranteeing the resale of such consignments and the assistance of respondent's salesmen in procuring the same.

3. That the method of selling and practice of selling and marketing its products as described and set forth in paragraph 2 herein was carried on, concluded, and consummated by the manager of the Des Moines office of the respondent company without the knowledge or consent of the respondent and without the knowledge and consent of Willard W. Smith, general manager of the western branches of the respondent company.

4. That the respondent does not now and never has maintained a policy of marketing and selling its products without orders therefor.

CONCLUSIONS.

That the methods of competition set forth in the foregoing findings as to the facts in paragraph 2 and each and all of them are, under the circumstances therein set forth, unfair methods of competition in interstate commerce in violation of the provisions of section 5 of an act of Congress approved September 26, 1914, entitled, "An act to create a Federal Trade Commission, to define its powers and duties, and for other purposes."

ORDER TO CEASE AND DESIST.

The Federal Trade Commission having issued and served its complaint herein, and the respondent having appeared by Edward Prizer, its president, duly authorized to act in the premises, and having filed its answer and thereafter having made and entered into an agreed statement of facts as the evidence in this case and in lieu of testimony, and should proceed forthwith upon the same to make and enter its report, stating its findings as to the facts, and its conclusions and its order, disposing of this proceeding without the introduction of testimony in support of the same, and waiving any and all right to the introduction of such testimony; and the Commission having made and filed its report containing its findings as to the facts, and its conclusions that the respondent has violated section 5 of an act of Congress approved September 26, 1914, entitled, "An act to create a Federal Trade Commission, to define its powers and duties, and for other purposes:" Now, therefore,

It is ordered, That the respondent, Vacuum Oil Co., of New York, and its officers, directors, representatives, agents, servants, and employees cease and desist from directly or indirectly shipping to its customers or prospective customers, or the customers or prospective customers of its competitors any of its products at market prices without having theretofore sold or received orders for the same, and inducing or attempting to induce the consignees in any manner whatsoever to accept and purchase such consignments as aforesaid.

PROOF OF SERVICE

STATE OF CALIFORNIA, COUNTY OF LOS ANGELES

I am employed in the county of Los Angeles, State of California. I am over the age of 18 and not a party to the within action. My business address is Mitchell Silberberg & Knupp LLP, 11377 West Olympic Boulevard, Los Angeles, California 90064-1683 .

On December 15, 2008, I served a copy of the foregoing document(s) described as **APPELLANT'S OPENING BRIEF** on the interested parties in this action at their last known address as set forth below by taking the action described below:

Michael H. Page
Joseph C. Gratz
Keker & Van Nest LLP
710 Sansome Street
San Francisco, CA 94111-1704
Telephone: (415) 391-5400
Facsimile: (415) 397-7188

Fred Von Lohmann
Electronic Frontier Foundation
454 Shotwell Street
San Francisco, CA 94110
Telephone: (415) 436-9333 x123
Facsimile: (415) 436-9993

☒ **BY OVERNIGHT MAIL:** I placed the above-mentioned document(s) in sealed envelope(s) designated by the carrier, with delivery fees provided for, and addressed as set forth above, and deposited the above-described document(s) with ~~FedEx~~ in the ordinary course of business, by depositing the document(s) in a facility regularly maintained by the carrier or delivering the document(s) to an authorized driver for the carrier.
Golden State Overnight

I declare under penalty of perjury under the laws of the State of California that the above is true and correct.

Executed on December 15, 2008, at Los Angeles, California.

Andrea Petit
Andrea Petit

Mitchell Silberberg & Knupp LLP
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