

1 RUSSELL J. FRACKMAN (SBN 49087)
 rjf@msk.com
 2 KARIN G. PAGNANELLI (SBN 174763)
 kgp@msk.com
 3 AARON M. WAIS (SBN 250671)
 amw@msk.com
 4 MITCHELL SILBERBERG & KNUPP LLP
 11377 West Olympic Boulevard
 5 Los Angeles, California 90064-1683
 Telephone: (310) 312-2000
 6 Facsimile: (310) 312-3100
 7 Attorneys for Plaintiff and Counterdefendant
 UMG RECORDINGS, INC.
 8
 9

10 UNITED STATES DISTRICT COURT
 11 CENTRAL DISTRICT OF CALIFORNIA
 12

13 UMG RECORDINGS, INC., a Delaware
 corporation,

14 Plaintiff,

15 v.

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

19 Defendants.
 20

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

Honorable S. James Otero

**REDACTED
 CONSOLIDATED REPLY
 MEMORANDUM OF POINTS AND
 AUTHORITIES IN SUPPORT OF
 MOTIONS FOR SUMMARY
 JUDGMENT OF PLAINTIFF AND
 COUNTERDEFENDANT UMG
 RECORDINGS, INC.**

Date: May 5, 2008
 Time: 10:00 a.m.
 Ctrm: 880

21 AND RELATED COUNTERCLAIM.
 22
 23
 24
 25
 26
 27

1 **I. PARTIAL SUMMARY JUDGMENT ON UMG’S COMPLAINT**

2 The Uncontroverted Facts. The material facts supporting UMG’s motions are
3 uncontroverted. UMG owns the 11 copyrights in issue. Augusto sold, i.e.,
4 distributed, the UMG Promo CDs containing those copyrighted works without
5 consent. Promotional CDs differ from commercial CDs UMG sells. The UMG
6 Promo CDs were made in limited amounts and provided for free to select
7 individuals in the music industry for the express purpose of promoting commercial
8 product. The UMG Promo CDs contained restrictive language reserving ownership
9 in UMG and prohibiting their sale or transfer. They state “acceptance ... shall
10 constitute an agreement to comply with the terms of this license” (or shorter
11 language Augusto admits has the same meaning. AUG SUF 30). Recipients can
12 accept them or return them to be destroyed. UMG polices its promotional CDs by
13 monitoring eBay (and sending notices) and deleting from its lists of recipients those
14 who violate the license or whose CDs are returned or not deliverable. Augusto
15 cannot state the source *or* the original recipients of any particular UMG Promo CD
16 he sold. See Augusto Statement of Genuine Issues (“SGI”) on Complaint Nos. 2-7,
17 9-10, 14, 23, 26-35, 41, 42, 52, 47-49; SGI on Counterclaim Nos. 11-12, 42. These
18 undisputed facts, applied to the law, prove UMG’s claim.

19 Augusto argues (1) UMG does not seek return of the promotional CDs, (2)
20 there is no penalty if they are lost or damaged, and (3) UMG does not keep records.
21 None of these raises a triable issue. No authority requires return as a pre-condition
22 to a license (there are perpetual licenses), and it would be unnecessary, time-
23 consuming, and expensive to do so. The absence of recipients’ responsibility for
24 loss, if relevant, evidences a license since it is after a transfer that the *owner* is
25 responsible. And UMG *does* keep records, although that, too, is irrelevant,
26 particularly as UMG polices its licenses in other ways.

27 The First Sale Burden of Proof. The first sale affirmative defense does not
28 “extend to any person who has acquired possession of the copy or phonorecord from

1 the copyright owner, ... without acquiring ownership of it.” 17 U.S.C. § 109(d).
2 Augusto acquired *possession* of the UMG Promo CDs. Augusto has not carried his
3 burden of showing that he acquired *ownership*. He has not identified any store or
4 individual from which he bought any particular UMG Promo CD; and he kept no
5 records of purchases. His “sample” receipts do not even mention promotional CDs
6 (many refer to “T-shirts”). This hardly shows “good chain of title.”

7 But even if this proved Augusto’s immediate source, he must trace each
8 particular UMG Promo CD he sold to the *original* recipient *and* to a first sale.
9 Augusto ignores the authorities and legislative history that mandate this requirement
10 (UMG Liability Mot. at 10-13), and fails to cite any contrary authority. Instead, he
11 contends that “requiring documentation of each step in the chain of title would lead
12 to absurd results” (positing irrelevant hypotheticals). Aug. Opp. at 6. However,
13 Augusto is the one who knows where he obtained what he sold, and the one who
14 could (and must) prove they were subject to a first sale. See SGI 43-46.

15 The UMG Promo CDs were licensed. UMG provided free promotional CDs
16 for a limited purpose to music industry professionals (as has been the practice for
17 decades). They state that ownership is reserved to UMG and that acceptance
18 constitutes agreement to the terms. UMG makes clear that only a license is granted
19 and imposes significant restrictions on transfer. That is the “substance” (not just a
20 “label”) of a license transaction. See Wall Data v. Los Angeles County Sheriff’s
21 Dept., 447 F.3d 769, 785 (9th Cir. 2006); UMG Liability Mot. at 16-18.¹

22 Augusto attempts to avoid the software licensing cases as “controversial” and
23 by inaccurate factual distinctions.² These cases reflect the law in this Circuit. See
24

25 ¹ A licensee who sells copyrighted property in violation of a license is an infringer,
26 and so are those (like Augusto) who sell after acquiring possession. UMG Liability
27 Mot. at 18. The cases Augusto cites claiming that the only remedy is in contract
(Opp. at 13), involve a “post sale” contractual restriction, not a license.

28 ² For example, contrary to Augusto’s claim, both Adobe Systems, Inc. v. Stargate
Software, Inc., 216 F. Supp. 2d 1051, 1060 (N.D. Cal. 2002) and Adobe Systems,
Inc. v. One Stop Micro, Inc., 84 F. Supp. 2d 1086, 1092 (N.D. Cal. 2000) granted
(...continued)

1 Wall Data, 447 F.3d at 785 n.9 (citing One Stop Micro, Inc. with approval). UMG
2 Liability Mot. at 16-18. At the same time, Augusto repeats that “[n]o court has ever
3 extended the rationale of these cases to cover music CDs.” (No court has
4 considered the issue.) However, software copies are deemed licensed *despite* their
5 sale to the general public and payment for permanent use by millions of consumers.
6 Clearly then, the license of a few thousand copies of each UMG Promo CD to select
7 individuals, for free, and with express restrictions, is a license.³ The sole software
8 case Augusto relies on, SoftMan Products Co. v. Adobe Systems, Inc., 171 F. Supp.
9 2d 1075 (C.D. Cal. 2001), and his other authority do not support his contrary
10 position. UMG Opp. at 12-15.

11 Augusto also makes a convoluted argument about the tax treatment of
12 promotional CDs but cites no case where tax treatment was relevant to the license
13 issue. (None of the software cases discusses tax treatment of licensed copies.) The
14 cases cited deal with whether payments were business expenses or capital
15 expenditures. Tax treatment is simply that – tax treatment: “To call something an
16 ‘asset’ is an accounting conclusion and not a datum from the real world at all.” 53
17 Tax Notes 463, 478 (Oct. 28, 1991); INDOPCO, Inc. v. Comm’n Internal Revenue,
18 503 U.S. 79, 87 n.6 (1992) (“[N]otion of an ‘asset’ is itself flexible and

19
20 (...continued)
21 summary judgment based on, among other things, the express restrictions placed by
22 the copyright owner, not just because software was involved. Microsoft Corp. v.
23 Harmony Computers & Elec, Inc., 846 F. Supp. 208, 210, 212 (E.D.N.Y. 1994),
24 included legitimate and counterfeit product. Microsoft Corp. v. Software Wholesale
Club, Inc., 129 F. Supp. 2d 995, 1007-08 (S.D. Tex. 2000), did not base its analysis
23 on the fact that the product sold was allegedly counterfeit. ISC-Bunker Ramo Corp.
v. Altech, Inc., 765 F. Supp. 1310, 1330-31 (N.D. Ill. 1990), included a distribution
24 claim, not just a reproduction claim.

25 ³ Augusto cites selected portions of Nimmer that acknowledge, but disagree with,
26 some software cases. Nimmer’s reasoning is that “in the case of software, the courts
27 were not dealing with copyrightable works largely retained close to the vest by their
28 proprietors. Instead, the subject software was widely vended in the millions of
copies.” 2 M. & D. Nimmer, Nimmer On Copyright, § 8.12[B][1][d][i] at 8-166
(2006 ed.); see id. at § 8.12[B][1] at 8-158 (copyright owner has the right to rent,
lease or lend, in which case there is no first sale). The parallel here is obvious.

1 amorphous.”). [THE FOLLOWING SENTENCE HAS
2 BEEN REDACTED PURSUANT TO UMG’S APPLICATION TO FILE UNDER
3 SEAL].

4 The Postal Reorganization Act. Augusto contends (citing legislative history),
5 that Section 3009 was designed to “bring under control the unconscionable practice
6 of persons who ship unordered merchandise to consumers and then trick or bully
7 them.” Significantly, he omits the key final words of that sentence, “*into paying for*
8 *them*.” The statute does not apply here. See UMG Opp. at 8-10.

9 UMG has not abandoned the UMG Promo CDs. UMG did not “intend
10 unequivocally” to abandon the promotional CDs. Augusto cites nothing to support
11 that UMG did. See UMG Opp. at 10-12.

12 II. SUMMARY JUDGMENT ON THE COUNTERCLAIM.

13 The VeRO notices. Augusto and eBay admit that eBay’s agent registered
14 with the Copyright Office (Mr. Nessary) is *not* where the VeRO notices were sent
15 (the VeRO Program); that the address registered with the Copyright Office
16 (registeredagent@ebay.com, changed to copyright@ebay.com) was not the address
17 where the VeRO notices were sent (vero@ebay.com); that UMG’s VeRO notices
18 disclaimed application of the DMCA; and that neither eBay’s instructions to VeRO
19 members regarding notices nor its “NOCI” reference the DMCA. (eBay’s exhibit
20 refers to the DMCA only with respect to seller counter notices.) UMG’s VeRO
21 notices *cannot* be DMCA notices. UMG Counterclaim Mot. at 7-9.

22 UMG’s good faith. Augusto continues to ignore the Ninth Circuit standard
23 under which UMG had the requisite subjective, good faith belief. Id. at 9-12. His
24 purported evidence of “actual knowledge of misrepresentation” – “UMG’s expertise
25 in copyright law, long-standing historical practice of mailing ‘promo CDs,’
26 knowledge regarding widespread resale of those CDs, and lack of enforcement
27 efforts” (Aug. Opp. at 20) – is legally and factually unsupported. If expertise in
28 copyright law were the test, copyright holders would need a legal opinion before

1 sending notice *and* would have to waive attorney-client privilege if sued. Moreover,
2 the weight of authority favors UMG. That mailing promo CDs is a long-standing
3 practice is irrelevant or supports UMG; many record companies have done so for
4 decades. There is no evidence of UMG's "knowledge of widespread resale."
5 Rather, most licensees abide by the license. Finally, UMG is permitted to choose
6 how to enforce its copyrights, either by suit, as here, or in other ways, as monitoring
7 eBay and deleting from recipient lists those who violate licenses.

8 The consent judgment. UMG never contended that Augusto is "estopped" by
9 his consent judgment. Rather, UMG's knowledge, before its notices at issue were
10 sent, of prior litigation where Augusto agreed that the same conduct he engaged in
11 here was infringing, supports UMG's good faith. SGI on Counterclaim 54.

12 eBays website. UMG apologizes for inadvertently quoting from eBay's
13 Indian site instead of its U.S. site. However, the fact is it is still correct that eBay
14 confirms UMG's good faith, as otherwise established. eBay's U.S. site states:
15 "[*m*]any rights owners *believe* that listing these items infringes on their copyrights."
16 Chesnut Decl., ¶ 12 (emphasis added). At one time its U.S. site contained the same
17 language UMG quoted (available at [http://web.archive.org/web/20010805115943/
18 http://pages.ebay.com/help/community/png-promotional.html](http://web.archive.org/web/20010805115943/http://pages.ebay.com/help/community/png-promotional.html)). The reason for the
19 change is unknown, but it was not because of a change in the law (there was none).

20
21 DATED: April 28, 2008

MITCHELL SILBERBERG & KNUPP LLP

22
23 By: /s/ Russell J. Frackman

24 Russell J. Frackman
25 Attorneys for Plaintiff and Counter-
26 defendant UMG RECORDINGS, INC.
27