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17 UNITED STATES DISTRICT COURT
18 CENTRAL DISTRICT OF CALIFORNIA
19 WESTERN DIVISION

20 UMG RECORDINGS, INC.,
21 a Delaware corporation,
22 Plaintiff,
23 v.
24 TROY AUGUSTO d/b/a ROAST
25 BEAST MUSIC COLLECTABLES
26 AND ROASTBEASTMUSIC, an
27 individual; and DOES 1 through 10,
28 inclusive,
Defendants.

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

**[PUBLIC REDACTED]
CONSOLIDATED MEMORANDUM
OF POINTS AND AUTHORITIES IN
OPPOSITION TO PLAINTIFF'S
MOTIONS FOR SUMMARY
JUDGMENT**

**FILED UNDER SEAL PURSUANT TO
PROTECTIVE ORDER**

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I. INTRODUCTION

1
2 Plaintiff UMG Recordings, Inc. asks this Court to endorse a bald and
3 unsupportable fiction: that when it mails free copies of CDs to third parties who
4 never ordered them; never asks for them back; never receives them back; has no
5 idea where they are; and **[[MATERIAL REDACTED PURSUANT TO**
6 **PROTECTIVE ORDER]]**, it is nonetheless actually only “licensing” those discs
7 to every recipient, and thus can dictate, forever, what each recipient may thereafter
8 do with each copy. The law does not elevate form over substance in this way. By
9 action of both federal and state law, and by all indicia of ownership, title to UMG’s
10 “promo CDs” passes to the recipients to whom they are given. UMG’s rights to
11 control alienation of those objects are exhausted by that initial gift, and cannot be
12 resurrected by the flimsy fiction of stamping the words “Not For Sale” on them.
13 As the leading commentator explains: “Toni Morrison, in short, cannot stymie the
14 aftermarket for *Beloved* by wrapping all copies in cellophane and insisting that her
15 readers obtain only a ‘license’ over the books in which they read her words.”
16 2 NIMMER & NIMMER, NIMMER ON COPYRIGHT (hereafter “NIMMER”) §
17 8.12[B][1][d][ii].

18 Defeating a motion for summary judgment requires that the nonmoving
19 party set forth facts that demonstrate that there is a genuine issue for trial. Fed. R.
20 Civ. P. 56(e)(2). Here, Defendant and Cross-Plaintiff Troy Augusto (“Augusto”)
21 has more than met this burden with respect to Plaintiff and Counter-Defendant
22 UMG Recordings, Inc.’s (“UMG’s”) motions for summary judgment.¹

23
24
25
26
27 ¹ In order to minimize duplicative filings and the burden on the Court, Augusto
28 files this consolidated opposition brief in opposition to both of UMG’s pending
motions for summary judgment. Rather than burdening the Court with two briefs,
each with a twenty-page limit, Augusto files this single consolidated brief.

II. ARGUMENT

A. UMG silently relies on an Indian website's views of Indian copyright law regarding promotional items.

As an initial matter, Augusto must bring to this Court's attention mistaken and misleading representations made in UMG's briefing regarding eBay's policies regarding auctions for promotional items. UMG repeatedly cites and quotes at length materials about these policies that it claims are taken from eBay's website. (Docket Item ("D.I.") 40 ("UMG Liability Br.") at 3; D.I. 37 ("UMG Counterclaim Br.") at 4, 16-18). Based on these materials, UMG claims that eBay puts its users on notice that U.S. copyright law prohibits the resale of promotional items. Careful examination of UMG's supporting declarations, however, reveals that the materials it quotes were taken from **eBay India**. See

<http://pages.ebay.in/help/policies/promotional.html>.² (Declaration of David Benjamin, D.I. 37-3 & 40-3, at ¶ 6(f) & Exh. 3.) Of course, this case has nothing to do with eBay India, the copyright laws of India, or any distribution of "promo CDs" to anyone in India. More importantly, the policies regarding promotional items on eBay's **United States** website are markedly different from those posted by eBay India. As set forth in the accompanying declaration of Robert Chesnut, Senior Vice President and Deputy General Counsel of eBay, Inc., eBay does not take the position that the sale of promotional items is infringing under United States law. (Declaration of Robert Chesnut in support hereof ("eBay Decl.") ¶ 12.) eBay states on its United States website:

Some companies distribute "promotional copies" of movies, albums, or events to publicize the works before they are released to the public.

² The ".in" suffix signifies a top-level domain name associated with websites associated with the country of India. See National Internet Exchange of India, *.IN Registry: India's Official .IN Domain Name Registry*, at <http://www.registry.in/>. The website located at <http://ebay.in> bears the prominent title "eBay India - Online Shopping Mall: Free Auctions, Shop/Buy/Sell Mobiles, Cameras, Apparel, Computers, Bollywood Clothes & Indian Products."

1 Promotional items are permitted on eBay. However, many rights
2 owners believe that listing these items infringes on their copyrights.
3 Listing such items could therefore result in the ending of a listing if a
4 member of eBay's Verified Rights Owner (VeRO) Program reports
5 the items as infringing their rights. When a rights owner reports a
6 listing to eBay as one that infringes their rights, eBay is required by
7 law to remove the listing.³

8 While it is difficult to imagine that one could locate, copy, and quote pages from
9 an Indian website about Indian law by mistake, we are loath to accuse UMG of
10 deliberately attempting to mislead this Court. Nevertheless, UMG's reliance on an
11 Indian website's views of Indian copyright law is at a minimum misplaced.

12 **B. The first sale doctrine applies to Augusto's activities.**

13 The first sale doctrine precludes summary judgment in favor of UMG on its
14 copyright infringement claim. On the contrary, as detailed in Augusto's brief in
15 support of his cross-motion for summary judgment (D.I. 44), it is Augusto who is
16 entitled to summary judgment on UMG's claim.

17 The first sale doctrine is at the heart of these cross-motions for summary
18 judgment. The first sale doctrine provides that:

19 Notwithstanding the provisions of § 106(3), the owner of a particular
20 copy or phonorecord lawfully made under this title, or any person
21 authorized by such owner, is entitled, without the authority of the
22 copyright owner, to sell or otherwise dispose of the possession of that
23 copy or phonorecord.

24
25 ³ eBay Decl. ¶ 12 & Exh. E, available at
26 <<http://pages.ebay.com/help/policies/promotional.html>>. Notice that the only
27 difference between this web address and the address relied upon by UMG's
28 declarant is the suffix ".com," signifying that it is taken from the U.S. eBay
website.

1 17 U.S.C. § 109(a). It is undisputed that, if proven, Augusto's first sale defense
2 would be a complete defense against UMG's copyright claim: § 109 limits the
3 scope of the § 106(3) distribution right, and UMG's infringement claim is
4 premised entirely on infringement of its distribution rights. (UMG Liability Br. at
5 5). It is also undisputed that the "promo CDs" at issue were lawfully made.
6 (Augusto's Statement of Uncontroverted Facts, D.I. 43-3 ("SUF") ¶ 20).

7 Accordingly, the applicability of § 109 turns on whether Augusto is "the
8 owner of a particular...phonorecord," namely, the 26 "promo CDs" listed for
9 auction by him on eBay. In its motion for summary judgment, UMG makes two
10 arguments on this score: (1) that Augusto has failed to meet his burden of showing
11 a "chain of title" traceable to an initial disposition triggering § 109; and (2) that
12 UMG remains the eternal owner of all of its "promo CDs" based on contractual
13 "licenses" affixed to the CDs. Neither is availing.

14 **1. Augusto has met his burden to show his ownership of the CDs.**

15 UMG argues that Augusto bears the burden of proof on the applicability of
16 the first sale doctrine. Even assuming *arguendo* for purposes of this motion that
17 this is a correct statement of the law, the undisputed evidence establishes that
18 Augusto has met that burden.

19 **a. Augusto has shown that UMG parted with ownership of the
20 CDs and that Augusto purchased them.**

21 Augusto's undisputed evidence establishes two propositions that, taken
22 together, show that he is the "owner of a particular phonorecord" within the
23 meaning of § 109(a). First, as explained in his cross-motion for summary
24 judgment and in more detail below, Augusto has produced evidence establishing
25 that UMG's delivery of "promo CDs" to their initial recipients constitutes a "first
26 authorized disposition by which title passes," thus triggering § 109. *See* 2 NIMMER
27 § 8.12[B][1][a].⁴ Once such a disposition is shown, a copyright owner's authority

28 ⁴ A first sale may occur even in the absence of conveyance of formal title—it is

1 to control further “downstream” resales is exhausted. *See Softman Products Co. v.*
2 *Adobe Systems, Inc.*, 171 F. Supp. 2d 1075, 1082 (C.D. Cal. 2001) (“One
3 significant effect of § 109(a) is to limit the exclusive right to distribute copies to
4 the first voluntary disposition, and thus negate copyright owner control over
5 further or ‘downstream’ transfer to a third party.”); accord *Quality King Distrib.*
6 *v. L’Anza Research Int’l*, 523 U.S. 135, 152 (1998) (“The whole point of the first
7 sale doctrine is that once the copyright owner places a copyrighted item in the
8 stream of commerce by selling it, he has exhausted his exclusive statutory right to
9 control its distribution.”).

10 Second, Augusto has produced evidence that he purchased the “promo CDs”
11 in question on eBay or from secondhand stores in the Los Angeles area, thus
12 establishing that he became the lawful owner of the CDs in question. (SUF ¶ 4;
13 Declaration of Troy John Augusto in support hereof (“Augusto Decl.”) ¶¶ 4-7).
14 Augusto testified regarding his regular business practice of purchasing “promo
15 CDs” from these stores, and that he has no reason to believe that the 26 CDs at
16 issue were obtained in any other manner. (*Id.*). Documentary evidence, in the
17 form of purchase receipts, corroborates his testimony regarding his regular
18 business practice. (Augusto Decl. ¶ 6 & Exh. 1). This undisputed evidence shows
19 that Augusto purchased the particular “promo CDs” at issue here in accordance
20 with his usual practice. In view of Augusto’s showing of a good chain of title to
21 the CDs, the burden is on UMG to come forward with evidence that Augusto came
22 by the CDs in some other manner. But UMG has come forward with no such
23 evidence.

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25
26 enough if “the party exercises sufficient incidents of ownership over a copy...to be
27 sensibly considered the owner of the copy....” *Krause v. Titleserv, Inc.*, 402 F.3d
28 119, 124 (2d Cir. 2005). Because formal title has passed to the initial recipients of
UMG’s “promo CDs” for the reasons discussed below, there is no need for the
Court to delineate the outer boundary of the “incidents of ownership” sufficient to
trigger § 109.

1 Augusto has thus shown that that *all* UMG “promo CDs” are subject to a
2 prior first disposition by which title passed, and thus Augusto’s subsequent
3 downstream purchase and resale of such CDs comes within the scope of § 109. In
4 the words of the Supreme Court, “[a]fter the first sale of a copyrighted item
5 ‘lawfully made under this title,’ any subsequent purchaser...is obviously an
6 ‘owner’ of that item.” See *Quality King v. L’Anza*, 523 U.S. at 136. Where the
7 evidence shows that a copyright owner routinely authorized first sales of an entire
8 category of works, that alone is enough to “shift the burden back to the plaintiffs.”
9 *Amer. Int’l Pictures v. Foreman*, 576 F.2d at 665; accord *Softman v. Adobe*, 171 F.
10 Supp. 2d at 1084-89 (holding that defendant was the “owner” of software on the
11 basis of evidence regarding Adobe’s general distribution practices); 2 NIMMER §
12 8.12[B][1][d] at n.37.57 (“[T]he lesson must be that to the extent the defendant can
13 trace the copy in his possession back to a previous source, and that source . . . was
14 not required to return the subject copy to the copyright owner upon demand (or
15 other incidents of ‘sale’ are present), then the defense is fully applicable.”).⁵

16 **b. Requiring documentation of each step in the chain of title**
17 **would lead to absurd results.**

18 Augusto’s view is borne out by common sense. Where a work is routinely
19 subject to upstream “first sales,” requiring evidence of a perfect chain of title
20 would lead to absurd results, potentially exposing millions of consumers to
21 unexpected copyright liability. For example, if § 109 required a showing of a
22 particularized chain of title for each individual copy, then an individual would be
23 vulnerable to an infringement action if she lent a book to a friend unless she could
24 marshal receipts and records tracing title all the way back to the publisher. Similar
25 documentation would be required before anyone could sell a CD to a used record

26 ⁵ The cases insisting on a complete chain of title involved works that were
27 generally *not* subject to transactions that triggered § 109, such as films prior to the
28 advent of videocassettes. See, e.g., *Amer. Int’l Pictures v. Foreman*, 576 F.2d at
664; 2 NIMMER § 8.12[B][1][c] (discussing first sale treatment of stray copies of
largely undistributed works).

1 store. In fact, UMG contends that *throwing away* copyrighted material constitutes
2 an “unauthorized distribution,” thus creating the specter of “chain of title” audits
3 for consumers on trash day. (UMG Liability Br. at 7).

4 Imposing an onerous chain-of-title record-keeping burden on every citizen is
5 not what Congress had in mind when enacting § 109. Under the scheme enacted
6 by Congress, it is enough for a downstream reseller to show that the copyright
7 owner’s distribution practices result in a “first authorized disposition by which title
8 passes.” 2 NIMMER § 8.12[B][1][a]. This is precisely what Augusto has shown
9 here.

10 **2. Any purported “license” does not affect ownership of the**
11 **particular physical CDs.**

12 UMG maintains that “there was no first sale of the UMG Promo CDs,”
13 arguing that the CDs are merely “licensed.” This argument misunderstands the
14 role of licenses in copyright law. “License” is an affirmative defense to a
15 copyright infringement claim—but Augusto is not asserting that defense, relying
16 instead on the independent affirmative defense provided by the first sale doctrine.
17 Because his resale of the CDs he bought was privileged under section 109(a), it is
18 irrelevant whether or not Augusto also had a license. This is because licenses do
19 not affect the ownership of the particular tangible CDs—and that ownership is the
20 focus of § 109(a).

21 UMG contends that it retains ownership of each and every one of the
22 tangible CDs at issue by virtue of its purported “licenses.” (UMG Liability Br. at
23 8). That, however, is not what the facts establish. On the contrary, UMG has
24 relinquished title to these “promo CDs” for three independent reasons: (1) the
25 substance of the “promo CD” transactions indicates that title to “promo CDs”
26 passed to their intended recipients; (2) title to “promo CDs” passes to the intended
27 recipients by operation of federal law under 39 U.S.C. § 3009; and (3) title to
28 “promo CDs” has passed as a result of UMG’s abandonment. As to UMG’s

1 relinquishment of title, neither the law nor any relevant facts are in dispute—all
2 that remains for the Court is the application of settled legal principles to the
3 undisputed facts.

4 **a. Ownership hinges on the substance of the transaction, not**
5 **on UMG's characterization of the transaction.**

6 “It is well-settled that in determining whether a transaction is a sale, a lease,
7 or a license, courts look to the economic realities of the exchange.” *Softman v.*
8 *Adobe*, 171 F. Supp. 2d at 1084 (concluding that distribution of software triggered
9 § 109, notwithstanding plaintiff's claim that software was only “licensed”).
10 “Ownership of a copy should be determined based on the actual character, rather
11 than the label, of the transaction by which the user obtained possession.” *Applied*
12 *Info. Mgt. Inc. v. Icart*, 976 F. Supp. 149, 154 (E.D.N.Y. 1997) (quoting RAYMOND
13 NIMMER, *THE LAW OF COMPUTER TECHNOLOGY* § 1.18[1] (1992)); *accord Novell,*
14 *Inc. v. Unicom Sales, Inc.*, No. C-03-2785, 2004 WL 1839117 at *9 (N.D. Cal.
15 Aug. 17, 2004) (“In determining whether a transaction is a sale or license, the
16 Court reviews the substance of the transaction, rather than simply relying on the
17 plaintiff's characterization of the transaction.”). The Ninth Circuit has held that
18 transactions can convey ownership of a particular copy for purposes of the first
19 sale doctrine notwithstanding their denomination as “licensing agreements.” *See,*
20 *e.g., United States v. Atherton*, 561 F.2d 747, 750 (9th Cir. 1977) (holding that a
21 transaction denominated as a “licensing agreement” nonetheless amounted to a
22 first sale); *United States v. Wise*, 550 F.2d 1180, 1190-92 (9th Cir. 1977) (same);
23 *accord Krause v. Titleserv, Inc.*, 402 F.3d 119, 124 (2d Cir. 2005) (examining
24 substance of software “licensing” transaction and concluding that defendant was
25 the owner of a copy).

26 The issue of whether license agreements can preclude the application of the
27 first sale doctrine was analyzed at length in *Softman Products Co. v. Adobe*
28 *Systems, Inc.*, 171 F. Supp. 2d 1075 (C.D. Cal. 2001). In *Softman*, this Court

1 vacated its previous grant of preliminary injunction against the distribution of
2 certain licensed software in a way prohibited by the terms of the license. The
3 copyright holder, Adobe, had asserted that because its software was licensed, there
4 was no transfer of ownership, and the first sale doctrine did not apply. This Court
5 rejected Adobe's argument, holding that "the substance of the transaction at issue
6 here is a sale and not a license." 171 F. Supp. 2d. at 1087. In analyzing the
7 question, this Court looked to "the circumstances surrounding the transaction,"
8 finding that they "strongly suggest[] that the transaction is in fact a sale rather than
9 a license." *Id.* at 1085 (citing *Microsoft Corp v. DAK Indus.*, 66 F.3d 1091 (9th
10 Cir. 1995) ("Because we look to the economic realities of the agreement, the fact
11 that the agreement labels itself a 'license' . . . does not control our analysis.")). For
12 example, this Court observed that "the license runs for an indefinite term without
13 provisions for renewal," that Adobe had received "full value for the product," and
14 that Adobe had passed on to the software's recipients all "risk that the product may
15 be lost or damaged." *Id.*

16 In fact, several of the cases cited by UMG adopt this course, examining the
17 *substance* of the transaction to determine whether ownership of a particular copy
18 has been established. For example, in *Wall Data v. Los Angeles County Sheriff's*
19 *Department.*, 447 F.3d 769 (9th Cir. 2006), the Ninth Circuit addressed the
20 meaning of "owner" in the context of 17 U.S.C. § 117, which entitles an owner of
21 a copy of a computer program to make further copies as an "essential step in the
22 utilization of the computer program." *Id.* Although the court found that the district
23 court did not abuse its discretion in refusing to instruct the jury regarding the § 117
24 defense, it did not rely simply on the fact that the software was "licensed." Instead,
25 the court found that the transaction as a whole imposed "severe restrictions" on the
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1 defendant's use of the software, including the fact that the license restricted use of
2 the software to a single designated computer. *Id.* at 785.⁶

3 Similarly, the district court in *Novell v. Unicom*, 2004 WL 1839117,
4 concluded that the defendant did not own the software in question based on the
5 limited term of the license, a recurring annual license fee, and the requirement that
6 software be returned at the conclusion of the license term. *See id.* at *9. These
7 cases are in harmony with the cases and commentary cited above that examine
8 actual character, rather than the merely the label, of a transaction in order to
9 determine whether a first sale has occurred.

10 **b. The substance of the “promo CD” transactions indicates**
11 **that title passes to the intended recipients.**

12 As set forth more fully in Augusto's motion for summary judgment, those to
13 whom UMG mails “promo CDs” enjoy the all the principal hallmarks of
14 ownership: their possession is unlimited in time, they are under no obligation to
15 return the CDs, and there is no penalty to them should the CDs be lost, damaged or
16 destroyed. (SUF ¶¶ 29, 28, 24.) UMG, for its part, also behaves as though it has
17 parted with ownership: it does not keep records regarding the whereabouts of the
18 CDs, nor has it ever sought their return from the recipients. (SUF ¶¶ 13, 12.)

19 UMG's tax treatment of the CDs provides further support for Augusto's
20 position.⁷ **[[MATERIAL REDACTED PURSUANT TO PROTECTIVE**
21 **ORDER]]**

22 Ignoring these undisputed facts, UMG instead insists that the “promotional
23 use only” legend affixed to “promo CDs” operates as a talisman to ward off the

24 ⁶ Nonetheless, the Ninth Circuit's discussion of ownership in *Wall Data* is dicta.
25 *See Wall Data*, 447 F.3d at 786 n.9 (finding that § 117 defense fails because
copying was not an essential step).

26 ⁷ Information about UMG's tax treatment of “promo CDs” has only just come to
27 light, after Magistrate Judge Wistrich granted Augusto's motion to compel on
28 March 25, 2008 (D.I. 36). UMG complied with this Order on April 7, 2008, the
same day the parties had agreed to submit their cross-motions for summary
judgment. *See Gratz Decl. Exh. 2* at 11.

1 first sale doctrine in perpetuity. But these labels cannot carry the legal weight
2 UMG has asked them to bear.

3 As an initial matter, nine of the 26 “promo CDs” at issue bore only the
4 following legend: “Promotional Use Only—Not for Sale.”⁸ Thus, with respect to
5 fully one-third of the CDs at issue, there is no evidence that they were the subject
6 of *any* contractual “license agreement” when received from UMG by their initial
7 recipients. The remaining 17 CDs listed by Augusto on eBay bore a more lengthy
8 legend:

9 This CD is the property of the record company and is licensed for the
10 intended recipient for promotional use only. Acceptance of this CD
11 shall constitute an agreement to comply with the terms of the license.
12 Resale or transfer of possession is not allowed and may be punishable
13 under federal and state laws.⁹

14 But this legend does nothing to change the substance of the transaction: UMG
15 gives the CDs away, never to be returned. Here, as in *Softman*, the substance of
16 the transaction is a transfer of ownership: any purported “license” runs for an
17 indefinite term without provisions for renewal or return, UMG has received the full
18 promotional value it sought to achieve from these “promo CDs”, and UMG has no
19 mechanism for tracking or replacing lost or damaged “promo CDs.”

20 UMG fundamentally misapprehends the relationship between contractual
21 licenses and ownership of a particular phonorecord: the two are not, as UMG
22 contends, mutually exclusive. *See* 2 NIMMER § 8.12[B][1][d][i] (discussing the
23 relationship between the “licensing paradigm” and first sale). UMG might have a
24 claim for breach of contract against the CDs’ initial recipients, if it could show that
25

26 ⁸ *See* Kossowicz Decl., D.I. 40-15, Exh. 11 at 31, 33, 35, 37, 47. Augusto sold
multiple copies of some of these CDs, totaling nine auction listings at issue.

27 ⁹ *See* Kossowicz Decl. D.I. 40-15, Exh. 11 at 26, 28, 39, 41, 42, 45, 50, 53, 56, 58.
28 Augusto sold multiple copies of some of these CDs, totaling seventeen auction
listings at issue.

1 its purported “license” was an enforceable contract.¹⁰ But even if the initial
2 recipient’s use of the CDs was limited by contract, such a contractual limitation
3 would not mean that they did not own the particular tangible CDs that UMG gave
4 them. *See Amer. Int’l Pictures v. Foreman*, 576 F.2d at 664 (“Even if the copyright
5 holder places restrictions on the purchaser in a first sale . . . , the buyer’s disregard
6 of the restrictions on resale does not make the buyer or the person who buys in the
7 secondary market liable for infringement.”). As the Federal Circuit has explained,
8 “a party who purchases copies of software from the copyright owner can hold a
9 license under the copyright while still being an ‘owner’ of a copy of the
10 copyrighted software[.]” *DSC Comm’s Corp. v. Pulse Comm’s, Inc.*, 170 F.3d
11 1354, 1360 (Fed. Cir. 1999). UMG asks this court to “transform a contractual term
12 that [record companies] unilaterally include in their contracts into a binding
13 provision on the world—even on parties who are not in privity of contract—and
14 one that, moreover, undoes the dictates of Congress by undermining an essential
15 feature of the Copyright Act!” 2 NIMMER § 8.12[B][1][d][i]. The Court should
16 reject this unprecedented effort by UMG to stage an end-run against the statutory
17 first sale doctrine.

18 **c. The computer software cases UMG cites are inapplicable.**

19 In attempting to support its view that a simple “not for sale” notice on a CD
20 precludes the operation of the first sale doctrine, UMG relies exclusively on cases
21 dealing with computer software. UMG principally relies on three controversial
22 district court rulings addressing computer software: *Adobe Systems Inc. v. Stargate*
23 *Software*, 216 F.Supp.2d 1051 (N.D. Cal. 2002); *Adobe Systems Inc. v. One Stop*
24

25 ¹⁰ This is itself a dubious proposition, given that no consideration flows from the
26 initial recipient to UMG, the recipients make no affirmative act indicating
27 acceptance of UMG’s “offer,” and UMG provides no instructions on how to reject
28 this “offer.” In any event, UMG has not pled a breach of contract or tortious
interference claim against Augusto.

1 *Micro*, 84 F.Supp.2d 1086 (N.D. Cal. 2000); and *Microsoft Corp. v. Harmony*
2 *Computers & Elec.*, 846 F. Supp. 208 (E.D.N.Y. 1994).

3 Each is wholly distinguishable from this case. The *Stargate* court expressly
4 premised its holding on the “special characteristics of the software industry,”
5 leading the court to depart from ordinary copyright principles in order to “provide
6 enhanced copyright protection for its inventors and developers.” 216 F. Supp. 2d
7 at 1059. The *One Stop* court likewise based its holding on “the unique nature of
8 distributing software,” relying on a declaration stating that ordinary copyright
9 principles are insufficient in the software context because “[t]he rate of change of
10 technology is orders of magnitude greater than the ability of intellectual property
11 laws to keep up.” 84 F. Supp. 2d. at 1092. And the *Harmony* court had before it
12 “samples of seized ‘counterfeit’ Microsoft Products from defendants’ premises,”
13 846 F. Supp. at 212—showing that, whether or not defendants were “the owner[s]
14 of a particular copy or phonorecord,” 17 U.S.C. § 109(a), those copies were not, as
15 the first sale doctrine requires, “lawfully made.” *Id.*

16 To the extent these decisions have been read to support the view that
17 software licenses necessarily trump § 109, they have been roundly criticized by
18 other courts and leading copyright commentators. For example, Professor Nimmer
19 declares that “if the court [in *Microsoft v. Harmony*] inferred simply from the fact
20 that the copyright to the software was licensed to end-users that Section 109(a) was
21 therefore somehow inapplicable, then it entirely misunderstood the first sale
22 doctrine.” 2 NIMMER § 8.12[B][1][d][i]. Nimmer further concludes that “the
23 *Adobe v. One Stop* gloss on *Microsoft v. Harmony* is untenable.” *Id.*; see also John
24 A. Rothchild, *The Incredible Shrinking First Sale Rule: Are Software Resale Limits*
25 *Lawful?*, 57 RUTGERS L. REV. 1, 37-43 (2004) (criticizing *Microsoft v. Harmony*);
26 Nimmer, Brown & Frischling, *The Metamorphosis of Contract Into Expand*, 87
27 CAL. L. REV. 17, 34-40 (1999) (same). No court has ever extended the rationale of
28

1 these cases to cover music CDs, nor has UMG suggested any reason why this
2 Court should be the first to do so.

3 The remaining software cases cited by UMG are similarly inapposite. In
4 *ISC-Bunker Ramo Corp. v. Altech, Inc.*, 765 F. Supp. 1310 (N.D. Ill. 1990), the
5 defendant infringed the reproduction right, which does not fall within the scope of
6 the first sale doctrine. *See id.* at 1314, 1326, 1331. In *Microsoft Corp. v. Software*
7 *Wholesale Club, Inc.*, 129 F. Supp. 2d 995 (S.D. Tex. 2000), the defendant was
8 distributing counterfeit software that was not lawfully made. *Id.* at 1006. The
9 decision in *Storm Impact, Inc. v. Software of the Month Club*, 13 F. Supp. 2d 782
10 (N.D. Ill. 1998), turned on the fair use doctrine, not first sale. *Id.* at 787.

11 In summary, because the substance of the transaction between UMG and the
12 initial recipients of its “promo CDs” leaves those recipients with all the hallmarks
13 of ownership, the first sale doctrine applies to the “promo CDs” at issue in this
14 case. UMG’s motion for summary judgment should therefore be denied.

15 **d. Regardless of any purported license, the initial recipients**
16 **take title to “promo CDs” by operation of law under 39**
U.S.C. § 3009.

17 For the reasons described in Augusto’s cross-motion for summary judgment,
18 D.I. 44, and incorporated herein by reference, UMG, by shipping unordered
19 promotional CDs, made a gift of the CDs to those who received them under the
20 federal postal and competition laws governing “unordered merchandise.” *See* 39
21 U.S.C. § 3009; 65 Fed. Reg. 2867, 2868 n.8 (Jan. 19, 2000). The recipients thus
22 had good title to the CDs by operation of law, and were thus entitled to give or sell
23 the CDs to the thrift stores and secondhand music shops where Augusto purchased
24 them. (SUF ¶ 4.) This provides an independent basis for the application of § 109
25 and thus not only defeats UMG’s motion for summary judgment, but also
26 establishes Augusto’s entitlement to summary judgment as requested in his cross-
27 motion.

28

1 Even if UMG's "license" theory were valid, that contract—a creature of
2 state law—could not prevent the operation of § 3009—a federal statute. Indeed, it
3 was necessarily the intent of Congress to preempt state contract law in order to
4 “bring under control the unconscionable practice of persons who ship unordered
5 merchandise to consumers and then trick or bully them” using “promises of legal
6 retribution.” 116 Cong. Rec. at 22314 (June 30, 1970) (remarks of Sen.
7 Magnuson). *See, e.g., Geier v. American Honda Motor Co.*, 529 U.S. 861 (2000)
8 (state laws that frustrate the operation of federal statutes are preempted). Because
9 any license is preempted by § 3009, the license does not prevent the transfer of title
10 and does not affect the operation of § 109(a).

11 **e. Regardless of any purported license, the initial recipients**
12 **take title to “promo CDs” because UMG abandons them.**

13 For the reasons described in Augusto's cross-motion for summary judgment,
14 D.I. 44, and incorporated herein by reference, UMG abandoned the promotional
15 CDs when it sent them to their initial recipients “without any present intention to
16 repossess,” and thus cannot claim ownership. *See Utt v. Frey*, 106 Cal. 392, 397
17 (1895); *see also Gerhard v. Stephens*, 68 Cal.2d 864 (1968). Consequently, the
18 initial recipients took good title to the CDs by operation of California law, and
19 validly passed that title to the Los Angeles-area shops from whence Augusto
20 bought them. Further, as noted above in section II-B-2-b, **[[MATERIAL**
21 **REDACTED PURSUANT TO PROTECTIVE ORDER]]**. Because UMG gave
22 up title when it abandoned the CDs, that transfer provides an independent basis for
23 the application of § 109(a).

24 **C. UMG is not entitled to summary judgment with respect to Augusto's**
25 **misrepresentation counterclaim.**

26 Augusto's counterclaim alleges, pursuant to 17 U.S.C. § 512(f), that the
27 “Notices of Claimed Infringement” that UMG sent to eBay, resulting in the
28 termination of Augusto's auctions, contained knowing material misrepresentations.
See D.I. 9 (Answer) ¶ 30.

1 Section 512(f) provides, in pertinent part, that:

2 Any person who knowingly materially misrepresents under [17 U.S.C.
3 § 512] that material or activity is infringing . . . shall be liable for any
4 damages, including costs and attorneys' fees, incurred by the alleged
5 infringer . . . who is injured by such misrepresentation, as the result of
6 the service provider relying upon such misrepresentation in removing
7 or disabling access to the material or activity claimed to be infringing
8

9 17 U.S.C. § 512(f). In other words, "any person who sends a cease and desist letter
10 [to an online service provider] with knowledge that claims of infringement are
11 false may be liable for damages." *Online Policy Group v. Diebold, Inc.*, 337 F.
12 Supp. 2d 1195, 1202 (N.D. Cal. 2004).

13 Congress enacted § 512(f) as part of the Digital Millennium Copyright Act's
14 (DMCA) so-called "safe harbor" provisions, which shield certain online service
15 providers like eBay from monetary damages for copyright infringement so long as
16 they respond expeditiously to notices of infringement sent by copyright owners.
17 *See* 17 U.S.C. § 512(c); *Hendrickson v. eBay Inc.*, 165 F. Supp. 2d 1082, 1088-89
18 (C.D. Cal. 2001) (describing application of the § 512 safe harbors to eBay); *see*
19 *generally* 3 NIMMER § 12B.01[C]. In order to prevent abuses of this statutory
20 "notice-and-takedown" mechanism, Congress enacted § 512(f) "to deter knowingly
21 false allegations to service providers in recognition that such misrepresentations
22 are detrimental to rights holders, service providers, and Internet users." S. Rep. No.
23 105-190 at 49 (1998); *see generally* 3 NIMMER § 12B.08.

24 In its motion for summary judgment on Augusto's § 512(f) counterclaim,
25 UMG makes three arguments. First, it contends that none of the dozens of "Notices
26 of Copyright Infringement" sent to eBay in an effort to have Augusto's auctions
27 removed qualifies as a notice under § 512. Second, UMG argues that its subjective
28 intent in sending those notices can be adjudicated as a matter of law. Third, UMG

1 half-heartedly suggests that a stipulated judgment entered into by Augusto to settle
2 litigation with an unrelated third party estops him from bringing his
3 misrepresentation claim.

4 **1. UMG's notices were sent pursuant to the DMCA.**

5 Turning to the first argument, that "UMG did not provide takedown notices
6 to eBay under the DMCA, but rather pursuant to the rules of eBay's own VeRO
7 program," (UMG Counterclaim Br. at 7), Augusto has met his burden in resisting
8 summary judgment by coming forward with evidence establishing that UMG's
9 notices were, in fact, sent pursuant to 17 U.S.C. § 512(c)(3). Most notably, eBay
10 itself has submitted a declaration stating that it treats UMG's notices as takedown
11 notices under § 512(c)(3), and attaching evidence showing that "The notice-and-
12 takedown system embodied in the VeRO Program implements, and is compliant
13 with, the procedures and requirements of the DMCA." (eBay Decl. ¶ 7).

14 The notices sent by UMG (via its agent, the RIAA) to eBay include *every*
15 statutory element set forth in § 512(c)(3). (SUF ¶¶ 31 (written communications),
16 32 (provided to the designated agent of a service provider), 33 (signed), 34
17 (identifying works claimed to be infringed), 35 (identifying allegedly infringing
18 material), 36 (including the submitter's contact information), 37 (alleging a good
19 faith belief that the alleged infringement is not authorized by the copyright owner
20 or by the law), 38 (stating that the information in the notification is accurate and
21 that the complaint is authorized by the copyright holder)). Indeed, UMG admits in
22 its complaint that its notices were sent "in accordance with the policies of eBay
23 (which, by design, are substantially similar to the requirements of the Digital
24 Millennium Copyright Act)[.]" (Complaint, D.I. 1, ¶ 17).

25 The RIAA admits that it is not aware of a single instance in which eBay
26 failed to remove an auction after receiving an infringement notice sent on behalf of
27 UMG, suggesting that these notices are treated by eBay as DMCA notices
28 requiring "expeditious" attention. (SUF ¶ 16.) These facts, taken together create

1 (at a minimum) a basis on which a reasonable fact-finder could conclude that
2 UMG's takedown notices fell within the ambit of § 512 of the DMCA. Further,
3 UMG's position, if accepted, would frustrate the statutory scheme created by
4 Congress in the DMCA by allowing entities to send baseless copyright
5 infringement notices while avoiding the consequences contemplated by § 512(f).
6 As eBay states in its declaration, "UMG clearly has benefited from eBay's
7 takedowns of claimed infringing listings pursuant to DMCA procedures, and it is
8 puzzling that UMG would suddenly adopt the position that this longstanding
9 practice between the parties somehow is not DMCA compliant." (eBay Decl. ¶ 8.)

10 **2. UMG's misrepresentations were made knowingly.**

11 With respect to whether UMG's notices constituted *knowing* material
12 misrepresentations of infringement under § 512(f), Augusto has also met his
13 burden in rebutting UMG's motion for summary judgment. UMG does not dispute
14 that, if accepted, Augusto's first sale defense would be a complete defense to
15 infringement claims based on his 26 auction listings. Consequently, the allegations
16 of infringement contained in UMG's takedown notices would necessarily
17 constitute misrepresentations. *See Online Policy Group v. Diebold*, 337 F. Supp.
18 2d at 1203-04 (holding that notices alleging infringement regarding noninfringing
19 materials constitutes a misrepresentation).

20 The question on which the parties differ is whether the misrepresentations
21 were made "knowingly." Augusto has produced evidence that (at minimum) would
22 entitle a reasonable fact-finder to conclude that UMG subjectively knew that
23 Augusto's activities on eBay were noninfringing when it sent the takedown
24 notices. *See Motion Picture Ass'n of Amer. v. Rossi*, 391 F.3d 1000, 1004 (9th Cir.
25 2004) (actual knowledge when sending DMCA takedown that activity is not
26 infringing supports liability under § 512(f)). UMG is among the largest record
27 companies in the world, and its eBay policing efforts are headed by David
28 Benjamin, UMG's Senior Vice-President for Content Protection, an attorney with

1 30 years of music industry experience. (SUF ¶ 39 & 40.) With the exception of
2 Augusto, however, Mr. Benjamin was unable to recall UMG's having *ever*
3 instigated copyright enforcement efforts against *anyone* for selling "promo CDs."¹¹
4 (SUF ¶ 41.) For example, no enforcement action was taken after Mr. Benjamin
5 himself personally purchased a "promo CD" from a major record store in Los
6 Angeles. (SUF ¶ 42.)¹² Nor has UMG has ever sued any other eBay seller of
7 "promo CDs," despite its having identified dozens, if not hundreds, of such sellers
8 since 2004. (SUF ¶ 44). In fact, Mr. Benjamin could not recall ever even sending a
9 cease-and-desist letter to any of the other eBay sellers that sold "promo CDs."
10 (SUF ¶ 41.)

11 The combination of UMG's expertise in copyright, long-standing historical
12 practice of mailing "promo CDs," knowledge regarding widespread resale of those
13 CDs, and lack of enforcement efforts together supports the inference that UMG did
14 not believe that Augusto's sales infringed UMG's copyrights. *See Online Policy*
15 *Group v. Diebold*, 337 F. Supp. 2d at 1204-05 ("The fact that Diebold never
16 actually brought suit against any alleged infringer suggests strongly that Diebold
17 sought to use the DMCA's safe harbor provisions . . . as a sword to suppress
18 publication...rather than as a shield to protect its intellectual property.")

19 Coupled with this lack of copyright enforcement activity is the lack of any
20 legal support for the proposition that Augusto's auction listings violates copyright
21 law. As detailed above and in Augusto's cross-motion for summary judgment, the
22 first sale doctrine is well-established in both the statute and case law. Efforts to use
23 label notices to curtail the first sale doctrine have been rejected by courts in several
24

25 ¹¹ UMG designated Mr. Benjamin as its representative pursuant to Fed. R. Civ. P.
26 30(b)(6) on the question of "UMG's efforts to enforce any claimed physical
27 property rights in PROMO CDs after it has distributed them." Accordingly, his
28 recollections are those of the corporation on this issue.

¹² Mr. Benjamin recalled one occasion in which "promo CDs" were seized during a
raid of a retail store, but admits that the raid was not instigated by UMG and has no
recollection regarding the reason for the raid. (SUF ¶ 43.)

1 contexts, including books, comic books, and recorded music. *See, e.g., Bobbs-*
2 *Merrill Co. v. Straus*, 210 U.S. 339, 341 (1908) (rejecting a book publisher’s
3 attempt to restrict resale of a book via a notice purporting to set minimum resale
4 price); *Indep. News Co. v. Williams*, 293 F.2d 510, 517-18 (3d Cir. 1961) (refusing
5 to enforce a notice printed on comic books prohibiting resale after that comic
6 book’s cover is removed); *RCA Mfg. Co. v. Whiteman*, 114 F.2d 86, 90 (2d Cir.
7 1940) (rejecting “not for radio broadcast” label on phonorecords). In the face of
8 this long-established legal rule and despite the record industry’s decades-old
9 practice of distributing promotional records and CDs, UMG itself acknowledges
10 that no published opinion has ever found a sale of a “promo CD” to infringe
11 copyright. (UMG Liability Br. at 15).

12 In seeking summary judgment, UMG cites a variety of evidence that
13 suggests that it *objects* to the sale of “promo CDs.” For example, UMG points to
14 its own practice of sending takedown notices to eBay, the music industry’s
15 “custom” of purporting to forbid resale, and the language of its own self-serving
16 label notices. (UMG Counterclaim Br. at 14-16). While all of this might show
17 that UMG prefers that “promo CDs” not be sold, none of it sheds any light on the
18 relevant question: whether UMG’s preferences were rooted in a belief that such
19 sales *infringed its copyrights*, as is required by the DMCA. Every defendant in a §
20 512(f) action will easily establish that it *objected* to the material that was targeted
21 for takedown—the fact of the takedown itself establishes the existence of an
22 objection. But the DMCA requires that each takedown notice accurately reflect an
23 objection grounded in a good faith belief that the content or activity is *infringing*.
24 *See Online Policy Group v. Diebold*, 337 F. Supp. 2d at 1205 (use of DMCA
25 takedown notices to suppress embarrassing content was improper). On this critical
26 question, UMG has provided no evidence other than the bald, conclusory
27 assertions of its 30(b)(6) witness. (SUF ¶ 46, 47.) When asked for the basis of its
28

1 view that Augusto's eBay auctions infringed copyright, UMG refused to answer on
2 the grounds of attorney-client privilege.

3 **3. Augusto's entry into a stipulated consent judgment in an**
4 **unrelated case does not justify UMG's misrepresentations.**

5 UMG also half-hearted asserts that the stipulated consent judgment in
6 *Capitol Records v. Augusto*, No. 04-C-4122 (N.D. Ill., consent decree filed Mar. 9,
7 2005), somehow formed the basis of UMG's eBay takedowns. The undisputed
8 evidence, however, contradicts that assertion. UMG's 30(b)(6) witness
9 specifically testified that he had no knowledge of any of the terms of the settlement
10 (including the portions UMG now cites), but only that it has been settled with
11 Augusto's agreement not to sell "promo CDs" distributed by EMI's subsidiary
12 labels. (Gratz Decl. Exh. 1 at 141:9-141:23). UMG's witness also had no
13 recollection of whether he had even seen the settlement agreement in the prior
14 litigation prior to sending the takedown notices at issue in this case. (Gratz Decl.
15 Exh. 1 at 151:3-151:9). As UMG has failed to come forward with any evidence
16 tying the terms of the consent judgment in *Capitol v. Augusto* to its decision, years
17 later, to send takedown notices to eBay, those terms shed no light on whether
18 UMG actually believed that Augusto's auctions were infringing when it sent the
19 DMCA notices at issue here. Indeed, as Magistrate Judge Wistrich found in his
20 Order granting Augusto's motion to compel discovery regarding UMG's tax
21 treatment of "promo CDs," the consent judgment in the earlier case "says nothing
22 suggesting that the parties in the earlier case intended to bind defendant in
23 subsequent litigation brought by unrelated plaintiffs." Order Regarding
24 Defendants' Motion to Compel Discovery of Plaintiff's Tax Treatment of Promo
25 CDs, D.I. 36 (March 25, 2008).

26 In summary, Augusto has come forward with facts from which a fact-finder
27 could find that UMG made knowing misrepresentations to eBay regarding the
28 infringing nature of Augusto's auction listings. UMG, in contrast, has come

1 forward with no probative evidence other than the conclusory assertions of its
2 representative. Accordingly, UMG's motion for summary judgment on Augusto's
3 counterclaim must be denied.¹³

4 **III. CONCLUSION**

5 For the reasons above, Augusto respectfully requests that the Court deny
6 UMG's motions for summary judgment.

7 Dated: April 21, 2008

ELECTRONIC FRONTIER FOUNDATION

8 KEKER & VAN NEST, LLP

9
10 By: /s/

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14 TROY AUGUSTO

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21
22 ¹³ For the reasons set forth in Augusto's cross-motion for summary judgment,
23 UMG's lack of contrary evidence regarding its mental state (other than a
24 conclusory legal conclusion whose basis remains shrouded in attorney-client
25 privilege assertions) entitles Augusto to summary judgment on his 512(f) claim.
26
27
28