Restoring the Balance: Bringing Back Consumer Rights in UMG Recordings v. Augusto by Reaffirming the First Sale Doctrine in Copyright Law

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RESTORING THE BALANCE: BRINGING BACK CONSUMER RIGHTS IN UMG RECORDINGS V. AUGUSTO BY REAFFIRMING THE FIRST SALE DOCTRINE IN COPYRIGHT LAW

I. INTRODUCTION

It goes without saying that consumer access to the arts is highly valued in modern day societies. An important aspect of this access, however, comes not directly from the original owner of the work, but from a subsequent owner. For example, long after a blockbuster hit has run its course at the theatre, Americans enjoy their ability to rent the movie from another source and have a movie-night-in. Likewise, it is common knowledge that one can purchase used CDs at a record store or used books online and no one ever doubts their ability to borrow a book from the library.

Protection of the ability of individuals in the United States to dispose of copyrighted material that they lawfully own is known in the world of copyright law as the first sale doctrine.1 The doctrine, codified in section 109 of the Copyright Act, specifies that the lawful owner of a copy of copyrighted material may sell or dispose of the copy by any means the owner wishes.2 For example, once an individual legally purchases a CD with copyrighted material, that person may then sell the particular CD to someone else, give it away or destroy it if they wish.3

Recently, however, copyright owners have attempted to restrict the ability of consumers to do what they wish with their legal copies of material.4 The United States District Court for the Central District of California recently confronted this situation in UMG Recor-

2. See id. § 109(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 the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord."). For a further discussion of the first sale doctrine and its limitations, see infra notes 60-73 and accompanying text.
3. See 17 U.S.C. § 106(1) (providing for exclusive right of copyright owner to reproduce copyrighted work). What the individual in this situation may not do is make copies of the CD, as this would violate the copyright owner’s exclusive right to copy the material. See id.
ings, Inc. v. Augusto.\(^5\) In holding against the copyright owner, the court determined that, under the first sale doctrine of copyright law, Troy Augusto could lawfully resell copyrighted promotional music recordings contained on compact discs ("CDs").\(^6\) The CDs themselves were originally created by Universal Music Group ("UMG"), who then distributed them to music industry insiders.\(^7\) Despite CD labels purporting to merely license the CDs to the insiders for personal use, the court held that the "economic realities" of the transaction between UMG and the insiders indicated that the CDs were not licensed, but rather, that full title and possession of the CDs had transferred from UMG to the insiders.\(^8\)

Focusing on UMG's lack of intent to regain possession of the CDs, the court determined that UMG had, in reality, transferred full title to the music industry insiders upon the CDs' initial distribution, and therefore UMG had exhausted its exclusive right to distribute the copyrighted works contained on the CDs.\(^9\) The court essentially denied UMG's ability to license a piece of property that embodies copyrighted material and retain control of distribution when the reality of the transaction indicates a sale.\(^10\)

This Casenote investigates the role of the first sale doctrine within licensing transactions of copyrighted material. Section II describes the facts and arguments of *UMG Recordings, Inc. v. Augusto.*\(^11\) Section III explores the background of the first sale doctrine in copyright law and surveys the proliferation of using licenses as a means of circumventing the doctrine.\(^12\) Section IV details the Augusto court's holding and rationale that Augusto's actions were en-

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6. See id. at 1065 ("Because title to the Promo CDs transferred from UMG to the music industry insiders, Augusto's resale of those CDs is protected by the first sale doctrine.").

7. See id. at 1058 (discussing facts and background of lawsuit). The court describes music industry insiders as those "who are in a position to provide publicity and exposure for the upcoming release of [a] new CD." *Id.*

8. See id. at 1060-62 (discussing "economic realities" of transaction between UMG and music industry insiders).

9. See id. at 1062 ("UMG's distribution of Promo CDs to the music industry insiders is properly characterized as a gift or sale, not a license, and title to the CDs transferred to the insiders."). For a further discussion of the court's rationale in Augusto, see infra notes 84-133 and accompanying text.

10. See Augusto 558 F. Supp. 2d at 1059-62 (discussing rejection of UMG's claim of ownership of CDs through license).

11. For a further discussion of the facts of Augusto, see infra notes 16-47 and accompanying text.

12. For a further discussion of the background of the first sale doctrine and proliferation of license use, see infra notes 48-88 and accompanying text.
tirely protected by the first sale doctrine. Section V evaluates the Augusto court's holding in light of Ninth Circuit precedent. Finally, Section VI outlines possible effects this decision may have on a current copyrighting trend: copyright holders' use of licensing as a means of expanding their rights.

II. FACTS

The copyright dispute in UMG Recordings, Inc. v. Augusto arose when UMG, one of the world's largest record companies and owner of thousands of music copyrights, learned that Southern California resident Troy Augusto was reselling UMG-produced promotional CDs on online auctions managed by eBay Inc. ("eBay"). As copyright owner of the music recordings contained on the CDs, UMG believed that Augusto was infringing upon its exclusive right to distribution of the copyrighted material under federal copyright law. After failed attempts to persuade Augusto to voluntarily terminate

13. For a further discussion of the district court's opinion in Augusto, see infra notes 84-138 and accompanying text.

14. For a further discussion of precedent and trends in the law dealing with the first sale and licensing issue, see infra notes 139-70 and accompanying text.

15. For a further discussion of possible effects of Augusto, see infra notes 171-80 and accompanying text.


17. See Augusto, 558 F. Supp. 2d at 1058 (discussing facts). For a further discussion of the exclusive right to distribute under copyright law, see infra notes 53-59 and accompanying text.
his eBay auctions, UMG brought suit against him in the United States District Court for the Central District of California.\textsuperscript{18}

As a leading worldwide recording corporation, UMG is in the business of compiling songs on CDs for release and sale to the general public.\textsuperscript{19} Consistent with common practice in the music industry, UMG frequently mails CDs to music industry insiders, such as music reviewers, radio stations and DJs, to advertise and promote new albums before their release.\textsuperscript{20} The promotional CDs are usu-

\textsuperscript{18} See Augusto, 558 F. Supp. 2d at 1058 (discussing background and explaining UMG’s position that it retained “exclusive right to distribute and sell” promotional CDs). Troy Augusto was represented in this case by the Electronic Frontier Foundation (“EFF”) and law firm Keker & Van Nest. See Judge Shoots Down Universal’s Bogus Infringement Allegations, ELECTRONIC FRONTIER FOUNDATION, June 11, 2008, http://www.eff.org/press/archives/2008/06/11. The Electronic Frontier Foundation, a civil liberties organization and donor-funded nonprofit founded in 1990 to attack illegal government takings of email messages, continually takes cases and works on issues raised by new technologies. See generally A History of Protecting Freedom Where Law and Technology Collide, ELECTRONIC FRONTIER FOUNDATION, http://www.eff.org/about/history (last visited Sept. 28, 2008) (explaining events leading to foundation of EFF and current work of EFF); About EFF, ELECTRONIC FRONTIER FOUNDATION, http://www.eff.org/about (last visited Sept. 28, 2008) (describing work performed by EFF as defending civil liberties in cyberspace). While early threats to rights in cyberspace came from the government, the EFF is now mostly concerned about threats coming from industry: where industry attempts to use law and technology to “suppress the rights of the people using technology.” A History of Protecting Freedom Where Law and Technology Collide, ELECTRONIC FRONTIER FOUNDATION, http://www.eff.org/about/history (last visited Sept. 28, 2008). Further, the EFF states that “[n]owhere is this more evident than in the world of copyright law, where the movie and recording studios are trying to . . . manipulate copyright laws to tip the delicate balance toward intellectual property ownership and away from the right to think and speak freely.” Id. The EFF is made up of lawyers, policy analysts, activists and technologists. See About EFF, ELECTRONIC FRONTIER FOUNDATION, http://www.eff.org/about (last visited Sept. 28, 2008) (describing EFF participants).

\textsuperscript{19} See Augusto, 558 F. Supp. 2d at 1058 (recognizing UMG’s ownership of copyrights to numerous songs and business of producing CDs containing those songs); Plaintiff UMG Recordings, Inc.’s Notice of Motion and Motion for Partial Summary Judgment on Liability on Complaint at 1, Augusto, 558 F. Supp. 2d 1055 (No. CV 07-03106 SOJ (AJWx)) [hereinafter Plaintiff’s Motion for Summary Judgment] (“UMG is a record company that . . . creates, manufactures, and sells ‘[m]aterial objects in which sounds . . . are fixed[,]’ [and which] embody[ ] its copyrighted sound recordings” (quoting Copyright Act of 1976, 17 U.S.C. § 101)); see generally Universal Music Group, Overview, supra note 16 (describing structure of UMG’s business). Universal Music Group is actually comprised of two main businesses: recorded music business and music publishing business. See Universal Music Group, Overview, supra note 16. The recorded music aspect of UMG “discovers, develops, markets and distributes recorded music through a network of subsidiaries, joint ventures, and licensees in [seventy-seven] countries, representing [ninety-eight percent] of the music market,” whereas the UMG music publishing company, Universal Music Publishing Group, “owns and acquires rights to musical compositions and licenses them for use in recordings and related uses, such as films and advertisements.” Id.

\textsuperscript{20} See Augusto, 558 F. Supp. 2d at 1058 (describing promotional CDs as being used for promotion and advertising); see also Dante DiPasquale and Benjamin R.
ally very similar to the full version CDs that they are intended to promote, but may contain fewer selections and exclude artwork that the full version includes.\footnote{21} Additionally, the promotional CDs differ from the full version CDs in that UMG does not sell them or receive any form of payment for them, but rather, UMG attempts to "expressly retain[ ] ownership of them."\footnote{22} Using language similar to that used by other music recording companies, UMG prints the following on the covers of its promotional CDs:

FBI Anti-Piracy Warning: Unauthorized copying is punishable under Federal law. 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. This CD may be watermarked to identify the intended recipient.\footnote{23}

\begin{footnotesize}
Mulchay, \textit{UMG v. Augusto: Allowing the Sale of Promotional CDs Under the First Sale Doctrine Could Affect Much More than the Music Industry}, \textit{Covering Your Ads}, July 17, 2008, http://www.coveringyourads.com/2008/07/articles/music-industry/umg-v-augusto-allowing-the-sale-of-promotional-cds-under-the-first-sale-doctrine-could-affect-much-more-than-the-music-industry ("For many years, a common practice in the music industry has been for record labels to provide promotional CDs to radio stations, music reviewers, magazines, DJs, and other 'music insiders.'"); Courtroom Showdown for eBay Seller Over Promo CD Sales, \textit{supra} note 16 (stating that music labels' practice of distributing promotional CDs has occurred for decades). Music industry insiders are those individuals "who are in a position to provide publicity and exposure for the upcoming commercial release of the new CD." \textit{Augusto}, 558 F. Supp. 2d at 1058. Like most other music recording companies, UMG promotes its new releases by distributing promotional CDs to "select influential persons." Complaint, \textit{supra} note 16, at 3. UMG describes promotional CDs as "recordings that are made available, under license, by record companies to a select group of individuals who are in a position to generate 'buzz' or interest in the recording among the consuming public[,]" and "[t]ypical recipients of 'Promo CDs' include radio DJs, music critics and music distributors." \textit{Id.} UMG selects who will receive promotional CDs from proprietary lists maintained by various departments within UMG. \textit{See} Plaintiff's Motion for Summary Judgment, \textit{supra} note 19, at 2 (describing UMG's method of distribution of promotional CDs). Additionally, each promotional CD is sent with a return address, and should the CD not be accepted by the recipient, or if it is undeliverable, the CD is returned to UMG and destroyed. \textit{See id.} UMG "does not otherwise request the return of promotional CDs from legitimate recipients," because, among other reasons, it "would be logistically difficult, expensive, time consuming, and unnecessary." \textit{Id.}

\footnote{21} \textit{See Augusto}, 558 F. Supp. 2d at 1058 (describing promotional CDs as having fewer songs and excluding artwork); Plaintiff's Motion for Summary Judgment, \textit{supra} note 19, at 1-2 (explaining promotional CDs are different from those sold to public in that "they may have only one or two selections and they may not include artwork.").

\footnote{22} Plaintiff's Motion for Summary Judgment, \textit{supra} note 19, at 2.

\footnote{23} Complaint, \textit{supra} note 16, at 4-5; \textit{see Augusto}, 558 F. Supp. 2d at 1058 (describing language of CD labels). UMG maintains that while the exact language
After the promotional CDs are used for publicity and advertising purposes, they often end up in used record stores and on online auctions, where the general public can purchase them.\(^\text{24}\)

Troy Augusto, who is not a music industry insider, realized that public demand existed for the rare promotional CDs and decided to take advantage of the opportunity to purchase and resell them.\(^\text{25}\) Augusto began collecting the CDs, several of which were produced by UMG, from online auctions and secondhand record stores in the Los Angeles area.\(^\text{26}\) He would then resell the CDs on eBay online auctions, advertising them as "rare collectibles not available in stores."\(^\text{27}\)

UMG opposed Augusto's selling of promotional CDs and, at various times during 2006 and 2007, identified several of Augusto's eBay auctions listing UMG promotional CDs as infringing UMG copyrights.\(^\text{28}\) UMG first attempted to persuade Augusto to remove of the label has varied over the years, the label's intent and purpose has been to notify CD users that the promotional CDs can only be used for limited purposes, are licensed to recipients of the CD and cannot be sold or distributed. See Complaint, supra note 16, at 4-5 (stating language printed on CD labels).

24. See Augusto, 558 F. Supp. 2d at 1058 (explaining that Augusto purchased promotional CDs from "music shops and online auctions"); see also Memorandum of Points and Authorities in Support of Troy Augusto's Motion for Summary Judgment at 3, Augusto, 558 F. Supp. 2d 1055 (No. CV 07-03106 SQJ (AJWx)) [hereinafter Defendant's Motion for Summary Judgment] (declaring that Augusto "obtains the 'promo CDs' that he sells on eBay by purchasing them from a variety of retail music stores in the Los Angeles area that sell secondhand CDs, from thrift stores like Goodwill and The Salvation Army, or by purchasing them on eBay"); Courtroom Showdown for eBay Seller Over Promo CD Sales, supra note 16 (describing how promotional CDs often "make their way into secondhand stores").

25. See Augusto, 558 F. Supp. 2d at 1058 (describing Augusto's actions of obtaining CDs and reselling them).

26. See id. (explaining that Augusto purchased promotional CDs from "music shops and online auctions"); Defendant's Motion for Summary Judgment, supra note 24, at 3 (explaining that Augusto purchases the promotional CDs from secondhand music stores and online). Augusto admits that "the [twenty-six] 'promo CDs' at issue in this case [were] obtained by [purchasing them on eBay or at local shops]." Defendant's Motion for Summary Judgment, supra note 24, at 3.

27. Augusto, 558 F. Supp. 2d at 1058 (discussing Augusto's practice of purchasing promotional CDs and reselling them on eBay). Troy Augusto makes a living by "selling secondhand collectible merchandise, much of it through auction listings on eBay," with most of his sales being of collectible promotional CDs. Defendant's Motion for Summary Judgment, supra note 24, at 2. Mr. Augusto asserts that he has been "a regular user" of eBay since July of 2000, and since then, has "built up substantial good will as a buyer and seller on eBay." Answer and Counterclaim, supra note 16, at 6. He claims "that parties with whom he has transacted on eBay have given positive feedback on more than 20,000 transactions, and that more than 15,000 different buyers have given positive feedback on their transactions with [him]." Id. at 3.

28. See Complaint, supra note 16, at 3 (alleging that Augusto's auctions listed unauthorized copies of UMG promotional CDs). The twenty-six listings at issue in the case were posted between September 2006 and March 2007, each listing offer-
his auction listings by sending him cease and desist letters. These letters notified Augusto of UMG’s belief that his actions infringed upon its copyrights. When this tactic did not work, UMG began filing “takedown” notices with eBay that identified the alleged infringing listings and “demanded that the auctions for these items be terminated.” In accordance with eBay policy, the listings were removed from the website when UMG’s takedown notices were received. Augusto was permitted to re-list the removed items, however, after he submitted a “counter-notice” regarding each removed listing. After several cycles of removal and re-listing of the promoting a single CD for purchase. See Defendant’s Motion for Summary Judgment, supra note 24, at 3 (discussing facts of case).

29. See Plaintiff’s Motion for Summary Judgment, supra note 19, at 4 (“UMG notified Augusto directly on two occasions that his sale of promotional CDs violated its rights.”).

30. See Augusto, 558 F. Supp. 2d at 1058 (describing UMG’s attempts to terminate Augusto’s online auctions containing promotional CDs).

31. Complaint, supra note 16, at 5. UMG, acting through the Recording Industry Association of America (RIAA), notified eBay of the alleged violation through eBay’s Verified Rights Owner (“VeRO”) program in accordance with eBay policies. See id. at 5 (describing UMG attempts to terminate Augusto’s eBay auctions); see also Plaintiff’s Motion for Summary Judgment, supra note 19, at 4 (“UMG provided notices to eBay pursuant to the VeRO program that Augusto’s auctions of UMG’s promotional CDs were infringing.”). The VeRO program allows intellectual property owners to easily report listings that infringe upon their rights. See generally How eBay Protects Intellectual Property (VeRO), http://pages.ebay.com/help/tp/programs-vero-ov.html (last visited Sept. 28, 2008) (providing description of VeRO policies and procedures). Copyright owners must be registered through VeRO before they can report infringing listings to eBay. See id. Upon receipt of a “Notice of Claimed Infringement (a “takedown” notice), in which a rights owner identifies an infringing listing, eBay promptly removes the alleged infringing listing from the site, since it is in eBay’s best interest “to ensure that infringing items are removed . . . as they erode buyer and seller trust.” Id.

32. See Defendant’s Motion for Summary Judgment, supra note 24, at 4 (discussing process of removal of Augusto’s listings by UMG).

33. See Augusto, 588 F. Supp. 2d at 1058 (discussing facts); Defendant’s Motion for Summary Judgment, supra note 24, at 4 (explaining Augusto’s filing of “counter-notices” with eBay). Troy Augusto responded to UMG’s takedown notices by completing an eBay “Counter Notice Regarding Removed Listing” (“counter-notice”) with respect to each listing, in compliance with eBay policy. See id. On the counter-notice form, Augusto affirmed:

I CERTIFY UNDER SWORN PENALTY OF PERJURY that I am sending this notification on the basis of my good faith belief that the listings or other materials referred to below do not involve infringing materials or uses and have been identified by a Verified Rights Owner . . . as infringing by mistake due to misidentification . . . .

Answer and Counterclaim, supra note 16, at 34. Once a counter-notice is received, eBay sends a copy of the notice to the reporting party, notifying them that the auction will be reinstated in ten days unless the reporting party notifies eBay that they have filed an action in court. See How eBay Protects Intellectual Property (VeRO), supra note 31 (describing eBay policies under its VeRO program). Although eBay eventually reinstated Augusto’s previous listings, as a result of UMG’s takedown notices to eBay, they had been removed for a period of two weeks. See
tional CDs and Augusto's persistence in proceeding with his auctions, UMG eventually was forced to bring suit against him for copyright infringement.34

In its action against Augusto, filed on May 10, 2007, UMG claimed that Augusto's auction of its promotional CDs infringed upon UMG's exclusive right to distribute its copyrighted works protected under section 106(3) of the Copyright Act.35 UMG maintained that it retained ownership of the promotional CDs based on the language printed on the CD covers, which stated that the CDs were merely licensed "to limited recipients in the music business for the specific purpose of promotion."36 In claiming ownership of the promotional CDs, UMG demanded full protection under the Copyright Act with regard to the copyrighted recordings contained on all of its promotional CDs.37

Augusto conceded that UMG held valid copyrights to the recordings contained on the promotional CDs and that he had sold the copyrighted material on eBay.38 Augusto's primary defense, however, was that the first sale doctrine protected him from liability because UMG had transferred title to the promotional CDs upon

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34. See Augusto, 588 F. Supp. 2d at 1058 (discussing facts).
35. See Plaintiff's Motion for Summary Judgment, supra note 19, at 5 (citing Copyright Act of 1976, 17 U.S.C. §§ 106(3) and 501(a)). Section 501(a) of the Copyright Act states: "[a]nyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 122 . . . is an infringer of the copyright or right of the author, as the case may be." 17 U.S.C. § 501(a). For a further discussion of the protections provided by the Copyright Act of 1976, see infra notes 53-73 and accompanying text.
36. Memorandum of Points and Authorities of UMG Recordings, Inc., In Opposition to Defendant and Counterclaimant's Motion for Summary Judgment at 3, UMG Recordings, Inc. v. Augusto, 558 F. Supp. 2d 1050 (C.D. Cal. 2008) (No. CV 07-03106 SO (AJWx)) [hereinafter Plaintiff's Response]; see also Complaint, supra note 16, at 8 ("UMG's rights include all rights under U.S. copyright law, including the exclusive right to distribute the Sound Recordings to the public."); Plaintiff's Motion for Summary Judgment, supra note 19, at 18 ("Since the UMG Promo CDs were licensed, and title and ownership did not pass to their initial recipients, Augusto could not himself receive title and ownership . . . .").
37. See Plaintiff's Motion for Summary Judgment, supra note 19, at 14 ("If the copyright owner has licensed the copy of its work, rather than transferred title, it retains ownership and there has been no first sale.").
38. See Augusto, 558 F. Supp. 2d at 1059 ("Augusto does not dispute that . . . UMG established that it owns the copyright to sound recordings embodied in the Promo CDs and that Augusto sold these Promo CDs through eBay . . . .").
sending them to the music insiders and that he lawfully bought them thereafter.39

In making his first sale doctrine defense, Augusto argued that UMG had transferred title to the promotional CDs under three theories: (1) that the licensing language printed on the CDs did not prevent a passing of title; (2) that the promotional CDs qualified as gifts to the music insiders under federal law; and (3) that UMG abandoned the promotional CDs under California law.40 Additionally, Augusto brought a counterclaim against UMG for violation of section 512(f) of the Digital Millennium Copyright Act ("DMCA"), in which he alleged that "UMG knowingly misrepresented to eBay that Augusto’s auctions infringed UMG’s copyrights so that eBay would stop Augusto’s auctions."41 Both parties moved for summary judgment as to UMG’s copyright infringement claim and Augusto’s counterclaim.42

On June 10, 2008, the United States District Court for the Central District of California granted Augusto’s motion for summary judgment as to UMG’s copyright infringement claim and also

39. See Defendant’s Motion for Summary Judgment, supra note 24, at 7 ("The evidence also establishes that Augusto lawfully purchased the CDs from retailers in the Los Angeles area or on eBay . . . thereby making him the ‘owner’ of the CDs in question."). For a further discussion of the first sale doctrine, see infra notes 53-73 and accompanying text.

40. See Defendant’s Motion for Summary Judgment, supra note 24, at 9-15 (stating Augusto’s argument that UMG transferred title to promotional CDs). For a further discussion of Augusto’s arguments and the court’s analysis of them, see infra notes 89-133 and accompanying text.

41. Defendant’s Motion for Summary Judgment, supra note 24, at 15-20. The Digital Millennium Copyright Act describes limitations on liability relating to online material; section 512(f), dealing with misrepresentations, reads as follows:

Any person who knowingly materially misrepresents under this section (1) that material or activity is infringing, or (2) that material or activity was removed or disabled by mistake or misidentification, shall be liable for any damages, including costs and attorneys’ fees, incurred by the alleged infringer, by any copyright owner or copyright owner’s authorized licensee, or by a service provider, who is injured by such misrepresentation, as the result of the service provider relying upon such misrepresentation in removing or disabling access to the material or activity claimed to be infringing, or in replacing the removed material or ceasing to disable access to it.


42. See Augusto, 558 F. Supp. 2d at 1059 (discussing procedural history).
granted UMG's motion for summary judgment as to Augusto's counterclaim.\textsuperscript{43} On June 13, 2008, UMG filed a notice of appeal.\textsuperscript{44}

As to the copyright infringement claim, the court determined that the central issue of the case could be stated in one question: "[d]id UMG transfer title to the music industry insiders when it mailed them the Promo CDs?"\textsuperscript{45} The court answered this question affirmatively and held that Augusto lawfully owned the CDs at the time he sold them.\textsuperscript{46} Therefore, the first sale doctrine applied and protected Augusto's reselling of the CDs on eBay.\textsuperscript{47}

III. **BACKGROUND**

In *UMG Recordings, Inc. v. Augusto*, the court's opinion focused on the question of whether UMG transferred title of the promotional CDs to the industry insiders.\textsuperscript{48} At the heart of this question was the issue of whether UMG had created valid licenses to the CDs by printing labels on their covers, or whether the licensing language on the labels was trumped when the nature of a transaction indicated a sale.\textsuperscript{49} If UMG's initial transaction was a sale, then UMG had given up title to the CDs and Augusto's actions were permitted under the first sale doctrine, but if UMG had created a valid license, then it retained ownership of them and could legally attempt to enforce the restrictions printed on the CD labels.\textsuperscript{50}

\textsuperscript{43} See *id.* at 1065 (holding that Augusto was entitled to summary judgment on copyright infringement claim because his actions were protected by first sale doctrine and UMG was entitled to summary judgment as to counterclaim because UMG held subjective good faith belief that Augusto was infringing its copyrights). Because the court's analysis of the copyright infringement claim is the significant aspect of the *Augusto* opinion for purposes of this article, there will not be extensive discussion of the court's reasoning in granting UMG summary judgment on Augusto's DMCA violation counterclaim. For a brief discussion of the court's holding on this claim, see *infra* notes 134-38 and accompanying text.

\textsuperscript{44} See *DiPasquale and Mulchay*, *supra* note 20 (discussing suit).

\textsuperscript{45} *Augusto*, 558 F. Supp. 2d at 1059.

\textsuperscript{46} See *id.* at 1062 ("UMG's distribution of Promo CDs to the music industry insiders is properly characterized as a gift or sale, not a license . . . .").

\textsuperscript{47} See *id.* at 1060 ("If the answer is yes, then UMG transferred ownership of the CDs and Augusto lawfully owned the CDs at the time he sold them, which permitted Augusto to sell the CDs under the first sale doctrine.").

\textsuperscript{48} See *id.* (determining that Augusto's case hinged on whether UMG transferred title to music industry insiders).

\textsuperscript{49} See *id.* at 1060-61 (explaining that, if UMG transferred ownership of promotional CDs, Augusto was permitted to resell them).

\textsuperscript{50} See *id.* (explaining that, if UMG retained title to and ownership of promotional CDs, Augusto did not lawfully own them and would be excluded from first sale doctrine protection).
This section will first give a description of general copyright law and the first sale doctrine. Next, this section will investigate why licensing of copyrighted material became popular and the current proliferation of license use as a means of expanding copyright holders' rights.

A. Copyright Law and the First Sale Doctrine

Copyright protection is wholly statutory and flows from the constitutional grant to Congress of the “power to . . . promote the progress of science and useful arts.” To achieve the goal of fostering creation, copyright protection attempts to strike a delicate balance between competing interests: the private interest of authors wishing to be rewarded for their intellectual creations and the general public interest of having access to such creations. The existence and maintenance of the balance between these competing interests depends entirely on the statutory rights and protections granted to authors.

Under the 1976 Copyright Act, when a creation falls within the scope of a copyright, the author is granted certain exclusive rights

51. For a further discussion of copyright law and the first sale doctrine, see infra notes 53-73 and accompanying text.

52. For a further discussion of license use of copyrighted material, see infra notes 74-83 and accompanying text.

53. U.S. Const. art. I, § 8, cl. 8; see also Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 430 (1984) (“[L]ong before the enactment of the Copyright Act of 1909 . . . it was settled that the protection given to copyrights is wholly statutory.”).

54. See Mazer v. Stein, 347 U.S. 201, 219 (1954) (“The economic philosophy behind the clause empowering Congress to grant patents and copyright is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in ‘Science and the useful Arts.’”); Sony, 464 U.S. at 429 (“As the text of the Constitution makes plain, it is Congress that has been assigned the task of defining the scope of the limited monopoly that should be granted to authors or to inventors in order to give the public appropriate access to their work product.”); see also I. Neel Chatterjee, Imperishable Intellectual Creations: The Limits of the First Sale Doctrine, 5 Fordham Intell. Prop. Media & Ent. L. J. 383 (1994) (discussing competing interests in copyright material).

55. See Sony, 464 U.S. at 429 (detailing privileges granted by copyright law). The Sony Court stated:

The monopoly privileges that Congress may authorize are neither unlimited nor primarily designed to provide a special private benefit. Rather, the limited grant is a means by which an important public purpose may be achieved. It is intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired.

Id.
to control that work for a limited time period. Often collectively referred to as the author’s “exclusive rights,” the author maintains the right to make copies of the work, to create new works based on the copyrighted work, to distribute copies of the work to the public, to perform the work publicly and to display the work publicly. These five fundamental rights granted to the author of a copyrighted work comprise the “bundle of rights” that is the copyright. In granting these rights exclusively to the copyright owner, it fol-

56. See 17 U.S.C. §§ 102, 103 (2008) (outlining subject matter of copyright in general and in compilations and derivative works); id. § 106 (establishing exclusive rights in copyrighted works). Section 102 of the Copyright Act establishes that copyright protection exists for “original works of authorship fixed in any tangible medium of expression. . .” Id. § 102. The statute further indicates that “works of authorship” include the following: literary works; musical works; dramatic works; pantomimes and choreographic works; pictorial, graphic, and sculptural works; motion picture and other audiovisual works; sound recordings; and architectural works. See id. (stating categories of mediums subject to copyright protection).

57. See id. § 106 (establishing exclusive rights in copyrighted works). Section 106 of the Copyright Act states:

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.

Id. Congress defines “phonorecords” as “material objects in which sounds, other than those accompanying a motion picture or other audiovisual work, are fixed by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.” Id. § 101; see also Chatterjee, supra note 54, at 385 (“This monopoly, in the form of a copyright, allows a creator to reap the economic benefits of his labor by selling the creation in the marketplace – thereby controlling the scope of its use.”). Although the exclusive rights granted by the Copyright Act initially remain with the author of the work, the rights may be transferred from one owner to another, just like any other property right. See John A. Rothchild, The Incredible Shrinking First-Sale Rule: Are Software Resale Limits Lawful?, 57 RUTGERS L. REV. 1, 10 (2004) (discussing alienability of copyrights).

58. See H.R. REP. NO. 94-1476, at 61 (1976), as reprinted in 1976 U.S.C.C.A.N. 5659, 5674 (“These exclusive rights, which compromise the so-called 'bundle of rights' that is a copyright, are cumulative and may overlap in some cases. Each of the five enumerated rights may be subdivided indefinitely and . . . each subdivision of an exclusive right may be owned and enforced separately.”).
laws that anyone who exercises any of them without authorization of the copyright owner is liable for copyright infringement.59

Although the exclusive rights provide authors with a significant amount of protection, they are limited in several important ways in order to maintain the balance of competing interests.60 One of the most significant limitations on exclusive copyrights is the first sale doctrine, which exhausts the copyright owner’s distribution right after the first sale of a lawful copy of the work.61 Under the doctrine, once a copyright owner has transferred ownership in a lawful copy of the work, the copyright owner can no longer control what the subsequent owner does with that particular copy.62 Any purchaser may “dispose of that copy freely without paying a royalty to the copyright holder.”63

59. See 17 U.S.C. § 501(a) (establishing basis for infringement of copyright). Section 501(a) of the Copyright Act, in pertinent part, states: “[a]nyone who violates any of the exclusive rights of the copyright owner . . . is an infringer of the copyright.” Id.

60. See id. §§ 106(a)-120 (outlining limitations on copyrights); Chatterjee, supra note 54, at 386 (explaining that, to satisfy public interest in gaining access to works, limitations are imposed on monopoly of copyright by sections 106A to 120 of Copyright Act); Rothchild, supra note 57, at 9-10 (“These rights, although exclusive to the copyright owner, are not plenary, but are limited in various ways.”).

61. See 17 U.S.C. § 109(a) (“Notwithstanding the provisions of §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.”); see also Rothchild, supra note 57, at 9-10 (discussing first sale doctrine). In addition to the first sale doctrine, there are other significant limitations to copyright holders’ exclusive rights, including: (1) the inability of a copyright holder to control “fair use” of a work, “which allow anyone to use the work, without authorization from the copyright owner, in ways that promote the purposes of copyright law and do not impinge unduly on the owner’s economic interest in the work;” (2) the formulation by the court of the “idea-expression” dichotomy, which allows protection of a particular form of expression of a work, but not of the underlying idea of the work; and (3) limiting the viability of the copyright to a set term of years. Rothchild, supra note 57, at 9-10 (discussing additional limitations on copyright’s exclusive rights). Interestingly, “[t]he first sale doctrine was originally conceived under European patent law and was eventually adopted into copyright under English common law which disapproved of restraints on alienation of owned property.” Chatterjee, supra note 54, at 387 n.22.

62. See Chatterjee, supra note 45, at 387 (explaining first sale doctrine).

63. Id. It is important to note that although a purchaser of a copy is protected by the first sale doctrine in distributing or disposing of that copy, the purchaser must still recognize the other exclusive rights granted to the copyright owner. See Christian H. Nadan, Software Licensing in the 21st Century: Are Software “Licenses” Really Sales, and How Will the Software Industry Respond?, 32 AIPLA Q.J. 555, 561 (“The first sale doctrine is an exception to the copyright owner’s exclusive right of public distribution; it is not an exception to the copyright owner’s other statutory rights (such as the exclusive right to copy the work).”).
The first sale doctrine was first recognized by the United States Supreme Court in 1908 in *Bobbs-Merrill Co. v. Straus*.

In that case, a publisher and copyright owner attempted to control sales of copies of a novel by printing inside each copy a label requiring a minimum resale price of at least one dollar. The defendants had lawfully obtained several copies of the novel from wholesalers and resold the copies for eighty-nine cents in violation of the notice. Subsequently, the publisher brought suit, attempting to restrain the sales by claiming that the defendant violated its exclusive right to vend copies of its copyrighted material because the sales were in violation of the printed notice.

In rejecting the publisher’s claim, the Court held that “the copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose, by notice . . . a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract.” The Court also acknowledged “that one who has sold a copyrighted article, without restriction, has parted with all right to

64. 210 U.S. 339, 351 (1908) (holding that publisher could not restrict sales of books because “[t]o add to the right of exclusive sale the authority to control all future retail sales . . . would give a right not included in the terms of the statute”). Although *Bobbs-Merrill* was the first recognition of the doctrine by the Supreme Court, lower courts have consistently applied the doctrine in earlier cases. *See Quality King Distrib., Inc. v. L’Anza Research Int., Inc.*, 523 U.S. 135, 140 n.4 (1998) (citing Kipling v. G.P. Putnam’s Sons, 120 F. 631, 634 (2d Cir. 1903); Doan v. Am. Book Co., 105 F. 772, 776 (7th Cir. 1901); Harrison v. Maynard, Merril & Co., 61 F. 689, 691 (2d Cir. 1894)). The appellees in this case were Isidor Straus and Nathan Straus, who were partners as R.H. Macy & Company. *See Bobbs-Merrill, 210 U.S. at 341* (discussing facts of case).

65. *See Bobbs-Merrill, 210 U.S. at 341* (discussing facts). The appellant was the owner of the copyright to “The Castaway,” which was obtained in conformity with the United States copyright statutes in effect at the time, on May 18, 1904. *See id.* The label was printed immediately below the copyright notice, on the page after the title page, and stated: “The price of this book at retail is $1 net. No dealer is licensed to sell it at a less price, and a sale at a less price will be treated as an infringement of the copyright.” *Id.*

66. *See id.* (outlining transaction between wholesalers and defendants). The record stipulated that the defendants, as well as the wholesaler dealers from whom they purchased the copies, knew they were purchasing a copyrighted book and were familiar with the terms of the notice. *See id.* at 342. The court recognized, however, that the wholesalers were not obligated to regulate retail dealers’ compliance with the terms of notice or to limit their sales to retail detailers who abide by the rules. *See id.*

67. *See id.* at 341-42 (discussing facts). At the time of the *Bobbs-Merrill* decision, the copyright statute in effect “provided that copyright owners had ‘the sole liberty of printing, reprinting, publishing, completing, copying, executing, finishing and vending.’” *Quality King*, 523 U.S. at 141 n.5 (quoting Copyright Act of 1891, § 4952, 26 Stat. 1107 (emphasis added)).

68. *Bobbs-Merrill, 210 U.S. at 350*. In construing the scope of “vend,” the Court concluded:
control the sale of it[,]" and "[t]he purchaser of a book, once sold by authority of the owner of the copyright, may sell it again, although he could not publish a new edition of it."69 The following year, Congress codified the Court's holding in the Copyright Act of 1909, which provided, "nothing in this Act shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained."70

In order for copyrighted material to be subject to the first sale doctrine, the statute requires that the material be possessed by a lawful owner.71 The critical factor in determining lawful ownership is whether the copyright owner has transferred title of the material, thus giving up ownership via a "first sale,"72 Despite what the doctrine's title implies, a transfer of ownership may take place through means other than a sale, such as transfers by gift or abandonment.73

B. Circumventing the First Sale Doctrine through License Use

Copyright owners have consistently relied on the use of licenses to expand their rights.74 In general terms, a license is a form

To add to the right of exclusive sale the authority to control all future retail sales, by a notice that such sales must be made at a fixed sum, would give a right not included in the terms of the statute, and, in our view, extend its operation, by construction, beyond its meaning, when interpreted with a view to ascertaining the legislative intent in its enactment. Id. at 351.

69. Id. at 350.
70. Copyright Act of Mar. 4, 1909, ch. 320, § 41.
71. See Copyright Act of 1976, 17 U.S.C. § 109 (2008) ("[T]he owner of a particular copy or phonorecord lawfully made under this title . . . is entitled . . . to sell or otherwise dispose . . . of that copy." (emphasis added)).
72. See id. (noting protection requires lawful ownership of copy).
73. See UMG Recordings, Inc. v. Augusto, 558 F. Supp. 2d 1055, 1059 (C.D. Cal. 2008) ("This passing of title may occur through a transfer by gift." (citing 4 William F. Patry, PATRY ON COPYRIGHT § 13:15)).
74. See Fred von Lohmann, First Sale, Why It Matters, Why We're Fighting for It, ELECTRONIC FRONTIER FOUNDATION, Aug. 9, 2007, http://www.eff.org/deeplinks/2007/08/first-sale-why-it-matters-why-were-fighting-it ("[C]opyright industries have never liked [the first sale doctrine], since it creates competition for their titles (you could borrow it from a friend, pick it up at the library, or buy it from a used book seller on Amazon)."). Several industries in the past century have turned to licensing as a means of expanding their rights. See id. For example, in the early 20th century, book publishers tried to dictate minimum resale prices on books by printing notices in each book. See id. In the 1930s, record labels printed "private use only, not for broadcast" on their records in an effort to restrain radio stations from playing their records without paying royalties, and, in the 1980s, movie studios tried to control the video rental business by labeling their video cassettes. See id.
of contract that limits what the licensee may or may not do with a licensed item.\(^75\)

Historically, license use has been viewed as an aid to maintaining the balance between competing interests because it was perceived that the licensees entered into a bargain, which promoted the development and sharing of information.\(^76\) Licenses were also used to establish protection of material that was difficult to safeguard under copyright law.\(^77\) By granting a license, rather than issuing a sale, copyright owners are able to maintain control over their work by dictating limitations as to what can be done with the material in situations where there is limited statutory protection.\(^78\)

In the 1970s and 1980s, license use gained significant popularity within the software industry because during this period, the "precise application of copyright laws to computer programs presented a purely 'open question.'"\(^79\) Stemming from the successful use of licenses in the software industry, owners of many types of intellectual property are now relying on licenses to expand their copyrights and regulate user rights.\(^80\) These intellectual property owners are taking copyright protection into their own hands by relying on private legislation to regulate the use of chattels embodying intellectual property.\(^81\) Thus, many transactions that would normally be considered sales are being characterized by the intellectual property owners as licenses in attempt to circumvent the public legislation intended to maintain the delicate balance between private and public interests.\(^82\) If fictional license transactions are recognized by the courts, the balance of competing interest will tip in favor of the

\(^{75}\) See Winston, supra note 4, at 98 ("A license is a contract between two parties, one of whom owns intellectual property (the licensor) that the other (the licensee) wishes to use.").

\(^{76}\) See id. (discussing traditional license use in copyright law).

\(^{77}\) See id. at 93 (discussing proliferation of license use).

\(^{78}\) See Steven A. Heath, Contracts, Copyright, and Confusion, 5 CHI.-KENT J. INTELL. PROP. 12, 13 (2005) ("[T]he purchaser licensee is never elevated to the status of an owner, and may only use the software subject to specific limitations.").

\(^{79}\) Id.; see also Winston, supra note 4, at 93 ("Such licenses historically were used to augment the protection of ideas and expressions otherwise difficult to protect under intellectual property law.").

\(^{80}\) See Winston, supra note 4, at 93 ("[I]ntellectual property owners increasingly choose to license products that embody their intellectual property and use privately-legislated licenses to augment their intellectual property rights and circumvent publicly-legislated restrictions.").

\(^{81}\) See id. (explaining proliferation of license use by intellectual property owners other than software producers).

\(^{82}\) See id. at 95 (discussing use of private legislation to circumvent public legislation).
private interests of the intellectual property holder and away from the public's interest in access to innovation.  

IV. NARRATIVE ANALYSIS

The central issue of *UMG Recordings, Inc. v. Augusto* was whether UMG had actually transferred title to the music insiders when it initially distributed the promotional CDs, thus subjecting the CDs to the first sale doctrine and relieving Augusto of liability for copyright infringement. The court determined that UMG’s distribution of the CDs to the music insiders was a transfer of title and Augusto’s resale of the CDs was lawful under the first sale doctrine. This reasoning permitted the court to grant Augusto summary judgment on UMG’s copyright infringement claim.

Additionally, the court addressed Augusto’s counterclaim that UMG violated section 512(c) of the DMCA and held that UMG “had a subjective good faith belief that Augusto was infringing its copyrights.” As a result, UMG could not be held liable for violation of section 512(c) and was entitled to summary judgment on Augusto’s counterclaim.

A. UMG’s Claim for Copyright Infringement

In order to establish a prima facie case of copyright infringement, UMG was required to show: (1) that UMG owned a copyright, and (2) that Augusto violated one of UMG’s exclusive rights

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83. See id. (recognizing delicacy of balance between public and private interests).

84. See *UMG Recordings, Inc. v. Augusto*, 558 F. Supp. 2d 1055, 1059-60 (determining that, if UMG transferred title, Augusto’s actions were protected under first sale doctrine). In order to invoke the first sale doctrine, Augusto was required to show four elements: (1) the CDs were lawfully manufactured by UMG or with permission; (2) UMG transferred title to the CDs; (3) Augusto lawfully owned the CDs; and (4) Augusto disposed of the CDs, but did not reproduce them. See id. at 1059 (“An affirmative answer to each question validates the defense. Failure to qualify under any prong dooms it.” (citing *Melville B. Nimmer & David Nimmer, Nimmer on Copyright* § 8.12[B][1][a] (2008))). Two of the elements were undisputed: (1) the promotional CDs were lawfully manufactured by UMG, and (2) Augusto did not reproduce them, but only sold them. See id. (recognizing undisputed facts).

85. See id. at 1060-65 (addressing each of Augusto’s arguments). The court held that “[b]ecause title to the Promo CDs transferred from UMG to the music industry insiders, Augusto’s resale of those CDs is protected by the first sale doctrine.” *Id.* at 1065.

86. See id. (“Augusto is entitled to summary judgment on UMG’s claim for copyright infringement.”).

87. See id. at 1065 (addressing Augusto’s counterclaim).

88. See id. (holding that Augusto’s allegations “that UMG should have known better do not create a genuine issue of material fact”).
to the copyright granted under section 106 of the Copyright Act.\(^89\) It was undisputed that UMG met its initial burden as to these two elements.\(^90\) UMG established that it owned the copyrights to the recordings contained on the promotional CDs and that Troy Augusto sold the CDs on eBay, violating UMG’s exclusive right to sell copies of its copyrighted material to the public.\(^91\) Troy Augusto argued, however, that his actions were protected under the first sale doctrine because UMG had parted with title to the CDs when it first distributed them to the music industry insiders.\(^92\)

The court examined and addressed each of Augusto’s three arguments as to how UMG transferred title to the promotional CDs.\(^93\) First, the court held that UMG’s distribution of the promotional CDs to music industry insiders created “many critical rights of ownership” in the insiders and therefore the distribution was “properly characterized as a gift or sale, not a license, and title to the CDs transferred to the insiders.”\(^94\) Second, the court held that the promotional CDs were unordered merchandise and subject to section 3009 of the Postal Reorganization Act, which prohibits such mailings.\(^95\) Finally, the court held that UMG did not abandon the promotional CDs.\(^96\)

1. **Licensing Language Printed on the Promotional CD Labels**

   First, the court addressed the argument that the label contained on each CD, purporting to license its use to the music in-

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89. See UMG Recordings, Inc. v. Augusto, 558 F. Supp. 2d 1055, 1059 (discussing prima facie case of copyright infringement (citing LSG Architects, Inc. v. Concordia Homes, 434 F.3d 1150, 1156 (9th Cir. 2006))).

90. See id. (describing Augusto’s concession that UMG met its initial burden, but arguing that his conduct was protected by first sale doctrine).

91. See id. (explaining requirements for establishing copyright infringement).

92. See id. at 1060 (outlining Augusto’s arguments). Augusto offered three arguments that he owned title to the promotional CDs: (1) that the licenses on the CD labels were not valid; (2) the CDs could be treated as gifts by the music industry insiders under federal law; and (3) that UMG had abandoned the CDs. See id.

93. See id. at 1060-65 (addressing each of Augusto’s arguments on UMG’s transfer of title to promotional CDs). The court recognized that Augusto only needed to succeed on one of his three arguments in order to be protected by the first sale doctrine. See id. at 1060.

94. Id. at 1062.

95. See id. at 1064 (holding that because promotional CDs are subject to section 3009, UMG transferred title to them when they were sent to music industry insiders, thus subjecting them to first sale doctrine).

96. See id. at 1064-65 (holding that under California law UMG did not “affirmatively disavow its rights” to promotional CDs, and therefore, did not abandon them).
sider receiving it, did not create a valid license.97 Augusto claimed that "UMG's distribution of the Promo CDs qualifies as a gift or sale[,]" whereas UMG argued that the labels created a license between it and any recipient who accepted the CDs, allowing it to retain title to the CDs.98 In order to determine whether the transaction between UMG and the insiders actually constituted a sale or a license, the court looked to the "economic realities" of the transaction, without relying on the language of the CD labels.99 The court determined the transaction was a sale, citing UMG's lack of intent to regain possession and its lack of recurring benefit.100

a. UMG's Lack of Intent to Regain Possession

The court determined that a primary indicator of license creation is the original owner's intent to regain possession of the licensed property.101 On the other hand, the court reasoned that if the original owner does not have this intent, it is strong evidence that the transaction was a sale.102 Relying on the Ninth Circuit decision, United States v. Wise, the court determined that when a copyright owner permits a recipient to keep copyrighted material for an indefinite period of time, there is a strong indication that the

97. See id. at 1060-62 (evaluating factors that would indicate sale or license of CDs).
98. See id. at 1060 (stating UMG's claim).
99. Id. (citing Microsoft Corp. v. DAK Indus., 66 F.3d 1091, 1095 (9th Cir. 1995)). The court continued: "[T]he fact that the agreement labels itself a 'license' . . . does not control our analysis." Id.
100. See id. at 1060-62 (evaluating indicators of license creation versus sale).
101. See id. ("The right to perpetual possession is a critical incident of ownership." (citing Krause v. Titleserv, Inc., 402 F.3d 119, 123 (2d Cir. 2005)). The court in Krause affirmed that "[o]wnership of a copy is something distinct from copyright ownership." Krause, 402 F.3d at 122. In clarifying this principle, the court offered the example that the author of a book owns the copyright to that material and "thus the sole right to authorize copying," by contrast, "each purchaser of a copy of the book owns that copy, but is generally not entitled to make copies from it." Id. In Krause, the court determined the scope of section 117(a) of the Copyright Act, which "allows the owner of a copy of a computer program to copy or modify the program for limited purposes" without committing copyright infringement. Id. at 121. The court in Krause, stated:

It seems anomalous for a user whose degree of ownership of a copy is so complete that he may lawfully use it and keep it forever, or if so disposed, throw it in the trash, to be nonetheless unauthorized to fix it when it develops a bug, or to make an archival copy as backup security.

Id. at 123.
102. See Augusto, 558 F. Supp. 2d at 1060 (explaining significance of intent to regain possession on part of copyright holder).
owner does not intend to regain possession and it is likely that the recipient has gained ownership through a gift or sale.103

In this case, the court determined that UMG gave the promotional CDs to industry insiders without any intent to regain possession.104 The court found nothing in the packaging of the CDs or on their labels that indicated an obligation to return the CDs to UMG, nor could the court determine that there would be any adverse consequences to the recipients should they lose or destroy the CDs.105 The fact that UMG made no affirmative effort to recover the promotional CDs and that the music insiders could possess the CDs indefinitely without consequence helped the court conclude that the insiders had gained possession of the CDs through a gift or sale.106

b. Lack of Recurring Benefit to UMG

The court then looked to whether UMG received a recurring benefit from the recipients’ continued possession of the CDs.107 The court reasoned that "[g]enerally, licenses provide recurring benefits for the copyright owner."108 Here, the court concluded that UMG did not receive any recurring benefit from the music insiders’ continued possession of the promotional CDs, which further suggests that the insiders gained ownership through a gift or sale.109

103. See U.S. v. Wise, 550 F.2d 1180, 1191 (9th Cir. 1977) (discussing license of photoplay "Funny Girl" due to lack of requirement to return it to original owner); see also Augusto, 558 F. Supp. 2d at 1060-61 (recognizing “the importance of regaining possession” of licensed material). In Wise, the court evaluated contracts from a movie studio for transfer of movie prints and found that where a contract permitted an actress to keep the film print "at all times" for her "personal use and enjoyment," the transaction was a sale and not a license. Wise, 550 F.2d at 1192.

104. See Augusto, 558 F. Supp. 2d at 1061 (recognizing that music insiders are “free to keep the Promo CDs forever”).

105. See id. (discussing facts that indicate lack of intention by UMG to regain possession of promotional CDs).

106. See id. ("UMG does not request that any recipients return the Promo CDs . . ."). The court noted that it would have been nearly impossible for UMG to take affirmative action to recover possession by requesting return of the CDs because UMG did not keep any permanent records identifying the CD recipients. See id.

107. See id. (discussing lack of recurring benefit to UMG from music industry insiders’ possession of promotional CDs).

108. Id. (citing Microsoft Corp. v. DAK Indus., 66 F.3d 1091, 1096 (9th Cir. 1995)).

109. See id. (stating that absence of recurring benefit to UMG suggested transfer was gift or sale).
As an initial point, the court noted that by distributing the CDs, UMG was never guaranteed any benefit at all; nothing required the music insiders to promote or advertise the material contained on the CDs they received.\textsuperscript{110} As for a recurring benefit, the court determined that the label did not "require the recipient to provide UMG with any benefit to retain possession."\textsuperscript{111} The court concluded that when UMG distributed the promotional CDs, it was never guaranteed any benefit in return, let alone a recurring one.\textsuperscript{112} Finally, the court found that the only benefit to UMG from licensing the material to the music insiders was to "restrain transfer of its music."\textsuperscript{113} The court recognized that licensing for that purpose had been rejected by the Supreme Court in the 1908 case, \textit{Bobbs-Merrill Co. v. Straus}.\textsuperscript{114}

Thus, after evaluating the economic realities of the transaction, the court held that "UMG's distribution of CDs provides the recipient with many critical rights of ownership, including the right to perpetual possession and the freedom from obligations to UMG."\textsuperscript{115} The court concluded that UMG's distribution of the promotional CDs to the music insiders constituted a gift or a sale and that the licensing labels on the CDs did not create a valid license.\textsuperscript{116} As such, UMG transferred title to the CDs upon their distribution to the music industry insiders, and the first sale doctrine protected Augusto's actions.\textsuperscript{117} Although this finding was sufficient to determine that Augusto was free from liability for copyright infringe-

\textsuperscript{110} See UMG v. Augusto, 558 F. Supp. 2d 1055, 1061 (C.D. Cal. 2008) (explaining absence of benefit to UMG from music insiders' possession of promotional CDs). In fact, most of the labels on the CDs contained the phrase "for personal use only," which would indicate that the recipient would be prohibited from using the CD commercially. \textit{See id.}

\textsuperscript{111} \textit{Id.}

\textsuperscript{112} \textit{Id.} (recognizing that music insiders should have paid, or given UMG some other benefit, in order to keep material).

\textsuperscript{113} \textit{Id.} (explaining only apparent benefit to UMG is to restrain trade).

\textsuperscript{114} \textit{Id.} (rejecting licensing for purposes of restraining trade); \textit{see also Bobbs-Merrill Co. v. Isidor Straus, 210 U.S. 359, pincite (1908) (rejecting attempt of publisher to restrain book sales by requiring minimum resale of at least one dollar); RCA Mfg. Co. v. Whiteman, 114 F.2d 86, 90 (2d Cir. 1940) (holding that RCA could not impose servitude on its records through use of "Not Licensed for Radio Broadcast" label).}

\textsuperscript{115} \textit{Augusto, 558 F. Supp. 2d at 1062.}

\textsuperscript{116} \textit{Id.} ("UMG's distribution of Promo CDs to the music industry insiders is properly characterized as a gift or sale, not a license, and title to the CDs transferred to the insiders.").

\textsuperscript{117} \textit{Id.} (holding that first sale doctrine protected Augusto's actions).
ment, the court still addressed Augusto's remaining two arguments.118

2. Promotional CDs Constituting Gifts Under Federal Law

Augusto's second argument was that UMG transferred title of the CDs to the music insiders because they qualified as gifts under section 3009 of the Postal Reorganization Act.119 The court agreed with Augusto and held that "UMG's actions [fell] within the plain text of § 3009." It explained that "[b]y sending the Promo CDs to music industry insiders, UMG transferred title to those insiders and the Promo CDs [were] subject to the first sale doctrine."120 Section 3009 of the Postal Reorganization Act "prohibits 'the mailing of unordered merchandise' without 'the prior expressed request or consent of the recipient.'"121 Further, "[t]his 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 obligation whatsoever to the sender.'"122 The court found that the industry insiders had not requested or consented to UMG's mailing, and therefore, they could be treated as gifts sent through the mail.123

118. See id. at 1062-65 (addressing Augusto's remaining two arguments).
119. See id. at 1062 (discussing Postal Reorganization Act).
120. Id. at 1062, 1064.
121. Augusto, 558 F. Supp. 2d at 1062 (quoting Postal Reorganization Act, 39 U.S.C. § 3009(a) and (c)). Section 3009 is not limited to mailings through the United States Postal Service but also applies to private services. See id. at 1062 n.5. Thus, promotional CDs shipped through services such as UPS are also subject to section 3009. See id.
122. Id. at 1061 (quoting Postal Reorganization Act, 39 U.S.C. § 3009(b)). The court also cites Kipperman v. Acad. Life Ins. Co., 554 F.2d 377, 379 (9th Cir. 1977), where the Ninth Circuit determined the purpose of section 3009 was to limit the unconscionable practice of shipping unordered merchandise to people and then tricking or bullying them into paying for it. See id.
123. See Augusto, 558 F. Supp. 2d at 1062 ("UMG mails merchandise - the Promo CDs - to music industry insiders without their 'prior expressed request or consent.'" (quoting, Postal Reorganization Act, 39 U.S.C. § 3009(c))). UMG argued that section 3009 did not apply to the mailing of the CDs because (1) section 3009 only applied to merchandise received by "consumers"; (2) section 3009 only applies when payment is requested for the shipped merchandise; and (3) section 3009 does "nullify agreements between the maller and the recipient." Id. at 1062-64 (discussing UMG's arguments as to why 39 U.S.C. § 3009 did not apply to its mailing of promotional CDs). In rejecting UMG's arguments, the court first determined that the music industry insiders qualified as consumers, ruling they were not exempted "non-consumers" of the kind identified in cases relied on by UMG. See id. at 1063 (evaluating UMG's argument). The music industry insiders "consume" the CD in the way a typical consumer would, whereas an exempted "non-consumer" refers to people like sales representatives, jobbers and wholesalers, all of whom pass their product on to a purchaser without "consumption." Id. Thus, the court determined that while the music insiders qualify as consumers,
3. **UMG Abandonment of the Promotional CDs**

Finally, Augusto argued that UMG had abandoned the promotional CDs under California law. The court rejected these assertions and found that UMG did not abandon the promotional CDs. In order to establish abandonment, the court required Augusto to show that UMG (1) did not possess the promotional CDs, and (2) intended to abandon them. It was undisputed that UMG did not possess the CDs, leaving the only issue to be whether UMG had the requisite intent to abandon them.

The court determined that “intent to abandon is determined based on ‘consideration of all the circumstances of the case,’ including all ‘acts of ownership and dominion, or a want of such acts.’” Additionally, abandonment requires a “clear and unmistakable affirmative act” that indicates intent to relinquish ownership. The court determined under the totality of the circumstances that UMG did not abandon the promotional CDs because it did “not affirmatively disavow[ ] its rights to the Promo

they are “consumers with influence.” Id. Second, the court determined that a plain reading of section 3009 does not require a request for payment. See id. The court recognized, however, that enforcement of the license printed on the promotional CD label is essentially no different than having requested payment because the recipients of the CD are not free to negotiate the terms of the license; thus, UMG puts the recipient in a “similar position as a recipient of merchandise for which the seller requests payment.” Id. Here, “each recipient must return the item or face some affirmative obligation . . . [t]he music industry insider must physically return the Promo CD or make arrangements to keep it for all time because disposing of the Promo CD would violate UMG’s property interest in the Promo CD.” Id. Finally, the court determined that UMG did not create an agreement with the music insiders by mailing the CDs with a licensing label. See id. (addressing UMG’s argument that section 3009 did not apply because promotional CDs “contained an express license”). UMG relied on Wisniewski v. Rodale, Inc., 510 F.3d 294 (3d Cir. 2007), where the court stated that “[section] 3009 does not explicitly declare any agreements to be void.” See id. at 1063-64 (discussing UMG’s erroneous reliance on Wisniewski). The Augusto court found UMG’s reliance on Wisniewski misplaced and determined that the promotional CDs are unordered merchandise subject to section 3009. See id. at 1064. Thus, “[b]y sending [them] to the music industry insiders, UMG transferred title to those insiders and the Promo CDs are subject to the first sale doctrine.” Id.

124. See Augusto, 558 F. Supp. 2d at 1064 (addressing Augusto’s abandonment argument).

125. See id. at 1065 (holding that UMG did not abandon promotional CDs).

126. See id. at 1064 (describing elements of abandonment (citing 1 Cal Jur. 3d ABANDONMENT § 2)).

127. See id. ("UMG concedes that it does not possess the Promo CDs, leaving only UMG’s alleged intent to abandon in dispute.").

128. Id. (quoting Moon v. Rollins, 36 Cal. 333, 338-40 (1868)).

CDs, and in fact, [UMG had] print[ed] on the Promo CDs that it retains title."130 Thus, the court held that under California law, UMG did not abandon the CDs.131

Augusto only needed one of his three arguments to succeed for his actions to be protected by the first sale doctrine.132 Because Augusto met this burden, the court concluded that his resale of UMG promotional CDs on eBay did not constitute copyright infringement due to protection under the first sale doctrine and granted his motion for summary judgment on that claim.133

B. Augusto's Counterclaim

The court granted summary judgment in favor of UMG as to Augusto's counterclaim under section 512(f) of the DMCA.134 Section 512(c) of the DMCA "permits [a] copyright owner[s] to provide Internet hosts notice of potential copyright infringement."135 To prevent abuse of this "notice and takedown" provision, Congress provided for a cause of action for improper infringement notifications under section 512(f).136 The court recognized that under section 512(f):

[A] copyright owner may be held liable for damages caused by an erroneous invocation of the notice and takedown provision only if the owner did not possess a subjective good faith belief that its copyright was being infringed.137

In this case, the court found that UMG had a "subjective good faith belief" that Augusto had infringed its copyrights, and thus, granted summary judgment to UMG on Augusto's counterclaim.138

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130. Augusto, 558 F. Supp. 2d at 1064-65. "Here, Augusto shows only passivity." Id. at 1064.

131. See id. (holding that UMG did not abandon promotional CDs).

132. See id. at 1060 ("If Augusto succeeds on any of these three arguments, the first sale doctrine protects his actions.").

133. See id. at 1065 (holding that UMG transferred title of promotional CDs to music industry insiders and Augusto's actions were protected by first sale doctrine).

134. See id. ("Augusto's allegations that UMG should have known better do not create a genuine issue of material fact as to this issue given the uncertainty of the law in this area.").

135. Id. at 1065 (discussing DMCA).

136. See Augusto, 558 F. Supp. 2d at 1065 (explaining provisions of DMCA and their application).

137. Id. (citing Rossi v. Motion Picture Ass'n of Am., 391 F.3d 1000, 1004-05 (9th Cir. 2004)).

138. Id. The court noted several facts in support of this assertion: (1) UMG and its agents had carefully documented Augusto's infringing actions; (2) UMG
V. CRITICAL ANALYSIS

The court's opinion in *UMG Recordings, Inc. v. Augusto* focused on whether UMG had transferred title to the promotional CDs, thus relinquishing all control and ownership.\(^\text{139}\) The court correctly recognized this as the critical factor in determining whether Augusto had committed copyright infringement.\(^\text{140}\) If the court found that UMG had transferred title to the CDs, Augusto was a lawful owner of the material and could have disposed of the CDs as he wished under the first sale doctrine.\(^\text{141}\) On the other hand, if the court determined that UMG had licensed the CDs to the music industry insiders, then UMG remained the lawful owner of the CDs and a first sale had not taken place.\(^\text{142}\) If a first sale had not taken place, then the first sale doctrine could not apply to the promotional CDs, and Augusto could be held liable for distributing copyrighted material.\(^\text{143}\)

The court’s treatment of Augusto’s first argument is critical because it addresses whether a copyright owner can create a valid license in property embodying copyrighted material by using licensing language on labels.\(^\text{144}\) The court was able to decide the case solely by addressing the first argument.\(^\text{145}\) Although unnecessary, knew of Augusto’s previous lawsuit in which he conceded that his selling of the promotional CDs violated the owner’s copyright; and (3) that the labels on the CDs led UMG to believe it had created a valid license. See id. (discussing facts that indicated UMG’s good faith belief of Augusto’s copyright infringement).

139. See id. at 1059 ("The remaining two elements hinge on one question: Did UMG transfer title to the music industry insiders when it mailed them the Promo CDs?"). For the remainder of this article, the court’s reasoning as to Augusto’s counterclaim will not be addressed. For a brief discussion of the court’s holding on Augusto’s counterclaim, see supra notes 134-38 and accompanying text.

140. See *Augusto*, 558 F. Supp. 2d at 1059 (stating that remaining elements needed for Augusto to invoke first sale protection hinged on one question of whether UMG transferred title). The court correctly focused on ownership as the central issue in this case because section 109 of the Copyright Act states that "the owner of a particular copy or phonorecord lawfully made under this title . . . is entitled . . . to sell or otherwise dispose of the possession of that copy or phonorecord." 17 U.S.C. § 109(a) (2008) (emphasis added). Thus, in order to invoke the doctrine, one must be a lawful owner of the copy he or she possesses. See id.

141. See *Augusto*, 558 F. Supp. 2d at 1059-60 (recognizing that if UMG transferred ownership of CDs, then first sale doctrine applied).

142. See id. (noting that if UMG retained title to promotional CDs, then Augusto was not lawful owner).

143. See 17 U.S.C. § 109(a) (stating elements necessary to invoke first sale doctrine).

144. See *Augusto*, 558 F. Supp. 2d at 1060-62 (addressing Augusto’s argument that licensing language on promotional CDs did not create valid licenses).

145. See id. at 1062 (stating court’s ability to render its holding after hearing first argument).
sary, the court addressed Augusto’s remaining arguments and found additional support for its holding.146

A. The “Economic Realities” of the Transaction

The court looked to the “economic realities” of the transaction as the standard for determining whether UMG’s transaction with the industry insiders constituted a license or a sale.147 Without any additional support, the court applied the Ninth Circuit precedent of *Microsoft Corp. v. DAK Industries* in using the economic realities standard.148 In that case, Microsoft sought compensation for DAK’s distribution of Microsoft software after DAK had filed for bankruptcy.149 Microsoft claimed entitlement to an administrative expense in compensation “for the debtor’s post-bankruptcy petition ‘use’ of the license agreement.”150 The court determined that applying the bankruptcy code to this transaction required it to look beyond the agreement’s form to the “economic realities of th[e] particular arrangement.”151

In applying the economic realities standard, the court in *Augusto* refused to rely on the language of the purported license.152 Without dwelling on the matter, the *Augusto* court swiftly lifted the case from the quagmire of software licensing cases and recognized the need to evaluate what actual purpose the purported license was serving, stating, “[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,

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146. See id. at 1062-66 (discussing Augusto’s arguments that promotional CDs are gifts under federal law and UMG abandoned promotional CDs).

147. See id. at 1060 (“In determining whether a transaction is a sale or a license, courts must analyze the ‘economic realities’ of the transaction.”).

148. 66 F.3d 1091, 1095 n.2 (9th Cir. 1995) (“[T]he fact that the agreement labels itself a ‘license’ . . . does not control our analysis.”).

149. See id. at 1092-95 (discussing facts). DAK was a computer hardware distributor that had filed for bankruptcy. See id. at 1092. Before doing so, it came to an agreement with Microsoft that DAK could sell up to a specific number of copies of Microsoft software with its hardware over the course of one year. See id.

150. Id. The payment structure for the Microsoft copies of software required five separate payments, plus a royalty fee for each copy that DAK sold over the set quantity. See id.

151. Id. at 1095 (quoting *In re Moreggia & Sons, Inc.*, 852 F.2d 1179, 1182 (9th Cir. 1988)). In analyzing the economic realities of the transaction in *Microsoft*, the court looked to several factors: (1) when DAK’s debt to Microsoft arose; (2) the pricing structure of the agreement; (3) the rights conferred to DAK when the agreement began; and (4) the fact that Microsoft did not provide anything at its expense after the debtor filed for bankruptcy. See id. at 1095-96 (discussing factors that indicated sale of software on part of Microsoft).

the benefits of a license for software do not exist under these facts."153 By rationalizing that the CDs were different from software in their need for licenses, the court freed itself from having to determine infringement through the restrictive language of the license and, at the same time, prevented an unnecessary expansion of a copyright owner’s rights. In this way, the court’s analysis in Augusto helped reaffirm consumer rights protected by the first sale doctrine by confronting the issue of copyright owners trying to expand their rights through licensing of items that embody their works.154

B. Significance of Copyright Owner’s Intent to Regain Possession

In determining that intent to regain possession is a critical indicator of transfer of ownership, the court in Augusto relied heavily on the thirty-year-old Ninth Circuit precedent created in, United States v. Wise.155 In Wise, the court analyzed several of a movie studio’s license agreements for use of its movie prints.156 In order to determine whether a first sale had occurred, the court had to decide whether the transaction between the movie studio and the print recipient was a sale or a license.157 Although most licenses to the movie prints required that they be returned after a period of time, one license did not include such a stipulation.158 Because this particular agreement provided for the print to remain in the recipient’s possession “at all times,” the court determined that the print had not been licensed and the recipient had gained full ownership.159

The Augusto court relied heavily on the Wise decision in evaluating the reality of the transaction between UMG and the industry insiders and in determining that UMG transferred title to the pro-

153. Id. at 1062.
154. For a further discussion of the proliferation of license use by copyright owners, see supra notes 74-83 and accompanying text.
155. 550 F.2d 1180 (1977); see also Augusto, 558 F. Supp. 2d at 1060 (“One Hallmark of a License Is the Owner’s Intent to Regain Possession.”).
156. See Wise, 550 F.2d at 1184 (discussing facts).
157. See id. at 1189 (discussing case law on what constitutes first sale).
158. See id. at 1191 (focusing on two contracts that did not conform to language of other licenses examined).
159. See id. at 1192 (analyzing agreement that provides that item “shall be retained in [his] possession at all times”).
motional CDs.\textsuperscript{160} The reason for such heavy reliance may have been due to a lack of existing precedent for guidance in distinguishing licenses from sales.\textsuperscript{161} In fact, the Wise decision was the Ninth Circuit's last word on what constitutes a "sale" for the purposes of the first sale doctrine, but more recent Ninth Circuit cases have addressed the issue of the sale versus license distinction in other contexts.\textsuperscript{162}

Three more recent Ninth Circuit decisions, known as the MAI trio, considered the issue in the context of section 117 of the Copyright Act.\textsuperscript{163} These cases all confronted software licensing and all assumed the existence of a valid license.\textsuperscript{164} In each case, the court relied on the relevant license's language to determine whether the defendant committed infringement.\textsuperscript{165}

The Augusto court did not address the MAI trio of cases, but reasoned that music CDs did not require licenses the way software did.\textsuperscript{166} Recently, however, another district court within the Ninth Circuit addressed its inability to reconcile the MAI trio with Wise in a case with facts strikingly similar to those in Augusto.\textsuperscript{167} In Vernor v. Autodesk, the defendant purchased four packages of authentic Auto-

\textsuperscript{160} See Augusto, 558 F. Supp. 2d at 1060 ("[T]he distributor of a copyrighted product's intent to regain possession is strong evidence that the product was licensed, not sold, to the recipient.").


\textsuperscript{162} See id. (discussing Ninth Circuit precedent on sale versus license issue).

\textsuperscript{163} Compare MAI Sys. Corp. v. Peak Computer, 991 F.2d 511 (9th Cir. 1993) (holding that possessor of program does not have right to authorize independent service organization to boot up computer containing software), with Triad Sys. Corp. v. Se. Express Co., 64 F.3d 1330 (9th Cir. 1995) (holding that computer service employees of company other than copyright holder violated license in software by performing maintenance on computers containing copyright holder's software), and Wall Data Inc. v. Los Angeles County Sheriff's Dep't, 447 F.3d 769 (9th Cir. 2006) (holding that municipal department violated license agreement in putting software on more computers than originally agreed upon). Section 117 of the Copyright Act allows owners of software to make a copy of the software as long as it is necessary for the use of the program in a machine. See 17 U.S.C. § 117 (2008) (stating circumstances which copies of software are permissible).

\textsuperscript{164} See Zimmerman, supra note 161 (noticing that none of MAI trio of cases cited Wise and largely assumed issued agreements were licenses not sales).

\textsuperscript{165} See id. ("Similar [to MAI], the courts in Triad Systems and Wall Data held software agreements at issue as licenses not sales.").

\textsuperscript{166} See Augusto, 558 F. Supp. 2d at 1062 (rationalizing that "[u]nlike software, which necessitates a license because software must be copied onto a computer to function, must CDs are not normally subject to licensing").

\textsuperscript{167} See Vernor v. Autodesk, 555 F. Supp. 2d 1164, 1174 (W.D. Wash. 2008) (holding that software license agreement does not prohibit consumer’s ability to sell software under first sale doctrine).
CAD software for the purpose of reselling them on eBay.\textsuperscript{168} Despite a software license contained in the boxes, the court held that the first sale doctrine protected the defendant’s actions.\textsuperscript{169} The court recognized that the MAI trio was more recent precedent than Wise, but determined that earlier precedent should be followed when decisions conflict.\textsuperscript{170}

VI. IMPACT

Implications of the court’s decision in \textit{UMG Recordings, Inc. v. Augusto} are potentially far reaching. First, by recognizing that the mere use of licensing language does not necessarily create a valid license, this case represents a small restoration in the balance between private and public interests.\textsuperscript{171} If courts continue to hold that a label is not determinative of license creation, perhaps the industry will be more hesitant in attempting to license consumer goods that should not be subject to licensing, such as music CDs.

Second, eventually the Ninth Circuit will have to address the disparity of views in its lower courts regarding the distinction between a first sale and a license and what exactly should be evaluated when applying the economic realities standard.\textsuperscript{172} This may not occur for quite some time, but it appears that the lower courts need more guidance on what to look at when confronting this issue.\textsuperscript{173}

\textsuperscript{168} See id. at 1165 (discussing facts of case).

\textsuperscript{169} See id. at 1174 (concluding that Mr. Vernor may invoke first sale doctrine).

\textsuperscript{170} See id. at 1172 ("The court holds that it must follow Wise not the MAI trio. Where opinions of three-judge Ninth Circuit panels conflict, the court must rely on the earliest opinion.").

\textsuperscript{171} See DiPasquale & Mulcahy, supra note 20 (recognizing that court’s ruling falls in line with other precedent holding back industry intellectual property owners’ attempts to strip consumers of their first sale rights with labels, license and notices). For a further discussion of the proliferation of license use, see supra notes 74-83 and accompanying text.

\textsuperscript{172} See Zimmerman, supra note 161 ("It seems obvious that the Ninth Circuit should address the division within its own ranks over the license-sale issue, but it is not evident that this will happen any time soon.").

\textsuperscript{173} Compare MAI Sys. Corp. v. Peak Computer, 991 F.2d 511 (9th Cir. 1993) (holding that possessor of program does not have right to authorize independent service organization to boot up computer containing software), and Triad Sys. Corp. v. Se. Express Co., 64 F.3d 1350 (9th Cir. 1995) (holding that computer service employees of company other than copyright holder violated license in software by performing maintenance on computers containing copyright holder’s software) and Wall Data Inc. v. Los Angeles County Sheriff’s Dep’t, 447 F.3d 769 (9th Cir. 2006) (holding that municipal department violated license agreement in putting software on more computers than originally agreed upon), with UMG v. Augusto, 558 F. Supp. 2d 1055 (C.D. Cal. 2008) (holding license invalid on promotional CDs), and Vernor v. Autodesk, Inc., 555 F. Supp. 2d 1164 (W.D. Wash. 2008) (holding that first sale doctrine protected reselling of AutoCAD software on eBay).
Possibly, the Ninth Circuit is unwilling to define the sale versus license distinction for fear that it will make it easier to contract around the first sale doctrine.\textsuperscript{174} If the industry is aware of specific elements needed to create a valid license, drafting those elements into a licensing label becomes a simple task.\textsuperscript{175}

A decision by the Ninth Circuit on the sale versus license distinction may also affect restrictions placed on digital files purchased from online retailers.\textsuperscript{176} Those transactions are usually structured as a license permitting a customer unlimited use of the file, but restricting the customer's ability to copy or transfer it to a third party.\textsuperscript{177} If the economic realities standard applies to these transactions and determines that they are sales rather than licenses, content owners may face difficulty in enforcing their restrictions.\textsuperscript{178}

Finally, the most significant impact of the \textit{Augusto} case is likely passive: protection of the status quo and rights that consumers have and want to retain. If the court had not held for Augusto by recognizing UMG as having created a valid license to the CDs, it is likely that restrictive labels could have appeared up on even more items that, like CDs should not be subject to license, like books and DVDs.\textsuperscript{179} This decision is important for protection of existing first sale rights that allow for the critical need of public access to information.\textsuperscript{180}

\textit{Maureen Steimer}\textsuperscript{*}


\textsuperscript{175} See Zimmerman, \textit{supra} note 161, at 4 (giving example that if license/sale distinction turns on continual possession, industry may just include in license term "for limited time" or require return of item in ten years with option to renew license for additional ten year term for one dollar).

\textsuperscript{176} See DiPasquale & Mulcahy, \textit{supra} note 20 (discussing possible applications of court's ruling).

\textsuperscript{177} See \textit{id.} (noting possible impact on digital music industry).

\textsuperscript{178} See \textit{id.} (recognizing possibility of inability to enforce restrictions by content owners).

\textsuperscript{179} See Courtroom Showdown for eBay Seller Over Promo CD Sales, \textit{supra} note 16 (discussing possible effect if UMG were permitted to stop resale of CDs by merely using labels).

\textsuperscript{180} See \textit{id.} (realizing importance of decision).

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