

UMG v. Augusto: Allowing the Sale of Promotional CDs Under the First Sale Doctrine Could Affect Much More than the Music Industry

Article By:

Sheppard, Mullin, Richter, & Hampton LLP

In a decision that could have far-reaching implications for technology licenses of all types, the U.S. District Court for the Central District of California recently held that the first sale doctrine permits a recipient of promotional CDs to sell them online without violating the license pursuant to which the CDs were distributed and without being liable for copyright infringement. *UMG Recordings, Inc. v. Augusto*, No. CV 07-03106, slip op. (C.D. Cal. June 10, 2008). The court granted the defendant's motion for summary judgment and rejected Universal Music Group's ("**UMG**") argument that the labeling on the promotional CDs created a license without transferring title.

Background and Facts of the Case

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." Before a new CD is released to the public, UMG and other record labels create and distribute such promotional CDs often labeled with language substantially similar to the following: "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."

Troy Augusto, not a "music insider," purchased a large collection of promotional CDs from used record stores around Los Angeles and then sold many of UMG's CDs on eBay through his business, Roast Beast Music. Acting as UMG's agent, the Recording Industry Association of America sent Augusto a cease and desist letter and many takedown notices, alleging that his sale of UMG's promotional CDs violated the terms of the promotional license and constituted copyright infringement. But Augusto continued to sell the promotional CDs, so UMG was forced to file suit, alleging that Augusto's unauthorized sale of the promotional CDs violated UMG's copyright in the sound recordings featured on the CDs.

Court's Opinion

The court held that Augusto's actions were protected by the first sale doctrine, which provides that "the owner of a particular copy or phonorecord lawfully made under [Title 17], 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." 17 U.S.C. § 109(a). Although UMG's promotional CDs were initially distributed for free, the court cited *Nimmer on Copyright* for the proposition that the first sale doctrine applies to a copyrighted work after the "first authorized disposition by which title passes." Therefore, the main issue was whether UMG transferred title when it mailed the promotional CDs to "music insiders" in the first instance. If title did transfer, then Augusto would be deemed the lawful owner of the CDs at the time he sold them, and thus, not liable for copyright infringement.

The court noted that the CDs were labeled a "license," but that did not end the inquiry. Rather, in determining whether the mailing of promotional CDs constituted a license or a title-transferring sale, the court cited the Ninth Circuit's opinion in *Microsoft Corp. v. DAK Industries*, 66 F.3d 1091, 1095 (9th Cir. 1995), and concluded that it had to evaluate the "economic realities" of the transaction. One of those realities was that, when UMG gave away the promotional CDs, it had no intention of regaining possession of the CDs and no expectation that they would be returned. Following the Ninth Circuit's decision in *United States v. Wise*, 550 F.2d 1180, 1192 (9th Cir. 1977), which held the transfer of a film print from a movie studio to an actress allowing her to keep possession of it to be a sale and not a license, the court stated that "the music industry insiders' ability to indefinitely possess the Promo CDs is a strong incident of ownership through a gift or sale."

The court next stated that another hallmark of a license is a recurring benefit to the copyright owner, and the absence (in the court's view) of such a benefit to UMG supported the court's conclusion that UMG's distribution of the promotional CDs did not create a license. Distinguishing between software and music CDs, the court vaguely explained, "Unlike the use of software, which necessitates a license because software must be copied onto a computer to function, music CDs are not normally subject to licensing. Therefore, the benefits of a license for software do not exist under these facts." In the court's view, the only apparent benefit to UMG was an attempt to restrain the transfer of its music. Thus, the court held that UMG's conveyance of the CDs provided the recipient with "the right to perpetual possession and the freedom from obligations to UMG," making the transaction "a gift or sale, not a license." *But cf. Academy of Motion Picture Arts and Sciences v. Creative House Promotions, Inc.*, 944 F.2d 1446 (9th Cir. 1991) (using the "limited publication" doctrine in noting that the Academy of Motion Picture Arts and Sciences, by awarding personalized Oscar trophies to individuals, had a limited purpose in distributing them, and that the recipients had no right of sale or further distribution).

The court found further and alternative support for its "gift" characterization under federal postal law. The Postal Reorganization Act prohibits "the mailing of unordered merchandise" without the recipient's consent, allowing such merchandise to "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." 39 U.S.C. § 3009(a)-(c). Because the promotional CDs could be treated as a gift under the Postal Reorganization Act, the court reasoned, "By sending the Promo CDs to music industry insiders, UMG transferred title to those insiders and the Promo CDs are subject to the first sale doctrine." UMG filed a notice of appeal on June 13, 2008.

Possible Applications of the Ruling

This decision has implications beyond promotional music CDs. For example, this decision may affect

restrictions imposed on digital files "purchased" from online retailers. Such transactions are often structured as a license permitting the consumer to retain the file and use it an unlimited number of times, but restricting the consumer's ability to burn it, copy it, or otherwise transfer the original file to a third party. If the "economic realities" standard perpetuated in *UMG v. Augusto* were applied to hold that such transactions are sales and not licenses, it could undermine the ability of content owners and technology providers to legally enforce such restrictions. Indeed, Augusto's counsel at the Electronic Frontier Foundation ("**EFF**") in San Francisco forecast the opinion's broader implications on [EFF's blog](#) one day after the opinion was issued, "With software vendors, laser printer manufacturers, and patent owners trying to strip consumers of their first sale rights with unilateral labels, licenses, and notices, today's ruling sets an important precedent holding the line against these efforts (and comes one day after the Supreme Court reaffirmed the same principle in the patent context in *Quanta v. LG*)."
Quanta Computer, Inc. v. LG Electronics, Inc., No. 06-937, slip op. (2008).

Copyright © 2025, Sheppard Mullin Richter & Hampton LLP.

National Law Review, Volume , Number 258

Source URL:<https://natlawreview.com/article/umg-v-augusto-allowing-sale-promotional-cds-under-first-sale-doctri>