

## Suit About Music CDs Considers First Sale Doctrine

By Shannon Henson

*Law360, New York (November 19, 2007)* -- Universal Music Group took notice when Troy Augusto put CDs of music by Gwen Stefani, The Killers and Lionel Richie for sale on eBay, quickly filing a lawsuit to stop him.

The Electronic Frontier Foundation, which has taken up Augusto's cause, said the case is clearly another example of copyright owners trying to curtail the rights of consumers covered by the First Sale Doctrine of the copyright law. UMG, however, maintained that Augusto just went too far when he tried to sell promotional copies that were never meant to be sold.

The fight, while seemingly about promotional copies, is centered around the rights of consumers versus the rights of copyright owners in an electronic age when purchasers can easily buy a used copy of "Anna Karenina" with the click of a mouse.

The case specifically revolves around the first sale doctrine, which says that a person can get rid of a copyrighted item however they want after they acquire or buy it. The doctrine allows libraries to lend books, used book and record stores to sell their wares and Blockbuster to rent you the latest popcorn flick on a Friday night.

In this case, Augusto and his business Roast Beast Music Collectibles drew the ire of UMG when he tried to sell promotional albums, which are typically given to journalists, DJs and other taste-makers to promote a recording. The CDs said on the packaging that they were promotional copies and were not to be resold.

UMG, in the lawsuit filed in May in the U.S. District Court for the District of Central California alleged that Augusto never purchased the CDs so it was not his right to sell them. They and other record companies would also be quick to point out that promotional copies can contain tracks or different versions of a track that do not appear on CDs sold to the public.

The record label pointed in the suit to litigation filed by fellow music companies, Virgin Records America and Capitol Records, against Augusto in the U.S. District Court for the District of Northern California in 2004. The case ended with the court placing a permanent injunction against Augusto selling promotional copies they issued.

UMG, which declined to comment for this story, will argue that it made a choice to not to sell the product but to lend, lease or license it. They as the copyright owner didn't part with ownership of the product.

But Fred von Lohmann, senior intellectual property attorney for the Electronic Freedom Foundation, argued that Augusto did own the CDs in question. In an answer and counter-claim filed in the case, he asserted that UMG knew of or should have known it did not retain ownership when it first distributed the CDs.

EFF and Lohmann argued that the case could have broader implications. If UMG prevails, he said copyright owners of all kinds can strip away a consumer's first sale rights by placing label licenses on items.

"After we took the Augusto case, we received lots of information from people saying, 'I always wondered about that.' Our client is not special because he's been targeted. He's special because he's had the courage to fight back."

Tom Olson, a partner and co-chair of the intellectual property litigation group at Wilmer Cutler Pickering Hale and Dorr LLP, said that as far as he knew the suits against Augusto are the only litigation involving promotional copies.

UMG's "theory is namely that this is not a sale because they just had a license to use it," he said. "Basically, the wording stamped on the CDs functions the same way as a shrink wrap license."

Shrink wrap licenses are often used with software. Companies say that a consumer enters a license by opening the box or packaging to use the product. The courts have been divided on the issue and now click-through licenses – where a consumer has to agree to a licensing agreement when they first use the product – are more commonly used.

David Weslow, an associate with Sutherland Asbill & Brennan LLP, said he thought the Augusto case could have implications for shrink wrap licenses as well.

"What will be really interesting about this case is whether we'll see a re-emergence of shrink wrap as a way of controlling copyrighted content if the court agrees with UMG," he said. "As the technology changed, the agreements changed [to click-through] to make them more enforceable. Users are required to scroll through the terms and things of that nature. If this agreement is upheld, I think that would certainly be to the advantage of content owners."

Janet Fries, counsel with the intellectual property group of Drinker Biddle & Reath, agreed that the UMG case could have implications for other forms of media, including software and film. However, she was skeptical of the case. She said that if it were a license, the question would be what the terms were and how long the license would last.

"It's a promotional copy, and a promotion usually isn't perpetual. So one wonders, if this were a license maybe the term is for some period for the promotion of the product. If that were the case and the term was completed and there isn't an indication that the product had to be returned or destroyed or returned after the promotion is over, what harm is there in allowing someone to do something else with it?"

Fries also wondered whether UMG would struggle to show that it was damaged. "I would be hard-pressed to know what would be the financial damage other than being deprived of the retail value, which they forfeited voluntarily."

However, she said that the first sale doctrine is respected even in the era of eBay and other Internet sellers.

"If you look on eBay, you'll see people selling their record collections or CDs because people have purchased them and they have a well-established right to sell them to whoever they want for whatever price they want. The courts have respected that. But Mr. Augusto didn't purchase the CDs so the question is whether he's the rightful owner or if he's merely the licensee with no right to sell."