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## U.S. District Court in California Permits Resale of CDs Distributed for “Promotional Purposes”

The United States District Court for the Central District of California ruled last month that “promotional CDs” distributed by a record company to “music insiders” to promote the release of new CDs could be resold with impunity under the Copyright Act despite the fact that all such promotional CDs bore the following label:

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 this license. Resale or transfer of possession is not allowed and may be punishable under federal and state laws.

In *UMG Recordings, Inc. v. Augusto*, 2008 WL 2390037 (C.D. Cal. June 10, 2008), the District Court denied UMG’s motion for summary judgment for copyright infringement, ruling that the complained-of resales were permitted under the “first sale” doctrine.

As the District Court noted (citing to 2 Nimmer § 8.12[B][1](a)), the first sale doctrine does not require an actual sale. Rather, once the first “authorized disposition by which title passes” occurs, whether by sale, gift or otherwise, the recipient of the work may himself dispose of the work without committing copyright infringement. The defendant argued that such a disposition had occurred on several independent grounds, including: (i) the “license” UMG sought to enforce was not valid and, instead, constituted a transfer, and (ii) under federal law the promotional CDs were “gifts.”

The District Court applied the Ninth Circuit’s “economic realities” test to determine whether the distribution of the CDs constituted a valid license, ruling that the “label” UMG affixed to the CDs did not control its analysis. Noting that the right to “perpetual possession” is a “critical incident of ownership,” the District Court found that the absence of any requirement to return the CDs to UMG and the lack of any consequences if the recipients lost or destroyed the CDs strongly supported the conclusion that their transfer constituted a gift or sale, not a license. The District Court further supported this conclusion by finding that “licenses” generally provide recurring benefits to copyright owners, and by ruling that no such benefits arose from the recipients’ continued possession of the CDs.

The District Court also found that UMG transferred title to the promotional CDs under the Postal Reorganization Act, 39 U.S.C. § 3009, which permits the recipient of merchandise mailed without any prior request or consent to treat such merchandise as a gift and to dispose of it in any manner he/she sees fit. Although UMG argued that the statute should only apply to merchandise sent to “consumers” and only if a monetary payment is demanded, the District Court found these arguments inadequate. After noting that nothing in the statute supported these restrictions, the District Court rejected both, ruling that the “music insiders” were consumers and that they were not “free to accept or reject” the promotional CDs—as required by the statute—because UMG purported to put them in the position of either returning the CDs or keeping them in perpetuity.

Distributors of promotional CDs, DVDs, Academy “screeners” and the like should take note of this decision and take steps to conduct their distribution of promotional items in a manner that addresses the District Court’s rulings and minimizes the likelihood that items distributed purely for promotional purposes can wind up being sold on eBay or through other outlets.

For further information, please contact Alan R. Friedman at 212-940-8516 or [alan.friedman@kattenlaw.com](mailto:alan.friedman@kattenlaw.com).

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