

Ninth Circuit Rules that Promotional CDs Are Owned by Recipient, May Be Sold

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In a ruling that could have significant implications for companies that distribute copyrighted merchandise for promotional purposes, the United States Court of Appeals for the Ninth Circuit has ruled that compact discs distributed to music critics and DJs for promotional purposes only are owned by the recipient and may be resold or otherwise transferred without the copyright owner's consent pursuant to the "first sale" doctrine of the Copyright Act and the Unordered Merchandise Statute. As discussed below, the court characterized these distributions as sales rather than licenses because they were unsolicited, there was no evidence that the recipients had agreed to a license, and the distributor made no effort to track the use or disposition of the CDs after they were distributed.

Background

Universal Music Group (UMG) like most record companies, distributes promotional CDs to disc jockeys, music critics, and other music industry insiders in order to promote newly or soon-to-be-released recordings. The CDs contain copyrighted music, but may contain fewer songs and may not have the artwork included on the commercial version. UMG's promotional CDs displayed either a restriction that the CD was for "Promotional Use Only" or the following more extensive legend:

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.

The defendant purchased several of UMG's promotional CDs at thrift shops and second hand stores and resold them through eBay online auctions, advertising them as "rare . . . industry editions" and "Promo CDs."^[1] UMG filed an infringement action against the defendant, who defeated the suit on summary judgment. On appeal, the Ninth Circuit considered the defendant's argument that both the "first sale" doctrine and the Unordered Merchandise Statute rendered UMG's transfers to the original recipients of the CDs sales, rather than licenses, and that the recipients thus were free to dispose of the CDs as they saw fit.

The First Sale Doctrine

The first sale doctrine, codified in section 109 of the Copyright Act, provides that "the *owner* of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled . . . to sell or otherwise dispose of the possession of that copy or phonorecord" (emphasis added). Licensees who possess a particular copy or phonorecord without having obtained title to it typically are not deemed "owners" of the copy and may not invoke the first sale doctrine.^[2]

The Ninth Circuit concluded that the defendant owned the CD copies he possessed. The Ninth Circuit explained that its decision "is based largely on the nature of UMG's distribution," which the court characterized as being "without meaningful control or even knowledge of the status of the CDs after shipment." The court observed that "the promotional CDs are dispatched to the recipients without any prior arrangement as to those particular copies." The court also noted that "[t]he CDs are not numbered, and no attempt is made to keep track of where particular copies are or what use is made of them."

The court rejected UMG's argument that the promotional statements on the CDs created a licensing agreement. The panel found that "the record here is devoid of any indication that the recipients agreed to a license." The mere silence on the part of the recipient, the court noted, was insufficient to evince the recipient's acceptance.

The court disagreed with the district court's reasoning that the promotional language did not create a license "because it lacked a provision for UMG to regain possession of the CDs," finding that this was an important-but not a necessary-factor.

The Unordered Merchandise Statute

The court also found that the Unordered Merchandise Statute, 39 U.S.C. § 3009 (the UMS), applied to the distribution of promotional CDs. The UMS prohibits, under certain circumstances, "the mailing of unordered merchandise," defined as "merchandise mailed without the prior expressed request or consent of the recipient." *Id.* § 3009(a), (d).

The court explained that the UMS did not give the defendant a right to invoke the statute directly because he was not the recipient of the unordered merchandise from UMG. The statute did, however, extinguish UMG's title to the promotional CDs upon their unsolicited shipment to the original recipients. Thus, the recipients could transfer their ownership interest directly-or, in this case, indirectly-to the defendant. Further, the court noted that the statute's requirement that the CDs be treated as gifts without further obligation (indeed, it required that the shipper inform the recipient of this fact) was "utterly inconsistent with the terms of the license that UMG sought to impose on the recipients."

The court rejected UMG's argument that the UMS did not apply because the statute's "main purpose" was to prevent the deceptive practice of sending free material and then demanding payment through trickery or "bullying," reasoning that "it is enough that unordered merchandise is sent."

Further, by applying the UMS, the court appears to have implicitly held that UMG's mailing of the promotional CDs is an unfair method of trade competition and an unfair trade practice in violation of 15 U.S.C. § 45(a)(1). The UMS states that a party who violates the UMS by mailing unordered merchandise is in violation of 15 U.S.C. § 45(a)(1). If so, this could authorize the Federal Trade Commission to restrict the industry practice of mailing promotional CDs and other copyrighted material.

Things To Watch

The *Augusto* decision has implications for a range of businesses that distribute unsolicited samples for promotional or other purposes. It is not yet clear whether the decision will cause those businesses to alter their methods of distribution (e.g., to require the execution of pre-distribution license agreements, web consent or other affirmative action by the recipient) or will be viewed as another cost of doing business.

The *Augusto* decision must be read in conjunction with another recent Ninth Circuit decision addressing the first sale doctrine in the context of licensed computer software. *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010). In *Vernor*, there was a detailed license agreement to which the purchaser of the software assented. The court in *Vernor* held that the combination of (i) an express license, (ii) significant restrictions on the user's ability to transfer the software, and (iii) the imposition of significant use restrictions all indicated that the copy of the software had been licensed and was not subject to the first sale doctrine. The *Augusto* court explained that "software users who order and pay to acquire copies are in a very different position from that held by the recipients of UMG's promotional CDs."

The Ninth Circuit's full *Augusto* opinion can be read [here](#).

¹ A January 7, 2011, search of eBay items for sale listed 62,348 items with "promo CD" and 844 items with "promotional CD."

² It is important to distinguish the status of the physical object (the copy or phonorecord) from the status of the copyrighted work embodied in the object. One may own the copy but have only a license to use the work (e.g., by loading it into a computer). The first sale doctrine considers the ownership or license status of the copy, not of the embodied work.