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UMG RECORDINGS, INC.

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

UMG RECORDINGS, INC., a Delaware corporation,

Plaintiff,

v.

TROY AUGUSTO d/b/a ROAST BEAST MUSIC COLLECTABLES AND ROASTBEASTMUSIC, an individual; and DOES 1 through 10, inclusive,

Defendants.

AND RELATED COUNTERCLAIM.

CASE NO. 2:07 CV 3106 SJO (AJWx)

The Honorable S. James Otero

COUNTERDEFENDANT UMG RECORDINGS, INC.'S NOTICE OF MOTION AND MOTION FOR SUMMARY JUDGMENT ON COUNTERCLAIM

DATE: May 5, 2008
TIME: 10:00 a.m.
CTRM.: 880

(Declarations of Kathleen Strouse, David Benjamin, Mark McDevitt, Tegan Kossowicz and Russell J. Frackman, and related documents, filed concurrently herewith)

TO: COUNTERCLAIMANT AND ITS COUNSEL OF RECORD:

PLEASE TAKE NOTICE that on May 5, 2008, at 10:00 a.m., or as soon thereafter as the matter may be heard, in Courtroom 880 located at 255 East Temple Street, Los Angeles, California 90012, counterdefendant UMG Recordings, Inc., will and hereby does move, pursuant to Rule 56 of the Federal Rules of Civil Procedure, for summary judgment dismissing the counterclaim.

This motion is based upon the grounds that there is no triable issue of fact that counterdefendant is not liable for knowing and material misrepresentation in violation of 17 U.S.C § 512(f). This motion is based upon this Notice, the Memorandum of Points and Authorities in Support of this Motion, the Declarations of Kathleen Strouse, David Benjamin, Mark McDevitt, Tegan Kossowicz, and Russell J. Frackman, and the Request for Judicial Notice, all filed concurrently herewith, all pleadings and papers filed in this matter, and oral argument.

Plaintiff has complied with Local Rule 7-3. See Declaration of Russell J. Frackman at ¶ 2.

DATED: April 7, 2008

RUSSELL J. FRACKMAN
KARIN G. PAGNANELLI
AARON M. WAIS
MITCHELL SILBERBERG & KNUPP LLP

By: /s/ Russell J. Frackman
Russell J. Frackman
Attorneys for Counterdefendant
UMG RECORDINGS, INC.

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INTRODUCTION

UMG Recordings, Inc ("UMG") is concurrently filing a motion for partial summary judgment on liability on its complaint. The single count counterclaim of defendant Troy Augusto ("Augusto"), to which this motion is addressed, is limited to an alleged violation of Section 512(f) of the Digital Millennium Copyright Act ("DMCA"). 17 U.S.C. § 512(f). That claim asserts that in notices under eBay's Verified Rights Owner ("VeRO") program, UMG knowingly and "materially misrepresented" that Augusto's auction of copyrighted UMG promotional CDs was infringing. In order to prevail on his counterclaim, Augusto must show that his complained of activity was ***not*** infringing ***and*** that UMG did not have a subjective, good faith belief "that the use of the material in the manner complained of is not authorized." 17 U.S.C. § 512(c)(3)(A)(v). He clearly cannot meet that standard. This is an issue that should be determined on summary judgment. Motion Picture Ass'n of America, Inc. v. Rossi, 391 F.3d 1000, 1007 (9th Cir. 2004) (affirming summary judgment of no liability under Section 512(f)); Dudnikov v. MGA Entm't, Inc., 410 F. Supp. 2d 1010, 1016-1017 (D. Colo. 2005) (granting summary judgment of no liability under Section 512(f).)

Augusto's counterclaim fails as a matter of law because:

(1) If UMG succeeds on its motion for partial summary judgment on liability, Augusto's distribution was infringing; therefore, UMG's notices did not contain ***any*** misrepresentation and Augusto's counterclaim necessarily fails.

(2) A claim under Section 512(f) can only be based on a knowing, material misrepresentation made in a takedown notice sent ***pursuant to the DMCA***, which UMG's notices to eBay were not. UMG's notices to eBay complaining of Augusto's unauthorized distribution were pursuant to the voluntary VeRO program, instituted and controlled by eBay and limited to eBay auctions.

(3) In any event, under Section 512(f) only "actual knowledge of misrepresentation" is actionable. As long as UMG had a subjective, good faith

belief that Augusto's auctions of the promotional CDs violated its rights, Augusto's claim fails as a matter of law, even if the "claimed" infringement was wrong (which it was not). UMG clearly meets that standard. Among other reasons, the promotional CDs contained express language prohibiting their sale; UMG owned the copyrighted sound recordings embodied in the promotional CDs and believed in good faith that Augusto was distributing its copyrighted works without authorization; UMG's actions were consistent with custom and practice in the industry, including that of other copyright owners not related to UMG, who took the exact same position as did UMG in notices to eBay and Augusto; and both eBay, on its website, and Augusto in a consent judgment in another lawsuit, acknowledged that the distribution of promotional CDs constitutes copyright infringement.

I. SUMMARY OF RELEVANT FACTS[1]

UMG is a record company that, under various labels including Interscope, Island Def Jam, Geffen and Universal, creates, manufactures and sells phonorecords embodying its copyrighted sound recordings.[2] SUF 1. In addition to the commercial recordings UMG sells to the public, UMG (like other record companies) licenses a small number of "promotional" CDs to select individuals, often before a commercial release to the public of a full album, for purposes of promoting and advertising that commercial release. SUF 2. These individuals are in or associated with the music business, such as reviewers, disc jockeys, and radio stations, and are in a position to generate interest in UMG's commercial recordings among the consuming public. SUF 3. Promotional CDs differ from the commercial CDs sold by UMG to the public (e.g., they may have only one or two selections, and they may

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[1] Although the legal issues and arguments in the two motions being filed by UMG are discrete, for convenience the "Summary of Relevant Facts" is included in both motions.

[2] Phonorecords are "material objects in which sounds … are fixed." 17 U.S.C. § 101. CDs are phonorecords. Sound recordings are "works that result from the fixation of a series of musical … sounds." Id. The recorded performances embodied on phonorecords are sound recordings.

not include artwork). SUF 4. Unlike commercial CDs, UMG does not sell promotional CDs, UMG receives no payment for them, UMG expressly retains ownership of them, and UMG does not permit them to be sold or transferred by their recipients. SUF 5.

Each of UMG's promotional CDs contains the name of one of UMG's labels and language indicating it is the property of UMG and its sale or transfer is expressly prohibited under the terms by which it is provided and accepted. SUF 6. This license is printed on the CD itself and/or on its packaging and has included the following language:

> "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." SUF 7.

Although this language has varied over the years, its intent and purpose has always clearly been that promotional CDs are provided only for limited purposes, are licensed to the recipients, and their sale or distribution by the recipients is not permitted. SUF 8.

UMG selects the recipients of each of its promotional CDs from proprietary lists maintained and updated by various departments within UMG. Each promotional CD is sent with a return address. SUF 9. Those promotional CDs which are not accepted by the recipients or are not deliverable are returned to UMG and destroyed. SUF 10. While UMG does not otherwise request the return of promotional CDs from legitimate recipients (among other reasons, because to do so would be logistically difficult), UMG polices the unauthorized sales of its promotional CDs over eBay by locating auctions on eBay that offer UMG's promotional CDs for sale and requesting that eBay remove the auctions pursuant to

a procedure set up and implemented by eBay known as the Verified Rights Owner ("VeRO") program. SUF 11. Additionally, if UMG determines that a recipient of its promotional CDs has been offering them for sale, it attempts to delete that individual from the lists of persons to whom promotional CDs are provided. SUF 12.

For Augusto, selling promotional CDs (including over eBay) is his occupation and primary source of income. SUF 13. Among the promotional CDs offered for sale and sold by Augusto were promotional CDs embodying fourteen sound recordings covered collectively by eleven UMG copyright registrations ("the UMG Promo CDs"). SUF 14. Augusto cannot, or will not, identify his source of the UMG Promo CDs or their original recipients (although he admits he did not receive them from UMG directly). SUF 15. He claims he kept no business records with respect to his sales of promotional CDs. SUF 15.

Augusto is well aware of the nature of promotional CDs and, in fact, prominently identifies his product as "Promo CDs" and uses such terms as "rare" and "INDUSTRY EDITION – NOT SOLD IN STORES" to advertise them. SUF 16. He formerly was involved in the music business and at that time received promotional CDs directly from record companies. SUF 17. He knows that promotional CDs contain language that indicates they are licensed for limited purposes to specific individuals and that sale or transfer is not authorized. ("It's not designed to be sold in a normal retail outlet." and "this particular CD wasn't designed for – was designed for people who work in the industry"). SUF 18. He also is, or should be, aware that eBay, over which Augusto makes the bulk of his illicit sales, warns its sellers that it is "an infringement to sell [promotional CDs] and many copyright holders do care and enforce in this area." SUF 19. As eBay explains on its website to its sellers:

> "Each promotional item is a copyrighted work. When they initially are distributed they are not sold. They

> technically remain the property of the record company or the studio that distributed them. The radio stations, movie theatres, etc., that receive them are only licensed to use the promo materials for limited promotional purposes. They are prohibited from selling them or giving them away; the materials themselves often state right on them 'Not For Sale.'" SUF 20.

In a prior lawsuit based on Augusto's sale of promotional CDs over eBay, brought by two record labels unrelated to UMG, Augusto agreed to a consent judgment that:

> "Defendant [Augusto] has, on numerous occasions, and despite repeated warnings, offered Plaintiffs' Promo CDs for sale through an online auction website known as eBay.com. These sales, made without Plaintiffs' authorization, violated Plaintiffs' exclusive rights under 17 U.S.C. § 106(3)." SUF 21.

Here, too, UMG notified Augusto directly on two occasions that his sale of promotional CDs violated its rights. SUF 22. In addition, UMG provided notices to eBay pursuant to the VeRO program that Augusto's auctions of UMG's promotional CDs were infringing. SUF 24. However, because Augusto sent false "counter-notices" to eBay, declaring under penalty of perjury that UMG's notices were "mistaken," eBay permitted Augusto to re-list those items for sale unless and until UMG filed suit. SUF 25. When Augusto continued blatantly to ignore UMG's rights, this lawsuit was filed. (The eleven copyrights involved here constitute only a small portion of the UMG copyrights infringed by Augusto in his promotional CD business.)

II. THE COUNTERCLAIM FAILS BECAUSE UMG'S NOTICES WERE NOT SENT PURSUANT TO THE DMCA.

A. The DMCA Notice Provisions Are Part of a Specific Overall Statutory Structure.

The DMCA was designed to balance the rights of copyright owners, service providers, and consumers, and to foster cooperation among them. See, e.g., Ellison v. Robertson, 357 F.3d 1072, 1076 (9th Cir. 2004) (notice and takedown procedure "endeavors to facilitate cooperation among Internet service providers and copyright owners"); Rossi, 391 F.3d at 1003 ("Title II of the DMCA contains a number of measures designed to enlist the cooperation of Internet and other online service providers to combat ongoing copyright infringement.").

The DMCA's balanced notice and takedown procedures are in 17 U.S.C. §§ 512(c)(3)(A) (takedown notice) and 512(g)(3) (put back notice). In order to invoke the protections of the DMCA, copyright owners must provide takedown notices to a qualifying "service provider's designated agent" in the manner specified in § 512(c)(3)(A) ("Elements of notification").[3] This permits copyright holders to rapidly provide notice of any "claimed" infringement so as to avoid massive, "viral" transmission over the Internet. See, e.g., ALS Scan, Inc. v. RemarQ Communities, 239 F.3d 619, 625 (4th Cir. 2001) ("[T]he requirements are written so as to reduce the burden of holders of multiple copyrights who face extensive infringement of their works."). Takedown notice also requires an immediate response by the service provider, which must "expeditiously" disable access to the identified infringing material (17 U.S.C. § 512(c)(1)(c), and "promptly" notify its end user of that fact. § 512(g)(3)(c). The end user may then send a counter-notice or "put-back notice" which must certify under penalty of perjury that the copyright owner's takedown

[3] A "service provider" is defined in 17 U.S.C. § 512(k). UMG's notices to eBay dispute that eBay's services fall within the scope of the DMCA. SUF 27. However, regardless of whether eBay is a "service provider," UMG's notices were not sent pursuant to, and could not violate, § 512(f).

notice was the result of "mistake or misidentification" and may request that the material be re-posted. The service provider may re-post the material within 10 to 14 business days unless the copyright holder informs the service provider that it has filed suit against the end user. § 512(g)(2)(c).

Both copyright owners and end users can be liable ***only*** for "knowing, material misrepresentations" ***in DMCA takedown or put back notices***. § 512(f).

B. UMG's VeRO Notices Were Not DMCA Notices And Section 512(f) Does Not Apply.

Although UMG's notices did not contain any misrepresentation, there is a threshold reason that UMG cannot be liable on Augusto's counterclaim. Section 512(f) is limited to "any person who knowingly materially misrepresents ***under this section***" (emphasis added). "This section" is Section 512 of the Copyright Act, the DMCA. However, copyright owners are not required to provide DMCA takedown notices if they choose not to invoke or rely upon the DMCA. See H. R. Rep. No. 105-551, pt. II, at 54 (1998) ("Section 512 does not specifically mandate use of a notice and take-down procedure"); 3 M.&D. Nimmer, Nimmer On Copyright, § 12B.04[A][3] at 12B-58 (2007) ("[C]opyright owners are not obligated to give notification of claimed infringement [under the DMCA] in order to enforce their rights."). UMG did not provide takedown notices to eBay under the DMCA, but rather pursuant to the rules of eBay's own VeRO program.

The VeRO program is a membership program set up and implemented by eBay under rules eBay promulgates. It is voluntary. SUF 28 (Any person or company who holds intellectual property rights (such as a copyright, trademark or patent) which may be infringed upon by eBay postings or items listed on eBay is encouraged to become a VeRO Program member.). The VeRO program provides its own procedure to report claimed infringements by eBay sellers. SUF 29. It was by means of this program, not the DMCA, that UMG sent notice to eBay of Augusto's infringing conduct. SUF 30.

In its description of the VeRO program – "Reporting Intellectual Property Infringement (VeRO)" – eBay does not mention the DMCA, including in its instructions for sending VeRO notices. SUF 31, 32. Neither does the form VeRO "Notice of Claimed Infringement" provided by eBay mention the DMCA. SUF 33. Significantly, each notice sent by UMG (through its trade association) expressly disclaimed the applicability of the DMCA. SUF 34 ("Our use of this form, as required by eBay, is meant to facilitate eBay's removal of the infringing auctions listed above and is not meant to suggest or imply that eBay's activities and services are within the scope of the DMCA.").

Finally, the VeRO notices cannot be DMCA notices because the procedure for sending notices under the VeRO program differs from the procedures required by the DMCA. The DMCA requires a service provider submit to the Copyright Office the name, address, telephone number, and e-mail address of a "designated agent to receive" DMCA notice. 17 U.S.C. § 512(c)(2). To be effective, DMCA notice must be "provided to the designated agent." Id. § 512(c)(3). When UMG's notices which are the subject of Augusto's counterclaim were sent, eBay's filing with the Copyright Office identified its registered DMCA agent as Jay Monahan with the e-mail address for notice as registeredagent@ebay.com.[4] SUF 35. However, VeRO notices (including UMG's) are not sent to eBay's designated DMCA agent, but rather to the VeRO Program at a VeRO program e-mail address at vero@ebay.com. SUF 36. Failure (or refusal) to send notice to the registered agent invalidates it as DMCA notice. See 3 M. & D. Nimmer, Nimmer On Copyright, § 12B.04[B][4] at 12B-63 (2007 ed.) ("An otherwise perfect notification, but which is not served on the service provider's designated agent, is equally ***a nullity***.") (emphasis added).

[4] On December 27, 2007, eBay amended its notice to designate its DMCA agent as Richard Nessary and the e-mail address as copyright@ebay.com. SUF 37.

Because UMG's VeRO notices were not intended to be and were not DMCA notices, Section 512(f) does not apply and Augusto's counterclaim fails as a matter of law.

III. AN ACTION UNDER SECTION 512(f) REQUIRES THAT THE COPYRIGHT OWNER HAVE ACTUAL KNOWLEDGE THAT THE NOTICE IS FALSE.

A. The Standard Under § 512(f) is a Subjective Good Faith Belief.

In any event, UMG's VeRO notices would not be actionable under the DMCA because they did not "knowingly materially misrepresent" Augusto's claimed infringement. Section 512(f) provides:

> "Misrepresentations. – 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." 17 USC § 512(f) (emphasis added).

See S. Rep. No. 105-90, at 49 (1998) (Section 512(f) "is intended to deter knowingly false allegations to service providers").

"The overall structure of § 512 … supports the conclusion that § 512(c)(3)(A)(v) imposes a subjective good faith requirement upon copyright owners." Rossi, 391 F.3d at 1004. Given the need for quick notice and response, Congress recognized that takedown and put-back notices may not always be correct; therefore, these notices cannot subject the senders to the penalties of Section 512(f) unless they contain "knowing, material misrepresentations." See S. Rep. No. 105-190, at 21 (Congress intended to "balance the need for rapid response to potential infringement with the end users [sic] legitimate interests in not having material removed without recourse"); Batzel v. Smith, 333 F.3d 1018, 1031 & n. 19 (9th Cir. 2003) (DMCA "provides specific notice, take-down, and put-back procedures that carefully balance First Amendment right of users with the rights of a potentially injured copyright holder").

In Rossi, the defendant Motion Picture Association of America ("MPAA") sent DMCA takedown notices claiming that Rossi was infringing its members' copyrights because his website linked to copyrighted motion pictures available for downloading. 391 F.3d at 1002. In response, Rossi's service provider disabled access to the website. Id. The allegation of infringement was demonstrably wrong. Rossi sued MPAA alleging tortious interference with contractual relations, tortious interference with prospective economic advantage, defamation, and intentional infliction of emotional distress. Rossi's claims were analyzed in the context of Section 512(f). Id. at 1004-06.

Rossi contended, without contradiction, that "if MPAA had reasonably investigated the site by attempting to download movies, it would have been apparent that no movies could actually be downloaded from his website or related links." Id. at 1003. He argued that based on an objective standard, MPAA had made a material misrepresentation. The Ninth Circuit rejected Rossi's proposed standard and, in affirming summary judgment for MPAA, held that "interpretive caselaw and the statutory structure of Section 512(c) support the conclusion that the 'good faith

belief' requirement in Section 512(c)(3)(A)(v) encompasses a subjective rather than objective standard." 391 F.3d at 1004.

> "Congress included an expressly limited cause of action for improper infringement notifications, imposing liability only if the copyright owner's notification is a knowing misrepresentation. ***A copyright owner cannot be liable simply because an unknowing mistake is made, even if the copyright owner acted unreasonably in making the mistake***. See Section 512(f). Rather, there must be a demonstration of some ***actual knowledge of misrepresentation on the part of the copyright owner***. Juxtaposing the good faith proviso of the DMCA with the knowing misrepresentation provision of that same statute reveals an apparent statutory structure that predicated the imposition of liability upon copyright owners only for knowing misrepresentations regarding allegedly infringing websites. Measuring compliance with a lesser 'objective reasonableness standard' would be inconsistent with Congress's apparent intent that the statute protect potential violators from subjectively improper actions by copyright owners." 391 F.3d at 1004-05 (emphasis added).

Applying the "actual knowledge" standard, the Court held that MPAA could not be liable as a matter of law, ***even if it was wrong*** in notifying Rossi's service provider that Rossi was infringing copyrights, and even assuming that MPAA could have determined that fact simply by attempting to download movies from Rossi's website. Id. at 1005-06.

In Dudnikov, 410 F. Supp. 2d at 1014, the Court also entered summary judgment dismissing a claim under Section 512(f). The defendant, MGA, had

provided notice to eBay under the VeRO program, claiming that the sale of certain products violated MGA's copyright and other rights. The plaintiffs sued, claiming "that MGA's notification was made without regard to trademark or copyright law in an attempt to control the on-line auction market."[5] 410 F. Supp. at 1011.

The Court held that under Rossi the plaintiffs had not carried their burden of demonstrating the existence of material disputed facts in the face of MGA's assertion of a good faith belief that plaintiffs had infringed its rights:

> "[A]s long as MGA acted in good faith belief that infringement was occurring, there is no cause of action under § 512(f). Plaintiffs' claim for perjury must be supported by substantial evidence that MGA knowingly and materially misrepresented Plaintiffs' infringement when it utilized eBay's VeRO program to have the auction shut down."
>
> . . .
>
> "Because MGA has asserted that it had a good faith belief that the Plaintiffs' auction was an infringement, Plaintiffs have the burden of demonstrating material facts showing otherwise." 410 F. Supp. 2d at 1012, 1013.[6]

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[5] The claim was styled as a claim for "perjury" but the Court held "there is no general civil action for perjury and analyzed plaintiffs' claim under 17 U.S.C. § 512(f)." Dudnikov, 410 F. Supp. 2d at 1012.

[6] In Dudnikov the Court assumed, without discussion, that VeRO notice was DMCA notice. The issue apparently was not litigated in that case and the Court did not need to decide it because, even assuming DMCA notice, the Court entered summary judgment and dismissed the Section 512(f) claim. In the one case in which the nature of the VeRO notice was an issue (also brought by the same plaintiffs as in Dudnikov), the Court of Appeals for the Tenth Circuit noted that the defendant asserted that "eBay makes no reference to the DMCA in its statement of the VeRO program" and claimed the DMCA did not apply to its VeRO notices. However, because the case was decided on jurisdictional issues, "the origins of the VeRO program are irrelevant for this appeal." Dudnikov v. Chalk & Vermillion Fine Arts, Inc., No. 06-1458, 2008 U.S. App. LEXIS 1870, at *4 n.1 (10th Cir. Jan. 28, 2008). Cf. Hendrickson v. eBay, Inc., 165 F. Supp. 2d 1082, 1084-85 (C.D.

(…continued)

B. At A Minimum, UMG Had The Requisite Subjective Good Faith Belief

1. UMG's Notices Were Sent In The Belief Augusto Was Infringing Its Copyrights.

Even if UMG's VeRO notices are assumed to be DMCA notices, UMG is entitled to summary judgment. ***Initially, if UMG prevails on its summary judgment motion directed to its complaint, the counterclaim necessarily fails. There can be no knowing misrepresentation because there was no misrepresentation at all – Augusto infringed UMG's copyrights.***

Regardless of the outcome of UMG's motion on its complaint, it is nevertheless entitled to summary judgment on the counterclaim. The DMCA and relevant case law make clear that the threshold standard for the imposition of liability under Section 512(f) is intentionally high. See Rossi, 391 F.3d at 1005 (rejecting the "lesser 'objective reasonableness' standard" as inconsistent with Congress' apparent intent). As discussed above, this requires the proponent of the claim to show a "knowing, material misrepresentation," which means that there was "actual knowledge of misrepresentation." That showing must be supported by "substantial evidence." Rossi, 391 F.3d at 1005. Thus, "[a] copyright owner cannot be liable because an unknowing mistake was made, even if the copyright owner acted unreasonably in making that mistake." Id. Augusto cannot meet this standard, just as the claimants in Rossi and Dudnikov failed to do as summary judgment was entered against them.

(…continued)
Cal. 2001) (discussing plaintiff's notices to eBay – not in the context of a § 512(f) claim – and noting that plaintiff refused to join eBay's VeRO program and refused to fill out eBay's notice of infringement form). Here, the explicit statement by UMG in its VeRO notices that they were not DMCA notices, as well as the fact that the notices are not sent to eBay's designated DMCA agent, fully answers this issue in UMG's favor.

In Rossi, the Court affirmed summary judgment in favor of MPAA after one of its member companies asked MPAA to view the plaintiff's website that appeared to offer access to copyrighted motion pictures. MPAA then sent notice to the plaintiff's service provider after viewing the plaintiff's website but without attempting to determine whether copyrighted motion pictures were being made available (which they were not) and, if so, whether the method by which they were being made available was infringing. In Dudnikov, the Court entered summary judgment against the plaintiff asserting a claim under Section 512(f) even though the defendant's notice of claimed infringement "contained nothing regarding alleged copyright infringement" (410 F. Supp. 2d at 1013), and even in the face of the allegation that the defendant was "acting out of an improper desire to control secondary markets." Id. The defendant prevailed, apparently on the basis of a single declaration that the notice of infringement "was based on the good faith belief" that its rights were being violated. Id. (The Court never reached, and never had to reach, the issue of whether the defendant's notice was accurate and plaintiff was in fact infringing.) The Court also refused to hold the defendant to a higher standard because its declarant was "a lawyer trained in IP law," stating to do so would be inconsistent with "Congress' apparent intent." Id. at 1013, quoting Rossi, 391 F.3d at 1005.

Here, UMG's declarations establish its subjective good faith belief, and refute any assertions of actual knowledge of falsity. SUF 38.

UMG's Practice: In the belief that the distribution of promotional CDs violated its rights, UMG implemented a procedure, which it has used for at least four years, to carefully search eBay to identify and locate specific promotional CDs that belong to it. These results were verified by the RIAA (which also preserved screenshots of the auctions) before any notice of infringement was sent. SUF 39. See Rossi, 391 F.3d at 1005 ("After one of the MPAA's member companies notified

the MPAA's anti-piracy department of possible infringements, … an MPAA employee reviewed the website.").

The Language on the UMG Promo CDs: The UMG Promo CDs contained explicit language, including that they were the property of UMG, they were licensed, could not be sold, and that acceptance of the CDs constituted agreement to the license terms. SUF 40. Augusto acknowledged that promotional CDs contained this and other customary language (e.g., "For Promotional Use Only—Not For Sale"); that based on his "experience" they are "not the type of CD you would normally find in a retail store"; and were "designed for people who work in the industry." SUF 41. Most recipients accepted the CDs (a relatively few others simply returned them to UMG). SUF 42.

UMG Had a *Prima Facie* Case of Infringement: Regardless of the outcome on UMG's motion for partial summary judgment on its complaint, when UMG sent its notices, it possessed a *prima facie* claim of infringement, i.e., it owned the copyrights at issue and Augusto was engaging in distribution of those copyrighted works without authorization. That was itself sufficient to claim infringement. Further, Augusto had not yet raised, let alone supported, a first sale defense, on which he would have the burden of proof.

UMG's Notices Were Consistent with Custom and Practice: Record companies, including UMG, have distributed promotional recorded product for decades. SUF 43. It is widely known and understood in the music business that they are made in limited quantities, for limited purposes, and are not to be given away or sold by the recipients. SUF 44. UMG was not the only copyright holder to believe ***and assert*** that the sale of promotional CDs over eBay infringed copyrights. In addition to UMG, Augusto received notices of claimed infringement based on his auction of promotional CDs on eBay from Warner Bros. and Capitol Records. SUF 45. Augusto received similar notices from "possibly more than ten" companies

unrelated to UMG. SUF 46.[7] (On occasion, he even complied with the request to remove eBay auctions of promotional CDs. SUF 49.) UMG's belief in its claims was not unique but was shared by many others in the industry.

UMG Did Not Target Augusto and Had No Ulterior Motive: UMG has sent notices of claimed infringement to many eBay sellers of its promotional CDs. SUF 50. Augusto is the only one to claim a violation of Section 512(f). SUF 51. Unlike the (rejected) argument in Dudnikov, UMG had no ulterior motive in sending its notices. The notices were limited to promotional CDs that UMG does not sell and which it has good reason to limit to selected recipients. SUF 52. UMG did not attempt to prevent Augusto from selling lawfully acquired commercial CDs. SUF 53.

eBay Warns that the Auction of Promotional CDs is Infringing: As described hereafter (Section E), eBay admonishes its sellers (including Augusto) on its website that the sale of promotional CDs "is infringing."

Augusto's Consent Judgment: As described hereafter (Section F), UMG was aware that Augusto ***had agreed to the entry*** of a final consent judgment in an action brought by two record labels unrelated to UMG based on the very conduct engaged

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[7] Augusto produced some of the communications from other copyright owners, not related to UMG, concerning his auctions of their promotional CDs. One such e-mail stated:

> It takes moxie, as a guy who only sells promo CDs to say we are wrong in pulling this auction … It clearly states on the cd that it is not for sales [sic] and it is illegal to sell it. What part of that don't you understand?" SUF 47.

Another notice with respect to a CD identified by Augusto as a Mandy Moore "Promo CD" advised him:

> It IS illegal to sell Promo CDs … It even says on them NOT to sell them. They are for PROMOTIONAL use only. Not to be sold. They are for media outlets, radio stations, etc., to be able to hear and play the music. Sorry, but good thing you removed it." SUF 48 (capitals in original).

Augusto produced other notices as well. SUF 47, 48.

in by Augusto here and consented to an order that he infringed the distribution right by offering promotional CDs over eBay. SUF 54.

2. eBay Warns That The Auction of Promotional CDs Is Infringing.

eBay advises its sellers that the listing of certain items constitutes copyright infringement. Among the specific items discussed by eBay are promotional CDs. SUF 55. Augusto had access to this guide and reviewed it. His claimed understanding was that eBay's position was that auctioning promotional CDs was a "grey area." SUF 56. (This should itself be sufficient to show UMG's good faith.) However, eBay's statement called the sale of promotional CDs an "infringement" and provided a detailed explanation:

> "**Does eBay policy prohibit the listing of movie and music promo items?**
>
> No. eBay policy does not specifically prohibit the listing of promotional items, but you should be aware that the listing of many such items is a copyright infringement. We are providing this information to assist you in protecting yourself from offering infringing promotional items and trade safely on eBay."
>
> . . .
>
> "**Why can't I sell most promotional items?**
>
> Each promotional item is a copyrighted work. When they initially are distributed they are ***not sold***. They technically remain the property of the record company or the studio that distributed them. The radio stations, movie theatres, etc. that receive them are only ***licensed*** to use the promo materials for limited promotional purposes. They are prohibited from selling them or giving them away; the

> materials themselves often state right on them 'Not For Sale.'"
>
> . . .
>
> "**I'm not a radio station or theatre. Why can't I sell promotional music and movie items?**
> Since the radio stations and movie theatres never own the promo items they receive, they are not theirs to sell or give away. Anyone who later possesses a copy, can't sell them either. This is true even if you bought the item from someone or the item is very old, as long its [sic] still protected by copyright laws."
> **Many copyright owners don't care about sales of promo items, so why can't I sell them?**
> It is true that many copyright owners don't enforce their rights in this area. For example, promo CDs can be found in used CD shops with some regularity. However, ***it is still an infringement to sell them*** and ***many copyright owners do*** care and enforce in this area…." SUF 57. (emphasis in part in original and in part added).

eBay recognizes that "many copyright owners" do enforce their claimed rights in promotional CDs. SUF 58. UMG was just one such copyright owner.

3. Augusto Has Consented to a Judgment Ordering That His Sale Of Promotional CDs Is Infringing.

In 2004, Augusto was sued by two record labels (Capitol Records and Virgin Records) unrelated to UMG, alleging copyright infringement based on his unauthorized distribution of promotional CDs over eBay (the "Capitol Record Action"). SUF 59. The claims of infringement in the Capitol Records Action were ***identical*** to the claims by UMG here, i.e., that promotional CDs "are provided for

promotional use only, and may not be offered for commercial distribution" and that Augusto's distribution of promotional CDs over eBay "has violated, and continues to violate, plaintiffs' exclusive right of distribution." SUF 60. Augusto was represented by counsel in the Capitol Records Action and agreed to a Consent Decree and Order that included an injunction enjoining him from engaging in the sale of promotional CDs owned by the plaintiffs. SUF 61. Even though the Order in that case does not extend to the sale of UMG promotional CDs, the fact that UMG was aware that Augusto was sued by other record companies and ***agreed to a consent judgment***, at a minimum, evidences UMG's good faith in sending VeRO notices to eBay regarding Augusto's auctions of UMG Promo CDs. The Order, which Augusto agreed to, provided:

> "4. From time to time, Plaintiffs have made available to various individuals, including Defendant, promotional compact discs containing Copyrighted Recordings ("Promo CDs"). ***As is established by express language included on the external packaging of the Promo CDs, as well as longstanding custom and practice in the industry, Plaintiffs' distribution of Promo CDs to selected recipients did not convey ownership of the Promo CDs*** to those recipients, but rather constituted a licensing arrangement in which recipients were given permission to use the Promo CDs for promotional purposes, but forbidden from selling or otherwise transferring them without Plaintiffs' authorization. As Plaintiffs have neither transferred ownership of their Promo CDs, nor authorized any recipient of Promo CDs to do so, Plaintiffs' exclusive distribution rights with regard to their Promo CDs remain intact regardless of whether or not some of

the Promo CDs have been sold by third parties without Plaintiffs' authority through various means.

"5. ***Defendant has, on numerous occasions, and despite repeated warnings, offered Plaintiffs' Promo CDs for sale through an online auction website known as eBay.com. These sales, made without Plaintiffs' authorization, violated Plaintiffs' exclusive rights under 17 U.S.C. § 106(3)***." (emphasis added). SUF 62.

Since Augusto has specifically agreed that his offering for sale of promotional CDs in the Capitol Records Action constituted copyright infringement, he cannot dispute UMG's good faith in contending that his identical conduct by offering for sale the UMG Promo CDs constituted copyright infringement.

CONCLUSION

Under the controlling subjective, good faith belief standard, and for each of the reasons set forth herein, UMG is not liable for violating Section 512(f) and is entitled to summary judgment dismissing the counterclaim.

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