

Parallel Imports and the First Sale Doctrine

By Timothy Toohey and Keith Gregory

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Under the “first sale” or “exhaustion” doctrine in intellectual property law, a lawful purchaser of a copyrighted, patented or trademarked product may generally use or resell the product without fear of being subject to an infringement lawsuit. The owner of the intellectual property rights is said to have “exhausted” her rights to the work with the first sale and generally cannot prevent further use or sale of the work. When the first sale of a work, like a book or DVD, occurs in the U.S. the purchaser may generally resell the product to whomever she wishes without fear that the owner of the copyright will pursue her for infringement.

What if the first sale of the work occurs overseas, which is then imported into the U.S.? May a purchaser of such a work raise the first sale doctrine as a defense to an infringement action? Recent decisions involving “gray market goods” or “parallel imports” indicate that the defense will not be available under those circumstances, particularly for copyrighted and patented goods.

When the U.S. Supreme Court accepted certiorari in 2010 for *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008), many commentators anticipated that the Court would decide the question left open by *Quality King Distributors Inc. v. L'Anza Research Int'l Inc.*, 523 U.S. 135 (1998), *i.e.*, whether the “first sale doctrine” in Section 109(a) of the Copyright Act applies to “allegedly infringing imports that were manufactured abroad.” 523 U.S. at 154. Such gray market goods are typically imported into the U.S. without the permission of U.S. rights holders, often because they are less expensive than their domestically sold counterparts.

The *Omega* decision engendered considerable debate because the court held that Costco could not avail itself of the “first sale” defense because it had purchased Omega watches with a small copyrighted logo that had first been sold abroad and then imported into the U.S. If the Omega watches purchased by Costco had first been sold in the U.S., Costco may have been able to avail itself of this defense. Relying on its prior precedents, which it maintained were not overruled by *Quality King*, the 9th U.S. Circuit Court of Appeals held that Section 109(a) did not apply to goods manufactured

abroad. It found that the phrase “lawfully made under this title” meant copies “legally made...in the United States” and applied only to goods first sold in the U.S. The court also found that its interpretation was supported by the “more robust version” of the presumption against extraterritorial application of laws used for the Copyright Act.

The *Omega* case prompted a considerable number of amicus briefs on both sides in the Supreme Court. Retailers typically lined up behind Costco to support its attempt to overturn the 9th Circuit, citing principles of free trade and consumer choice. Manufacturers and intellectual property owners urged affirmance, citing intellectual property rights and rights holders’ freedom to differentiate sales of products to domestic and overseas markets. The hope for a definitive pronouncement by the Supreme Court was frustrated by the affirmance, without opinion, of the decision by an equally divided Court, Justice Elena Kagan took no part in the case. *Costco Wholesale Corp. v. Omega, S.A.*, 131 S. Ct. 565 (2010).

Although F. Scott Fitzgerald said that there are no second acts in American lives, retailers and manufacturers may get a chance to dust off their amicus briefs if the recent decision of the 2nd U.S. Circuit Court of Appeals in *John Wiley & Sons Inc. v. Kirtsaeng*, 654 F.3d 210, (2nd Cir. 2011) is appealed and the Supreme Court grants review. Like *Omega*, *Wiley* presents the Court with an opportunity to determine whether the importation and sale in U.S. of copyrighted goods is subject to the Copyright Act’s first sale doctrine.

In *Wiley*, Supap Kirtsaeng, after availing himself of legal advice from “Google Answers,” set out to support his undergraduate education at Cornell University by having friends and family ship Wiley textbooks to him from Asia, which he then resold for profit in the U.S. His business was evidently successful because his PayPal account showed revenues of \$1.2 million. After the district court determined that the first sale defense did not apply to Kirtsaeng’s textbook sales, a jury found him liable for willful copyright infringement and imposed damages of \$75,000 for each of eight infringed Wiley works. In a 2-1 decision, the 2nd Circuit affirmed the holding of the district court. Although

admitting that Section 109(a) was “utterly ambiguous” and that the matter was a “close call,” the court nonetheless found that Kirtsaeng could not avail himself of the first sale defense for the imported textbooks. It reasoned that not applying the doctrine to imported works first sold abroad is consistent with the Copyright Act’s policy of allowing “copyright holders some flexibility to divide or treat differently the international and domestic markets for the particular copyrighted item.” *Wiley* and *Omega* will chiefly impact the secondary market for copyrighted material including books, CDs, and DVDs. Although not subject to copyright law, purchase of other types of goods on the gray market, such as electronic parts or consumer goods, may also involve the interplay between the first sale or “exhaustion” doctrine for goods protected by patents or trademarks.

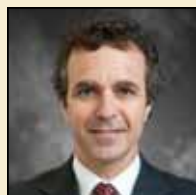
Complications arise when goods are first sold abroad and then imported into the U.S. There is a split in authority as to whether the exhaustion doctrine applies to patented goods in those circumstances. In a series of cases involving refurbishment of “single-use” cameras, the Federal Circuit held that patent exhaustion does not apply to patented goods “of solely foreign provenance” but only to goods “for which the United States patent right has been exhausted by first sale in the United States.” *Jazz Photo Corp. et al. v. International Trade Commission*, 264 F.3d 1094, 1098, 1105 (Fed. Cir. 2001). Foreshadowing *Omega*, the Federal Circuit reasoned that foreign sales “can never occur under a United States patent because the United States patent system does not provide for extraterritorial effect.” *Fuji Photo Film Co. Ltd. v. Jazz Photo Corp. et al.*, 394 F.3d 1368, 1376 (Fed. Cir. 2005).

The Northern District of California, in *LG Electronics Inc. v. Hitachi Ltd. et al.*, 655 F. Supp. 2d 1036, 1046 (N.D. Cal. 2009), found that the approach taken by the *Fuji Photo* cases was at odds with the Supreme Court’s holding in *Quanta Computer Inc. v. LG Electronics Inc.*, 553 U.S. 617 (2008) because it would allow a patent holder to make “an ‘end-run’ around the exhaustion doctrine by authorizing a sale, thereby reaping the benefit of its patent, then suing a downstream purchaser for patent infringement.” The court held that “**Quanta’s* holding – that exhaustion is triggered by the authorized sale of an article that substantially embodies a patent – applies to authorized foreign sales as well as authorized sales in the United States.” In some circumstances, resellers of trademarked goods originating from abroad may be unable to benefit from the first sale doctrine under trademark law. Although U.S. law putatively follows an “international” approach, which means that the sale of a “genuine” trademarked product anywhere in the world may provide a basis for a trademark exhaustion defense, parallel imports may still be stopped if they are not “genuine.” *Olympus Corp. v. United States*, 792 F.2d 315, 320 (2d Cir. 1986). What goods are considered “genuine” is subject to interpretation. The application of the first sale or exhaustion doctrine to goods first sold overseas is indicative of the continued tension between territorial intellectual property laws and trends towards greater globalization. Given the complexities of the law and the overlapping, but inconsistent, exhaustion doctrines in copyright, patent and trademark law, the landscape for the sale and purchase of gray market goods continues to be complicated for all concerned.



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