Seamaster-ing the First Sale Doctrine: A Tripartite Framework for Navigating the Applicability of Section 109(a) to Gray Market Goods

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Seamaster-ing the First Sale Doctrine: A Tripartite Framework for Navigating the Applicability of Section 109(a) to Gray Market Goods

Daniela Alvarado*

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INTRODUCTION

In January 2008, the New York Times reported a story about major luxury goods retailers, like Saks Fifth Avenue and Bergdorf Goodman, and their imposition of limitations on the number of handbags and shoes a consumer could purchase online.1 Taking advantage of a weakened dollar, tourists were buying multiples of luxury items, which they could then resell in their home countries at a lower cost than local retail prices, but still at a substantial markup from the American price.2 This allowed the tourists to make a profit, and sometimes even to recuperate all of their travel expenses.3 A few years earlier, the Economist reported that an entire industry was developing in Asia, where, in exchange for an all-expenses-paid trip to the European capitals, tour “bosses” hired travelers to purchase multiples of handbags and other luxury goods from upmarket retailers.4

Although luxury goods arbitrage, both small scale and large, had been common throughout Europe for many years, at the time

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2 Id.
3 Id.
that American retailers began imposing limitations on these goods, this was a new phenomenon for the United States.\(^5\) Prior to the adoption of the Euro, tourists generally found deals in Europe, where local currencies were low in value relative to the dollar. The dollar’s decline, however, began to shift the origin of gray market goods\(^6\) to the United States.\(^7\) Although the phenomenon described by both the New York Times and the Economist involved goods ultimately resold abroad, American merchants, like the tourists and tour “bosses” featured in the articles, also use price discrimination to make a profit.\(^8\) By purchasing goods intended for sale in a foreign market, they may resell these goods domestically at a lower price than their counterparts sold in local retail.\(^9\) The arbitrageurs thus benefit based on the difference in price of the goods across markets.

Because gray market arbitrage of luxury goods no longer occurs exclusively abroad,\(^10\) American luxury goods manufacturers have searched for a legal means to control the distribution of these products domestically.\(^11\) While the development of a gray market

\(^5\) See Wilson, supra note 1, at G1.

\(^6\) Black’s Law Dictionary defines the “gray market” as “a market in which the seller uses legal but sometimes unethical methods to avoid a manufacturer’s distribution chain and thereby sell goods (esp. imported goods) at prices lower than those envisioned by the manufacturer.” See Black’s Law Dictionary 3076 (8th ed. 2005). Black’s also makes a reference to “gray market goods” within its definition of “gray market,” although it does not provide a formal definition:

One of the most controversial areas of customs law concerns “gray market goods,” goods produced abroad with authorization and payment but which are imported into unauthorized markets. Trade in gray market goods has increased dramatically in recent years, in part because fluctuating currency exchange rates create opportunities to import and sell such goods at a discount rate from local price levels. Id. (quoting Ralph H. Folsom & Michael W. Gordon, International Business Transactions § 20.8 (1995)). Gray market goods are often referred to as “parallel imports.” See Parfums Givenchy, Inc. v. Drug Emporium, Inc., 38 F.3d 477, 481 n.6 (9th Cir. 1994) (citing K Mart Corp. v. Cartier, Inc., 486 U.S. 281, 286–87 (1987)).

\(^7\) See Wilson, supra note 1, at G1.


\(^9\) Ellis, supra note 8.

\(^10\) Pierson, supra note 8.

\(^11\) Id.
indicates increased demand for their products, luxury brand owners strive to prevent a market flooded with their designs and to avoid a shift in the public’s perception of their brand.\footnote{Id.} In Europe, policy makers are friendly to luxury companies and have allowed them to impose vertical restraints on, for example, the outlets where their goods may be sold.\footnote{See Geoffrey A. Fowler & Max Colchester, Corporate News: In Europe, eBay Gains in Fights Over Fakes, WALL ST. J., May 26, 2009, at B4.} However, the United States does not provide this degree of protection.\footnote{For example, trademark law does not provide protection for gray market goods arbitrage. See, e.g., Tiffany Inc. v. eBay Inc., 600 F.3d 93 (2d Cir. 2010), cert. denied, 131 S. Ct. 647 (2010) (holding that trademark owners, not online marketplaces, have the burden of policing items sold on such outlets).} Some luxury goods companies, such as the watchmaker Tag Heuer, have taken a proactive approach: to control distribution, slow-selling products are repurchased and funneled into the company’s outlet stores.\footnote{Joelle Diderich, Tag Heuer Ticks to 150, WOMEN’S WEAR DAILY (Apr. 19, 2010), http://www.wwd.com/accessories-news/watches/tag-heuer-ticks-to-150-3043836.} Others, however, turn to intellectual property law—for example copyright law—to control distribution channels and prevent the unauthorized resale of their goods. This Note will focus on brand owners’ use of copyright law as a means of controlling channels of distribution.

Through section 109(a) of the Copyright Act of 1976,\footnote{17 U.S.C. § 109(a) (2006).} Congress attempted to set guidelines specifying when the purchaser of a copyrighted good may resell or redistribute that good. Section 109(a) is known as the first sale doctrine, and provides a defense to these resellers in a copyright infringement action. This Note will discuss the first sale doctrine as codified in section 109(a) and its applicability to goods sold in the gray market. Part I provides background on the first sale doctrine and discusses the constitutional basis for and origins of the Copyright Act of 1976 and the distribution right. Then, this Part explains the Supreme Court’s understanding of the statute, and last describes the current conflicting interpretations of the statute by the Second Circuit and the Ninth Circuit. Part II compares and contrasts the Second Circuit and Ninth Circuit’s standards of review for applying the first sale doctrine. Part III identifies weaknesses in both standards and proposes a new, tripartite framework for

\begin{itemize}
\item Id.
\item For example, trademark law does not provide protection for gray market goods arbitrage. See, e.g., Tiffany Inc. v. eBay Inc., 600 F.3d 93 (2d Cir. 2010), cert. denied, 131 S. Ct. 647 (2010) (holding that trademark owners, not online marketplaces, have the burden of policing items sold on such outlets).
\end{itemize}
analyzing the first sale doctrine. In Part IV, this Note concludes by explaining why the alternative proposed in Part III is more desirable than the current interpretations of the statute by the circuit courts.

I. THE FIRST SALE DOCTRINE IN THE CONTEXT OF GRAY MARKET GOODS

Section A focuses on the common law and statutory origins of the first sale doctrine, tracking its evolution from the Supreme Court’s first iteration of the doctrine in *Bobbs-Merrill Co. v. Straus*\(^\text{17}\) to its current form in the Copyright Act of 1976.\(^\text{18}\) Section B discusses Supreme Court, Second Circuit, and Ninth Circuit jurisprudence regarding gray market goods.

A. The First Sale Doctrine: Common Law and Statutory Origins

1. Constitutional Origins and the Distribution Right

   a) Legal Background

   The Constitution empowers Congress to stimulate innovation; specifically, “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”\(^\text{19}\) Congress achieves this Constitutional goal through the Copyright Act.\(^\text{20}\) The basic rights granted to every copyrighted work are codified in the first three clauses of section 106 of the Copyright Act: (1) the right of reproduction;\(^\text{21}\) (2) the right of adaptation;\(^\text{22}\) and (3) the right of distribution.\(^\text{23}\)

   The distribution right in section 106(3) gives a copyright owner the exclusive right “to distribute copies or phonorecords of the

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\(^{17}\) 210 U.S. 339 (1908).


\(^{21}\) *Id.* § 106(1).

\(^{22}\) *Id.* § 106(2).

\(^{23}\) *Id.* § 106(3).
copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending." The distribution right is fundamental to an author’s or an inventor’s exclusive right to her work. Without the distribution right, a copyright holder would have recourse for the sale or transfer of unauthorized copies of her work, but would not be able to control the distribution of lawfully created works that were later wrongfully obtained. Control over infringing importation, which some courts have viewed as an extension of the distribution right, is given to an author or an inventor by section 602(a), which provides that an unauthorized importation of copyrighted materials is an infringement of the exclusive right to distribute under section 106(3). The right to control importation is, in essence, contained in the right to distribute copies from a foreign country into the United States.

However, a copyright holder’s distribution right does not include or automatically create a right to impose limitations on the distribution of an item after the copyright holder’s first disposition of the item. A copyright holder’s rights under section 106 are bookended by the defenses enumerated in sections 107 through 122, including the first sale doctrine. As codified in section 24.

24 Id.
25 See id. § 602(a) (2006); see also 2-8 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.12[A] (2011) [hereinafter NIMMER]. Additionally, section 602(a) of the Copyright Act extends a copyright holder’s distribution right to foreign-manufactured goods by stating that unauthorized importation of a good is an infringement of the right to distribute conferred by section 106(3).
26 See NIMMER, supra note 25, § 8.12[A].
27 See, e.g., L’Anza Research Int’l, Inc. v. Quality King Distrib., Inc., 98 F.3d 1109, 1115–16 (9th Cir. 1996) (concluding, like Sebastian Int’l, Inc. v. Consumer Contacts (PTY) Ltd., 847 F.2d 1093 (3d Cir. 1996), that unauthorized importation under section 602(a) constitutes a type of infringement of the distribution right codified in section 106(3)).
28 See 17 U.S.C. § 602(a) (2006). Section 602(a) provides:

Infringing importation or exportation.—

(1) Importation.—Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.
29 Id.
30 See 17 U.S.C. § 106(3); NIMMER, supra note 25, § 8.12[A].
32 Id.
109(a) of the Copyright Act of 1976, the first sale doctrine functions as a defense to an action alleging infringement of the section 106(3) distribution right. A future seller of a particular copy may raise the first sale doctrine as a defense if the copyright holder initiates an infringement action in response to the sale of an item. The first sale doctrine provides that once a copyright holder has made and sold her copies, she has transferred her title to that copy, she has received her reward through the purchase price of that sale, and she has thereby relinquished all further rights to sell or dispose of that copy. The first sale doctrine therefore caps the distribution right bestowed on a copyright owner because it terminates the copyright holder’s distribution right following the first sale. Through this elimination, section 109(a) allows for the creation of what is known as the gray market. “Gray market goods,” or “parallel imports,” are genuine products possessing a brand name protected by a trademark or copyright sold by an individual who is not the intellectual property owner or someone licensed by the owner. They are often purchased and imported into the United States by third parties following a first sale by the copyright holder, and thereby bypass distribution channels normally employed by copyright holders.

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34 See id. § 106(3); Nimmer, supra note 25, § 8.12[A].
35 See id.
36 See Quality King Distrib., Inc. v. Lanza Research Int’l, Inc., 523 U.S. 135, 152 (1998); see also Sebastian Int’l, Inc. v. Consumer Contacts (PTY) Ltd., 847 F.2d 1093, 1098–99 (3d Cir. 1988). A copyright holder who has sold a particular copy will not necessarily have privity of contract with the future purchaser or seller of item, so giving a copyright holder a right to distribute beyond the first sale of the item would in effect give her the power to control the decisions of another merchant. See Bobbs-Merill Co., 210 U.S. at 350.
37 See 17 U.S.C. §§ 106(a), 109(a); Nimmer, supra note 25.
38 See Quality King, 523 U.S. at 153.
40 See id.
b) Economic Context

The luxury goods industry thrives on the distribution right. A luxury product company develops a caché through its ability to control its “brand image,” namely, the emotional or psychological associations that a consumer may have with a product or brand. Brand owners, especially those engaged in the production of luxury goods, spend millions of dollars annually on marketing their products as prestigious. What may turn a product into a brand is the way in which it is presented in the market, including its packaging and point-of-sale support. However, unlike the brand owner, gray market resellers of luxury goods do not have the same interest in maintaining the visceral effect that creates a luxury goods brand. For this reason, outside of the brand owner’s control, the goods may no longer convey the same prestige or appeal. Absent emotional appeal, brand image deteriorates. Moreover, goods sold in the gray market are difficult to track and thus disrupt companies’ marketing strategies and profit performance models. Forecasting sales and merchandising becomes challenging, and due to increased competition from imported gray market goods, domestic employment in the luxury goods industry may decrease. A brand’s ability to predict the enforceability of its distribution right will decrease transactional costs and allow a company to understand how it may best allocate its resources.

42 Id. (referencing Roderick White, What Can Advertising Really Do for Brands?, 18 Int’l J. Advertising 3, 3–4 (1999)).
43 Id.
45 See Galstian, supra note 41, at 511–12.
46 See id. at 512.
47 Id.
49 Id.
For a consumer, the availability of goods sold on the gray market may produce both desirable and undesirable effects. Because they increase competition in the market among sellers and outlets of the same goods, gray market goods benefit consumers by lowering the price point. At the same time, a consumer may be dissatisfied by a good manufactured for sale abroad because of differing design, quality levels, warranty coverage, or intended usage. Moreover, a brand’s existing customers may become dissatisfied because of an increased supply of the product on the market—established consumers of a brand may find that their goods are no longer exclusive. Thus, in order to protect herself, as well as to protect customer satisfaction, the owner of a brand may seek to control the distribution of her goods using intellectual property law. Copyright law has been employed to protect marketing channels because, as explained below, it provides control over the distribution of goods in a way that trademark law does not. Specifically, in trademark law, even if a brand is protected by the Lanham Act, the resale of genuine trademarked goods by a third party vendor, even if unauthorized, does not constitute trademark infringement. The Lanham Act strives to prevent brand confusion; so long as the goods are genuine, consumers are not misled.

Although like the Copyright Act, the Lanham Act provides a mechanism for intellectual property owners to control the distribution of goods bearing their mark, trademark law is unique in that it provides a loophole for the entry into the United States of some goods that may not have been authorized for importation. Like section 602 of the Copyright Act of 1976, section 526 of the Tariff Act of 1946 provides a mechanism through which a company may use its trademark to prevent unauthorized importation of a trademarked good through explicit written consent of the trademark owner.

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51 See Lansing & Gabriella, supra note 48, at 315.
Lanham Act prohibits the unauthorized importation of trademarked goods. However, its corresponding federal regulation, 19 C.F.R. § 133.23, grants the Customs Service the ability to allow the entry of foreign trademarked goods following a 30-day detention period if the owner of the trademark is the same business entity as the owner of the domestic trademark or the parent company or subsidiary of the owner of the domestic trademark. This regulation also does not bar the importation of a good manufactured abroad and imported without the authorization of the trademark owner, as long as the trademark is genuine and the goods are not physically or materially different from those authorized for importation by the domestic trademark owner. Unlike the first sale doctrine of copyright law, the regulations pertaining to the importation of trademarked goods do not require a showing that a lawful first sale has occurred. Thus, trademark law does not provide a brand owner with the same recourse to control channels of sale, and thereby preserve brand image, as the distribution right in copyright law.

56 See 19 C.F.R. § 133.21(c) (2012).
(d) Relief from detention of gray market articles. Gray market goods subject to the restrictions of this section shall be detained for 30 days from the date on which the goods are presented for Customs examination, to permit the importer to establish that any of the following exceptions, as well as the circumstances described above in § 133.22(c), are applicable:
(1) The trademark or trade name was applied under the authority of a foreign trademark or trade name owner who is the same as the U.S. owner, a parent or subsidiary of the U.S. owner, or a party otherwise subject to common ownership or control with the U.S. owner (in an instance covered by §§ 133.2(d) and 133.12(d) of this part); and/or
(2) For goods bearing a genuine mark applied under the authority of the U.S. owner, a parent or subsidiary of the U.S. owner, or a party otherwise subject to common ownership or control with the U.S. owner, that the merchandise as imported is not physically and materially different, as described in § 133.2(e), from articles authorized by the U.S. owner for importation or sale in the United States; or
(3) Where goods are detained for violation of § 133.23(a)(3), as physically and materially different from the articles authorized by the U.S. trademark owner for importation or sale in the U.S., a label in compliance with § 133.23(b) is applied to the goods.

Id. § 133.23(d).
57 Id.

In 1908, the Supreme Court had its first opportunity to evaluate the extent of a copyright holder’s distribution right in Bobbs-Merrill Co. v. Straus. In Bobbs-Merrill, a publishing company brought an infringement action against a vendor of its novel The Castaway. The vendor bought the books at wholesale and resold the majority of the copies at a price of eighty-nine cents per book. However, the following statement accompanied the copyright statement in each book: “The price of this book at retail is one dollar net. No dealer is licensed to sell it at a less price, and a sale at a less price will be treated as an infringement of the copyright.” The Court held that this statement was unenforceable. The right to vend articulated by the 1790 copyright law did not allow a copyright holder to restrict future sales of the book or to establish a certain price per copy, even if each copy contained a notice of a limitation on future sales. Based on common law, the Court reasoned that the presence of a first sale and an intermediary retailer eliminated any privity between the copyright holder and the ultimate purchaser. More importantly, the relevant statute contained no right to control or restrict sales after the initial sale of a copyrighted item. Thus, the Court concluded that a copyright holder’s distribution right ends at the first sale of the item. Cautioning that this was purely a question of statutory construction, the Court explained that it did not have the power to extend the right to vend to include a right to control future sales.

58 210 U.S. 339, 343 (1908).
59 Id. at 341.
60 Id. at 341–42.
61 Id. at 350 (extending the first sale doctrine of patent law to copyright law).
62 Copyright Act of 1790, ch. 15, § 1, 1 Stat. 124 (codified at 17 U.S.C. § 106 (2006)).
64 Id.
65 Id. at 351.
66 Id.
67 Id.
3. Statutory Origin: From the Copyright Act of 1909 to the Copyright Act of 1976

Following the *Bobbs-Merrill* decision in 1908, the first sale doctrine was codified in the Copyright Act of 1909.\(^68\) Under the 1909 Act, the first sale doctrine operated similarly to its current iteration, limiting the distribution right by providing a defense to infringement following the first sale.\(^69\) The current form of the first sale doctrine adopted in section 109(a) of the Copyright Act of 1976 states: “the owner of a particular copy or phonorecord *lawfully made under this title*, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.”\(^70\) The statute’s purpose and language generally matches that of the 1909 Act.\(^71\) However, the 1976 Act articulated an additional qualification an owner must meet in order for the first sale doctrine to apply—the copy must be “lawfully made under this title.”\(^72\) This phrase has been cause for debate in the circuit courts since the mid-1990s. Courts have also questioned the relationship between section 109(a) and section 602(a), which delineates a copyright holder’s right to control the importation of its goods. As a result, the first sale doctrine has been a repeat topic of discussion in the circuit courts and for the Supreme Court in the past several years.

B. *The Supreme Court, the Second Circuit, and the Ninth Circuit Set the Parameters of the First Sale Doctrine for Gray Market Goods*

The next three subsections unpack the points of view of the Supreme Court and the circuit courts. In addressing the applicability of section 109(a) to gray market goods, the courts have consistently held that the first sale doctrine applies to

\(^{68}\) Copyright Act of 1909, ch. 320, § 41, 35 Stat. 1075 (presently codified at 17 U.S.C. § 109(a) (2006)).

\(^{69}\) See NIMMER, *supra* note 25, at § 8.12[B].


domestically manufactured goods. This was the rule promulgated by the Supreme Court in Quality King Distributors, Inc. v. L’Anza Research International, Inc., which is explored in subsection 1. The Second Circuit treats this rule as exclusive; “lawfully made under this Title” means strictly domestically manufactured. The court reasoned that if section 109(a) were available to goods manufactured abroad and later imported, it would come into conflict with section 602(a), which protects a copyright holder’s importation right. Subsection 2 explains how the Second Circuit arrived at this rule. The Ninth Circuit, however, has argued that the practical consequences of limiting section 109(a) in such a way are too great to justify this reading of the section. As such, the Ninth Circuit developed an exception that makes section 109(a) an available defense for goods manufactured abroad, so long as the goods are subjected to a domestic first sale by a copyright holder. Subsection 3 discusses the development of the Ninth Circuit’s exception.

1. The Supreme Court Interprets Section 109(a): Quality King Distributors, Inc. v. L’Anza

The Supreme Court first discussed the question of whether the first sale doctrine is an available defense to resellers of gray market goods in Quality King Distributors, Inc. v. L’Anza Research International, Inc. In Quality King, bottles of shampoo affixed with copyrighted labels were manufactured in the United States, sold to a chain of foreign distributors, then reimported into the United States, and subsequently marketed for retail in the United

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74 Id.
76 Id.
77 See Denbicare U.S.A. Inc. v. Toys “R” Us, Inc., 84 F.3d 1143, 1149–50 (9th Cir. 1996); Parfums Givenchy, Inc. v. Drug Emporium, Inc., 38 F.3d 477, 481 (9th Cir. 1994); BMG Music v. Perez, 952 F.2d 318, 319 (9th Cir. 1991).
78 See Denbicare, 84 F.3d at 1149–50; Givenchy, 38 F.3d at 480; BMG Music, 952 F.2d at 319.
79 523 U.S. 135, 138 (1998). To avoid confusion with the Ninth Circuit’s decision with the same name, this case is referred to as Quality King in the body of this Note.
States by the defendant, Quality King.\textsuperscript{80} Quality King raised the first sale defense when L’anza claimed a violation of its right to control distribution under section 106(3) and its right to control importation under section 602(a) of the Copyright Act.\textsuperscript{81}

At the appellate level, the Ninth Circuit held that the first sale doctrine did not provide a defense to Quality King.\textsuperscript{82} The court determined that using section 109(a) as a defense to a section 602(a) claim would render section 602(a) meaningless, as section 602(a) seeks to protect a copyright owner’s control over importation of their goods.\textsuperscript{83} In studying the legislative history of section 602, the court concluded that Congress had intended to give copyright holders control over the distribution of gray market goods, and thus made section 109(a) completely unavailable to imported goods sold by third parties, regardless of their place of manufacture.\textsuperscript{84} However, this decision by the Ninth Circuit conflicted with a prior decision by the Third Circuit in a factually similar case, \textit{Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.}\textsuperscript{85}

The \textit{Sebastian International} court held that the first sale doctrine applies to domestically manufactured goods, regardless of

\textsuperscript{80} \textit{Id.} at 138–39. Specifically, the goods were sold to an importer in the United Kingdom, who had subsequently resold the bottles to a distributor in Malta, who in turn sold the goods to Quality King, who sold the goods in the United States.

\textsuperscript{81} \textit{Id.} at 139–40; \textit{see also} 17 U.S.C. §§ 106, 602(a) (2006).

\textsuperscript{82} \textit{See L’Anza Research Int’l, Inc. v. Quality King Distribs., Inc.,} 98 F.3d 1109, 1114 (9th Cir. 1996), \textit{rev’d}, 523 U.S. 135 (1998). To avoid confusion with the Supreme Court’s decision with the same name, this case is referred to as \textit{L’anza} in the body of this Note.

\textsuperscript{83} \textit{Id.} at 1117. Because of its precedents, \textit{BMG Music and Givenchy}, had been decided with respect to the tension between sections 109(a) and 602(a), the Ninth Circuit viewed this as the central conflict in \textit{L’anza} rather than discussing whether the goods were “lawfully made under this Title.” \textit{BMG Music}, 952 F.2d at 318–19 (“Copyright owners would no longer have an exclusive right to distribute copies or phonorecords of works manufactured abroad, an interest clearly protected by § 602.”); \textit{Parfums Givenchy}, 38 F.3d at 481–82. Left unresolved in that series of cases, this language has been the cause for disagreement in more recent cases in the Second Circuit and the Ninth Circuit. \textit{See generally} John Wiley & Sons, Inc. v. Kirtsaeng, 654 F.3d 210 (2d Cir. 2011), \textit{cert granted}, 80 U.S.L.W. 3365 (U.S. Apr. 16, 2012) (No. 11-697); Omega, S.A. v. Costco Wholesale Corp., 541 F.3d 982 (9th Cir. 2008).

\textsuperscript{84} \textit{See L’Anza,} 98 F.3d at 1115–17.

\textsuperscript{85} 847 F.2d 1093, 1099 (1988).
their importation status. The Third Circuit concluded that section 602(a) does not create a right in addition to those conferred by section 106(3); rather, unauthorized importation serves as an example of one type of infringement of the distribution right. Additionally, the Third Circuit found that section 602(a) did not provide a remedy for the copyright holder against the unauthorized importation of goods manufactured under United States copyright law. Thus, according to the Sebastian International court, section 109(a) functions interdependently with section 602(a) and the first sale defense applies to domestically manufactured, reimported goods. Because the Ninth Circuit in L’anza reached the conflicting conclusion that the first sale doctrine could not be raised as a defense to the importation right, the Supreme Court granted certiorari.

Echoing Sebastian International, the Supreme Court decided in Quality King’s favor. The Supreme Court found that section 602(a) gives a copyright holder control over the importation of piratical copies in addition to control over the importation of copies that were lawfully made “under the law of some other country.” The latter category includes copies that are neither counterfeited nor “lawfully made under [Title 17].” As the Third

86 Id. at 1099.
87 Id.
88 Id.
89 Id.
90 Quality King Distribs., Inc. v. L’anza Research Int’l, Inc., 523 U.S. 135, 140 (1998) (“Because [the Ninth Circuit’s] decision created a conflict with the Third Circuit, . . . we granted the petition for certiorari.”); see also L’Anza Research Int’l, Inc. v. Quality King Distribs., Inc., 98 F.3d 1109, 1117 (9th Cir. 1996) (holding that the first sale doctrine is not a viable defense for gray market goods); Sebastian Int’l, Inc., 847 F.2d at 1099 (concluding that a manufacturer is barred by the first sale doctrine from establishing infringement through an unauthorized importation).
91 Quality King, 523 U.S. at 150–52.
92 See id. at 146–47. Although L’anza had argued that section 602(a) is superfluous unless it covers nonpiratical copies, the Court found that even if section 602(a) applied only to piratical copies, it would still provide a private remedy to supplement enforcement by customs codified in section 602(b). Additionally, the first sale doctrine on its own does not provide a defense to a 602(a) action to a non-owner, such as a licensee, a bailee, or consignee.
93 Id. at 147. Congress had contemplated that a ban on piratical copies should be extended to bar importation of a foreign edition when there is an agreement between a domestic and a foreign manufacturer to divide the distribution of a United States edition
Circuit explained, because section 109(a) limits the distribution right in section 106(3), section 109(a) may also apply to section 602(a). However, section 602(a) prevents the importation of goods in a broader array of situations than those permitted by section 109(a), for example, the importation of piratical copies, section 109(a) does not completely subsume section 602(a). The Supreme Court further explained the relationship between the two sections through an illustration involving a British manufacturer of a book with exclusive distribution rights in Britain, and an American manufacturer of the same book with domestic distribution rights. The first sale doctrine would not permit the British manufacturer to resell in the United States the copies designed to be sold abroad, because, presumably, only the copies made by the United States publisher would be “lawfully made under [Title 17]” and the right of distribution for only those copies would be limited by 109(a). This explanation led the Supreme Court to hypothesize in dicta that the copyright holder could potentially bring an infringement action and succeed if the foreign manufacturer attempted to resell its goods domestically.

Regardless of this theory, the shampoo bottles in Quality King were manufactured in the United States by L’anza. Therefore, without addressing possible geographic implications of that phrase in its holding, the Court decided that the defendant was not infringing copyright by selling the goods in the United States because the goods were, under any interpretation of the phrase, “lawfully made under [Title 17].” The copyright holder manufactured the shampoo bottles in the United States, so the


94 Sebastian Int’l, Inc., 847 F.2d at 1099.
95 See Quality King, 523 U.S. at 146–47.
96 Id. at 148.
98 Quality King, 523 U.S. at 148.
99 Id. at 138.
100 Id. at 145.
phrase “lawfully made under this Title” applied literally—there was no question as to whether the goods were subject to the provisions of the Copyright Act.\textsuperscript{101} The Court explained “the whole point of the first sale doctrine”: that a copyright holder exhausts statutory control over the distribution of a copyrighted good after that good is placed in the stream of commerce.\textsuperscript{102}

By mandating that the first sale doctrine applies to domestically manufactured goods despite their reimported status, the Supreme Court overturned the Ninth Circuit decision.\textsuperscript{103} The Court did not discuss the meaning of “lawfully made under this Title”; instead, its analysis of the applicability of section 109(a) was limited to the facts of the case.\textsuperscript{104} The defense granted by section 109(a) was available to Quality King due to the goods’ manufacture and sale in the United States by L’anza.\textsuperscript{105} For this reason, the Court’s analysis did not consider whether the defense is available for foreign-manufactured goods.

In her concurrence, Justice Ginsburg highlighted the limitation of the Court’s holding to domestically manufactured goods and cautioned the lower courts that the dicta in \textit{Quality King} had merely the force of dicta.\textsuperscript{106} Despite the fact that the Court’s holding was limited exclusively to “round trip” goods, other courts have used the British manufacturer hypothetical to determine section 109(a)’s applicability to goods manufactured abroad.\textsuperscript{107}

2. The Second Circuit

\textit{Quality King} served as the basis for the general rule that the first sale doctrine applies only to domestically manufactured goods. The Second Circuit adopted this rule in its most recent decision discussing section 109(a) and foreign manufactured goods, \textit{John Wiley & Sons, Inc. v. Kirtsaeng}, decided in August

\textsuperscript{101} \textit{Id.}
\textsuperscript{102} \textit{Id.} at 152.
\textsuperscript{103} \textit{Id.} at 145; \textit{see} L’anza Research Int’l., Inc. v. Quality King Distribs., Inc., 98 F.3d 1109, 1113–117 (9th Cir. 1996).
\textsuperscript{104} \textit{See Quality King}, 523 U.S. at 145.
\textsuperscript{105} \textit{Id.} at 145, 152.
\textsuperscript{106} \textit{Id.} at 154 (Ginsburg, J., concurring).
\textsuperscript{107} \textit{See id.} at 148; \textit{infra} Part I.B.2.
When John Wiley & Sons brought an infringement action against him, Kirtsaeng invoked the first sale defense under section 109(a). Explaining that the statutory reach of the doctrine is unclear, the court considered three possible interpretations of “lawfully made under this Title” in section 109(a): (1) manufactured in the United States; (2) any work made abroad that receives a copyright notice, which signifies that the work is subject to protection under Title 17; or (3) lawfully made under this title, if this title had been applicable. Because the Copyright Act uses these formulations of the phrase “lawfully made under this title” in other subsections, Kirtsaeng had urged the court that these subsections provided alternate interpretations of the phrase. However, the Second Circuit concluded that to discuss these

108 654 F.3d 210, 224 (2d Cir. 2011).
109 Id. at 213.
110 Id.
111 See id. at 215. The books published domestically by John Wiley & Sons markets often had the same or similar content as the books published by its foreign subsidiary specifically for the Asian markets. Id. at 213.
112 Id. at 214.
113 Id. at 219 (“In arriving at a satisfactory textual interpretation of the statutory language at issue, we focus primarily on the words ‘made’ and ‘under,’ but this task is complicated by two factors: (1) the word ‘made’ is not a term of art in the Copyright Act, and (2) ‘[t]he word under is [a] chameleon’ and courts ‘must draw its meaning from its context.’”).
114 Id. at 220 n. 38 (referencing 17 U.S.C. § 401 (2006)). Section 401(a) discusses the notice of copyright affixed to a copyrighted work manufactured abroad under the authorization of a copyright holder.
115 Id. (referencing 17 U.S.C. § 602(b) (2006)). Section 602(b) prohibits the importation of goods that would have been infringing goods under the Copyright Act, had the Copyright Act been applicable.
116 Id.
possible meanings of section 109(a) in a vacuum could lead to a conflict with the infringing importation clause of the Copyright Act.\footnote{Id.; see 17 U.S.C. § 602(a) (2006).}

Concerned over possible tension between sections 602(a) and 109(a), the Second Circuit revisited the \textit{Quality King} dicta, where the Supreme Court had explained ways in which section 109(a) and section 602(a) do and do not overlap.\footnote{Kirtsaeng, 654 F.3d at 218 (quoting Quality King Distribs., Inc. v. L’anza Research Int’l, Inc., 523 U.S. 135, 148 (1998)); see also supra Part II.B.1.} The hypothetical given in \textit{Quality King} suggested that as a result of the tension between the two sections, foreign manufactured copyrighted material could not be subject to section 109(a).\footnote{Id. at 222.} Moreover, the Second Circuit found that \textit{Kirtsaeng} presented a similar set of facts to the \textit{Quality King} hypothetical in which only the copies made by the United States publisher would be “lawfully made under [Title 17].”\footnote{Id.} Following the hypothetical, the Second Circuit held that this phrase means “made in territories in which the Copyright Act is law.”\footnote{Id. at 222.} Therefore, the first sale defense is not available for foreign manufactured goods such as Kirtsaeng’s textbooks.\footnote{Id.}

\textit{Kirtsaeng}, however, was not decided without a dissenting opinion. Judge Garvan Murtha reasoned that, in keeping with other sections in Title 17, the text of 17 U.S.C. § 109(a) should not actually refer to a place of manufacture.\footnote{Id.} Because both common law policy and prior incarnations of the 1976 Act had been silent on the importance of place of origin with respect to the limitations of the first sale defense, Judge Murtha explained that there is no reason to assume that Congress intended to limit the applicability of section 109(a) by geographic place of manufacture.\footnote{Id. at 226 (Murtha, J., dissenting).} According to his dissent, an application of the first sale doctrine only to domestically manufactured goods would create economic uncertainty and high transaction costs in the secondary market.\footnote{Id. at 227–28.}
Anyone attempting to resell a copyrighted item would have to search for the origin of that item, which for some goods would prove impossible.\textsuperscript{126} Moreover, Judge Murtha recognized that the Second Circuit’s reading of section 109(a) grants a manufacturer the unlimited power to control future sales and dispositions of her work.\textsuperscript{127} This practice gives preferential treatment to copyright holders who outsource manufacturing to overseas locations, and thus incentivizes manufacturing to move abroad.\textsuperscript{128} The dissent endorses the development of an exception to the general rule that section 109(a) applies only to domestically manufactured goods, such as the one that has been in effect in the Ninth Circuit.\textsuperscript{129}

The arguments provided by Judge Murtha in his dissent parallel some of the arguments raised in a previous decision in the Southern District of New York, \textit{Pearson Education, Inc. v. Liu}.\textsuperscript{130} \textit{Liu} presented a similar set of facts as \textit{Kirtsaeng}. In \textit{Liu}, the defendant had been using Internet marketplaces to resell textbooks in the United States that had been manufactured abroad for the purpose of distribution exclusively in foreign markets.\textsuperscript{131} Like Judge Murtha, the Southern District considered the legislative history and intent of section 109(a) and reasoned that a broader interpretation of the statute, one that would allow the defense to be used when the goods at issue were manufactured abroad, was appropriate under certain circumstances.\textsuperscript{132} Specifically, the \textit{Liu} court determined that a copy should be subject to United States copyright law (and thus, should be considered “lawfully made”) (1) if it is manufactured by the copyright holder, (2) if the copyright holder authorized the manufacture of the good, or (3) if the manufacturer’s activities would be protected by the fair use doctrine under section 107 of the Copyright Act.\textsuperscript{133} The court also

\begin{itemize}
\item\textsuperscript{126} Id.
\item\textsuperscript{127} Id.
\item\textsuperscript{128} Id.
\item\textsuperscript{129} Id. at 228 (citing Denbicare U.S.A. Inc. v. Toys “R” Us, Inc., 84 F.3d 1143 (9th Cir. 1996)).
\item\textsuperscript{130} 656 F. Supp. 2d 407 (S.D.N.Y. 2009).
\item\textsuperscript{131} Id. at 408.
\item\textsuperscript{132} Id. at 412–15.
\item\textsuperscript{133} Id. at 412–13. The fair use doctrine, codified at 17 U.S.C. § 107 (2006), states as follows:
\end{itemize}
discussed the policy justifications of reading section 109(a) to apply to foreign manufactured goods so long as a sale authorized by the copyright holder has occurred.\footnote{Liu, 656 F. Supp. 2d at 413–14.} However, despite enumerating reasons for holding that the first sale doctrine should be available to Liu and other similarly situated defendants, the Southern District held that it was bound by the dicta in \textit{Quality King}.\footnote{Id. at 415–16.} For this reason, it ultimately held that “lawfully made under this Title” refers exclusively to domestically manufactured goods.\footnote{Id.}

Several cases bearing fact patterns similar to \textit{Kirtsaeng} and \textit{Liu} have come before the Southern District of New York and the Second Circuit in the past few years.\footnote{See generally, e.g., Pearson Educ., Inc. v. Yadav, 2011 WL 4348010 (2d Cir. 2011); Pearson Educ., Inc. v. Arora, 717 F. Supp. 2d 374 (S.D.N.Y. 2010).} Again, bound by \textit{stare decisis}, the Second Circuit based its holding in \textit{Pearson Education, Inc., v. Yadav} on the decision in \textit{Kirtsaeng}.\footnote{See generally Yadav, 2011 WL 4348010.} Similarly, in \textit{Pearson Education, Inc. v. Arora}, the Southern District, citing \textit{Liu}, reiterated that the first sale doctrine applies only to domestically manufactured goods.\footnote{Arora, 717 F. Supp. 2d at 379 & n.39.} These cases followed the Second Circuit’s narrow reading of the first sale doctrine, albeit

\begin{quote}
Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—

(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
(2) the nature of the copyrighted work;
(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
(4) the effect of the use upon the potential market for or value of the copyrighted work.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.
\end{quote}
unenthusiastically, admitting the courts’ inability to upset prior holdings in the circuit.

3. The Perpetual Control Problem and the Ninth Circuit’s Carve-out

Although Quality King has been used as instructive in the Second Circuit, the Ninth Circuit has expressed disfavor of such limited holdings. Beginning with BMG Music v. Perez, Parfums Givenchy, Inc. v. Drug Emporium, Inc., and eventually Denbicare U.S.A., Inc. v. Toys “R” Us, Inc., the Ninth Circuit articulated, in its interpretation of “lawfully made under this title,” a carve-out that makes section 109(a) applicable to foreign manufactured goods if the copyright holder sells or provides its authorization to sell those goods within the United States. Justice Ginsburg likely had these cases in mind when she cautioned that Quality King addressed only the first sale doctrine’s applicability to domestically manufactured gray market goods and she emphasized the hypothetical’s status as dicta—not law. For this reason, Quality King did not govern the Ninth Circuit’s exception, which applies in cases where the arbitrated goods are manufactured abroad.

The first of the cases to develop this exception was BMG Music v. Perez, which held that a first sale of foreign manufactured goods abroad would be insufficient to trigger the first sale defense. In BMG Music, the defendant faced an infringement action by the copyright holder, claiming that he had purchased copyrighted sound recordings abroad and imported them for

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140 Liu provides the most extreme example, with Judge Holwell explaining all the reasons why a narrow holding would produce undesirable practical results, but then reasoning that the Supreme Court’s dicta holds the greatest weight in determining the outcome of this type of case. See Liu, 656 F. Supp. 2d at 415.
141 Arora, 717 F. Supp. 2d at 379 & n.39.
142 952 F.2d 318 (9th Cir. 1991).
143 38 F.3d 477 (9th Cir. 1994).
144 84 F.3d 1143 (9th Cir. 1996).
145 See id. at 1150.
147 Denbicare, 84 F.3d at 1150; Givenchy, 38 F.3d at 481; BMG Music, 952 F.2d at 319.
148 BMG Music, 952 F.2d at 319.
commercial resale in the United States. Following an earlier case in the Third Circuit, *Columbia Broadcasting Systems v. Scorpio Music Distributors*, the Ninth Circuit reasoned that if section 109(a) was construed as a defense to the importation right “superseding the prohibition on importation set forth in the more recently enacted § 602 would render § 602 virtually meaningless.” Thus, following *Scorpio*, *BMG Music* held that the first sale doctrine does not provide a defense for goods manufactured abroad because the phrase “lawfully made under this Title” limits the defense “to copies legally made and sold in the United States.”

Although, roughly speaking, this understanding of the rule reflects the general rule propagated in all circuits today, here, the Ninth Circuit erroneously inserted “and sold” into its understanding of “lawfully made under this Title,” and thus opened the door for a holding that a sale by the copyright owner in the United States is sufficient to make an item “lawfully made under this Title.”

Using this line of reasoning, *Parfums Givenchy, Inc. v. Drug Emporium, Inc.* provided the Ninth Circuit with a chance to continue developing a justification for how it would apply the first sale doctrine to gray market goods. In France, Givenchy produced, marketed, and sold boxes for Givenchy perfumes to Givenchy USA, its American subsidiary. Givenchy USA recorded the design of the box with the United States Copyright Office and obtained a copyright certificate. Drug Emporium began buying the perfume from third party importers in the United States and marketing the goods in their original packaging. Agreeing with Givenchy USA’s argument, the Ninth Circuit held

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149 *Id.*
151 *BMG Music*, 952 F.2d at 319 (emphasis added).
152 *Id.*
153 *See Givenchy*, 38 F.3d at 481 (holding that the first sale doctrine does not apply to foreign manufactured goods unless and until a first sale has occurred in the United States).
154 *Id.* at 479.
155 *Id.*
156 *Id.*
that the first sale doctrine will not apply to foreign manufactured goods unless and until there has been a first sale authorized by the copyright holder in the United States. In *Givenchy*, the importing third parties had purchased the perfume from Givenchy in France. Thus, because no first sale under the copyright holder’s authority had occurred domestically, Drug Emporium was unable to use the first sale defense provided by section 109(a). After *Givenchy*, it was clear that the first sale doctrine could not be triggered if no sale, authorized by the copyright holder, had occurred within the United States. As in *BMG Music*, this understanding of the statute does not stray very far from the general rule surrounding section 109(a).

However, this reading of the rule gave the Ninth Circuit the opportunity to affirmatively articulate, within its interpretation of “lawfully made under this title,” the exception for foreign made goods sold domestically under the copyright holder’s consent.

*Denbicare U.S.A., Inc. v. Toys “R” Us, Inc.*, a case decided two years after *Givenchy*, marked a definitive shift in the Ninth Circuit’s first sale doctrine jurisprudence. There, the court held that the sale of a foreign manufactured good by the copyright owner or with his authority in the United States (or in a United States foreign trading zone) would be sufficient to bring section 109(a) into play, even if the good is manufactured abroad. Thus *Denbicare* eliminated the need for a domestic sale in order to trigger the first sale defense; after this case, if the seller was the foreign copyright holder, the defense applied once that foreign seller sold to a domestic purchaser. *Denbicare* recognized the “widespread criticism” of applying section 109(a) only to goods manufactured in the United States. In each case, the Ninth Circuit acknowledged that the practical result—providing a copyright holder with control over even the tenth sale of a good—

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157 *Id.* at 481.
158 *Id.*
159 *Id.*
161 *Givenchy*, 38 F.3d at 481.
162 *Denbicare*, 84 F.3d 1143 (9th Cir. 1996).
163 *Id.* at 1150.
164 *Id.* at 1149–50.
would be untenable and out of sync with the legislative history and text of the Copyright Act.\textsuperscript{165} For this reason, \textit{Denbicare} announced the domestic sale exception within its interpretation of “lawfully made under this title,” and effectively limited the holding of \textit{BMG Music} to its facts.\textsuperscript{166}

The phrase “lawfully made under this Title” and the first sale doctrine’s applicability to foreign manufactured goods returned to the Ninth Circuit in \textit{Omega, S.A. v. Costco Wholesale Corp.}\textsuperscript{167} In \textit{Omega}, the discount club Costco Wholesale purchased Swiss-manufactured Omega “Seamaster” watches from a New York company, which had purchased the watches from third parties, which in turn had purchased the watches abroad from an authorized distributor.\textsuperscript{168} Costco began reselling the watches for $1,299.99 though they retailed in the United States for $1,995.\textsuperscript{169} Although Omega had authorized the original sale of the watches to the foreign distributor, it had authorized neither the watches’ importation into the United States nor the sales made by Costco.\textsuperscript{170} Once Omega received complaints from authorized distributors about Costco’s steeply discounted sales of the watches, it placed a copyrighted Omega Globe Design on the underside of the watches.\textsuperscript{171} Omega was then able to file a copyright infringement

\textsuperscript{165} \textit{Id.} at 1150.
\textsuperscript{166} \textit{Id.} at 1149–50 (discussing BMG Music v. Perez, 952 F.2d 318 (9th Cir. 1991)).
\textsuperscript{167} 541 F.3d 982, 985 (9th Cir. 2008). To avoid confusion with the Supreme Court’s decision with the same name, the Ninth Circuit’s decision is referred to as \textit{Omega} in the body of this Note. The Supreme Court decision will be referred to as \textit{Costco}. \textit{See Costco Wholesale Corp. v. Omega, S.A.}, 131 S. Ct. 565 (2010).
\textsuperscript{168} \textit{Omega}, 541 F.3d at 984.
\textsuperscript{169} \textit{See Omega, S.A. v. Costco Wholesale Corp.}, CV 04-05443 TJH, slip op. at 1 (E.D. Cal. Nov. 9, 2011).
\textsuperscript{170} \textit{Omega}, 541 F.3d at 984.
\textsuperscript{171} \textit{See Omega}, CV 04-05443 TJH, slip op. at 2.
action under sections 106(3) and 602(a).\textsuperscript{172} Costco filed a cross-motion under section 109(a).\textsuperscript{173}

Citing \textit{Quality King}’s dicta discussing the relationship between section 109(a) and section 602(a), the Ninth Circuit explained that the type of importation prohibited by section 602(a) would be “merely a subcategory” of an infringement of the distribution right.\textsuperscript{174} Thus, it held that generally, section 109(a) can provide a defense against a section 602(a) claim to the extent that the claim involves a domestically made copyrighted item.\textsuperscript{175}

Moreover, the \textit{Omega} court explained that a product cannot be “lawfully made under this Title” simply by virtue of its manufacture by a United States copyright holder, but that an additional, affirmative step is required, such as the manufacture of the items in the United States.\textsuperscript{176} Domestically manufactured goods are undoubtedly covered by the first sale doctrine, but the Seamaster watches had been manufactured in Switzerland and first sold by the copyright holder abroad.\textsuperscript{177} Thus, because it was factually similar to \textit{BMG Music}, the Ninth Circuit did not consider the domestic sale exception.\textsuperscript{178}

The \textit{Omega} court held that the rule that the first sale doctrine generally does not apply to foreign manufactured goods remained in place.\textsuperscript{179} It also recognized the possibility that the exception articulated by \textit{Givenchy} and \textit{Denbicare} for domestic sales of foreign manufactured goods may not have survived \textit{Quality

\begin{footnotesize}
\begin{itemize}
  \item[172] \textit{Omega}, 541 F.3d at 984. In its current form, the Copyright Act provides no protection for watch design. However, jewelry design is protected because of its relationship to sculpture. 17 U.S.C. § 102(a)(5) (2006). Omega’s watches themselves were not protected by copyright law due to the generic appearance of the timepieces. Interestingly, although the proposed Innovative Design Protection and Piracy Prevention Act (IDPPPA) would provide copyright protection for fashion design including accessories such as handbags, belts, and eyeglass frames, watch design is not included in this bill. See H.R. 2511, 112th Cong. § 2(a)(2)(B) (2011).
  \item[173] See \textit{Omega}, 541 F.3d at 985 (referring to Quality King Distrib., Inc. v. L’Anza Research Int’l, Inc., 523 U.S. 135, 144–45 (1998)).
  \item[174] Id.
  \item[175] Id. at 988.
  \item[176] Id. at 989–90.
  \item[177] Id.
  \item[178] Id. at 990.
  \item[179] Id.
\end{itemize}
\end{footnotesize}
However, given the opportunity to resolve the question, the Supreme Court simply affirmed the Ninth Circuit in a 4-4 decision without an opinion and left lingering the question of the first sale doctrine’s applicability to foreign manufactured goods.\(^{181}\)

The Ninth Circuit justifies its exception on the basis of policy and legislative history.\(^{182}\) According to the Ninth Circuit, the outcome of a narrow holding like the Second Circuit’s—giving manufacturers of foreign made goods perpetual control over their works—would be so undesirable that goods manufactured abroad should be made subject to the first sale doctrine under certain circumstances.\(^{183}\) However, the carve-out read into section 109(a) by the Ninth Circuit still produces impractical consequences for goods manufactured and sold abroad, such as providing a copyright holder with control over distribution of its goods following their sale and thus incentivizing the outsourcing of manufacturing to foreign locations.

This consequence was exemplified by the decision on remand in *Omega*,\(^ {184}\) where the Eastern District of California, in November 2011, permitted Costco to use a new defense against Omega’s infringement action.\(^ {185}\) Omega conceded that its purpose in placing the copyrighted Omega Globe Design on the watch was to invoke section 602(a) and thereby control the importation and sales of the watches.\(^ {186}\) As a result, the Eastern District found that Omega had committed copyright misuse, which is a defense to any

\(^{180}\) *King*,\(^ {180}\) Id.


\(^{182}\) *Denbicare U.S.A. Inc. v. Toys “R” Us Inc.*, 84 F.3d 1143, 1149–50 (9th Cir. 1996).

\(^{183}\) *Id.*

\(^{184}\) See *Omega, S.A. v. Costco Wholesale Corp.*, CV 04-05443 TJH, at 3 (E.D. Cal. Nov. 9, 2011) (holding that the plaintiff’s infringement action under sections 106(3) and 602(a) was barred by copyright misuse).

\(^{185}\) *Id.*

\(^{186}\) *Id.*
copyright infringement action.\textsuperscript{187} Although the application of this concept outside of antitrust law or tying arrangements in copyright law is relatively new, the Eastern District of California’s decision was based on precedent from the Ninth and Fourth Circuits.\textsuperscript{188} The court found that misuse occurs when copyright is used in a way that violates the public policy objectives of copyright law. Moreover, a misuse defense functions similarly to the first sale defense by preventing copyright holders from leveraging a monopoly to control areas outside of that monopoly.\textsuperscript{189}

\section*{II. CONFLICT: UNDER WHAT STANDARD DOES THE FIRST SALE DOCTRINE APPLY TO FOREIGN MANUFACTURED GOODS?}

“As demonstrated by the decades-old tension in circuit-law, reasonable jurists can, and do, disagree about the first-sale doctrine’s application to copies manufactured abroad.”\textsuperscript{190} The Ninth Circuit and the Second Circuit agree that in section 109(a) of the Copyright Act, Congress uses the phrase “lawfully made under this Title” to describe items manufactured in the United States.\textsuperscript{191} In both circuits, the reseller of a foreign manufactured good generally will not succeed if she raises the first sale defense in an infringing importation action under section 602(a).\textsuperscript{192} However, the Ninth Circuit provides an exception to this rule: a foreign manufactured good may be subjected to the first sale doctrine if it is sold under the authorization of a copyright holder in the United States.\textsuperscript{193} The standard for determining whether the defendant in each case may successfully raise the first sale defense when faced with an infringement suit for importing

\textsuperscript{187} Id. (“[C]opyright misuse is an equitable defense to copyright infringement, the contours of which are still being defined.” (quoting MDY LLC v. Blizzard Entertainment, Inc., 629 F.3d 928, 941 (9th Cir. 2010)).

\textsuperscript{188} See id. (citing A&M Records, Inc. v. Napster, Inc. 239 F.3d 1004, 1026 (9th Cir. 2001); Lasercomb Am., Inc. v. Reynolds, 911 F.2d 970, 978 (4th Cir. 1990)).

\textsuperscript{189} See id.


\textsuperscript{192} See supra note 192 and accompanying text (discussing cases from both circuits).

\textsuperscript{193} See Denbicare U.S.A. Inc. v. Toys “R” Us Inc., 84 F.3d 1143, 1150 (9th Cir. 1996).
foreign manufactured goods thus differs by circuit. This is in part because, in drawing the geographic boundaries of section 109(a), the Second Circuit and the Ninth Circuit each focus on a different portion of “lawfully made under this Title” as the operative part of the phrase. Therefore, key facts in each case, such as the location of the first sale of the goods in question, weigh differently. The outcome of each case is thus both fact- and circuit-specific.

In the Second Circuit, the applicability of the first sale doctrine is governed by a bright line rule—the defense is completely unavailable to resellers of foreign manufactured goods. The most recent cases heard by the Second Circuit, namely Kirtsaeng and the Pearson cases, hold that “lawfully made under this Title” must be interpreted to mean “made in the United States.” Although the court began its textual interpretation by focusing on the words “made” and “under,” it eventually decided that because these words are not terms of art, the phrase must draw meaning

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194 Compare Denbicare, 84 F.3d at 1150, with Kirtsaeng, 654 F.3d at 222.
195 See, e.g., Kirtsaeng, 654 F.3d at 222.
196 When this Note went to print, the Supreme Court had recently granted certiorari to Kirtsaeng v. John Wiley & Sons, Inc. In the October 2012 term, the Supreme Court will review how section 109(a) and 602(a) apply to a copyrighted item that was manufactured and legally obtained abroad and then imported into the United States for resale. Specifically, the Court will look to answer the following three questions:

Can such a foreign-made product never be resold within the United States without the copyright owner’s permission, as the Second Circuit held in this case? Can such a foreign-made product sometimes be resold within the United States without permission, but only after the owner approves an earlier sale in this country, as the Ninth Circuit held in Costco? Or can such a product always be resold without permission within the United States, so long as the copyright owner authorized the first sale abroad, as the Third Circuit has indicated?

198 Kirtsaeng, 654 F.3d at 219.
from its context. Specifically, it interprets the phrase by studying the interaction between section 109(a) and section 602(a). This circuit finds that the coverage of section 602(a) is broader than the coverage of section 109(a) because, as the part of the statute that identifies infringing importations, section 602(a) encompasses “copies that were ‘lawfully made’ . . . under the law of some other country” in addition to piratical copies. Under any other interpretation, section 602(a) would be redundant.

Moreover, compared to its Ninth Circuit counterpart, the Second Circuit relied more heavily on the dicta in Quality King for the purpose of interpreting section 109(a). First, Kirtsaeng and the Pearson cases involved a set of facts similar to the hypothetical given in Quality King. In both the hypothetical and in the cases reviewed by the Second Circuit, a foreign manufacturer and a domestic manufacturer each held distribution rights in his respective territory. There was an attempt in both scenarios to sell in the United States a book that was manufactured abroad exclusively for foreign distribution. The Quality King hypothetical predicts an outcome for this type of situation: only the copies made by the publisher of the United States edition are “lawfully made under this Title” and thus the first sale doctrine does not provide the publisher of the foreign edition with a defense to a 602(a) action. Using this reasoning, Kirtsaeng, Liu, Yadav, and Arora all set forth the same narrow precedent—the first sale

199 Id. at 220–21.
200 Quality King Distribs., Inc. v. L’anza Research Int’l, Inc., 523 U.S. 135, 147 (1998); see also Kirtsaeng, 654 F.3d at 221; Liu, 656 F. Supp. 2d at 415.
201 Kirtsaeng, 654 F.3d at 221.
202 See id.; see also Yadav, 2011 WL 4348010; Arora, 717 F. Supp. 2d at 379; Liu, 656 F. Supp. 2d at 415–16.
203 See Kirtsaeng, 654 F.3d at 221–22; Liu, 656 F. Supp. 2d at 415–16; see also Yadav, 2011 WL 4348010; Arora, 717 F. Supp. 2d at 379.
204 See Yadav, 2011 WL 4348010; Kirtsaeng, 654 F.3d at 212–13; Arora, 717 F. Supp. 2d at 375–76; Liu, 656 F. Supp. 2d at 408.
205 See Yadav, 2011 WL 4348010; Kirtsaeng, 654 F.3d at 213; Arora, 717 F. Supp. 2d at 376; Liu, 656 F. Supp. 2d at 408.
207 See Yadav, 2011 WL 4348010; Kirtsaeng, 654 F.3d at 222; Arora, 717 F. Supp. 2d at 379; Liu, 656 F. Supp. 2d at 416.
doctrine is absolutely unavailable in infringement cases involving gray market goods manufactured abroad.

In the Ninth Circuit, however, the same goods may qualify for the first sale defense if the copyright holder has sold or has authorized a sale of the goods in the United States. Even if the goods were not literally “made under this Title,” they could become subject to Title 17 provisions through a domestic sale authorized by the United States copyright holder and thus fall within the bounds of the first sale doctrine. Case law preceding Omega and Quality King explained that “lawfully made under this Title” presents a legal rather than a geographic boundary, emphasizing a good’s lawfulness as the purpose of that phrase within section 109(a). This rationale led to the creation of the Denbicare exception, which hypothesized that a foreign made good could be made “lawful” for the purposes of the first sale doctrine if subjected to a sale by the copyright holder in the United States. Regardless of this exception, the most recent discussion on section 109(a) by the Ninth Circuit, in Omega, determined (like the Second Circuit) that “lawfully made under this Title” means manufactured in the United States.

It is important to note that in the Ninth Circuit case, Omega argued that Quality King had eliminated the Denbicare exception. However, the Ninth Circuit did not evaluate this argument because the Denbicare exception was not relevant to facts of the case. In Omega, the watches showcasing the Omega Globe Design had been sold in the United States without Omega’s authority, and, as a result, the first sale doctrine did not apply. Upon appeal to the Supreme Court, the Court affirmed the Ninth’s Circuit’s decision without an opinion, so the Denbicare exception remains untested.

208 See Denbicare U.S.A. Inc. v. Toys “R” Us, Inc., 84 F.3d 1143, 1150 (9th Cir. 1996).
209 Id.
210 Omega, S.A. v. Costco Wholesale Corp., 541 F.3d 982, 985 (9th Cir. 2008) (discussing earlier cases).
211 Id. at 990.
212 Id.
213 Id.
214 Id.
III. NEW ALTERNATIVES

A. The Second Circuit’s Approach Produces a Problem of Perpetual Control

Both approaches taken by the circuit courts are problematic. The Second Circuit bases its rule on the British publisher hypothetical in Quality King, which has only the force of dicta. Justice Ginsburg cautioned against reliance on that very hypothetical because Quality King did not involve or ask the Court to address foreign manufactured goods. Moreover, the hypothetical is subject to more than one interpretation. Although the Second Circuit seems to have understood the hypothetical to explain that domestically produced copies are always physically manufactured within the jurisdiction of the Copyright Act, whereas foreign produced copies never are, a different interpretation could suggest that copies are excluded from United States Copyright law when the foreign copyright holder’s distribution right is limited to countries other than the United States. The latter understanding of the rule could minimize the undesirable practical consequences discussed by the Ninth Circuit if it is limited in some way.

Moreover, the Quality King hypothetical may be factually distinguished from Kirtsaeng and the Pearson cases in the Second Circuit, and thus these distinctions corroborate an alternative interpretation. First, in the scenario presented by the Supreme Court, the British publisher—who presumably has distribution rights to the copyrighted items in England only—attempts a sale in the United States. The Quality King Court correctly identifies this as the type of infringement that section 602(a) intends to prevent and is therefore not protected under section 109(a). It is possible that in Quality King, the Court articulated the British publisher hypothetical in order to protect foreign markets and distribution from interference by U.S. copyright law. But the Court never discussed the statutes’ interactions if a transferee, like

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217 See infra note 218 and accompanying text.

Kirtsaeng or Pearson, as opposed to a party holding distribution rights, is the party performing the sale. Neither the Second Circuit nor the Ninth Circuit considers this distinction in any of the decisions. Section 109 is specifically titled “Limitations on Exclusive Rights: Effect of Transfer of Particular Copy or Phonorecord.” To illustrate, in Kirtsaeng, the foreign distributor had no role in the allegedly infringing sales. A transfer of the copyrighted item by the owner of the foreign distribution rights had already occurred and the copyright holder, even if abroad, had already received full consideration for the copy. Both the copyright holder and the foreign distributor had lawfully earned the profit they were owed. A sale by Kirtsaeng, by the defendants in the Pearson cases, or even by Costco, is more likely the type of sale that section 109(a) intends to protect, as opposed to a domestic sale by a foreign distributor. For this reason, the Second Circuit in Kirtsaeng and the Pearson cases arguably has overstated the relevance of the Quality King hypothetical.

Furthermore, while the bright-line interpretation may be faithful to a literal reading of the copyright statute and to Supreme Court dicta, the Second Circuit’s application of the first sale doctrine produces undesirable practical consequences because it provides a copyright holder with perpetual control over any of its goods that are manufactured abroad. The ability to control future sales of goods provides an incentive beyond lower production costs associated with moving manufacturing overseas. Despite deciding in favor of an absolute rule, judges in the Second Circuit have expressed discomfort with the rule in part because of this

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220 Brief of Amici Curiae Ent’t Merchs. Ass’n & Nat’l Ass’n of Recording Merchandisers in Support of Reversal at 11–12, John Wiley & Sons, Inc. v. Kirtsaeng, 654 F.3d 210 (2d Cir. 2011) (No. 09-4896-cv), 2010 WL 6351493. As EMA’s amicus brief indicates, in the Quality King oral argument, the Supreme Court mentions that the phrase “lawfully made under this Title” includes copies that are made either under U.S. copyright law, or with the authorization of a U.S. copyright holder. Id. (citing Transcript of Oral Argument at 11–12, Quality King Distrubs., Inc. v. L’anza Research Int’l, Inc. (1998) (No. 96-1470)).

221 See Kirtsaeng, 654 F.3d at 227 (Murtha, J., dissenting); Liu, 656 F. Supp. 2d at 416.
effect. Judge Murtha’s dissent in *Kirtsaeng*, for example, recommended that because of these consequences, the first sale doctrine should apply to any work protected by U.S. copyright law, regardless of its place of manufacture. Similarly, despite having prefaced his opinion with a nearly exhaustive explanation of arguments in favor of allowing the first sale doctrine to apply to foreign manufactured goods in some capacity, Judge Holwell in *Pearson v. Liu* reluctantly limited “lawfully made under this Title” to “refer to the jurisdiction in which a copy is manufactured”—specifically, the United States, because of the *Quality King* hypothetical. According to the Second Circuit, the Supreme Court in *Quality King* had already spoken directly to whether the first sale doctrine applies to copies manufactured abroad and thus the court was bound by this reasoning.

**B. The Ninth Circuit’s Approach Provides an Imperfect Solution to the Perpetual Control Problem but Distorts the Statute**

The Ninth Circuit’s carve-out addresses, to some extent, the perpetual control problem created by a holding like the Second Circuit’s. However, the exception is also problematic because it created a new standard that lacks a statutory foundation. The Ninth Circuit appropriated the decision of the Eastern District of Pennsylvania in *Columbia Broadcasting System, Inc. v. Scorpio Music Distributors, Inc.* This case, without providing much reasoning, concluded that the first sale doctrine provides protection to the lawful buyer of copies manufactured and sold in the United States. Although read literally this interpretation may not stray too far from the statute, the Ninth Circuit in *Denbicare* later interpreted “manufactured and sold” disjunctively—a copyrighted good could become lawfully made in the United States either through manufacture in the United States or through a domestic sale made or authorized by the copyright owner. However, the

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222 See *Kirtsaeng*, 654 F.3d at 227 (Murtha, J., dissenting).
224 *Id.* at 415.
226 *Id.*
227 See *Denbicare U.S.A. Inc., v. Toys “R” Us, Inc.*, 84 F.3d 1143, 1149–50 (9th Cir. 1996); see also *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 481 (9th Cir. 1994).
The text of the statute does not suggest in any part that a lawful sale alone will suffice to ensure that an item is “lawfully made under this Title.” The Ninth Circuit justified reading the exception into the statute based on “widespread criticism” of the more limited reading of section 109(a) adopted by the Second Circuit. The exception would have more logical force if the Ninth Circuit had explained that Congress makes place of manufacture a decisive factor in the Copyright Act by explicitly saying so, for example, by using phrases such as “under this title” and “manufactured in the United States” in the same sentence, or by using more specific language.

Moreover, as the Omega court concluded, it is unclear whether the Ninth Circuit’s exception survives Quality King. In Omega, the Ninth Circuit wavered on the validity of the exception, first holding that section 109(a) can provide a defense only as long as the claims involve domestically made copies because Quality King “suggests that ‘lawfully made under this title’ refers exclusively to copies of U.S.-copyrighted works that are made domestically.” It later acknowledged the exception in dicta, however, and found that Costco would not be entitled to summary judgment, even under Denbicare. However, because of its factual differences with Denbicare and its predecessors, Quality King did not directly overrule this line of cases. The Ninth Circuit thus concluded that it did not need to address whether the Denbicare exception survives, given that it did not apply to the facts of the case.

Even if the Ninth Circuit sometimes prevents an untenable outcome by applying the first sale doctrine to foreign manufactured goods that have been sold domestically under the copyright holder’s authorization, this exception is not foolproof. In Omega, for example, the first sale defense did not apply to the watches even though Omega had received its due consideration.

228 See Denbicare, 84 F.3d at 1150.
230 Omega, S.A. v. Costco Wholesale Corp., 541 F.3d 982, 990 (9th Cir. 2008).
231 Id. at 989.
232 Id. at 986.
233 Id. at 987.
234 Id. at 990.
through a first sale to a foreign distributor abroad.\textsuperscript{235} Despite the Denbicare exception, Omega was still able to prevent a sale in the United States by bringing an infringement action under section 602(a).\textsuperscript{236} On remand, the Eastern District of California demonstrated its dissatisfaction with this result by finding copyright misuse and thereby preventing Omega from claiming infringement under section 602(a).\textsuperscript{237}

A successful defense of misuse of copyright may function in a similar way to the first sale doctrine, by barring a plaintiff from prevailing on an action for infringement of the misused copyright.\textsuperscript{238} Omega had conceded that it only placed the copyrighted design on the watches after it learned that Costco was reselling the watches at the discounted price, in hopes that copyright law would aid the company in preventing this type of unauthorized sale.\textsuperscript{239} The Eastern District of California’s designation of copyright misuse was facilitated by the fact that Omega did not attempt to receive remunerations for the importation alone. Although the watches were stored by a New York company for some time before being sold to Costco, this did not induce Omega to commence a legal action.\textsuperscript{240} It is thus evident that Omega was not merely looking to recover compensation that it had been denied due to an unlawful importation. Rather, it seems more likely that Omega’s main interest was in maintaining control over the channels of distribution and sale of its goods. For this reason, it looked for a legal recourse after Costco had resold the watches, and the Eastern District of California found that Omega’s use of copyright in this way was unacceptable.\textsuperscript{241}

\textsuperscript{235} \textit{Id.}
\textsuperscript{236} \textit{Id.}
\textsuperscript{237} Omega S.A. v. Costco Wholesale Corp., CV 04-05443 TJH, slip op. at 3 (E.D. Cal. Nov. 9, 2011).
\textsuperscript{238} \textit{Id.} at 2.
\textsuperscript{239} \textit{Id.}
\textsuperscript{241} Omega, CV 04-05443 TJH, slip op. at 2–3.
C. Copyright Misuse

Although copyright misuse is an innovative means of providing gray market vendors with protection against section 602 infringement actions, the boundaries of this area of copyright law are undefined.\textsuperscript{242} It is not clear that this is an appropriate defense to invoke if a gray market vendor is accused of copyright infringement. The three types of copyright misuse courts have recognized include: (1) an offensive action aimed at limiting competition; (2) an attempt by the copyright holder to extend the scope of his copyright beyond the rights granted to him under the Copyright Act; and (3) offensive licensing terms used to cross the idea and expression divide.\textsuperscript{243}

One of the standards adopted in the Ninth Circuit for finding copyright misuse is that, broadly speaking, there must be a nexus between the copyright holder’s actions and the public policy involved in the grant of a copyright.\textsuperscript{244} A copyright holder must be using its copyright to undermine the Constitutional goal of promoting innovation and expression through its use of the copyright.\textsuperscript{245} Copyright holders have disrupted these public policy aims in a number of ways, including, for example, by preventing the development of a work of research through intimidation against the use of non-copyrightable facts and works which a defendant did not own,\textsuperscript{246} or by forcing a user to enter an exclusive use contract in exchange for the licensing of its copyright.\textsuperscript{247}

The Eastern District of California did not provide much reasoning for its finding that Omega prevented a Constitutional goal outside of Omega’s admission that the copyrighted symbol was placed on the watches in order to commence an infringement action, and it is not clear that other courts will adopt copyright misuse as a defense for these types of actions.\textsuperscript{248} Thus, defendants

\textsuperscript{242} See MDY Indus., 629 F.3d at 941.
\textsuperscript{243} See Kathryn Judge, Note, Rethinking Copyright Misuse, 57 Stan. L. Rev. 901, 913 (2004).
\textsuperscript{244} Id.
\textsuperscript{245} Shloss v. Sweeney, 515 F. Supp. 2d 1068, 1080 (N.D. Cal. 2009).
\textsuperscript{246} Id. at 1080–81.
\textsuperscript{247} See Practice Mgmt. Info. Corp. v. Am. Med. Ass’n, 121 F.3d 516, 520 (9th Cir. 1997).
\textsuperscript{248} See Omega, CV 04-05443 TJH, slip op.
may also consider other defenses when subjected to a section 106(3) or 602(a) action, but these defenses are beyond the scope of this Note.

D. A New Framework

Neither the Ninth Circuit nor the Second Circuit provide a satisfactory solution to the interpretation of section 109(a), and it is unclear whether another defense would prevent a copyright holder from retaining perpetual control over the item. Thus, courts should apply a different interpretation of section 109(a) when considering the first sale defense.

One way of interpreting the first sale doctrine’s applicability, which would remain faithful to the Copyright Act and to Supreme Court precedent while avoiding a perpetual control problem, may be to divide all gray market goods into one of three categories. The first category of goods would include only those that are domestically manufactured. Under the plain text of the Copyright Act, the current reading of section 109(a) by the Second Circuit and the Ninth Circuit, and all of the cases discussed, these goods would always be subject to the first sale doctrine. The rule for these goods is consistent with the current case law in all circuits.

The second category of goods would include only those that are manufactured abroad through the authorization of a copyright holder and prepared for distribution in the United States as well as, potentially, other countries. The first sale doctrine should also apply to these goods for several reasons. First, the use of the defense here is in keeping with the intent of the doctrine and the policy reasons articulated since Bobbs-Merrill—if the copyright holder has manufactured the goods abroad for distribution either domestically or abroad, and has subsequently sold them to an importer, the copyright holder has received its due consideration for the goods. Second, this category of goods is distinguishable from those proscribed from the first sale defense by the Quality King hypothetical. The hypothetical suggested that goods made abroad by a foreign distributor exclusively for distribution would not be subject to the first sale doctrine, because by selling domestically, such a distributor would infringe on the rights of a
copyright holder that section 602(a) is designed to protect.\textsuperscript{249} Providing protection under section 109(a) for goods manufactured for foreign distribution would thus conflict with the rights provided by sections 106(3) and 602(a). In this category of goods, however, a section 109(a) defense will not come into conflict with section 602(a) because first, the copyright holder will have implicitly acknowledged an importation of the goods if the goods are manufactured abroad but created for the American markets, and second, unless these goods are stolen at the point of manufacture, a lawful first sale to a transferee will have taken place. Thus, the copyright holder’s intentions will not have been compromised. Third, the application of section 109(a) to a good first sold abroad will not require extraterritorial application of United States law because the action that will bring section 109(a) into play will be a domestic attempt to resell the copy, which is copyrighted in the United States.\textsuperscript{250} Finally, making the first sale doctrine applicable to goods manufactured abroad but intended for domestic sale may eliminate instances of copyright misuse, as exemplified in \textit{Omega}. Solely affixing a copyrighted symbol on an item manufactured abroad would no longer provide a copyright holder with perpetual control over sales of that item.

The third category of gray market goods would include those that are manufactured by a foreign distributor for the purpose of distribution abroad. For these goods, as the illustration in \textit{Quality King} has shown,\textsuperscript{251} the first sale doctrine would not apply. In these cases, there may or may not be a third party transferee, but whether one plays a role is ultimately irrelevant because, either way, a first sale will not have been authorized by the American copyright holder. Moreover, because the final destination of these goods is likely foreign, the resale of these goods would still be subject to an infringement action under section 602(a), because an unauthorized importation would have taken place. Although in theory, copyright holders would have perpetual control over domestic resales of these goods, perhaps this makes sense under the policy


\textsuperscript{250} See \textit{generally} Brooks, supra note 216.

\textsuperscript{251} See 19 C.F.R. § 133.2(e) (2012).
rationale of the first sale doctrine and the Copyright Act as a whole. If the copyright holder intends to distribute the good domestically, it will have done so with a different version, specifically the domestically produced version. A copyright holder could be required by regulation to provide U.S. Customs and Border Patrol with a statement describing the versions made for exclusive distribution abroad that should be denied entry into the United States. Federal regulation allows trademark holders to distinguish their goods at the border through Lever-rule protection.\textsuperscript{252} According to the Lever-rule, an owner of a trademark who desires to protect her brand against gray market imports may, on the basis of physical and material differences, provide Customs with a description of physical and material differences between those goods that may be imported and those that are manufactured for distribution exclusively abroad.\textsuperscript{253} A similar regulation could provide a means by which a copyright holder could establish before a court that a product bearing her copyright imported without her authorization, was intended for exclusive distribution abroad. This way, the courts could allow a copyright holder to protect her brand image and promote consumer satisfaction by preventing sales of goods intended for use abroad, without eliminating competition or undermining domestic employment and the manufacturing industry.

CONCLUSION

Although this analysis refines the Supreme Court’s understanding of the first sale doctrine’s applicability, it is also an imperfect solution. First, differentiating between the intended destinations of foreign manufactured goods creates a legal fiction. Although copyright holders may distinguish a good intended for one market from a good intended for another by demonstrating that specific tastes and needs have been considered in product design, courts will need to define a test for determining whether a good is created exclusively for a foreign or domestic market. Moreover, this differentiation requirement is likely to result in high

\textsuperscript{252} Id.

\textsuperscript{253} Id.
transactional costs for smaller, independent copyright holders, as they will need to make substantial efforts to distinguish copies of their goods if they choose to sell in markets both in America and abroad. Additionally, unless they do not mind an increase in gray market activity, copyright holders will no longer be able to establish a pricing differential across markets for goods that are identical to their counterparts sold abroad. Ultimately, Congress should be responsible for clarifying the scope of the first sale doctrine, but until then, the courts will need to provide a more clearly defined standard that is faithful to the Copyright Act, but does not produce absurd results. Until then, the courts will best promote the goals of the Copyright Act established in the Constitution through a categorization of gray market goods into domestically manufactured, manufactured abroad for distribution in the United States, and manufactured abroad for exclusive distribution abroad.