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Intellectual Property Alert

Supreme Court Will Hear Case on the Resale of Imported Copyrighted Goods

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The Supreme Court has granted certiorari in a case that will clarify the right of copyright owners to control the importation into the United States of foreign-made copies of their works. The case, *Kirtsaeng v. John Wiley & Sons, Inc.* (No. 11-697), will be argued in the Court's 2012-13 term. The decision will resolve a split in the circuit courts as to whether the first sale doctrine provides a defense to a claim of copyright infringement based on unauthorized importation of copyrighted goods.[1] In light of the potentially enormous impact on U.S. retailers, importers and consumers of so-called "gray market" products, as well as on U.S. copyright owners, this case is an important one to track.

The plaintiff in *Kirtsaeng* is John Wiley & Sons, Inc., a U.S.-based publisher of college textbooks. Wiley Asia, a wholly-owned subsidiary of Wiley, produced editions of Wiley textbooks expressly marked for sale only in certain international markets. While the foreign editions were manufactured using less expensive materials than their U.S. counterparts, their content was similar or identical to that of the domestic versions.

The defendant, Supap Kirtsaeng was a graduate student who immigrated to the U.S. from Thailand in 1997. To help finance the cost of his education, Kirtsaeng's family and friends abroad shipped him copies of Wiley Asia textbooks that they had purchased overseas. Kirtsaeng then resold the books on eBay at higher prices. He used the revenues from the sales to reimburse his family and friends and kept the remaining profits for himself.

Wiley sued Kirtsaeng for copyright infringement in the U.S. District Court for the Southern District of New York. Kirtstaeng defended his actions by relying on the first sale doctrine, a longstanding principle of copyright law (codified at 17 U.S.C. § 109(a)) that permits the lawful owner of a copyrighted work to resell it or otherwise dispose of it without the permission of the copyright owner. The district court held that the first sale doctrine does not apply to works manufactured outside the United States[2] and the jury found Kirtsaeng liable for willful infringement. It awarded Wiley a total of $600,000 in damages.

By a 2-1 vote, the Second Circuit affirmed the district court's ruling on the first sale defense, though it acknowledged that the question was "perhaps a close call."[3] The majority first determined that the text of Section 109(a) – which refers to works "lawfully made under this title" – is "utterly ambiguous" regarding whether Congress intended to apply the first sale doctrine to works that were made in countries not governed by U.S. copyright law.[4]

Notwithstanding its acknowledgment of the ambiguity, the court concluded that the district court's interpretation was correct in light of Section 602(a)(1) of the Copyright Act, which provides: "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

[1] 17 U.S.C. § 602(a).
[2] *John Wiley & Sons, Inc. v. Kirtsaeng*, No. 08 Civ. 7834, 2009 WL 3364037, at*9 (S.D.N.Y. Oct. 19, 2009).
[3] *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210, 221 (2d Cir. 2011).
[4] *Id*. at 220.

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outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106 . . . ."[5] In the majority's view, that right to control the importation of copyrighted items "would have no force in the vast majority of cases" if the first sale doctrine were applied to foreign-made copies.[6]

The Second Circuit's construction of Section 109(a) conflicts with decisions of other circuits. In the broadest interpretation of the first sale doctrine with respect to imported goods, the Third Circuit suggested in dictum that the first sale doctrine covered all non-piratical copies manufactured abroad, declining to interpret the phrase "lawfully made" in Section 109(a) to refer to the place of manufacture.[7] The Ninth Circuit carves out an exception for copies that have been sold previously by an authorized party in the U.S. from its general rule that the first sale doctrine applies only to copies lawfully made in the U.S.[8] The Second Circuit in *Kirtsaeng* rejected the Ninth Circuit's domestic sale exception.[9]

Two years ago, the Supreme Court appeared ready to resolve this uncertainty when it granted certiorari in *Omega S.A. v. Costco Wholesale Corp*., in which the Ninth Circuit held that the first sale defense was unavailable in a case involving unauthorized sales of imported Omega watches manufactured overseas which displayed a copyrighted globe design. However, Justice Kagan was recused from that case, and the remaining justices divided 4-4, thereby affirming the Ninth Circuit decision without opinion.[10]

Kirtsaeng gives the Court another opportunity to provide clarity on this critically important issue of copyright law. The decision could have dramatic and far-reaching implications for the multimillion dollar market for U.S. works manufactured for foreign markets, the so-called "gray market." Ideally, the Court's upcoming decision in *Kirtsaeng* will provide the definitive word as to whether the first sale doctrine in the U.S. Copyright Act applies to both U.S. and foreign-manufactured goods.

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[5] 17 U.S.C. § 602(a)(1).
[6] *John Wiley*, 654 F.3d at 221.
[7] *Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098 n.1 (3d Cir. 1988).
[8] *See Omega S.A. v. Costco Wholesale Corp.,* 541 F.3d 982, 985-86, 990 (9th Cir. 2008).
[9] *John Wiley*, 654 F.3d at 221.
[10] *Costco Wholesale Corp. v. Omega, S.A.*, 131 S. Ct. 565 (2010).