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A Textbook Dilemma: Should the First Sale Doctrine Provide a Valid Defense for Foreign-Made Goods?

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A TEXTBOOK DILEMMA: SHOULD THE FIRST SALE DOCTRINE PROVIDE A VALID DEFENSE FOR FOREIGN-MADE GOODS?

*Melissa Goldberg**

The “first sale” doctrine, section 109(a) of the Copyright Act of 1976, gives the owner of a lawfully made copy of a work the right to sell it without the copyright holder’s authorization. Section 602(a), meanwhile, prohibits the unauthorized importation of a copyrighted work. What happens if someone buys a copy of a work outside of the United States, brings the copy into the United States, and then tries to sell it? Does the “first sale” doctrine apply, so that the foreign copy can be sold in the United States? Or does the anti-importation provision control? If it does, the seller would not be able to invoke the “first sale” safe harbor and would be liable under federal copyright law if she did not obtain the copyright holder’s authorization for the U.S. sale.

In John Wiley & Sons Inc. v. Kirtsaeng, the Second Circuit held that the statutory language of the first sale doctrine, specifically the words “lawfully made under this title,” does not extend the first sale safe harbor to copies made outside of the United States. This holding rendered it unnecessary to consider whether the anti-importation provision applies. In so doing, the Second Circuit relied on its reading of the U.S. Supreme Court decision in Costco v. Omega.

This Note suggests that the Supreme Court should find that the Second Circuit was incorrect in its interpretation of the first sale doctrine, but this Note does not decide whether the anti-importation provision should apply to Kirtsaeng if the case is remanded. The Wiley court misinterpreted the first sale doctrine’s statutory language and also misconstrued the holding in Omega, in which the Court split 4–4 on the relevant issue, creating no binding precedent. The Wiley holding creates a perverse incentive: copyright holders can now avoid the first sale doctrine altogether by moving production overseas. This holding conflicts with the fundamental balance of policies at the core of copyright.

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INTRODUCTION

The first sale doctrine, section 109(a) of the Copyright Act of 1976, allows a purchaser of a copyrighted good to resell the item without the copyright holder's permission, as long as there has been an initial sale by the copyright owner.¹ However, section 602(a) of the Copyright Act

1. See 17 U.S.C. § 109(a) (2006).

creates an exclusive right for copyright holders to import their goods into the United States.² This Note discusses the tension between these two sections, namely whether the first sale doctrine is a valid defense for the sale of copyrighted goods that have been imported.

In *John Wiley & Sons, Inc. v. Kirtsaeng*,³ the Second Circuit held that the first sale doctrine was not a defense for the unauthorized importation of goods manufactured outside of the United States.⁴ The specific issue in *Wiley* was whether the language of section 109(a) of the Copyright Act extends only to goods “lawfully made in the United States,” or whether it also applies to goods made anywhere in the world.⁵ Adopting the former standard, the Second Circuit created a bright-line rule that disallows the unauthorized sale of products produced abroad and potentially expands the rights given to copyright owners.⁶

This Note analyzes the potential effects of the *Wiley* decision. Part I provides a background of the issues underlying the Second Circuit’s decision. It discusses the evolution of copyright law and the first sale doctrine, the nature of the gray market and its relation to copyright law, and how other courts have interpreted the same issue. Part II explores the *Wiley* decision. Part III suggests that the Second Circuit came to the wrong conclusion and analyzes the effects of the decision. Instead, this Note argues that the Supreme Court should rule that the first sale doctrine can apply in situations where a copyrighted good has been manufactured abroad, so long as there has been a valid first sale.

I. BACKGROUND OF COPYRIGHT LAW AND THE FIRST SALE DOCTRINE

Part I of this Note introduces statutes and case law relevant to the *Wiley* holding. Part I.A outlines the constitutional origins and policies inherent in the Copyright Act. Part I.B then provides a chronological overview of the case law behind the first sale doctrine. Finally, Part I.C discusses the statutory implications of extraterritoriality and how this principle has been applied to the Copyright Act.

A. An Overview of Copyright Protection

The Copyright Clause of the Constitution gives Congress the power “[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.”⁷ Copyright laws are therefore “wholly

2. *See id.* § 602(a)(1).

3. 654 F.3d 210 (2d Cir. 2011), *cert. granted*, 80 U.S.L.W. 3365 (U.S. Apr. 16, 2012) (No. 11-697).

4. *See id.* at 224.

5. *Id.* at 218–19. Section 109(a) provides that the owner of a copyrighted work “lawfully made under this title” has the right to resell the work. 17 U.S.C. § 109(a).

6. *Wiley*, 654 F.3d at 224.

7. U.S. CONST. art. I, § 8, cl. 8.

statutory, and depend[] upon the rights created under the acts of Congress.”⁸

The First Congress enacted the original copyright law in 1790 under its Article I powers.⁹ The copyright law developed a “limited monopoly” for authors and inventors to balance two core concerns: the benefit for the public and the rights of creators.¹⁰ The primary interest of copyright law, as derived from the language of the Constitution, is to “advance public welfare”¹¹ by securing “the general benefits derived by the public from the labors of authors.”¹² A secondary interest of copyright law is to incentivize authors and creators to produce those works by receiving “personal gain” in the form of copyright protection.¹³ Courts and commentators have consistently acknowledged that financial reward to creators is not the dominant goal of copyright legislation and must be balanced against the public benefit.¹⁴

1. Rights Given to Copyright Holders

After numerous amendments and revisions to the 1790 law, Congress passed the Copyright Act of 1976.¹⁵ Section 106¹⁶ of the Copyright Act of 1976 gives copyright holders five exclusive rights,¹⁷ including the exclusive right to distribute their copyrighted work.¹⁸ Congress clarified that “[u]nder this provision the copyright owner would have the right to control

8. *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 346 (1908).

9. *See* H.R. REP. NO. 94-1476, at 47 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5660.

10. *See Sony Corp. of Am. v. Universal Studios, Inc.*, 464 U.S. 417, 429 (1984).

11. *Mazer v. Stein*, 347 U.S. 201, 219 (1954).

12. *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932) (characterizing these benefits as the “sole interest of the United States and the primary object in conferring the monopoly”).

13. *Mazer*, 347 U.S. at 219. Although the interest in supplying authors with a benefit is secondary to the benefit to the public, providing compensation is the most effective way to encourage the artist to allow the public access to the work. *See United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 158 (1948) (“It is said that reward to the author or artist serves to induce release to the public of the products of his creative genius.”); H.R. REP. NO. 60-2222, at 7 (1909), *reprinted in* 6 LEGISLATIVE HISTORY OF THE 1909 COPYRIGHT ACT 57 (E. Fulton Brylawski & Abe Goldman eds., 1976) (“The enactment of copyright legislation by Congress under the terms of the Constitution is not based upon any natural right that the author has in his writings, . . . but upon the ground that the welfare of the public will be served and progress of science and useful arts will be promoted by securing to authors for limited periods the exclusive rights to their writings.”).

14. *See* 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 1.03 (2011); *see also Sony Corp.*, 464 U.S. at 429 (discussing how creating copyright laws “involves a difficult balance between the interests of authors and inventors in the control and exploitation of their writings and discoveries on the one hand, and society’s competing interest in the free flow of ideas, information, and commerce on the other hand”); *supra* note 12 and accompanying text.

15. Pub. L. No. 94-553, 90 Stat. 2541 (codified as amended at 17 U.S.C.).

16. 17 U.S.C. § 106 (2006).

17. *Id.* The five rights include the right to reproduce the work, prepare derivative works, distribute copies, perform the work publicly, and display the work publicly. *Id.* § 106(1)–(6).

18. *Id.* § 106(3) (granting the copyright holder the right “to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending”).

the first public distribution of an authorized copy or phonorecord of her work, whether by sale, gift, loan, or some rental or lease arrangement.”¹⁹ The Congressional Report further specified that “any unauthorized public distribution of copies or phonorecords that were unlawfully made would be an infringement.”²⁰

Sections 107 through 122²¹ limit these “exclusive” rights.²² The first sale doctrine is embodied in section 109(a) of the Copyright Act.²³ To emphasize the limitations on the copyright owner’s exclusive rights to distribute, Congress stated that a copyright owner’s rights under section 106(3) end if “he has parted with ownership of” a particular good.²⁴

2. Copyright Infringement

An infringement of the Copyright Act consists of a violation of sections 106 through 122 or a violation of the importation clause of section 602.²⁵ Section 106 details the exclusive rights of copyright holders, and sections 107 through 122 contain the exceptions to those rights.²⁶ Section 602 provides two classes of goods that are illegal to import without the copyright holder’s permission.²⁷ Section 602(a)(1) makes any importation without the copyright holder’s permission an infringement regardless of whether the good was lawfully made:

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 501.²⁸

There are three exceptions to section 602(a). There is no liability if: (1) the importation is for use by the government, (2) the person importing the goods will use them for her own private use, or (3) the goods will be used for educational or religious purposes.²⁹ Notwithstanding these exceptions, section 602(a)(2) provides that any importation of infringing items is actionable.³⁰ These include “pirated” goods made without the copyright holder’s permission.³¹

While it was illegal to import pirated goods prior to passage of the Copyright Act of 1976, there was nothing copyright holders could do to

19. H.R. REP. NO. 94-1476, at 62 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5675–76.

20. *Id.*

21. 17 U.S.C. §§ 107–122.

22. *See id.* §§ 106–122.

23. *See id.* § 109(a).

24. H.R. REP. NO. 94-1476, at 62.

25. 17 U.S.C. § 501(a).

26. *See supra* notes 16–24 and accompanying text.

27. 17 U.S.C. § 602.

28. *Id.* § 602(a)(1).

29. *See id.* § 602(a)(3)(A)–(C).

30. *See id.* § 602(a)(2).

31. H.R. REP. NO. 94-1476, at 79 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5693.

prevent importation of legally made works.³² In response to copyright holders' concerns, the Copyright Office produced draft legislation between 1961 and 1965.³³ During the first drafting of the importation provision in 1961, the Register of Copyrights opposed liability for unauthorized importation of lawfully made goods.³⁴

By 1964, however, the Copyright Office had drafted a provision that "made the unauthorized importation of copies for distribution an infringement."³⁵ Although concerns arose regarding the scope of the importation provision in relation to the first sale doctrine, the Copyright Office did not provide any concrete guidance.³⁶ Eventually, section 602(a)(1) was adopted to prohibit importation of lawfully made goods.³⁷ At the time, section 601 restricted the importation or distribution of works that were manufactured outside of the United States.³⁸ The section provided as follows:

[T]he importation into or public distribution in the United States of copies of a work consisting preponderantly of nondramatic literary material that is in the English language and is protected *under this title* is prohibited unless the portions consisting of such material have been manufactured in the United States or Canada.³⁹

Despite Congress's statements that the importation clause "has nothing to do with the manufacturing requirements of section 601,"⁴⁰ courts have interpreted section 602(a)'s applicability by referring to the location of manufacture.⁴¹

32. See *L'Anza Research Int'l, Inc. v. Quality King Distribs., Inc.*, 98 F.3d 1109, 1115–16 (1996) (citing STAFF OF H. COMM. ON THE JUDICIARY, 88TH CONG., COPYRIGHT LAW REVISION, PART 2: DISCUSSION AND COMMENTS ON REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW 212 (Comm. Print 1963)).

33. See STAFF OF H. COMM. ON THE JUDICIARY, 89TH CONG., COPYRIGHT LAW REVISION, PART 5: 1964 REVISION BILL WITH DISCUSSION AND COMMENTS, at iii (Comm. Print 1965) [hereinafter 1964 COPYRIGHT LAW REVISION] (discussing H.R. 11947, which was "introduced . . . on July 20, 1964, as a basis for further discussion" and H.R. 4347, which was pending at the time of the report). The Register of Copyrights is the "director of the Copyright Office of the Library of Congress" and is responsible for "[a]ll administrative functions and duties" under Title 17, 17 U.S.C. § 701(a).

34. STAFF OF H. COMM. ON THE JUDICIARY, 87TH CONG., COPYRIGHT LAW REVISION, PART 1: REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW 126 (Comm. Print 1961) (stating that it saw no reason to "impose the territorial restriction in a private contract upon third persons with no knowledge of the agreement").

35. Christopher A. Mohr, Comment, *Gray Market Goods and Copyright Law: An End Run Around K Mart v. Cartier*, 45 CATH. U. L. REV. 561, 602 (1996).

36. See *id.* at 602–03.

37. See *id.*; see also *Sebastian Int'l Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1097 (3d Cir. 1988) (explaining the evolution of the importation clause).

38. See 17 U.S.C. § 601.

39. *Id.* § 601(a) (emphasis added).

40. H.R. REP. NO. 94-1476, at 169 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5785. This language is also used in a number of reports and revisions that discuss section 602. See Mohr, *supra* note 35, at 591 n.147.

41. See *infra* Part I.B.

Section 601 was intended to support the American printing industry.⁴² When the provision was repealed in 2010,⁴³ Congress amended section 602(b) by deleting the phrase, “unless the provisions of section 601 are applicable.”⁴⁴

The House Report to the 1976 Act provided a list of the main arguments that Congress considered in determining if section 601 should be eliminated.⁴⁵ One argument to eliminate the requirement was that “[t]he manufacturing clause violate[d] the basic principle that an author’s rights should not be dependent on the circumstances of manufacture.”⁴⁶ The House Report also stressed that repealing the provision would not drive manufacturing to foreign countries.⁴⁷ The Committee ultimately decided to repeal the requirement, but in a phased-out process.⁴⁸

3. First Sale Doctrine

As discussed above, the exclusive rights of copyright holders are subject to a number of exceptions.⁴⁹ The first sale doctrine is a limitation on a copyright holder’s distribution rights after she has made an initial sale of her work.⁵⁰ Section 109(a) of the Copyright Act states: “Notwithstanding the provisions of section 106(3), 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.”⁵¹

This concept is also described, notably in patent law,⁵² as exhaustion: once a copyright owner has transferred a copy of her good, her rights in distribution are exhausted.⁵³ Thus, if an individual legally purchases a

42. *See* *Stonehill Commc’ns, Inc. v. Martuge*, 512 F. Supp. 349, 352 (S.D.N.Y. 1981) (“That purpose is purely economic in support of the American printing industry; it is to require certain kinds of books to be manufactured in the United States or Canada in order to qualify for American copyright protection.”).

43. *See id.*; Copyright Cleanup, Clarification, and Corrections Act of 2010, Pub. L. No. 111-295, § 4(a), 124 Stat. 3180, 3180.

44. Copyright Cleanup, Clarification, and Corrections Act of 2010 § 4(c), 124 Stat. at 3181.

45. *See* H.R. REP. NO. 94-1476, at 164–66 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5780–82.

46. *Id.* at 165.

47. *See id.* Advocates for repeal argued that fears of driving the U.S. manufacture of books to foreign countries were “unfounded.” *Id.* Opponents of the repeal contended that the manufacturing clause “ha[d] been responsible for a strong and enduring” book production industry in the United States. *Id.*

48. *See id.* at 166.

49. *See supra* notes 16–24 and accompanying text.

50. *See* 17 U.S.C. § 109 (2006).

51. *Id.* § 109(a).

52. *See* *Jazz Photo Corp. v. Int’l Trade Comm’n*, 264 F.3d 1094, 1105 (Fed. Cir. 2001).

53. *See* U.S. COPYRIGHT OFFICE, DMCA SECTION 104 REPORT 92 n.301 (Aug. 2001), *available at* <http://www.copyright.gov/reports/studies/dmca/sec-104-report-vol-1.pdf>. The principle of exhaustion stems from section 202, which describes that ownership of the “material object,” such as a book containing copyrighted work, is separate and distinct from ownership of the copyrighted work itself, and only provides a limitation on the distribution right. 17 U.S.C. § 202.

book, she can freely resell it, or give it away without the risk of liability because the copyright owner no longer has control over the future sale of the book. This doctrine only applies when there is a transfer of the title to a good through a sale or gift, and does not apply to mere possession.⁵⁴

Four requirements must be met to have a valid first sale defense: (1) the copyright holder gives authorization for the good to be lawfully made; (2) the good is transferred with the copyright holder's authority; (3) the defendant is a lawful owner of the good; and (4) the defendant disposes of the good.⁵⁵

The U.S. Supreme Court first endorsed the first sale doctrine in 1908, when it decided *Bobbs-Merrill Co. v. Straus*.⁵⁶ The Court addressed the meaning of the copyright owner's "sole right to vend" under the contemporary copyright statute.⁵⁷ The Court explained that the statute's main purpose was "to secure the right of multiplying copies of the work." It reasoned that once a copyright owner sells her goods "in quantities and at a price satisfactory to it[,] [he] has exercised the right to vend."⁵⁸ The Court held that any further rights granted to the copyright holder would expand the statute's meaning beyond the plain language of the statute.⁵⁹ Therefore, without a contractual limitation or agreement, the copyright holder could not restrict the future sale of goods.⁶⁰

Congress codified this doctrine in the Copyright Act of 1909 (1909 Act).⁶¹ Originally derived from the common law principles against "restraints on alienation of property,"⁶² 17 U.S.C. § 27 stated: "nothing in this title shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained."⁶³ The coinciding House Report further specified that this statute's intent was to codify the pre-existing law regarding the right to vend.⁶⁴

54. See 17 U.S.C. § 109; 2 NIMMER & NIMMER, *supra* note 14, § 8.12[B][1][a]; see also *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 146–47 (1998) ("[B]ecause the protection afforded by § 109(a) is available only to the 'owner' of a lawfully made copy (or someone authorized by the owner), the first sale doctrine would not provide a defense to a § 602(a) action against any nonowner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful.")

55. 2 NIMMER & NIMMER, *supra* note 14, § 8.12[B][1][a] (citing *UMG Recordings, Inc. v. Augusto*, 558 F. Supp. 2d 1055, 1059 (C.D. Cal. 2008)).

56. 210 U.S. 339 (1908).

57. *Id.* at 350.

58. *Id.* at 351.

59. *Id.*

60. *Id.*

61. Copyright Act of 1909, Pub. L. No. 60-349, 35 Stat. 1075 (repealed 1976).

62. See H.R. REP. NO. 98-987, at 2 (1984), *reprinted in* 1984 U.S.C.C.A.N. 2898, 2899 ("The first sale doctrine has its roots in the English common law rule against restraints on alienation of property.")

63. 17 U.S.C. § 27 (1909).

64. See H.R. REP. NO. 60-2222, at 19 (1909), *reprinted in* 6 LEGISLATIVE HISTORY OF THE 1909 COPYRIGHT ACT, *supra* note 13, at 519 (discussing that the codified first sale doctrine did "not intend[] to change in any way existing law" and attempted "to make it clear that there is no intention to enlarge in any way the construction to be given to the word 'vend'").

The next substantial congressional revision to the first sale doctrine is embodied in the 1976 Copyright Act. The Copyright Office held discussions and conducted studies to develop recommendations for Congress.⁶⁵ The phrase “lawfully made under this title” was first placed in the revision bill to section 109(a) in 1964.⁶⁶ During the drafting process, Barbara Ringer, who later served as Register of Copyrights, explained that “under this title” should be added to the statute to indicate that the doctrine was for copies “made under the authority of the copyright owner” and as those “lawfully made by virtue of a compulsory license.”⁶⁷

The Copyright Act’s modification in 1976 reaffirmed the first sale doctrine in section 109(a).⁶⁸ Congress explicitly stated that it meant to “restate[] and confirm[] the principle” of the first sale doctrine that had “been established by the court decisions and section 27 of the [1909 Act].”⁶⁹ Although this suggests that section 109(a) is the same as section 27 of the 1909 Act, it differs because section 109(a) only applies to copyrighted works “lawfully made under this title.”⁷⁰ However, as Ringer noted, the House Report on the revised language stated that “lawfully made under this title” includes copies “legally made under the compulsory licensing provisions of section 115.”⁷¹

The policy of the first sale doctrine is consistent with the policy underlying copyright law: to balance the public benefit against the rights of creators. The first sale doctrine typically ensures that a copyright holder will receive a “reward” for her work: when a copyright owner sells the item, she receives a value through the purchase price.⁷² An adequate “reward,” however, will not disallow the first sale defense, as the doctrine is applicable whenever there is a transfer of ownership of a good, which may

65. See 4 WILLIAM F. PATRY, PATRY ON COPYRIGHT § 13:20 (2011).

66. See *id.*; see also *Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1386–87 (C.D. Cal. 1993) (discussing the legislative history of section 109(a)).

67. 1964 COPYRIGHT LAW REVISION, *supra* note 33, at 66–67 (mentioning a solution for Congress to avoid certain complexities of the wording). The language was changed to clarify instances where a compulsory license would give someone other than the copyright owner the right to profit from recordings of musical compositions. See *id.*; Stephen W. Feingold, *Parallel Importing Under the Copyright Act of 1976*, 17 N.Y.U. J. INT’L L. & POL. 113, 131 (1984).

68. 17 U.S.C. § 109(a) (2006).

69. H.R. REP. NO. 94-1476, at 79 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5693.

70. 17 U.S.C. § 109(a).

71. H.R. REP. NO. 94-1476, at 79.

72. See, e.g., *Sebastian Int’l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1099 (3d Cir. 1988) (“With respect to future distribution of those copies in this country, clearly the copyright owner already has received its reward through the purchase price.”); *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir. 1963) (“[T]he ultimate question . . . [is] ‘whether or not there has been such a disposition of the article that it may fairly be said that the [copyright owner] has received his reward for the use of the article.’” (quoting *United States v. Masonite Corp.*, 316 U.S. 265, 278 (1942))); *Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1389 (C.D. Cal. 1993) (“[T]he distribution right and the first sale doctrine rest on the principle that the copyright owner is entitled to realize no more and no less than the full value of each copy or phonorecord upon its disposition.”).

happen by gift or for below market price.⁷³ For example, the “reward” test originated in *Platt & Munk Co. v. Republic Graphics, Inc.*,⁷⁴ and was used where the copyright owner had not authorized the first sale because the sale occurred in bankruptcy.⁷⁵ Ultimately, courts will not “reexamin[e] the adequacy of the ‘reward’ received by the copyright owner in an alleged first sale where the owner has consented to that sale.”⁷⁶

The rights conferred to the copyright owner are viewed in the context of the public’s interest in free alienation of goods: by protecting innocent third parties who purchase goods and allowing them to have control over the work.⁷⁷ This balancing act has been described as the “single-reward principle,” such that a copyright owner is entitled to a one-time reward for the sale of a particular good, after which the right shifts to the public benefit.⁷⁸

4. Gray Market and Parallel Imports

The first sale doctrine is commonly discussed in the context of gray market goods. Gray market goods are genuine goods bearing a U.S. copyright or trademark that are manufactured and meant to be sold in foreign countries, but are sold in the United States without the copyright holder’s authorization.⁷⁹ The act of unauthorized importation of these goods is also referred to as “parallel importation.”⁸⁰ Because goods produced for the foreign market are generally priced lower than goods for the domestic market, gray market goods are sold in the United States at a lower price than the same goods that have been manufactured in the United States.⁸¹ Not surprisingly, copyright holders and gray market retailers have opposing views of parallel importation.

73. See, e.g., *Walt Disney Prods. v. Basmajian*, 600 F. Supp. 439, 442 (S.D.N.Y. 1984) (first sale doctrine applied for goods given as a gift).

74. 315 F.2d 847.

75. See *id.* at 855.

76. *Denbicare U.S.A., Inc. v. Toys “R” Us, Inc.*, 84 F.3d 1143, 1151 (9th Cir. 1996).

77. See 2 NIMMER & NIMMER, *supra* note 14, § 8.12[B]; see also H.R. REP. NO. 60-2222, at 7 (1909), *reprinted in* 6 LEGISLATIVE HISTORY OF THE 1909 COPYRIGHT ACT, *supra* note 13, at 72 (“In enacting a copyright law Congress must consider . . . two questions: First, how much will the legislation stimulate the producer and so benefit the public; and, second, how much will the monopoly granted be detrimental to the public? The granting of such exclusive rights . . . confers a benefit upon the public that outweighs the evils of the temporary monopoly.”).

78. See John A. Rothchild, *Exhausting Extraterritoriality*, 51 SANTA CLARA L. REV. 1187, 1191–92 (2011).

79. See *K Mart Corp. v. Cartier, Inc.* 486 U.S. 281, 285 (1988). Gray market goods are not counterfeit goods or goods made abroad to be sold in the United States. See Theodore H. Davis, Jr., Comment, *Applying Grecian Formula to International Trade: K Mart Corp. v. Cartier, Inc. and the Legality of Gray Market Imports*, 75 VA. L. REV. 1397, 1398 (1989).

80. See William Richelieu, Note, *Gray Days Ahead?: The Impact of Quality King Distributors, Inc. v. L’Anza Research International, Inc.*, 27 PEPP. L. REV. 827, 828 (2000).

81. See Seth E. Lipner, *The Legality of Parallel Imports: Trademark, Antitrust, or Equity?*, 19 TEX. INT’L L.J. 553, 554 (1984); Danielle G. Mazur, Note, *The Gray Market After K Mart: Shopping for Solutions*, 8 CARDOZO ARTS & ENT. L.J. 641, 641–42 (1990).

Copyright owners and others oppose gray markets for several reasons. First, the gray market creates unwanted intrabrand competition between authorized domestic dealers, instead of creating competition against other brands.⁸² Second, because foreign-made goods may differ in quality and lack warranties, the gray market may hurt goodwill and cause consumer confusion.⁸³ Similarly, when a product is for sale at a discount store, it can hurt the product's image.⁸⁴ For these reasons, the copyright owner may not receive the full benefit of her work and, therefore, the gray market may impair the incentive for authors and artists to create works.⁸⁵

By comparison, proponents of the gray market believe that the gray market is beneficial for consumers because it provides lower prices,⁸⁶ and in turn creates more competition between brands, which gives consumers more options and limits price discrimination.⁸⁷ It has also been argued that geographic price discrimination has a negative distributional effect on social welfare because copyright owners benefit while consumers suffer.⁸⁸ Congress has also recognized that parallel markets are advantageous for consumers, and has passed a number of statutes to regulate the gray market.⁸⁹

Parallel importation is commonly seen in the textbook market because students are mandated to purchase certain books for classes.⁹⁰ Economic research on differential pricing indicates that domestic prices of hardcover textbooks are approximately 50 percent higher than the international counterpart.⁹¹ Similar studies have indicated that public college students spend approximately \$1,168 on textbooks and school supplies per year.⁹²

82. See Mazur, *supra* note 81, at 642; see also John C. Cozine, Casenote, *Fade to Black? The Fate of the Gray Market After L'Anza Research International, Inc. v. Quality King Distributors, Inc.*, 66 U. CIN. L. REV. 775, 778–79 (1998).

83. See Mazur, *supra* note 81, at 642, 669–70 (discussing how gray markets mislead consumers because they are expecting a product of a certain quality, yet gray market goods may be of a lower quality); see also Cozine, *supra* note 82, at 778–79 (discussing how these products may not be warranted, contain instructions in another language and do not meet U.S. safety regulations).

84. See Cozine, *supra* note 82, at 779.

85. See Jay P. Moisant, *Addressing the Grey Market—What the Supreme Court Should Have Done*, 25 BROOK. J. INT'L L. 639, 653 (1999).

86. See Cozine, *supra* note 82, at 779.

87. See Richelieu, *supra* note 80, at 833.

88. See generally Michael J. Meurer, *Copyright Law and Price Discrimination*, 23 CARDOZO L. REV. 55 (2001).

89. See, e.g., Stop Counterfeiting in Manufactured Goods Act, Pub. L. No. 109-181, § 2320(b)(3)(B), 120 Stat. 285, 287 (2006); H.R. REP. NO. 68-109, at 19 (2005) (statement of Rep. John Conyers, Jr.) (“Not only has this practice been upheld by the Supreme Court, but it also saves consumers billions of dollars each year. . . . [W]e now have a bill that protects manufacturers, targets illegitimate actors, and leaves a legitimate industry unscathed.”).

90. See generally JAMES V. KOCH, AN ECONOMIC ANALYSIS OF TEXTBOOK PRICING AND TEXTBOOK MARKETS (2006); available at <http://www2.ed.gov/about/bdscomm/list/acfsa/kochreport.pdf>; Christos Cabolis et al., *A Textbook Example of International Price Discrimination*, 95 ECON. LETTERS 91 (2007) (arguing that books for the U.S. market are priced significantly higher due to the forced demand created by higher education).

91. See Cabolis et al., *supra* note 90, at 2.

92. *Quick Guide: College Costs*, BIG FUTURE, C. BOARD, <https://bigfuture.collegeboard.org/pay-for-college/college-costs/quick-guide-college-costs> (last visited Apr. 21, 2012). In

Further, textbook publishers constantly update the editions, which compels students to purchase new books instead of used copies.⁹³ To avoid these high expenses, students may purchase books through the gray market.⁹⁴

5. Combating the Gray Market

Finding the gray market to be harmful to business, brand owners employ strategies to curtail it.⁹⁵ One approach, which is utilized by the copyright owners discussed in this Note, is to place copyrightable material within a non-copyrightable good, or even on the label or packaging.⁹⁶ Copyright owners then attempt to use section 602(a) to curb the importation of gray market goods. However, the first sale doctrine may be used as an affirmative defense to these actions.⁹⁷ The problem that then arises is that the Copyright Act does not provide guidance as to how these sections should work together.

Sections 109(a) and 602(a) appear to directly conflict. While section 602(a) gives the copyright holder a cause of action against anyone who imports their work without their permission, section 109(a) provides a defense if there has been a first sale of the good.

B. Interpretations of the First Sale Doctrine

The issue addressed in *Wiley*, whether the first sale doctrine should be applied extraterritorially and as a defense to the importation bar, has been addressed in a number of other circuits. Because the legislative history does not directly address the interaction of sections 602(a) and 109(a),⁹⁸ courts have attempted to determine how the provisions should relate to each other. In interpreting the doctrine, there are two factors that are discussed in most of the case law: location of the first sale of the good and the place of manufacture.⁹⁹

2010, college students spent an estimated \$4.5 billion on textbooks. Editorial, *IPads Won't Make Textbooks More Affordable*, BLOOMBERG (Jan. 29, 2012), <http://www.bloomberg.com/news/2012-01-30/why-ipads-won-t-make-students-textbooks-more-affordable-view.html>.

93. See Jeff Shelstad, *The Demise of the \$200 Textbook*, GOOD (July 8, 2010, 2:30 PM), <http://www.good.is/post/the-demise-of-the-200-textbook>.

94. See generally Christine Ongchin, Note, *Price Discrimination in the Textbook Market: An Analysis of the Post-Quality King Proposals to Prevent and Disincentivize Reimportation and Arbitrage*, 15 CARDOZO J. INT'L & COMP. L. 223 (2007).

95. See *id.* at 241–57. Textbook publishers use two general means to prevent parallel importation: (1) “actions that prevent reimportation, allowing publishers to continue practicing price discrimination at the current level”; and (2) “actions that decrease the incentives to reimport by making reimportation and arbitrage less profitable.” *Id.* at 242.

96. See *infra* notes 113, 134, 147, 172.

97. See 17 U.S.C. § 109(a) (2006).

98. See Doris R. Perl, Comment, *The Use of Copyright Law to Block the Importation of Gray-Market Goods: The Black and White of It All*, 23 LOY. L.A. L. REV. 645, 665 (1990) (“Legislative history does not provide sufficient guidance to clarify the relationship between sections 109(a) and 602(a).”).

99. See Rothchild, *supra* note 78, at 1215–16. Courts that rely on place of manufacture as the dispositive factor rely on the text of the first sale doctrine, whereas courts that rely on location of the sale rely on the “absurd results” if the first sale doctrine would not apply. See *id.*

1. The Third Circuit

The Third Circuit addressed the issue of the first sale doctrine's scope in *Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.*¹⁰⁰ Notwithstanding the circuit court opinion, the U.S. District Court for the Eastern District of Pennsylvania's decision in *Columbia Broadcasting System, Inc. v. Scorpio Music Distributors, Inc.*¹⁰¹ is relevant to this Note's analysis because is often relied on in other cases.

a. Eastern District Court of Pennsylvania: Manufactured Abroad

In 1983, the Eastern District of Pennsylvania held in *Scorpio*¹⁰² that the first sale doctrine was not a limitation on section 602(a)'s importation right.¹⁰³ The case involved phonorecords whose copyright was held by Columbia Broadcasting System (CBS).¹⁰⁴ CBS authorized Vicor, a Philippines corporation, to manufacture and sell the recordings only in the Philippines.¹⁰⁵ Vicor sold the records to another Philippines corporation, who then sold the goods to a Nevada corporation, which imported the copyrighted records and sold them to Scorpio Music Distributors (Scorpio).¹⁰⁶

In finding that the first sale doctrine was not a valid defense to an allegation of copyright infringement, the district court noted that the Copyright Act does not have extraterritorial reach, especially without explicit congressional intent.¹⁰⁷ The court acknowledged the concern that *Scorpio*'s interpretation would make section 602 "virtually meaningless" by allowing U.S. importers to buy from a third party, thereby sidestepping the copyright owner's exclusive right to import goods.¹⁰⁸ Nevertheless, the court concluded that the first sale doctrine was only applicable as a defense where the goods have been "legally manufactured and sold within the United States."¹⁰⁹

b. Circuit Court: Manufactured Domestically

In *Sebastian*,¹¹⁰ the Third Circuit held that the first sale doctrine was a limitation on copyright holders' importation rights under section 602(a).¹¹¹ The copyrighted goods at issue were labels on bottles of hair care products

100. 847 F.2d 1093 (3d Cir. 1988).

101. 569 F. Supp. 47 (E.D. Pa. 1983).

102. *Id.*

103. *See id.* at 49.

104. *See id.* at 47.

105. *See id.*

106. *See id.*

107. *See id.* at 49 ("The protection afforded by the United States Code does not extend beyond the borders of this country unless the Code expressly states.").

108. *Id.*

109. *Id.*

110. 847 F.2d 1093 (3d Cir. 1988).

111. *See id.* at 1099.

that the plaintiff (Sebastian) produced and manufactured in the United States.¹¹² Sebastian shipped the goods into a South African distributor, who imported the goods back to the United States.¹¹³ Sebastian then filed an action for copyright infringement.¹¹⁴

The district court found for Sebastian, holding that it had a right to control importation regardless of the location of manufacture or the location of the first sale.¹¹⁵ The district court articulated two types of distribution rights: vending, which is limited by the first sale doctrine, and importation, which is.¹¹⁶

On appeal, the Third Circuit affirmed that the applicability of section 602(a) does not depend on the location of the first sale.¹¹⁷ The Third Circuit, however, disagreed with the district court and held that in making a first sale, the copyright holder had exhausted its distribution rights.¹¹⁸ By relying on the principle that the first sale doctrine provides copyright holders with a single reward, the court stated, “Nothing in the wording of section 109(a), its history or philosophy, suggests that the owner of copies who sells them abroad does not receive a ‘reward for his work.’”¹¹⁹

Under the court’s analysis, any first sale, whether made domestically or abroad, ends the copyright holder’s exclusive distribution rights.¹²⁰ In so doing, the Third Circuit held that section 109(a) specifically limits section 602(a).¹²¹ According to the court, the statutory language of section 602(a) states that illegal importation infringes on the exclusive right to distribute under section 106(3).¹²² The court found that because the first sale doctrine

112. *See id.* at 1094.

113. *See id.*

114. *See id.* at 1095.

115. *Id.*

116. *Id.*

117. *Id.* at 1099.

118. *Id.* (“We differ, however, with the district court’s finding of infringement because, in our view, a first sale by the copyright owner extinguishes any right later to control importation of those copies.”). The court articulated the single-reward principle as follows: the “ultimate question under the ‘first sale’ doctrine is whether or not there has been such a disposition of the copyrighted article that it may fairly be said that the copyright proprietor has received his reward for its use.” *Id.* at 1096–97 (quoting *Burke & Van Heusen, Inc. v. Arrow Drug, Inc.*, 233 F. Supp. 881, 884 (E.D. Pa. 1964)).

119. *Id.* at 1099. The court further stated:

Nor does the language of section 602(a) intimate that a copyright owner who elects to sell copies abroad should receive “a more adequate award” than those who sell domestically. That result would occur if the holder were to receive not only the purchase price, but a right to limit importation as well.

Id.

120. The court did not specifically rule on the meaning of “lawfully made under this title” because the good was produced domestically. *Id.* at 1098. However, the court did “confess some uneasiness” with *Scorpio’s* holding that the phrase meant that the good had to be manufactured domestically. *Id.* at 1098 n.1. Instead, referring to section 601(a)’s manufacturing requirement, the court reasoned that Congress explicitly stated when they intended the location of manufacture to be important, and therefore, Congress would have limited section 109(a) to a specific location if it intended the location to be determinative. *Id.*

121. *Id.*

122. *See id.*; *see also* 17 U.S.C. §§ 106(3), 109(a), 602(a) (2006).

limits section 106(3), and section 602(a) is a violation of section 106(3), then the first sale doctrine must limit section 602(a) importation rights.¹²³ This means that the importation rights of copyright holders under section 602(a) are not an additional right conferred to the holders, but constitute a component of the right to distribute.¹²⁴

The court distinguished *Scorpio*, noting that the goods in *Scorpio* were produced overseas, while the goods in *Sebastian* were produced in the United States.¹²⁵ Also, where the copyrighted good in *Scorpio* was a phonorecord, the copyrighted item in *Sebastian* was a label on the product.¹²⁶ Although this was not determinative, the court noted that “[t]his case comes to us in the guise of an alleged copyright infringement but, in reality, is an attempt by a domestic manufacturer to prevent the importation of its own products by the ‘gray market.’”¹²⁷

2. The Ninth Circuit

The 1991 case *BMG Music v. Perez*¹²⁸ created a split between the Ninth and Third Circuits.¹²⁹ In that case, the copyrighted sound recordings were manufactured abroad, and imported into the United States without BMG’s permission.¹³⁰ The district court found for BMG. On appeal the Ninth Circuit, relied heavily on *Scorpio* to find that section 109(a) could only be a defense for goods produced and sold in the United States.¹³¹ The court placed great emphasis on the reasoning that section 602 would be “render[ed] meaningless” if the first sale doctrine had a different meaning.¹³²

Then, in *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*,¹³³ the Ninth Circuit held that there was no first sale defense where the copyrighted good, a perfume box, was manufactured abroad and subsequently imported.¹³⁴ In dicta, however, the court acknowledged the broad scope of its holding in *BMG* and consequently indicated that the first sale doctrine could be a defense for foreign-manufactured goods if the first sale is made in the

123. See *Sebastian*, 847 F.2d at 1099 (“[I]t necessarily follows that once transfer of ownership has cancelled the distribution right to a copy, the right does not survive so as to be infringed by importation.”).

124. See *id.*

125. See *id.* at 1098 (discussing how *Scorpio*, although not binding precedent, “demonstrate[s] a significant difference from the factual situation presented here”).

126. See *id.* at 1094.

127. *Id.*; see *supra* Part I.A.5.

128. 952 F.2d 318 (9th Cir. 1991).

129. See *supra* notes 100–01 (discussing *Sebastian*). Although the court made an effort to distinguish *Sebastian* because of a different fact pattern, the analysis of the court “logically cannot coexist” with the Third Circuit’s analysis. Mohr, *supra* note 35, at 596.

130. See *BMG*, 952 F.2d at 319.

131. *Id.* (“The words ‘lawfully made under this title’ in §109(a) grant first sale protection only to copies legally made and sold in the United States.”).

132. *Id.* at 319–20.

133. 38 F.3d 477 (9th Cir. 1994).

134. See *id.* at 481–82.

United States.¹³⁵ In detailing the history of the relevant copyright provisions, the court explained that section 602(a) “ensures that a U.S. copyright owner will gain the full value of each copy sold in the United States.”¹³⁶ Thus, the circuit court found the dispositive factor to be where the first sale of a copyrighted good takes place, as opposed to where it is manufactured. Nevertheless, because these were not the facts before the court, this interpretation remains dicta and is not binding authority within the Ninth Circuit.

Acknowledging the “widespread criticism” of *BMG* when it decided *Denbicare U.S.A. Inc. v. Toys “R” Us, Inc.*,¹³⁷ the Ninth Circuit relied on the prior holdings and dicta from *Parfums Givenchy* and limited the applicability of the first sale doctrine for goods where the first sale takes place in the United States.¹³⁸ In *Denbicare*, the good in question was imported with the permission of the copyright holder, and the circuit court allowed a first sale defense.¹³⁹ Because the sale was a result of a bankruptcy trustee auction, the plaintiff argued that there was no first sale because he did not receive an economic benefit.¹⁴⁰ The court rejected this argument, explaining that “[j]ust as courts will not inquire into the sufficiency of consideration, there is no justification for reexamining the adequacy of the ‘reward’ received by the copyright owner in an alleged first sale where the owner has consented to that sale.”¹⁴¹ Thus, the Ninth Circuit held that the first sale was a valid defense because a sale in a foreign trade zone was subject to U.S. jurisdiction, and therefore the good was acquired in the United States.

3. The Supreme Court: Manufactured in the United States, Sold Abroad, and Imported Without Authorization

In 1997, the Supreme Court granted certiorari in *Quality King Distributors, Inc. v. L’anza Research International, Inc.*¹⁴² to resolve the conflict between the Third and Ninth Circuits over the relationship between sections 602 and 109.¹⁴³ The Court followed the analysis in *Sebastian*, and held that sellers were protected by the first sale doctrine as long as the first sale is made in the United States.¹⁴⁴ Justice Ginsburg’s concurrence, however, indicated that the place of manufacture might not be decisive

135. *See id.* at 481. The court discussed how the holding from *BMG* “would lead to absurd and unintended results,” such as giving “foreign manufactured goods . . . greater copyright protection than goods manufactured in the United States.” *See id.* at 482 n.8.

136. *Id.* at 481.

137. 84 F.3d 1143 (9th Cir. 1996).

138. *See id.* at 1149–50.

139. *Id.* at 1145–46.

140. *Id.* at 1150.

141. *Id.* at 1151. The plaintiff was relying on *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir. 1963). In that case, the defendant made unauthorized copies of plaintiff’s goods. *See id.* at 851. This is different from *Denbicare* because the “reward” test was applied to an involuntary sale. *See id.* at 855.

142. 523 U.S. 135 (1998).

143. *See id.* at 140; *see also supra* notes 110–25 and accompanying text.

144. *See Quality King*, 523 U.S. 135, at 145–49.

where the copyrighted good has made a “round trip”—where the good was produced in the United States, exported abroad, and later shipped back into the country without the copyright holder’s permission.¹⁴⁵

The plaintiff, L’anza Research, manufactured hair care products with a copyrighted label, and sold the goods both domestically and internationally.¹⁴⁶ L’anza sold products in the United States at a higher price than it did abroad.¹⁴⁷ The company made the first sale of the goods in question to a distributor in the United Kingdom.¹⁴⁸ A third party then bought those products without L’anza’s permission and shipped them back into the United States; they eventually made their way to Quality King Distributors.¹⁴⁹ L’anza brought a copyright infringement suit against Quality King, and the district court refused Quality King’s assertion of the first sale doctrine defense.¹⁵⁰

The Supreme Court identified the main issue of the case to be whether the first sale doctrine limited the importation clause in the same way that the doctrine limited the exclusive rights of section 106(3).¹⁵¹ In holding that it did, the Court followed the reasoning of *Sebastian*, and adopted a plain language interpretation of section 602(a).¹⁵²

The Court first noted that section 109 expressly limits section 106 rights.¹⁵³ Next, it concluded that section 602(a) “does not categorically prohibit the unauthorized importation of copyrighted materials,” but does make importation an infringement of the section 106 rights.¹⁵⁴ The majority concluded that section 602 is subject to the same limitations of section 106—in other words, “§ 602 violations [are] a species of § 106 violations. . . . If § 602(a) functioned independently, none of those sections would limit its coverage.”¹⁵⁵

The Court rejected claims that its holding would render section 602 meaningless. The Court noted that section 109 has a “necessarily broad reach.”¹⁵⁶ Section 602(a), however, is “broader because it encompasses copies that are not subject to the first sale doctrine—e.g., copies that are lawfully made under the law of another country.”¹⁵⁷ In dicta, the Court

145. *See id.* at 154 (Ginsburg, J., concurring).

146. *See id.* at 138–39 (majority opinion).

147. *See id.* at 139.

148. *See id.*

149. *See id.* at 139–40.

150. *See id.* at 140; *L’Anza Research Int’l, Inc. v. Quality King Distribs., Inc.*, No. CV-94-00841, 1995 WL 908331, at *4 (C.D. Cal. July 7, 1995) (holding that the first sale doctrine was not a defense for a U.S. copyrighted good that was sold abroad). When the case was before the Ninth Circuit, the court stated that “[w]hile many courts, including the Ninth Circuit, have followed *Scorpio*, the consensus among legal scholars is that the reasoning of *Scorpio* is flawed.” *L’Anza Research Int’l Inc. v. Quality King Distribs., Inc.*, 98 F.3d 1109, 1115 (9th Cir. 1996).

151. *See Quality King*, 523 U.S. at 138.

152. *See id.* at 143–46.

153. *See id.* at 144.

154. *Id.*

155. *Id.* at 149–50.

156. *Id.* at 152.

157. *Id.* at 148.

provided the following hypothetical to illustrate concerns regarding the applicability of the first sale doctrine to copyrighted works made “under the law of another country”¹⁵⁸:

If the author of the work gave the exclusive United States distribution rights—enforceable under the Act—to the publisher of the United States edition and the exclusive British distribution rights to the publisher of the British edition, however, presumably only those made by the publisher of the United States edition would be “lawfully made under this title” within the meaning of § 109(a). The first sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a) (or, for that matter, to an action under § 106(3), if there was a distribution of the copies).¹⁵⁹

Although this hypothetical suggests that a foreign-made good would not be “lawfully made under this title,” a similar example was used in the revision process leading to passage of the 1976 Act, which sheds a different light on the example.¹⁶⁰ The transcript of oral argument implied that the goods made by the British publisher were “made pursuant to the British copyright.”¹⁶¹ Yet, because the hypothetical’s reasoning is not applicable to the facts of the instant case, as the goods were produced domestically, this application remains only dicta.

Justice Ginsburg’s concurrence, classifying the copyrighted good’s pattern of distribution and sale as a “round trip,” illuminates a significant gap in the current first sale doctrine.¹⁶² She stated: “[W]e do not today resolve cases in which the allegedly infringing imports were manufactured abroad.”¹⁶³ She then cited to a number of sources that indicated a presumption against the Copyright Act’s extraterritorial application.¹⁶⁴

158. *See id.*

159. *Id.*

160. *See id.* at 148 n.20 (citing STAFF OF H. COMM. ON THE JUDICIARY, 88TH CONG. COPYRIGHT LAW REVISION, PART 4: FURTHER DISCUSSION AND COMMENTS ON PRELIMINARY DRAFT FOR REVISED U.S. COPYRIGHT LAW 119 (Comm. Print 1964) (statement of Harriet F. Pilpel)).

161. Transcript of Oral Argument at 4–7, *Quality King*, 523 U.S. 125 (No. 96-1470), 1997 WL 765595, at *11–17, *35. The hypothetical that *Quality King*’s counsel provided in response to Justice Stevens’s questioning is as follows:

If an author gives the British copyright to his or her book to a British company, and the U.S. copyright to his or her book to a U.S. copyright holder, the U.S. copyright holder obviously wishes to avoid having the unrelated British copyright holder ship 1,000 copies of the book here because the U.S. copyright holder has no control over the independent entity, has not been paid anything for those copies, et cetera.

Id. at *12.

162. *See, e.g.,* *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210, 217 (2d Cir. 2011), *cert. granted*, 80 U.S.L.W. 3365 (U.S. Apr. 16, 2012) (No. 11-697) (discussing how the concurrence demonstrated the “key factual difference” that was present in the case); *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 989 (9th Cir. 2008) (explaining the concurrence and stating that “[t]he majority opinion did not dispute this interpretation, which aligns closely with the one adopted by our circuit”).

163. *See Quality King*, 523 U.S. at 154 (Ginsburg, J., concurring).

164. *Id.* Justice Ginsburg cited to two copyright treatises. The first parenthetical stated: “provisions of Title 17 do not apply extraterritorially unless expressly so stated, hence the

Thus, *Quality King* left open the question whether the first sale doctrine could apply to goods manufactured abroad and imported without the copyright owner's permission.

4. The Ninth Circuit After *Quality King*: Manufactured Abroad, Sold Abroad, and Imported Without Authorization

In *Omega S.A. v. Costco Wholesale Corp.*,¹⁶⁵ the Ninth Circuit addressed the unanswered question from *Quality King*, and held that the first sale doctrine was unavailable as a defense for goods manufactured abroad.¹⁶⁶ Omega produced watches in Switzerland that were engraved with a copyrighted logo, and sold the watches to international distributors.¹⁶⁷ These distributors sold the goods to a New York company, who in turn sold the watches to Costco, which then sold the watches in California.¹⁶⁸ Omega filed a suit alleging copyright infringement, to which Costco asserted a first sale defense.¹⁶⁹ The district court ruled in favor of Costco, and Omega appealed.¹⁷⁰

The Ninth Circuit first summarized the applicable circuit law.¹⁷¹ Under Ninth Circuit precedent, section 109(a) did not apply to copies manufactured abroad unless an authorized first sale was made domestically.¹⁷² The court stated that reliance on these cases would require reversing the district court's grant of summary judgment for Costco.¹⁷³

The Ninth Circuit acknowledged that its holdings might be at odds with *Quality King*, but concluded that *Quality King* was not "clearly irreconcilable" with Ninth Circuit precedent.¹⁷⁴ First, the court found that *Quality King* did not "directly overrule" Ninth Circuit case law, because the goods in *Quality King* were manufactured domestically, and therefore the Supreme Court did not decide the scope of the first sale doctrine for foreign-made goods.¹⁷⁵ Next, the court held that the Supreme Court's "brief discussion on extraterritoriality" was not irreconcilable with precedent that limited the first sale doctrine to domestically manufactured

words 'lawfully made under this title' in the 'first sale' provision, . . . must mean 'lawfully made in the United States.'" *Id.* (citing WILLIAM PATRY, COPYRIGHT LAW AND PRACTICE 166–70 (1997 Supp.)). The second parenthetical stated: "Copyright protection is territorial. The rights granted by the United States Copyright Act extend no farther than the nation's borders." *Id.* (citing to PAUL GOLDSTEIN, COPYRIGHT § 16.0, at 16:1–16:2 (2d ed. 1998)).

165. 541 F.3d 982 (9th Cir. 2008).

166. *See id.*

167. *Id.* at 983.

168. *See id.*

169. *See id.*

170. *See id.*

171. *See supra* notes 128–41 and accompanying text.

172. *See, e.g., Omega*, 541 F.3d at 986; *Denbicare U.S.A. Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143, 1149 (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); *Columbia Broad. Sys., Inc. v. Scorpio Music Distribs., Inc.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983).

173. *See Omega*, 541 F.3d at 986.

174. *Id.* at 987.

175. *Id.*

goods.¹⁷⁶ Instead, the court stated that there was an even stronger presumption against extraterritoriality for the Copyright Act.¹⁷⁷

In addition, the court relied on the dicta from *Quality King*—specifically, the hypothetical provided by the majority opinion—to conclude that “lawfully made under this title” only refers to copies of works made domestically.¹⁷⁸ The court noted that this was even more persuasive because the *Quality King* majority did not dispute Justice Ginsburg’s concurrence, which stated that the first sale doctrine only applies to works made in the United States.¹⁷⁹

Costco argued that limiting section 109(a) “to domestically made copies is inconsistent with the plain language of the statute and its legislative history,” but the Ninth Circuit dismissed this by relying on *Drug Emporium* and *Denbicare*.¹⁸⁰ The court explained that the exception that section 109(a) may be a defense if an authorized first sale was made in the United States resolved the concerns that the manufacture of copyrighted goods would be driven abroad.¹⁸¹

Costco was appealed to the Supreme Court. Parties on both side of the parallel importation debate—including retailers and unions,¹⁸² library associations,¹⁸³ and publishing associations¹⁸⁴—filed amicus briefs. Justice Kagan recused herself because she had worked on the case as the Solicitor

176. *Id.*

177. *Id.* at 988. The court stated:

Recognizing the importance of avoiding international conflicts of law in the area of intellectual property, however, we have applied a more robust version of this presumption to the Copyright Act, holding that the Act presumptively does not apply to conduct that occurs abroad even when that conduct produces harmful effects within the United States.

Id.

178. *See id.* at 989 (citing *Quality King Distrib., Inc. v. L’anza Research Int’l, Inc.*, 523 U.S. 135, 154 (1998) (Ginsburg, J., concurring)).

179. *Id.*

180. *Id.*

181. *Id.*

182. *See, e.g.*, Brief Amici Curiae Retail Indus. Leaders Ass’n et al. in Support of Petitioners, *Costco Wholesale Corp. v. Omega S.A.*, 131 S. Ct. 565 (2010) (No. 08-1423), 2009 WL 1759033; Brief of eBay Inc. et al. as Amici Curiae in Support of Petitioners, *Omega*, 131 S. Ct. 565 (No. 08-1423), 2010 WL 2797466. Under the doctrines of contributory and vicarious liability, these groups could be exposed to copyright infringement suits as well. *See generally* *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005).

183. The briefs for libraries indicated that a limitation of the first sale doctrine would hurt library lending because of the estimated 200 million foreign made books in U.S. libraries. *See, e.g.*, Brief of Amici Curiae Pub. Knowledge, Am. Ass’n of Law Libraries et al., *Omega*, 131 S. Ct. 565 (No. 08-1423), 2010 WL 2749651; Brief Amici Curiae of the Am. Library Ass’n et al. in Support of Petitioners, *Omega*, 131 S. Ct. 565 (No. 08-1423), 2010 WL 2749653.

184. *See, e.g.*, Brief for the Motion Picture Ass’n of Am., Inc. and the Recording Indus. Ass’n of Am. as Amici Curiae in Support of Respondent, *Omega*, 131 S. Ct. 565 (No. 08-1423), 2010 WL 3518659; Brief for Ass’n of Am. Publishers as Amicus Curiae in Support of Respondent, *Omega*, 131 S. Ct. 565 (No. 08-1423), 2010 WL 3518658.

General.¹⁸⁵ The case was affirmed by a vote of 4–4 in a single sentence per curiam opinion,¹⁸⁶ and is only binding precedent on the Ninth Circuit.¹⁸⁷

C. Extraterritorial Application

As Justice Ginsburg’s concurrence in *Omega* mentions, statutory construction presumes that a U.S. law will not govern matters in other countries.¹⁸⁸ Absent evidence of contrary congressional intent, federal statutes are presumed “to apply only within the territorial jurisdiction of the United States.”¹⁸⁹ The “longstanding principle of American law”¹⁹⁰ against extraterritorial application of federal statutes may be overcome by “the affirmative intention of the Congress clearly expressed” that the statute should apply to foreign matters.¹⁹¹ If a law does not have extraterritorial application, then “infringing actions that take place entirely outside the United States are not actionable.”¹⁹²

This principle “rests on the perception that Congress ordinarily legislates with respect to domestic, not foreign matters.”¹⁹³ Moreover, interfering with another country’s authority “would be unjust”¹⁹⁴ and could create “incompatibility with the applicable laws of other countries.”¹⁹⁵ It is arguable that Congress intends U.S. laws to “(1) address[] domestic concerns; (2) respect[] the comity of nations by not interfering with the legislative prerogatives of other sovereigns; and (3) avoid[] unjustly

185. *See Omega*, 131 S. Ct. at 565. *See generally* Brief for the United States as Amicus Curiae, *Omega*, 131 S. Ct. 565 (No. 08-1423), 2010 WL 979062.

186. *Omega*, 131 S. Ct. at 565. For a more detailed discussion of the case, see generally Lindsay R. Aldridge, Note, *Costco v. Omega and the First Sale Doctrine*, 12 N.C. J.L. & TECH. 325 (2011).

187. The Supreme Court has held that “no affirmative action can be had in a cause where the judges are equally divided in opinion as to the judgment to be rendered or order to be made.” *Durant v. Essex Co.*, 74 U.S. (7 Wall.) 107, 110 (1868). Therefore, where the Supreme Court affirms the lower court’s decision as a result of an equally divided court, the decision will bind that circuit only and not create precedent. *See generally* Edward A. Hartnett, *Ties in the Supreme Court of the United States*, 44 WM. & MARY L. REV. 643 (2002).

188. *See supra* note 164 and accompanying text. In line with Justice Ginsburg’s discussion, the Ninth Circuit has held that the Copyright Act has no extraterritorial application without clear congressional intent. *See Subafilms, Ltd. v. MGM-Pathe Comms. Co.*, 24 F.3d 1088, 1088 (9th Cir. 1994).

189. *Foley Bros., Inc. v. Filardo*, 336 U.S. 281, 285 (1949).

190. *EEOC v. Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991).

191. *Id.* (quoting *Benz v. Compania Naviera Hidalgo, S.A.*, 353 U.S. 138, 147 (1957)).

192. *Subafilms*, 24 F.3d. at 1091 (internal quotation marks omitted). In the context of a U.S. patented product that had a foreign first sale, a district court stated that extraterritorial effect “refers to imposing liability under United States law for conduct occurring outside the United States. Holding that exhaustion is triggered by the authorized foreign sale of a patented product does not impose liability of this sort, and thus does not amount to giving extraterritorial effect to the patent law.” *LG Elecs., Inc. v. Hitachi, Ltd.*, 655 F. Supp. 2d 1036, 1047 (N.D. Cal. 2009).

193. *Morrison v. Nat’l Austl. Bank Ltd.*, 130 S. Ct. 2869, 2877 (2010).

194. *Am. Banana Co. v. United Fruit Co.*, 213 U.S. 347, 356 (1909).

195. *Morrison*, 130 S. Ct. at 2885.

penalizing a person for conduct that is consistent with the law of the territory where the conduct occurs.”¹⁹⁶

II. WILEY AND THE SECOND CIRCUIT

In August 2011, the Second Circuit narrowed the availability of the first sale doctrine in *John Wiley & Sons, Inc. v. Kirtsaeng*.¹⁹⁷ The court affirmed the district court’s decision that “[t]he first sale doctrine does not apply to goods produced outside of the United States.”¹⁹⁸ To understand how the court reached their decision, Part II.A provides a description of the facts of the case, and details the procedural history. Next, Part II.B parses the Second Circuit’s decision by looking at the majority’s reliance on *Quality King* and the court’s statutory analysis. Part II.B then examines the policy implications of the holding, and discusses the *Wiley* dissent.¹⁹⁹

A. Facts and Procedural History

The plaintiff, John Wiley & Sons, Inc., published books for both domestic and international markets.²⁰⁰ Wiley’s wholly owned subsidiary, Wiley Asia, manufactured foreign editions of the books.²⁰¹ Although Wiley Asia produced the books, Wiley held the U.S. copyright protection and limited the markets in which foreign editions were sold.²⁰² Wiley further retained the rights to sell and publish its books domestically.²⁰³

The U.S. edition textbooks generated a greater profit for Wiley than the foreign editions.²⁰⁴ Books that Wiley intended to be distributed in the international market contained the same written material as their domestic counterparts, but editions were inferior in quality and features.²⁰⁵ For example, some lacked supplemental study guides and were made with lower quality printing material.²⁰⁶ The front cover of foreign edition textbooks stated that they were Wiley international editions, and contained imprints on the back cover that specified that they were only to be sold in certain countries.²⁰⁷

196. Rothchild, *supra* note 78, at 1232.

197. *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210 (2d Cir. 2011), *cert. granted*, 80 U.S.L.W. 3365 (U.S. Apr. 16, 2012) (No. 11-697).

198. *Id.* at 216.

199. In order to understand where *Wiley* fits within the body of relevant case law, this Note provides a summary of prior court holdings, including *Wiley*, in a table at the end of the Note. See Table I.

200. See *id.* at 212.

201. See *id.* at 212–13.

202. See *id.* at 213 n.6.

203. See *id.* at 213.

204. See *John Wiley & Sons, Inc. v. Kirtsaeng*, No. 08 Civ. 7834, 2009 WL 3364037, at *2 (S.D.N.Y. Oct. 19, 2009).

205. *Wiley*, 654 F.3d at 213.

206. See *id.*

207. See *id.* For example, one back cover read:

Authorized for sale in Europe, Asia, Africa and the Middle East Only.

This book is authorized for sale in Europe, Asia, Africa and the Middle East only [and] may not be exported. Exportation from or importation of this book to

The defendant, Supap Kirtsaeng, moved to the United States to study mathematics at Cornell University.²⁰⁸ In an effort to earn money to pay for his education, Kirtsaeng's family and friends shipped him Wiley Asia textbooks to resell at a higher price in the United States.²⁰⁹

Wiley filed an action against Kirtsaeng, asserting, among other copyright violations, a claim of infringement under section 501 of the Copyright Act, alleging that Wiley's exclusive importation rights under section 602(a) had been violated.²¹⁰ Kirtsaeng asserted that the first sale doctrine protected his actions.²¹¹ However, the district court rejected this argument.²¹² Judge Donald C. Pogue stated that "[t]here is no indication that the imported books at issue here were manufactured pursuant to the U.S. Copyright Act . . . [t]o the contrary, the textbooks introduced as evidence purport, on their face, to have been published outside of the United States."²¹³ Judge Pogue held that "lawfully made under this title" only applies to works manufactured in the United States.²¹⁴ Thus, Kirtsaeng was found liable for willfully infringing eight of Wiley's copyrighted books.²¹⁵

B. The Second Circuit's Decision

In a 2–1 decision, the Second Circuit affirmed the lower court's holding that Kirtsaeng could not use the first sale doctrine as a defense.²¹⁶ The court identified the legal issue as whether the district court correctly interpreted the phrase "lawfully made under this title" to mean that section 109(a) only applies to works made domestically.²¹⁷ The Second Circuit concluded that the phrase "refers specifically and exclusively to copies that are made in territories in which the Copyright Act is law, and not to foreign-manufactured works."²¹⁸

1. Majority Opinion

In deciding *Wiley*, the Second Circuit reviewed the plain language of section 109(a), and looked to the Supreme Court's decision in *Quality King*, which held that the first sale doctrine limits the scope of section 602(a).²¹⁹

another region without the Publisher's authorization is illegal and is a violation of the Publisher's rights. The Publisher may take legal action to enforce its rights. The Publisher may recover damages and costs, including but not limited to lost profits and attorney's fees, in the event legal action is required.

Id. (alteration in original).

208. *See id.*

209. *See id.*

210. *See id.* at 213–14.

211. *See id.* at 214.

212. *See id.*

213. *See id.* (quoting *John Wiley & Sons, Inc. v. Kirtsaeng*, No. 08 Civ. 7834, 2009 WL 3364037, at *9).

214. *See Wiley*, 2009 WL 3364037, at *9 (S.D.N.Y. Oct. 19, 2009).

215. *See Wiley*, 654 F.3d at 215.

216. *See id.* at 224.

217. *Id.* at 216.

218. *Id.* at 222.

219. *See id.* at 217–18.

The Second Circuit initially stated that “[t]here is at least some tension” between the broad importation rights of section 602(a)(1) and the limitation to copyright holder’s distribution rights under section 109(a).²²⁰ The court noted that the Supreme Court had addressed the “interplay” between these provisions in *Quality King*.²²¹ The Second Circuit found that because the goods at issue in *Quality King* had been produced domestically and were imported to the United States only after a “round trip,” the facts of the case were distinguishable from *Wiley*.²²²

Because *Quality King* did not involve goods that have been manufactured abroad, the Second Circuit used the case’s dicta as a “guide[]” to the issue at hand.²²³ By relying on the Supreme Court’s explanation of how sections 109(a) and 602(a) “retain significant independent meaning” and quoting the hypothetical, the majority asserted that this “suggests that copyrighted material manufactured abroad cannot be subject to the first sale doctrine contained in § 109(a).”²²⁴ The court also repeated the Supreme Court’s reasoning that “§ 602(a)(1) had a broader scope than § 109(a),” meaning that the importation ban was expansive enough to prohibit goods made abroad.²²⁵

The Second Circuit felt “comforted” that the holding in the instant case was what the “Justices appear[ed] to have had in mind when deciding *Quality King*.”²²⁶ The court justified its conclusion by arguing that “[t]he Supreme Court [in *Omega S.A. v. Costco Wholesale Corp.*] . . . seemed poised to transform this dicta into holding.”²²⁷ *Omega*, however, was decided by a split court, and affirmed without explanation.²²⁸ Because *Costco* was not binding precedent, the Second Circuit continued with a detailed analysis of the first sale doctrine.²²⁹

Guided by the maxims of statutory interpretation, the Second Circuit conceded that the language, “lawfully made under this title,” was “simply unclear.”²³⁰ Based on the text alone, the court found that the phrase could have at least three possible interpretations: “(1) ‘manufactured in the United States,’ (2) ‘any work made that is subject to protections under this title,’ or (3) ‘lawfully made under this title had this title been applicable.’”²³¹

Although it ultimately concluded that the text was ambiguous, the circuit court discussed the first interpretation in depth.²³² First, the court found

220. *Id.* at 217.

221. *Id.*; see *supra* notes 151–57 and accompanying text.

222. *Wiley*, 654 F.3d at 217. The Second Circuit drew from Justice Ginsburg’s concurrence in *Quality King*. See *id.*

223. *Id.* at 218.

224. *Id.*

225. *Id.* at 221.

226. *Id.*

227. *Id.* at 218.

228. See *supra* notes 167–68 and accompanying text.

229. *Wiley*, 654 F.3d at 218.

230. *Id.* at 220.

231. *Id.*

232. *Id.* at 219–20.

that it was “consistent with the text of § 109(a)” and with the presumption of territoriality in statutory construction of copyright laws.²³³ The court, however, refuted the presumption against extraterritorial application by noting that other sections of the Copyright Act “explicitly take account of activity occurring abroad.”²³⁴ Furthermore, the court noted that the U.S. Copyright Office had indicated that other sections that use the phrase “lawfully made under this title” should not be limited to works created in the United States.²³⁵ Therefore, the Second Circuit concluded that if Congress had intended section 109(a) to only apply to works manufactured domestically, Congress would have clearly stated so.²³⁶

Although the court did not discuss the latter two interpretations in depth, it recognized in a footnote that these definitions would be in Kirtsaeng’s favor.²³⁷ As with the first interpretation, both were in line with the text of the statute and both were used elsewhere in the Copyright Act.²³⁸ This again brought the court to conclude that Congress could have explicitly stated its intention.²³⁹ Because of these divergent analyses, the court found the text of the statute to be “utterly ambiguous”²⁴⁰ and looked to the importation clause for further guidance.

The Second Circuit determined that the importation ban was “obviously intended to allow copyright holders some flexibility to divide or treat differently the international and domestic markets for the particular copyrighted work.”²⁴¹ The court reasoned that if the first sale doctrine was meant to apply to goods manufactured abroad, then section 602(a)(1) “would have no force in the vast majority of cases” because copyright holders would not have control to distinguish foreign markets.²⁴² Although the court noted that it was a “close call,” it rejected the Ninth Circuit’s rule

233. *Id.* at 219 (citing to precedent that defined “under” as “subject to” and “governed by”); *id.* at 219 n.31; *see also supra* notes 188–96 and accompanying text.

234. *Wiley*, 654 F.3d at 219. Specifically, section 104(b)(2) states that “[t]he works specified by sections 102 and 103, when published, are subject to protection under this title if the work is first published in the United States or in a foreign nation that, on the date of the first publication, is a treaty party[.]” *Id.* (alterations in original). The court explained that in this context, section 109(a) could apply to “any work that is subject to protection under this title,” because section 104(b)(2) provided that works may protected under copyright law even if they were not manufactured in the United States. *Id.* at 219–20.

235. *Id.* at 220 (discussing section 1006(a)(1), which provides for royalty payments to a copyright holder where the work is “lawfully made under this title”). Although the court did not provide the relevant language they relied on from the U.S. Copyright Office, *see id.* at 220 n.37, the relevant website states that “[u]nder the Act, manufacturers and importers of [the works] . . . who distribute the products in the United States” are subject to royalty payments, *see Digital Audio Recording Technology (DART) Factsheet on Filing Claims for Royalty Distribution*, U.S. COPYRIGHT OFF., <http://www.copyright.gov/carp/dartfact.html> (emphasis added) (last visited Apr. 21, 2012).

236. *See Wiley*, 654 F.3d at 220.

237. *See id.* at 220 n.38.

238. *See id.* at 220.

239. *See id.* at 220 n.38.

240. *Id.* at 220.

241. *Id.* at 221.

242. *Id.*

that section 109(a) could apply to goods made abroad where the copyright holder had given permission for a first sale in the United States.²⁴³

The Second Circuit declined to afford legal weight to the policy consequences of its holding, instead stating that such concerns were for Congress to address.²⁴⁴ The majority did, however, address the policy issues in a footnote.²⁴⁵ The court acknowledged the risk of incentivizing copyright holders to manufacture their products abroad, which would “circumvent the availability of the first sale doctrine as a defense” and essentially create complete control for the copyright holder for all future sales.²⁴⁶ Nevertheless, the court asserted that “[i]f we have misunderstood Congressional purpose in enacting the first sale doctrine, or if our discussion leads to policy consequences that were not foreseen by Congress or which Congress now finds unpalatable, Congress is of course able to correct our judgment.”²⁴⁷

2. Dissent

Judge Garvan Murtha dissented, arguing that the first sale defense should be available for “a copy of a work that enjoys United States copyright protection wherever manufactured.”²⁴⁸ Judge Murtha first looked to the text of the statute. As the majority recognized, he noted that section 109(a) does not indicate a location of manufacture, and that Congress has otherwise been explicit in the Copyright Act when it intended location to be dispositive.²⁴⁹ Counter to the majority’s holding, Judge Murtha reasoned that “under this title” refers to Title 17, the copyright law, and thus concluded that the phrase means “manufactured lawfully under title 17.”²⁵⁰ Therefore, because a “copy authorized by the U.S. rightsholder is lawful under U.S. copyright law,” the place of manufacture should be irrelevant.²⁵¹

Focusing on the evolution of the first sale doctrine, Judge Murtha explained that under the common law, the doctrine supported a policy against trade restraints.²⁵² He pointed to *Quality King* and argued that when Congress changed the wording of the statute from “lawfully obtained” to “lawfully made under this title,” it did not intend to narrow the doctrine’s applicability.²⁵³

243. *Id.*

244. *See id.* at 222.

245. *See id.* at 222 n.44.

246. *Id.*

247. *Id.* at 222.

248. *Id.* at 225 (Murtha, J., dissenting).

249. *See id.* at 226. Judge Murtha mentioned 17 U.S.C. § 601(a), the now-expired manufacturing requirement, that used both the language “under this title” and “manufactured in the United States or Canada.” *Id.*; *see also supra* notes 40–44 and accompanying text. Judge Murtha also mentioned § 104(b)(2). *See Wiley*, 654 F.3d at 226.

250. *Wiley*, 654 F.3d at 226–27.

251. *Id.* at 226.

252. *See id.* at 227.

253. *See id.* (citing *Quality King Distribs., Inc. v. L’Anza Research Int’l Inc.*, 523 U.S. 135, 152 (1998)).

Judge Murtha then discussed the policy implications of the majority's decision. He posited that Congress did not have intend to incentivize copyright holders to produce their works abroad, where they would have more copyright protection, by essentially "[g]ranting [them] unlimited power to control all commercial activities . . . of [their] work."²⁵⁴ Two consequences of this would be "high transaction costs" and "uncertainty in the secondary market."²⁵⁵

Judge Murtha argued that the Ninth Circuit's holdings were "in direct conflict" with the Supreme Court's holding in *Quality King*, because in that case the Court stated that location of a sale was irrelevant to a first sale analysis.²⁵⁶ He also rejected the notion that section 602(a) would be "meaningless" if the first sale doctrine was a defense for foreign-made goods.²⁵⁷ Judge Murtha asserted that section 602(a) would still bar the importation of pirated goods, works that have not been sold, or, as the *Quality King* court noted in dicta, goods lawfully made under some other law.²⁵⁸

III. THE FIRST SALE DOCTRINE SHOULD NOT CONTEMPLATE LOCATION OF MANUFACTURE

On April 16, 2012, the Supreme Court granted a writ of certiorari to review the Second Circuit's decision in *Wiley*.²⁵⁹ The 4–4 split of the Justices in *Omega* not only failed to provide any binding precedent, but also demonstrates that multiple interpretations of section 109(a)'s applicability are plausible. Indeed, the Supreme Court will give the circuit courts guidance on how sections 109(a) and 602(a) interact. This Note argues that the Supreme Court should vacate and remand the Second Circuit's holding. The Court should hold that the first sale doctrine should be interpreted as limiting the importation clause, regardless of the location of manufacture or the location of the first sale. However, beyond the scope of this Note is the question if, on remand, Kirtsaeng should be liable under section 602(a) due to the potential contractual agreement in the textbooks limiting resale only within certain countries.

Part III explains why the Second Circuit incorrectly interpreted the first sale doctrine. By holding that section 109(a) cannot be a defense for goods manufactured abroad, courts are expanding copyright protection and creating rights for copyright holders that contradict the fundamental principles of copyright law. The Second Circuit's holding means that no copyrighted good purchased abroad can ever be sold without the copyright

254. *Id.*

255. *Id.* The court continued, "An owner first would have to determine the origin of the copy—either domestic or foreign—before she could sell it. If it were foreign made and the first sale doctrine does not apply to such copies, she would need to receive permission from the copyright holder." *Id.*

256. *Id.* at 228.

257. *Id.*

258. *See id.*

259. *See* 80 U.S.L.W. 3365 (U.S. Apr. 16, 2012) (No. 11-697).

holder's permission in the United States. Further, allowing the first sale to be a defense in this context would not be an impermissible extraterritorial application.

Part III.A applies the arguments from the case law, statutes, and legislative history to analyze the doctrine's textual development and the phrase "lawfully made under this title." Revisiting the Supreme Court's holding in *Quality King*, Part III.B explains how the *Wiley* court does not follow binding precedent, and instead incorrectly relies on dicta, leading to an erroneous reading of section 109(a). Part III.C analyzes the underlying policy considerations of both copyright law generally and the first sale doctrine, and demonstrates that Congress intended for the first sale doctrine to apply to foreign-made works. Finally, Part III.D rejects the argument that applying the first sale doctrine to foreign-made works would be an impermissible extraterritorial application of the statute.

A. Textual Analysis

1. The Confusion with Section 109(a)

Because the phrase "lawfully made under this title" is not defined in the Copyright Act, there is confusion as to when the first sale doctrine may be asserted as a defense.²⁶⁰ For example, the Third Circuit defines the phrase as "lawfully made under Title 17,"²⁶¹ while in the Ninth Circuit, the phrase means "lawfully manufactured on U.S. soil *or* if made abroad, having at least one authorized sale in the U.S."²⁶² More recently, the Second Circuit defined the phrase as "lawfully manufactured in the United States."²⁶³

Under the normal rules of statutory construction, "lawfully made under Title 17" is the only possible interpretation. Where a phrase is not explicitly defined, the Court will "normally construe it in accord with its ordinary or natural meaning."²⁶⁴ The common usage of the phrase means "made according to the Copyright Act."²⁶⁵ The Supreme Court had not previously interpreted "under this title" to mean anything other than "according to the applicable title."²⁶⁶ Thus, the first sale doctrine should apply to works made consistent with the terms of the Copyright Act.

An ambiguous statutory provision may be interpreted in light of similar language in other parts of the code that "make[] its meaning clear, or because only one of the permissible meanings produces a substantive effect

260. *See supra* Part I.B.

261. *See supra* note 120 and accompanying text.

262. *See supra* notes 166, 181 and accompanying text.

263. *See supra* notes 217–18, 241–42 and accompanying text.

264. *Smith v. United States*, 508 U.S. 223, 228 (1993).

265. *See* WEBSTER'S THIRD NEW INT'L DICTIONARY 2487 (2002) (defining "under" as "in accordance with").

266. *See* *N.Y. Gaslight Club, Inc. v. Carey*, 447 U.S. 54 (1980). In that case, the claim under 42 U.S.C. § 2000e-5(k) required a proceeding "under this title," and the Court looked to Title 42 without any controversy. *See id.* at 60–61.

that is compatible with the rest of the law.”²⁶⁷ The phrase “lawfully made under this title” is notably used two other times in Title 17: (1) section 110²⁶⁸ excuses liability copies for educational use that are “lawfully made under this title”²⁶⁹ and (2) section 1006 of the Audio Home Recording Act²⁷⁰ (AHRA) provides for royalty payments for audio recordings “lawfully made under this title.”²⁷¹

If the *Wiley* interpretation of “under this title”—“made in the United States”—were applied to the phrase, then section 110 would not protect teachers if they use legally made works from foreign countries. Applying the same definition to the AHRA, copyright holders would not receive royalty payments for recordings that had been made abroad. However, section 1004,²⁷² which was enacted at the same time as section 1006, explicitly provides for royalty payments for imported works.²⁷³ By comparison, the *Sebastian* definition is more logical, especially as it would apply to the AHRA. The two sections would not directly conflict in meaning; rather, royalties would be given for imported goods as long as they were “lawfully made under Title 17.” Therefore, only the natural meaning of the phrase would allow each provision to be read coherently.

Where Congress intended location to be important, it explicitly wrote it into the statute.²⁷⁴ Under the rules of statutory construction, this omission is considered deliberate and “speaks volumes.”²⁷⁵ Specifically, when Congress enacted section 602(a), it began to phase out the manufacturing clause.²⁷⁶ In contrast to the Second Circuit’s interpretation of section 109(a), the House Report specifically mentioned that the manufacturing clause “violates the basic principle that an author’s rights should not be dependent on the circumstances of manufacture”²⁷⁷ and that the elimination of the clause would not intend to drive manufacturing abroad. It would be illogical to conclude that Congress made these comments while also intending to drive manufacturing abroad. Rather, if Congress had actually

267. *United Sav. Ass’n of Tex. v. Timbers of Inwood Forest Assocs., Ltd.*, 484 U.S. 365, 371 (1988) (internal citation omitted).

268. 17 U.S.C. § 110 (2006).

269. *Id.* § 110 (1).

270. *Id.* §§ 1001–1007.

271. *Id.* § 1006(a)(1)(A).

272. *Id.* § 1004.

273. *Id.* § 1004(a)(1).

274. *See supra* note 234 (discussing section 104(b)(2)), note 249 (discussing section 601(a)). There are a number of statutes outside of the Copyright Act that use the phrase “manufactured in the United States.” *E.g.*, 14 U.S.C. § 97(a)(1) (2006) (“[T]he Coast Guard may not procure buoy chain—that is not manufactured in the United States.”); 15 U.S.C. § 1124 (2006) (prohibiting the importation of goods that “bear a name or mark calculated to induce the public to believe that the article is manufactured in the United States”); 19 U.S.C. § 1673(C)(1)(2) (2006) (allowing penalties where a trading partner “no longer prevents the suppression or undercutting of domestic prices of merchandise manufactured in the United States”).

275. *See United States v. Shabani*, 513 U.S. 10, 14 (1994).

276. *See supra* notes 42–48 and accompanying text.

277. *See supra* note 45.

intended for the first sale doctrine to be a defense only for goods manufactured in the United States, it would have stated such an intent.

Furthermore, despite its repeal, the manufacturing clause provides helpful guidance in understanding the statutory language.²⁷⁸ Under principles of statutory interpretation, statutes should be construed “to have used no superfluous words.”²⁷⁹ Because section 601 used “under this title” and “manufactured in the United States” in the same sentence, Congress must have intended them to have separate meanings. Therefore, “under this title” cannot mean “made in the United States.”

Instead, the legislative reports consistently state that the 1976 language was meant to “restate[] and confirm[] the principle” of the first sale doctrine that had “been established by the court decisions and section 27 of the [1909 Act].”²⁸⁰ Under the old law, Kirtsaeng would not be liable for infringement because the books were “lawfully obtained.” In light of the congressional intent to keep the meaning of the language the same, his actions should not be considered infringement under the updated law. Had Congress intended to limit the scope of the first sale doctrine to domestically manufactured copies, it would have not implicitly accepted the *Bobbs-Merrill* holding.²⁸¹

2. Section 602(a)

The structure of section 602(a) should also be scrutinized. The syllogistic analysis used in *Sebastian* is a thorough and convincing explanation of the language.²⁸² Standing alone, section 602(a) could be interpreted as a bright-line rule disallowing any unauthorized importation.²⁸³ However, if Congress did not intend section 109(a) to limit section 602(a), then section 602(a) would not explicitly say that importation “without the authority of the owner” is an “infringement of the exclusive right to distribute copies or phonorecords under section 106.”²⁸⁴ Under the express language of the statute, importation is an additional right under section 106 and is subject to the exceptions in sections 107 through 122.²⁸⁵ Any other interpretation would mean that neither the first sale doctrine, nor any of the other exceptions in sections 107 through 122, limits the right of importation.

278. See *supra* notes 40–44 and accompanying text.

279. *Platt v. Union Pac. R.R. Co.*, 99 U.S. 48 (1878); see *Bailey v. United States*, 516 U.S. 137, 146 (1995) (“We assume that Congress used two terms because it intended each term to have a particular, nonsuperfluous meaning.”).

280. See *supra* note 69 and accompanying text.

281. See *supra* notes 56–60, 69 and accompanying text.

282. See *supra* notes 120–24 and accompanying text.

283. See *supra* notes 107–09 and accompanying text; see also 17 U.S.C. § 602(a) (2006).

284. 17 U.S.C. § 602(a).

285. See *id.*

Many courts have argued that section 602(a) would be rendered “virtually meaningless”²⁸⁶ or “have no force”²⁸⁷ if the first sale doctrine could be a defense for goods made abroad. Not only did the Supreme Court directly address this issue and find it unpersuasive,²⁸⁸ the importation clause would still prohibit importation in a number of instances.²⁸⁹ Besides the undisputed prohibition of pirated goods, it would also disallow any importation where the importer is violating a contractual agreement. For example, importation is prohibited where a person licensed to only manufacture and sell goods in a foreign market instead sells in the United States. The licensee could not use the first sale doctrine as a defense to copyright infringement because there has not been any first sale, but only an infringing importation that violated a contract.²⁹⁰

Similarly, because the first sale doctrine is only a defense where the title of the good itself has been transferred, a lessee or bailee could not import the good without authorization.²⁹¹ For example, section 602(a) would provide a remedy against an importer who is meant to bring goods (that have not yet had a first sale) to a foreign country but instead brings the goods to the United States. Thus, there are a number of situations in which there has been no authorized first sale, and section 602(a) would prohibit importation of the good.

B. Conflicting with Precedent

Although the Second Circuit may look to other courts for guidance, the only binding precedent on this issue is from *Quality King*, where the good was produced domestically.²⁹² Although the Second²⁹³ and Ninth²⁹⁴ Circuits have distinguished later cases from *Quality King*, the Supreme Court did not intend to limit its holding to the particular facts of *Quality King*.²⁹⁵ Instead, the Court decided that the importation clause was subject to the first sale doctrine.²⁹⁶

The circuit courts did not believe that they would be bound by that holding due to the confusing hypothetical and Justice Ginsburg’s concurrence.²⁹⁷ However, Justice Ginsburg was the only Justice who did

286. See, e.g., *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 989 (9th Cir. 2008); *Columbia Broad. Sys., Inc. v. Scorpio Music Distribs., Inc.* 569 F. Supp. 47, 49 (E.D. Pa. 1983); *supra* notes 108, 132 and accompanying text.

287. See *Kirtsaeng v. John Wiley & Sons, Inc.*, 654 F.3d 210, 221 (2d Cir. 2011), *cert. granted*, 80 U.S.L.W. 3365 (U.S. Apr. 16, 2012) (No. 11-697).

288. See *supra* notes 156–57 and accompanying text.

289. See *supra* notes 258 and accompanying text.

290. See *supra* notes 54–55 and accompanying text.

291. See *supra* notes 54–55 and accompanying text.

292. See *supra* notes 125–26 and accompanying text (discussing that in *Quality King*, the goods were produced in the United States); *supra* notes 186–87 and accompanying text (stating that in *Wiley*, the goods were produced abroad).

293. See *supra* note 203 and accompanying text.

294. See *supra* notes 155–60 and accompanying text.

295. See *supra* notes 143–55 and accompanying text.

296. See *supra* notes 151–55 and accompanying text.

297. See *supra* notes 174–79, 219–29 and accompanying text.

not think that the decision would resolve the concern regarding foreign-made goods.²⁹⁸ If the eight other Justices agreed with her concurrence, they would have expressly included her opinion in the majority holding or opted to concur as well. It is therefore a stretch for courts to use Justice Ginsburg's concurrence to invalidate the scope of the Supreme Court's majority holding.

Moreover, both the Second and Ninth Circuits severely misconstrue the British publisher hypothetical, which the Supreme Court provided as dicta.²⁹⁹ The circuit courts understood the example to mean that a good could only be "lawfully made under this title" if it was made domestically.³⁰⁰ The hypothetical, however, does not refer to place of manufacture, but instead refers to the rights given to each publisher.³⁰¹

In the example, the copyright holder transferred her U.S. distribution rights to the U.S. publisher and her British distribution rights to the British publisher.³⁰² The British publisher would not sell its books in the United States, whether the books were printed in the United Kingdom or in the United States, because the British publisher only had the exclusive right to reproduce and distribute the books in the United Kingdom. That this illustration was also discussed in the oral argument reveals that the example is merely a tool to show how authors can allocate rights between markets.³⁰³

Instead of the emphasis on location of manufacture that lower courts have since constructed, the main takeaway should be that the lack of a first sale by the British publisher means that section 109(a) cannot be a defense.³⁰⁴ This understanding conforms to the interpretation of "lawfully made under Title 17" because it looks at the rights granted in accordance with the Copyright Act.

C. Policy Concerns

The following policy issues demonstrate that Congress could not have intended the Second Circuit's interpretation of the first sale doctrine. These concerns are particularly relevant because they speak to the legislative intent behind the language of the first sale doctrine.³⁰⁵ In other words, the effects of the interpretation of "lawfully made under this title" are important not only because of their policy implications, but also because of what they reveal about Congress's intent at the time of enactment.

The main purpose of copyright law and the first sale doctrine is to provide a benefit to the public while balancing creators' rights with the

298. *See supra* notes 162–64 and accompanying text.

299. *See supra* notes 179, 222–25 and accompanying text.

300. *See supra* notes 179, 222–25 and accompanying text.

301. *See supra* notes 158–61 and accompanying text.

302. *See supra* notes 158–61 and accompanying text.

303. *See supra* notes 158–61 and accompanying text.

304. *See supra* notes 158–61 and accompanying text.

305. *See, e.g.,* *United Sav. Ass'n of Tex. v. Timber of Inwood Forest Assocs., Ltd.*, 484 U.S. 365, 171 (1988) (stating that statutory construction "is a holistic endeavor").

ultimate goal of promoting creativity.³⁰⁶ In disallowing a first sale defense, courts are hurting the public by shifting the balance away from “advancing welfare”—the underlying purpose of copyright—to expanding authors’ rights.

Instead of using the underlying principle of the first sale doctrine—to further the free alienation of property³⁰⁷—the *Wiley* decision puts restraints on property. As seen in a number of cases, companies that sell goods that are not generally entitled to copyright protection sometimes use a copyrighted item to gain control over the product.³⁰⁸ For example, by placing a copyrighted label on a box or engraving a copyrighted design into a good, a copyright owner will have complete control over pricing and distribution. Under *Wiley*, this control will exist regardless of how many sales of a good are made,³⁰⁹ so long as the item is manufactured in a foreign country, any subsequent purchaser of the product will need to get the copyright owner’s authorization.³¹⁰

This interpretation shifts the balance of control toward authors by creating a nearly unlimited distribution right for goods that are manufactured abroad. Further, it creates an incentive for U.S. companies to manufacture abroad, which also hurts public welfare by taking away U.S. jobs.³¹¹ Moreover, copyright holders will now be able to get an unlimited amount of rewards, whenever the good is manufactured in another country. Thus, the only beneficiaries of this result are publishers and copyright holders.

This interpretation will also have negative effects on U.S. consumers and citizens by reducing the secondary market. Although there are justified arguments against the gray market,³¹² section 602(a) would likely become a major tool in the battle against the gray market, and decrease or even extinguish parallel importation.³¹³ In the absence of the gray market, companies can price discriminate in foreign markets without limitation.³¹⁴ They could therefore set a price for a book in India at a nominal rate, and price it for the domestic market however they please. U.S. consumers may not buy the product at all if they are required to pay the high price. In such

306. *See supra* notes 10–14 and accompanying text.

307. *See supra* note 62.

308. *See supra* notes 112, 134, 146, 167 and accompanying text.

309. *See supra* notes 217–19 and accompanying text.

310. *See supra* notes 217–18 and accompanying text.

311. *See generally supra* note 246 and accompanying text. Economists have argued that despite the negative effect on the U.S. job market, there is a positive effect for U.S. firms, leading to a potentially neutral or positive new effect. *See, e.g.*, Subhayu Bandyopadhyay et al., *An Evaluation of the Employment Effects of Barriers to Outsourcing 2* (Inst. for the Study of Lab., Discussion Paper No. 5426, 2011), available at <http://ssrn.com/abstract=1741614>. This Note does not contemplate the overall economic effects of overseas manufacturing, but instead argues that taking away jobs from U.S. manufacturers would harm the economy.

312. *See supra* notes 82–85 and accompanying text.

313. *See supra* notes 82–83 and accompanying text.

314. *See supra* notes 72–73 and accompanying text.

an instance, the public is no longer benefitting from creative works, which is the main purpose of copyright law.³¹⁵

Sometimes, however, consumers cannot simply to choose not to buy an item, such as when a textbook is required for a class.³¹⁶ Thus, students are faced with a dilemma: purchase the book at an increased price or lose an educational opportunity. As *Wiley* demonstrated,³¹⁷ textbook importation is a common problem for manufacturers.³¹⁸ And yet, selling foreign-made textbooks at a lower price provides students greater access to these works. It would be illogical to assume that Congress would have eliminated the gray market, while at the same time creating laws that further its expansion.³¹⁹

Moreover, the *Wiley* holding has the potential to create uncertainty for purchasers of works because many do not know where goods were manufactured.³²⁰ Libraries could be hurt because they may be unable to lend books without risking lawsuits from the copyright holders.³²¹ The *Wiley* holding also threatens many other areas of commerce, such as internet retailers to second-hand shops.³²² Because ignorance is not a defense to copyright infringement,³²³ sellers and buyers would have to spend more time determining the status of a purchased item. This is detrimental to the public welfare because it limits the public's access to works, and causes economic waste by creating an excessive amount of surplus for copyright holders, through search costs and the inability to resell.

D. Extraterritorial Application

Allowing the first sale doctrine as a defense would not lead to extraterritorial application. Extraterritorial application exists when a law regulates conduct occurring outside of the United States.³²⁴ Here, the conduct being regulated—how a U.S. court should decide cases where the good is sold in the United States—is within the United States. The plaintiffs in these cases do not argue that the manufacture abroad was impermissible. Instead, the conduct at issue is purely domestic in that it would alter importation into this country.

CONCLUSION

The Supreme Court should hold that the first sale doctrine provides a defense for all goods that have had a first sale. The scope of protection

315. *See supra* notes 10–14, 86–88 and accompanying text.

316. *See supra* notes 90–94 and accompanying text.

317. *See supra* notes 241–43 and accompanying text.

318. *See supra* notes 90, 94–95 and accompanying text.

319. *See supra* note 89.

320. *See supra* note 255 and accompanying text.

321. *See supra* note 183.

322. *See supra* note 182.

323. *See supra* notes 29–31 and accompanying text.

324. *See supra* notes 188–96 and accompanying text.

should not depend on the location of the first sale or the location of manufacture. Rejecting the first sale defense on these criteria goes against the underlying principles of copyright law, and distorts the natural language of the Copyright Act. Given the number of inconsistencies in the case law, the Supreme Court should simply hold that once a first sale occurs, the copyright holder's distribution right is exhausted.

TABLE I

<i>Case Name</i>	<i>First Sale Defense</i>	<i>Rationale</i>	<i>Copyrighted Good</i>	<i>Place of Manufacture</i>	<i>Place of First Sale</i>	<i>Holding</i>
<i>Scorpio</i>	No	Copyright Act is not extraterritorial	Phonorecord	Abroad	Abroad	First sale only where goods made and sold in U.S.
<i>Sebastian</i>	Yes	Explicit statutory language	Label on products	U.S.	Abroad	First sale applies once copyright owner made first sale.
<i>BMG Music</i>	No	<i>Scorpio</i>	Phonorecord	Abroad	Abroad	First sale only for goods made and sold in U.S.
<i>Parfums Givenchy</i>	No	<i>BMG Music</i>	Box that held product	Abroad	Abroad	No first sale for good made abroad and imported.
<i>Denbicare</i>	Yes	<i>Parfums Givenchy dicta</i>	Box that held product	Abroad	Foreign trade zone	First sale only for first sale in U.S., which includes foreign trade zone.
<i>Quality King</i>	Yes	<i>Sebastian/Statutory Language</i>	Label on products	U.S.	Abroad	First sale allowed for round trip good: made in U.S., exported, then imported.
<i>Omega</i>	No	Ninth Circuit precedent	Logo on product	Abroad	Abroad	First sale only for first sale in U.S.
<i>Wiley</i>	No	<i>Quality King dicta</i>	Textbooks	Abroad	Abroad	First sale only for goods made in the U.S.