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### Kirtsaeng v. John Wiley & Sons, INC.—An Expanded Application Of The “First Sale Defense”

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*KIR TSAENG v. JOHN WILEY & SONS, INC.*—AN  
EXPANDED APPLICATION OF THE “FIRST SALE  
DEFENSE”

by

J.L. Yranski Nasuti, JD, LL.M.\*

INTRODUCTION

Under U.S. copyright law, a copyright holder possesses the exclusive right to distribute copyrighted material to the public for sale or other transfer of ownership. That exclusive right is, however, subject to a number of statutory exceptions. One exception is the “first sale” doctrine, which not only cuts off the copyright holder’s ability to structure the sale and downstream distribution of copies of that material that were manufactured in the United States but also allows the owner of a lawfully acquired copy of that copyrighted material to resell it without obtaining the permission of the copyright holder. In the recent case of *Kirtsaeng v. John Wiley & Sons, Inc.* (hereinafter *Wiley*),<sup>1</sup> the U.S. Supreme Court was asked to reconcile a number of statutory provisions in order to determine whether there was an extraterritorial dimension to the “first sale” doctrine. This article will examine how the Court’s decision in *Wiley* expanded the application of the “first sale” doctrine to include copyrighted goods that were

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manufactured abroad rather than limiting it to copyrighted goods that were manufactured domestically.

#### THE FACTUAL BASIS FOR THE COPYRIGHT CLAIM IN THE *WILEY* CASE

The parties involved in the *Wiley* case were a foreign student with an entrepreneurial plan and a major U.S. publisher of textbooks. In 1997, Supap Kirtsaeng, a native of Thailand, came to the United States to earn an undergraduate degree in mathematics at Cornell University. After graduating from college, Kirtsaeng received a fellowship to continue his education in the doctoral program in mathematics at the University of Southern California, Los Angeles.

As an undergraduate, Kirtsaeng discovered two things about his college textbooks. This first was that they were very expensive. The second was that the foreign editions of the same textbooks were a lot cheaper. It was this second discovery that gave Kirtsaeng the idea to sell copies of the foreign editions of textbooks to U.S. students for a profit. Prior to executing his plan, Kirtsaeng consulted with some friends in Thailand and checked out copyright rules on the website “Googles Answers.”<sup>2</sup> After concluding that his plan was viable, he asked his family and friends buy the textbooks in Thailand and ship them to him in California. Kirtsaeng, doing business as BlueChristine99, then posted the books for sale at a significantly higher price on commercial websites such as eBay.com. As he had anticipated, his plan proved to be a financial success. His earned revenues, prior to reimbursing his family and friends, were reported to be somewhere between \$900,000 and \$1,200,000.<sup>3</sup>

John Wiley & Sons, Inc. (hereinafter Wiley) was the holder of the copyright for some of the textbooks that Kirtsaeng resold

on the internet. Wiley published the textbooks targeted for its domestic market in the United States and John Wiley & Sons (Asia) Pte Ltd. (hereinafter Wiley Asia), its wholly-owned subsidiary, published the foreign editions of those same textbooks abroad.<sup>4</sup> In most cases, the contents of the domestic and foreign books were either similar or identical. The biggest differences were in the design, the supplemental content (U.S. versions typically included CD-ROMS), the type and quality of the materials used in the printing and binding, and the quality of the graphics.<sup>5</sup>

It should be noted that inside every book published by both Wiley and Wiley Asia was the following warning:

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means . . . except as permitted under Sections 107 or 108 of the 1976 United States Copyright Act.<sup>6</sup>

In addition, every textbook contained a specific claim for copyright protection. A typical copy of an American edition of a Wiley textbook would read:

Copyright ©2008 John Wiley & Sons, Inc. All rights reserved . . . Printed in the United States of America.<sup>7</sup>

The insert in the foreign edition of a comparable Wiley Asia textbook would read:

Copyright © 2008 John Wiley & Sons (Asia) Pte Ltd[.] . . . All rights reserved. This book is authorized for sale in Europe, Asia, Africa and the Middle East only [and] may not be exported

out of these territories. Exportation from or importation of this book to 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. . . . Printed in Asia.<sup>8</sup>

When Wiley became aware of Kirtsaeng's operation, it filed a lawsuit against him in the U.S. District Court in the Southern District of New York claiming federal copyright<sup>9</sup> and trademark infringement<sup>10</sup> as well as unfair competition under New York state law.<sup>11</sup> Wiley's primary claim was that Kirtsaeng had infringed on Wiley's exclusive right to distribute copies of copyrighted works and had engaged in the unauthorized importation of copyright goods. Kirtsaeng denied liability and asserted that his actions were protected by the "first sale" defense.

## THE DEVELOPMENT OF THE "FIRST SALE" DEFENSE IN THE UNITED STATES

### *HISTORICAL BACKGROUND*

The "first sale" defense is based on the common law doctrine that restraints should not be placed on the alienation of chattels. To illustrate this doctrine, Lord Coke gave an example of a person who possessed a horse or some other chattel and either gave it to a donee or sold it to a vendee on the condition that that party was prohibited from giving or selling it to anyone else. According to Coke such a condition should be void since "it is against Trade and Traffic, and bargaining and contracting between man and man; and it . . . should ouster him of power given to him."<sup>12</sup>

The "first sale" defense to copyright infringement claims

was recognized by the U.S. Supreme Court in the 1908 case of *Bobbs-Merrill Company v. Straus et al. d/b/a/ R.H. Macy & Company* (hereinafter *Bobbs-Merrill*).<sup>13</sup> Bobbs-Merrill, the publisher and copyright owner of a work of fiction, *The Castaway*, had inserted a notice in the front cover of each copy of the novel stating that: “The price of this book at retail is one dollar net. No dealer is licensed to sell it at a less price, and a sale at a less price will be treated as an infringement of the copyright.”<sup>14</sup> Macy & Co. purchased multiple copies of the book from wholesale dealers with the intention of reselling them in its stores. Even though Macy & Co. was aware of Bobbs-Merrill attempt to place limits on the retail price for the book, it chose to sell its copies at the retail price of eighty-nine cents per copy. Bobbs-Merrill responded by filing a lawsuit in federal court seeking to restrain Macy & Co. from selling the copyrighted books.

The Supreme Court began its discussion of Bobbs-Merrill’s copyright claim by noting that federal copyright protection is a statutory right that Congress established under its Article I, § 8 power to: “To 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.” It therefore agreed that it would be prudent to construe the copyright statutes “with a view to effecting the purposes intended by Congress . . . [and] ought not to be unduly extended by judicial construction to include privileges not intended to be conferred, nor so narrowly construed as to deprive those entitled to their benefit of the rights Congress intended to grant.”<sup>15</sup> While the Court acknowledged that the purpose of copyright law is “to secure to the author the right to multiply copies of his work,”<sup>16</sup> that purpose does not result in limitless protection. Section 4952 of the Revised Statutes of the United States (1901) specifically gave the copy holder the “sole liberty of printing, reprinting, publishing, completing,

copying, executing, finishing and *vending* [emphasis added] the same.” But, according to the Court, that sole right to vend did not include the right to restrict “the subsequent alienation of the subject-matter of copyright after the owner had parted with the title to one who had acquired full dominion over it and had given a satisfactory price for it.”<sup>17</sup> Absent contract provisions or license agreements limiting the subsequent sale of the copyrighted material, copyright statutes do not give copyright holders the right, after the sale of the book to a purchaser, to restrict future retail sales of the book or the right to specify that it may only be resold at a certain price. The statutory right to vend is the right to first sell copies of the protected material in quantities and at a price that is satisfactory to the copyright holder. It is not the right to control all future retail sales of those particular copies. “The purchaser of a book, once sold by authority of the owner of the copyright, may sell it again, although he may not publish a new edition of it.”<sup>18</sup>

The “first sale” doctrine, which was established by the Court in *Bobbs-Merrill*, was codified in the Copyright Act of 1909<sup>19</sup> and in the Copyright Act of 1947.<sup>20</sup> Both versions of the law began by stating that the exclusive rights with regard to copyrighted works include the right “to print, reprint, publish, copy, and *vend* [emphasis added] the copyrighted work.”<sup>21</sup> Congress went on to limit those rights subject to the *Bobbs-Merrill* “first sale” defense. Section 41 of the 1909 Act stated that:

[T]he copyright is distinct from the property in the material object copyrighted, and the sale or conveyance, by gift or otherwise, of the material object shall not of itself constitute a transfer of the copyright, nor shall the assignment of the copyright constitute a transfer of title to the

material object but *nothing in this Act 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.*<sup>22</sup> [Emphasis added.]

Section 27 of the 1947 Act subsequently adopted § 41 of the 1909 Act almost verbatim.

When the Copyright Act of 1976<sup>23</sup> was enacted, it included a number of changes relevant to the “first sales” defense. Among the exclusive rights granted to the “owner of the copyright under this title” and enumerated in §106 was the right to:

(3) *To distribute* [emphasis added] copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending.<sup>24</sup>

The exclusive rights found in §106 were limited, however, by §§107 through 122. The “first sales” doctrine was addressed in §109 (a)<sup>25</sup> which specified that:

Notwithstanding the provisions of §106 (3), the owner of a particular copy or phonorecord *lawfully made under this title*, [emphasis added] or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or dispose of the possession of that copy or phonorecord.

An additional provision of the Copyright Act specifically placed limitations on the importation of copyrighted materials. Section 602(a) provided, in part, that:



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 of the United States is an infringement of the exclusive right to distribute the copies or phonorecords under § 106, actionable under § 501.

Section 602 then listed three instances in which the importation of copyrighted materials without the authority of the copyright holder was not an infringement of the exclusive right to distribute under § 106. The exceptions included: the importation of copies or phonorecords under the authority or for the use of the government (§ 602(a)(1)); the importation of not more than one copy or phonorecord for the private use of, but not for distribution by, the importer and the importation of copies and phonorecords that are part of a person's personal luggage when he or she arrives from outside the U.S. (§ 602(a)(2)); and the importation by or for scholarly, educational, or religious organizations for archival purposes or for library lending purposes (§ 602(a)(1)).

Section 501(a) (referred to in § 602(a)) stated, in part, that:

Anyone who violates any of the exclusive rights of the copyright owner as provided by §§ 106 through 122 or of the author as provided in § 106A(a), or who imports copies of phonorecords into the United States in violation of § 602, is an infringer of the copyright or right of the author, as the case may be.

*RECENT U.S. SUPREME COURT CASE LAW*

*Quality King Distributors, Inc. v. L'anza Research International, Inc.*

In 1998, the U.S. Supreme Court, in the case of *Quality King Distributors, Inc. v. L'anza Research International, Inc.* (hereinafter *Quality King*),<sup>26</sup> addressed the question of whether the “first sale” defense should apply to copyrighted goods that had been manufactured in the United States, sold for the first time to a buyer in an international market, and then imported back to and resold in the United States. L’anza was a manufacturer and seller of hair care products—all of which were made in the United States and affixed with copyrighted labels. The L’anza products were expensive and were intended for a more select clientele. Nonetheless, L’anza was concerned that its targeted American consumers might not be willing to pay the higher prices for its products if they were sold next to less expensive hair care products in supermarkets or drug stores. Consequently, it devised a marketing plan whereby it would only sell its goods to U.S. distributors who limited their sales to authorized retailers (barber shops, beauty salons, and professional hair care colleges) within limited geographical areas.<sup>27</sup> L’anza also spent additional capital to advertise in trade magazines and to offer special training sessions to its authorized retailers.

Although L’anza’s sales were not restricted to the domestic market, there are two significant differences between how the company operated in the United States and how it operated abroad. The first difference was that L’anza spent much less money on advertising and promotion in the foreign markets. The second was that it charged its foreign distributors prices that were between 35% and 40% lower than it charged its domestic distributors. And, it was this global price discrimination plan that eventually led to the lawsuit against Quality King.

In the early 1990s, L'anza's distributor in the United Kingdom sold a large quantity of its products (all with company's copyrighted labels) to a distributor in Malta at a contract price that was calculated according to the foreign price scheme. The goods, all of which had been made in the United States and had been shipped to a foreign destination, eventually made their way back to United States where they were resold by Quality King to a number of unauthorized retailers. L'anza subsequently sued Quality King as well as the Malta distributor and the U.S. retailers for violating its exclusive right to reproduce and distribute the copyrighted goods in the United States.

The issue in *Quality King* was whether L'anza, the copyright holder, could protect the exclusivity of its products in the domestic market by limiting the importation back to the United States of those same exact products. The statutory problem was whether the copyright holder's authority to limit importation under § 602(a) was similar to its exclusive right to distribute granted under § 106(3) and, therefore, limited by §§ 107 through 120. Or, more specially, whether the "first sale" doctrine (codified in § 109(a)) also applied to imported copies. The Court, in a unanimous decision delivered by Justice John Paul Stevens, concluded that the rights of a copyright holder under § 602(a) were limited to the same extent that they were limited under § 106(3).<sup>28</sup>

The Supreme Court found no merit in L'anza's claim that § 602(a) prohibited foreign distributors from reselling L'anza's products to U.S. vendors who had not been able to buy them from L'anza's authorized domestic distributors. The Court distinguished between L'anza's incorrect claim that § 602 categorically prohibited the unauthorized importation of copyrighted goods and Quality King's claim that, while an

importation might be an infringement of exclusive right to distribute copies under § 106(3), that right was subject to the limitations enumerated in §§ 107 to 120.<sup>29</sup> In *Bobbs-Merrill*, the exclusive right “to vend” had been limited by the “first sale” doctrine. Under § 106(3), the exclusive right “to distribute” was similarly limited by the codification of the “first sale” doctrine in § 109(a). Therefore, since § 602(a) only applied to the unauthorized importation of goods that was an infringement of an exclusive right under § 106(3) and since that right was limited by the “first sales” doctrine found in § 109(a), § 602(a) could not be used to prevent the domestic and foreign owners of the already distributed goods from importing and reselling them in the United States.<sup>30</sup>

L’anza had presented the Court with two statutory arguments. The first was that the application of the “first sale” defense in the case would have rendered § 602(a) and its three exceptions superfluous “unless it cover[d] non-piratical (“lawfully made”) copies sold by the copyright holder, because importation nearly always implie[d] a first sale.”<sup>31</sup> The second was that the § 501 definition of an “infringer” referred to two distinct violations—those described in § 106 and those referred to in § 602. The Court rejected both arguments on the grounds that neither adequately accounted for why § 602(a) contained the phrase “under § 106.”

With regards to L’anza’s first argument, the Court identified three instances in which the application of the “first sale” defense had not rendered § 602(a) superfluous. While it was true that the Copyright Act had explicitly prohibited the importation of “piratical” or unauthorized copies long before the enactment of § 602(a),<sup>32</sup> that prohibition had subsequently been incorporated into § 602(b) of the current Act, which stated that: “In the case where the making of the copies or phonorecords would have constituted an infringement of

copyright if this title had been applicable, their importation is prohibited.” L’anza had argued that since § 602(b) specifically referred to pirated goods, § 602(a) had to apply to something else—nonpiratical (“lawfully made”) copies. Although the Court disagreed with L’anza’s conclusion, it pointed out that even if § 602(a) only applied to piratical goods, it still provided the copyright holder with something that was quite significant—a private remedy against the importer that was not available under § 602(b).<sup>33</sup> The Court then pointed to the fact that while the § 109(a) “first sale” defense could be asserted by the “owner” of a lawfully made copy, it was unavailable, in a § 602(a) action, to nonowners such as bailees, licensees, consignees, or others whose possession of the copy was unlawful. Finally, the Court noted that there was a third category of cases (other than those involving pirated copies of copies “lawfully made under this title”) that was covered by § 602(a). Those were cases involving copies that had been “lawfully made” under the copyright laws of some other country.<sup>34</sup>

The Court next turned to L’anza’s second argument involving the proper meaning of § 501 definition of an “infringer.” Section 501 specifically stated that an “infringer” was: “Anyone who violates any of the exclusive rights of the copyright owner as provided by §§ 106 through 118 or of the author as provided in §106A or who imports copies or phonorecords into the United States in violation of § 602.” L’anza had claimed that the § 501 references to § 106 and § 602 were, in fact, references to two discrete violations. Although the Court admitted that “the use of the words “*or who imports,*” rather than words such as “*including one who imports,*” was more consistent with L’anza’s claim that a violation of § 602 is distinct from a violation of § 106,” it cited other provisions in the statute to contradict that conclusion. The Court compared how the prohibited importation under §

602(a) was unambiguously stated to be an infringement of the exclusive right “under § 106, actionable under § 501” while the infringement referred to in § 106A<sup>35</sup> (which was also cross-referenced with § 501), stated that it was “independent of the exclusive rights provided in §106.” This suggested to the Court that, while §106A described an independent right, § 602(a) violations were, in fact, more properly identified as a species of § 106 violations.<sup>36</sup>

The Court found even more persuasive the fact that § 106 rights were subject to all of the provisions of §§ 107-120 and not just the § 109(a) “first sale” defense. If § 602(a) were an independent right, none of the limits provided for in §§ 107-120 would be applicable. Consequently, a foreign publisher, unable to assert the §107 “fair use” defense, would be liable for importing a newspaper to the United States if its book review column included excerpts from a U.S. copyrighted book. The Court, citing the importance of the “fair use” defense to publishers of scholarly works, found it “difficult to believe that Congress [had] intended to impose an absolute ban on the importation of all such works containing any copying of material protected by a United States copyright.”<sup>37</sup> Such a result would be counter to the fundamental purpose of the Copyright Act, the promotion of the “useful Arts” through the rewarding of creativity and the protection of original works. While the consequences of adopting L’anza’s construction would certainly aid a company in its marketing of copyrighted materials in different global market sectors, it would also “inhibit access to ideas without any countervailing benefit.”<sup>38</sup>

The Court concluded by declining to engage in a policy discussion over the wisdom of placing governmental restraints on the “gray market” and the use of “parallel importation.”<sup>39</sup> It chose instead to restrict itself to interpreting the text of the Copyright Act that was provided by Congress. And, the Court,

having completed that task, ruled in favor of Quality King Distributors.

It should be noted that Justice Ruth Bader Ginsburg filed a brief concurring opinion in *Quality King* that anticipated the next “first sale” issue that would present itself to the Court. The sole purpose of her concurring opinion was to attempt to limit the *Quality King* holding to cases involving the “round trip” journey of copyrighted copies from the United States to locations abroad and then back to the United States. As far as she was concerned, the holding did not resolve the issue for cases in which the alleged infringing goods had been manufactured abroad.

#### *Costco Wholesale Corp. v. Omega*

In 2010, the Supreme Court granted a writ of certiorari to a Ninth Circuit case<sup>40</sup> involving allegations of copyright distribution and importation infringements under §§ 106(3) and 602(a). The issue in *Costco Wholesale Corp. v. Omega* (hereinafter *Omega*)<sup>41</sup> was whether the holding in *Quality King* limited the use of the “first sale” defense to cases in which the copies of the copyrighted work had either been made or previously sold in the United States with the authority of the copyright owner.

Omega, a Swiss manufacturer of high quality watches (all of which were engraved on their underside with a U.S. copyrighted “Omega Globe Design), participated in the international market through a network of authorized distributors and retailers. Costco Wholesale Corp. (hereinafter Costco), which was neither an authorized distributor nor retailer, purchased the copyrighted Omega watches from the “gray market” for resale in its discount stores. In this particular case, the watches, which Omega had produced in

Switzerland and sold to authorized distributors overseas, were at some point purchased by unidentified third parties who sold them to ENE Limited, a New York company, who, in turn, sold them to Costco. While the initial foreign sale of the watches had been authorized by Omega, their subsequent importation into the United States had not been. Costco's legal response to the Omega lawsuit was the same as Quality King's to L'anza—it asserted the “first sale” defense. Both parties filed motions for summary judgment. The trial court, without comment, ruled in favor of Costco. When Omega appealed the case to the U.S. Court of Appeals for the Ninth Circuit, the sole issue was whether the Supreme Court's decision in *Quality King* had overruled the appellate court's precedent that limited the “first sale” defense to copies of copyrighted materials legally made in the United States. The three justice panel reversed the lower court decision on the grounds that the “first sale” defense was unavailable to the Costco.

The Court of Appeals, relying on *Quality King*, held that the copyright holder's claims depended on the relationship between §§ 106(3), 109(a), and 602(a) of the Copyright Act. Prior to *Quality King*, case law in the Ninth Circuit had differentiated between “round trip” importation cases (in which the copies of the copyrighted material had been lawfully made in the United States, exported to an authorized foreign distributor, sold to unidentified third parties abroad, and shipped back to United States without the authorization of the copyright holder) and cases in which the copy of the material had been made abroad and subsequently imported to the United States without the copyright holder's permission. In *BMG Music v. Perez* (hereinafter *BMG*),<sup>42</sup> the appellate court had held that §109(a) could not be used as a defense to a § 602(a) claim if the goods in question had been manufactured abroad since §109(a) only applied to goods “lawfully made under this title.” And, “lawfully made under this title” “grant[ed] first



sale protection only to copies legally made and sold in the United States.”<sup>43</sup> *Parfums Givency, Inc. v. Drug Emporium, Inc.*<sup>44</sup> modified the holding in *BMG* by creating an exception that would allow the § 109(a) defense to be used in § 602(a) cases even though the copies of the copyrighted material had not been made in the United States so long as an authorized first sale had occurred in the United States.<sup>45</sup> That exception was subsequently followed by the Ninth Circuit in the case of *Denbicare U.S.A, Inc. v. Toys “R” Us, Inc.*<sup>46</sup>

In *Omega*, the question was what impact, if any, *Quality King* would have on the Ninth Circuit’s construction of § 109(a). The first issue to be resolved was whether the holding in *Quality King* applied to all varieties of importation cases. Referring to Justice Ginsburg’s concurring opinion, the Court of Appeals held that *Quality King* was limited to “round trip” importation cases. This conclusion was supported by the observation that the Supreme Court had neither discussed the scope of § 109(a) nor defined the meaning of “lawfully made under this title.”<sup>47</sup>

The next issue was whether the Ninth Circuit’s general rule that § 109(a) was limited to copies that had been “legally made in the United States” was irreconcilable with *Quality King*. The basis for the Circuit Court’s rule was its presumption that U.S. laws should not be applied extraterritorially unless the contrary is clearly indicated by statute.<sup>48</sup> For the “first sale” defense to apply to copies made abroad would require the acknowledgment that they were “lawfully made under this title.” And, that “would ascribe legality under the Copyright Act to conduct that occurs entirely outside of the United States, notwithstanding the absence of a clear expression of congressional intent in favor of extraterritoriality.”<sup>49</sup> The Circuit Court also cited the example used by the Court in *Quality King*<sup>50</sup> whereby a U.S. copyright holder gave the

exclusive U.S. distribution rights to the publisher of the U.S. edition and the exclusive British distribution rights to the publisher of the British edition. The Supreme Court had noted that:

[P]resumably only those [copies] made by the publisher in 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).

This further suggested that “lawfully made under this title” referred exclusively to the copies of the U.S. copyrighted material that had been made in the United States.

The Ninth Circuit, in *Costco*, concluded that its general rule limiting the “first sale” defense to copies of copyrighted materials legally made in the United States was compatible with *Quality King* and remained binding precedent. As a result, the § 109(a) defense to the claims under §§ 106(3) and 602(a) was unavailable to Costco and the lower court decision in favor of Costco was reversed and the case was remanded to the District Court.

The judgment of the Ninth Circuit was affirmed by the U.S. Supreme Court. But, it did so by means of a per curium opinion, without comment, that was issued by an equally divided Court. Justice Elena Kagan took no part either in the consideration or the decision in the case.

THE APPLICATION OF THE “FIRST SALE DEFENSE” TO  
*KIR TSAENG v. JOHN WILEY & SONS, INC.*

The primary claim in the *Wiley* case was that Kirtsaeng had infringed on Wiley's §§ 106(3) and 602(a) rights when he arranged to have foreign editions of textbooks sent to him in the United States and when he sold them for a profit without obtaining the authorization of the copyright holder. The central issue was whether a §109(a) "first sales" defense was available to Kirtsaeng even though the textbooks had been published abroad and the first sale had taken place abroad.

*U.S. DISTRICT COURT*

During the pre-trial proceedings, Kirtsaeng had submitted to the trial court a proposed instruction to the jury charging that the "first sale" doctrine could be used as a defense against a claim of copyright infringement.<sup>51</sup> Judge Donald Pogue denied Kirtsaeng's request and further instructed him not to raise the "first sale" defense during trial on the grounds that "[t]here is no indication that the imported books at issue here were manufactured pursuant to the U.S. Copyright Act . . . [and,] [t]o the contrary, the textbooks introduced as evidence purport, on their face, to have been published outside of the United States."<sup>52</sup>

Pogue's decision was based on his determination that goods "lawfully made under this title" applied to goods actually made within U.S. borders and not to goods made abroad but in a manner consistent with the Copyright Act. The process by which Pogue arrived at that decision began with a review of the structure of the Act. Unfortunately, that "[did] not provide a determinative conclusion."<sup>53</sup> He next analyzed the legislative history of §§ 109 and 602—which also proved to be inclusive.<sup>54</sup> His consideration of the public policy issues was equally frustrating—since valid arguments could be made for either interpretation of § 109(a).<sup>55</sup> In the end, Pogue based his

decision on dicta found in *Quality King*. The dicta in question was the Court's statement that "§ 602(a) [would] appl[y] to a category of copies that are neither piratical nor "lawfully made under this title."<sup>56</sup> And, the category of not "lawfully made under this title" "encompassed copies that were 'lawfully made' not under the United States Copyright Act, but instead, under the law of some other country."<sup>57</sup> Since the books sold by Kirtsaeng had been manufactured abroad, they were not "lawfully made" under the Act, and "first sale" defense provided for in § 109(a) was inapplicable.

Prior to trial, Kirtsaeng had sought to preclude the introduction of evidence relating to his online "PayPal" sales records (including the gross revenues from his sale of the foreign editions of Wiley textbooks) and the profits he had earned on unrelated sales activities. The trial judge granted the motion but only with regard to evidence of profits earned from books produced by other publishers (subject to a number of exceptions). When the case was finally given to the jury, Kirtsaeng also objected to jury instructions relating to the assessment of statutory damages. The jury found Kirtsaeng liable for willful infringement of the Copyright Act and imposed damages of \$75,000 for each of the eight Wiley books in question.<sup>58</sup> Kirtsaeng appealed the case to the U.S. Court of Appeals for the Second Circuit.

#### *U.S. COURT OF APPEALS*

The principal question on appeal (which was one of first impression for the Second Circuit) was whether the "first sale" doctrine could be asserted as a defense in an action alleging a copyright infringement for copies of copyrighted materials that had been manufactured abroad. The key concern was whether those materials had been "lawfully made under this title." The Court of Appeals, in a 2-1 decision delivered by Justice José

Cabranes, affirmed the lower court's ruling and held that the §109(a) defense was inapplicable.

The appellate court's *de nova* review of the case began with an acknowledgement that there was "some tension" between the broad control that § 602(a)(1) gave to the copyright holder with regard to the direct or indirect importation into the United States of the copies of the copyrighted goods and the § 109(a) limits placed on the copyright holder with regard to the distribution of those goods after their initial sale.<sup>59</sup> Even though the Supreme Court's unanimous decision in *Quality King* had held that § 109(a) limited the copyright holder's rights under §602(a), the Second Circuit was hesitant to apply that ruling to *Wiley*. The reason for that hesitation was based on a key difference between the two cases—the fact that while the goods in *Quality King* had been manufactured in the United States, the goods in *Wiley* had been manufactured abroad. The Court of Appeals cited Ginsburg's concurring opinion in *Quality King* (which attempted to limit the Court's holding to "round trip" journeys) and Steven's "instructive dicta" (which suggested that § 602(a) "encompasses copies that may not be subject to the first sale doctrine—e.g., copies that are lawfully made under the law of another country")<sup>60</sup> as well as Steven's hypothetical description of the limits on the exclusive rights of an American publisher and distributor of an American edition of a book and a British publisher and distributor of a British edition of the same book.<sup>61</sup> These references seemed to suggest that the Supreme Court had concluded that copyrighted material manufactured abroad were not subject to the "first sale" defense. But, such a suggestion was muddled by the Supreme Court's failure to transform the dicta in *Quality King* into a compatible holding in *Omega*.

In order to clarify the meaning of the phrase "lawfully made under this title," the appellate court focused on the text of §

109(a) and the structure of the Copyright Act. Understanding the text of § 109(a) turned out to be problematic given the fact that the word “made” was not a term of art under the Copyright Act<sup>62</sup> and the word “under” was something of a “chameleon” that the courts have only understand by “draw[ing] on its meaning from its context.”<sup>63</sup> Attempts to understand the words in the context of the Act were equally frustrating. If the phrase “lawfully made under this title” was interpreted to mean “lawfully made in the United States,” it would be compatible with the general presumption that statutes do not apply extraterritorially. (Such a presumption had, in fact, been adopted in previous Second Circuit copyright cases.)<sup>64</sup> But, such an interpretation would also ignore the fact that the Copyright Act also explicitly took into account activities occurring abroad.<sup>65</sup> After considering a number of alternative possibilities, the majority opinion concluded that the “relevant text [was] simply unclear” and, in fact, the phrase ““lawfully made under this title” could plausibly be interpreted to mean any number of things, including: (1) “manufactured in the United States,” (2) “any work made that is subject to the protection of this title,” or (3) “lawfully made under this title had this title been applicable.””<sup>66</sup>

Since the appellate court found the text of § 109(a) to be “utterly ambiguous,” it decided “to adopt an interpretation of § 109(a) that best comport[ed] with both § 602(a) and the Supreme Court’s opinion in *Quality King*.”<sup>67</sup> Two assumptions concerning § 602(a) convinced the majority to deny the “first sale” defense to cases involving copies of copyrighted works made abroad. The first was the assumption that § 602(a) was intended to give copyright holders some degree of flexibility in how they divided and treated their international and domestic markets for the same copyrighted work. Such an intention led to the conclusion that the “first sale” defense should be limited to copies “lawfully made in the United States” so that

copyright holders, in most instances,<sup>68</sup> could control the circumstances in which foreign made copies could be legally imported into the United States. The second assumption was that § 602(a) would be irrelevant in the vast majority of cases if the “first sale” defense was allowed to apply to every copy manufactured abroad that were either made “subject to protection under Title 17,” or “consistent with the requirements of Title 17 had Title 17 been applicable.” Consequently, it had to be read in such a way as to limit the “first sale” defense to works manufactured in the United States.

The Second Circuit Court dismissed the Supreme Court’s affirmation of the contradictory holding in *Omega* and focused instead on “what the Justices appear to have had in mind when deciding *Quality King*.”<sup>69</sup> It followed the District Court’s lead and relied on the dicta that found the scope of § 602(a) to be broader than § 109(a)—at least in so far as it “applie[d] to a category of copies that [we]re neither piratical nor “lawfully made under this title” [and] [t]hat category encompassed copies that were ‘lawfully made’ not under the United States Copyright Act, but instead, under the law of some other country.”<sup>70</sup> The appellate court concluded that since, “in the [Supreme] Court’s view, copies “lawfully made” under the laws of a foreign country—though perhaps not produced *in violation* of any United States laws—are not necessarily “lawfully made” insofar as that phrase is used in § 109(a) of our Copyright Act,”<sup>71</sup> the District Court was correct when it decided that *Kirtsaeng* could not assert a “first sale” defense.<sup>72</sup>

#### *U.S. SUPREME COURT*

##### *Majority Opinion*

The U.S. Supreme Court’s landmark ruling in *Kirtsaeng v. Wiley & Sons, Inc.*, unequivocally extended the “first sale” defense to the owners of copies of copyrighted goods that had

been manufactured abroad. Justice Stephen Breyer delivered the opinion for the majority of the Court that included Chief Justice John Roberts and Justices Clarence Thomas, Samuel Alito, Sonya Sotomayer, and Elena Kagan. Justice Kagan filed a separate concurring opinion, in which Justice Alito joined. The dissenting opinion, filed by Justice Ruth Bader Ginsburg, was joined by Justices Anthony Kennedy and by Justice Antonin Scalia (except for Parts III and V-B-1).

The Court granted a writ of certiorari in the *Wiley* case, in part, to resolve the different ways that the U.S. Circuit Courts had handled the issue of whether the “first sale” defense applied to copyrighted works manufactured abroad. The Second and Ninth Circuits had taken the view that the phrase in §109(3) referring to copies “lawfully made under this title” created a geographical limit on the scope of the “first sale” defense. The geographical limit recognized by the Second Circuit only subjected copies “made in territories *in which the Copyright Act is law*” [emphasis added]<sup>73</sup> to the “first sale” defense. The Second Circuit concluded that the “first sale” defense could apply to copies that had been “manufactured domestically” but not to copies manufactured “outside of the United States.” The Ninth Circuit, on the other hand, extended its geographically limited application of the “first sale” defense to cases involving copies that had been lawfully made in the United States as well as copies that had been lawfully made outside the United but had been initially sold in the United States with the copyright owner’s permission.<sup>74</sup> Both the Second and Ninth Circuits’ geographical interpretations precluded *Kirtsaeng* from successfully asserting a “first sale” defense with regard to the *Wiley* (Asia) books. Even though the U.S. copyright holder had given permission to *Wiley* (Asia) to *make* the copies abroad, the copyright holder had never given anyone who *bought* copies of those books permission to resell them. And, that was the result regardless of whether the



copy had been purchased at a retail store, over the internet, or at a library sale.<sup>75</sup>

The Third Circuit had rejected a geographical approach on the grounds that limiting the “first sale” doctrine only to copies made within the United States “d[id] not fit comfortably within the scheme of the Copyright Act.”<sup>76</sup> It preferred an interpretation of the words “lawfully made under this title” to mean made “in accordance with” or “in compliance with” the Copyright Act. Under this non-geographical approach, the “first sale” defense could apply to copyrighted materials that had been made abroad according to the requirements of American copyright law and with the authorization of the copyright holder.<sup>77</sup>

In order to evaluate the different approaches taken by the Circuit Courts, the Supreme Court focused on the language of §109(a) and its context within the Copyright Act, the common law history of the “first sale” defense, and the practical consequences of adopting the conflicting interpretations. The Supreme Court’s linguistic analysis favored a nongeographical interpretation of “lawfully made under this title.” That meant that it extended to copies that had been made “in accordance with” or “in compliance with” the Copyright Act. The Court was impressed by the fact that a literal reading gave each word in the five-word phrase a distinct purpose. “Lawfully made” copies were distinguished from copies that were unlawfully made. Since the dictionary meaning of the word “under” can mean “in accordance with,”<sup>78</sup> “under this title” could be easily be read to mean “in accordance” with a particular standard of lawfulness (i.e. the Copyright Act). For the majority, the nongeographical interpretation was simple, promoted a traditional copyright objective (the combating of piracy), and made word-by-word linguistic sense.<sup>79</sup>

In comparison, the Court found the geographical interpretation favored by Wiley to be linguistically wanting. In order for the geographical interpretation to work, the emphasis in the phrase “lawfully made under this title” would have had to be placed on the word “under.” The suggestion that “under this title” meant “in conformance with the Copyright Act *where the Copyright Act is applicable*” would not work unless the reader was also able to show that the Act was “applicable only in the United States.”<sup>80</sup> And, that was a serious obstacle for Wiley to overcome—especially since nothing in the phrase “under this title” (including the word “under”) could be interpreted to mean “where.”<sup>81</sup>

An additional, and more serious, problem with the geographical interpretation arose when an attempt was made to read the geographical limitation into the word “applicable” (or the equivalent). The Court, by way of example, suggested that just because the Act did not instantly protect an American copyright holder from unauthorized piracy occurring abroad did not make the Act inapplicable to copies made abroad. Foreign-printed pirated works were clearly subject to the Act under § 602(a)(2), which states that:

Importation into the United States or exportation from the United States, without the authority of the owner of the copyright under this title, of copies or phonorecords, the making of *which either constituted an infringement of copyright, or which would have constituted an infringement of copyright if this title had been applicable*, is an infringement of the exclusive right to distribute copies or phonorecords under §§ 501 and 506 (emphasis added).

The Court also referred to § 104(a), in which works “subject to

protection under this title” included unpublished works “without regard to the nationality or of the author,” and to §104(b), in which protection also was provided for works “first published” in any one of the nearly 180 nations that are parties to a copyright treaty with the United States.<sup>82</sup>

Finally, the Supreme Court found the Ninth Circuit’s extension of its geographical interpretation (to include copies manufactured abroad but first sold in the United States with the American copyholder’s permission) to be linguistically disingenuous. There was simply no way to interpret “lawfully made under this title” to be half-geographical and half-nongeographical. If the Ninth Circuit’s interpretation prevailed, a publisher, which printed its books abroad and authorized their importation and sale in the United States, could prohibit students from reselling the textbooks back to a campus bookstore at the end of the semester. And, that was an unacceptable consequence and a misreading of “lawfully made under this title.”

The Court next reviewed the “first sale” defense from both a historical and contemporary statutory context—and concluded that Congress was concerned about something other than geographical limits when it enacted the present version of § 109(a). The “first sale” defense, which was initially established as a statutory defense in the Copyright Act of 1909,<sup>83</sup> stated that: “[N]othing in this Act 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*” [emphasis added]. Since there was no reference to geography in the original “first sale” provision, the Court was interested in determining whether the text of the current statutory provision, which applies to those who are “owners” of a copy of a copyrighted work that was “lawfully made under this title,” was altered to address geographical concerns. The

Court noted that the difference in the two statutory provisions was not based on any concern for geographical limitations but rather on a concern to limit who was eligible to assert the “first sale” limitation. In the 1909 Act, the right belonged to whoever lawfully possessed the copy—which meant that it might be claimed by bailees and lessees (such as owners of movie theaters who had leased copyrighted films from movie distributors or filmmakers) as well as actual owners. Since Congress was not satisfied with that result, it changed the wording of the current Act to restrict the defense to the “owners” of copies “lawfully made under the title.” The legislative history leading up to the revisions in the current Act seems to support the conclusion that it was a “who” rather than a “where” issue that precipitated the statutory language.<sup>84</sup>

Another relevant change in the current Act (which phased out the “manufacturing clause”) reflected a concern that materials manufactured abroad and materials manufactured in the United States should be accorded “equal treatment.”<sup>85</sup> A geographical interpretation of the “first sale” defense would frustrate the purpose of the “equal treatment” principle since it would give the holder of a U.S. copyright (who might be a foreign national) the right to permanently control the U.S. distribution chain (including sales, resales, and gifts) for copies of the materials that were printed abroad—but not for copies printed in the United States.<sup>86</sup>

The final contextual argument raised by the Court related to the normal presumption that words lawfully made under the same title should carry the same meaning when they occur in different (but related) sections. Sections 109(c), 109(e), 110(1), and 106 of the Copyright Act all contain the phrase “lawfully made under this title.”<sup>87</sup> The Court found unacceptable the suggestion that it adopt a nongeographical reading of the phrase in the first three cases and a geographical

reading only for the provision relating to the “first sale” defense. Such a result would be inconsistent and contrary to the result that Congress had intended.

One of the reasons that the Court reviewed the common law background of the “first sale” defense was to see if the presumption, that when Congress passes legislation in an area that was previously governed by common law, it does so with the intention of retaining the substance of the common law, held in this case.<sup>88</sup> The common law basis for the “first sale” defense was the rule that restraints should not be placed on the alienation of chattels. Lord Coke’s articulation of that rule in the early 17<sup>th</sup> century emphasized the importance of enabling buyers to freely dispose of property that they had previously acquired.<sup>89</sup> That same common law rule was used by the Supreme Court, in the case of *Bobbs-Merrill*,<sup>90</sup> to create the “first sale” defense for copyrighted materials. Congress subsequently codified that defense (the predecessor of § 109(a)) in the Copyright Act of 1909. After reviewing Coke’s common law rule, the Court’s precedent in *Bobbs-Merrill*, and the codification of that precedent in the 1909 Act, the Court was unable to identify any geographical distinctions that would preclude the “straight forward” application of the *Bobbs-Merrill* “first sale” defense to authorized copies made abroad.<sup>91</sup>

The Court, in a pragmatic turn, next considered the impact that a geographical interpretation would have on a basic constitutional copyright objective—“To promote the Progress of Science and useful Arts” (U.S. Constitution, Art. I, § 8, cl. 8). Libraries would have to get permission from the copyright holders of books published abroad and obtained by the library before they could circulate or otherwise distribute them.<sup>92</sup> A large portion of the used book business would be in jeopardy.<sup>93</sup> American purchasers of technology dependent items (such as cars, microwaves, calculators, mobile phones, and computers)

that had been made abroad and that contained one or more copyrighted software programs or packaging, would not be able to resell those items without obtaining the permission of the holders of each copyrighted component.<sup>94</sup> Retailers would face the uncertainty of copyright infringement suits for the many copyrighted items that were manufactured abroad and purchased by the retailers for the purpose of resell in their stores.<sup>95</sup> And, museum directors would face the prospect of having to obtain the permission of the copyright owners of foreign produced art (which may have already been sold or donated to a foreign museum by the copyright holder) before they could display that art in the United States.<sup>96</sup> While Wiley and the dissenting opinion dismissed these “horribles” as “artificial inventions,” the majority of the Court was less sanguine and concluded that “the practical problems . . . described are too serious, too extensive, and too likely to come about for us to dismiss them as insignificant—particularly in the light of the ever-growing importance of foreign trade to America.”<sup>97</sup>

The majority opinion concluded by addressing four arguments raised in the dissenting opinion. The first was whether the Court’s unanimous decision in *Quality King* supported a geographical interpretation. Under *Quality King*, the Court had ruled that the Copyright Act’s “importation provision” (now § 602(a)(1) and then § 602(a)) did not bar the owner of copies of American made copyrighted materials purchased abroad from importing those materials back into the United States if the U.S. copyright holder had authorized the first sale and original exportation of the goods but had not authorized the return importation. Just as the copyright holder’s exclusive right to distribute the goods under § 106 was subject to the § 109(a) “first sale” defense so to was the copyright holder’s right to limit the importation of previously sold copies of those goods under the “importation provision.”

The dissent had argued that if § 602(a)(1) did not apply to pirated goods or to owners of lawfully made copies, it would in fact be superfluous. The majority countered that (without permission, and subject to the exceptions in § 602(a)(3)), the “importation provision” would still prohibit the importing of copies that were lawfully made abroad where “(1) a foreign publisher operating as the licensee of an American publisher prints copies of a book overseas but, prior to any authorized sale, seeks to send them to the United States; (2) a foreign printer or other manufacturer (if not the “owner” for purposes of § 109(a), e.g. before an authorized sale) sought to send copyrighted goods to the United States ; (3) a book publisher transports copies to a wholesaler” and the wholesaler (not yet the owner) sends them to the United States, . . . or (4) a foreign film distributor, having leased films for distribution, or any other licensee, consignee, or bailee sought to send to the United States.”<sup>98</sup>

The Court also rejected the suggestion that the example, in *Quality Court*, of the copyright holder who gave the exclusive American distributions rights to a publisher in the United States and the exclusive British distribution rights to a publisher in England was controlling in this case. That example had concluded with the statement that “presumably only those [copies] made by the publisher of the United States edition would be ‘lawfully made under the title’ within the meaning of § 109(a).”<sup>99</sup> Wiley had argued that that statement supported its geographical interpretation of the current § 602(a)(1) (previously § 602(a)) since it meant that even books published abroad under a valid license did not qualify as works “lawfully made under this title.” The majority dismissed the *Quality Court* statement as “pure dictum” and as “unnecessary dictum” that was contained in a rebuttal to a counterargument. The meaning of “lawfully made under this title” was neither an issue in *Quality King* nor an issue that had been fully argued.

Since the Court's consideration of the issue in the current case had demonstrated that the dicta was, in fact, incorrect, it is not bound by that dicta.<sup>100</sup>

The Court next addressed the dissent's assertion that the legislative history supported its geographical interpretation of § 109(a). The historical events to which the minority referred occurred over a decade before the enactment of the 1979 Act and reflected the concerns of that the representatives of the book, record, and film industries had made to the Registrar of Copyrights regarding the difficulty of dividing international markets. The Registrar of Copyrights had responded to those concerns by proposing two draft provisions. A report prepared by the Copyright Office had explained that the second draft provision would have made the importing of a copy without the permission of the copyright holder a violation of the exclusive right of the copyright holder where the copyright holder had authorized the making of copies in the foreign country for distribution only in that country. The Court found that it could better ascertain the meaning of § 109(a) (as it was enacted in the 1979 Act) by placing greater weight on the congressional report accompanying § 109(a) (which was written in 1975)<sup>101</sup> rather than on the remarks of industry representatives concerning § 602 (which were made in 1964).<sup>102</sup> The congressional report (referred to by the majority) reiterated the importance of the "first sale" doctrine and explained the nongeographical purpose for the words "lawfully under this title."<sup>103</sup>

The Court conceded the validity of the third claim raised by the dissent—that a nongeographical interpretation of § 109(a) would seriously disrupt attempts by publishers and copyright holders to divide foreign and domestic markets. But, that was not seen to be a problem since there is no basic principle of copyright law that would suggest that publishers were entitled



to the right to charge different prices for the same book in different geographical markets. Art. I, §8, cl. 8 of the U.S. Constitution gave Congress the power to “secur[e]” to “authors” for “limited [t]imes” the “exclusive [r]ight to their . . . [w]ritings.” While the Founders conceived of that as a limited right to exclude competition, there is nothing to suggest that they thought it included “a right to divide markets or a concomitant right to charge different purchasers different prices for the same book, say to increase or maximize gain.”<sup>104</sup> The inclusion of the “first sale” defense in copyright law placed limits on a copyright holder’s ability to divide domestic markets. In reading the Copyright Act, the Court could find nothing to indicate that Congress believed that copyright owners should have more power to divide international markets.<sup>105</sup>

The final issue raised by the dissent was its concern that the Court’s decision in *Wiley* would launch United States copyright law into an unprecedented regime of “international exhaustion”—which the United States opposed.<sup>106</sup> This latter claim was neither made by the Solicitor General in the *amicus* brief nor in oral arguments. In fact, when pressed, the Solicitor General had admitted in oral argument that reading the Copyright Act to allow the copyright holder to retain perpetual downstream control was worse than the restriction of market segmentation.<sup>107</sup>

### *Concurring Opinion*

Justice Elena Kagan filed a concurring opinion that was joined by Justice Samuel Alito. While she fully agreed with the Court’s opinion, she thought it was necessary to point out the way Congress could address the problems that might inevitably result from reading the *Wiley* decision in conjunction with *Quality King*. When read together the two decisions

“constrict the scope of § 602(a)(1)’s ban on unauthorized importation.”<sup>108</sup> But that was only the case because *Quality King* did not apply the importation ban to copies receiving first-sale protection under § 109(a). To read the ruling in *Wiley* (that copies “lawfully made under this title” extend to copyright copies made abroad) with the ruling in *Quality King* would, in fact, diminish of the scope of § 602(a)(1) “to a fairly esoteric set of applications.”<sup>109</sup> But, if such a result was unacceptable to Congress, then Congress should “recognize *Quality King*—and not [*Wiley*—as the culprit.”<sup>110</sup> Congress might have been concerned with market segmentation when it enacted § 602(a)(1). It might have intended copyright owners to be able to divide the market in the very way Wiley sought. But, it was also likely that Congress had not intended to remove first-sale protection from every copy manufactured abroad. The more likely objective was to allow the copyright holder to continue to control the import of those goods even when the first-sale doctrine applied. Kagan rejected the dissenting justices “misconstrued” interpretation of §109(a)—which was meant “to restore §602(a)(1) to its purposely rightful function of enabling copyright holders to segment international markets.”<sup>111</sup> At the same time, she suggested that if Congress wanted copyright owners to have a greater ability to restrict importation and to divide markets, it should address the Court’s decision in *Quality King*.

### *Dissenting Opinion*

The dissenting opinion, written by Justice Ruth Bader Ginsburg and joined by Justice Anthony Kennedy, and (in part) by Justice Antonin Scalia, found the majority’s interpretation of the Copyright Act to be “at odds with Congress’ aim to protect owners against the unauthorized importation of low-priced, foreign-made copies of their copyrighted works.”<sup>112</sup> In order to determine whether the unauthorized importation of

foreign-made copies was a copyright infringement under U.S. law, Ginsburg focused on the § 602(a)(1) importation ban and its interpretation in *Quality King*. In that instance, the Court had refused to apply the § 602(a)(1) ban to the round trip importation back to the United States of copyrighted materials that had been made in the United States and subsequently sold abroad. That was because the § 602(a)(1) ban only applied to materials had been “lawfully made” under the laws of some country other than the United States. Ginsburg argued that since the books imported by Kirtsaeng had not been “lawfully made” in the United States, the “first sale” doctrine under § 109(a) did not apply<sup>113</sup> and “the unauthorized importation constitute[d] copyright infringement under § 602(a)(1).”<sup>114</sup>

Ginsburg pointed to the text of the Copyright Act to show a strong Congressional intent to provide copyright holders “with a potent remedy against the importation of foreign-made copies of their copyrighted works.”<sup>115</sup> One way for that Congressional intent to be realized would be to limit the application of the “lawfully made under this title” phrase in §109(a) to those instances in which the materials in question were governed by and conducted in compliance with the U.S. Copyright Act. Since the Court had already held that the Copyright Act d[id] not apply extraterritorially, Wiley’s printing of the textbooks abroad was neither governed by the Copyright Act and nor “lawfully made under [the Act].”<sup>116</sup>

The dissenting opinion’s exegesis of the phrase, “lawfully made under this title,” questioned the majority’s understanding of the term “under” and argued that it should have been interpreted it to mean the “signal[ing] of a relationship of subjection, where one thing is governed or regulated by another.”<sup>117</sup> Ginsburg observed that “only by disregarding this established meaning of “under” c[ould] the Court arrive at the conclusion that Wiley’s foreign- manufactured textbooks were

“lawfully made under” U.S. copyright law, even though the law did not govern their creation.”<sup>118</sup>

The dissent then undertook a review the legislative history of §602(a)(1) (which Scalia did not join). The review focused on the role of the U.S. Copyright Office in the lengthy revision effort that culminated in the enactment of the Copyright Act of 1976. The dissent took exception with the majority’s view that the legislative history was “inconclusive.” It claimed instead that the history confirmed what the “plain text” of the Act conveyed . . . that the intention of § 602(a)(1) was to “provide copyright owners with a remedy against the unauthorized importation of foreign-made copies of their works, even if those copies were made and sold abroad with the copyright owner’s authorization.”<sup>119</sup>

Another concern raised by Ginsburg was the inconsistency between the majority’s decision and the position that the United States has taken with regard to the international trade issue of national versus international exhaustions of protection for intellectual property.<sup>120</sup> While the minority acknowledged that there was no international consensus on the issue of “whether the sale in one country of a good incorporating protected intellectual property exhausts the intellectual property owner’s right to control the distribution of the good elsewhere,”<sup>121</sup> it noted that the United States had rejected the international exhaustion rule and taken the position that domestic copyright owners should be able to prevent the unauthorized copies of their work sold abroad.<sup>122</sup> The minority was concerned that the majority’s ruling in favor of an international-exhaustion rule (that benefits U.S. consumers but could disadvantage foreign holders of U.S. copyrights) “risks undermining the United States’ credibility on the world stage.”<sup>123</sup>

The dissenting opinion concluded with a discussion of the

“parade of horrors” that the majority feared would occur if the Court had not applied the “first sale” defense in this case. Libraries would not be closed, used-book dealers would not be put out of business, art museums would not be crippled, and the resale of a wide range of consumer goods would not be prevented. While the occurrence of those kinds of events would be horrible, Ginsburg suggested that existing copyright laws and precedents would prevent those events from actually occurring.<sup>124</sup>

## CONCLUSION

*Kirtsaeng v. John Wiley & Sons, Inc* was very much about the competing interests of copyright holders and the owners of copies of copyrighted materials. But, it was about those competing interests in a world of increasingly borderless markets. The first time purchasers of the copies of copyrighted material may be individual consumers, small-time entrepreneurs, big box stores, or on-line shopping networks. In *Quality King*, those purchasers were allowed to use the “first sale” defense against copyright holders who produced their copies in the United States and shipped them abroad with the expectation that those copies would not return to compete in the domestic market without the copyright holder’s authorization. After *Quality King*, many copyright holders thought that the solution might be to manufacture *and* sell the copies of their copyrighted materials abroad with the expectation that those copies would be prevented from being imported to the United States under § 602(a)(1). But, that solution has proved to be disappointing since the Court’s *Wiley* decision made the “first sale” defense applicable to those situations. There is now no doubt that *Wiley* will facilitate the gray market importing of goods outside of the distribution channel that the copyright holders had envisioned and negotiated. *Wiley Asia* was unsuccessful in its attempts to

keep Kirtsaeng and his cohorts from acquiring the less expensive foreign copies of its textbooks, shipping them to the United States, and placing them in direct competition with the more expensive editions published by Wiley. Entrepreneurs such as Kirtsaeng and big box stores like Costco were certainly the “winners” under the current ruling.<sup>125</sup> But, the Court was also concerned about the other group of winners who would continue to profit from the Congress’ promotion of the progress of science and the useful arts after the Court’s current ruling. Those winners included libraries and their patrons, used-book dealers and their customers, technology companies and the consumers of their cars, microwaves, mobile phones, and personal computers, art museums and their visitors, as well as retail stores and their purchasers of foreign goods. Unfortunately, the losers in this case were not limited to the copyright holders--but also to consumers in developing markets who may no longer be offered lower prices for goods that sell for much more in the United States.

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<sup>1</sup> 133 S. Ct. 1351 (2013).

<sup>2</sup> *John Wiley & Sons, Inc. v. Kirtsaeng*, 2009 U.S. Dist. LEXIS 96520, 2009 WL 3364037, at \*7 (S.D.N.Y., 2009). “Google Answer” is a website provides web users with research help from other web users.

<sup>3</sup> *John Wiley & Sons v. Kirtsaeng*, 654 F.3d 210, 215 (2<sup>nd</sup> Cir, 2011.)

<sup>4</sup> The “Reprint Agreement” between Wiley and Wiley (Asia) specifically assigned to Wiley (Asia) the rights to the reprinting and publishing of foreign editions of its books “for sale as English language reprint editions in the following territories: India, Bangladesh, Indonesia, Myanmar, Nepal, Pakistan, Phillipines, Sri Lanka, [and] Vietnam [the “territories].” *Supra*, note 1, at \*5.

<sup>5</sup> *Supra*, note 3, at 213.

<sup>6</sup> *Supra*, note 1, at 1356.

<sup>7</sup> *Id.* at 1356.

<sup>8</sup> *Id.* at 1356.

<sup>9</sup> 17 U.S.C. § 501.

<sup>10</sup> 15 U.S.C. § 1114(a).

<sup>11</sup> Wiley would eventually drop the trademark and unfair competition allegations against Kiritsaeng.

<sup>12</sup> 1 E. Coke, *Institutes of the Laws of England*, § 360, p. 223 (1628).

<sup>13</sup> 210 U.S. 339; 23 S. Ct. 722 (1907).

<sup>14</sup> *Id.* at 341.

<sup>15</sup> *Id.* 346.

<sup>16</sup> *Id.* at 347.

<sup>17</sup> *Id.* at 350.

<sup>18</sup> *Id.* at 350.

<sup>19</sup> Chap. 320, § 41, 35 Stat. 1075, 1084 (1909).

<sup>20</sup> Chap. 391, § 27, 61 Stat. 652, 660 (1947).

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<sup>21</sup> Chap. 1, §1, 35 Stat. 1075 (1909).

<sup>22</sup> *Supra*, note 10.

<sup>23</sup> 17 U.S.C. §§ 101-810.

<sup>24</sup> 17 U.S.C. § 106 (3).

<sup>25</sup> 17 U.S.C. § 109(a).

<sup>26</sup> 523 U.S. 135, 118 S. Ct. 1125 (1998).

<sup>27</sup> *Id.* at 138.

<sup>28</sup> Justice Ruth Bader Ginsburg, in a brief concurring opinion noted that this case involved the “round trip” journey of copyrighted materials that were manufactured in the United States, distributed abroad, and reimported back to the United States and did not resolve cases where the goods were manufactured abroad and then imported to the United States. *Id.* at 154.

<sup>29</sup> *Id.* at 144.

<sup>30</sup> *Id.* at 145.

<sup>31</sup> *Id.* at 146.

<sup>32</sup> See 17 U.S.C. §§ 106, 107 (1970).

<sup>33</sup> Section 602(b) invests the Customs Service with an exclusive enforcement right.

<sup>34</sup> *Supra*, note 23, at 147. The Court gave a specific example of a copy that is lawfully made under a foreign law and subject to the import limitations of § 602(a). It involved an author who gave the exclusive U.S. distribution rights to the publisher of the U.S. edition and the exclusive



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British distribution rights to the publisher of the British edition. The Court went on to say that “presumably only those made by the publisher of the U.S. 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 is a distribution of the copies.” *Id.* at 148.

<sup>35</sup> Section 106A enumerates the rights of certain authors to attribution and integrity.

<sup>36</sup> *Supra*, note 23, at 149.

<sup>37</sup> *Id.* at 151.

<sup>38</sup> *Id.* at 151, quoting *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 450-451, 104 S. Ct. 774 (1984).

<sup>39</sup> The Court had previously used those terms to refer to the importing of foreign-manufactured goods bearing a valid U.S. trademark without the consent of the trademark holder. *Id.* at 153, citing *K mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 285-286, 108 S. Ct. 1811 (1988).

<sup>40</sup> *Costco Wholesale Corporation v. Omega (Omega)*, 541 F. 3d 982 (9th Cir., 2008).

<sup>41</sup> 131 S. Ct. 565 (2010).

<sup>42</sup> 952 F. 2d 318 (9<sup>th</sup> Cir. 1991).

<sup>43</sup> *Id.* at 319.

<sup>44</sup> 38 F. 3d 477 (9<sup>th</sup> Cir. 1994).

<sup>45</sup> *Id.* at 481.

<sup>46</sup> 84 F. 3d 1143 (9th Cir. 1994).

<sup>47</sup> *Supra*, note 37, at 987.

<sup>48</sup> *Id.* at 987-988.

<sup>49</sup> *Id.* at 988.

<sup>50</sup> See note 31.

<sup>51</sup> *Supra*, note 3, at 214.

<sup>52</sup> *Supra*, note 2, at \*9.

<sup>53</sup> *Id.* at \*21.

<sup>54</sup> *Id.* at \*27.

<sup>55</sup> *Id.* at \*31.

<sup>56</sup> *Supra*, note 23, at 147.

<sup>57</sup> *Id.* at 147.

<sup>58</sup> *Supra*, note 3, at 215.

<sup>59</sup> *Id.* at 217.

<sup>60</sup> *Id.* at 218, quoting *Quality King*, *supra*, note 23, at 148-149.

<sup>61</sup> See note 32.

<sup>62</sup> *Supra*, note 3, at 219.

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<sup>63</sup> *Id.* at 219, quoting *Kucana v. Holder*, 130 S. Ct. 827, 835 (2010).

<sup>64</sup> *Id.* at 219, citing *Update Art, Inc. v. Modiin Pub., Ltd.*, 843 F. 2d 67, 73 (2d Cir. 1988).

<sup>65</sup> *Id.* at 219, citing § 104(b)(2) in which “[t]he works specified by §§ 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 first publication, is a treaty party” [emphasis added].

<sup>66</sup> *Id.* at 220.

<sup>67</sup> *Id.* at 220.

<sup>68</sup> That right would still be subject to exceptions found in §§ 107, 108, and 602(a)(3).

<sup>69</sup> *Supra*, note 3, at 221.

<sup>70</sup> *Id.* at 221, citing *Quality King*, *supra*, note 23, at 147.

<sup>71</sup> *Supra*, note 3, at 221.

<sup>72</sup> The Court of Appeals also ruled that the District Court did not err in refusing to give Kirtsaeng’s proposed instruction regarding the “first sale” defense and allowing the admission of evidence regarding gross revenue from all of Kirtsaeng’s sales. *Id.* at 223.

<sup>73</sup> *Supra*, note 1, at 1357, quoting *Wiley*, *supra*, note 48, at 221-222.

<sup>74</sup> *Id.* at 1358. See *Denbicare U.S.A. Inc. v. Toys “R” Us, Inc.*, 84 F. 3d 1143, 1149-1150 (1996) and *Omega*, *supra*, note 37, at 986.

<sup>75</sup> *Id.* at 1358.

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<sup>76</sup> *Id.* at 1357, quoting *Sebastian Int'l. v. Consumer Contacts (PYT) Ltd.*, 847 F. 2d 1093, 1098, n.1 (3rd Cir. 1988).

<sup>77</sup> *Id.* at 1358.

<sup>78</sup> *Id.* at 1358. Citing 18 Oxford English Dictionary 950 (2d ed. 1989). See also Black's Law Dictionary 1525 (6<sup>th</sup> ed. 1990) ("according to").

<sup>79</sup> *Id.* at 1358.

<sup>80</sup> *Id.* at 1358.

<sup>81</sup> *Id.* at 1359.

<sup>82</sup> *Id.* at 1359. The Court went on to note that this would make the Act applicable to "an Irish manuscript lying in its author's Dublin desk drawer as well as to an original recording of a ballet performance first made in Japan and now on display in a Kyoto art gallery."

<sup>83</sup> *Supra*, note 17.

<sup>84</sup> *Id.* at 1361. See House Committee on the Judiciary, Copyright Law Revision, Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law: 1965 Revision Bill, 89<sup>th</sup> Cong., 1st Sess., pt. 6, p. 30 (Comm. Print 1965); H.R. Rep. No. 94-1476, p. 79 (1979).

<sup>85</sup> *Id.* at 1361. "The manufacturing clause" (§ 601, 90 Stat. 2588) had limited the importing many copies of copyrighted works printed outside of the United States. It should be noted that prior to 1891, U.S. copyright law totally excluded foreign works from U.S. copyright protection. Under the current law, most domestic and foreign works are governed by the same legal regime. See *Golan v. Holder*, 565 U.S. \_\_\_, \_\_\_, 132 S. Ct. 873, 893 (2012).

<sup>86</sup> *Id.* at 1361-1362.

<sup>87</sup> Section 109(c) provides that: “Notwithstanding the provisions of §106(5), the owner of a particular copy *lawfully made under this title*, or any person authorized by the owner, is entitled, without the authority of the copyright owner, to display that copy publicly, either directly or by projection of no more than one image at a time, to viewers present at the place where the copy is located” [emphasis added].

Section 109(e) provides that: “Notwithstanding the provisions of §§ 106(4) and 106(5), in the case of an electronic audiovisual game intended for use in coin-operated equipment, the owner of a particular copy of such a game *lawfully made under this title*, is entitled, without the authority of the copyright owner of the game, to publicly perform or display that game in coin-operated equipment, except that this subsection shall not apply to any work of authorship embodied in the audiovisual game if the copyright owner of the electronic audiovisual game is not also the copyright owner of the work of authorship” [emphasis added].

Section 110(1) provides that notwithstanding the provisions of § 106, the following is not an infringement of copyright: “Performance or display of a work by instructors or pupils in the course of face-to-face teaching activities of a nonprofit educational institution, in a classroom or similar place devoted to instruction, unless, in the case of a motion picture or other audiovisual work, the performance, or the display of individual images, is given by means of a copy that was not *lawfully made under this title*, and that the person responsible for the performance knew or had reason to believe was not lawfully made” [emphasis added].

<sup>88</sup> *Supra*, note 1, at 1363.

<sup>89</sup> *Id.* at 1365.

<sup>90</sup> *Supra*, note 10.

<sup>91</sup> *Supra*, note 1, at 1363-1364.

<sup>92</sup> *Id.* at 1364.

<sup>93</sup> *Id.* at 1365.

<sup>94</sup> *Id.* at 1365.

<sup>95</sup> *Id.* at 1365.

<sup>96</sup> *Id.* at 1365.

<sup>97</sup> *Id.* at 1367.

<sup>98</sup> *Id.* at 1368.

<sup>99</sup> *Id.* at 1368, quoting *Quality King*, *supra*, note 23, at 148.

<sup>100</sup> *Id.* at 1368.

<sup>101</sup> *Id.* at 1370, citing Accord, S. Rep. No 94-473, pp. 71-72 (1975).

<sup>102</sup> *Id.* at 1370, citing Preliminary Draft for Revised U.S. Copyright Law and Discussions and Comments, 88<sup>th</sup> Cong., 2d Sess. (Comm. Print 1964).

<sup>103</sup> *Id.* at 1370.

<sup>104</sup> *Id.* at 1371.

<sup>105</sup> *Id.* at 1371.

<sup>106</sup> *Id.* at 1371.

<sup>107</sup> *Id.* at 1371, referencing Tr. Of Oral Arg. 51.

<sup>108</sup> *Id.* at 1372.

<sup>109</sup> *Id.* at 1372.

<sup>110</sup> *Id.* at 1372.

<sup>111</sup> *Id.* at 1373.

<sup>112</sup> *Id.* at 1373.

<sup>113</sup> § 109 (a) only applies to “the owner of a particular copy or phonorecord *lawfully made* [emphasis added] under [Title 17].”

<sup>114</sup> *Id.* at 1376.

<sup>115</sup> *Id.* at 1376.

<sup>116</sup> *Id.* at 1376.

<sup>117</sup> *Id.* at 1376.

<sup>118</sup> *Id.* at 1377.

<sup>119</sup> *Id.* at 1383.

<sup>120</sup> Options taken by various countries include: 1. the national-exhaustion rule (whereby a copyright owner’s right to control distribution of a particular copy is exhausted only within the country where the copy was

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sold); 2. the international-exhaustion rule (whereby the authorized distribution of a particular copy anywhere in the world constitutes an exhaustion of the copyright holder's distribution right everywhere in the world with regard to that copy; and 3. the intermediate-exhaustion right (whereby the sale of a particular copy of copyrighted material within a particular region (i.e. the European Union) exhausts the copyright holder's distribution rights within that same region.)

<sup>121</sup> *Id.* at 1383.

<sup>122</sup> *Id.* at 1384. Ginsburg referenced the drafting history of the negotiations leading up to the Agreement on the Trade-Related Aspects of Intellectual Property Rights (TRIPS).

<sup>123</sup> *Id.* at 1385.

<sup>124</sup> *Id.* at 1386-1390.

<sup>125</sup> It would appear that the Court's equally divided decision in *Costco* will no longer prevent the discount store from acquiring Omega watches abroad in order to sell them in the United States.