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Gray Market Goods and the First Sale Doctrine: The Last Nail in the Coffin - Quality King Distributors, Inc. v. L'anza Research International, Inc.

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GRAY MARKET GOODS AND THE FIRST SALE DOCTRINE: THE LAST NAIL IN THE COFFIN?

Quality King Distributors, Inc. v. L'anza Research International, Inc.
523 U.S. 135 (1998)

*John C. Roa**

I. INTRODUCTION

The United States Copyright Act was seen as the "last bastion of hope for stemming the flow of gray market imports" by many American manufacturers[1] until the United States Supreme Court handed down its decision in *Quality King Distributors, Inc. v. L'anza Research International, Inc.* on March 9, 1998.[2] The decision resolved a conflict between the Third and Ninth Circuits involving the use of copyright law to prevent the unauthorized importation of an American manufacturer's own products back into the United States.

The Court's ruling depended on how the justices interpreted the proper application of the first sale doctrine,[3] which allows a purchaser of a copyrighted item to lawfully dispose of that item without authorization from the copyright holder.[4] A unanimous Court found that the first sale doctrine limited a manufacturer's ability to prevent unauthorized importation pursuant to section 602(a) of the Copyright Act of 1976.[5] The Court's decision effectively shut the door on using copyright law to prevent a company from having to compete against itself in the marketplace when the copies are lawfully made and purchased from the copyright owner.

This Note will discuss the development of the first sale doctrine and the difficulty courts had when trying to interpret the doctrine's effect on the prohibition of the unauthorized importation of copyrighted works. This Note will also analyze the reasoning involved in the decision by the Supreme Court and discuss why the holding appears to be correct given the history of the applicable provisions. Finally, this Note will offer a suggestion of where manufacturers should turn to solve their problems of gray market imports in a global economy.

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1. Darryl J. Adams, *Recent Developments In Copyright Law*, 6 TEX. INTELL. PROP. L.J. 317, 340 (1998).
2. Quality King Distribs, Inc. v. L'anza Research Int'l, Inc., 523 U.S. 135 (1998).
3. 17 U.S.C. § 109(a) (1994).
4. Doris R. Perl, *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, 657 (1990) (explaining that the "first sale doctrine extinguishes the copyright owner's . . . distribution rights [after] ownership has been transferred" by the copyright holder).
5. 17 U.S.C. § 602(a) (1994) (defining an unauthorized importation of copies purchased outside the United States as an "infringement of the exclusive" rights of the copyright owner).

II. FACTS AND PROCEDURAL HISTORY

A. Facts of Instant Case

L'anza Research International was a California corporation that manufactured and sold various hair care products to domestic distributors.[6] These domestic distributors then resold the hair care products only to authorized retailers in the United States including barber shops, beauty salons, and professional hair care colleges.[7] L'anza copyrighted the labels that were used on its products sold throughout the United States.[8] L'anza heavily advertised its products domestically through trade magazines and at the point of sale.[9] L'anza also provided special training to authorized retail outlets.[10]

In addition to its domestic distribution, L'anza sold its hair care products in foreign markets.[11] However, L'anza did not advertise in those markets, which resulted in prices charged to foreign distributors that were 35% to 40% lower than prices charged to domestic distributors.[12] The products sold to foreign distributors had the same copyrighted labels as were used domestically.[13]

The shipment at the center of the dispute involved several tons of hair care products which were purchased by a distributor in Malta.[14] The Court could not establish the exact chain of events leading to the shipment of products to Malta, but the Court determined there was no dispute to the basic fact that the "goods were manufactured by L'anza and first sold by L'anza to a foreign purchaser."[15]

The Court also determined that the goods were shipped back into the United States "without the permission of L'anza," for distribution to "unauthorized retailers" at lower prices from Quality King Distributors, Inc.[16] Once again, the Court could not establish a clear chain of events and assumed that the shipments of hair care products were bought by Quality King from the Malta distributor.[17] L'anza discovered that its hair care products were being sold at an unauthorized drug store in California through special marks used on each of its shipments to allow "tracing."[18]

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6. *Quality King*, 523 U.S. at 138.
7. *Id.*
8. *Id.*
9. *Id.* at 139.
10. *Id.*
11. *Id.*
12. *Id.*
13. *Id.*
14. *Id.*
15. *Id.*
16. *Id.*
17. *Id.*
18. Brief for Respondent at 6-7, Quality King Distribs., Inc. v. L'anza Research Int'l, Inc., 523 U.S. 135 (1998) (No. 96-1470).

B. District Court

The discovery resulted in a lawsuit by L'anza against Quality King in February 1994[19] in the United States District Court for the Central District of California.[20] L'anza alleged that Quality King had infringed on its "exclusive copyright distribution rights" for the shipments of hair care products in dispute.[21] L'anza further contended that the shipments of hair care products were intended to be sold in Malta, but that some of those products were imported back into the United States in violation of the "distribution agreement" between the United Kingdom distributor and the Malta distributor.[22] L'anza viewed the violation of the foreign distribution agreement as an infringement of its exclusive distribution rights pursuant to section 602(a) of the Copyright Act of 1976[23] because the shipments were never intended to be shipped back into the United States.[24]

Quality King raised an affirmative defense of the "first sale doctrine," arguing it had the right to dispose of the shipments after buying them legally.[25] Quality King based its argument on section 109(a) of the Copyright Act of 1976, asserting that the language "provides a complete defense to any copyright infringement action" brought against it.[26] Section 109(a) provides that anyone who legally obtains a good protected by a copyright may dispose of that same item "without the authority of the copyright owner."[27]

The district court held that even in cases such as this, where the products were originally made in the United States and were then sold to a foreign distributor, the sale was considered as occurring "outside the United States" and precluded the application of the first sale doctrine as a defense.[28] The court found that "Congress intended to protect the domestic copyright holder's right to distribute copies in the United States without having to compete" with its own products "or refrain from selling its copies at different prices for different markets."[29] Thus, the district court found L'anza owned all rights in the hair care products shipped back into the United States and that the first sale doctrine in section 109(a) did not protect Quality King from liability.[30] L'anza sought damages from Quality King in a separate state tort action.[31]

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19. *Id.* at 6.
20. L'anza Research Int'l v. Quality King Distribs., Inc., No. 94-00841-JSL, 1995 WL 908331 (C.D. Cal.).
21. *Id.* at *1.
22. *Id.*
23. *See* 17 U.S.C. § 602(a) (1994) ("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 § 106 . . . .").
24. *L'anza Research*, 1995 WL 908331 at *1.
25. *Id.*
26. *Id.*
27. 17 U.S.C. § 109(a) (1994).
28. *L'anza Research*, 1995 WL 908331 at *2. The District Court declined to adopt the holding from the Third Circuit in *Sebastian Int'l v. Consumer Contacts*, 847 F.2d 1093 (3d Cir. 1988), which permitted the use of the first sale doctrine as a defense to unauthorized importation when a good manufactured in the United States was shipped to a foreign distributor and then brought back into the domestic market.
29. *L'anza Research*, 1995 WL 908331 at *3.
30. *Id.* at *4.
31. The state court action went to trial in April of 1995. A jury found for L'anza, establishing "by clear and convincing evidence that Quality King had acted with malice and fraud against L'anza." L'anza Research Int'l, Inc. v. Quality King Distribs., Inc., 98 F.3d 1109, 1112 & n.2 (9th Cir. 1996).

C. Ninth Circuit

Quality King then appealed the district court's injunction to the Ninth Circuit Court of Appeals.[32] Quality King alleged several errors of the lower court—the most important being the rejection of the first sale defense and a refusal to adopt the holding by the Third Circuit in *Sebastian International, Inc. v. Consumer Contacts, Ltd.*[33] Quality King asserted that the first sale defense would be a bar to any copyright infringement action against it because the Third Circuit held in *Sebastian* that the doctrine would act as a complete defense when the copies were "made and sold in the United States."[34]

This was a case of first impression for the Ninth Circuit.[35] The court rejected the holding by the Third Circuit in *Sebastian*[36] after an analysis of the district court rulings and the legislative intent underlying sections 106(3), 109(a), and 602(a) of the Copyright Act of 1976.[37] The Ninth Circuit found that Congress' lack of clear legislative intent behind the Copyright Act, combined with the fact that L'anza would not receive full value for its products in the United States if it had to compete against its own cheaper, imported copies, rendered the Third Circuit's ruling without authority.[38] Therefore, the court reasoned that the first sale doctrine did not apply to legally made copies imported into the United States without authority of the copyright owner.[39] The Ninth Circuit reasoned that the first sale doctrine applied only when the owner had received full value for its sale of the legally made goods to a third party, which could not happen if unauthorized imports forced the domestic prices down.[40]

The Ninth Circuit went further when it concluded that the Third Circuit's decision in *Sebastian* "missed the crucial point"—that section 602(a) was designed by Congress to prevent "the evil" of a copyright owner losing control of the domestic distributors because of unauthorized imports.[41] Thus, the Ninth Circuit affirmed the district court's decision, holding that the first sale doctrine of sec-

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32. *Id.* at 1109.

33. *Id.* at 1112. The other errors alleged by Quality King include: (1) finding that L'anza adequately proved that Quality King had bought the products outside the United States and without L'anza's permission; (2) rejecting Quality King's "unclean hands defense" which alleged that part of L'anza's shipment had been intended to possibly end up in Libya, which would have violated Executive Order 12543 (Jan. 7, 1996) and 31 C.F.R. § 550.409 (establishing a trade embargo to Libya); (3) rejecting an allegation that L'anza did not own copyrights to some of the products imported by Quality King and thus could not bring a lawsuit on all of the goods because it lacked standing; and (4) finding that the lower court's injunction was too broad and did not specify when Quality King was or was not in violation of the injunction. *Id.* The Ninth Circuit rejected all of the arguments listed here. *Id.* at 1120. *See* note 28 *supra* for the holding in *Sebastian* that was rejected by the lower court.

34. *L'anza Research*, 98 F.3d at 1112-13. *See also* Sebastian Int'l Inc. v. Consumer Contacts, Ltd., 847 F.2d 1093, 1098-99 (3d Cir. 1988) (holding that the place of manufacture and whether the owner actually sold the copies would be dispositive, and not the location of the sale).

35. *L'anza Research*, 98 F.3d at 1113.

36. *Id.* at 1114.

37. *See id.* at 1113-17.

38. *Id.* at 1117.

39. *Id.* at 1120.

40. *Id.* at 1116-17. The Ninth Circuit applied the reasoning from a district court decision involving goods both manufactured and first sold outside the United States, stating that the first sale doctrine would violate congressional intent if the copyright owner did not realize full value for the disposition of each copy. *See* Parfums Givenchy v. C & C Beauty Sales, 832 F. Supp. 1378, 1391 (C.D. Cal. 1993).

41. *L'anza Research*, 98 F.3d at 1117.

tion 109(a) of the Copyright Act of 1976 did not bar an infringement action by a copyright owner against anyone who imported lawfully made copies into the United States without the copyright owner's authorization.[42]

D. Supreme Court

Quality King then appealed to the United States Supreme Court, which granted the petition for certiorari.[43] The Supreme Court considered only the question of "whether the 'first sale' doctrine endorsed in section 109(a) is applicable to imported copies."[44] In a unanimous decision, the Court reversed the Ninth Circuit, holding that "[t]he whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution."[45]

III. BACKGROUND AND HISTORY OF THE LAW

A. Congress' Power to Grant Copyrights

The United States Constitution expressly gives Congress the power to create and regulate copyrights.[46] This power includes the authority to grant a limited monopoly to authors for their writings.[47] However, this power is to be used to encourage authors to create works that the public will have access to "after the limited period of exclusive control has expired."[48] The authors are only given "monopoly privileges" for a limited time if the copyright statutes are not "primarily designed to provide a special private benefit."[49] Therefore, Congress must balance the interests of the artists and authors against the benefits of public access to their works.[50] This balancing has led Congress to frequently amend the patent and copyright statutes, especially with the development of new technologies.[51]

B. Earliest Restrictions on Unauthorized Importation

Restrictions on importing copies without authorization were enacted as early as 1790.[52] Those restrictions involved the manufacture of unauthorized copies.[53] Subsequently, the Copyright Act of 1891 appeared to prevent the importation of copyrighted books without the author's permission.[54] Section 4964 of the Copyright Act of 1891 prohibited anyone from copying or importing any copy-

42. *Id.* at 1120.
43. Quality King Distribs., Inc. v. L'anza Research Int'l, Inc., 520 U.S. 1250 (1997).
44. Quality King Distribs., Inc. v. L'anza Research Int'l, Inc., 523 U.S. 135 (1998).
45. *Id.* at 152.
46. U.S. CONST. art. I, § 8, cl. 8. This clause gives Congress the power "[t]o promote the Progress of Science and useful Arts" by allowing an "exclusive right" for a "limited" time to writings and discoveries of authors and inventors.
47. Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984).
48. *Id.*
49. *Id.*
50. *Id.*
51. *Id.* at 429-30.
52. Perl, *supra* note 4, at 652-53.
53. *Id.*
54. *Id.* at 653.

righted work, or selling any copy of a book known to be copied, without permission of the holder of the copyright.[55]

Prior to 1891 and shortly thereafter, several lower court cases had addressed the issue of whether the buyer of a copyrighted work could dispose of that same work without permission of the copyright owner, or if the copyright owner retained control over works she had already sold.[56] These early lower court cases applied the concept of the first sale doctrine, creating case law on when first sales extinguished the copyright owner's control.[57]

C. First Sale Doctrine Expands

While the lower court cases consistently applied the first sale doctrine, the concept was first endorsed[58] by the United States Supreme Court in *Bobbs-Merrill Co. v. Straus*.[59] Bobbs-Merrill brought the lawsuit to prohibit the sale of a novel, entitled *The Castaway*, for which it owned the copyright.[60] The action was brought against Isidor and Nathan Straus, owners of Macy & Co.[61] The lawsuit was dismissed in the district court, and the dismissal was affirmed on appeal.[62] Bobbs-Merrill then appealed to the Supreme Court.[63]

Macy's had purchased copies of *The Castaway* to sell them at retail.[64] Macy's bought the books from wholesale dealers, with the vast majority of the books costing Macy's 40% less than the retail price.[65] Bobbs-Merrill had included a printed notice on the inside cover of each book that the retail sale of any copy must be at a price of $1, with a warning that to sell for less than $1 would "be treated as an infringement of the copyright."[66] The wholesale dealers knew of the notice in each book but were not contractually obligated to enforce the terms of the notice for Bobbs-Merrill.[67] After purchasing the books from the wholesalers,

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55. *Id.*

56. Quality King Distribs., Inc. v. L'anza Research Int'l, Inc., 523 U.S. 135, 140 & n.4 (1998). The footnote string cites a number of pre-1891 cases that applied the first sale doctrine. *See* citations *infra* note 57.

57. *See* Kipling v. G.P. Putnam's Sons, 120 F. 631, 634 (2d Cir. 1903) (holding that the purchase of unbound copyrighted books also conveyed the right to bind the sheets and resell them); Doan v. American Book Co., 105 F. 772, 776 (7th Cir. 1901) (holding that the purchase of a copyrighted book in a first sale also conveys the right to repair the book as needed by the purchaser); Harrison v. Maynard, Merrill & Co., 61 F. 689, 691 (2d Cir. 1894) (holding that the first sale of rights removes the owner's rights); Bobbs-Merrill Co. v. Snellenburg, 131 F. 530, 532-33 (C.C.E.D. Pa. 1904) (holding that even when the copyright holder prints a notice in a copy of each book sold, the purchaser is free to resell that book at a different price. The original owner may have an action of breach of contract, but not copyright infringement); Clemens v. Estes, 22 F. 899, 900 (C.C.D. Mass. 1885) (holding that a publisher can buy a book from an agent who lawfully purchased it, and the publisher can then sell that book at any price without permission of the author); Stowe v. Thomas, 23 F. Cas. 201, 206-07 (C.C.E.D. Pa. 1853) (No. 13,514) (holding that a translation of a book is not an infringement).

58. *See* Quality King Distribs., Inc., v. L'anza Research Int'l, Inc., 535 U.S. 135, 140 (1998) (explaining the Supreme Court's history of the first sale doctrine).

59. Bobbs-Merrill Co. v. Straus, 210 U.S. 339 (1908).

60. *Id.* at 341.

61. *Id.*

62. *Id.*

63. *Id.*

64. *Id.*

65. *Id.*

66. *Id.*

67. *Id.* at 342.

Macy's then sold the lawful copies at $.89 per copy without permission from Bobbs-Merrill.[68]

Bobbs-Merrill argued that the copyright acts should be interpreted the same way patent acts were interpreted for the purposes of securing rights for inventors.[69] However, the Court held that there are differences between the protections granted by the copyright acts and those granted by the patent acts.[70] Thus, the Court considered *Bobbs-Merrill* a case of first impression and analyzed it under the copyright statutes.[71]

The Court stated that it had already established that copyright property was governed entirely by statutory law and "depends upon the right created under the acts of Congress."[72] The Court also stated that the copyright statute's main purpose is "to secure the author the right to multiply copies of his work."[73] The Court then looked at the provisions in the Copyright Act of 1891 to determine whether an owner of a copyrighted work lost all rights in the work after a lawful sale.[74]

Section 4952 of the Copyright Act of 1891 granted any person with a copyrighted work "the sole liberty of printing, reprinting, publishing, completing, copying, executing, finishing, and vending the same."[75] Bobbs-Merrill's argument focused on section 4952, arguing that the provision allowed the copyright holder to sell a work while being able to reserve "so much of the right as he pleases."[76] The Court held that the language of the statute did not create any rights for the copyright holder to impose a reservation by notice to limit future sales of the work when there was no privity of contract between the holder and the purchaser.[77] The Court found (1) that the owner of the copyright sold a quantity of books at a price "satisfactory to it" and, (2) that to allow future control over the price when the books were subsequently sold "would give a right not included in the terms of the statute."[78]

This decision in 1908 thus interpreted the exclusive right of vending under the 1891 copyright statute as being limited to the first sale of the work.[79] The Court's interpretation of the first sale doctrine was then adopted by Congress and codified into federal law in the Copyright Act of 1909.[80] However, the 1909 Act did

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68. *Id.*

69. *Id.*

70. *Id.* at 346. The Court quoted from a decision by Judge Lurton, who wrote: "There are such wide differences between the right of multiplying and vending copies of a production protected by the copyright statutes and the rights secured to an inventor under the patent statutes, that the cases which relate to the one subject are not altogether controlling as to the other." (*citing* John D. Park & Sons Co. v. Hartman, 153 F. 24 (6th Cir. 1907)).

71. *Bobbs-Merrill*, 210 U.S. at 346.

72. *Id.* (citations omitted).

73. *Id.* at 347.

74. *Id.* at 347-48.

75. Copyright Act of 1891, § 4952, 26 Stat. 1107, *cited in* Quality King Distribs., Inc. v. L'anza Research Int'l, 523 U.S. 135, 138 & n.5 (1998).

76. *Bobbs-Merrill*, 210 U.S. at 349.

77. *Id.* at 350.

78. *Id.* at 351.

79. *Quality King*, 523 U.S. at 141-42 (1998).

80. *Id.* at 142 & n.7 (citing first sale doctrine in section 41 of the Copyright Act of 1909, ch. 320, 35 Stat. 1084 and in section 27 of the 1947 Act, ch. 391, 61 Stat. 660). *See also* Perl, *supra* note 4, at 654-55.

nothing more than the 1891 Act in the way of restricting "the importation of articles that were either first sold or manufactured under the authority of the copyright owner."[81] Few cases were ever brought involving violations of importation rights under the 1909 Act, therefore there were "no determinative judicial interpretations" to guide copyright owners and manufacturers.[82] Thus, copyright holders and manufacturers had little ability to prevent the importation of their own goods once the first sale had been made.

D. Copyright Act of 1976

The Copyright Act of 1976 was the end result of thirty-five studies conducted by Congress to analyze the problems with the 1909 Act.[83] Another fifteen years of hearings and revisions followed before the Copyright Act of 1976 was enacted and signed into law.[84]

The Act of 1976 and recent amendments grant all copyright holders six exclusive rights in section 106, including 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."[85] Section 106 is also subject to sections 107 through 120, which limit the exclusive rights granted in section 106.[86]

The first sale doctrine is codified in section 109(a) of the 1976 Act and expressly states that "[n]otwithstanding 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."[87] Congress explained that section 109(a) refers to any copyrighted work "lawfully made under this title," even without the authorization of the copyright owner.[88]

The Act of 1976 includes section 602, which establishes two classes of imported goods.[89] Section 602(a) creates an infringement of section 106's exclusive distribution rights when the importation into the United States occurs "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."[90] Three exceptions to section 602(a) serve to protect importation rights for use by a government, for the private use of the person doing the importation, and for educational or reli-

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81. Perl, *supra* note 4, at 654-55 (arguing that the importation rights under the Acts of 1891 and 1909 remained narrow for copyright holders).

82. *Id.*

83. *Id.* at 656 & n.75.

84. *Id.* at 656 & nn. 77-79.

85. 17 U.S.C. § 106 (1994) (exclusive distribution rights granted in section 106(3)).

86. *Id. Compare* H.R. REP. No. 94-1476, at 36 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5674.

87. 17 U.S.C. § 109(a) (1994). Section 109 is one of the limitations placed on section 106; *see supra* note 80.

88. *See* H.R. REP. No. 94-1476, at 79-80 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659 (giving an example that a "pirated" phonorecord could not be resold without an infringement, but a phonorecord "legally made under the compulsory licensing provisions of § 115" could be resold without an infringement).

89. 17 U.S.C. § 602 (1994). *See also* Perl, *supra* note 4, at 657-58 (describing the two classes of imported goods in more detail).

90. 17 U.S.C. § 602(a).

gious purposes.[91] The second class of goods involves items illegally made and then imported into the United States.[92]

Violations under sections 106 and 109 are enforced by section 501, which creates an infringement of copyright against "[a]nyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 . . . or who imports copies or phonorecords into the United States in violation of section 602."[93] The only explanation of section 501 applicable in the instant case was the statement that under section 602 "an unauthorized importation of copies or phonorecords acquired abroad" would be an infringement of the exclusive right of distribution.[94]

The sections in the Copyright Act of 1976 applicable to this instant case survive as of this date, with the latest attempts to amend the first sale doctrine compromised out of the Digital Millennium Copyright Act that was given final approval by Congress on October 12, 1998.[95]

E. Cases Since 1976 Involving First Sale and Importation Rights

There were few appellate court cases involving the question of how the first sale doctrine of section 109(a) affected the distribution rights granted in section 602(a) and section 106(3).[96] However, district courts grappled with the question in a number of contradictory cases.[97] One of the first was *Columbia Broadcasting System, Inc. v. Scorpio Music Distributors, Inc.*[98]

In *Scorpio*, CBS, a New York corporation, owned six sound recording copyrights.[99] CBS consented to allow CBS-Sony, a Japanese corporation, to enter into an agreement authorizing a Philippines corporation to manufacture and sell copies of those six recordings in the Philippines.[100] CBS retained the copyrights for the recordings in the United States.[101] On November 2, 1981, CBS-Sony cancelled its manufacturing and licensing agreements with the Philippines corporation.[102]

Before the severing of the agreements, the Philippines corporation had already sold some of its copies of the copyrighted recordings to a Philippines music distributor, which then sold the recordings to an importer.[103] Some six thousand copies of the copyrighted recordings ended up being purchased by Scorpio Music, a Pennsylvania corporation.[104] CBS-Sony had agreed to give the

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91. *Id.*
92. 17 U.S.C. § 602(b).
93. 17 U.S.C. § 501(a).
94. H.R. REP. NO. 94-1476, at 271 (1976), *reprinted in* 1976 U.S.C.C.A.N. at 5774 (explaining the relationship between section 501 and sections 106 through 118 as well as section 602).
95. *See* H.R. CONF. REP. NO. 105-796 (1998), *reprinted in* 1998 U.S.C.C.A.N. 645. This report accompanied H.R. 2281 to explain the compromises made by the Conference Committee. A provision on the first sale doctrine and gray market goods was removed from the House's version of the Act by the Conference Committee.
96. Perl, *supra* note 4, at 665-66.
97. *Id.*
98. Columbia Broad. Sys., Inc. v. Scorpio Music Distribs., Inc., 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd mem.*, 738 F.2d 424 (3d Cir. 1984).
99. *Id.*
100. *Id.*
101. *Id.*
102. *Id.*
103. *Id.*
104. *Id.*

Philippines manufacturer sixty days to sell its inventory after termination of the agreement.[105] The six thousand copies owned by Scorpio had been sold in the Philippines within that sixty-day period.[106]

CBS' complaint alleged that Scorpio had imported copies of copyrighted recordings without authorization in violation of section 602 of the Copyright Act.[107] Scorpio argued that the first sale doctrine of section 109(a) prevented a third party from being liable for copyright infringement because the sale of the copied records was a "valid first sale" from the Philippines manufacturer to the Philippines music distributor.[108]

The court held that the phrase "lawfully made under this title" in section 109(a)[109] granted first sale protection to a "third party buyer of copies which have been legally manufactured and sold within the United States and not to purchasers of imports such as are involved here."[110] The court granted CBS' motion for summary judgment, holding that if section 109(a) could supersede the importation prohibitions in section 602, the language in section 602 would be "virtually meaningless," allowing third party buyers to circumvent the Copyright Act by purchasing the recordings indirectly.[111]

The question of how the first sale doctrine applied to goods manufactured and sold within the United States was the central issue of *Cosmair, Inc. v. Dynamite Enterprises, Inc.*[112] Cosmair was a corporation exclusively licensed to distribute in the United States various Ralph Lauren fragrance and cosmetic products.[113] Cosmair sued two United States companies that were discovered importing the Ralph Lauren products into the United States.[114]

Cosmair alleged that the importation of the products by the defendants without authorization violated section 602(a) of the Copyright Act of 1976.[115] The defendants argued that section 602(a) was limited by the first sale doctrine of section 109(a), which would protect the right to sell goods legally made and then sold by the copyright owner.[116] The defendants further argued that section 602(a), as interpreted by *Scorpio Music*,[117] only applied when a foreign manufacturer licensed to distribute abroad imported the copies into the United States.[118]

The court found it unclear whether the goods were actually sold in the United States, although it did conclude that the products were manufactured domestically.[119] The court held that this case would be treated as if the products were sold

105. *Id.*
106. *Id.*
107. *Id.* at 48.
108. *Id.*
109. 17 U.S.C. § 109(a) (1994).
110. *Scorpio Music*, 569 F. Supp. at 47, 49.
111. *Id.* at 49-50.
112. Cosmair, Inc. v. Dynamite Enters., Inc., 226 U.S.P.Q. (BNA) 344 (S.D. Fla. 1985).
113. *Id.* at 345.
114. *Id.*
115. *Id.* at 346.
116. *Id.*
117. Columbia Broad. Sys., Inc. v. Scorpio Music Distribs., Inc., 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd mem.*, 738 F.2d 424 (3d Cir. 1984).
118. *Cosmair*, 226 U.S.P.Q. (BNA) 344, 346.
119. *Id.* at 347.

in the United States and that the first sale provision of section 109(a) would limit section 602(a)'s importation exclusion in such a situation.[120] Thus, the motion for a preliminary injunction by Cosmair was denied.[121]

The next major case involved the importation of books in *Hearst Corp. v. Stark*.[122] The authors of eighteen titles entered into agreements with Hearst to publish the United States editions of those books and granted Hearst the exclusive United States copyrights to those titles.[123] The same eighteen titles were also published under similar agreements with a publisher in the United Kingdom.[124]

However, copies of the United Kingdom editions were sold by the publishers to a United Kingdom wholesaler, who then sold them to the defendant—the sale resulted in the books being imported into the United States.[125] Defendants and amici curiae argued that the books imported from the United Kingdom were not available in the United States.[126] The plaintiffs argued that because they owned the exclusive rights in the United States to these eighteen titles in question, the importation of those books violated section 602(a).[127] The court could not determine whether the titles were actually available in the United States and added that its decision did not depend on such information.[128]

In addition, the defendants contended that section 109(a) limited the application of section 602(a) in this situation.[129] The court held, however, that even if section 109(a) did modify section 602(a), the first sale doctrine would not help the defendants in this case.[130] Defendants were importing large quantities of books for "multiple resales in the United States."[131] The court concluded that section 109(a) only applied to the "resale of a 'particular copy.'"[132] Furthermore, the court held that because section 109(a) was not mentioned in section 602, then the first sale doctrine did not have any relation to section 602(a) where there was a large wholesale importation of goods manufactured abroad.[133] The court's reasoning turned on the phrase "of a particular copy" in section 109(a).[134] The court related this phrase to the exclusive distribution right of section 106(3)[135] and concluded that it was a limitation on one or a few copies rather than on large quantities imported at the same time.[136]

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120. *Id.*
121. *Id.* at 348.
122. Hearst Corp. v. Stark, 639 F. Supp. 970 (N.D. Cal. 1986). Another important issue was whether the First Amendment could limit section 602(a) when a product such as a book was involved. The court held that the First Amendment was not violated by the prohibition on importing books into the United States when there was a valid copyright.
123. *Id.* at 972 & n.3.
124. *Id.* at 972.
125. *Id.*
126. *Id.* at 972-73.
127. *Id.* at 973.
128. *Id.*
129. *Id.* at 976.
130. *Id.*
131. *Id.*
132. *Id.*
133. *Id.* at 977.
134. *See* 17 U.S.C. § 109(a) (1994) (expressly mentioning the exclusive distribution right in section 106(3) and not referring to section 602).
135. *Id.*
136. *Hearst Corp.*, 639 F. Supp. at 976.

The next case that impacted the application of the first sale doctrine to exclusive distribution rights was *T.B. Harms Co. v. Jem Records, Inc.*[137] T.B. Harms was a California corporation that licensed and marketed copyrighted musical compositions.[138] One of its copyrights was to the song "Ol' Man River."[139] Jem was a New Jersey corporation that manufactured, sold, and distributed phonorecords in the United States.[140]

A version of the song "Ol' Man River" was recorded by singer Frank Sinatra and included in a sound recording with fifteen other musical compositions.[141] Copies of the sound recording were lawfully manufactured and distributed in New Zealand through a business that had the right to make and distribute sound recordings embodying the musical compositions owned by T.B. Harms.[142] These sound recordings were subsequently imported and distributed in the United States by defendant Jem.[143] Jem did not have permission from T.B. Harms to import or distribute recordings of "Ol' Man River," nor did it have such permission from the copyright owners of the other fifteen musical compositions on the phonorecord.[144]

T.B. Harms alleged an infringement on its exclusive copyright through the unauthorized importation pursuant to section 602(a).[145] Defendant Jem argued that there was no violation of section 602(a) because there had to be an exclusive distribution right under section 106(3), and the compulsory licensing provision under section 115 limited the right in section 106(3).[146] The court held that the limitations of sections 107 through 118 do not extinguish the exclusive rights available to the copyright holder under section 106(3) and that, according to *Scorpio*, section 109(a) did not apply to the buyers of imports.[147] Thus, the provisions limiting the section 106(3) exclusive distribution right were held not to extinguish those exclusive rights in every situation.[148]

In *Sebastian International, Inc. v. Consumer Contacts, Ltd.*,[149] a fact situation similar to the instant case was considered by the Third Circuit.[150] *Sebastian* involved a California corporation that manufactured and marketed personal care beauty supplies.[151] Two of the items had labels affixed that were copyrighted.[152] Sebastian made an oral contract with defendant Consumer Contacts that allowed

137. T.B. Harms v. Jem Records, Inc., 655 F. Supp. 1575 (D.N.J. 1987).
138. *Id.* at 1576.
139. *Id.* at 1516 & n.1 (explaining that copyrights in the musical composition and in the sound recording are separate and distinct copyrights and are, therefore, treated differently).
140. *T.B. Harms*, 655 F. Supp. 1575-76.
141. *Id.* at 1577.
142. *Id.*
143. *Id.*
144. *Id.*
145. *Id.*
146. *Id.* at 1578-80.
147. *Id.* at 1582-83. *See also* Columbia Broad. Sys., Inc. v. Scorpio Music Distribs., Inc., 569 F. Supp. 47, 49 (E.D. Pa. 1983), *aff'd mem.*, 738 F.2d 424 (3d Cir. 1984), and Perl, *supra* note 4, n.177.
148. *T.B. Harms*, 655 F. Supp. at 1580.
149. Sebastian Int'l, Inc. v. Consumer Contacts, Ltd., 847 F.2d 1093 (3d Cir. 1988).
150. *Id.* at 1094. The court referred to the copyright infringement claim as a disguise for the real intention of the plaintiff to use copyright law to "prevent the importation of its own products by the 'gray market.'"
151. *Id.*
152. *Id.*

Consumer Contacts to distribute the plaintiff's personal care products to beauty salons in South Africa.[153]

Sebastian shipped four containers of its products with copyrighted labels to Edenvale, South Africa, in January 1987.[154] Consumer Contacts then shipped the unopened containers back to the United States where they were released by customs five months later.[155] Sebastian first obtained a preliminary injunction against distribution of the products in district court.[156] Sebastian then amended its breach of contract complaint to allege that a company known as Fabric, Ltd. had possession of the shipment and was infringing the copyrights on the labels.[157] The district court lifted the original restraining order when it determined that Fabric, Ltd. was not aware of the contract between Sebastian and Consumer Contacts.[158] However, the court decided that the copyrighted labels were protected by the Copyright Act and issued a preliminary injunction against infringement.[159] The district court viewed the first sale doctrine as a limitation on the right to vend and not as a prohibition against importation, regardless of where the products "'were first sold or first manufactured.'"[160]

On appeal to the Third Circuit, the defendant argued that the first sale doctrine extinguished the claim for copyright infringement.[161] The Third Circuit agreed,[162] holding that section 602(a) did not add a separate right apart from section 106(3) to control distribution, but that section 602(a) instead "serves only as a specific example of those rights subject still to the first sale limitation."[163] The court found that because section 109(a) limits section 106(3), the first sale doctrine must also limit section 602(a).[164] The court also reasoned that the copyright holder apparently received its full price for the goods when first sold, and therefore, all exclusive rights of distribution were extinguished and could not be "infringed by importation."[165]

In dicta, the Third Circuit urged Congress to resolve the bigger question of gray market goods, calling such disputes over product labels "superficial" because, in reality, the disputes are over the products themselves.[166]

BMG Music v. Perez[167] established the Ninth Circuit's split with the Third Circuit in a decision that held the first sale doctrine inapplicable to unauthorized importations.[168] In *BMG*, the plaintiffs produced, manufactured, distributed, and

153. *Id.*
154. *Id.*
155. *Id.*
156. *Id.* at 1094-95.
157. *Id.* at 1095.
158. *Id.*
159. *Id.*
160. *Id.* (quoting Sebastian Int'l, Inc. v. Consumer Contacts, Ltd., 664 F. Supp. 909, 920 (D.N.J. 1987)).
161. *Sebastian Int'l*, 847 F.2d at 1095. Consumer Contacts did not challenge the validity of the copyrights, reserving the issue for the district court hearing on the preliminary injunction. Consumer Contacts also argued that Sebastian did not show irreparable harm, but the Third Circuit did not address the issue.
162. *Id.* at 1099.
163. *Id.* at 1097.
164. *Id.* at 1099.
165. *Id.*
166. *Id.* The Third Circuit also stated that the gray market problem should not be resolved "by judicial extension of the Copyright Act's limited monopoly."
167. BMG Music v. Perez, 952 F.2d 318 (9th Cir. 1991), *cert. denied*, 505 U.S. 1206 (1992).
168. *Id.* at 319.

sold sound phonorecords in the United States and owned the copyrights to the sound recordings embodied therein.[169] BMG alleged that defendant Perez purchased copyrighted BMG sound recordings manufactured abroad and imported them into the United States where they were sold in violation of section 602(a).[170]

The district court granted a preliminary injunction against Perez; however, while the injunction was in place, Perez sold BMG's copyrighted works made abroad without BMG's permission.[171] Perez was found to be in contempt by the district court and to have willfully infringed on BMG's copyright.[172] Perez appealed, contending that he did not infringe on the copyright because he was protected by the first sale doctrine.[173]

The Ninth Circuit held that the first sale doctrine granted protection "only to copies legally made and sold in the United States."[174] Thus, the decision of the district court was affirmed.[175]

In a situation similar to *BMG*, the Ninth Circuit again considered the relationship between the first sale doctrine and the importation rights of section 602(a) in *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*[176] In this case, Givenchy USA owned a United States copyright to the box design for a particular perfume.[177] The perfume itself was manufactured in France by Givenchy France, which owned Givenchy USA.[178] Before Givenchy France assigned its rights in the design copyright to Givenchy USA, third parties lawfully purchased the perfume and imported it into the United States without permission.[179]

Drug Emporium purchased the imported perfume from the third parties and began selling it in its chain of drugstores.[180] Drug Emporium made all of its purchases subsequent to Givenchy USA becoming the copyright owner of the perfume box design.[181] The district court granted a permanent injunction against Drug Emporium, resulting in an appeal to the Ninth Circuit.[182]

On appeal, Drug Emporium argued that the first sale doctrine codified in section 109(a) protects it from a copyright infringement under section 602(a).[183] Givenchy USA argued that "the importation right survives as to a particular copy unless" there has been a first sale within the United States.[184]

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169. *Id.*
170. *Id.*
171. *Id.*
172. *Id.* Perez was ordered to pay sanctions for the contempt violation, along with statutory damages and attorney's fees.
173. *Id.*
174. *Id.*
175. *Id.* at 319-21 & n.3.
176. Parfums Givenchy, Inc. v. Drug Emporium, Inc., 38 F.3d 477 (9th Cir. 1994).
177. *Id.* at 479.
178. *Id.*
179. *Id.*
180. *Id.*
181. *Id.*
182. *Id.*
183. *Id.* Drug Emporium also argued that there was no infringement of the unauthorized importation provision because Givenchy USA did not own the copyright until the perfume had already been imported. *Id.* at 479 & n.2. The court held that the Copyright Act protects copyright holders against both an unauthorized importation and subsequent distribution, citing BMG Music v. Perez, 952 F.2d 318, n.187 (9th Cir. 1991), *cert. denied*, 505 U.S. 1206 (1992). *Id.*
184. *Parfums Givenchy*, 38 F.3d at 481.

The Ninth Circuit stated that to follow the reasoning of Drug Emporium would "deprive U.S. copyright holders of the power to authorize or prevent imports of the copies once the copies are sold abroad by the manufacturer."[185] The court further explained that this issue has other policy considerations because it involves gray market goods, which are goods containing a valid U.S. trademark or copyright "typically manufactured abroad, and purchased and imported into the United States by third parties, thereby bypassing the authorized U.S. distribution channels."[186]

The Ninth Circuit followed its reasoning in *BMG Music*[187] and held that the importation protection granted under section 602(a) did survive as long as the first sale was not within the United States.[188]

IV. INSTANT CASE

The split between the Third and Ninth Circuits led the United States Supreme Court to hear arguments in *Quality King Distributors, Inc. v. L'anza Research, International.*[189] Justice Stevens began the analysis of the decision by referring to *Quality King* as "an unusual copyright case"[190] because there was no claim that unauthorized copies of the copyrighted labels were made by anyone.[191] Instead, the opinion noted that the action by L'anza sought the protection of the way it marketed "the products to which the labels [we]re affixed."[192] The Court did not consider the issue of gray market goods relevant to the copyright issue at stake.[193]

A. Issue

The Supreme Court in Quality King limited its decision to the issue of whether the first sale doctrine codified in section 109(a) "is applicable to imported copies."[194] In deciding the issue of the first sale doctrine as applied by the Copyright Act, the Court stated that its interpretation of the statutes had a much broader application than the question of product labels.[195] The Court also applied its decision to other "copyrighted materials such as sound recordings or books."[196]

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185. *Id.* at 481 & n.6.

186. *Id. See also* K Mart v. Cartier, Inc., 486 U.S. 281, 286-87 (1987) (explaining that the problem of gray market goods in a trademark case limited the use of trademark law to prohibit the importation of gray market goods).

187. *See* BMG Music v. Perez, 952 F.2d 318 (9th Cir. 1991), *cert. denied*, 505 U.S. 1206 (1992).

188. *Parfums Givenchy*, 38 F.3d at 481.

189. Quality King Distribs., Inc. v. L'anza Research Int'l, Inc., 523 U.S. 135 (1998). The Ninth Circuit held that the first sale doctrine did not limit section 602(a) even when the product was first manufactured in the United States and sold abroad.

190. *Id.* at 140.

191. *Id.*

192. *Id.*

193. *Id.* at 153. *See also id.* at 138 (listing nine amicus curiae briefs involving the question of gray market goods or parallel importation).

194. *Id.* at 138.

195. *Id.* at 140.

196. *Id.*

B. Arguments

The Court did not analyze the arguments of petitioner Quality King and focused on the arguments asserted by respondent L'anza.[197] Generally, L'anza argued that section 602(a) prohibits unauthorized competition from foreign distributors who buy exported American products and then import them into the United States.[198] L'anza asserted that the language of section 602(a) creates a separate right that stands alone from section 106(3)'s exclusive distribution right, and therefore, this right would not be limited by the first sale doctrine of section 109(a).[199] In addition, L'anza argued that if section 602(a) were limited by the first sale doctrine, then section 602(a) would have no meaning and that the enforcement provisions of section 501 refer separately to violations of sections 106 and 602.[200]

The Court also considered the argument of the United States Solicitor General, who asserted that the term "importation" in section 602(a) was "an act not protected by the language in § 109(a)" that permitted a "subsequent owner" to dispose of the copy in any manner.[201] The Solicitor General also argued that the term "importation" was "neither a sale nor a disposal of a copy under § 109(a)."[202]

C. Supreme Court's Analysis

The Court began its analysis by establishing that the first sale doctrine limited the exclusive right to sell a copyrighted work to the "first sales of the work."[203] Justice Stevens explained that this decision was later codified into the Copyright Act of 1909 becoming section 109(a) and limiting section 106(3) in the Copyright Act of 1976.[204] The Court pointed out that the decision in *Bobbs-Merrill* made a "critical distinction between statutory rights and contract rights,"[205] and it dismissed L'anza's assertion that "contractual provisions" would not prevent foreign distributors from unauthorized importation of gray market goods. The Court's analysis instead focused on the statutes in the Copyright Act.[206]

The Court then found it "significant" that the language of section 602(a) did not "categorically prohibit the unauthorized importation of copyrighted materi-

197. *Id.* at 139-44. *Cf.* Brief for Petitioner, Quality King Distribs., Inc. v. L'anza Research Int'l, Inc., 523 U.S. 135, n.189 (1998) (No. 96-1470) *and* Petitioner's Reply Brief. The Court adopted Quality King's arguments.
198. *Quality King*, 523 U.S. at 143.
199. *Id.* at 145.
200. *Id.* at 145-46.
201. *Id.* at 146. *See also* Brief for the United States as Amicus Curiae Supporting Respondent at 8-9, Quality King Distribs., Inc. v. L'anza Research Int'l, Inc., 523 U.S. 135 (1998) (No. 96-1470).
202. *Quality King*, 523 U.S. at 151; *see also* Brief for the United States, *supra* note 201.
203. *Quality King*, 523 U.S. at 141-42 (referring to the landmark decision in Bobbs-Merrill Co. v. Straus, 210 U.S. 339 (1908)).
204. *Id.*
205. *Id.* at 143 & n.10. *See also* Bobbs-Merrill Co. v. Straus, 210 U.S. 339 (1908).
206. *Quality King*, 523 U.S. at 142-44.

als."[207] Instead, the Court held that section 602(a)'s importation prohibition was an infringement of the exclusive distribution right stated in section 106(3).[208] In addition, the Court found that the language of section 106 "expressly states that all of the exclusive rights granted by that section—including, of course, the distribution right granted by subsection (3)—are limited by the provisions of §§ 107 through 120."[209]

The Court then looked at the applicable provision, section 109(a), which "expressly permit[s] the owner of a lawfully made copy to sell that copy '[n]otwithstanding the provisions of section 106(3).'"[210] Moreover, the Court found that section 109(a)'s first sale doctrine allowed any purchaser subsequent to the first sale of the copyrighted work "lawfully made under this title" to become the owner, regardless of whether the reseller was domestic or foreign.[211] Further, the subsequent owners would then be entitled to sell that item without permission of the copyright holder.[212]

The Court's reasoning resulted in the main holding that section 602(a)'s importation prohibition applied only to the exclusive right of distribution in section 106(3); therefore, any right by lawful owners to resell copyrighted works under section 109(a) limited both sections 602(a) and 106(3).[213] Thus, section 602(a) would not prevent domestic or foreign owners of L'anza's products from importing and reselling them in the United States after a first sale had been made.[214]

In considering the argument by L'anza that section 602(a) would be meaningless if it were limited by section 109(a), the Court held that section 109(a) gave protection only to lawful owners; therefore, "any non-owner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful" would be an infringer under section 602(a).[215] Thus, section 602(a) would not be meaningless even with the limits of section 109(a).[216] In addition, section 602(a) applied to copies legally made under the laws of another nation, not to copies legally made under the laws of the United States Copyright Act.[217]

The Court further analyzed L'anza's assertion that section 501's enforcement provisions referred separately to sections 106 and 602.[218] In response, the Court held that section 106 is also limited by sections 107 through 120. If section 602 stood alone, therefore, none of the other limitations would apply, including the fair use defense of section 107.[219] Given the importance of a fair use defense, the

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207. *Id.* at 144. *See also* 17 U.S.C. § 602(a) (1994) ("Importation into the United States, without the authority of the owner of copyright under this title . . . is an infringement of the exclusive right to distribute copies or phonorecords under § 106 . . . .").
208. *Quality King*, 523 U.S. at 144.
209. *Id. See also* 17 U.S.C. § 106 (1994).
210. *Quality King*, 523 U.S. at 144. *See also* 17 U.S.C. § 109(a) (1994).
211. *Quality King*, 523 U.S. at 145.
212. *Id.*
213. *Id.*
214. *Id.*
215. *Id.* at 146-47.
216. *Id.*
217. *Id.* at 147.
218. *Id.* at 149. *See also* 17 U.S.C. § 501 (1994).
219. *Id.* at 149-50. *See also* 17 U.S.C. § 107 (1994) (allowing the use of copyrighted works without permission in endeavors such as news reporting, teaching, and commenting).

Court reasoned that Congress could not have intended section 602 not to be limited by section 107.[220] Therefore, if section 107 limited section 602, the other enumerated limitations, including section 109(a), would limit section 602 as well.[221]

The Court also found the Solicitor General's argument that importation under section 602(a) did not carry the same meaning as sale or disposal under section 109(a) to be "unpersuasive."[222] The Court reasoned that in the normal situation, a person imported items with the plan of selling or disposing of them, and the act of selling or disposing included "the right to ship [the items] to another person in another country."[223]

Justice Ginsburg filed a concurring opinion in the unanimous decision by the Court.[224] Justice Ginsburg's short statement pointed out that the *Quality King* decision was limited to a situation where the copyrighted goods are made in the United States, shipped abroad, and then imported back into the United States.[225] The concurrence recognized that the situation where the "infringing imports were manufactured abroad" was still left unresolved.[226]

V. ANALYSIS

The Supreme Court's decision in *Quality King* extends far beyond the interpretation of the first sale doctrine in the Copyright Act limiting the prohibition on imports found in section 602(a). The decision may also have a "major impact" on American companies which export products that are at least partially protected by copyrights.[227]

A. Gray Market Goods

The Court decided the issue of the first sale doctrine without a decision on the issue of gray market goods. The Court was aware that the question of using copyright law to prevent unauthorized imports was at the heart of the case,[228] yet it set that issue aside and focused only on the question of the first sale doctrine and section 602(a).[229] However, the opinion pointed out that the Court believed respondent L'anza could have avoided many of its problems by either advertising abroad and charging higher prices or selling the hair care products under a different name in overseas markets.[230] Thus, while not explicitly deciding the issue of

220. *Id.* at 151.
221. *Id.* at 150-51.
222. *Id.* at 151-52.
223. *Id.* at 152.
224. *Id.* at 154.
225. *Id.*
226. *Id.*
227. *First Sale Rule Limits Redress Against Gray Market Goods*, 10 No. 4 J. PROPRIETARY RTS. 12 (1998).
228. *Quality King*, 523 U.S. at 140 (acknowledging that respondent really wanted to protect its products from unauthorized imports and was less concerned about the copyrighted labels).
229. *Id.* at 153 ("[W]hether or not we think it would be wise policy to provide statutory protection for such price discrimination is not a matter that is relevant to our duty to interpret the text of the Copyright Act").
230. *Id.* & n.29.

whether gray market goods should be controlled, the Court was aware of the possible results when it put an end to the use of copyright law to prohibit imports when the copyrighted products are first manufactured in the United States and then exported.[231]

While the main issue in the instant case involves the Copyright Act, the parties and interested observers put forth arguments that were intertwined with the question of gray market goods.[232] A gray market, in a situation like the instant case, is created when legally made goods are bought by third parties not authorized to distribute the items; the third parties then import the goods back into the United States for resale.[233] These goods compete with the trademark holder's authorized goods,[234] often at a sharply lower price, especially with goods such as cosmetics, which are offered domestically only to "upscale markets."[235]

Gray market goods have become a threat to many United States businesses and have had a substantial impact on the domestic marketplace.[236] Many of these businesses turned to copyright law after running into problems with contractual provisions and trademark protection.[237] Until recently, most of the judicial interpretation of the Copyright Act involving gray market goods came at the district court level, with differing opinions on the protection offered to businesses.[238] The question that was left unanswered was whether section 109(a) limited section 602(a), or whether section 602(a) created an exclusive right that stood alone.[239]

In light of the statutory language of the applicable copyright provisions, the legislative history of the Act, and the past legislative decisions involving gray market goods and the first sale doctrine, the Supreme Court appears to have answered that question appropriately.

B. First Sale Doctrine and Distribution

There are four provisions in the Copyright Act of 1976 that bear on the question of unauthorized imports infringing on a copyright holder's exclusive right to distribution: sections 106(3), 109(a), 501(a), and 602(a). As the Court detailed

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231. *Id.* at 144.

232. *Id.* (describing briefly the interest in gray market goods in connection with focusing only on the Copyright Act).

233. Donna K. Hintz, *Battling Gray Market Goods with Copyright Law*, 57 ALB. L. REV. 1187, 1188 (1994); *see also* K Mart v. Cartier, Inc., 486 U.S. 281, 286 (1988) (describing the different types of gray markets that can be created).

234. Hintz, *supra* note 233.

235. Lawrence M. Friedman, *Business and Legal Strategies for Combating Grey-Market Imports*, 32 INT'L LAW. 27, 28 (1998).

236. Perl, *supra* note 4, at 678.

237. *Id.* at 648-51. *See also K Mart*, 486 U.S. 281 (restricting how far trademark laws can be used to keep out gray market goods).

238. Perl, *supra* note 4, at 649-52.

239. *Id.* at 675. *See also* Hintz, *supra* note 233; John C. Cozine, Note, *Fade to Black? The Fate of the Gray Market After* L'anza Research International, Inc. v. Quality King Distributors, 66 U. CIN. L. REV. 775 (1998) (suggesting that Congress should settle the split between the Third and Ninth Circuits in a casenote published before the Supreme Court decision in the instant case).

in *Quality King*, the analysis begins with the language of section 106,[240] which grants "[e]xclusive rights in copyrighted works."[241] Section 106(3) explicitly grants the exclusive 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."[242]

The legislative history of section 106(3) explains that the provision grants the copyright holder "the right to control the first public distribution."[243] Congress made its intent crystal clear that section 109 ends the copyright holder's rights under section 106(3) "with respect to a particular copy or phonorecord once he has parted with ownership of it."[244] The provision also expressly states that sections 107 through 120 limit the exclusive rights granted in section 106.[245]

The language of section 109(a) begins with the words "[n]otwithstanding the provisions of section 106(3)."[246] The provision goes on to state that the owner of any copy "lawfully made under this title . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord."[247] The legislative history of this provision states that once the copyright holder makes a first sale of the copy, the new owner would not be affected by the holder's "exclusive right of distribution," and the owner has the right to "transfer it to someone else or destroy it."[248] The copyright holder can limit the new owner's rights by contract, but any restrictions cannot be "enforced by an action for infringement of copyright."[249]

Thus, the interaction between sections 106(3) and 109(a) give the copyright holder the exclusive right to distribute copies until a first sale is made. The right to control is then completely transferred to the new owner. It logically follows then that once a copyright owner sells its products to be distributed overseas, the right to control distribution in foreign markets ceases. None of the cases analyzed in this Note interprets the relationship between sections 106(3) and 109(a) differently. Considering the language used in the two provisions and the clear legislative history explaining congressional intent, there can be no doubt that section 109(a) is meant to limit the exclusive distribution right of section 106(3).

C. Importation Prohibition

The bigger question is whether section 602(a) stands alone or is an extension of section 106(3) and is, therefore, limited by section 109(a). Section 602(a) states that unauthorized importation into the United States of copies that are

240. Quality King Distribs., Inc. v. L'anza Research Int'l, Inc., 523 U.S. 135, 142 (1998).
241. 17 U.S.C. § 106 (1994).
242. *See* 17 U.S.C. § 106(3) (1994).
243. H.R. REP. No. 94-1476, at 39 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5675.
244. *Id.*
245. 17 U.S.C. § 106 (1994).
246. 17 U.S.C. § 109(a) (1994).
247. *Id.*
248. H.R. REP. No. 94-1476, at 79 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5693.
249. *Id.*

bought "outside the United States is an infringement of the exclusive right to distribute . . . under section 106, actionable under section 501."[250] The legislative history does not mention section 109; however, its explanation states that the "mere act of importation" would be an infringement of the exclusive distribution rights where the copies were "lawfully made" and imported without the copyright holder's authority.[251] On the surface, the history and language appear to favor the interpretation that section 602(a) stands alone as an additional exclusive right.

However, the language of section 602(a) itself states that unauthorized importation is an "infringement of the exclusive right to distribute . . . under section 106."[252] That statement relates section 602(a)'s prohibition on unauthorized importation to section 106(3)'s exclusive distribution right. Section 602(a)'s prohibition on unauthorized importation is, therefore, an extension of section 106(3), and an independent provision.

Section 501(a) only clouds the issue. The language of section 501(a) creates an infringement of copyright for anyone violating the exclusive rights granted in "sections 106 through 118 . . . or who imports copies or phonorecords into the United States in violation of section 602."[253] Thus, the language alone appears to place section 602 as standing separate from section 106(3). Congressional intent explained in the legislative history only serves to clarify the question a little. It states that under section 602, "an unauthorized importation of copies or phonorecords acquired abroad is an infringement of the exclusive right" to distribute.[254] Therefore, section 501(a) establishes an infringement under section 602(a) when the copies are bought outside the United States.

The logical conclusion about goods manufactured and copyrighted inside the United States before export would be that Congress did intend for section 602(a) to stand alone in that situation. Otherwise, Congress would have either specifically provided for such occurrences or explained its intent when it alluded to copies bought outside the United States.

However, lower court cases interpreted this same statutory language and legislative history to reach different conclusions. In *Scorpio*, the question involved copies of records made abroad and then imported into the United States.[255] The district court held that section 109(a) did not limit section 602(a) in this case, finding a copyright infringement.[256] *Scorpio* does little to settle the question in the instant case because the language of section 602(a) specifies that copies legally made but acquired abroad would be an infringement.

Hearst was similar to *Scorpio*, in that copies legally made overseas were imported into the United States, violating a domestic copyright.[257] Here, the dis-

250. 17 U.S.C. § 602(a) (1994).
251. H.R. REP. No. 94-1476, at 298 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5786.
252. 17 U.S.C. § 602(a) (1994).
253. 17 U.S.C. § 501(a) (1994).
254. H.R. REP. No. 94-1476, at 271 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5774.
255. Columbia Broad. Sys., Inc. v. Scorpio Music Distribs., Inc., 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd mem.*, 738 F.2d 424 (3d Cir. 1984).
256. *Id.* at 49.
257. Hearst Corp. v. Stark, 639 F. Supp. 970, 972-74 (N.D. Cal. 1986).

trict court focused on the phrase "of a particular copy" in section 109(a) as the key to when the first sale doctrine applied[258] *Hearst* involved a large wholesale importation of copies. The *Hearst* court found that section 602(a) would prohibit importation in that situation, but might not if only a few copies were at issue.[259]

T.B. Harms is another decision involving copies made abroad and imported into the United States in violation of a copyright.[260] In *T.B. Harms*, the district court allowed section 602(a) to stand alone, holding that section 109(a) did not apply to buyers of imported copies.[261]

The Ninth Circuit then held that the first sale doctrine did not apply to unauthorized imports in two cases involving goods manufactured overseas and imported into the United States.[262] The reasoning employed in *BMG* was followed by the Ninth Circuit in *Parfums Givenchy*, indicating that the importation prohibition in the Copyright Act was an important right for American manufacturers in combating the gray market.[263]

The specific question of applying the first sale doctrine to goods made in the United States is a recent issue. *Cosmair* involved a situation closer to the instant case. In *Cosmair*, products made in the United States were treated as being imported and resold in the United States.[264] The district court held that in such a situation the first sale doctrine would limit section 602(a) because the goods were manufactured domestically.[265] Thus, the court did not consider the place of sale to be as important as the place of manufacture and viewed Congress' intent regarding section 602(a) as applying to goods manufactured abroad.[266]

Finally, in *Sebastian*, a case that is factually similar to the instant case, the Third Circuit held that the first sale doctrine would limit an infringement action under section 602(a).[267]

The cases all looked at the same legislative histories and statutes, yet the outcomes were often contradictory. The question of what Congress intended was resolved in different ways with different results in the courts. The reason for the confusion becomes clear when the language of the statutes, the legislative histories, and the case law are considered together. Congress intended the four provisions to work together when the Copyright Act of 1976 was adopted, because legislative history does not explain the "ambiguous relationship between §§ 109(a) and 602(a)."[268]

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258. *Id.* at 976.
259. *Id.*
260. T.B. Harms v. Jem Records, Inc., 655 F. Supp. 1575, 1576-77 (D.N.J. 1987).
261. *Id.* at 1583.
262. BMG Music v. Perez, 952 F.2d 318 (9th Cir. 1991), *cert. denied*, 505 U.S. 1206 (1992); Parfums Givenchy, Inc. v. Drug Emporium, Inc., 38 F.3d 477 (9th Cir. 1994).
263. *See Parfums Givenchy*, 38 F.3d at 481 & n.6.
264. Cosmair, Inc. v. Dynamite Enters., Inc., 226 U.S.P.Q. (BNA) 344, 346-48 (S.D. Fla. 1985).
265. *Id.* at 347.
266. *Id.*
267. Sebastian Int'l v. Consumer Contacts, 847 F.2d 1093 (3d Cir. 1988). This case also involved hair care products with copyrighted labels affixed that were made in the United States, sold abroad, and then imported for resale in the United States.
268. Hintz, *supra* note 233, at 1212.

D. Congressional Intent

Congressional intent became much more apparent after the Supreme Court's decision in *Quality King*.[269] Congress amended the 1976 Copyright Act with the Digital Millennium Copyright Act,[270] approved by Congress on October 12, 1998.[271]

Shortly after the Supreme Court handed down its decision in *Quality King*, the House amended its version of the new Act to provide gray market protection by changing the first sale doctrine.[272] The proposed amendment by the House clarified the first sale provision of section 109(a) by replacing the current first sentence with the following statement:

> notwithstanding the provisions of section 106(3), the owner of a particular lawfully made copy or phonorecord that has been distributed in the United States by the authority of the copyright owner . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.[273]

The language of the amendment makes it clear that the House wanted to use the first sale doctrine to limit the gray market by making it applicable only when a copy would be distributed by the copyright holder's authority.

The Senate did not go along with the amendment, taking it out of the bill and forcing a conference committee to settle the differences.[274] Senator Ashcroft argued against the first sale doctrine on the Senate floor, questioning the amendment and wondering "what relation the provision has to a recent Supreme Court decision."[275] The proposed amendment was viewed as a measure "to control unauthorized imports of copyrighted works."[276]

Thus, Congress had a clear opportunity to use the first sale doctrine to keep out gray market goods and it failed to do so. In fact, Congress has introduced at least five bills in the past several years to curb gray market goods. None have been passed.[277] Therefore, modern Congressional intent appears to allow gray market goods into the United States and to disallow the importation restriction in section 602(a) of the Copyright Act of 1976 to be used in lieu of an express federal statute.

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269. Quality King Distribs., Inc. v. L'anza Research Int'l, Inc., 523 U.S. 135 (1998).

270. *See* H.R. CONF. REP. NO. 105-796 (1998) (accompanying H.R. 2281, also known as the Digital Millennium Copyright Act).

271. 56 PAT. TRADEMARK & COPYRIGHT J. (BNA) No. 1396, at 694 (Oct. 15, 1998).

272. 67 U.S.L.W. No. 14, at 2216 (Oct. 20, 1998).

273. 144 CONG. REC. H7074-03 (daily ed. Aug. 4, 1998) (amended H.R. 2281 read for vote on passage).

274. *See supra* note 272.

275. 144 CONG. REC. S9935-01, S9936-37 (daily ed. Sept. 3, 1998) (statement of Sen. Ashcroft).

276. *See supra* note 272.

277. *See* Petitioner's Reply Brief at 15 & n.17, Quality King Distribs., Inc. v. L'anza Research Int'l, Inc., 523 U.S. 135 (1998) (No. 96-1470) (citing S. 894, 102d Cong. (1991); H.R. 3484, 101st Cong. (1989); S. 626, 101st Cong. (1989); S. 2903, 100th Cong. (1988); S. 1671, 100th Cong. (1987)).

VI. CONCLUSION

The Supreme Court stated in the *Quality King* decision that the holding applies beyond products with copyrighted labels, explaining that the Court's "interpretation of the relevant statutory provisions would apply *equally* to a case involving more familiar copyrighted materials such as sound recordings or books."[278] Therefore, it follows that the Court will limit all but unlawfully made imports by the first sale doctrine, regardless of the type of product. Thus, copyright law cannot be used to keep out unauthorized imports.

Still, the decision by the Supreme Court in *Quality King* appears to be correct in light of the language in sections 106(3), 109(a), and 602(a). The legislative histories are inconclusive; however, the plain language in those provisions clearly shows that Congress wanted to use section 602(a) as an extension of section 106(3), which would be limited by section 109(a). The recent passage of the Digital Millennium Copyright Act illustrates that the obvious Congressional intent is that gray market goods cannot be kept out of the United States using copyright law.

Therefore, American manufacturers and copyright owners will have to exercise self-protection because copyright law provides only limited protection. Where only part of a product is copyrighted, such as in the instant case, changing the name of the goods or charging higher prices to foreign distributors may be the best course of action. In a situation where the products themselves are fully copyrighted, the only protection a copyright holder may have is to charge prices high enough at the time of the first sale to fully compensate herself against unauthorized imports. The ultimate answer to gray market goods may depend on a political compromise by Congress, although the desire to forge an acceptable solution does not appear to be widespread in the House or in the Senate.

Bobbs-Merrill first endorsed the doctrine of first sale, allowing the lawful purchaser of a copyrighted work to do as she wished with the copy, extinguishing all rights in the copy held by the copyright owner. Ninety years later the first sale doctrine has been reaffirmed by the Supreme Court, leaving the doctrine intact and stronger after the *Quality King* decision.

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278. Quality King Distribs., Inc. v. L'anza Research Int'l, Inc., 523 U.S. 135, 140 (1998) (emphasis added).