



NEWSLETTER

A quarterly update on intellectual property topics.

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Applicability of Copyright Law's First Sale Doctrine to Foreign-Made Goods Remains a Gray Area Following Supreme Court Deadlock

In December, copyright owners – particularly those that manufacture abroad products that bear copyrighted designs registered in the U.S. – achieved a victory of sorts before the Supreme Court. In *Costco Wholesale Corp. v. Omega, S.A.*, the question before the Court was: does the first sale doctrine apply to imported goods that are manufactured abroad and not intended for sale in the United States? The Court deadlocked 4-4, resulting in a procedural tie that leaves the Ninth Circuit's opinion in place.¹ The decision – or more appropriately, lack thereof – left the Ninth Circuit's holding in place, according to which the first sale doctrine does **not** apply. This means that copyright owners can currently assert copyright infringement claims against importers or U.S. sellers of such goods.

I. Background on Gray Market Goods

The *Costco* case involved what are commonly referred to as “gray market” goods.² Gray market goods are products meant for sale in foreign countries that are imported and sold in the U.S. without the consent of the U.S. brand owner. Such products are referred to as “gray” goods because they are the actual goods of the brand owner, in other words, not “black” or counterfeit, but they are not meant for sale in the U.S. Because the U.S. is a high-cost market, there is often an incentive for distributors to purchase goods in lower-cost markets (such as Asia, Latin America, or the Middle East) and resell those products into the U.S.

From the perspective of the brand owner, gray market goods are problematic because they result in a loss of control over the distribution of its products. Often goods manufactured for foreign markets will be designed differently than goods intended for the U.S. market, and may contain differences in quality, warranties, labeling, or instructions. In addition, the

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importation and sale of gray market goods can interfere with the sale of authorized goods and may contravene provisions in licensing and/or distribution agreements that define the territory of a particular licensee/distributor.

Retailers, on the other hand, view gray market goods as an opportunity to sell lawfully-produced goods to their consumers at lower prices. Because these goods are manufactured by the brand owner, their distribution generally will not implicate the same types of quality and safety concerns that arise in the case of counterfeit products.

II. Basic Protection Regime for Gray Market Goods

Issues with respect to gray market goods can arise under trademark, copyright, or patent law, but the protection regimes are somewhat different depending on the type of intellectual property at issue. This article focuses on protection under U.S. trademark and copyright law.

Where a good produced for a foreign market is different from the good produced for sale in the U.S., trademark law may provide the most effective means for stopping the sale of the gray goods. Under U.S. trademark law, if the authorized U.S. good and the gray market good are “materially different”, the U.S. trademark owner generally can stop the sale of the gray market good. The differences need not be very significant to be considered “material”, nor need there be differences in the physical attributes of the products themselves.

Under copyright law, the “first sale doctrine” often provides a defense in a gray market goods scenario. The “first sale doctrine”

1. *Costco Wholesale Corp. v. Omega, S.A.*, 562 U.S. ___ (2010).

2. Such goods are also commonly referred to as “parallel imports”.

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– which is codified in § 109(a) of the Copyright Act – provides that “the owner of a particular copy ... 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.”³ In other words, once a copy of a copyrighted work has been sold, the owner of that copy may generally resell or distribute that copy without infringing the copyright owner’s exclusive distribution right.

The question under copyright law, then, is what constitutes a copy “lawfully made under this title.” In *Quality King Distribs., Inc. v. Lanza Research Int’l, Inc.*, the Supreme Court held that the first sale doctrine provides a complete defense to a claim of copyright infringement against goods manufactured and first sold in the U.S. that are exported abroad and then re-imported into the U.S. for sale to consumers.⁴ According to the Supreme Court, such goods are “lawfully made” in the U.S., thus the first sale doctrine applies.

III. Are the Rules Different for Foreign-Manufactured Goods?

The question that the Court was tasked with answering in *Costco* was whether the first sale doctrine applies with the same force when the goods subject to a U.S. copyright are manufactured abroad. There, Costco purchased genuine Omega watches manufactured in Switzerland from an entity that acquired the watches outside the U.S. and imported them into the U.S. without Omega’s authorization. Costco ultimately sold the watches to consumers at prices that were 35% below the prices Omega typically charged in the U.S. The Omega watches, however, were engraved with a small globe design on the back, which was registered with the U.S. copyright office. Omega sued Costco for copyright infringement, and Costco claimed that its actions were lawful under the first sale doctrine.

While initially successful in the District Court, Costco’s argument was rejected by the Ninth Circuit. Following a line of pre-*Quality King* decisions, the Ninth Circuit held that a foreign-manufactured good does not qualify as “lawfully made” for purposes of § 109(a) of the Copyright Act.⁵ The Ninth Circuit determined that application of the first sale doctrine in such circumstances would be improper for two reasons: doing so would “impermissibly extend the Copyright Act extraterritorially, and would render § 602(a) of the Copyright Act meaningless.”⁶ The Ninth Circuit revisited its prior case law on the subject, and found those holdings were not inconsistent with the Supreme Court’s opinion in *Quality King*.

Although this issue has not been addressed much outside of the Ninth Circuit, the Supreme Court granted *certiorari* in April. Numerous *amicus curiae* briefs were filed by retail groups in support of Costco, and by foreign manufacturers supporting *Omega*. The U.S. government also filed an amicus brief, which largely agreed with the policy concerns enumerated by Costco and its *amici*. The government’s brief was authored by Justice Kagan, who was serving at the time as Solicitor General. Because she had authored one of the *amicus* briefs, Justice Kagan took no part in the consideration of the *Costco* case, thus leading to the 4-4 tie that resulted in the Ninth Circuit’s opinion being affirmed.

IV. Conclusion

Retailers and manufacturers should not make the mistake of believing that this issue is now firmly decided. While procedurally the Supreme Court’s opinion resulted in an affirmance of the Ninth Circuit’s opinion, it is not controlling precedent. Moreover, a factually similar case involving the importation and sale of foreign-produced textbooks – *Pearson Educ., Inc. v. Liu* – is currently pending before the Second Circuit. If that court comes to a different conclusion, it would create a circuit split that may result in further Supreme Court action. Given the position articulated by Justice Kagan in the *amicus* brief in the *Costco* case, it is possible that if this issue comes before the full Court the outcome will be different. Stay tuned.

– Andrew N. Downer

3. 17 U.S.C. § 109(a).

4. *Quality King Distribs., Inc. v. Lanza Research Int’l, Inc.*, 532 U.S. 135 (1998).

5. *Omega, S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 990 (9th Cir. 2008).

6. *Id.* at 986. Section 602(a) of the Copyright Act provides that “importation into the United States, without authority of the owner of copyright under this title, of copies ... of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies ... under section 106.” 17 U.S.C. 602(a).

FIRM UPDATE & ANNOUNCEMENTS

NEW ASSOCIATE

Jasmine R. Davis has joined the firm as an associate. **Jasmine** graduated *cum laude* this spring from the University of Illinois College of Law, and served as managing editor of the University of Illinois Journal of Law, Technology & Policy.

APPOINTMENTS

Phillip Barengolts has been elected to the Board of Directors of Lawyers for the Creative Arts.

Daniel Hwang has been re-appointed as the Legislative Liaison for the Chicago Bar Association, Young Lawyers Section, Intellectual Property Committee, and also serves as Vice-Chair for the Diversity Committee of the Young Lawyers Section.

Jonathan S. Jennings was appointed by John Marshall Law School as a panel member for a dissertation for Spring 2011.

Janet A. Marvel was selected to serve on the Editorial Board of the American Bar Association-Intellectual Property Law Section magazine, *Landslide*, a two-year position.

PRESENTATIONS

Thad Chaloehtiarana gave a presentation entitled “An Introduction to Intellectual Property Law in the United States” to the French-American Chamber of Commerce in Chicago, Illinois, on November 17, 2010.

Jonathan S. Jennings and **Ashly A. Iacullo** participated in a program on November 9, 2010, in Chicago, Illinois, entitled “Interested in a Career in Intellectual Property Law?” **Jonathan** and **Ashly**, along with Richard Beem of Beem Patent Law, answered questions on what it is like to practice IP law and the benefits of bar association membership. This event was sponsored by the American Bar Association’s Section of Intellectual Property Law.

Kristen S. Knecht moderated the Chicago Bar Association seminar entitled “Your Attack on the Affidavit” on December 10, 2010, in Chicago, Illinois.

Janet A. Marvel was a panelist at Martindale.com Connected’s Trade Dress webinar, entitled “Trademark Law: Trade Dress and other Important Issues,” on December 7, 2010.

J. Michael Monahan spoke at the November 16, 2010 meeting of the Chicago Bar Association’s Cyberlaw and Data Privacy Committee on the topic “Resales, Trolls and Violence - Ongoing Developments in Video Game Law.”

Alexis E. Payne will be giving a presentation at the American Conference Institute’s upcoming conference on “Green Marketing: Understanding the science behind ‘green’ and creating cost-effective and compliant marketing programs”. The conference will be held on May 24, 2011, in Chicago.

Robert W. Sacoff chaired Working Question Q214 on Trademark Dilution, and moderated and spoke on the Workshop Panel on “Non-Traditional Trademarks, Especially 3D Trademarks,” at the AIPPI 42nd World Intellectual Property Congress in Paris, October 3-6, 2010.

Joseph N. Welch II will be giving the Overview of 2010-2011 Federal Court and TTAB Decisions at the Practising Law Institute’s Advanced Seminar on Trademark Law 2011, in New York City, on May 2, 2011.

Uli Widmaier moderated “Trademark Triple Play – Winning Trademark Cases on Injunction, Summary Judgment and at Trial,” at the American Intellectual Property Law Association Annual Meeting, Washington, DC, on October 22, 2010. **Uli** was the featured speaker in a resource video on trademark functionality on December 7, 2010. The video appears in BNA’s new Intellectual Property Law Resource Center. The video can be viewed on our Website (<http://www.pattishall.com/pressreleases.aspx>). In April, 2011, **Uli** will give a presentation on “Recent Developments in US Trademark Law” and will conduct a one-day workshop on “US Trademark Law” at the 11th International Trademark Conference at OHIM, in Alicante, Spain.

PUBLICATIONS

Phillip Barengolts served as Chief Editor of the 2010 Edition of the Intellectual Property Law Association of Chicago Copyright Permissions Handbook, copies available through IPLAC.

Belinda J. Scrimenti and **Ian J. Block** authored a chapter supplement on “State Trademark and Unfair Competition Law Remedies,” for the American Bar Association/BNA book *Trademark Infringement Remedies* published in November 2010. **Belinda** originally authored the book chapter when first published in 2006 and has updated the supplement annually. The chapter provides a summary of state law intellectual property decisions and statutes available, apart from federal trademark remedies, and includes a comprehensive chart of all 50 states’ trademark statutes’ remedy provisions.

HONORS

Thad Chaloehtiarana was recognized as one of the “40 Illinois Attorneys Under Forty to Watch” for 2010 by the Law Bulletin Publishing Company, publishers of *Chicago Lawyer* and the *Chicago Daily Law Bulletin*.

The *2010 Client’s Guide of Chambers USA* recognized **Pattishall, McAuliffe, Newbury, Hilliard & Geraldson LLP** as an IP boutique “noted for its ability in trademark, copyright and unfair competition law matters. Market commentators particularly praise the team’s prowess in trademark matters ... represents blue-chip clients, many of which are household names.” **David Hilliard** was noted as a key individual of the firm as “a great statesman with considerable authority.”

Joseph N. Welch II will continue to serve on the influential American Bar Association Intellectual Property Law section’s Amicus Committee for the 2010-2011 year.

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FIRM UPDATE & ANNOUNCEMENTS

AWARDS

Illinois Super Lawyer Magazine has recognized **David C. Hilliard** on its 2011 Illinois “Super Lawyers Top 100” list. The publication also selected **Brett A. August, Bradley L. Cohn, Raymond I. Geraldson, Jr., David C. Hilliard, Janet A. Marvel, Robert W. Sacoff** and **Joseph N. Welch II** as Illinois “Super Lawyers” in Intellectual Property law and/or Intellectual Property Litigation for 2011. **Phillip Barengolts** was selected as an Illinois “Rising Star” for 2011.

NOTEWORTHY

Brett A. August, in his capacity as Chair of the Chicago-Paris Sister Cities Committee, attended on September 9 the opening in Paris of the photographic exhibit “Made in Chicago”, which resulted from Brett’s initiative.

Two of **Phillip Barengolts’** blog posts were featured in the online professional networking site, Legal OnRamp. The first discussion was regarding a 9th Circuit case restricting Hallmark’s ability to use Paris Hilton’s image in a greeting card. The second was a summary on the FTC’s recent changes to their Green Guides (Environmental Advertising Claims). Each post can be found on our blog (<http://blog.pattishall.com/>). LegalOnRamp noted each of Phil’s discussions as an “excellent paper.”

David C. Hilliard was featured in the January edition of the *Illinois Super Lawyers* magazine in an article entitled “How David C. Hilliard Got the Jacksonville Jaguars to Change Their Logo.”

Pattishall, McAuliffe, Newbury, Hilliard & Geraldson LLP is proud to continue its support of Lawyers for the Creative Arts and again sponsored the annual Lawyers for the Creative Arts Benefit Luncheon, on October 28, 2010, held at The Palmer House Hilton, Chicago. **Pattishall McAuliffe** was also honored to again sponsor the Promotion Marketing Association’s annual Marketing Law Conference, held this year at the Downtown Chicago Marriott, on November 18-19 2010.

Belinda J. Scrimenti served as the Co-Chair of the Women’s Bar Association of Illinois (WBAI) Joint Professional Dinner, held in November 2010. The dinner, which broke attendance records for the annual event, honored four women with its “Women with Vision” Awards. The recipients, in the fields of advocacy, law, academia, and medicine, included Dawn Geras, the founder of the Save Abandoned Babies Foundation, Vice President of the National Safe Haven Alliance, and person responsible for adoption of the Illinois Safe Haven Law. The law (and similar ones later adopted in other states) allows women to leave an unharmed newborn with staff at a hospital, police or fire station, without fear of prosecution.

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