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First Sale Doctrine After Costco v. Omega

Protecting IP Rights in the Gray Market and in Electronic Distribution

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Today's faculty features:

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First Sale Doctrine

Recent Developments in Copyright Law

August 18, 2011

Presented By
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- Lynn M. Humphreys

- What is the First Sale Doctrine?

- Trademark Law

- Likelihood of Confusion

- Copyright Law

- Section 109(a) of the Copyright Act
 - Is a transaction a “sale” or a “license”?
 - *Vernor v. Autodesk, Inc.*
 - *MDY Industries, LLC v. Blizzard Entertainment, Inc.*
 - *UMG Recordings, Inc. v. Troy Augusto*

- David Donahue

- Special Considerations for Foreign-Manufactured Goods

- Exceptions to the First Sale Doctrine Concerning Gray Goods

- Trademark Exception -- the "material difference" standard
 - Copyright Exception -- copies not "lawfully made under this title" under Section 109
 - *Omega SA v. Costco Wholesale Corp.*
 - *John Wiley & Sons, Inc. v. Kirtsaeng*
 - Copyright Misuse Concerns

- What is the First Sale Doctrine?

- Trademark Law

- *Au-Tomotive Gold, Inc. v. Volkswagen of America, Inc.* 603 F.3d 1133 (9th Cir. 2010)

- Earlier appeal – 457 F.3d 1062 (9th Cir. 2006)
 - Auto Gold made car accessories using replicas of trademarks, including VW
 - Ninth Circuit rejected defense of “aesthetic functionality”
 - This case – “marquee license plates”
 - Auto Gold used actual VW badges purchased on the open market
 - *Held*: First Sale Doctrine is not a defense.
 - Disclaimer on package does not prevent post-purchase confusion
 - Free-rider problem – “If the producer purchases such a trademarked product and uses that product to create post-purchase confusion as to the source of a new product, the producer is free-riding even though it has paid for the trademarked product.”
 - Quality of marquee plates is irrelevant
 - Competition in marquee plates market does not excuse infringement

- What is the First Sale Doctrine?

- Copyright Law

- 17 U.S.C. § 106(3) – The Distribution Right

- Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights . . . to distribute copies . . . of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending.

- 17 U.S.C. § 109(a) – The “First Sale Doctrine”

- Notwithstanding the provisions of section 106(3), 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

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

- “The purchaser of a book, once sold by authority of the owner of the copyright, may sell it again, although he could not publish a new edition of it.” The publisher’s right to “vend” copies of its work did not encompass the right to control the terms of subsequent sales.

- What is the First Sale Doctrine?

- Copyright Law

- Is a transaction a “sale” or “license”?

- *Vernor v. Autodesk, Inc.*, 2009 U.S. Dist. LEXIS 90906 (W.D. Wash. 2009); vacated and remanded 621 F.3d 1102 (9th Cir. 2010)

- Does the first sale doctrine shield Vernor’s sales of “used” copies of software, notwithstanding contractual limitations on resale in Autodesk’s EULA?

- District Court said “yes.”

- Ninth Circuit said “no.”

- What is the First Sale Doctrine?

- Copyright Law

- Is a transaction a “sale” or “license”?

- *MDY Industries, LLC v. Blizzard Entertainment, Inc. et al.*, 616 F. Supp. 2d 958 (D. Ariz. 2009), *rev'd and remanded*, 629 F.3d 928 (9th Cir. 2010).

- Where WOW computer game EULA prohibits the use of “bots,” is a defendant who makes an “autopilot” program vicariously and contributorily liable for copyright infringement based on game players’ copying of the game program into computer system outside the scope of the limited license.

- District Court said “yes.”

- Ninth Circuit said “no.”

- What is the First Sale Doctrine?

- Copyright Law

- Is a transaction a “sale” or “license”?

- *UMG Recordings, Inc. v. Troy Augusto et al.*, 558 F. Supp. 2d 1055 (C.D. Cal. 2008), aff’d, 628 F.3d 1175 (9th Cir. 2011)

- Do CD labels “*PROMOTIONAL USE ONLY -- NOT FOR SALE*” constitute “label licenses” that are binding on original recipients?

- District Court said “no.”

- Ninth Circuit agreed.

- What is the First Sale Doctrine?
 - Copyright Law
 - The interplay between the First Sale Doctrine and copyright misuse
 - See, e.g., *Adobe Systems Inc. v. Norwood*, 2011 WL 2650945 (N.D.Cal., July 6, 2011).

First Sale Doctrine

Recent Developments in Copyright Law

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First Sale Doctrine: Special Considerations for Foreign-Manufactured Goods

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August 18, 2011

Parallel Imports/Gray Goods – Background

What are “Gray Goods?”

- Genuine products purchased overseas and then sold in the U.S.

Why do rights owners care about them?

- Price control
- Quality control
- Interference with exclusive distribution agreements

What about the First Sale Doctrine?

- Exceptions under Trademark & Copyright

Trademark Law Regarding Gray Goods

- “As a general rule, the Lanham Act does not impose liability for the sale of genuine goods bearing a true mark even though the sale is not authorized by the mark owner because such a sale does not inherently cause confusion or dilution.”

but...

- “[G]oods are not genuine if they do not conform to the trademark holder's quality control standards or if they differ materially from the product authorized by the trademark holder for sale.”

- *Zino Davidoff SA v. CVS Corp.*, 571 F.3d 238 (2d Cir. 2009)

Trademark Law – Material Difference Standard

“In the context of gray-market goods ... we apply a low threshold of materiality, requiring no more than a slight difference which consumers would likely deem relevant when considering a purchase of the product.”

- Zino Davidoff SA v. CVS Corp.

Examples of Material Differences

- *Different ingredients*
- *Different shape, size or appearance of products*
- *Obliterated serial numbers or product codes*
- *Different packaging*
- *Different labeling (content, appearance, language)*
- *Different instructions*
- *Different warranties or services*
- *Different quality control standards*

Trademark Law – Limitations

- *No remedy for identical goods*
- *Federal Circuit’s “All or Substantially All” Requirement*
- *Ninth Circuit’s “Corporate Affiliation” Rule*

Copyright Law Regarding Gray Goods

Section 602(a)(1):

Importation into the United States, without the 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, actionable under section 501.

Gray Goods – Copyright vs. Trademark

- **No Material Difference Requirement**
- **No Likelihood of Confusion Requirement**
- **Works vs. Products – Must be Copyrightable Matter**

Copyright Law Regarding Gray Goods

Tension between Sections 109 & 602(a) of the Copyright Act:

Section 602(a)(1):

Importation into the United States, without the 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, actionable under section 501.

Section 109:

Notwithstanding the provisions of section 106(3), the owner of a particular 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....

Recent Cases Concerning Sections 109 & 602

Ninth Circuit View:

- § 109(a) does not apply to items manufactured outside of the United States unless they were previously imported and sold in the United States with the copyright holder's permission.

but

- § 109(a) can apply to copies not made in the United States so long as an authorized first sale occurs here.

Omega S.A. v. Costco Wholesale Corp., 541 F.3d 982 (9th Cir. 2008),
aff'd by an evenly divided court, 131 S. Ct. 565 (2010)

Recent Cases Concerning Sections 109 & 602

Second Circuit View (Hot Off the Press):

[T]he phrase “lawfully made under this Title” in § 109(a) refers specifically and exclusively to works that are made in territories in which the [U.S.] Copyright Act is law, and not to foreign-manufactured works.

John Wiley & Sons, Inc. v. Kirtsaeng, ___ F.3d ___ (2d Cir. August 15, 2011)

Recent Cases Concerning Sections 109 & 602

Heading Back to the Supreme Court?

- The “Rule of Four”
- Circuit split?

Slight difference between Second & Ninth Circuit Views:

While the Ninth Circuit in *Omega* held that §109(a) also applies to foreign-produced works sold in the United States with the permission of the copyright holder, that holding relied on Ninth Circuit precedents not adopted by other courts of appeals. Accordingly, while perhaps a close call, we think that, in light of its necessary interplay with § 602(a)(1), § 109(a) is best interpreted as applying only to works manufactured domestically.

-John Wiley & Sons, Inc. v. Kirtsaeng

Recent Cases Concerning Sections 109 & 602

Heading Back to the Supreme Court?

- The “Rule of Four”
- Circuit split?
- Judge Murtha’s dissent
- Handicapping Justice Kagan’s vote

Copyright Misuse Concerns for Gray Goods

Copyright misuse doctrine “forbids the use of the [copyright] to secure an exclusive right or limited monopoly not granted by the [Copyright] Office and which is contrary to public policy to grant.”

- *Altera Corp. v. Clear Logic, Inc.*, 424 F.3d 1079, 1090 (9th Cir. 2005)

Examples of Misuse:

- Antitrust/Improper “tying” arrangements
- Overly restrictive copyright licenses
- Conditioning access on suppression of free speech

Copyright Misuse Defense – Omega v. Costco



Omega Globe

Copyright Misuse Defense – Omega v. Costco

Omega included the Globe Design on its watches to:

- “represent Omega’s worldwide presence and prestige”
- “communicat[e] artistic value and luxury to customers”
- “protect against counterfeiting, because it requires a high manufacturing quality to engrave”
- “prevent unauthorized dealership”
- “have a better control on ... distribution”

Thank you.

FROSS ZELNICK LEHRMAN & ZISSU, P.C.