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*presents*

# **First Sale Doctrine in Copyrights and Trademarks**

## **Strategies to Maintain IP Rights Throughout the Supply Chain**

**A Live 90-Minute Teleconference/Webinar with Interactive Q&A**

**Today's panel features:**

Lynn M. Humphreys, Of Counsel, **Morrison & Foerster LLP**, San Francisco  
Andrew P. Bridges, Partner, **Winston & Strawn**, San Francisco

**Wednesday, September 1, 2010**

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# First Sale Doctrine

Recent Developments in Trademark and Copyright Law

**September 1, 2010**

**Presented By**  
**Lynn M. Humphreys**  
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- What is the First Sale Doctrine?
  - Trademark Law
    - Likelihood of Confusion
      - *Au-Tomotive Gold, Inc. v. Volkswagen of America, Inc.*, 603 F.3d 1133 (9<sup>th</sup> Cir. 2010)
  - Copyright Law
    - Section 109(a) of the Copyright Act
    - Does place of manufacture matter?
      - *Omega SA v. Costco Wholesale Corp.*, 541 F.3d 982 (9<sup>th</sup> Cir. 2008)
      - *Pearson Education, Inc. v. Liu*, 656 F.Supp.2d 407 (S.D.N.Y. 2009)
    - Is a transaction a “sale” or a “license”?
      - *Vernor v. Autodesk, Inc.*, 2009 U.S. Dist. LEXIS 90906; 93 U.S.P.Q.2D (BNA) 1336 (W.D. Wash. 2009)
      - *UMG Recordings, Inc. v. Troy Augusto et al.*, 558 F. Supp. 2d 1055 (C.D. Cal. 2008)
      - *MDY Industries, LLC v. Blizzard Entertainment, Inc. et al.*, 616 F. Supp. 2d 958 (D. Ariz. 2009)
- First Sale Doctrine Theories and Practical Tips (Andrew Bridges)

- What is the First Sale Doctrine?

- Trademark Law

- Introduced by Supreme Court in *Prestonettes, Inc. v. Coty*, 264 U.S. 359 (1924)
      - “A trademark only gives the right to prohibit the use of it so far as to protect the owner’s good will against the sale of another’s products as his.”
    - Applied to distribution channels in *Sebastian Int’l, Inc. v. Long’s Drugs Stores Corp.*, 53 F.3d 1073 (9<sup>th</sup> Cir. 1995)
      - “[T]he right of a producer to control distribution of its trademarked product does not extend beyond the first sale of the product.”
      - The rule “preserves an area of competition by limiting the producer’s power to control the resale of its product”; ensures that “consumer gets exactly what the consumer bargains for, the genuine product of the particular producer.”
    - Post-purchase confusion matters
      - *Karl Storz Endoscopy-America, Inc. v. Surgical Tech, Inc.*, 285 F.3d 848 (9th Cir. 2002)
      - *Rolex Watch, U.S.A., Inc. v. Michel Co.*, 179 F.3d 704 (9<sup>th</sup> Cir. 1999)

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- 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.

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- What is the First Sale Doctrine?

- Copyright Law

- Does it matter where works are manufactured?
      - 17 U.S.C. § 602(a): 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...
    - *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9<sup>th</sup> Cir. 2008)
      - “Gray market” watches made by Omega in Switzerland and sold to authorized distributors overseas, imported into U.S. by unknown third parties, eventually sold to Costco who sold to consumers in California
      - *Held*: “*Quality King* did not invalidate our general rule that § 109(a) can provide a defense against § § 106(3) and 602(a) claims only insofar as the claims involve domestically made copies of US-copyrighted works.”
      - Exception to rule does not apply because there had been no sale in the United States by the copyright owner or with its authority.
    - Certiorari granted by *Costco Wholesale Corp. v. Omega*, 2010 U.S. LEXIS 3424 (U.S. Apr. 19, 2010)

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- Copyright Law

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    - *Pearson Education, Inc. v. Liu*, 656 F.Supp.2d 407 (S.D.N.Y. 2009)
      - Publisher sued over defendants' importation and sale of "foreign editions" of books
      - *Held*: "[D]ubitate, that the first-sale doctrine does not apply to copies of a copyrighted work manufactured abroad."
    - Appeal pending before the Second Circuit

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- 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)
        - 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.”
      - *UMG Recordings, Inc. v. Troy Augusto et al.*, 558 F. Supp. 2d 1055 (C.D. Cal. 2008)
        - Do CD labels “PROMOTIONAL USE ONLY -- NOT FOR SALE” constitute “label licenses” that are binding on original recipients? District Court said “no.”
      - *MDY Industries, LLC v. Blizzard Entertainment, Inc. et al.*, 616 F. Supp. 2d 958 (D. Ariz. 2009)
        - 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.”
    - Appeals to Ninth Circuit argued on June 7, 2010

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# First Sale Doctrine: Theories & Practical Considerations

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# The Big Picture

- Understand that the field is evolving and will keep evolving.
- Understand the differences between copyright and trademark law.
- Recognize the issues that apply uniquely to international trade.
- Understand the distinction between tangible and intangible goods.
- Understand the relative importance of, and tension among, various doctrines that may intersect with the first sale doctrine.
- Beware of the tension between real world experiences/expectations and technical legal fictions.

# Differences Between Copyright and Trademark Law

- Copyright and trademark law have different foundations, structures, and applications.
- Copyright: protects original creative expression; is exclusively federal; and is statutory, technical. Confers limited monopoly. Express goal is to promote the progress of science and the useful arts.
- Trademark: protects commercial identifiers; is primarily state-law or common-law based; rests upon statutes and common law; and is practical. Confers contextual, not absolute, protection. Goals are consumer protection and avoidance of unfair competition.

# International Issues

- Global markets may be unified or segmented.
- Markets have distinct cultural/intellectual, economic, regulatory, political contexts.
- Different international regimes govern copyright and trademark law: no real trademark analogue to the Berne Convention.
- Laws are “national” but Berne Convention extends international protection in copyright.

# Tangible and Intangible Goods and Services

- Application of first sale doctrine to digital goods?
  - Scope of first sale doctrine coterminous with scope of section 106(3) rights?
- Distinction between physical products and rules governing physical products (*i.e.* restrictions on use)
  - Property interests versus contract interests
- Compare sale with lease or license
  - Importance of legal characterizations, expectations

# Doctrines and Values Intersecting the First Sale Doctrine

- Freedom of contract
- Freedom of dominion over personal property
- First amendment
- Antitrust
- Consumer protection
- Other fundamental values (13th Amendment)
- Paracopyright statutes (especially anticircumvention provisions of the DMCA)

# Tension Between Theories and the Real World Expectations

- Does the first sale doctrine require a sale?
- Who controls (or should control) what one does with one's personal property?
  - Is a software program property? Does one own the music in one's iTunes account? Whose property is the cloud? Can I sell my iPod without deleting all the music? Can I sell my car without deleting all the music?
- Who controls what one does in the privacy of one's home?
- Does a global brand lack geographical boundaries?
- Are terms of use real or just for show?
- Does anyone read terms of use or really assent to them?
- Is breach of contract a criminal offense?

# Practical Considerations

- Harmonize the legal position with the real-world expectations
- Employ reasonable self-help methods if available
- Disclose, disclose, disclose
- Get meaningful, documented assent to restrictions or, if that's unavailable, be prepared to lose power
- Beware of PR claims that contradict legal claims
- Beware of antitrust implications of downstream control
- Prepare credible justifications for restrictions that explain public benefits