PRYOR CASHMAN LLP

LEGAL UPDATE

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THE SUPREME COURT'S LATEST RULING ON COPYRIGHT LAW FIRST-SALE DOCTRINE

THE DETAILS

In its decision in *Kirtsaeng v. John Wiley & Sons Inc.* this week, the Supreme Court held that the "first sale" doctrine set forth in Section 109(a) of the Copyright Act applies to copies of copyrighted works lawfully made abroad. The case came out of the Second Circuit, which affirmed the district court's ruling that the "first sale" doctrine "does not apply to goods manufactured abroad."

The first-sale doctrine limits certain exclusive rights held by copyright owners and permits a secondary market for the re-sale and distribution of copyrighted goods by providing that "the owner of a particular copy or phonorecord lawfully made under this title" may "sell or otherwise dispose of the possession of that copy or phonorecord," including books, works of art, musical recordings and other creative works.

At issue in the case was whether the words "lawfully made under this title" place a geographical restriction on the works to which the "first sale" doctrine applies, i.e., where the US Copyright Act is applicable, or whether the non-geographic meaning, lawfully made in accordance with the terms of the Copyright Act, is what legislators had in mind. The Court adopted the latter construction, referring to the common law origin of the doctrine, statutory construction, constitutional copyright objectives and practical issues in the marketplace that would arise if a geographical interpretation were embraced.

THE IMPACT

The decision will likely negatively impact book publishers and benefit used book dealers and importers of foreign editions of copyrighted works. Justice Breyer notes in his opinion, however, that "the Constitution's language nowhere suggests that its limited exclusive right should include a right to divide markets or a concomitant right to charge different purchasers different prices for the same book," domestically and in international markets.

As the Court further notes, "whether copyright owners should, or should not, have more than ordinary commercial power to divide international markets is a matter for Congress to decide."

WHAT'S NEXT?

We anticipate that this book is far from over and that in the next chapter, lobbyists for book publishers (and other creative works) will be pushing Congress to amend the Copyright Act to protect their ability "to segment international markets by barring the importation of foreign-made copies into the United States" (quoting Justice Ginsburg's dissent).

IMPLICATIONS FOR PATENT LAW

Additionally, while there's no discussion in the case about the parallel doctrine in patent law, the following sections of the Court's opinion, could apply equally to patent issues: "The 'first sale' doctrine is a common-law doctrine with an impeccable historic pedigree. In the early 17th century Lord Coke explained the common law's refusal to permit restraints on the alienation of [property]"; "… Coke emphasizes the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods. American law too has generally thought that competition, including freedom to resell, can work to the advantage of the consumer"; "[t]he 'first sale' doctrine also frees courts from the administrative burden of trying to enforce restrictions upon difficult-to-trace, readily movable

goods. And it avoids the selective enforcement inherent in any such effort"; and "[t]he common-law doctrine makes no geographical distinctions … And we can find no language, context, purpose, or history that would rebut a 'straightforward application' of that doctrine here."

Although the *Kirtsaeng* decision is technically limited to copyright issues, it is a good indicator that the Court would likely reverse the Federal Circuit's *Jazz Photo* decision if it got a chance to do so, although there is certainly no guarantee that it will take that opportunity in the *Ninestar v. International Trade Commission* case for which Ninestar is currently seeking review by the Court.

ARE YOU AFFECTED?

Contact your Pryor Cashman attorney for more information, and to discuss the impact this may have on your business.

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The foregoing is merely a discussion of the Supreme Court's latest ruling on copyright law first-sale doctrine. If you would like to learn more about this topic or how Pryor Cashman LLP can serve your legal needs, please contact Robert J. deBrauwere at rdebrauwere@pryorcashman.com or James R. Klaiber at jklaiber@pryorcashman.com.

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Robert J. deBrauwere is co-chair of the firm's Digital Media Practice Group and is experienced in the areas of digital media, social media compliance, intellectual property, trademarks, unfair competition, advertising, copyrights, entertainment, publishing, pre-publication counseling, video gaming, licensing and promotions (including sweepstakes, contests and giveaways). He regularly lectures in the areas of digital media, intellectual property law, defamation and publishing law, and is frequently called upon by the press to comment upon intellectual property, digital media and other matters.

Mr. deBrauwere is a 1993 *cum laude* graduate of Benjamin N. Cardozo School of Law, where he served as Senior Managing Editor of the *Cardozo Arts & Entertainment Law Journal*. Before attending law school, Mr. deBrauwere was a senior logistics analyst and did computer programming for Unisys Corporation. He also worked in the areas of concert and theater sound and lighting production.

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Jim Klaiber is a Partner in Pryor Cashman's Intellectual Property Group, He is experienced in all aspects of patent law, including transactions, litigation and client counseling. His experience is concentrated in electrical and mechanical technologies with particular emphasis on telecommunications, high technology, e-commerce, electronic banking, and healthcare. Jim represents a wide range of clients, from startups to multinationals, and has held a lead role in many large patent litigation cases, trials, and IP-related transactions.

Jim has litigated a variety of patent cases before the U.S. District Courts, the International Trade Commission and the U.S. Court of Appeals for the Federal Circuit, including cases involving:

- Wireless and optical fiber telecommunications
- Electronic securities exchanges and financial transaction software
- Semiconductor design and manufacture
- Medical electrodes and prosthetic devices
- Plasma screen and cathode ray tube displays

Recently, Jim was sole Intellectual Property counsel for the bondholders in the Nortel bankruptcy proceedings, which resulted in the largest patent sale in history.

Prior to joining Pryor Cashman, Jim was a member of the Intellectual Property Group at Milbank, Tweed, Hadley & McCloy, which he co-founded. Before that, Jim gained extensive research and development experience as a member of the Technical Staff at Bell Laboratories' Murray Hill and Whippany labs. He was the principal investigator for numerous high-technology telecommunications projects involving fiber optic undersea transmission media and other technologies.

Jim earned his J.D. from Fordham University School of Law while working at Bell Labs, and holds undergraduate and graduate degrees in mechanical engineering from the Massachusetts Institute of Technology, the University of Michigan, and U.C. Berkeley.

Jim is Chapter Chair of the MIT Enterprise Forum of New York, one of the nation's leading technology entrepreneurship organizations. He is a member of the Scientific Advisory Board of the NSF's sensor research program administered by the University of Maine, and also the Chair of the Continuing Legal Education Subcommittee of the New York City Bar Association's Patent Committee.