

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

PEARSON EDUCATION, INC.,

Plaintiffs,

- against -

GANGHUA LIU, ET AL.,

Defendants.

1:08-cv-06152-RJH

MEMORANDUM OPINION
AND ORDER

Richard J. Holwell, District Judge:

Through this action, two U.S. copyright holders seek to prevent the importation and resale of copies of their works that have been lawfully manufactured and purchased outside the United States, a form of arbitrage sometimes referred to as “parallel importation” through the “grey market.” Defendants have moved to dismiss the complaint on the ground that their activities are protected by the first-sale doctrine, the rule that the purchaser of a physical copy of a copyrighted work may give or sell that copy to someone else without infringing the copyright owner’s exclusive distribution rights. Although the question of whether the first-sale doctrine applies to copies of a copyright work that have been lawfully manufactured abroad is an open question in this circuit, the Supreme Court has said, in unanimous dicta, that the doctrine does not apply to copies of a copyrighted work manufactured abroad. Because the case for a contrary interpretation is not so strong as to justify disregarding the Supreme Court’s considered views, defendants’ motion to dismiss will be denied.

I.

As the case is before the Court on defendants' motion to dismiss, the Court takes the allegations of the complaint as true and draws all reasonable inferences in plaintiffs' favor. *E.g., Rescuecom Corp. v. Google Inc.*, 562 F.3d 123, 124 (2d Cir. 2009).

Plaintiffs, Pearson Education, Inc. and John Wiley & Sons, Inc., publish educational books throughout the world. (Compl. ¶¶ 10, 14-15.) As part of their regular business, plaintiffs require authors to assign them copyrights for works they publish, or to grant to them the exclusive right to reproduce and distribute their works in the United States. (*Id.* ¶ 11.) Plaintiffs also own a number of well-known trademarks, which they use to differentiate their products in the marketplace. (*Id.* ¶¶ 17-19.)

The textbooks plaintiffs publish are customized for the geographical markets in which they are sold. Editions authorized for sale in the United States are of the highest quality, and are printed with strong, hard-cover bindings with glossy protective coatings. (*Id.* ¶ 14.) Sometimes, plaintiffs include academic supplements, such as CD-ROMs or passwords to restricted websites, with these books. (*Id.*) Editions authorized for sale outside of the United States, by contrast, have thinner paper, different bindings, different cover and jacket designs, fewer ink colors, and lower-quality photographs and graphics. (*Id.* ¶ 15.) These foreign editions are not bundled with academic supplements such as CD-ROMs. (*Id.*) The cover of a foreign edition may include a legend indicating that the book is a "Low Price Edition" or only authorized for sale in a particular country or geographic region. (*Id.*) The foreign editions are uniformly manufactured outside the United States. (*Id.*)

Defendants can reasonably be described as small-time internet entrepreneurs. They purchase plaintiffs' low-priced foreign editions abroad, import them into the United

States, then sell them to U.S. customers using websites maintained by third parties. (*Id.* ¶¶ 6-9, 20.) Plaintiffs allege that “Defendants have without permission purchased Foreign Editions of plaintiffs’ books manufactured outside of the United States and resold them to purchasers in the United States through the Internet using the username ‘JMBooks’ at . . . websites including, but not limited to, Valorebooks.com.” (*Id.* ¶ 20.)¹ The complaint does not allege that any of the copies sold by defendants are piratical (i.e., unauthorized or counterfeit), manufactured without plaintiffs’ consent, or not owned by defendants. Plaintiffs demand preliminary and permanent injunctions enjoining defendants from selling foreign editions of their copyrighted books in the United States, damages, and attorneys’ fees.

Defendants have moved to dismiss the complaint. They principally contend that their importation and sale of plaintiffs’ foreign editions does not infringe plaintiffs’ copyrights, because their actions are protected by the first-sale doctrine codified in § 109 of the Copyright Act, 17 U.S.C. § 109 (2006). Defendants further contend that because plaintiffs’ trademark claims are derivative of their copyright claims, those claims fail as a matter of law.

II.

Defendants’ motion raises the question whether the importation and sale of copies of a copyrighted work that were lawfully manufactured abroad violates a U.S. copyright owner’s exclusive rights. Three sections of the Copyright Act are relevant to that question: (i) § 106(3), the Act’s rights-granting provision; (ii) § 109(a), the Act’s

¹ The referenced website describes itself as “the student’s #1 marketplace to buy cheap textbooks for college.” Valorebooks homepage, <http://www.valorebooks.com/> (last visited Sep. 19, 2009).

codification of the first-sale doctrine; and (iii) § 602(a), which is entitled “Infringing importation of copies or phonorecords.”

A. Section 106(3)

Section 106(3) grants the owner of a U.S. copyright, “[s]ubject to sections 107 through 122,” 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” In contrast to the core copyright rights of reproduction and adaptation, the distribution right is a right to control *use*. See John M. Kernochan, *The Distribution Right in the United States of America: Review and Reflections*, 42 Vand. L. Rev. 1407, 1416-17 (1989). It primarily protects a copyright owner’s ability to control the terms on which her work enters the market by providing a remedy against persons who distribute copies of her work without permission. See 2 Nelville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 8.12[A], at 8-154 (2008) (“Nimmer”). Thus, although the language of § 106(3) seemingly gives a copyright owner unlimited control over commercial transactions involving copies of her work, it has long been recognized that the principal effect of the distribution right is to give a copyright holder “a right to control the work’s *publication*.” *Id.* § 8.11[A], at 8-148 (emphasis added).

B. Section 109(a)

This limitation on scope of the distribution right, known as the first-sale doctrine, is codified in § 109(a) of the Act. The doctrine originates in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908), a case decided under the Copyright Act of 1891. There, a publisher attached a notice to the copyright page of a book which provided that the book could not be sold for less than a dollar. *Id.* at 341. Acting in defiance of this price control,

defendants bought copies of the book at wholesale and resold them for eighty-nine cents. *Id.* at 342. The publisher sued, arguing that defendants' "unauthorized" (albeit pro-competitive) sales of the book violated its exclusive right to "vend" under § 1(a) of the 1891 Act. *Id.* at 343.

The Supreme Court rejected the publisher's argument, holding that "[t]he 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." *Id.* at 350. As the Court explained, a copyright owner who purposefully transfers ownership of a copy of her work chooses the terms on which the work enters the market. *See Bobbs-Merrill*, 210 U.S. at 351; *see also Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir. 1963). The purpose of the distribution right thus having been satisfied, "the policy favoring a copyright monopoly for authors gives way to the policy opposing restraints of trade and restraints on alienation." 2 Nimmer § 8.12[A], at 8-155. Accordingly, the Court ruled that the publisher's right to "vend" copies of its work did not encompass the right to control the terms of subsequent sales. *Bobbs-Merrill*, 210 U.S. at 351.

The outcome reached by the Court can also be justified by considering the prohibitive transaction costs of affording a copyright holder an unlimited right to control the terms under which her work is sold. "[S]uccessive possessors of the copy or phonorecord should not be put to the trouble of having to negotiate with the owner each time they contemplate a further sale or other transfer of the copy or phonorecord." 2 Paul Goldstein, *Goldstein on Copyright* § 7.6.1, at 7:131 (2005). If a copyright owner wishes to control future sales, she can lease or rent copies of her work rather than selling them,

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