

## Trademark and Copyright Litigation Update

2/15/2011

**Supreme Court Evenly Split on Copyright First-Sale Case:** On December 13, 2010, an equally-divided Supreme Court issued its decision in *Costco v. Omega*, 131 S. Ct. 565 (2010), thereby affirming the Ninth Circuit's decision in *U.S. Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008), that the copyright first-sale doctrine does not apply to imported goods manufactured abroad. Justice Kagan did not participate in the decision.

Under the first-sale doctrine of the Copyright Act, 17 U.S.C. §109(a), a copyright holder has exclusive control over an item's first sale. After the first sale, any subsequent owner may resell the item without interference. Costco purchased Swiss-made Omega watches manufactured and sold to authorized distributors abroad. Following their importation into the U.S., they were resold at prices that undercut Omega's U.S. dealers. The question was whether Omega could rely on the first-sale doctrine to prevent resale in the United States. As we wrote in our June 2010 edition, the Ninth Circuit held it could because the Copyright Act does not recognize foreign sale of an item manufactured abroad. It concluded that for purposes of the Copyright Act, an item's first sale in the United States is its first sale. The Supreme Court affirmed, but no precedent was set because the Court was evenly split. At least in the Ninth Circuit, however, the decision strengthens copyright owners' control over sales of their products and undermines U.S. resellers' ability to sell imported goods bearing logos or designs protected in the U.S.

**Second Circuit Expands Personal Jurisdiction in Internet Commerce:** Under the traditional minimum contacts analysis, a commercial website alone or a single shipment into a state, especially if arranged by the plaintiff, is ordinarily insufficient to give courts in that state personal jurisdiction over the defendant. See *Toys "R" Us, Inc. v. Step Two, S.A.*, 318 F.3d 446, 454 (3d Cir. 2003) ("[T]he mere operation of a commercially interactive web site should not subject the operator to jurisdiction anywhere in the world."); *Edberg v. Neogen Corp.*, 17 F. Supp. 2d 104, 112 (D. Conn. 1998) (holding that sale initiated by plaintiff did not support jurisdiction because "under such circumstances a defendant cannot be said to have purposefully availed itself of the forum"). This has created a substantial burden for trademark owners chasing internet distributors of counterfeit goods.

The Second Circuit recently took steps to alleviate that burden. In *Chloe v. Queen Bee of Beverly Hills, LLC*, 616 F.3d 158 (2d Cir. 2010), a maker of designer handbags sued a distributor of counterfeit merchandise based in Beverly Hills for trademark infringement after a counterfeit bag was shipped to Chloé's lawyers in New York. The Southern District of New York held that a commercial web site, together with a single arranged shipment, was insufficient to give New York jurisdiction over the defendants under New York's long-arm statute. The Second Circuit reversed, concluding that, "the single act of an out-of-state defendant employee shipping an item into New York," combined with the operation of a commercial web site and sales of unrelated goods to consumers in New York, "gives rise to personal jurisdiction over the employee." *Id.* at 165. The court referred to its ruling as an "update to our jurisprudence on personal jurisdiction in the age of internet commerce," *id.* at 165, and held that the "single act of shipping a counterfeit Chloé bag might well be sufficient, *by itself*, to subject [the defendant] to the jurisdiction of a New York court." *Id.* at 170 (emphasis added).

Although the decision interpreted only New York's long-arm statute, C.P.L.R. § 302, its reasoning applies more generally because the court found that "assertion of personal jurisdiction over [the defendant] comports with due process for the same reasons that it satisfies New York's long-arm statute." *Id.* at 171.

**Ninth Circuit Confirms that the Use of Artistic Works Can Constitute a Breach of an Implied Contract Even Absent Copyright Infringement:** In *Benay v. Warner Bros. Entm't, Inc.*, 607 F.3d 620 (9th Cir. 2010), the Ninth Circuit considered whether the Warner Brothers/Bedford Falls' film "The Last Samurai" infringed the copyright in an eponymous screenplay written by Aaron and Matthew Benay. The Benay brothers had pitched the screenplay to Bedford. The district court granted summary judgment for the defendants, finding that the Benay brothers could not prove "substantial similarity" under the Ninth Circuit's "extrinsic" test for infringement. The Ninth Circuit affirmed that ruling, but reversed the dismissal of the breach of implied-in-fact contract claim, holding that a different analysis of "substantial similarity" applied to it. The "invocation of the copyright term 'substantial similarity' in idea-theft cases 'does not [require] . . . that plaintiffs in idea-submission cases must prove substantial similarity of copyright-protected elements.'" *Id.* at 631. Instead, because the claim is based in contract, unauthorized use can be shown by the use of substantially similar elements that are not themselves protected under copyright law.

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This important decision appears to further tighten the requirements in the Ninth Circuit to prevail on a copyright infringement claim. At the same time, by confirming that copyright infringement need not be shown to prevail on another theory, such as breach of contract, the court reaffirmed the importance of state law protections, particularly to writers in idea submission cases.